Consolidate Laundry Services

We recommend the Department of Veterans Affairs and the Department of Developmental Services determine the feasibility of having the Veterans' Home provide laundry services for the Napa and Sonoma State hospitals, and report to the Joint Legislative Budget Committee by April 1, 1980.

The department is requesting $595,000 for new laundry equipment at the Veterans' Home in Yountville. We concur with the necessity for this expenditure because the existing equipment is obsolete and in very poor condition. Furthermore, after the new equipment is in operation, it will be possible to eliminate seven laundry finisher positions for an annual savings of $95,000.

Preliminary discussions with the Department of Developmental Services indicate that the laundry facilities at Napa and Sonoma State Hospitals are inadequate and that the Department of Developmental Services is interested in the possibility of contracting with the Veterans' Home for laundry services.

A consolidated laundry facility would save the state duplicative costs of refurbishing or replacing the laundry equipment at the two other locations. Costs for transporting the laundry would not be a major factor because of the close geographical proximity of the three institutions. Therefore, we recommend that the two departments evaluate the feasibility of implementing this proposal and report thereon to the Joint Legislative Budget Committee by April 1, 1980.

Business and Transportation Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 141 from the General Fund — Budget p. 271

Requested 1979–80	$11,436,691
Estimated 1978–79	11,530,803
Actual 1977–78	10,987,682
Requested decrease $94,112 (0.8 percent)	
Total recommended reduction	$69,200

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Wholelsale Price Posting. Recommend legislation to eliminate wholesale price posting requirements. 218
2. Data Processing Conversion. Recommend 10 clerical positions be limited to June 30, 1980. 219
3. *Personnel Reductions. Reduce by $69,200.* Recommend funds for personnel relocations and attrition adjustments be reduced. 219

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control (ABC), a constitutional agency established in 1954, is headed by a director who is appointed by the Governor with the consent of the Senate. Headquartered in Sacramento, the department maintains a northern division office in San Francisco, which supervises eight northern district offices, and a southern division office in Downey, which supervises 10 southern district offices. Department staff is presently authorized at 429.6 positions.

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

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

Licensing Element

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

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

Compliance Element

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

Administration Element

The administration element includes the department's executive staff and personnel responsible for license issuance and renewal, accounting, legal, price posting, training and personnel duties. This element also drafts

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

and reviews proposed legislation affecting the alcoholic beverage industry and responds to inquiries from members of the Legislature and the general public.

ANALYSIS AND RECOMMENDATIONS

The Department of Alcoholic Beverage Control proposes net General Fund expenditures of $11,436,691, which is $94,112 or 0.8 percent below the current-year estimate. Anticipated budget-year reimbursements of $225,000 result in a total expenditure program of $11,661,691. Reimbursements represent fees the department charges for (1) fingerprinting applicants, (2) transcripts of hearings, and (3) copies of the Alcoholic Beverage Control Act. Table 1 shows budget data for the department's three program elements.

Table 1
Department of Alcoholic Beverage Control
Budget Summary

	Estimated 1978-79	*Proposed 1979-80*	*Amount*	*Percent Change*
Licensing	$6,861,679	$6,851,072	$-10,607	-0.2%
Personnel-years	256.0	239.8	-16.2	-6.3
Compliance	3,485,501	3,298,303	-187,198	-5.4
Personnel-years	120.6	90.0	-30.6	-25.4
Administration	1,446,935	1,512,316	65,381	4.5
Personnel-years	53.0	52.8	-0.2	-0.4
Total Expenditures	$11,794,115	$11,661,691	$-132,424	-1.1%
Less reimbursements	263,312	225,000	38,312	14.6
Net Expenditures	$11,530,803	$11,436,691	$-94,112	-0.8%
Personnel-years	429.6	382.6	-47.0	-10.9

Departmental Funding

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

Historically, the department has generated enough license fee and miscellaneous revenue to cover its costs, but for the past five years operating expenses have exceeded revenues. As shown in Table 2, the department estimates that General Fund revenues for the budget year derived from fees and charges will amount to $11,145,000. However, the budget fails to reflect General Fund revenue of approximately $225,000 resulting from the enactment of Chapter 725, Statutes of 1978 (SB 1694), which is discussed below. After adjusting for this omission, revenues will total $11,370,-

000 compared to expenditures of $11,436,691. This relatively small deficit will increase by the amount of any salary or benefit increases approved for the budget year.

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

	Actual 1977–78	*Estimated 1978–79*	*Estimated 1979–80*
Miscellaneous	$6,344	—	—
Original license fees	2,106,750	$2,100,000	$2,200,000
Transfer fees	4,526,674	4,400,000	4,450,000
Special fees	310,438	200,000	100,000
Service charges	158,048	175,000	250,000
Penalties	179,300	180,000	180,000
General Fund portion of annual fees and "offers in compromise"	1,565,401	1,550,000	1,550,000
Chapter 245, Statutes of 1977	985,796	1,500,000	1,500,000
Chapter 216, Statutes of 1978	—	915,000	915,000
Total Revenue	$9,838,751	$11,020,000	$11,145,000

Legislation Increases Revenues

In order to reduce the department's revenue deficiency, four measures were enacted last session which will increase departmental revenue by $2,790,000 in 1979–80. These measures are summarized below.

1. *Chapter 245, Statutes of 1977 (AB 754)*, increased license renewal fees by 10 percent. Prior to enactment of Chapter 245, the local governments received 90 percent and the state 10 percent of the fee revenue. Under Chapter 245, the total increase ($1,500,000 in both the current and budget years) is deposited directly in the General Fund, effectively doubling General Fund revenue from this source.

2. *Chapter 725, Statutes of 1978 (SB 1694)*, raises the fee for transferring alcoholic beverage licenses to reflect a change in ownership of corporations or limited partnerships from $100 to 50 percent of the original license fee for a single license or the first of multiple, simultaneous transfers which may occur between corporations. The fee would be limited to not less than $100 or more than $800. The department anticipates annual revenue of $225,000 as a result of this measure. However, these revenues are not reflected in the Governor's Budget.

3. *Chapter 656, Statutes of 1978 (AB 2344)*, increases General Fund revenue under three provisions of the Alcoholic Beverage Control Act. It establishes a fee for on-sale manager certifications and for catering authorizations, and increases from $25 to $50 the maximum amount withheld when a license application is denied or withdrawn. The budget reflects revenues of $50,000 in the current year and $150,000 in the budget year as a result of this measure.

4. *Chapter 216, Statutes of 1978 (AB 1145)*, authorizes the conversion of on-sale general licenses for seasonal businesses issued before July 1, 1977, to year-round, on-sale general licenses for a $6,000 fee. Requests for con-

versions must be filed before January 1, 1980. The budget shows revenues of $915,000 in both the current and budget years as a result of this enactment. No revenue will result from Chapter 216 in future years.

We believe that the department should continue to review its operations to identify areas in which it provides a service to the alcoholic beverage industry for which it collects either no fee or a fee which does not cover its costs, and propose enactment of legislation to establish an appropriate fee structure.

Budget Proposes Significant Position Reductions

In addition to seven unidentified positions which were deleted from the current and budget years as a result of Section 27.2 of the Budget Act of 1978, the department proposes a reduction of 47 positions below the current-year level. Two of the 47 positions reflect the termination of a two-year demonstration project supported by a $226,592 federal grant from the Office of Traffic Safety. The other 45 positions include 15 positions in licensing and 30 in compliance. While the number of authorized positions and the personnel-year count has been reduced by 45, half-year funding ($585,000) for these positions has been included in the budget. Additionally, $200,000 is included as a "personnel attrition adjustment" to permit an orderly reduction of personnel and $39,200 is included for personnel relocations. This raises an issue which is discussed later in this *Analysis.*

The department anticipates 22,000 license applications in both the current and budget years; therefore, the proposed 15 position reduction in the licensing element will necessitate a reduction in the amount of time given to each application. In order to handle this workload with a reduced staff, the department plans to waive certain portions of the detailed investigation when circumstances warrant. The 30 position reduction in the compliance element will necessitate elimination of low priority investigations into potential misconduct by licensees. The budget indicates that the department will investigate only 3,000 complaints and referrals in the budget year compared to 4,500 in the current year. Likewise, the department anticipates that it will revoke 25 percent fewer licenses (90 versus 120) and issue approximately one-third less official warnings (675 versus 1,000). The number of arrests involving underage purchasers will decline from 850 to 600.

While these data indicate that measurable output will decline significantly as a result of the proposed staff reductions, there is no objective way to evaluate alternative staffing patterns (within a relatively broad range) for law enforcement activities. The effect of this reduction on the public well-being as it relates to alcoholic beverages and on perceived or real problems in the industry cannot be determined.

Eliminate Wholesale Price Posting Requirements

We recommed that legislation be enacted repealing the wholesale price posting requirements of the Alcoholic Beverage Control Act.

On May 30, 1978, the California Supreme Court held, in the case of *Christine T.* and *Richard E. Corsetti,* that the distilled spirits minimum retail pricing provisions of the Alcoholic Beverage Control Act were invalid. Under this law, minimum prices of alcoholic beverages were established by the industry and enforced by the department. As a result of the *Corsetti* decision, the Legislature reduced the department's budget by $115,000 and 6.7 positions last year.

On January 2, 1979, the Court of Appeal, First Appellate District, held in the case of *Capiscean Corporation*, that provisions of the act governing wine pricing were invalid.

While these decisions have eliminated the requirement of filing *retail* prices with the department, provisions requiring the filing of *wholesale* prices are still in effect (a case involving wholesale wine price posting is before the Court of Appeal). We believe that the filing of wholesale prices for alcoholic beverages serves little purpose given the invalidation of minimum price maintenance. Accordingly, we recommend that these requirements be repealed. Such repeal would reduce costs to the industry and eliminate the need for approximately three departmental positions at an estimated cost of $30,000 annually.

Insure Data Processing Conversion Savings

We recommend that 10 clerical positions be limited to June 30, 1980, in accordance with the position phase-out contained in the department's approved data processing conversion project.

Last year at the request of the Department of Finance, the Department of Alcoholic Beverage Control budget was augmented by $215,000 to initiate automation of its license processing function. The Legislature approved the augmentation, subject to approval of the department's EDP feasibility study by the State Data Processing Management Office and notification thereof to the Joint Legislative Budget Committee. That study, which was approved in September 1978, indicated that the EDP conversion would permit deletion of 10 clerical positions in 1979–80 and 10 more in 1980–81.

According to the department, the automation project is on schedule. Therefore, we recommend that 10 clerical positions in the administration program be limited to June 30, 1980.

Greater Savings Obtainable from Staff Reductions

We recommend that only $170,000 of $239,200 proposed for personnel relocations be approved for a savings of $69,200.

As discussed earlier, the department is proposing a 30-position reduction in the compliance element and a 15-position reduction in the licensing element. Funding for these positions through January 1, 1980, is included in the budget. An additional $239,200 is budgeted for personnel relocations ($39,200) and as a "personnel attrition adjustment" ($200,000) which, according to the Governor's Budget, is included to permit a reduction of personnel without resorting to lay-off procedures. Adequate data are not available to support the basis on which this amount was established.

Given the existing vacancies and turnover rate, adequate funds are included in the budget to permit an orderly reduction of personnel without the $200,000 included for the personnel attrition adjustment. As of

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

December 31, 1978, the department had 29 vacancies, 14 of which were technical (primarily investigators) and 15 were clerical. During the last six months, 35 persons left the department.

The department indicates that it plans to use funds in the personnel attrition adjustment not for attrition purposes but to relocate staff because the rates of attrition vary among the field offices, thus necessitating transfers of personnel to meet workload conditions. We believe that it is appropriate for the department to have funds available to cover these relocation costs. Based on information supplied by the department, up to 17 relocations are anticipated. Assuming a cost of approximately $10,000 per move (including real estate selling expense, moving of personnel belongings, and up 60 days temporary lodging costs), $170,000 will be needed. Therefore, the department's request should be reduced by $69,200. The $170,000 should be budgeted in the operating expenses and equipment category.

Business and Transportation Agency
ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 142 from the General Fund — Budget p. 275

Requested 1979–1980	$228,675
Estimated 1978–1979	222,410
Actual 1977–1978	213,489
Requested increase $6,265 (2.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal, which, upon petition, review board decisions. During 1977–78, 147 appeals were filed and 107 decisions were issued. The appeals board reversed 12 departmental decisions.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The board proposes a budget-year expenditure of $228,675, which is $6,265 or 2.8 percent above the current-year estimate. This increase consists of $4,550 for merit salary and employee benefits adjustments and $1,715 for higher operating costs.

As discussed in our analysis of the budget proposed for the Department of Alcoholic Beverage Control, the California Supreme Court in the *Corsetti* decision has invalidated the distilled spirits minimum price maintenance and retail price posting requirements of the Alcoholic Beverage Control Act. Similar appeals court action subsequently was taken with respect to statutory provisions relating to minimum prices for wine. Less than 10 percent of the board's workload was devoted to price violation cases. Consequently, elimination of this workload is not sufficient to permit a reduction in the board's four-person staff.

Business and Transportation Agency

STATE BANKING DEPARTMENT

Item 143 from the State Banking Fund — Budget p. 276

Requested 1979–80	$4,422,544
Estimated 1978–79	4,440,397
Actual 1977–78	4,249,061
Requested decrease $17,853 (0.4 percent)	
Total recommended reduction	$55,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Training.* Recommend augmentation of $25,000 and a redirection of $25,000 requested for consulting, to train bank examiners. — 223
2. *Personnel. Reduce by $150,000.* Recommend reduction for personal services. — 224
3. *Transmitters of Money Abroad. Augment by $70,000 for 3.8 positions.* Recommend augmentation to maintain program at current year level. — 225

GENERAL PROGRAM STATEMENT

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

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

Table 1
Cost and Staffing Data
State Banking Department

Program	*Element*	*Actual 1977–78* Personnel-years	*Actual 1977–78* Cost	*Estimated 1978–79* Personnel-years	*Estimated 1978–79* Cost	*Proposed 1979–80* Personnel-years	*Proposed 1979–80* Cost
1. Licensing and supervision of banks and trust companies....	Investigation of applications for new facilities	5.2	$157,210	6.0	$165,000	3.5	$90,000
	Continuing supervision of existing banks	121.6	3,740,022	127.0	3,920,397	107.1	4,194,544
	Continuing supervision of existing trust companies	7.6	247,076	8.0	296,000	4.0	165,000
2. Regulation of transmitters of money abroad		6.0	99,886	4.5	90,000	0.7	20,000
3. Certification of securities		0.3	8,714	0.4	9,500	0.3	6,000
4. Administration of local agency security		3.1	37,238	3.5	40,000	3.0	40,000
5. Supervision of California business and industrial development corporations........		0.7	18,412	0.8	19,500	0.3	7,000
6. Departmental administration (prorated to other departmental programs)	Executive and administrative services	(12.4)	(287,123)	(15.3)	(363,250)	(13.0)	(335,000)
	Legal and legislative services	(12.4)	(258,316)	(13.0)	(312,250)	(11.0)	(300,000)
	Research-information services........	(7.0)	(128,694)	(6.0)	(126,000)	(6.0)	(125,000)
Total Programs		144.5	$4,308,558	150.2	$4,540,397	118.9	$4,522,544
Reimbursements........			−159,497		−100,000		−100,000
Net Total Programs........			$4,149,061		$4,440,397		$4,422,544

depository banks, both state and national.

Department headquarters is located in San Francisco and branch offices are in Los Angeles, San Diego and Sacramento. The current authorized staff is 150.2 positions.

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

ANALYSIS AND RECOMMENDATIONS

The department proposes an expenditure of $4,522,544 which is $17,853 or 0.4 percent below estimated current year expenditures. The department anticipates budget year reimbursements of $100,000, primarily in fees for (1) examining trust companies, (2) conducting special examinations of banks and (3) administering the local agency security program. This will produce a net expenditure program of $4,422,544.

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

Reduction in Positions

1. Investigation of Applications for New Facilities

   The Superintendent of Banks is required by law to approve all new banks, trust companies, and branches of existing banks prior to the facility being established. Each applicant requesting approval is investigated to determine whether the statutory and administrative requirements have been met. The department will be modifying procedures for this activity, thereby reducing staffing requirements by 2.5 positions.

2. Continuing Supervision of Trust Facilities

   The department annually examines trust companies and trust departments of banks and title companies. By improving existing procedures, the department proposes to reduce this program by four positions.

3. Administration

   The department proposes to eliminate two research program specialist positions in the current year. As a result of reductions in various programs, an additional staff counsel position and one clerical position will be eliminated effective January 1, 1980.

Reductions per Sections 27.1 and 27.2—Budget Act of 1978

For the current year the department reduced its budget by $48,500 in operating expenses and equipment and four positions at a cost of $67,158 to comply with Sections 27.1 and 27.2 of the 1978 Budget Act. The $48,500 reduction was accomplished by lowering the amounts budgeted for travel, facilities operations, and general expenses. The four positions (two research program specialists and two examiners) had been authorized for a number of years and at the time of the reduction, only one was filled.

STATE BANKING DEPARTMENT —Continued

The deletion of the positions has eliminated the research function of the department.

In addition, the department has eliminated 4.6 positions in the current year which are not identified. The budget document states that the positions will be identified during budget hearings.

Additional Position Reductions

We concur with the proposal to reduce 20 positions. We recommend an augmentation of $25,000 and a redirection of $25,000 from consulting services to provide $50,000 for training.

Section 1900 of the Financial Code requires the Superintendent of Banks to examine each state chartered bank, trust company, and trust department of each title insurance company doing trust business at least once each calendar year. The department has not been able to meet this schedule for the past several years and is currently operating on a 17-month cycle. The department proposes to request legislation which will extend the current examination requirement of twelve months to twenty-four months. This will allow the Continuing Supervision of Existing Banking Facilities Program to reduce staff by 20 positions. The 1979–80 budget request reflects this reduction effective January 1, 1980.

Section 1900 of the Financial Code also outlines the scope of the required examination as follows:

"The superintendent shall inquire as to the condition and resources of the bank or foreign banking corporation, the mode of managing its affairs, the actions of its board of directors, the investment and disposition of its funds, the safety and prudence of its management, the security afforded its depositors and creditors, and whether its articles of incorporation and all applicable provisions thereof are being complied with, and into such other matters as the superintendent may determine."

A bank examiner, upon request, has access to all securities, books, records, and accounts to facilitate the examination.

In our judgment the department could, even in the absence of legislation changing the examination cycle, eliminate the 20 positions from this program and continue to meet the minimum requirements of Section 1900. This could be accomplished by developing and utilizing different types of examinations which would vary in depth from the current "full examination" to a "mini-examination." The use of a particular type of examination would be determined by a number of factors such as (1) the condition of the bank at the time of prior examinations, (2) the quality of the bank's internal operations and loan controls, and (3) information provided by the existing Overseer Program. In order for this multitype examination program to function properly, the department should provide additional training for the remaining staff, particularly in the area of electronic data processing. We estimate that $50,000 would be adequate for this training. The department has allocated $25,000 for consulting in the budget year, but has no specific plan for using these funds. We recommend that the consulting money be redirected and that the department's budget be augmented by $25,000 to provide necessary training.

Excess Funds Budgeted for Personnel

We recommend a reduction of $150,000 budgeted for personnel attrition and a transfer of $50,000 from personal services to operating expenses.

As discussed earlier, the department is proposing significant reductions in positions, effective January 1, 1980. Funding for these positions until January 1, 1980, is included in the budget request. An additional $200,000 is budgeted as a "personnel attrition adjustment." The Department of Finance states that this money will be used to mitigate layoffs and ease the transition from the current year to the budget year. The funds may also be used to cover the department's costs for relocating remaining staff as a result of eliminating positions. The Department of Finance has not provided a formula or other tangible justification for this amount.

The department should have funds available to cover relocation costs. We believe that $50,000 would be sufficient for this purpose. On the other hand, we do not believe funds should be budgeted for positions that, according to the Department of Finance, are unnecessary. We therefore recommend a reduction of $150,000 budgeted for personnel attrition and request that the remaining $50,000 be transferred to the operating expense category and used only for employee relocation and associated costs.

Inadequate Staffing for Money Order Program

We recommend an augmentation of $70,000 for 3.8 positions to maintain the Transmitters of Money Abroad Program at the currrent level.

In January 1977, the Universal Money Order Company went bankrupt. Because there was no insurance or guarantee program for money order companies, approximately 100,000 people in California were left holding more than $10 million in worthless money orders. The California law was outdated and inadequate to regulate money order companies or handle the bankruptcy situation.

Chapter 1347, Statutes of 1978, repealed the law regarding transmitters of money abroad and enacted in its place the Payment Instrument Law and the Traveler's Check Act under the supervision of the State Banking Department. The specific provisions of these two measures were designed to provide adequate regulation and enforcement to safeguard against future insolvencies.

The department is proposing to minimize its involvement in this program beginning January 1, 1980. Legislation will be requested to eliminate periodic reporting and examinations required by the new laws. This change will allow for a reduction of staff from 4.5 positions to 0.7 positions (an elimination of 3.8 positions.) Because the Payment Instrument Law and Traveler's Check Act have only been in effect since January 1, 1979, and given the previous experience in this area, we believe that a reduction in this program is premature. We therefore recommend the addition of $70,000 for 3.8 positions to continue the new program at least at the current-year level.

Business and Transportation Agency
STATE BANKNG DEPARTMENT

Item 144 from the General Fund — Budget p. 280

Requested 1979–80	$27,500
Estimated 1978–79	N/A
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1483, Statutes of 1969, established a "local agency security" program under which the Superintendent of Banks was designated as the Administrator of Local Agency Security. The Local Agency Security program ensures that banks holding county, city, and district funds maintain collateral adequate to guarantee the safety of those funds.

Prior to the 1976–77 fiscal year, this program was financed through a series of loans and reimbursements involving the General Fund and the State Banking Fund. The Banking Fund would loan money to the General Fund, which supported the program. The Banking Department would then assess individual banks, and these assessments would be transferred to the General Fund to repay the original loan from the Banking Fund.

The budget-year transfer of $27,500 from the General Fund to the State Banking Fund is for repayment of a loan made from Item 182, Budget Act of 1975, for administration of the Local Agency Security program during the 1975–76 fiscal year. Although the Banking Department subsequently reimbursed the General Fund, the General Fund did not repay the original loan from the Banking Fund.

This rather cumbersome procedure was changed by Chapter 536, Statutes of 1975, so that the local agency security activities of the Superintendent of Banks are now funded by an appropriation directly from the State Banking Fund to the State Banking Department.

Business and Transportation Agency
DEPARTMENT OF CORPORATIONS

Item 145 from the General Fund — Budget p. 283

Requested 1979–80	$6,350,597
Estimated 1978–79	6,264,072
Actual 1977–78	6,098,540
Requested increase $86,525 (1.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Legislation.* Recommend the department comment on the status of the legislation required for the proposed reductions.	228

GENERAL PROGRAM STATEMENT

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

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

The Department of Corporations is administered by the Commissioner of Corporations, who is appointed by the Governor. Headquartered in Sacramento, the department maintains branch offices in San Francisco, Los Angeles and San Diego. Authorized staff currently consists of 349 positions. Cost and staffing data for the department's programs and supporting elements are depicted in Table 1.

ANALYSIS AND RECOMMENDATIONS

The department's request of $6,354,377 is $86,525 or 1.4 percent above estimated expenditures for the current year. The department anticipates that budget-year expenditures of $3,002,188 from reimbursements, primarily fees for examining the financial records of licensees, will produce a total expenditure program of $9,356,565.

Reductions Per Sections 27.1 and 27.2—Budget Act of 1978

For the current year the department proposes to reduce its budget by $103,000 for operating expenses and equipment and 22.3 positions for a savings of $489,048, to comply with Sections 27.1 and 27.2 of the 1978 Budget Act. The $103,000 reduction is to be accomplished by lowering the amounts budgeted for general expenses, printing, travel, consulting and professional services, and equipment. The 22.3 positions (3.6 from the Investment program, 2.5 from the Lender-Fiduciary program and 16.2 from the Health Care Service Plan program) had been authorized for a number of years and were vacant at the time of the reductions. The department has not incurred serious work backlogs as a result of this staff reduction.

Table 1
Cost and Staffing Data
Department of Corporations Programs

		Actual 1977–78		*Estimated 1978–79*		*Proposed 1979–80*	
Program	*Element*	*Personnel-Years*	*Cost*	*Personnel-Years*	*Cost*	*Personnel-Years*	*Cost*
Investment	Qualifications	81.0	$1,916,682	86.4	$2,057,319	78.3	$2,076,481
	Franchises	9.7	251,407	10.0	272,356	9.6	282,447
	Regulation and Enforcement	79.6	2,141,604	82.4	2,242,599	67.3	2,295,994
	Commodities	0.7	17,489	0.7	16,491	—	9,132
Lender-Fiduciary	Check Sellers and Cashers Law	0.9	23,933	0.8	22,025	—	12,268
	Credit Union Law	40.2	1,020,075	47.7	1,305,147	45.7	1,362,005
	Escrow Law	24.4	625,552	21.0	565,093	20.5	580,576
	Industrial Loan Law	13.1	349,478	19.3	590,090	16.7	576,145
	Personal Property Brokers Law and California Small Loan Law	40.6	1,041,243	29.5	734,032	15.5	543,608
	Trading Stamp Law	0.1	2,607	0.1	1,670	—	1,069
Health Care Service Plans	Licensing	27.1	678,564	17.5	519,772	14.0	545,270
	Financial Examinations	14.1	353,425	15.0	398,969	15.0	414,707
	Medical Survey	7.1	212,327	3.6	165,363	3.6	118,562
	Enforcement	15.1	482,705	15.0	510,193	15.0	534,521
Departmental Administration (costs prorated to other programs)	General Office	(8.8)	(276,350)	(9.0)	(289,695)	(9.0)	(390,354)
	Accounting and Personnel Office	(7.0)	(129,457)	(7.0)	(134,940)	(7.0)	(143,866)
Total Programs		353.7	$9,117,091	349.0	$9,401,119	301.2	$9,352,785
Reimbursements			−3,018,551		−3,137,047		−3,002,188
Net Total Programs			$6,098,540		$6,264,072		$6,350,597

Table 2
Department of Corporations
Summary of Proposed Reductions
1979–80

Program	*Activity*	*Positions*	*Amount*	*Effective Date of Reduction*	*Requires Legislation*
Investment Program					
	1. Eliminate Commodity Law	0.7	$8,065	1-1-80	Yes
	2. Eliminate newsletters	—	1,550	7-1-79	No
	3. Close San Diego Office	4.5	115,691	7-1-79	No—a change in departmental regulations is required.
	4. Eliminate review of repurchase offerings	1.5	10,200	1-1-80	Yes
	5. Eliminate review of small offering notices	1.1	24,000	7-1-79	No
	6. Provide exemption for mutual funds	0.5	12,320	1-1-80	Yes
	7. Eliminate licensing of broker-dealers	13.0	78,573	1-1-80	Yes
Lender-Fiduciary Program					
Check Sellers and Cashers Law	1. Eliminate Check Sellers and Cashers Law	0.8	11,501 [a]	1-1-80	Yes
Credit Union Law	2. Eliminate report of loans to officers and directors	2.0	25,190 [b]	1-1-80	Yes
	3. Eliminate newsletters	—	1,550	7-1-79	No
Escrow Law	4. Extend period to process branch office applications to 90 days	0.5	5,232	1-1-80	Yes
	5. Eliminate newsletters	—	1,550	7-1-79	No

[a] Of this amount, $4,148 is reimbursed by examination charges.
[b] The entire $25,190 is reimbursed via assessment charges.

Table 2—Continued
Department of Corporations
Summary of Proposed Reductions
1979–80

Program	*Activity*	*Positions*	*Amount*	*Effective Date of Reduction*	*Requires Legislation*
Lender-Fiduciary Program (contd.)					
	6. Eliminate weekly notification of branch office application filings	—	$2,610	7-1-79	No
Industrial Loan Law	7. Eliminate newsletters	—	775	7-1-79	No
	8. Extend examination cycle for branch offices to four years	2.0	41,860 [c]	7-1-79	No—a change in departmental regulations is required.
	9. Eliminate clearance of forms	0.25	6,160	7-1-79	No
	10. Eliminate annual statistical reports	0.25	3,080	1-1-80	Yes
	11. Eliminate review of articles and bylaws	0.1	1,232	1-1-80	Yes
Personal Property Brokers Law/Small Loan Law	12. Eliminate newsletters	—	775	7-1-79	No
	13. Eliminate clearance of forms	0.25	6,160	7-1-79	No
	14. Eliminate annual statistical reports	0.75	9,240	1-1-80	Yes
	15. Eliminate field examinations	13.0	334,093 [d]	7-1-79	No—(legislation may be advisable for clarification)
Trading Stamp Law	16. Eliminate Trading Stamp Law	0.1	677	1-1-80	Yes
Health Care Service Plan Program					
	1. Eliminate licensing of solicitors and solicitor firms	2.5	16,556	1-1-80	Yes
	2. Eliminate Advisory Committee	—	3,000	1-1-80	Yes
	3. Eliminate chief medical officer	1.0	57,460	7-1-79	No

[c] The entire $41,860 is reimbursed by examination charges.
[d] Of this amount $149,076 is reimbursed by examination charges.

Proposed Program Changes

We recommend that the department comment at the time of the budget hearings on the status of the legislation required to implement the proposed reductions for the 1979–80 fiscal year.

The department is proposing to decrease its staff in the budget year by 47.8 positions in 26 specific areas. Of the 26 proposals, 13 require legislation to modify current law, and two require changes to existing regulations. The proposals which require legislation account for 22.7 of the positions to be eliminated. The budget funds these positions through January 1, 1980, in order to allow adequate time for legislation to be enacted and take effect. Table 2 summarizes the proposed reductions.

We believe that the proposed reductions are appropriate, and recommend that enabling legislation be enacted. However, if the legislation is not enacted, the department would be faced with the existing workload in these 13 areas. This, in turn, would tend to increase the department's staffing requirements. In order to provide the fiscal committees with sufficient information to review the department's proposed budget, we recommend that the department be prepared to comment on the status of all legislation required to implement the proposed reductions at the time of the budget hearings.

Business and Transportation Agency
DEPARTMENT OF CORPORATIONS

Item 146 from the General Fund — Budget p. 288

Requested 1979–80	$3,780
Estimated 1978–79	3,780
Actual 1977–78	3,780
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

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

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

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

Business and Transportation Agency

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT

Items 147–149 from the General Fund — Budget p. 290

Requested 1979–80	$6,099,220
Estimated 1978–79	6,080,771
Actual 1977–78	2,375,558
Requested increase $18,449 (0.3 percent)	
Total recommended reduction	$434,400

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
147	Department of Economic and Business Development—State support	General	$4,134,220
148	State appropriation to the Small Business Expansion Fund	General	1,300,000
149	State matching funds for federal grants and loans	General	625,000
—	For Motion Picture Development Council from Chapter 962, Statutes of 1978	General	40,000
	Total		$6,099,220

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Small Business Development Program. Support Budget. Withhold recommendation on $2.9 million proposed budget for the program pending analysis of revised program to be submitted by the department.	237
2. *New Legislative Coordinator. Reduce Item 147 by $30,670.* Recommend disapproval of proposed legislative coordinator position.	238
3. *Advisory Council Staff. Reduce Item 147 by $31,430.* Recommend deletion of vacant executive secretary position.	238
4. *Word Processing Equipment. Reduce Item 147 by $5,000.* Recommend disapproval of request for additional word processing equipment.	238
5. *Motion Picture Development Council Support. Reduce Item 147 by $40,000.* Recommend deletion of proposed General Fund support, contingent on approval of related recommendation under Item 400.	238
6. *Out-of-State Travel. Reduce Item 147 by $17,500.* Recommend disapproval of unjustified trips.	239
7. *Contracted Services. Reduce Item 147 by $309,800.* Recommend deletion of unjustified requests for contracted services.	239

GENERAL PROGRAM STATEMENT

The Department of Economic and Business Development was created by Chapter 345, Statutes of 1977 (SB28) for the purpose of stimulating the state's economic growth. It replaced the defunct Department of Commerce.

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

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

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

ANALYSIS AND RECOMMENDATIONS

The budget proposes $6,099,220 from the General Fund for support of the Department of Economic and Business Development in 1979–80. This is an increase of $18,449, or 0.3 percent over the current year expenditure.

The past, current and budget-year requirements of the department are summarized in Table 1 and the analyses of its programs, as implemented by the respective offices of the department, follow.

Table 1
Requirements of the Department of Economic and Business Development Programs

	Staff-Years			Expenditures (thousands)		
Programs	*1977–78*[a]	*1978–79*	*1979–80*	*1977–78*[a]	*1978–79*	*1979–80*
Econ. planning, policy and research	1.1	6.2	7.2	$36.7	$260.6[b]	$293.2[b]
Local economic development	9.7	22.0	5.0	466.9[c]	4,425.7[c]	3,481.4[c]
Business and industrial development	2.0	11.3	10.3	116.0[d]	333.0[d]	329.6[d]
Visitor services	.6	4.3	5.3	23.5	320.2	560.9
International trade	—	4.3	7.3	8.9	276.4	349.7
Small business development	3.5	8.6	8.6	2,010.3	2,729.2	2,945.0
Administration	2.8	16.6	20.6	114.1	857.9	967.9
Totals	19.7	73.3	64.3	$2,776.4	$9,203.0	$8,927.7
Reimbursements				−137.2	−378.0	−95.5
Federal Funds				−263.7	−2,744.2	−2,733.0
Net General Fund Costs				$2,375.5	$6,080.8	$6,099.2

[a] Half-year staff and expenditures.
[b] Includes $29,684 in federal funds in each year.
[c] Contains $.3 million, $3 million and $2.7 million federal funds for past, current and budget-year expenditures, respectively.
[d] Includes federal funds of $42,100 and $54,943, for past, current and budget-year expenditures, respectively.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

The proposed budget provides for total expenditures of $8,927,784. This is a $275,229 (3 percent) decrease from current year's expenditures. However, all of this reduction is due to the proposed termination of a federally-funded local economic development program and is accompanied by reduced reimbursements.

The .3 percent increase in General Funds is the net result of 13.7 new positions (4.7 of which will be established administratively during the current year), offset by the deletion of 10.1 positions and the proposed termination of the federally-funded local technical assistance program and its staff of 12 people.

Office of Economic Planning Policy and Research

This office is located in San Francisco, and provides planning, analysis and research support for state economic development. Its principal responsibilities include (a) gathering, analyzing and distributing pertinent economic information, as well as assisting state entities with preparation of such information, (b) studying the economic and job development potential of various businesses, their impact on state resources and the environment and (c) advising the Governor and the Legislature on the economic impact of governmental policies and regulations. The budget proposes a total of 7.2 positions for the next fiscal year.

This office was first staffed during the spring of 1978. However, it did not become fully operational until July 1978. During the current year, the office has been concentrating on analysis of current economic and environmental problems, as well as on advising the Governor on major economic issues. The issues addressed by the office include examination of recent oil market developments, the impact of California's housing situation on economic development, consumer credit trends and a study of the impact of California's tax structure on business-location decisions. However, the office has pursued these activities at the expense of it's other responsibilities, such as providing timely research assistance to other offices of the department. We believe that this office should place greater emphasis on these responsibilities.

In the budget year, the office plans to continue concentrating on macroeconomic issues. It plans to acquire an econometric model to improve its forecasting and analysis capabilities. Proposed topics for analysis include alternative tax proposals, impact of regulatory practices on the state's economic development, and the economics of solar energy.

For the budget year, the Office of Planning Policy and Research is requesting an additional research analyst position to handle the anticipated workload increase. We support this request.

Office of Local Economic Development

Assisting and cooperating with local economic development entities in promoting statewide economic and job development comprise the mission of this office. Activities include (a) providing technical assistance to local entities for assessing economic needs, developing strategies and implementing development plans, (b) administering loan and grant programs for local economic development and (c) coordinating state and local economic development plans to maximize statewide economic and job development impact. The majority of this office's staff is currently supported by federal economic development funds.

To date, this office has administered 37 federally funded grant and loan programs to stimulate local economic development. According to its report, the office has used about $3.6 million in federal funds and about $.8 million in state matching funds to generate an estimated total $15 million in new investments for local economies, creating about 2,000 new jobs.

In addition, the office's federally-funded local technical assistance program has provided or is currently providing economic development planning and coordinating assistance to 14 local entities in the state.

The continued availability of federal funding for this program for 1979–80 will not be confirmed until later this year, when federal appropriations are made. We understand, however, that the prospects for continued funding appear good.

In any event, the administration proposes to terminate the technical assistance program and its staff of 12 people in the budget year. We believe that the deletion of this program could reduce this office's ability to provide effective economic development assistance to local entities. Accordingly, we recommend that if federal funds become available for 1979–80, the administration reconsider its proposal to terminate this program and its staff.

Office of Business and Industrial Development

This office is responsible for promoting the expansion of business activity in California. It acts as a liaison between government and the business community, and provides pertinent economic information and technical assistance to businesses wishing to locate or expand in California. It also assists business by expediting the processing and review of permits.

To accomplish these responsibilities, the office has been staffed with program development and research specialists. Basic state economic profile information has been published in the current year. Additional pertinent economic development data are to be compiled and published in the budget year.

For 1979–80, the office is requesting an additional clerical position which is justified by the increased workload. The increase would result in a total of 10.3 positions in this office.

Office of Visitor Services

Economic and employment development through promotion of tourism in the state is the responsibility of this office. Its activities include (a) developing, publishing and distributing various promotional materials, (b) providing research and technical assistance to public and private entities involved in tourism promotion and (c) responding to tourism inquiries.

Ongoing programs of this office include coordinating promotional activities with various private and public entities, and preparing an official visitor's map, to be published in May 1979.

In 1979–80, the Office of Visitor Services proposes to increase its re-

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

search, promotion and publication activities. One additional position and $230,000 in consulting services are requested to accomplish these program objectives. The additional position will raise the total number of staff in this unit to 5.3. We concur with the need for the staff increase and for $157,000 in contracted services to accomplish this office's program objectives. However, the remaining $73,000 in contracted services is not justified and we recommend its deletion later in this analysis.

Office of International Trade

Expansion of California's export trade is the primary objective of this office. Its responsibilities include (a) gathering, analyzing and publishing international trade data, (b) liaison with private and public international trade representatives, (c) relaying trade leads to California producers and (d) publishing an exporter's directory with a product guide. In addition, the office is specifically required to provide technical and informational assistance in exporting California's agricultural products.

Currently, this office is engaged in various research, technical assistance and liaison activities. They include (1) coordinating the educational activities for export promotion, (2) responding to requests for trade information and export assistance (currently running at 450 requests per month) and (3) promoting foreign investments in California.

In the budget year, the office proposes to publish an international trade directory and to increase in-house research capabilities. A staff increase of two research analysts and one clerk is requested to accomplish these objectives. The request is justified by the current and anticipated workload, and we support it. The additional three positions will raise the staff level to 7.3 in this office. The new positions will also permit the office to provide technical and research assistance for exporting California's agricultural products, as required by Chapter 1169, Statutes of 1977 (SB 666).

Office of Small Business Development

This office is responsible for providing financial and management assistance to small, economically disadvantaged businesses. Its major activities include (a) administering a loan guarantee program which underwrites private loans to businesses unable to get financial assistance through conventional lending channels, (b) providing management and other technical assistance to small and disadvantaged businesses, and (c) cooperating with the private sector to create and expand economic opportunities for minority-owned businesses.

The Small Business Development Board, formerly the California Job Creation Program (Cal-Job) Board, and its staff have been transferred to the department by Chapter 924, Statutes of 1977 (AB 1050), and have become its Office of Small Business Development. A total of 8.6 positions are located in this office.

Recent-past and current-year activities of this program have been significantly curtailed by policy, management and administrative problems. Even prior to its transfer to the department, this program was criticized for ineffective use of state loan guarantee funds, continuing high loan default rates, and ineffective management and technical assistance to small, disadvantaged businesses. Shortly after its transfer to the department, state audit and program review reports disclosed serious management and administrative problems. The Legislature made the imposition of stringent policy and management controls by the Business and Transportation Agency a condition of continued funding of the program during 1978–79. These controls were designed to temporarily remedy the problems detailed in the reports and permit the continuation of the program until it could be restructured through legislation. The controls also required our office to report to the Legislature on the compliance with and effectiveness of these controls.

Report of Compliance with Legislative Controls Imposed on the Small Business Development Program. As noted above, the Legislature imposed stringent controls on the secretary of the agency under Items 139 and 139.1 of the 1978 Budget Act. It also imposed additional requirements through supplemental language.

Pursuant to these requirements, the Secretary of Business and Transportation Agency assumed management and administrative control over the program for 1978–79. In turn, he delegated this authority to the Director of the Economic and Business Development Department. As of this writing, the director has been and remains in full control of the management and operation of the program. The Small Business Development Board remains in existence, but in an advisory, rather than policy-making capacity.

Based on our review, we believe that there has been general compliance with legislative requirements set forth in the 1978 Budget Act and the Supplemental Report of the Act. Nevertheless, compliance has not been fully satisfactory in some specific areas. For example, one of the requirements is that the full performance by contractors be verified prior to approval of final payments on contracts. We have found that, in some cases, final payment may have been made to contractors for unverifiable charges. The department is aware of this problem and is in the process of correcting it. The department also maintains that unverified charges paid to contractors would be uncovered in a post-audit of each completed contract by the Department of Finance, and would be refunded by the contractor.

Small Business Development Program to be Restructured

We withhold recommendation on the proposed $2.9 million budget of the Small Business Development Office, pending submission of a restructured Small Business Development Program, to be introduced during the 1979–80 Regular Session (Items 147 and 148).

We have been informed, that the program is currently undergoing major revisions and a restructured program will be presented to the Legislature in early 1979. Therefore, we withhold recommendation on the proposed support budget for this program and office, pending receipt of this proposal.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

Office of Administration

This office provides program coordination and administrative leadership for the department. The budget proposes the addition of three professional positions to staff a new Legislative-Regulatory Unit to analyze and monitor legislation and governmental regulations pertaining to economic development. In addition, a personnel assistant position is requested to handle the personnel and employee management workload of the department, which is currently handled on contract by the Department of Transportation. We concur with all but one of these staff increases.

No Need for Legislative Coordinator

We recommend deletion of the proposed legislative coordinator position, for a General Fund savings of $30,670 (Item 147).

This position is requested to supervise the new legislative-regulatory unit which would be located in the Office of Administration.

During 1978–79, the department administratively established and filled an exempt deputy-director position which is proposed for continuation in the budget year. According to information from the department, one of the designated responsibilities of this new deputy will be the direct supervision of the proposed legislative-regulatory unit.

The projected staff and workload of this unit does not justify two supervisory positions. Accordingly, we recommend deletion of the legislative coordinator position, for a General Fund savings of $30,670.

Executive Secretary for Advisory Council Should be Deleted

We recommend deletion of a vacant executive secretary position assigned to the Advisory Council, for a General Fund savings of $31,430 (Item 147).

The authorized staff roster of the department contains an executive secretary position for staff support to the department's Advisory Council. The position has been vacant since its establishment, and we are not aware of any plans for filling it. Adequate staff support is currently being provided by administrative staff in the department. On this basis, we conclude that this administratively established executive secretary's position is not necessary, and recommend its deletion.

Request of Additional Word Processing Equipment Premature

We recommend disapproval of the request for additional word processing equipment, for a General Fund savings of $5,000 (Item 147).

The department plans to acquire its first word processing machine during the current year with equipment savings from the current-year. This machine is proposed to handle the routine, repetitive typing workload of the department. In addition, the budget includes $5,000 for the purchase of a second machine in 1979–80. Acquisition of the first machine may be justified on the basis of workload. However, the department has not conducted a feasibility study to determine its needs, if any, for additional equipment. Until such a study is completed and the need for a second machine is justified, we recommend disapproval of this request.

Motion Picture Development Council

If our recommendation to delete $40,000 in reimbursements under Item 400 is approved, a technical adjustment should be made to (1) reduce Item 147 for a General Fund savings of $40,000 and (2) reappropriate the $40,000 made available under Chapter 962, Statutes of 1978, to the department under Control Section 10.

Chapter 962, Statutes of 1978 (AB 2750) appropriated $40,000 to the Department of Economic and Business Development for support of the Motion Picture Development Council in 1979–80. This amount is included in the council's budget (Item 400) as a reimbursement.

We believe that the additional $40,000 in General Fund support is not needed because the projected increase in 1979–80 reimbursements to the council from the motion picture industry is adequate to fund the entire program. Therefore, we recommend that the council's proposed budget in Item 400 be reduced by $40,000. If this recommendation is approved, the $40,000 provided by Chapter 962 would not be needed, and we would then recommend that (1) it be reappropriated to the department under Control Section 10 for its use in 1979–80 and (2) Item 147 be reduced for a one-time General Fund savings of $40,000.

Unjustified Increase in Out-of-State Travel

We recommend deletion of unjustified amounts budgeted for out-of-state travel for the General Fund savings of $17,500 (Item 147).

The department is requesting $66,551 for out-of-state travel during the budget year. This amount is 33.8 percent higher than the amount estimated to be spent for this purpose in the current year.

The proposed out-of-state travel budget includes $16,500 for foreign travel by the Office of International Trade, $7,000 for the Office of Business and Industrial Development, and $7,500 for the Office of Visitor Services. Foreign travel by the Office of International Trade is justified by the responsibilities of that office. However, the responsibilities of the latter two offices do not call for activities which would justify foreign travel. In addition, we believe that overseas travel for the promotion of tourism and business development in California is not an economically viable, efficient promotional tool. We suggest that the Office of Business and Industrial Development and the Office of Visitor Services pursue foreign promotional contacts which may develop through the budgeted foreign travel by the staff of the International Trade Office, in order to maximize the efficiency of these expensive foreign trips.

The department's proposed out-of-state travel budget also includes $3,000 for "unknown" out-of-state travel which is not explained by the department.

Accordingly, we recommend disapproval of the proposed total of $14,500 budgeted in foreign travel for the Office of Business and Industrial Development and for the Office of Visitor Services, as well as the $3,000 budgeted for "unknown" travel, for a total reduction of $17,500 in the department's proposed out-of-state travel request.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

Excessive Budgeting for Contracted Services

We recommend disapproval of unjustified expenditures for contracted services for a General Fund savings of $309,800 (Item 147).

The proposed budget contains $687,748 for contracted services. This amount includes $230,000 for the Office of Visitor Services to expand its tourism promotion program. We have reviewed the components of this $230,000 request with appropriate departmental staff and believe that a total of $73,000 out of the $230,000 requested lacks proper justification. These unjustified amounts include $10,000 for the Southwest Border Regional Commission, $3,000 for the California International Travel Mart, $5,000 for the International Pow Wow, $10,000 for a "comprehensive guidebook to Calfornia" and $45,000 for an official travel survey.

Also unjustified, in an opinion, is a proposed $22,800 contract with the Department of Food and Agriculture. This contract is to provide assistance in promoting California's agricultural products for export, pursuant to provisions of Chapter 1169, Statutes of 1977 (SB 666). However, the department is also proposing an additional reserach position in its Office of International Trade to perform the same task. Consequently, contracting with the Department of Food and Agriculture for this task would be duplicative.

Finally, the total proposed for contracted services contains a lump-sum of $214,000 for projects for which no adequate backup information is provided.

Unless adequate justification is provided for these contracted services, we recommend their disapproval, for a total reduction of $309,800 in this line item.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Items 150–151 from the General Fund — Budget p. 294

Requested 1979–80	$13,941,637
Estimated 1978–79	9,572,885
Actual 1977–78	7,329,468
Requested increase $4,368,752 (45.6 percent)	
Total recommended reduction	$894,137

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
150	Department of Housing and Community Development. For direct support of department operations	General	$8,216,637
151	Department of Housing and Community Development. For local assistance	General	5,425,000
—	Prior year balances available from Chapter 1354, Statutes of 1978	General	300,000
	Total		$13,941,637

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Mobilehome Parks. Reduce Item 150 by $279,861.* Recommend reduction of 19 positions that have been transferred to other work.	243
2. *Statutory compliance. Reduce Item 150 by $204,276.* Recommend deletion of General Fund support to comply with existing law.	244
3. Inspection Program. Recommend legislation to transfer Employee Housing program to local agencies.	245
4. *Training Program. Reduce Item 151 by $175,000.* Recommend deletion of Low Income Home Management Training program.	247
5. Migrant Services. Recommend department establish equitable rental fees.	249
6. Migrant Services. Recommend department establish building policies for migrant housing projects.	250
7. *Personnel attrition. Reduce Item 150 by $200,000.* Recommend deletion of personnel attrition adjustment.	251
8. *Temporary Help. Reduce Item 150 by $35,000.* Recommend reduction due to termination of interagency agreement.	251

GENERAL PROGRAM STATEMENT

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

(1) To protect the public from inadequate construction, manufacture, repair, or rehabilitation of buildings, particularly dwelling units;

(2) To promote safe and sanitary housing in liveable communities;

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

The department carries out its responsibilities through four programs: (1) Codes and Standards, (2) Community Affairs, (3) Migrant Services and (4) Research and Policy Development. In addition, the department contains an administrative support activity and the Commission on Housing and Community Development.

ANALYSIS AND RECOMMENDATIONS

The resources utilized by the department are summarized in Table 1, by program and funding source.

The budget proposes $13,941,637 from the General Fund for the department in 1979–80. This amount, which finances both support and local assistance, is an increase of $4,368,752, or 45.6 percent, over the amount budgeted for the current year. Over 90 percent of the increase ($3,945,-152) results from the transfer of the Migrant Services program from the Employment Development Department to the department pursuant to Chapter 345, Statutes of 1977. If this amount is excluded, the proposed increase amounts to $423,600 or 4.2 percent over 1978–79.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

The budget includes proposed additions of $1.25 million for transfer to the Rural Predevelopment Loan Fund and $1.5 million for transfer to the Urban Predevelopment Fund, to provide increased lending capacity. Finally, significant increases in the budget for the current year result from legislation that established a $2 million rehabilitation loan fund and a $375,000 housing advisory service.

Significant reductions in the budget year include the elimination of the Mobilehome Parks Inspection program and position reductions necessitated by Section 27.2 of the 1978 Budget Act.

$100 million Reserved for Housing Development Program

The Governor's Budget proposes the enactment of a state program to stimulate and assist in the production of housing for both low income renters and potential homeowners. The budget reserves $100 million for such a program. The budget does not provide any details on proposed programs.

Table 1

Department of Housing and Community Development Program Summary by Expenditures and Source of Funds

	Personnel-Years			Expenditures		
Program Elements	*Actual 1977-78*	*Estimated 1978-79*	*Proposed 1979-80*	*Actual 1977-78*	*Estimated 1978-79*	*Proposed 1979-80*
I. Codes and Standards	163.1	174.2	123	$4,472,426	$4,462,314	$4,126,614
II. Community Affairs	58.6	107.8	108.9	5,263,419	14,368,864	15,150,068
III. Migrant Services	—	—	12	—	—	4,480,652
IV. Research and Policy Development	27.7	27.9	29	903,606	950,940	769,557
V. Administration-distributed to other programs	(33.4)	(34.5)	(36.3)	(859,230)	(781,084)	(871,672)
Total, Programs	249.4	296.9	259.9	$10,639,451	$19,782,118	$24,526,891
General Fund				$7,329,468	$9,572,885	$13,941,637
Reimbursements				1,011,971	1,306,414	947,115
Federal funds				1,816,886	5,185,105	4,948,021
Mobilehome Revolving Fund				2,030,599	1,780,812	2,073,986
Housing Predevelopment Loan Fund				−117,953	1,502,817	1,129,015
Urban Housing Development Loan Fund				−494,536	497,155	422,727
Housing Rehabilitation Loan Fund				—	−1,000,000	1,000,000
Farmworker Housing Grant Fund				−769,153	−769,153	—
Solar Energy Revolving Loan Fund				−167,777	167,777	14,390

I. Codes and Standards Program

The objective of the Codes and Standards program is to protect the public from unsafe and unsanitary structures by developing and enforcing adequate building and housing standards and regulations. This effort is implemented through six elements, the staffing and expenditures of which are detailed in Table 2.

Mobilehome Parks Inspection

The Mobilehome Parks Act relates to the construction, use, maintenance and occupancy of mobilehome lots and mobilehome parks. The program endeavors to promote uniform standards and safe, sanitary conditions for mobilehome usage. Under existing law, the administration and

Table 2
Department of Housing and Community Development
Division of Codes and Standards
Program Summary by Expenditure and Source of Funds

	Personnel-Years			Expenditures		
Program Elements	*Actual 1977-78*	*Estimated 1978-79*	*Proposed 1979-80*	*Actual 1977-78*	*Estimated 1978-79*	*Proposed 1979-80*
State housing law and earthquake protection law	4.6	9.9	5.8	$113,066	$246,868	$135,228
Employee Housing Act	15.4	27.4	24.1	391,788	686,260	528,029
Mobilehome parks	63.3	49.7	—	1,751,545	1,331,288	989,511
Mobilehome manufacturing	73.6	71.9	77.8	2,030,599	1,780,812	2,073,986
Factory-built housing	2.9	4.2	6.4	82,250	103,796	160,106
Special projects	3.3	11.1	8.9	103,178	313,290	239,754
Total, program	163.1	174.2	123	$4,472,426	$4,462,314	$4,126,614
General Fund				2,427,279	2,557,502	1,928,628
Mobilehome Revolving Fund				2,030,599	1,780,212	2,073,986
Reimbursements				14,548	124,000	124,000

enforcement of the act are assigned primarily to local agencies. If a local agency fails to enforce the act, the department itself must undertake enforcement.

The budget proposes to eliminate current state activities relating to the Mobilehome Parks Act on January 1, 1980. This requires a change in existing law. The administration will sponsor legislation that would require local jurisdictions to assume enforcement responsibilities. To support program costs, local agencies would be allowed to establish a schedule of fees.

We concur with the department's proposal. Local governments can integrate the inspection of mobilehome parks into the existing inspection programs which they now operate. We believe that integrating inspection programs at the local level will result in a more efficient and economical service without jeopardizing the welfare of mobilehome occupants.

Unauthorized Redirection of Staff

We recommend a reduction of 19 positions in the Code and Standards Division which were authorized for mobilehome parks workload but have been transferred to other functions. (Reduce Item 150 by $279,861)

In anticipation of legislation to eliminate state inspections of mobilehome parks, the budget shows a reduction of 45 positions and $662,829. However, the budget detail shows that expenditures from fees will decrease by $447,800, while expenditures from the General Fund will increase by $106,083 in 1979–80. The department is unable to provide an adequate explanation for this.

Furthermore, we believe the department has understated the reduction of positions necessary to delete the program. Table 3 compares the approved 1978–79 budget with the adjusted 1978–79 budget. It shows that 19 positions formally justified for staffing the mobilehome park workload have been administratively redirected to other areas in the current year. We do not have workload data which justifies the transfer of the 19 positions. Therefore, we recommend that those positions be deleted whether or not the Legislature approves the transfer of this function to local juris-

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

dictions. If 19 new positions are needed for workload in other areas, they should be requested as proposed new positions and justified in the normal budget process.

Table 3
Division of Codes and Standards
Comparison of Staffing in the 1978–79 Approved Budget
To the 1978–79 Adjusted Budget

Program	*1978–79 Budget As Approved By Legislature*	*1978–79 Budget As Adjusted By Department*	*Difference*
State Housing Law	5.9	9.9	+4
Employee Housing	15.4	27.4	+12
Mobilehome Parks	68.7 [a]	49.7 [a]	−19
Mobilehome Manufacturing	71.9	71.9	—
Factory-Built Housing	4.2	4.2	—
Special Projects	8.1	11.1	+3
Totals	174.2	174.2	0

[a] Includes the equivalent of 4.7 positions allocated for administrative overhead.

Employee Housing Act

The Employee Housing Act gives the department the responsibility for developing and enforcing rules and regulations pertaining to the use, occupancy and maintenance standards for all *privately* owned and operated labor camps and employee housing. The act specifies that the Commission on Housing and Community Development shall establish a schedule of fees to pay the cost of state administration and enforcement of the act. Any city or county is permitted to assume the responsibility for enforcing the act. Upon assumption of the enforcement responsibility, the local agency may establish a schedule of fees that do not exceed those set by the commission.

Table 4 summarizes the program expenditures for the years 1976–77 through 1979–80 by fee activities and general fund support.

Table 4
Employee Housing Act
Summary of Fee Revenue and General Fund Support

	Actual 1976–77	*Percent*	*Actual 1977–78*	*Percent*	*Estimated 1978–79*	*Percent*	*Proposed 1979–80*	*Percent*
Employee Housing Act								
Fee Activities	$162,045	35%	$153,620	39%	$215,620	31%	$323,753	62%
General Fund Support	304,841	65	238,168	61	470,640	69	204,276	39
Total, program costs	$466,886	100%	$391,788	100%	$686,260	100%	$528,029	100%

Noncompliance with Statutes

We recommend that $204,276 General Fund support be deleted from the Employee Housing Inspection program in order to achieve compliance with existing statutes.

Current law mandates that fee revenues be sufficient to pay the costs of administration and enforcement of the Employee Housing Act. Table 4 shows that the department is not collecting sufficient revenue to pay these costs, thus requiring the use of General Funds for this purpose.

The department has stated in a report submitted to the Legislature that the present statutes appear unreasonable in that one section implies that the program be self-supporting while another section allows local assumption of enforcement together with fee collection. The department has stated that this places an undue financial burden on camps under state jurisdiction because state fees would be required not only to recover the state's direct administration but also the state's role in reviewing local programs for uniformity.

We recommend that General Fund support of the program be discontinued. If our recommendation is approved, the department will have at least three options: (1) reorganize its inspection activities within existing fee revenues, (2) raise fees to increase revenues and/or (3) seek legislation to rectify whatever statutory inconsistencies it feels exist.

Transfer Inspection Program to Local Agencies

We recommend enactment of legislation to transfer enforcement responsibility for employee housing to local agencies.

As discussed previously, the department has proposed transferring the responsibility for mobilehome parks inspections to local agencies. We are in support of this effort to consolidate inspection activities at the local level. In addition to transferring the mobilehome parks program, we recommend that legislation be enacted to transfer responsibility for employee housing inspections from the state to local government. We also recommend that the authority to recover program costs through fees be transferred to the local agencies.

Both the mobilehome parks and employee housing programs involve the enforcement of building and occupancy regulations which are traditionally an area of responsibility assumed by local agencies. Because the local agencies currently operate a wide range of inspection activities, it is appropriate to consolidate these services at one level of government. The integration of these state inspection programs into local inspection programs should result in more economical and efficient service without jeopardizing the welfare of persons residing in these dwellings.

The enactment of legislation to require local enforcement of employee housing laws would result in a reduction of 15 state positions and the transfer of approximately $320,000 in fee revenues to local agencies.

II. Community Affairs Program

The objective of the Community Affairs program is to provide technical and financial assistance to promote decent housing in livable communities. Its activities include providing technical assistance to potential housing sponsors and local governments as well as financial assistance in the form of loans, grants and housing subsidies funded by both the state and federal government. This effort is implemented through six elements, the staffing and expenditures of which are detailed in Table 5.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 5

Department of Housing and Community Development
Division of Community Affairs
Summary of Program Expenditures and Source of Funds

	Personnel-Years			Expenditures		
Program Element	Actual 1977-78	Estimated 1978-79	Proposed 1979-80	Actual 1977-78	Estimated 1978-79	Proposed 1979-80
California Indian Assistance	5.3	1.6	1.6	$877,005	$570,322	$156,970
Economic Development	10.6	—	—	217,549	—	—
Housing Assistance Payments	7.8	14.7	14.7	1,108,198	4,917,245	5,012,176
Rural Community Development	22.1	59.2	58.3	2,458,549	7,212,476	6,828,545
Urban Community Development	12.8	26.6	28.6	602,118	1,469,809	2,954,474
Planning Coordination and Review	—	5.7	5.7	—	199,012	197,903
Total program	58.6	107.8	108.9	$5,263,419	$14,368,864	$15,150,068
General Fund				3,900,312	6,267,220	7,312,690
Federal Funds				1,816,886	5,185,105	4,998,021
Reimbursements				927,863	1,147,414	287,615
Housing Predevelopment Loan Fund				−117,953	1,502,817	1,129,015
Urban Housing Development Loan Fund				−494,536	497,155	422,727
Housing Rehabilitation Loan Fund				—	−1,000,000	$1,000,000
Farmworker Housing Grant Fund				$769,153	$769,153	—

California Indian Assistance

The California Indian Assistance element provides a variety of technical services to Indian housing authorities and tribes. As shown in Table 5, the level of expenditures has decreased substantially over the three-year period ending June 30, 1980. This decrease is the result of reduced federal funds for housing, roads, and water and sewer improvement projects in northern California counties. Ongoing workload consists of technical assistance to 10 to 15 tribes for economic development projects.

Housing Assistance Payments

The Housing Assistance Payments element administers, in conjunction with local housing authorities, a statewide program of federal rental subsidies (Section 8) to continuing care persons such as the developmentally disabled, physically disabled and mentally disordered. In addition, the department administers a program of rental subsidies to low income families in nonmetropolitan and rural areas not served by local housing authorities. The department anticipates the annual distribution of approximately $5 million in federal funds for 2,200 units of leased housing. Total General Fund support of $100,000 to develop and establish the program is proposed for the 1979–80 fiscal year. The department has stated that there will be no need for General Fund support after the budget year.

Rural Community Development

The department administers two major programs designed to assist local agencies in nonmetropolitan and rural areas of the state to promote community development and housing projects. The Housing Predevelopment Loan Program (Chapter 1335, Statutes of 1977) provides loans to public agencies and nonprofit corporations to assist in the development of housing for low income rural households. The Predevelopment Loan Fund received a General Fund appropriation of $1,050,000 in 1977–78. An additional $1,250,000 is proposed in the 1979–80 budget. The combination of appropriations, loan repayments and interest income will make approximately $2.3 million available for loan activities in the budget year.

The Farm Worker Housing Grant program was established by Chapter 927, Statutes of 1977, in order to promote development of permanent housing for farmworkers. Eligible recipients are local housing authorities, nonprofit housing sponsors, and cooperative housing corporations. This program received General Fund appropriations of $1.25 million in 1977–78 and $2.5 million in 1978–79. For 1979–80 the budget proposes a General Fund appropriation of $2.5 million.

Urban Community Development

The department provides local agencies with technical and financial assistance to develop housing and community development projects in urban areas. Financial assistance is provided through the Urban Development Loan Fund (Chapter 1177, Statutes of 1977), the Housing Rehabilitation Loan Fund (Chapter 884, Statutes of 1978) and the Low Income Home Management Training Program (Chapter 1064, Statutes of 1975). The Urban Development Loan program provides loans to public agencies and nonprofit corporations to assist in the development of housing for low income urban households. An additional $1,500,000 from the General Fund is proposed in the 1979–80 budget. The combination of appropriations, loan repayments and interest income will make approximately $2 million available for loan activities in the budget year. The Housing Rehabilitation Loan program provides low interest deferred payment loans to local agencies for rehabilitation of low income housing. The Rehabilitation Fund received $2 million from the General Fund in the original legislation. The budget anticipates expenditures of $1 million in 1978–79 and $1 million in 1979–80.

Low Income Home Management Training Program

We recommend deletion of $175,000 for the Low Income Home Management Training program.

Within the Urban Community Development element, the department administers the Low Income Home Management Training program. The program is designed to encourage local agencies to initiate counseling programs which will ultimately attract ongoing local or federal support. Services provided include home budget counseling for subsidized households, prepurchase financial management training, processing federal housing project applications, legal counseling on tenant-landlord questions, and mortgage default and delinquency training.

The department has made awards to 18 grantees in the current year, 14 of which are first-year grantees and 4 of which are second-year grantees. Twelve are private nonprofit organizations; five are public agencies, and one is a joint public agency and private nonprofit endeavor.

Since the program was established in 1975 we have consistently questioned the effectiveness of the counseling activities supported by the department. Studies by the federal government have been unable to demonstrate the benefits of counseling activity. We are still unable to find a reliable basis for documenting benefits of the program. Although the department claims that in 1977 an estimated 1,239 mortgages with a total worth of $36,993,580 were saved from foreclosure as a result of this program, we are unable to verify that the program (rather than some other factor) was responsible. Although the department indicates the program assisted in the construction of 709 new federally-subsidized housing units valued at $19 million, we are unable to verify that the program was responsible for securing these units. Although the department indicates a total of 15,447 households per year are expected to benefit from the program, we are unable to verify the extent or value of this assistance. Although the department states that the $175,000 in state funds has resulted in receipt of $959,151 from other sources, we are unable to verify the fact that the state money was responsible for securing the additional funds or that the funds would not have been received otherwise.

Lacking evidence documenting the benefits of this program, we recommend deleting funds for this program.

Planning Coordination and Review

The Planning Coordination and Review element has been transferred administratively from the Research and Policy Development Division to the Community Affairs Division. Through this element, the department develops and reviews regulations concerning housing elements of local general plans, affirmative action guidelines, relocation assistance guidelines and other local or state plans which may have significant impact on housing development.

III. Migrant Services Program

Chapter 345, Statutes of 1977, transferred the Migrant Services Program from the Employment Development Department to the department. The primary objective of the Migrant Services program is providing temporary housing and supportive services to migrant farmworker families during the agricultural harvest season. Twenty-five housing centers provide approximately 2,100 temporary housing units for 13,000 residents in various rural communities from Bakersfield to the Oregon border. Centers are open for a maximum of 180 days each year except where short-term extensions are allowed for special circumstances. The centers are administered through local housing authorities on a contract basis. The Migrant Services program contains the following four elements: management and maintenance, housing rehabilitation, day care, and migrant administration. The 1979–80 budget includes total program expenditures of $4,480,652 as shown in Table 6.

Maintenance and Management

This element provides for the operation of centers housing approximately 13,000 residents. Management responsibilities are performed by a center manager who collects rents, provides for all utilities and coordinates the supportive services. Maintenance responsibilities include upkeep of grounds, painting, cleaning and minor repairs.

Table 6
Department of Housing and Community Development
Office of Migrant Services
Program Summary of Expenditures and Source of Funds

Program Element	*Actual 1977–78*	*Estimated 1978–79*	*Proposed 1979–80*
Center Maintenance and Management	$1,749,580	$1,736,183	$1,822,922
Housing Rehabilitation	1,681,790	1,791,338	1,689,993
Day Care	490,029	928,000	525,000
Parlier Center Construction	2,716,595	100,000	—
Migrant Administration	319,870	382,682	442,737
Total Program	$6,957,864	$4,938,203	$4,480,652
General Fund	$3,542,682	$3,900,203	$3,945,152
Federal Funds	2,897,413	100,000	—
Reimbursements	517,769	938,000	535,500

Housing Rehabilitation

This element was established in 1976–77 to upgrade the units to a standard which meets health and safety codes. Three-year funding in the amount of $6 million was provided by the Legislature to replace or rehabilitate the emergency needs that existed in 1976–77. From 1976–77 to 1978–79, use of $8,211,846 in combined state and federal funds has resulted in 216 new units, major structural rehabilitation in 20 centers, electrical systems in 5 centers, 282 indoor bathrooms, 114 new and repaired communal bathrooms, and road repairs and site improvements at 12 centers. Approximately $1.7 million is proposed in the budget year, to be used for new construction in San Joaquin County and continued rehabilitation at several centers.

Day Care

This element is responsible for providing child care services for 2 years to an estimated 1,600 children between the ages of two and six. The budget amount of $525,000 includes funds for an interagency agreement with the Department of Education for day care services. The balance of the appropriation is for basic maintenance, utilities and insurance on the day care buildings.

Migrant Administration

This element is responsible for developing funding priorities and providing fiscal control, on-site monitoring and coordination for all centers. On July 1, 1979, twelve positions will be transferred to Housing and Community Development from the Employment Development Department pursuant to Chapter 345, Statutes of 1977, to provide these administrative services.

Rental Fees

We recommend that the department establish rental fees for migrant housing units that are based on the number of working adults per household rather than charge a flat amount per unit.

Presently, rental fees of $2–$3 per night (depending on the center) are collected for each housing unit. Thus, one residential unit is charged $2–$3 per night regardless of the number of working adults who are housed there. We believe it would be more equitable to establish a minimum fee which would be adjusted upward for every working adult. If this were done, the rental fees would be more closely related to use and ability to pay. Further, additional fee revenue could be generated to help support the maintenance and management of the centers which is currently subsidized 70% by the General Fund.

Building Standards

We recommend the department establish policies regarding building standards to guide future construction and rehabilitation of temporary migrant housing.

The department has no consistent policy defining the building standards appropriate to temporary housing. As a result, the program has supported construction of conventional two-story units in Fresno County, modular units in Sutter County, and convertible three- and four-bedroom units in Santa Cruz County. The existing units that have been or will be rehabilitated are primarily built of plywood walls and floors, and have flat tarpapered roofs without interior doors, heaters, or coolers, and often without indoor bathrooms.

The lack of departmental policy defining appropriate building plans results in an uneven distribution of funds among individual projects. In order to both maximize the effectiveness of limited rehabilitation funds and equalize the quality of housing units provided, the department should develop uniform building plans and standards to guide future construction and rehabilitation of migrant housing.

IV. Research and Policy Development Program

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

V. Administrative Support

The administrative program gives direction to the department's activities, determines operating procedures and provides centralized support in the legal, accounting, personnel and budgeting functions. The department is proposing two additional positions in the administrative services unit to meet increased workload due to expanded federal contracts, increased loan volume, and the addition of the Migrant Services Program. We would also expect this additional staffing to resolve the overhead allocation problem addressed in the Auditor General's letter report No. 817, which states that "The Department of Housing and Community Development has not developed a consistent verifiable method of allocating indirect administrative overhead costs".

Also included in this program are expenses of the Commission on Housing and Community Development budgeted at $25,000 in 1978–79. The department will seek enactment of legislation to eliminate the commission as of January 1, 1980 for a 1979–80 savings of $12,500.

Consistent with our recommendation in the 1976–77 Analysis, we support the proposed elimination of the commission. The commission currently adopts rules and regulations regarding building codes and standards. The commission approach introduces unnecessary delay and rigidity into a process that is already cumbersome. The authority to adopt and modify rules and regulations regarding building codes and standards should be vested in the director of the department. We believe the interest and inputs of the general public and the building industry can best be weighed by the director.

Excess Funds Budgeted for Personnel

We recommend a reduction of $200,000 budgeted for personnel attrition.

As discussed earlier, the department is proposing significant reductions in positions, effective January 1, 1980. Funding for these positions through that date is included in the budget request. An additional $200,000 is budgeted as a "personnel attrition adjustment." The Department of Finance states that this money will be used to mitigate layoffs and ease the transition from the current year to the budget year.

While in some cases it may be appropriate to provide funds for abrupt reductions, in this case the personnel reductions largely result from elimination of the Mobilehome Parks Inspection program, effective January 1, 1980. We believe a full year's lead-time should be adequate to facilitate the transition, and that state funds should not be used to retain employees who the Department of Finance maintains will not be needed. Consequently, we recommend that Item 150 be reduced for a savings of $200,000 to the General Fund.

Reduce Temporary Help

We recommend deletion of $35,000 in temporary help funds due to termination of interagency agreement.

In the 1978–79 budget, the department proposed $35,000 for one temporary help position to provide services to the Coastal Commission on a reimbursable basis. Although the funding for this position is for the current year only, the department has incorrectly continued the position into the budget year, thereby transferring its cost to the General Fund. We recommend a deletion of $35,000 from temporary help as a technical adjustment to the proposed budget.

Business and Transportation Agency

DEPARTMENT OF INSURANCE

Item 152 from the General Fund — Budget p. 311

Requested 1979–80	$7,516,975
Estimated 1978–79	7,460,281
Actual 1977–78	7,331,475
Requested increase $56,694 (0.8 percent)	
Total recommended reduction	$150,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Legislation.* Recommend the department comment on the status of the legislation required for proposed reductions. 255
2. *Personnel. Reduce by $150,000.* Recommend a reduction for personal services. 256

GENERAL PROGRAM STATEMENT

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

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

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

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

ANALYSIS AND RECOMMENDATIONS

The department's budget request of $7,516,975 is $56,694 or 0.8 percent above estimated expenditures for the current year. Budget year reimbursements, primarily from fees for examining insurance companies, are anticipated to be $3,638,644, resulting in a total proposed expenditure program of $11,155,619.

New Positions

1. Regulation of Insurance Companies—Company Consumer Services

Chapter 1070, Statutes of 1978, established the Bureau of Fraudulent Claims within the Department of Insurance. The bureau will conduct investigations involving insurance fraud, publish information concerning fraud, and perform other related activities including cooperating with law enforcement agencies. The department has administratively established 10 positions in the current year to staff this new activity and proposes their continuation in the budget year. All costs for this function will be reimbursed through fees paid by insurers admitted to transact insurance business in the state.

Table 1
Department of Insurance
Cost and Staffing Data

Program	*Element*	*Actual 1977–78* Personnel-years	*Actual 1977–78* Cost	*Estimated 1978–79* Personnel-years	*Estimated 1978–79* Cost	*Proposed 1979–80* Personnel-years	*Proposed 1979–80* Cost
Regulation of Insurance Companies	Company consumer services	59.1	$1,543,585	61.6	$1,729,737	65.3	$1,894,571
	Tax collection	9.6	253,366	8.6	260,788	6.4	240,318
	General regulation	162.6	4,860,698	166.5	5,003,011	150.7	5,029,236
Regulation of Insurance Producers	Producer licensing	87.6	2,128,329	92.3	2,267,856	76.4	2,293,778
	Producer compliance	60.7	1,637,457	59.3	1,685,989	53.4	1,697,716
Administration (Costs prorated to other programs)		(62.3)	(1,653,218)	(57.4)	(1,701,696)	(56.5)	(1,790,916)
Total Programs		379.6	$10,423,435	388.3	$10,947,381	352.2	$11,155,619
Reimbursements			−3,091,960		−3,487,100		−3,638,644
Net Total Programs			$7,331,475		$7,460,281		$7,516,975

2. Regulation of Insurance Companies—General Regulation

The department is requesting two rate analyst positions and one clerical position to improve and accelerate the rate examination process. The department will be converting to a team examination approach, which should increase both productivity and efficiency.

3. Regulation of Insurance Producers—Producer Licensing

During the current year the department administratively established four positions to develop and maintain electronic data processing (EDP) systems. For the budget year, the department proposes to continue these positions and add three new positions. The new positions will permit modification of existing EDP systems in order to deal more effectively with increased data processing requirements. The department currently contracts for many of its EDP services. By increasing the in-house staff, the department will eliminate some of the contractural arrangements, thereby reducing overall expenditures in the area by $103,026.

Reductions Per Sections 27.1 and 27.2—Budget Act of 1978

In the current year the department reduced its budget by $127,600 for operating expenses and equipment and eliminated 20 positions for a savings of $430,382 to comply with Sections 27.1 and 27.2 of the 1978 Budget Act. The $127,600 reduction was accomplished by lowering the amounts budgeted for general expenses, printing, travel, and EDP contractual services. The 20 positions to be eliminated have not been specified. The Governor's Budget states that the positions will be identified at the time of the budget hearings. The department states that these positions will be selected from among the 38 positions that were vacant on January 1, 1979.

Proposed Program Changes and Staff Reductions

We recommend that the department comment on the status of the legislation required to implement the proposed reductions for the 1979–80 fiscal year at the time of the budget hearings.

The department is proposing to decrease its staff in the budget year by 42 positions in 14 specific workload areas. Elimination of twenty-one positions which are involved with licensing and investigation is dependent upon enactment of legislation which would eliminate the licensing of exclusive insurance agents. The budget funds these positions through January 1, 1980, in order to allow adequate time for legislation to be enacted and take effect. Table 2 summarizes the department's proposed reductions.

We believe that the proposed reductions are appropriate, and recommend that enabling legislation be enacted. We are assuming that the legislation would include adequate provisions to safeguard the consumer against fraudulent activities. However, if the legislation is not enacted, the department would be faced with the existing workload in the area of licensing exclusive agents. This in turn, would tend to increase the department's staffing requirements. In order to provide the fiscal committees with sufficient information to review the proposed budget, we recommend that the department be prepared to comment on the status of the proposed legislation at the time of the budget hearings.

DEPARTMENT OF INSURANCE —Continued

Excess Funds Budgeted for Personnel

We recommend a reduction of $150,000 budgeted for personnel attrition, and a transfer of $50,000 from personal services to operating expenses.

As discussed earlier, the department is proposing significant reductions in positions, half of which will be effective January 1, 1980. Funding for these positions through January 1, 1980, is included in the budget request. An additional $200,000 is budgeted as a "personnel attrition adjustment." The Department of Finance states that this money will be used to mitigate layoffs and ease the transition from the current year to the budget year. The funds may also be used to cover the department's costs for relocating remaining staff as a result of eliminating positions.

The Department of Finance has not provided a formula or other justification for an amount of $200,000. We do not believe that funds should be budgeted for positions that the Department of Finance has determined are unnecessary. However, the department should have funds available to pay for relocation costs and $50,000 should be sufficient for this purpose. We therefore recommend a reduction of $150,000 budgeted for personnel attrition and request that the remaining $50,000 be transferred to the operating expense category and used only for employee relocation and associated costs.

Table 2
Department of Insurance
Summary of Proposed Reductions

Program	*Activity*	*Positions*	*Amount*	*Effective Date of Reduction*	*Requires Legislation*
Regulation of Insurance Companies					
Tax Collection	1. Reduced staffing for Tax Collection Bureau based on workload review	2	$34,140	7-1-79	No
General Regulation	2. Reduce operating expense	—	86,700 [a]	7-1-79	No
	3. Reduce business and personnel services	4	43,100	7-1-79	No
	4. Reduce frequency of financial examinations	3	58,230 [b]	7-1-79	No
	5. Reduce policy approval, corporate and other legal functions	5	115,000	7-1-79	No
	6. Extend triennial insurer financial examinations to once every five years	3	84,420 [c]	7-1-79	No
	7. Reduction of staff support in accounting function	1	14,700	7-1-79	No
Regulation of Insurance Producers					
Producer Licensing	1. Reduce operating expenses	—	11,800	7-1-79	No
	2. Eliminate proposed improvement in license examination functions	1	14,800	7-1-79	No
	3. Reduce key entry personnel	1	9,700	7-1-79	No
	4. Eliminate licensing of exclusive agents	17	120,550	1-1-80	Yes
Producer Compliance	5. Reduce operating expenses and close San Diego office	—	27,000	7-1-79	No
	6. Eliminate legal position in Compliance Bureau	1	21,700	7-1-79	No
	7. Reduce investigations of applicants for licensure as a result of eliminating licensing of exclusive agents	4	27,950	1-1-80	Yes

[a] Of this amount $26,700 is reimbursable by examination charges.
[b] The entire $58,230 is reimbursed by examination charges.
[c] The entire $84,420 is reimbursed by examination charges.

Business and Transportation Agency
RIOT AND CIVIL DISORDERS INSURANCE

Item 153 from the General Fund — Budget p. 315

Requested 1979–80	-0-
Estimated 1978–79	$200,000
Actual 1977–78	200,000
Requested decrease $200,000 (100 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Program Termination.* Recommend approval of Governor's Budget proposal to terminate participation in program. 259

GENERAL PROGRAM STATEMENT

In response to the 1967 riots and civil disturbances in various American cities, Congress passed the 1968 Urban Property Protection and Reinsurance Act. The act established a program designed to increase the availability of property insurance in areas where such insurance was difficult to obtain because of the potential for heavy losses due to riots or civil disorders. Under this program, private insurance carriers can obtain reinsurance for their policies in force. This reinsurance serves to limit the size of the potential loss that they may incur due to riots and civil disorders.

The federal program is administered by the Department of Housing and Urban Development. Before federal reinsurance may be provided in a state, that state must enact legislation (1) establishing a Fair Access to Insurance program that makes property insurance available on an equitable basis to property owners, regardless of location, and (2) committing the state to share in any losses under the reinsurance program.

California's Participation

Chapter 649, Statutes of 1969 (as amended by Chapter 572, Statutes of 1970), established California's riot and civil disorders reinsurance program. This legislation created the California Riot and Civil Disorders Association, a self-supporting agency in which membership is required of all companies writing lines of insurance that wish to be reinsured by the federal program. Chapter 649 also required the state to negotiate an insurance contract with the association assuring the state's potential liability under the program.

There are four "layers" of riot and civil disorders reinsurance liability under the current program. (1) Any riot-induced losses up to 1.5 percent of participating companies' earned annual property insurance premiums are borne by the companies. (2) If losses exceed 1.5 percent of earned premiums, premium deposits held by the Department of Housing and Urban Development are applied. (3) The state assumes liability for additional losses up to an amount equal to 5 percent of earned annual property insurance premiums in the state. The state, however, insures against this liability by contracting with the California Riot and Civil Disorders Association and paying to the association an annual premium. (4) Losses exceeding the state's liability limit are covered by loans from the U.S. Treasury to the Secretary of Housing and Urban Development, to be repaid from future reinsurance premiums received.

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

Table 1

Components of State Liability for Riot Losses

Fiscal Year	*Earned annual property insurance premiums*	*Maximum state annual liability for loss (5% of earned premiums)*	*State annual premium cost*
1969–70	$578,252,000	$30,000,000	$1,500,000
1970–71	635,000,000	32,000,000	1,600,000
1971–72	732,820,000	36,640,000	1,750,000
1972–73	840,000,000	42,000,000	993,144
1973–74	1,000,000,000	50,000,000	200,000
1974–75	1,080,000,000	54,000,000	200,000
1975–76	1,188,000,000	59,400,000	200,000
1976–77	1,239,300,000	61,965,000	200,000
1977–78	1,488,000,000	74,400,000	200,000
1978–79	1,799,800,000	89,990,000	50,000
1979–80 (est.)	2,160,000,000	—	—

Refund Provisions

The state's insurance contract provides that the association shall retain 25 percent of the total premiums paid by the state. It also provides for annual partial refunds of the remaining 75 percent of accumulated premiums to the General Fund. The current year refund of $459,851 was received on December 29, 1978.

ANALYSIS AND RECOMMENDATIONS

Withdrawal of California's Participation

We recommend approval of the Governor's Budget proposal to terminate California's participation in the riot insurance program.

The Department of Insurance proposes to reduce the 1978–79 premium to $50,000 and to seek enactment of legislation repealing Insurance Code Sections 13000 et seq. (Chapter 649, Statutes of 1969), thus terminating California's participation in the program. There would be no state liability and no annual premium cost in the budget year.

The department states that difficulty in obtaining private market reinsurance against losses from riot and civil disorders has been minimized, and the chance of loss has been reduced, so that there is no longer any

RIOT AND CIVIL DISORDERS INSURANCE—Continued

need for state participation.

There has never been a claim against the state's liability under this program. The fears of widespread civil disturbance which led to the program's adoption in 1968 have been allayed. As a result, several major insurance companies no longer carry federal reinsurance against riot and civil disorder losses. Companies that desire such coverage can obtain it in the private market. Thus the availability and price of property insurance will not be affected by the termination of the state's reinsurance program.

We agree that the program is no longer necessary. If in the future conditions change so that private market riot and civil disorder reinsurance is no longer available, and insurance companies desire such reinsurance, then the state's reinsurance program could be reinstated. The state will benefit in two ways from termination of the contract with the Riot and Civil Disorders Association.

1. *Immediate refund of retained premiums.* Because of contract provisions that 75 percent of all remaining accumulated premiums must be refunded to the state upon termination of the program, termination of the program would result in a budget-year refund of $1,876,904.

   If the state continues to participate in the program, the retained premiums would still be returned to the state, but in a series of installment payments, rather than as a lump sum. We estimate that the 1979–80 refund in this case would be $367,881. Because of inflation and the loss of potential investment income, refunds received over a series of years are worth less than a lump sum refund received immediately.

2. *Avoidance of future premium payments.* The reinsurance contract holds that the California Riot and Civil Disorders Association retains 25 percent of all premiums paid. Thus the state loses 25 percent of each annual premium payment even though no claims have been filed in the program's history. In recent years the nonrefundable annual state cost has been $50,000. By withdrawing from the program now, the state will avoid unnecessary payment of future premiums.

We therefore recommend approval of the Governor's Budget proposal to terminate California's participation in the program.

Business and Transportation Agency

DEPARTMENT OF REAL ESTATE

Item 154 from the Real Estate Fund — Budget p. 316

Requested 1979–80	$9,691,568
Estimated 1978–79	9,357,110
Actual 1977–78	9,067,063
Requested increase $334,458 (3.6 percent)	
Total recommended reduction	$655,551

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Legislation.* Recommend the department comment on the status of legislation required for proposed reductions. 263
2. *Examination and Licensing.* Recommend concurrence with Governor's Budget proposal to eliminate licensing and examination of salespersons and participation in the multi-state exam. 264
3. *Personnel costs. Reduce by $3,972.* Recommend reduction to eliminate overbudgeted salaries for proposed new positions. 265
4. *Fair Lending Program. Reduce by $23,167.* Recommend deletion of Deputy II position and associated expenses. 266
5. *Data Processing Costs. Reduce by $178,041.* Recommend reduction to eliminate overbudgeted data processing costs. 266
6. *Microfilm Project. Reduce by $256,571.* Recommend delay of microfilm project. 267
7. *Word Processing Equipment. Reduce by $41,000.* Recommend deletion of word processing equipment pending outcome of proposed program reductions. 268
8. *Subdivision Activities.* Recommend concurrence with Governor's Budget proposal to eliminate various public reports and reduce other subdivision activities. 270
9. *Education and Research Reserve.* Recommend legislation to abolish reserve because reserve is not justified. 272
10. *Education and Research.* Withhold recommendation pending review of department's forthcoming report. 273
11. *Personal Services. Reduce by $150,000.* Recommend a reduction of amount budgeted for personal services. 273
12. *Videotape Equipment. Reduce by $2,800.* Recommend denial of new videotape equipment because it has not been justified. 274

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for protecting the public in the sale of subdivided property, real property securities, and in real estate transactions handled by agents. The department currently permits

DEPARTMENT OF REAL ESTATE—Continued

only trained persons to act as real estate salespersons and brokers, and sets minimum standards for real estate offerings.

The department is administered by the Real Estate Commissioner. It has an authorized staff of 348.5 positions and maintains headquarters in Sacramento with district offices in Los Angeles, San Francisco, San Diego, Sacramento, Fresno, and Santa Ana.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $9,691,568 in the budget year, which is an increase of $334,458 or 3.6 percent over estimated current year expenditures. Resources available for department support are projected to be $19,249,442, resulting in an anticipated surplus of $9,557,874 by June 30, 1980.

Table 1 illustrates the condition of funds supporting the department's programs. The table shows that available resources are expected to decrease by more than 5 percent while department costs will grow by almost 4 percent. As a result, the accumulated surplus in the Real Estate Fund is expected to decrease almost 13 percent by the end of the fiscal year. It should be noted that this decrease follows a 12.2 percent increase in the accumulated surplus during fiscal year 1978–79.

Table 1
Real Estate Fund Condition

	Actual 1977-78	*Estimated 1978-79*	*Percent Change over Previous Year*	*Proposed 1979-80*	*Percent Change over Previous Year*
Accumulated Surplus, July 1	$8,909,683	$9,761,702	9.6%	$10,950,442	12.2%
Revenues	9,919,240	10,546,000	6.3	8,299,000	−21.3
Total Available Resources	$18,828,923	$20,307,702	7.9%	$19,249,442	−5.2%
Expenditures:					
Real Estate Fund	$9,067,221	$9,357,260	3.2%	$9,691,568	3.6%
Accumulated Surplus, June 30	9,761,702	10,950,442	12.2%	9,557,874	−12.7%
Department of Real Estate	($6,248,291)	($6,413,101)	2.6%	($4,258,655)	−33.6%
Reserve for Education and Research	($1,558,091)	($2,357,811)	51.3%	($2,980,919)	26.4%
Reserve for Recovery	($1,955,320)	($2,179,530)	11.5%	($2,318,300)	6.4%

Reductions per Sections 27.1 and 27.2—Budget Act of 1978

In the current year the Department of Real Estate reduced its operating expenses and equipment budget by $129,000 to comply with Section 27.1 of the 1978 Budget Act. In addition, the department eliminated 20 positions for a savings of $372,526 pursuant to Section 27.2. The $129,000 reduction was accomplished by generally lowering the amounts budgeted for operating expenses and deleting low priority activities. The 20 positions to be eliminated have not been identified. The Governor's Budget states that the positions will be identified at the time of the budget hearings.

Proposed Program Changes and Staff Reductions

We recommend that the department comment on the status of the legislation required to implement the proposed reductions for the 1979–80 fiscal year at the time of the budget hearings.

The department is proposing to decrease its staff in the budget year by 55.5 positions in six specific workload areas. Elimination of 40 positions involved with examination and licensing of salespersons and 13.5 positions involved with public reports and other subdivision activities is dependent upon the enactment of legislation.

The budget funds the 40 licensing positions and three of the 13.5 subdivision positions through January 1, 1980, in order to allow adequate time for legislation to be enacted. No funding for the remaining 10.5 positions is provided beyond July 1, 1979. The remaining two positions to be eliminated perform other subdivision activities and provide consumer information services. They can be eliminated without enactment of legislation.

As discussed below, we believe that the proposed reductions are appropriate and recommend that enabling legislation be enacted. However, if the legislation is not passed, the department would be faced with an ongoing workload in the examination, licensing, and subdivisions activities. In order to provide the fiscal committees with sufficient information to review the proposed budget, we recommend that the department be prepared to comment on the status of the proposed legislation at the time of the budget hearings.

I. TRANSACTION ACTIVITIES

In the past, the department's transaction activities sought to protect the public in transactions with real estate salespersons and brokers. Two elements are contained in the program: (1) licensing and (2) regulatory and recovery.

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

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

The recovery function is designed to assist in the recovery of money when violations of law impose a financial loss on a complainant. If the complainant obtains a fraud judgment against a licensee who is unable to pay the judgment amount, the injured party may then file a claim against the recovery reserve. If the department finds the claim valid, the judgment amount is paid out of this reserve and the department then takes action against the licensee to recover the funds expended. The maximum amount that may be paid to claimants for actions against any one licensee is $40,000. Personnel and expenditures for the program are shown in Table 2.

DEPARTMENT OF REAL ESTATE—Continued

Table 2
Transaction Activities Program
Staffing and Expenditures

	Actual 1977–78	*Estimated 1978–79*	*Percent Change over Previous Year*	*Proposed 1979–80*	*Percent Change over Previous Year*
Expenditures by Element:					
Licensing	$2,288,817	$2,426,712	6.0%	$2,553,340	5.2%
Regulatory and Recovery	4,116,571	4,002,506	−2.8	4,299,836	7.4
Total Program Expenditures	$6,405,388	$6,429,218	0.4%	$6,853,176	6.6%
Personnel-years by Element:					
Licensing	120.7	114.7	−5.0%	80.8	−29.6%
Regulatory and Recovery	138.9	134.2	−3.4	134.5	0.2
Total Program Personnel-years	259.6	248.9	−4.1%	215.3	−13.5%

Discontinue Examination and Licensing of Salespersons

We recommend approval of the Governor's Budget proposal to eliminate the examination and licensing of real estate salespersons, and to eliminate state participation in the multi-state real estate examination program. We further recommend that implementing legislation contain provisions holding real estate brokers accountable for the activity of the salespersons whom they employ, in order to safeguard consumers against fraudulent real estate practices.

The department proposes to eliminate the examination and licensing of real estate salespersons, effective January 1, 1980. This action would result in a reduction of 40 personnel-years and $332,157 in the budget year and ongoing annual savings of about $700,000.

These reductions reflect the administration's belief that ever-increasing government regulation does not always lead to a corresponding increase in the quality of services provided to consumers.

The recent boom in real estate activity in California has attracted record numbers of salespersons and brokers to the real estate business. During the three-year period from 1975–76 to 1978–79, the number of new licenses issued in California increased by 131 percent, and the total number of licensees in the state grew by nearly 50 percent.

The department has attempted to assure the competence of licensed brokers and salespersons by improved screening of applicants and more vigorous education and examination requirements. However, because there are no formal education requirements that must be met in order to become a real estate salesperson and because there are large numbers of both part-time and inexperienced individuals in the field, complaints against licensees are on the increase.

One method of correcting this would be through increased state oversight of salespersons' training, employment history, financial records, and formal education. The department's proposed program reductions embody a different approach. The department would transfer supervisory and training responsibility for salespersons to real estate brokers. It believes that holding brokers responsible for the actions of salespersons whom they employ will reduce the number of unqualified salespersons, with a corresponding increase in the quality of service available to consumers.

In our judgment, real estate brokers, by virtue of their day-to-day contact with individual salespersons, are in a better position than the department to assess individual salesperson qualifications. The department's proposal provides an incentive for brokers to screen out unqualified salespersons—an incentive lacking under current licensing procedures. The transition from department supervision to broker supervision will require carefully designed legislation which minimizes transition problems and maintains consumer protection. Given such legislation, we would recommend that the proposed reductions be approved.

In a related change the department proposes to cease participating in the Multi-State Real Estate Examination Program, thereby permitting a budget-year reduction of $142,480 and ongoing annual savings of about $300,000. Under this program, the California Department of Real Estate prepares and administers for participating states an examination of real estate practices which are the same nationwide, such as valuation, finance, or federal regulation. States which choose to participate in the program reimburse the department for all costs incurred. The purpose of the program is to upgrade the quality of the real estate profession nationwide.

If the department no longer prepared real estate examinations for California salespersons, it would be difficult to justify its involvement in examining applicants in other states. Thus, if the department's proposal to discontinue the examination of real estate salespersons is approved, we recommend that its proposal to cease participating in the multi-state program also be approved.

These budget proposals require enactment of legislation before they can be implemented. Such legislation should include provisions holding real estate brokers accountable for the activity of the salespersons whom they employ. Such provisions are necessary in order to safeguard consumers against fraudulent real estate practices.

On this basis we recommend that the requested reductions be approved.

Overbudgeted Personnel Costs

We recommend a reduction of $3,972 to reflect overbudgeting of salaries for proposed new positions.

The department proposes to add three clerical positions to the licensing section for temporary help until January 1, 1980. The requested staff would be paid $718 per month each. The budget allows $16,896 for salaries. Funds for benefits and operating expenses are included elsewhere in the budget. However, $718 per month for three positions for six months, is only $12,924. We therefore recommend a reduction of $3,972, the difference between actual salary requirements and the amount allotted in the budget.

DEPARTMENT OF REAL ESTATE—Continued

Fair Lending Program

We recommend a reduction of $20,706 from personal services and $2,461 from operating expenses and equipment to delete one deputy II position requested for the regulatory element.

Chapter 1140, Statutes of 1977, which became effective April 1, 1978, prohibits discriminatory lending practices and provides that the Secretary of Business and Transportation process associated complaints. The secretary has delegated a portion of the investigation of such complaints to the Department of Real Estate. The department is requesting a deputy II position in the budget year to process these complaints.

We believe that this request is not justified for several reasons. First, the Departments of Savings and Loan, and Banking share with the Department of Real Estate the responsibility to investigate fair lending complaints. These departments have not received additional personnel for this purpose.

Second, the regulatory element had 11 vacant positions statewide as of December 31, 1978. These vacancies include six deputy positions. We believe that the department should fill existing vacancies before requesting new positions.

We therefore recommend that the position not be approved, for a savings of $23,167.

Automation of Licenses and Examinations

We recommend a reduction of $178,041 to eliminate overbudgeting for data processing expenses.

The elimination of salesperson examinations and licensing will reduce workload, but the department will still have large recordkeeping and management information requirements. Examination and licensing of some 25,000 brokers per year will continue, and we expect that the department will be required to keep track of salesperson/broker affiliations. The department anticipates at least 90,000 yearly requests for license status information.

The present examination system is entirely manual. Requests for exams are received on multipart cards which are hand processed. The current licensing system uses a combination of manual and automated recordkeeping processes. Updates of license records take from three to six weeks. Handwritten notes are added to files to overcome problems created by this time lag.

The department proposes to automate its examination and licensing processes. This will allow the department to process examination- and license-related information more efficiently, resulting in the elimination of seven clerical positions and associated operating expenses.

In the past we have recommended that the department modenize its licensing and examination processes. In our judgment, the department's project is sound and should be implemented. However, the department has requested substantially more funds than will be necessary to implement the project and maintain its operation through the budget year.

Over the two-year period 1978–79 and 1979–80, the department has budgeted $654,182 for the implementation and operation of the EDP system. Our estimate of the actual cost for implementing and operating the system over the same time period, based upon project documentation, is $476,141. Several factors account for the difference in the budget year.

1. *Double-Counting.* $73,428 of the discrepancy results from the department's double-counting of equipment rental and Teale Data Center charges. The proposed budget includes the cost of equipment rental and Teale Data Center charges during the transition from the current system to the EDP system as part of the cost of implementating the EDP project. The budget also includes the same costs as separate items in the operating expenses and equipment category.

2. *Other EDP Projects.* The department's EDP request contains $70,000 for additional data processing projects such as automating the continuing education requirements for real estate brokers and salespersons. This involves registering approved course offerings and monitoring licensee participation. In addition, the department proposes to study potential EDP applictions in other department activities. Based upon review of project documentation, we believe that $50,000 will be adequate for these projects. Therefore, we recommend the amount be reduced by an additional $20,000.

3. *Microfilming the Department's Master Files.* The department staff indicates that the proposed EDP budget request includes $84,613 to cover extra costs for a proposed microfilm project. This project is discussed in detail in the next section where we recommend deferral.

We therefore recommend a reduction of $178,041, the difference between the department's budget request for EDP projects and our estimate of the cost.

Microfilming of Master Files

We recommend a reduction of $256,571 requested for microfilming the department's master files because the department's long-term storage requirements are not well established.

The department proposes to microfilm its master files which contain over 400,000 items and provide information on all real estate licensees. The present system, using original paper documents, has resulted in errors, document losses, misfiles, and unnecessary search time. A feasibility study in June 1978 identified potential yearly savings of $47,885 accruing from conversion to microfilm.

We agree that eventual conversion of department files to microfilm is a sound idea. However, the proposed elimination of the examination and licensing of salespersons changes some of the assumptions upon which the feasibility study was based.

Projected Savings May Not Occur. The feasibility study projects yearly savings of $47,885. The bulk of this comes from reduced filing and retrieval time for microfilm as opposed to paper documents. If the department eliminates the licensing of salespersons, the number of files created yearly will be reduced by 80 percent. Similarly, the number of renewal applications will be reduced by 65 percent. Even assuming that the department

DEPARTMENT OF REAL ESTATE—Continued

still keeps track of salesperson/broker affiliations, the overall filing and retrieval workload will decrease dramatically, with a corresponding decrease in potential savings.

Change In Storage Requirements. The feasibility study calls for the microfilming of the department's entire existing master file—over 400,000 licensees and over 3.3 million total images. If the department eliminates the licensing of salespersons, the volume of records to be stored is likely to decline, for two reasons. First, the number of active licensees is expected to decrease. Second, the number of document pages per licensee could likewise decrease substantially. The project allows for the storage of 98 items per licensee, including original application, fingerprint clearances, qualification sheet authorization forms, consent to service forms, hearing flags, fictitious business name statements, security dealer bonds and applications, change of name, renewals, changes of address, cancellations, other change forms, miscellaneous correspondence, and branch office applications and cancellations. Again, even assuming that the department will continue to maintain some records on real estate salespersons, it appears that the overall storage requirements could decrease significantly.

Although the department budgeted $256,571 for the microfilm project, discussions with General Services and Real Estate staff indicate that the actual cost of the conversion will exceed $400,000. If the number of items to be filmed could be reduced, the cost of the project would decline considerably.

We recommend that the proposed microfilm project be delayed until it is determined if the department will eliminate the examination and licensing of salespersons. If salesperson examination and licensing is eliminated, we recommend that a new feasibility study be completed to reflect the different nature of the department's filing, retrieval, and storage requirements. The budget year savings from delaying this project would be $256,571.

Word Processing Equipment

We recommend a reduction of $41,000 requested for word-processing equipment because the anticipated workload will be reduced by other proposed program reductions.

The department proposes to acquire a word-processing unit for the subdivisions element and add additional word-processing equipment to the existing examination and licensing system. Both projects were justified on the basis of anticipated increased workload identified in separate feasibility studies. However, several factors outside of the scope of the original feasibility studies have changed the anticipated workload.

Reduced Workload. The feasibility studies anticipated greatly increased typing workload in the subdivision and licensing elements of the department. If the proposed program reductions in the subdivision and licensing elements are implemented, not only will the anticipated extra workload fail to materialize, but the *existing* workload will be reduced.

In the subdivisions element, several types of public reports which are presently required of land developers are to be eliminated. The reports to be eliminated account for about 20 percent of all public reports processed by the department.

In the licensing and examination element, the department proposes to eliminate the licensing and examination of real estate salespersons, and eliminate the creation and distribution of the multi-state real estate examination. These activities account for at least 50 percent of the element workload.

Also, the EDP system now being implemented in the licensing and examination element has the capability to perform certain word processing functions. The EDP system could, if used for the formulation, construction, and processing of broker examinations, greatly reduce the existing examination word processing requirements. The proposed budget contains funds for studies of potential EDP applications in the department. We would anticipate that one such study would look at word processing functions.

Centralization. The word-processing requirements of the subdivisions and examination/licensing elements were considered separately in the feasibility studies. Although separate word-processing facilities would eliminate any conflict between these elements over the use of word processing equipment, procurement and operational economies would result from a centralized system.

Given these considerations, we believe that investment in word-processing equipment is premature at this time. The need for additional equipment should be restudied when it is known whether or not the proposed reductions in subdivisions and exam/licensing activity will be implemented. Moreover, the use of a centralized system in conjunction with the new EDP capabilities should be considered. We therefore recommend that the proposed requests for word processing equipment be denied, for a savings of $41,000.

II. OFFERINGS AND SECURITIES

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

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

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

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

Table 3 presents personnel and expenditure information for this program.

DEPARTMENT OF REAL ESTATE—Continued

Table 3
Offerings and Securities Program
Staffing and Expenditures

	Actual 1977-78	*Estimated 1978-79*	*Percent Change over Previous Year*	*Proposed 1979-80*	*Percent Change over Previous Year*
Expenditures by Element:					
Subdivisions	$2,188,319	$2,208,213	0.9%	$2,148,366	−2.7%
Real Property Securities	89,368	106,007	18.6	114,278	7.8
Syndicate Securities	76,652	—	−100.0	—	—
Total Program Expenditures	$2,354,339	$2,314,220	−1.7%	$2,262,644	−2.2%
Personnel-Years by Element:					
Subdivisions	82.9	82.5	−0.5%	71	−13.9%
Real Property Securities	2.2	2.4	9.0	2.4	0.0
Syndicate Securities	2.2	—	−100.0	—	—
Total Program Personnel-Years	87.3	84.9	−2.7%	73.4	−13.5%

Elimination of Public Reports and Other Subdivision Activities

We recommend approval of the Governor's Budget proposal to eliminate various public reports and reduce other subdivision activities. We further recommend that implementing legislation contain provisions to safeguard the public against fraudulent real estate practices.

The department proposes several reductions in the regulation of in-state subdivisions. These reductions include (1) elimination of several types of public reports and applications presently required of real estate developers, (2) elimination of the inspection of standard subdivisions, and (3) reduction of the scope of the Homeowner's Association assistance program. These proposals would allow a budget reduction of 13.5 positions and $336,547.

Public Reports. Subdivision public reports contain information on the availability of services such as sewage facilities, public utilities, and schools. The public reports to be eliminated are those presently required for standard subdivisions (those without common-interest facilities) with homes inside of city limits; standard subdivisions of between five and eleven units; and condominiums, community apartment projects, and stock cooperatives under five units.

For standard subdivisions inside of city limits, the information contained in public reports is of little importance to potential buyers because in most cases local services are already available. In the case of standard subdivisions having fewer than eleven units, the department maintains that the cost of preparing a report for fewer than eleven units is not justified. Similarly, for condominiums, community apartment projects, and stock cooperatives of less than five units, the proposed change will eliminate the necessity for public reports for transactions involving only a few units.

There is no identifiable "cut-off" point at which the number of units involved automatically justifies the cost of a particular type of public report. Rather, all such limits reflect a balance of workload, public protection, and cost. Bearing in mind that all costs incurred by developers are eventually passed on to purchasers, we agree that the department's proposed changes are reasonable and should be approved. Moreover, requiring public reports on these units often leads to delays in the processing of public reports for the larger subdivisions. These delays impose an added cost on developers and the public in the form of debt service on units that cannot legally be sold until the public report is completed.

Inspection of Standard Subdivisions. The department presently performs an on-site inspection of all standard subdivisions. The purpose of an on-site inspection is to look for hazards and verify the information submitted by developers in the public report. In the vast majority of cases, the inspection provides no additional information. If the developer is guilty of misrepresentation, complaints can be investigated by the department's regulatory and recovery program. Violation of the Real Estate Law or the Subdivided Lands Act results in formal proceedings. The elimination of inspections should not change this process.

Reduction of Homeowner's Association Assistance. The department currently provides various types of assistance to homeowner's associations. Department activities include helping with the initial organization of an association, familiarizing association members with the various services available through the department, and investigating any association complaints. The department proposes to reduce these public service activities other than the investigation of association complaints. The department has other programs designed to publicize the availability of consumer services. For instance, most newspapers in the state have a weekly real estate section in which department programs and related subject matter are reviewed. The department distributes consumer education pamphlets and brochures, maintains a consumer information service in the Sacramento office, and supports numerous real estate courses. Therefore, the proposed reductions should not significantly affect consumers' interests.

Several of these proposals require legislation in order to be implemented. Such legislation should contain provisions to safeguard the public against fraudulent real estate practices. With these safeguards, it is our judgment that the proposed reductions would not seriously affect the level of consumer protection afforded to California citizens, and we therefore recommend that the requested reductions be approved.

III. POLICY AND PLANNING

This program, previously titled the eduction and research program, includes: (1) the support of real estate courses and projects in educational institutions, (2) the legislative liaison office, and (3) course approval and continuing education activity. The publications unit, formerly located in Policy and Planning, has been transferred to the Administration section.

The education component develops curriculum programs designed to improve the competence of license applicants and licensees. In addition, research in various areas of real estate activity, such as marketing, finance,

DEPARTMENT OF REAL ESTATE—Continued

land use, urban problems, and real estate economics, are supported by the program. These activities are funded by the education and research reserve and are conducted by public and private universities and colleges throughout the state. The department is also permitted by Chapter 247, Statutes of 1977 (AB 825), to contract with qualified corporations or associations for research work.

The legislative liaison element analyzes bills and monitors the legislative process for the department's administration. The course approval and continuing education element screens instructor qualifications, course materials, and curricula which are intended to improve the level of competence of real estate applicants and licensees.

Table 4 presents program staffing and cost data.

Table 4
Policy and Planning Program
Staffing and Expenditures

	Actual 1977-78	*Estimated 1978-79*	*Percent Change over Previous Year*	*Proposed 1979-80*	*Percent Change over Previous Year*
Expenditures by Element:					
Education and Research	$696,805	$681,676	−2.2%	$631,637	−7.3%
Legislative Liaison	85,113	84,788	−0.4	90,692	7.0
Continuing Education	28,284	87,208	208.3	93,419	7.1
Total Program Expenditures	$810,202	$853,672	5.4%	$815,748	−4.4%
Personnel-Years by Element:					
Education and Research	8.2	8.1	−1.2%	8.2	1.2%
Legislative Liaison	3.4	3.8	11.8	3.8	0.0
Continuing Education	1.6	3.3	106.3	3.3	0.0
Total Program Personnel-Years	13.2	15.2	15.2%	15.3	0.7%

Elimination of Education and Research Reserve

We recommend legislation to abolish the reserve for education and research because this reserve is not justified.

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

We believe that the existence of a separate reserve for education and research is no longer warranted. The diversion of license fee revenues to this reserve has caused a significant decline in the resources available for other activities. As shown in Table 1, the projected education and research reserve at the end of the budget year is more than 26 percent greater than the level estimated for June 30, 1979. During fiscal year 1978–79, moreover, the education and research reserve increased by more than 50 percent. Surplus funds available for other department operations are expected to *decrease* by approximately 33.6 percent during this same period. The elimination of the education and research reserve would increase the surplus monies available for other department operations by nearly 70 percent and would postpone the need for any increase in the fees levied by the department.

Education and Research Activities

We withhold recommendation on $389,202 budgeted for education and research activities pending receipt and review of the department's list of proposed activities (due February 1, 1979).

Funding for real estate education and research in last year's budget was approved with the addition of Budget Act language which provided that "the department and the Real Estate Education and Advisory Committee shall develop a list of proposed education and research activities, indicating the need and estimated expenditures for these activities, and submit this list to the appropriate fiscal and policy committees and the Joint Legislative Budget Committee by February 1, 1979."

Of the $631,637 proposed for the education and research program, the department states that $389,202 will be used for real estate education support and research grants. Funding of these expenditures is provided by the education and research reserve of the Real Estate Fund. We withhold recommendation pending receipt of the department's report.

IV. ADMINISTRATION

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

Table 5
Administration Staffing and Expenditures

	Actual 1977–78	*Estimated 1978–79*	*Percent Change over Previous Year*	*Proposed 1979–80*	*Percent Change over Previous Year*
Expenditures	$891,409	$888,110	−0.4%	$934,889	5.3%
Personnel-years	40.3	35.9	−10.9%	34.9	−2.8%

Excess Funds Budgeted for Personnel Attrition

We recommend a reduction of $150,000 budgeted for personnel attrition and a transfer of $50,000 from personal services to operating expenses.

As discussed earlier, the department is proposing significant reductions in positions, three-fourths of which become effective January 1, 1980. Funding for these positions through January 1, 1980, is included in the budget request. An additional $200,000 is budgeted as a "personnel attri-

DEPARTMENT OF REAL ESTATE—Continued

tion adjustment." The Department of Finance states that this money will be used to mitigate layoffs and ease the transition from the current year to the budget year. The funds may also be used to cover the department's costs for relocating remaining staff as a result of eliminating positions. The Department of Finance has not provided a formula or other tangible justification for including this amount.

The department should be provided with funds to cover relocation costs. We believe that $50,000 would be sufficient for this purpose. However, we do not believe that funds should be appropriated to support positions which the Department of Finance has determined are unnecessary. We therefore recommend a reduction of $150,000 budgeted for personnel attrition and the transfer of the remaining $50,000 to the operating expense category, to be used only for employee relocation and associated costs.

Videotape Equipment

We recommend a reduction of $2,800 requested for videotape equipment because the need for the equipment has not been substantiated.

The department requests $2,800 for a color video cassette recorder/player for the Policy and Planning Unit to be used "to review items developed by research contracts and as a training tool." The department indicated that the use of pre-recorded orientation and training presentations would free-up department staff for other activities.

In our judgment the acquisition of videotape equipment by the department is not justified at this time. The department provided no documentation as to the number of research contracts which are submitted as videotapes. With regard to training, in the budget year the department anticipates a net *loss* of 45 positions. This, together with the hiring freeze, indicates that there will be few new "trainees" in the budget year. Finally, even if the need for videotape equipment can be substantiated, there is no need for the department to have access to the equipment on a daily basis. Arrangements can be developed with education institutions or other state agencies for use of video equipment on an as-needed basis. We therefore recommend that the request for new video equipment be denied.

Business and Transportation Agency

DEPARTMENT OF SAVINGS AND LOAN

Item 155 from the Savings and Loan Inspection Fund — Budget p. 322

Requested 1979–80	$5,782,943
Estimated 1978–79	5,881,655
Actual 1977–78	5,449,089
Requested decrease $98,712 (1.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Economic and Financial Information. Augment by $30,000 for one position.* Recommend augmentation to continue current activities. — 278
2. *Training Services. Augment by $20,000.* Recommend augmentation of funds for training savings and loan examiners. Also recommend transfer of an additional $20,000 from contract services to training services. — 279
3. *Personnel. Reduce by $50,000.* Recommend a reduction for personal services. — 279

GENERAL PROGRAM STATEMENT

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

The department is administered by the Savings and Loan Commissioner, who is appointed by the Governor. Its headquarters is in Los Angeles with a branch office in San Francisco. The department is currently authorized 178.3 positions.

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

The department performs its responsibilities under one operating program entitled "supervision and regulation" which is divided into six elements: (1) examination, (2) appraisal, (3) facilities licensing and legal assistance, (4) economic and financial information, (5) boards of inquiry and (6) administration. The examination element is by law responsible for examining associations at least once every two years to determine the quality of assets, compliance with state laws and regulations, and utilization of sound management and accounting practices. The appraisal element makes field appraisals of real property upon which loans have been made by associations in order to determine lending and appraisal policies. The facilities licensing and legal assistance element conducts hearings and renders decisions on applications for new associations, branch offices, and

DEPARTMENT OF SAVINGS AND LOAN —Continued

mergers. The economic and financial information element provides the department with information which assists the other program elements.

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

ANALYSIS AND RECOMMENDATIONS

The department proposes an expenditure of $5,782,943, which is a net decrease of $98,712 or 1.7 percent below estimated current year expenditures. However, reimbursements from certain out-of-state associations, estimated at $19,421 in the budget year (representing travel expenses for appraising out-of-state loans), will produce a total expenditure program of $5,802,364.

Table 1 shows personnel-years and costs devoted to the department's supervision and regulation program and supporting elements.

Table 1

Cost and Staffing Data
Department of Savings and Loan Programs

Program and Elements	*Actual 1977–78* *Personnel-years*	*Actual 1977–78* *Cost*	*Estimated 1978–79* *Personnel-years*	*Estimated 1978–79* *Cost*	*Proposed 1979–80* *Personnel-years*	*Proposed 1979–80* *Cost*
Supervision and Regulation						
Examination	75.5	$2,111,888	80.3	$2,409,484	65	$2,404,696
Appraisal	34.1	1,096,797	32.0	1,211,931	25	1,175,997
Facilities licensing and legal assistance	6.0	262,826	7.0	283,225	4	253,730
Economic and financial information	15.5	856,005	18.0	861,577	14	859,016
Boards of inquiry [a]	—	48,782	—	—	—	—
Administration	39.4	1,079,698	41.0	1,134,859	38	1,108,925
Total Programs	170.5	$5,455,966	178.3	$5,901,076	146	$5,802,364
Reimbursements		−6,907		−19,421		−19,421
Net Total Program		$5,449,089		$5,881,655		$5,782,943

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

DEPARTMENT OF SAVINGS AND LOAN —Continued

Position Reductions

1. Appraisal Element

The department proposes to request legislation to provide greater management discretion in the appraisal program. This would reduce the staff needs for this program by nine positions. In our opinion, the Financial Codes currently allow sufficient flexibility in this area and therefore no legislation is necessary.

2. Facilities Licensing and Legal Assistance

Effective January 1, 1979, the Savings and Loan Commissioner has the authority to waive the required hearing for savings and loan branch applications. This will allow for the elimination of three positions from this program.

3. Administration

As a result of reductions in various programs, an additional three positions will be eliminated effective January 1, 1980.

Reductions per Sections 27.1 and 27.2—Budget Act of 1978

In the current year, the department reduced its budget by $72,000 in operating expenses and equipment and 5.7 positions ($106,430) to comply with Sections 27.1 and 27.2 of the 1978 Budget Act. The $72,000 reduction was accomplished by lowering the amounts budgeted for general expenses, communications, in-state travel, consulting and professional services, and national association membership dues. The 5.7 positions (2 appraisers and 3.7 examiners) had been initially authorized as new positions for the 1978–79 budget year based on increased workload. Although the department provided adequate justification for these positions, there do not appear to be serious backlogs resulting from their elimination.

We recommend an augmentation of $30,000 for one senior economist position.

The department has requested $50,000 for consulting services for projects associated with the Economic and Financial Information Development (EFID) Unit. One of the consulting projects planned for the budget year is an updating and modification of the department's automated "early warning system" of savings and loan associations' financial performance. A second major project will determine the need and effectiveness of loan limitations as a regulatory tool. This study is expected to disclose whether legal loan limitations are effective in maintaining safety and solvency. The combined costs for these two projects will not exceed $30,000. A variety of projects of lesser importance constitute the balance of the consulting services request. Because of the lower priority of some consulting projects, in the following section we are recommending that $20,000 be redirected from consulting services to training funds.

The budget also proposes to eliminate four positions from the EFID Unit. If these four positions are eliminated, the department would be without sufficient staff to monitor and assist with the early warning system project or the loan limitation study. This reduction would also limit the department's ability to analyze and report on problem associations. In our opinion, these activities are sufficiently important to warrant retaining some staff support with technical expertise. Therefore, we recommend an increase of $30,000 to retain a senior economist position for the EFID Unit.

Additional Position Reductions—Examination Program

We concur with the proposal to reduce 18 positions, but we recommend an augmentation of $20,000 and the transfer of $20,000 from consulting services for a total of $40,000 for increased training.

Section 8800 of the Financial Code requires the Savings and Loan Commissioner to examine each state chartered savings and loan association at least once every two years. Section 8801 of the Financial Code identifies the procedures for examining these associations. Currently, the department examines associations on an average of every 14 months. The department proposes to request legislation to modify the current requirements. This will allow the examination program to reduce its staff by 18 positions. The 1979–80 budget request reflects this reduction effective January 1, 1980.

In our judgment, the department, even in the absence of authorizing legislation, could eliminate the 18 positions from this program and continue to meet the minimum requirements set forth in the Financial Code. This could be accomplished by developing and utilizing different types of examinations which would vary in depth from the current "full examination" to a "mini-examination." The use of a particular type of examination could be determined by a number of factors such as (1) the condition of the association at the time of prior exams, (2) the quality of the association's internal operations and loan controls, and (3) the information provided by the early warning system. For this multitype examination to function properly, the department should provide additional training for the remaining staff, particularly in the area of electronic data processing. Based on previous experiences in this area, we estimate that $40,000 would be sufficient for this training. Therefore, we recommend that $20,000 of the funds requested for consultant services be redirected for training and that the department's budget be augmented by an additional $20,000 for training.

Excess Funds Budgeted for Personnel

We recommend a reduction of $50,000 budgeted for personnel attrition, and a transfer of $50,000 from personnel services to operating expenses.

As discussed earlier, the department is proposing significant reductions in positions, effective January 1, 1980. Funding for these positions through January 1, 1980, is included in the budget request. An additional $100,000 is budgeted as a "personnel attrition adjustment." The Department of Finance states that this money will be used to mitigate layoffs and ease the transition from the current year to the budget year. The funds may also be used to cover the department's costs for relocating remaining staff as a result of eliminating positions. The Department of Finance has not provided a formula or other tangible justification for including an amount as large as $100,000.

The department should have funds available to cover relocation costs. We believe that $50,000 would be sufficient for this purpose. On the other hand, we do not believe funds should be budgeted for positions that, according to the Department of Finance, are unnecessary. We therefore recommend a reduction of $50,000 budgeted for personnel attrition and that the remaining $50,000 be transferred to the operating expense category and used only for employee relocation and associated costs.

CALIFORNIA TRANSPORTATION COMMISSION

Item 156 from the Transportation Planning and Research Account, State Transportation Fund — Budget p. 325

Requested 1979–80	$703,685
Estimated 1978–79	749,064
Actual 1977–78	None
Requested decrease $45,379 (6.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Transportation Commission was created by Chapter 1106, Statutes of 1977, effective February 1, 1978, to replace the California Highway Commission, California Toll Bridge Authority, Aeronautics Board, and State Transportation Board. Membership consists of nine persons appointed by the Governor who serve staggered four-year terms. One member of the Senate appointed by the Senate Rules Committee and one member of the Assembly appointed by the Speaker also serve as members.

Although the commission has assumed the major responsibilities of the four terminated bodies, statutory authority differs from that of its predecessors. First, unlike the Highway Commission, the commission is not authorized to approve the Department of Transportation's budget. Instead, the Legislature reviews and acts upon the department's budget proposals. However, the commission is required to evaluate the budget and make recommendations to the Legislature on the department's proposals.

Second, the commission determines transportation project priorities to be funded within annual appropriations. Moreover, the commission is responsible for: (1) the adoption of an annual five-year state transportation improvement program; (2) the adoption and issuance of one-year and five-year transportation revenue estimates to be used by regional transportation planning agencies in developing regional transportation programs; (3) the resolution of differences between the state's and the regional transportation agencies' improvement programs; and (4) the issuance of a California Transportation Plan in a biennial report.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The commission's budget proposes an expenditure of $703,685 from the Transportation Planning and Research Account, State Transportation Fund, a decrease of $45,379 or 6.1 percent from the estimated current year expenditure level. This reduction is primarily due to (1) the elimination of funds previously budgeted for moving expenses, and (2) a significant decrease in proposed expenditures for consultant and professional services.

The budget proposes 9.5 authorized positions to support commission activities in 1979–80, the same as in the current year. This total includes an executive secretary appointed by the commission, four professional staff, and five clerical positions. The commission anticipates that it will be actively involved in developing an appropriate state role in solving aeronautics problems, determining whether legislative changes are necessary to insure stable financing of transit systems affected by the passage of Proposition 13, and exploring more equitable means of financing transportation.

Business and Transportation Agency

DEPARTMENT OF TRANSPORTATION

Items 157–169, and 453–454 from various funds — Budget p. 328

Requested 1979–80	$1,449,313,331
Estimated 1978–79	1,442,749,178
Actual 1977–78	1,117,794,484
Requested increase $6,564,153 (0.5 percent)	
Total recommended reduction	$34,774,511

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Transit Operator Assistance. Reduce Item 160 by $403,060.* Recommend reduction in unnecessary assistance activities.	301
2. Abandoned Railroad Right-of-Way Purchases. Withhold recommendation pending department's submission of additional data. Also recommend that department report on status of proposed legislation.	303
3. *Interregional Public Transportation. Reduce Items 160 and 161 in the total amount of $3,568,537.* Recommend reduction in department support of rail services and deletion of unjustified planning activities.	303
4. *Transfer Facilities. Reduce Item 161 by $61,404.* Recommend reduction in specified evaluation and planning functions.	307

DEPARTMENT OF TRANSPORTATION —Continued

5. *Transportation Demonstration Projects. Reduce Item 160 by $37,000.* Recommend deletion of identified transit research projects. 307
6. Fuel Tax Refunds. Recommend legislation deleting aircraft fuel tax refund provisions. 310
7. *Support Activities. Reduce Item 163 by $108,045.* Recommend reductions in safety, planning, and noise functions. 310
8. *Local Assistance. Reduce Item 168 by $500,000.* Recommend deletion of proposed increases in airport loan and grant programs. 311
9. *Staff Benefits. Reduce Item 164 by $17,300,000.* Recommend reduction of amount overbudgeted for employee benefits. 316
10. *Merit Salary Increases. Reduce Item 164 by $1,795,465.* Recommend reduction of amount overbudgeted for employee merit salary increases. 316
11. Land and Buildings. Recommend legislation be enacted requiring review of capital outlay projects for department land, buildings, and facilities. 318
12. Grade Separation Projects. Withhold recommendation pending legislative review of proposal to eliminate Grade Separation Program. Also recommend department present proposals to the Legislature for alternatives to present program. 319
13. *Grade Crossing Equipment. Reduce Item 169 by $1,000,000.* Recommend reduction of state appropriation for installation of railroad grade crossing equipment due to availability of federal funding. 320
14. *Operating and Contingency Expenses. Reduce Item 164 by $6,000,000.* Recommend reduction in amount budgeted for data processing and operating contingency fund. Also recommend department report on expenditures from contingency fund. 323
15. *Business and Personnel Management. Reduce Item 164 by $260,000.* Recommend reduction in staff requested for business and personnel management activities. 324
16. Night Toll Collection. Recommend that proposal to eliminate night collection on state toll bridges be denied. 325
17. *Traffic Surveillance. Reduce Item 164 by $241,800.* Recommend reduction in staff requested for increased traffic monitoring, evaluation, and supervision. 326
18. *Landscape and Permit Personnel. Reduce Item 164 by $616,900.* Recommend reduction in increased staff for landscape maintenance and transportation permit issuance. 327
19. *Real Estate Activities. Reduce Item 164 by $465,000.* Recommend reduction in increased staff for real estate activities. 327

20. *Passenger Vehicle Fleet. Reduce Item 453 by $1,917,300.* Recommend reduction of amount overbudgeted for purchase of passenger vehicles. 329
21. *Motorized Equipment Training School. Reduce Item 164 by $500,000.* Recommend reduction in expenses for motorized equipment training school to reflect expected savings. 330

GENERAL PROGRAM STATEMENT

Chapter 1253, Statutes of 1972, created in the Business and Transportation Agency the Department of Transportation, which replaced the Departments of Public Works and Aeronautics. The department assumed the ongoing activities of these former entities through two divisions, Highway Transportation and Aeronautics. Chapter 1253 also required the formation of the Division of Mass Transportation and the Division of Transportation Planning.

The total department budget is approximately $1.45 billion. Legislative appropriations for support, local assistance subventions, and capital outlay are about $686 million of the total. The remaining $763 million is provided by reimbursements, continuously appropriated funds, prior legislative appropriations, and federal funds.

ANALYSIS AND RECOMMENDATIONS

Table 1 displays budgeted expenditures of the Department of Transportation (Caltrans), by item and source of funds.

The proposed expenditure of $1,449,313,331 is $6,564,153, or 0.5 percent, above the estimated current year expenditure of $1,442,749,178. Funding for 15,114 personnel-years is proposed in the budget, a decrease of 24 personnel-years from the current year level of 15,138.

Our analysis of the department's proposed budget is divided into two parts. The first reviews the five-year State Transportation Improvement Program (STIP), the information included in the STIP as required by statute, and the program direction portrayed in the 1979 STIP. In the second part, we analyze the four programs in the department's budget, which reflect the expenditure level called for by the first year of the five year STIP.

Table 1
Department of Transportation
1979–80 Proposed Program Expenditures by Item Source

Item No.	Description		Amount	Fund[a]
157	Support, Transportation Planning Program		$5,367,650	Transportation Planning and Research Account
158	Transfer to Transportation Planning and Research Account		(22,000)	Aeronautics Account
159	Transfer to Transportation Planning and Research Account		(10,718,671)	State Highway Account
	(a) State funds	($5,853,300)		
	(b) Federal funds	(4,865,371)		
160	Support, Mass Transportation Program		4,500,000	General
161	Support, Mass Transportation Program		2,063,104	Transportation Planning and Research Account

DEPARTMENT OF TRANSPORTATION —Continued

	(a) Mass Transportation	5,239,334		
	(b) Reimbursements (Revenue and Taxation Code Section 7204.4)	−284,250		
	(c) Reimbursements	−1,210,000		
	(d) Federal funds	−1,681,980		
162	Support, Mass Transportation Program		53,000	State Highway Account
163	Support, Aeronautics Program		1,388,611	Aeronautics Account
164	Support, Highway Transportation Program		404,510,000	State Highway Account
	(a) Maintenance	206,000,000		
	(b) Rehabilitation	23,808,000		
	(c) Operational improvements	47,553,000		
	(d) Operations	33,142,000		
	(e) Local assistance	10,427,000		
	(f) Program development	13,806,000		
	(g) New facilities	45,075,000		
	(h) Administration	105,836,000		
	(i) Reimbursements	−4,069,000		
	(j) Federal funds	−56,500,000		
	(k) Toll bridge funds	−20,538,000		
	(l) Amount payable from Environmental Protection Program Fund (Item 165)	−30,000		
165	Support, Highway Transportation Program		30,000	Environmental Protection Program Fund
166	Local Assistance, Transportation Planning Program		2,031,500	Transportation Planning and Research Account
	(a) Transportation planning	9,345,745		
	(b) Reimbursements	−3,314,245		
	(c) Federal funds	−4,000,000		
167	Local Assistance, Mass Transportation Program		22,247,000	State Highway Account
168	Local Assistance, Aeronautics Program		750,351	Aeronautics Account
169	Local Assistance, Highway Transportation Program		42,400,000	State Highway Account
	(a) Local assistance	202,645,000		
	(b) Federal funds	−160,245,000		
453	Capital Outlay, Highway Transportation Program		177,630,000	State Highway Account
	(a) Rehabilitation	116,485,000		
	(b) Operational improvements	118,050,000		
	(c) Local assistance	51,119,000		
	(d) New facilities	309,700,000		
	(e) Reimbursements	−51,119,000		
	(f) Federal funds	−343,655,000		
	(g) Amount payable from Toll Bridge Funds (Item 454)	−22,880,000		
	(h) Amount payable from Environmental Protection Program Fund (Item 454)	−70,000		
454	Capital Outlay, Highway Transportation Program		70,000	Environmental Protection Program Fund
—	Capital Outlay, Highway Transportation Program		22,880,000	Toll Bridge Funds
	TOTAL, BUDGET ACT APPROPRIATION		$685,921,216	
Add:	Reimbursements—Support		$5,563,250	Reimbursements
	(a) Mass Transportation Program (Item 161)	$1,494,250		
	(b) Highway Transportation Program (Item 164)	4,069,000		
	Reimbursements—Local Assistance, Transportation Planning Program (Item 166)		3,314,245	Reimbursements
	Reimbursements—Capital Outlay Highway Transportation Program (Item 453)		51,119,000	Reimbursements
	Reimbursements—Aeronautics (non-Budget Act)		$24,709	Reimbursements
	Total, Reimbursements		$60,021,204	

Continuing Statutory Appropriations			
(a) Chapter 1130, Statutes of 1975		1,356,746	
1) Mass Transportation Program	356,746		Abandoned Railroad Account
2) Mass Transportation Program	1,000,000		Transportation Planning and Research Account
(b) Chapter 1349, Statutes of 1976, Mass Transportation Program		3,207,247	Transportation Planning and Research Account
(c) Chapter 1098, Statutes of 1977, Mass Transportation Program		220,456	Transportation Planning and Reseach Account
(d) Chapter 460, Statutes of 1978, Mass Transportation Program		5,819,050	Transportation Planning and Research Account
(e) Chapter 1092, Statutes of 1972, Highway Transportation Program		415,000	Bicycle Lane Account
Total, Continuing Statutory Appropriations		$11,018,499	
Aeronautics Account Continuing Appropriations		4,260,000	Aeronautics Account
Toll Bridge Funds—Support, Highway Transportation Program (Item 164)		20,538,000	Toll Bridge Funds
Federal Funds—Support		58,181,980	Federal
(a) Mass Transportation Program (Item 161)	1,681,980		
(b) Highway Transportation Program (Item 164)	56,500,000		
Federal Funds—Local Assistance		$164,245,000	Federal
(a) Transportation Planning Program (Item 166)	4,000,000		
(b) Highway Transportation Program (Item 169)	160,245,000		
Federal Funds—Capital Outlay, Highway Transportation Program (Item 453)		343,655,000	Federal
Federal Funds—Carry-over Balances		101,472,432	Federal
(a) Local Assistance, Transportation Planning Program			
1) Chapter 1349, Statutes of 1976	143,911		
2) Budget Act of 1974, Item 210	184,299		
3) Budget Act of 1977, Item 158	1,144,222		
(b) Local Assistance, Highway Transportation Program			
1) Chapter 320, Statutes of 1976	40,740,191		
2) Chapter 359, Statutes of 1978	136,505,285		
3) Less succeeding year balances	−77,245,476		
Total, Federal Funds		$667,554,412	
TOTAL, PROGRAM EXPENDITURES		$1,449,313,331	

[a] All accounts are within the State Transportation Fund.

STATE TRANSPORTATION IMPROVEMENT PROGRAM

The State Transportation Improvement Program (STIP) is the basic plan for all state and federally funded transportation improvements in California. It is required by Chapter 1106, Statutes of 1977, which specifies that the California Transportation Commission (CTC) shall adopt and submit a five-year STIP to the Legislature and the Governor by July 1 of each year, as shown in Exhibit 1. The first STIP will be adopted by July 1, 1979.

STIP Requirements

For the five-year period covered, the adopted STIP must contain: (a) an estimate of available state and federal funds and associated constraints; (b) all *major* projects to be funded; (c) a summary of planned *minor* project expenditures; (d) recommended annual expenditures from the State Highway Account by program category; and (e) appropriate additional information.

DEPARTMENT OF TRANSPORTATION —Continued

Responsibilities of the CTC

In adopting a STIP, the commission is to consider (1) a proposed STIP submitted by the department, (2) regional transportation improvement programs (TIP's), and (3) input from public hearings. Following its adoption, the STIP may be amended by the CTC under specified circumstances.

The CTC allocates available state and federal funds only for projects included in the adopted STIP. For each fiscal year, these allocations must be consistent with total program expenditures specified in the Budget Act. The adopted STIP thus represents those transportation improvements which can be implemented.

Exhibit 1

Timetable for Development of State Transportation Improvement Program (STIP)[a]

Activity	*Date(s)*
1. California Transportation Commission (CTC) adopts and provides estimate of available revenues to department and regional agencies.	November 1
2. Department issues proposed STIP	December 1
3. CTC holds public hearings in nonmetropolitan areas	December to April 1
4. Department submits report to CTC comparing proposed STIP to regional transportation plans	February 1
5. Regional agencies in urban areas submit regional Transportation Improvement Programs (TIP's) to CTC.	April 1
6. CTC holds public hearings on proposed STIP and regional TIP's.	April to July 1
7. CTC adopts STIP.	July 1
8. CTC holds public hearings to consider appeals.	July 1 to August 15

[a] From *Proposed 1979 State TIP, Volume 1,* Department of Transportation, December 1, 1978.

Role of the Legislature

Chapter 1106 increased the role of the Legislature with respect to state transportation policy formulation and budgeting. Pursuant to this statute, the legislature's appropriations through the Budget Act establish maximum expenditure levels for the various program components from all state transportation funds. However, the statute states that the Budget Act shall not identify specific capital outlay projects to be funded. Transfers of funds by the department between programs are permitted upon CTC and Department of Finance approval, provided that any decrease in authorized expenditures within a program component (such as Rehabilitation or Maintenance) does not exceed ten percent.

Responsibilities of the Department

The Department of Transportation is required to provide the commission with an estimate of state and federal funds available during the five-year STIP period, not later than October 1 in the year prior to when the STIP period begins. The department's proposed STIP is then to be submitted to the commission not later than December 1. After the STIP is adopted by the commission, the department implements the STIP consistent with (1) allocations to projects made by the commission and (2) the Budget Act. Because many years are required to plan and carry out typical capital outlay projects, program development and capital outlay support activities of the department during the budget year also include appropriate planning and design work for improvements listed in the five years of the STIP.

The Proposed 1979 STIP

The proposed 1979 STIP was submitted by the department to the CTC in December 1978. Adjustments have subsequently been made to reflect the proposed Governor's budget, which provides for anticipated expenditures in the first year of the STIP.

The department's proposed budget and STIP expenditure plans for the Highways Transportation, Mass Transportation, Transportation Planning, and Aeronautics Programs are summarized in Tables 2 (state operations) and 3 (capital outlay and subventions). Actual prior year and estimated current year expenditures, shown in the tables for comparison, are based on consistent program definitions. These tables have been drawn from the department's comprehensive "Supplemental Reports", prepared for the first time this year as background information for the proposed budget and STIP.

State Operations

Table 2 shows the following proposed five-year STIP expenditure totals for state operations: (a) $2,591.8 million for highway transportation; (b) $79 million for mass transportation; (c) $47.5 million for planning; and (d) $7.5 million for aeronautics. Of these totals, highway transportation expenditures are projected to increase 8.1 percent in the budget year and an average of 3.3 percent annually thereafter. Mass transportation shows a proposed expenditure increase of 28.8 percent in the budget year, 19.4 percent in the following year, and an average of 2 percent for the last three years. Planning would decline 11.2 percent in the budget year, then increase an average of 4.3 percent annually thereafter. Aeronautics is slated for no increase in the budget year and would increase at an average annual rate of 3.4 percent over the following four years.

DEPARTMENT OF TRANSPORTATION —Continued

Table 2
State Operations Expenditures
Proposed State Transportation Improvement Program (STIP)
Summary, 1977–78 through 1983–84
(in millions)

			Proposed STIP				
Highway Transportation	*1977–78*	*1978–79*	*1979–80*	*1980–81*	*1981–82*	*1982–83*	*1983–84*
HA Rehabilitation	$22.8	$24.7	$23.8	$29.9	$28.7	$26.5	$25.3
HB Operational Improvements	41.8	46.9	47.5	61.2	58.1	55.1	53.1
HC Local Assistance	5.1	6.5	6.3	6.0	7.0	7.0	7.0
HD Program Development	13.3	13.0	13.8	16.0	17.0	17.0	17.0
HE New Facilities	47.9	53.9	45.0	51.5	48.0	45.8	42.5
HF Administration	52.3	77.7	105.9	63.0	66.0	70.0	73.0
HK Operations	31.8	31.1	33.2	34.0	37.0	38.0	40.0
HM Maintenance	199.0	191.7	206.0	234.0	253.0	271.0	289.0
HR Reimbursed Work for Others	11.3	3.9	4.1	4.3	4.5	4.7	5.0
Total State Operations, Highways	$425.3	$449.4	$485.6	$499.9	$519.3	$535.1	$551.9
Mass Transportation							
MA Low Mobility	$.2	$.6	$.6	$.7	$.8	$.8	$.9
MB Operator Assistance	.9	1.7	2.2	2.5	2.6	2.9	3.0
MC Interregional and Intercity	2.1	2.9	5.7	9.7	9.7	9.8	9.8
MD Transfer Facilities and Services	-	1.3	1.7	.3	.3	.4	.4
ME Demonstration Projects	3.1	2.3	1.2	1.2	1.3	1.4	1.4
MF Administration	.9	.7	.8	.7	.8	.8	.9
MR Reimbursed Work for Others	.4	.9	1.2	.9	.5	.5	.6
Total State Operations, Mass Transit	$7.6	$10.4	$13.4	$16.0	$16.6	$16.6	$17.0
Transportation Planning							
PA Statewide Planning	$3.7	$3.6	$3.0	$3.2	$3.4	$3.6	$3.8
PB Regional Planning	.5	.9	.9	1.0	1.0	1.1	1.1
PC Administration	2.0	2.0	2.2	2.3	2.5	2.6	2.8
PR Reimbursed Work for Others	3.4	3.3	2.6	2.6	2.6	2.6	2.6
Total State Operations, Planning	$9.6	$9.8	$8.7	$9.1	$9.5	$9.9	$10.3
Aeronautics							
AA Safety and Local Assistance	$.5	$.8	$.6	$.6	$.7	$.7	$.7
AB Administration	.5	.4	.4	.4	.4	.4	.4
AC Planning and Noise	.2	.2	.4	.4	.4	.4	.5
AR Reimbursed Work for Others	.01	.02	.02	.03	.03	.04	.04
Total State Operations, Aeronautics	$1.2	$1.4	$1.4	$1.4	$1.5	$1.5	$1.6

Table 3
Capital Outlay and Subventions
Proposed State Transportation Improvement Program (STIP)
Summary, 1977–78 through 1983–84
(in millions)

			Proposed STIP				
Highway Transportation	*1977–78*	*1978–79*	*1979–80*	*1980–81*	*1981–82*	*1982–83*	*1983–84*
HA Rehabilitation	$98.8	$150.7	$116.5	$105.2	$103.0	$87.7	$90.6
HB Operational Improvements	94.6	137.2	118.1	109.4	123.6	134.3	117.3
HE New Facilities	250.2	372.3	309.7	277.1	248.5	225.9	233.4
HR Reimbursed Work for Others	43.3	50.9	51.1	55.2	59.6	64.4	69.5
Total Capital Outlay, Highways	$486.9	$711.1	$595.4	$546.9	$534.7	$512.3	$510.8
HC Local Assistance Subventions	$169.7	$229.1	$303.1	$161.4	$158.4	$157.4	$157.4
Mass Transportation							
MB Transit Operator Assistance	$4.7	$18.0	$22.4	$29.1	$28.7	$28.1	$28.8
MD Transfer Facilities and Services[a]	.1	.4	6.8	4.8	4.8	4.8	4.8
Total Subventions, Mass Transportation	$4.8	$18.4	$29.2	$33.9	$33.5	$32.9	$33.6
Transportation Planning							
PB Regional Planning Subventions	$7.8	$7.9	$7.5	$7.1	$6.7	$6.8	$6.9
Aeronautics							
AA Local Assistance Subventions	$4.9	$5.2	$5.0	$5.0	$4.6	$4.0	$4.1

[a] Includes capital outlay of $0.1 million in 1977–78 and $0.4 million in 1978–79.

Capital Outlay and Subventions. Proposed capital outlay and subventions are shown in Table 3. The five-year STIP totals are: (a) $2.7 billion in capital outlay and $937.7 million in subventions for highway transportation; (b) $163.1 million in subventions for mass transportation; (c) $35 million in planning subventions; and (d) $22.7 million in subventions for aeronautics. Of these totals, highway transportation capital outlay expenditures are expected to decline 16.3 percent in the budget year, then 8.1 percent the following year. An average annual decline of 2.3 percent is projected for the following three years.

In contrast, mass transportation subventions are slated to increase 58.7 percent in the budget year and an additional 16.1 percent the following year. These subventions would then remain approximately constant at the 1980–81 level for the last three years of the STIP. Annual subventions in both planning and aeronautics are slated to decline slightly during the STIP period. This indicates that the department is proposing a major shift in program emphasis, with a declining highway transportation capital outlay program and an increasing mass transportation program.

Decline in Highway Program. Inflation makes the actual decline in the highway program even greater than what it appears to be. The department assumes that inflation during the STIP period will exceed the 7 percent rate assumed for the 1977 Highway Program. The proposed five year STIP highway expenditures were increased by approximately $121 million to reflect a twelve percent inflation rate in the base 1978–79 year. In addition, the assumed annual inflation rate was increased from seven percent to eight percent, thereby increasing STIP highway expenditures by another $75 million. These inflation adjustments represent $196 million in funds "lost" to inflation in the STIP since the 1977 Highway Program was established.

DEPARTMENT OF TRANSPORTATION —Continued

Although highway capital outlay is projected to decline slightly each year in *current* dollars, even more sizable expenditure decreases occur when compared in *constant* dollars. The trend of declining program expenditures in current and in 1978–79 dollars (assuming eight percent inflation) is shown in Exhibit 2. Using the department's assumed inflation rate of eight percent, total five year highway transportation capital outlay in 1978–79 dollars totals only $2.16 billion, 20 percent less than the $2.7 billion measured in current dollars. A higher rate of inflation would generate an even more rapid decline in annual and total program value.

Department Adjustments to the Budget and the STIP. The department has indicated that both the Governor's Budget and the proposed STIP will be revised in the next two months. The most significant changes will occur in the Highway Transportation Program because increased funds are potentially available for inclusion in the STIP as follows:

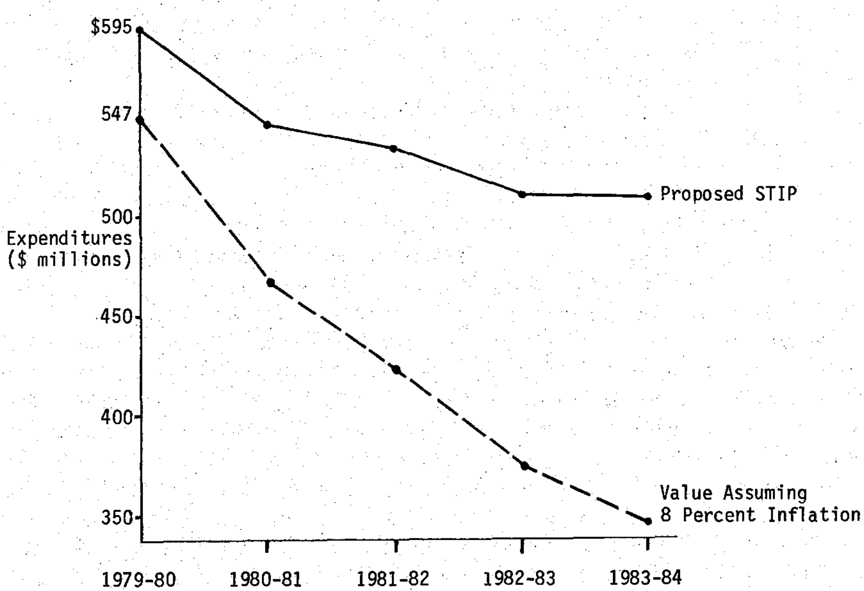
(1) $100 million in the budget year transferred from the Motor Vehicle Account to the State Highway Account;

(2) A total of approximately $100 million in increased federal aid for state highway requirements is available in the current and budget years.

(3) An increase over prior estimates of approximately $150 million in federal aid for state highways is available in 1980–81 and 1981–82; and

(4) Approximately $100 million additional aid for local highway subventions over the 1978–79 to 1981–82 period are provided in the new federal act.

Exhibit 2
Effect of Eight Percent Inflation Rate Upon Proposed Highway Transportation Capital Outlay Expenditures Fiscal Years 1979–80 through 1983–84



Dealing with Inflation

Construction costs have dramatically increased over the last several years. This is reflected in the growth in the construction cost indices computed by both the state and federal governments, which have risen 19.3 and 37.1 percent, respectively, for the third quarter of 1978 compared with one year earlier.

These composite indices represent the full cost of accomplishing specified construction including excavation, emplacing structural steel and concrete, and roadway surfacing. The indices are derived from actual construction contracts and show a long-term increasing trend in costs. However, because of the seasonality of highway construction, demand, and other factors, quarterly and yearly changes in the indices can vary significantly.

Past Trends. An analysis of the state construction cost index indicates that two periods of dramatic inflation occurred in the past five years. In 1974, following the sharp increase in oil prices by the Organization of Petroleum Exporting Countries (OPEC), the California index rose 51.9 percent. After a period of cost stability during 1975 and 1976, a second increase occurred in 1977, with costs rising 23.2 percent over 1976. This continued through 1978 resulting in a fourth quarter state index that was 28.3 percent above the 1977 level.

The average annual increase over the five-year period from 1973 through 1978 was 15.1 percent. This high annual rate directly reflects the two major inflationary periods of that time frame.

Future Trends. In contrast to the 15.1 percent average annual increase in construction costs over the past five-year period, State Highway Account revenues currently banked are earning approximately eight percent annual interest. The department is also assuming an eight percent rate of construction inflation in its STIP. If the 15.1 percent rate persists while funds are banked at eight percent, their value would decline 6.2 percent in purchasing power each year, a 27.3 percent loss over a five-year period. Perhaps even more alarming is the loss in value of federal funds which are fixed and do not earn interest for the state.

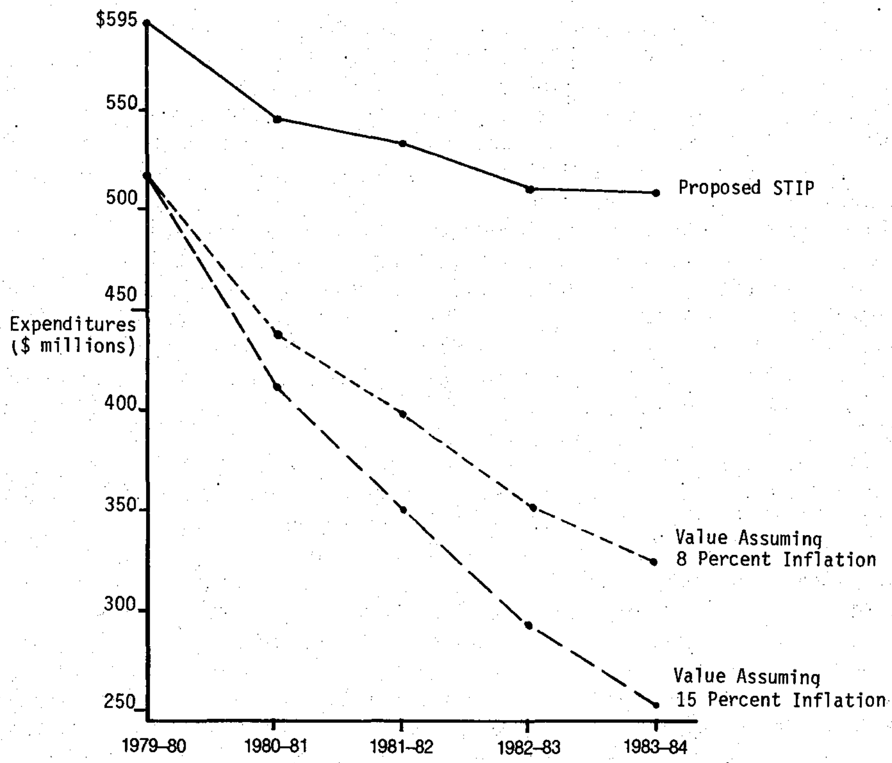
OPEC has recently announced petroleum price increases over the next one to two years totaling approximately 15 percent. These price increases will probably contribute to higher inflation in the economy. The announced increases also make higher inflation in construction costs more likely in the next few years, perhaps on the order of the 15 percent encountered over the past five years.

In our judgment, these trends suggest that available funds should be used as early as possible for desirable projects, provided the highway construction industry has the capacity to expand production. During periods in which the industry is operating at full capacity, any effort on California's part to speed up its highway program might result in more rapid inflation, and thus be partially self defeating.

Exhibit 3 shows the impact upon the STIP, in constant dollars, of a 15 percent inflation rate in the 1978–79 base year, followed by (1) 8 percent thereafter and (2) 15 percent thereafter.

DEPARTMENT OF TRANSPORTATION —Continued

Exhibit 3
Potential Effects of Inflation Upon Proposed Highway Transportation Capital Outlay Expenditures Fiscal Years 1979–80 through 1983–84



[a] Reflects the effect of an initial inflation rate of 15 percent from 1978–79 to 1979–80.

Construction Demand. It has been argued that any effort on California's part to increase the pace of highway construction would only add to inflationary pressures.

While this argument has some merit, particularly (as noted above) when the industry is operating at full capacity, it is not clear that increased highway expenditures by the state would *automatically* drive up prices. Because California's share of the nation's street and highway construction is only about nine percent, the state's impact on highway construction costs depends heavily on supply and demand forces in the industry as a whole.

Financial Alternatives

Currently, the department's policy is to hold surplus State Highway Account funds in the state's Pooled Money Investment Fund to provide funding for projects scheduled during the later years of the STIP. This is one of three principal alternatives for using the account's surplus. These options are: (1) "banking" funds for later use; (2) programming more projects early in the STIP period, or "front-loading"; and (3) providing a temporary tax reduction in the early years of the STIP.

Banking Funds. Holding funds in the Pooled Money Investment Fund to defray future potential deficits is the most conservative of these three alternatives. This approach requires no tax increases to fund the highway program during the STIP period. However, because inflation will probably be higher than the eight percent projected by the department, the value of banked funds is likely to diminish because the funds earn only an eight percent return. Assuming this alternative is chosen, the decline in value of banked funds would result in less actual construction than that currently proposed.

On the other hand, assuming that (1) surplus funds continue to be banked, (2) the program in the proposed STIP is carried out, and (3) inflation does not exceed eight percent, approximately $55 million in State Highway Account funds would remain unencumbered on July 1, 1984.

Programming More Projects Early in the STIP. Under this approach, projects planned for later years would be moved forward in the STIP. In our judgment, this policy should be adopted if any of the following conditions occur:

(1) Construction costs continue to rise at a rate above eight percent annually. Such increases would effectively reduce the purchasing power of "banked" funds. As discussed earlier, it appears that construction costs will increase at a rate well above eight percent in the next few years;

(2) Cash available in the State Highway Account grows beyond the levels anticipated in the proposed STIP. This could occur if (a) state revenues exceed department projections, or (b) Proposition 5 diversions of State Highway Account funds to local transit guideway projects are below department estimates. Both cases have happened in the past and are likely to occur in future years;

(3) There are major delays in implementing scheduled projects. Project delays which can be due to environmental regulations and a variety of other factors, keep fund balances higher than projected in any given year. Planning a higher level of work in the earlier years can reduce the build-up of cash reserves which otherwise might decline in effective value. The expenditure levels in the STIP's future years could be easily adjusted based on when projects are delivered.

A Temporary Tax Reduction. Another alternative which could be considered is a temporary fuel tax reduction in the early years of the STIP. Under Caltrans' proposed STIP, balances in the State Highway Account exceeding $200 million would continue until the 1983–84 fiscal year. This balance could be significantly higher because of the additional funds

DEPARTMENT OF TRANSPORTATION —Continued

which recently have become available. Consequently, a temporary tax reduction during a portion of the STIP period could be enacted. Each one cent tax reduction in the fuel tax would reduce annual income by approximately $116 million.

Such a reduction in fuel taxes, however, would only temporarily reduce the tax burden in California. Tax increases to a rate at or above the current level would almost certainly be needed by fiscal year 1983–84, assuming that the department's program can be accomplished. Furthermore, a return to existing rates or a tax increase would be made more difficult by the provisions of Article XIIIA of the State Constitution as added by passage of Proposition 13. Finally, a tax reduction, even on a temporary basis, might be contrary to existing policies designed to encourage fuel conservation.

BUDGET OVERVIEW

Covering the first year of the five year STIP, the Governor's 1979–80 Budget establishes the overall direction of department activities. However, it should be noted that a revision to the proposed budget will be provided by the department in March 1979. This revision will be necessary because additional federal funds provided in the 1978 Surface Transporation Assistance Act and the $100 million transfer from the Motor Vehicle Account are not reflected in proposed expenditures. Program emphasis, as viewed in terms of expenditure and personnel levels, could differ significantly when this funding is reflected in the revised budget.

Funding of department activities by program and source is shown in Table 4.

Table 4

Funding by Program and Source

Program	*Actual 1977–78*	*Estimated 1978–79*	*Percent Change over Previous Year*	*Proposed 1979–80*	*Percent Change over Previous Year*
1. Tranportation Planning	$16,939,640	$17,781,365	5.0%	$16,185,827	(9.0%)
2. Mass Transportation	12,253,432	28,805,676	135.0	42,642,833	48.0
3. Aeronautics	5,983,404	6,614,404	10.5	6,423,833	(2.9)
4. Highway Transportation	1,059,128,267	1,389,547,733	31.2	1,384,061,000	(0.4)
5. General Support	23,489,741	—	(100.0)	—	—
Total, Programs	$1,117,794,484	$1,442,749,178	29.1%	$1,449,313,331	0.5%
Resources					
State Highway Account	478,934,342	639,471,532	33.5	646,840,000	1.2
Aeronautics Account	6,067,067	6,596,885	8.7	6,398,962	(3.0)
Transportation Planning and Research Account	15,281,285	20,490,173	34.1	19,709,007	(3.8)
Bicycle Lane Account	985,069	730,000	(25.9)	415,000	(43.2)
Abandoned Railroad Account	83,859	3,039,285	—	356,746	(88.3)
Environmental Protection Program Fund	386,506	190,304	(50.8)	100,000	(47.5)
Toll Bridge Funds	77,857,134	29,575,755	(62.0)	43,418,000	46.8
Federal Funds	479,595,376	682,333,446	42.3	667,554,412	(2.2)
General Fund	—	—	—	4,500,000	—
Reimbursements	58,603,306	60,321,798	2.9	60,021,204	(0.5)
Total, Resources	$1,117,794,484	$1,442,749,178	29.1%	$1,449,313,331	0.5%

Reductions Per Sections 27.1 and 27.2—Budget Act of 1978

The department's budget reflects operating expense reductions of $4 million and a staff reduction of 350 personnel-years, pursuant to Sections 27.1 and 27.2 of the Budget Act of 1978. What the proposed budget does not show is how and where these reductions will affect department operations. The department indicates that a schedule displaying the effect of the reductions will not be available before February. Therefore, no review of these reductions is possible in this Analysis.

Significant Program Changes

The proposed budget contains several significant program changes. Although most of these changes are discussed in greater detail in later sections in the Analysis, a brief summary follows to provide an overview of shifts in program emphasis.

Planning. Several activities in the Transportation Planning Program are being transferred to the other three functional department programs. Rail, bicycle, and aeronautics planning will be shifted to the Mass Transportation Program, Highway Transportation Program and Aeronautics Program, respectively, producing a reduction of approximately $469,000 (15.3 personnel-years) in the planning program.

Mass Transportation. The Mass Transportation Program is scheduled for major increases in the areas of rail planning activities, and transit guideway subventions ($7 million), as well as in support for commuter and intercity passenger rail service and implementation of a State Rail Plan for freight services.

Aeronautics. The major changes in the Aeronautics Program are reduced inspections of heliports for a reduction of $39,570, and increased involvement in resolution of land use conflicts for an increase of $100,351 and 2.8 personnel-years. In addition, various funding changes have been made in the local agency loan and grant programs.

Highways. Several significant changes are proposed in the Highway Transportation Program. Construction of new facilities is expected to increase by $23.9 million [1] (53.1 personnel-years) in accordance with the department's proposed STIP, while project development shows a $4.8 million increase (40 personnel-years). Conversely, the grade separation and the grade crossing maintenance programs are scheduled for termination in the budget year. Funding for the $15 million grade separation program has been reduced by $7.5 million on the assumption that legislation will be enacted to end the program on January 1, 1980. Elimination of subventions for local grade crossing maintenance will provide additional savings of $1.2 million.

Other changes include elimination of night toll collection on state bridges (a $1.5 million reduction), funding for a motorized equipment training school (a $1.6 million addition), and increased activity in the areas

[1] Total capital outlay expenditures for new highway facilities will actually decline in 1979–80 from the 1978–79 level. This is due in large part to the existence of a "bulge" in the 1978–79 expenditure total created by the inclusion of projects carried over from the 1977–78 fiscal year, inflation adjustments and $66 million in Chapter 1164, Statutes of 1978 (AB 3020) funds.

DEPARTMENT OF TRANSPORTATION —Continued

of roadside maintenance and traffic operations improvements.

The General Support Program appearing in the 1978–79 budget ($26.6 million, 2,200 personnel-years) was eliminated in the current fiscal year. Expenditures and personnel for these general administrative activities were distributed among the department's other four programs.

Constraints on Program Analysis

Analysis of the department's budget has been hindered by several factors.

Budget Process Delayed. The Caltrans budget process for 1979–80 was delayed because it took four months to allocate the 1978–79 budget within the department after enactment of the Budget Bill. Furthermore, many of the changes proposed in the budget were presented relatively late in the budget preparation and review process. Thus, final changes in the Department of Transportation's budget, and necessary support documents, have been available for evaluation during a very limited time.

Program Definition Changes. Another factor which has hindered our review involves the substantial changes which were made in the program definitions of the Highway Transportation, Mass Transportation, and Planning Programs. These changes have resulted in the shift of thousands of positions from one program component to another. Moreover, net increases or reductions in program expenditures and personnel have been obscured, precluding comparisons between current year and budget year data.

Although the department has made an effort to provide additional substantiating and descriptive material, the short review time available to us has limited the value of this additional material. Moreover, backup information contained in the program budget narrative and the budget change proposals (BCP's), which in more "normal" years could be expected to fill some of these information needs, fails to clearly explain the many technical changes in program definitions. However, this is the first year the department has provided BCP's under legislative budgeting, and the lateness of the budget's submission has afforded the department little opportunity to update or supplement the BCP material.

Additional Resources. As previously mentioned, the budget does not reflect the recent transfer of $100 million from the Motor Vehicle Account to the State Highway Account nor additional federal monies expected to be received. These additional funds will affect both the support and capital outlay portions of the department's budget, primarily the Highway Transportation Program. Because the implications of these additions are not now available, they should be presented by Caltrans in the course of the budget hearings.

1. TRANSPORTATION PLANNING

The Transportation Planning Program contains four elements: (a) statewide planning; (b) regional planning; (c) administration; and (d) reimbursed services. Funding and staff requested for these elements are shown in Table 5.

Table 5
Transportation Planning Program
Staffing and Expenditures [a]

Expenditures by element:	*Actual 1977–78*	*Estimated 1978–79*	*Proposed 1979*
a. Statewide Planning	$3,656,086	$3,628,242	$3,038,330
b. Regional Planning	8,314,209	8,802,008	8,394,277
c. Administration	1,618,056	2,076,615	2,181,545
d. Reimbursed Services	3,351,289	3,274,500	2,571,675
Total program expenditures	$16,939,640	$17,781,365	$16,185,827
Personnel-years by element:			
a. Statewide Planning	99.1	108.3	76.6
b. Regional Planning	15.7	23.5	23.5
c. Administration	50.1	98.3	99.6
d. Reimbursed Services	100.3	90.8	69.4
Total program personnel-years	265.2	320.9	269.1

[a] Comparisons between current year and budget year figures may be inappropriate because of program definition changes.

Significant Program Changes

The budget proposes expenditures of $16,185,827, a 9 percent decrease from current year estimated expenditures of $17,781,365. The proposed budget provides funding for 269.1 personnel-years, a reduction of 51.8 from an estimated current year level of 320.9 personnel-years.

Expenditure Reductions. There are four primary expenditure reductions in the proposed budget: (1) transfers to other programs, $646,878; (2) reduced subventions to local agencies, $613,000; (3) reduced highway planning, $262,436; and (4) reduced corridor studies, $101,972. Other minor adjustments are also included in the budget.

Personnel Reductions. The proposed budget makes the following changes: the statewide planning element is reduced 31.7 personnel-years; 15.3 personnel-years are transferred to the Mass Transportation, Highway Transportation (for bicycle planning), and Aeronautics Programs; 12.4 personnel-years are eliminated for activities concerning highway planning and corridor studies; and 3.9 personnel-years are eliminated in data acquisition and analysis. Administration is augmented by 1.3 personnel-years, primarily to increase program accountability. Reimbursed services decline 21.4 personnel-years, in anticipation of less work from local agencies because of proposed reductions in subventions.

Planning Efforts

We recommend approval of Items 157 and 166.

The department has indicated that the 269 personnel-years allocated to this program in the 1979–80 budget will be the minimum (or baseline) level for future years. This level reflects a reduction of 56.8 personnel-years and $2,073,767 from current year expenditures.

The proposed budget for this program reflects reasonable expenditures necessary to accomplish department planning responsibilities pursuant to statutory requirements and federal law. Activities are oriented toward (1) regional transportation planning assistance, (2) air quality plans, (3) more efficient use of the transportation system through Transportation Systems

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Management planning and analysis, (4) studies concerning altenative transportation improvements in specific corridors, and (5) analyses of the potential impacts of transportation improvements.

2. MASS TRANSPORTATION

The Mass Transportation Program contains seven elements: (a) low mobility transportation, (b) transit operator assistance, (c) interregional public transportation, (d) transfer facilities and services, (e) transportation demonstration projects, (f) administration, and (g) work for others. Funding and staff for these elements are shown in Table 6.

Table 6

Mass Transportation Program Staffing and Expenditures [a]

	Actual 1977–78	*Estimated 1978–79*	*Proposed 1979–80*
Expenditures by element:			
a. Low Mobility Transportation	$191,264	$592,925	$628,152
b. Transit Operator Assistance	5,640,498	19,709,078	24,659,356
c. Interregional Public Transportation	2,066,971	2,843,344	5,714,125
d. Transfer Facilities and Services	105,571	1,667,986	8,501,873
e. Transportation Demonstration Projects	3,107,044	2,374,122	1,139,137
f. Administration	694,338	745,096	790,190
g. Work for Others	447,746	873,125	1,210,000
Total program expenditures	$12,253,432	$28,805,676	$42,642,833
Personnel-years by element:			
a. Low Mobility Transportation	8.8	16.5	17.0
b. Transit Operator Assistance	27.5	46.8	64.6
c. Interregional Public Transportation	10.9	9.1	19.1
d. Transfer Facilities and Services	—	4.8	7.8
e. Transportation Demonstration Projects	24.3	18.6	19.9
f. Administration	24.6	37.6	42.7
g. Work for Others	5.7	12.9	21.3
Total program personnel-years	101.8	146.3	192.4

[a] Comparisons between current year and budget year figures may be inappropriate because of program definition changes.

Significant Program Changes

As shown in Table 6, the program budget proposes the expenditure of $42,642,833, an increase of $13,837,157, or 48 percent, over estimated current year expenditures of $28,805,676. Contributing to this growth are increases of over $5 million in unreimbursed program support costs (from approximately $6.9 million to $11.9 million) and over $9 million in local assistance subventions (from $20.2 million to over $29.2 million). Staffing is proposed to increase from the current year level of 146.3 personnel-years to a budget year total of 192.4 personnel-years, an addition of 46.1 personnel-years.

Several changes are requested in the Mass Transportation budget. Among the specific proposals are: (a) implementation of department policies supporting bus service in the South Lake Tahoe area (5.0 personnel-years and $150,000); (b) increases of nearly $9.1 million in fixed guideway subventions and approximately $6.8 million in interface facility subventions; (c) initiation of an interregional bus program (1.6 personnel-years and $54,662); and (d) an increase of 8.4 personnel-years and approximately $3.8 million (of which nearly $3.4 million are from the General Fund) for expanded commuter and interregional rail activities.

Defining State Role

The program's general objective, as exhibited in its budget proposals, is to introduce and expand activities in many facets of mass transportation. Although greater state participation in these areas may be desirable in certain instances, proposed program activities appear to be unfocused and instead result in a "scatter-gun" approach.

We believe that this is primarily because the state's role in mass transportation needs to be clarified. In our judgment, a precise definition of program emphasis and parameters should be provided. To this end, four factors merit consideration: (a) establishment of statutory authority and direction; (b) identifying functions which more properly are accomplished by local and regional agencies; (c) inclusion of quantifiable criteria and objectives to measure program performance; and (d) stability of funding sources.

Need for Clarifying Legislation

Few of the program's current and proposed activities are within the department's statutory authority. Essentially, the program's charter calls for it to encourage and aid transit development, and it was given only limited responsibilities and authority.

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

Separation of Functions

In reviewing the program proposals for the 1979–80 fiscal year, several requests appear to duplicate activities performed by regional and local agencies. Although the division does provide some data gathering and technical assistance which can aid local transit operators or regional planning agencies, *its impact is limited because the funding and daily operations of mass transportation systems are basically a federal–local matter.* We believe that program involvement can be more effective if activities aimed at regional or local operations are identified and eliminated, except where a statewide interest is clearly established.

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Measurement of Accomplishments

The program direction statement in the department's supplementary report prepared as background to the proposed budget indicates that the division's financial resources will be expended on program activities if one of the following exists: "(1) there are economies of scale to be obtained by a state, as opposed to scattered local involvement; or (2) there is an important statewide interest served by the particular transit activity."

Beyond this general statement, there is no indication of a process by which specific proposals (or existing functions) are selected for support. For example, none of the budget year requests address (a) the costs of providing the function on a "scattered local" basis, (b) the state's cost for performing this function, and (c) the resulting "economies of scale" achieved by state involvement. As far as "statewide interest" is concerned, division staff has, to date, been unable to provide us with explicit criteria by which activities are choosen for funding.

Because criteria for selecting program activities or for assessing accomplishments are lacking, it is difficult to determine the impact of the division's efforts. We believe that division staff should develop such measures so that proposals can be reviewed on the basis of expected achievements and quantifiable goals.

Stable Financial Resources

Revenues from the State Highway Account and the Transportation Planning and Research Account provide over 80 percent of the program's funding. However, State Highway Account funds can only be used for exclusive fixed guideway design and construction purposes pursuant to Article XIX of the State Constitution. The financing of program support activities is therefore primarily from the Transportation Planning and Research Account.

Resources in this account have historically accumulated from the "spillover" of sales tax revenues. The amount of spillover revenues is based on formula which differentiates between the total value of gasoline sales and the total value of taxable items other than gasoline. Spillover funds have been minimal in recent years because gasoline prices have not increased as rapidly as prices on other taxable goods. Conversely, expenditures funded by the account have consistently increased. Consequently, account surpluses have dwindled from a July 1, 1977 level of approximately $40.5 million to a projected sum of about $6.2 million by June 30, 1980.

In the future, the department expects that other sources will provide additional revenues to the program. In fact, this is already reflected in the proposed budget, which includes $4.5 million in General Fund monies to support mass transportation activities.

Until other sources of funds are approved by the Legislature, we believe the department should attempt to strike a balance between annual program expenses and available revenues. Otherwise, as the department projects in its supplementary report, the account will have a deficit balance by the 1980–81 fiscal year. This prospect is one of the factors that has led us to recommend reductions in several program activities which are of marginal value or of low priority.

Department staff indicate that General Fund monies will provide $4.5 million of support to various program activities. If the specific recommendations discussed below are adopted, we believe that the savings should first serve to reduce the amount of General Fund support.

a. Low Mobility Transportation

Activities in this element attempt to insure that transportation systems used by the low mobility population (the elderly and the disabled) improve in accessibility and service levels. The budget proposes the addition of 0.5 personnel-years and $21,560 to monitor approximately 100 additional vehicles serving low mobility persons. These vehicles are purchased with federal funds, and monitoring during the vehicles' first five years is required by the Urban Mass Transportation Administration (UMTA).

b. Transit Operator Assistance

We recommend a reduction of $403,060 and 11.8 personnel-years from the General Fund (Item 160) for transit operator assistance activities.

Both technical and financial assistance to transit operators are offered within this element. Training programs, transit development programs, and administration of federal assistance functions are among the assistance activities provided by the department.

Local Guideway Planning. The budget proposes the addition of 1.5 personnel-years to provide technical assistance in the design of guideway projects in Sacramento, South Lake Tahoe, and San Jose. The additional staff are also expected to participate in evaluating proposed fixed guideway projects and in assessing rail alternatives for corridor studies in San Jose-Santa Cruz, Los Angeles-San Bernardino, and Marin County.

In contacting various regional planning agencies and transportation commissions, we found that only in South Lake Tahoe was a fixed guideway or rail alternative being seriously considered as an acceptable transportation option. We believe that the South Lake Tahoe evaluation can be absorbed within existing workload and therefore recommend a reduction of $51,000 and deletion of the requested 1.5 personnel-years.

Information Systems. The division is requesting increased staff to permit the accumulation of information on the 6,500 transit vehicles operating in California. Collected information will be placed on a computerized data base and programmed for easy retrieval. We do not expect that the development of a vehicle inventory will be utilized to any large degree by transit operators, and recommend a reduction of 0.3 personnel-years and $11,400.

Transit Project Review. The department is required to review and approve public transit projects which use state or federal funds. Financing plans, development schedules, and performance standards are among the factors examined in the department's analysis.

The budget proposes the addition of $43,200 and 1.2 personnel-years to review six projects: a Sacramento light-rail proposal; BART mainline crossovers and spur tracks; San Francisco Municipal station facilities; a Santa Clara guideway project; the Los Angeles (Wilshire Corridor) guideway;

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and the Los Angeles "people mover" system. We understand that several projects (Sacramento, Santa Clara, and Wilshire Corridor) cannot be reviewed by the department because of insufficient plans or the probability of project abandonment by local agencies. We therefore recommend that the request be reduced by 0.6 personnel-years and $21,600.

Training Programs. The development of two training programs and a transportation education program for low mobility groups is proposed by the department for the fiscal year 1979–80. The one-session training programs will (a) familiarize students with "unique problems of intercity transportation carriers" and (b) instruct transit managers in functions such as finance, personnel, operations, administration, and management. The education program for low mobility persons is expected to "illustrate the use of transit systems" and discuss security and fare "problems".

We find little justification for these activities. Increasing the knowledge of transit managers, transportation students, and the elderly and disabled is a worthwhile goal, but this proposal will not only have minimal impact but is a questionable use of state funds. We therefore recommend a reduction of 1.1 personnel-years and $41,800 (of which $8,360 is funded from state sources and the remaining $33,400 from federal assistance).

Small System Developments. An increase of 3.1 personnel-years and $110,000 (of which $22,000 is provided by state funds and $88,000 by federal assistance) is requested for coordinating the development of transit programs in rural and small urban areas. Among the anticipated accomplishments from this increase in expenditures are preparation of a manual titled "How to Implement a Rural Transit Program", a statewide transit plan for nonurbanized areas, and a summary of rural transit planning and implementation efforts.

In our judgment, the division appears to be advocating transit development in rural areas through these activities. Transit systems should be introduced after analysis by the appropriate local or regional planning agency, not through the division's efforts. A reduction of 3.1 personnel-years, and $22,000 in state funds and $88,000 in federal funds, is therefore recommended.

Lake Tahoe Bus System. As a catalyst to improving transportation and reducing environmental problems in the Lake Tahoe Basin, the department is requesting 5.0 personnel-years and $150,000 for design and development of a bus system from the South Lake Tahoe airport to Stateline and followup on the proposed light rail system. Requested staff will be involved in three projects: (a) design of loop road connections and a transit terminal at Stateline; (b) design of bus shelters and improved pedestrian access; and (c) additional light rail work.

Efforts to abate the increasing congestion and pollution levels in South Lake Tahoe are warranted and needed. However, we believe that the department's proposal is not justified for two reasons. First, the problems occurring at Lake Tahoe should be resolved on a regional basis with the approval of the various regional and local agencies affected by proposed solutions. To date, there has been no agreement on possible solutions by entities such as the California Tahoe Regional Planning Agency (CTRPA) and the City of South Lake Tahoe. Second, the operator of the proposed bus/rail system has yet to be identified. It appears premature to develop transit terminal and bus shelter plans before this question is resolved. We therefore recommend that the requested funding and staff increases for this project be deleted.

Reimbursement Policy. In reviewing the element budget, we determined that identified expenditures were approximately $131,500 below the proposed 1979–80 funding level. Department staff indicated that this was due to a shift in sources from reimbursements to state funds.

Based on an internal management decision, design and planning efforts provided to local transit operators within this element are to be fully reimbursed during the current fiscal year. However, the department has proposed that state funds support these activites in the budget year because the department believes few operators have funds available to reimburse the department for these services.

In our judgment, services provided to these agencies should be on a reimbursable basis. This is necessary to assure that these services are needed and efficiently provided. Furthermore, any *generalized* fiscal problem facing local agencies should be addressed as part of a broader solution to Proposition 13's revenue impact, not on a narrow, program-by-program basis. We therefore recommend that the reimbursement policy be reinstated for a savings of $131,500.

Audit Coordination. In the financial assistance area, the department is proposing the addition of 0.2 personnel-years and $7,200 to inventory the existing audit requirements placed on transit systems by federal, state, and local agencies, and provide information on the state's audit provisions. We believe that this request is not justified because workload requirements and the need for additional personnel have not been documented. We therefore recommend that the additional funding and personnel years requested for this function be denied.

Abandoned Railroad Right-of-Way Purchases

We withhold recommendation on the department's proposal to eliminate purchases of abandoned railroad rights-of-way. We further recommend that the department report on the status of its proposed legislation in this area during hearings on the budget.

The department plans to sponsor legislation in the current year eliminating required purchases of abandoned railroad rights-of-way as a low priority measure. Savings of $2.9 million and one personnel-year are anticipated if this legislation is enacted.

No information has been furnished by the department on the proposal. Until data supporting this action are provided, we withhold our recommendation. Furthermore, we recommend that the department indicate the status of the proposed legislation during the Legislature's hearing on this budget item.

c. Interregional Public Transportation

We recommend a reduction of $3,363,549 and 0.3 personnel-years from the General Fund (Item 160) proposed for interregional public transportation projects.

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We also recommend that Item 161 be reduced by 6.0 personnel-years and by $204,988 from the Transportation Planning and Research Account to eliminate unjustified planning and evaluation activities.

This element proposes funding for a new bus transportation component which was prompted by recent federal legislation authorizing $30 million nationwide through 1981-82 for intercity bus assistance. In addition, the element includes support of interregional and commuter rail activities. Nearly $3.4 million from the General Fund is requested for funding of various new rail projects in the budget year.

Intercity Bus Element. The department is proposing to introduce this activity during the budget year with resources of $54,662 from the General Fund and 1.6 personnel-years. Planned activities include (a) inventorying the state's intercity bus systems and facilities, (b) developing specific policies and programs to maximize the use of federal funds, (c) preparing a statewide bus plan, (d) developing legislation for implementing the plan's recommendations, and (e) providing testimony before the state Public Utilities Commission (PUC) and the Federal Interstate Commerce Commission (ICC) on route, rate, and schedule charges.

We believe that expansion of intercity bus travel can be a cost effective approach for improving public transportation systems in some cases. However, we recommend that 0.3 personnel-years and $10,250 for paratransit deregulation efforts be deleted from this request. We are unaware of department authority permitting this activity and, until such authority is granted, this appears to be an improper use of state funds.

Expanded Rail Program

As part of the interregional public transportation element, the department is proposing a significant increase in support of rail services. Proposed program changes totaling approximately $3.8 million include (a) planning, evaluation, and new service efforts ($439,773 from the Transportation Planning and Research Account and $161,250 from federal grants), and (b) direct support of additional intercity and commuter rail passenger services ($3,353,299 from the General Fund).

Direct Rail Support. The services which the department proposes to help finance include an intercity train operating along the Sacramento-Oakland-Los Angeles corridor, and increased commuter services along the San Francisco-San Jose corridor and in the Los Angeles area. Because of ongoing negotiations with rail companies owning or operating along these routes, the department has not indicated the proposed levels of state funds for support of individual routes.

The proposed Sacramento-Los Angeles service would be provided after negotiation with the National Railroad Passenger Corporation (Amtrak) pursuant to Section 403(b) of the National Railroad Passenger Service Act of 1970. Commuter service funding would be based on the outcome of negotiations with appropriate railroad companies, primarily the Southern Pacific Transportation Company.

Improved rail services under department sponsorship along certain corridors, such as Los Angeles-San Diego, have resulted in increased ridership. However, we believe that the department's plans for additional support of the rail passenger services identified above are not justified because (a) legislative authority for involvement in certain routes has not been provided, (b) outstanding conflicts and issues are yet to be decided by appropriate governing agencies, and (c) cost effectiveness studies either have not yet been performed or indicate that increased services are not economically warranted.

Absence of Legislative Authority. Sections 2173 and 2174 of the Streets and Highways Code provide authority for the Secretary of the Business and Transportation Agency to enter into contracts with Amtrak for improvements to rail passenger facilities and trackage, and additional rail passenger service, along the Sacramento-San Francisco and Los Angeles-San Diego corridors. Section 2174 provides that contracts for these services must be executed so that service begins not later than July 1, 1977. For other rail services, funds provided by Chapter 1130, Statutes of 1976, must be expended by July 1, 1979.

In reviewing the department's proposal for Sacramento-Los Angeles service, we found a lack of statutory authority in two areas. First, no contract has yet been executed for service along the Sacramento-San Francisco segment, despite the July 1, 1977 deadline. Second, funding to support expanded service along the San Francisco-Los Angeles portion of this route is not authorized after the 1978–79 fiscal year. Until legislation is enacted extending these deadlines, the proposed Sacramento-Los Angeles service could not begin during the budget year.

The proposed commuter services face a similar problem. The funds appropriated for upgrading commuter services are also subject to the provisions of Chapter 1130 and are not authorized after June 30, 1979. Therefore, the department would need statutory authority to extend or replace this deadline before funding for improved commuter rail service can be provided during the budget year.

Continuing Conflicts. Several of the proposed rail services are subject to resolution of existing conflicts by governing agencies. For example, service between Sacramento and Oakland can begin only after a lawsuit against Southern Pacific is settled. According to department staff, the suit was filed in December 1978 because Southern Pacific would not provide the level of service requested by Amtrak and the department. The expected settlement date is not known at this time.

State support of the commuter service between San Jose and San Francisco will depend in large part upon a forthcoming ICC decision. Southern Pacific filed a petition with the ICC to abandon its passenger service along this route, on November 15, 1977. Hearings held in the San Francisco Bay Area to discuss the matter ended in December 1978, and a ruling by the ICC is anticipated by May 1, 1979. The ICC was also asked to determine the annual operating loss incurred by Southern Pacific in providing this service, so that subsidy negotiations might deal with a basic loss figure. The degree of state support will therefore depend (a) on the ICC abandonment ruling, and (b) the ICC's loss calculation, if it is provided.

Finally, the department filed a compliant with the state PUC last summer requiring Southern Pacific to add service between Oxnard and Los

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Angeles. The complaint is aimed at establishing the necessity for commuter service, with up to three trains operating daily. No date has yet been set for a PUC ruling on this matter.

Resolution of these conflicts will help determine the level of state support needed to improve rail service along these corridors. Until appropriate determinations on these issues are made, we do not believe that the budget should include funding of the proposed services.

Cost Effectiveness Studies. Cost effectiveness studies have not been performed for most of the requested rail service activities. Moreover, the West Coast Corridor Study discussed below concludes that no economic justification for improved rail passenger services exists.

Section 2177 of the Streets and Highways Code allows allocations for extending rail services beyond the Sacramento, San Francisco, Los Angeles, and San Diego terminals to centers which the secretary determines give the greatest increase in patronage relative to cost. The department indicates that its draft plan for intercity rail service establishes the cost effectiveness of certain proposed services. However, the draft does not compare train patronage with costs for any of the discussed service extensions and additions. In fact, in-depth statistical and financial information supporting the selection of specific route improvements cannot be found in the department's draft plan.

Conversely, department staff served as technical support to the authors of a June 1978 report, the West Coast Corridor Study, which focused on the "social advisability, technical feasibility, and economic practicality" of the future transportation system along the California Subcorridor (generally San Diego to Sacramento). The subcorridor analysis reviewed existing personal travel by air, bus, auto, and rail, and the need to improve services and facilities for all modes to meet travel demands of 1995. A steering committee composed of members of the Legislature, the County Supervisors Association, the League of Cities, the State Transportation Board, and Caltrans provided direction to the study team. Input from an advisory committee with over 200 representatives was also considered.

The study reached several conclusions regarding the levels of service and appropriate state role in establishing these services by 1995. With regard to rail services, a major study finding was that "it is not possible to justify (intercity) rail passenger improvements based on ridership, operating revenues and costs."

Reduction Recommended. As noted earlier, improved rail services can be beneficial in specific instances. However, we believe that the department's budget proposals in this area lack statutory authority, are subject to resolution of ongoing conflicts, and cannot or have not been justified on a cost-effective basis. For these reasons, we recommend that the request for $3,353,299 from the General Fund to support additional rail services be deleted.

Rail Support Activities. The department has also proposed an increase of 6.0 personnel-years and $204,988 from the Transportation Planning and Research Account for activities linked to the implementation of the services mentioned above. For intercity passenger rail, 2.0 personnel-years and $68,328 are requested for negotiating agreements with Amtrak, track and facility improvements, and service evaluations. The remaining 4.0 personnel years and $136,660 are for promotion of San Jose-San Francisco commuter service, commuter rail planning studies, continuing the department's complaint on the Los Angeles-Oxnard corridor, and service evaluations.

Based on our previous recommendation, we believe that this request is premature and unwarranted. Elimination of the proposed funding and staff is therefore recommended.

d. Transfer Facilities and Services

We recommend a reduction of 1.8 personnel-years and $61,404 from the Transportation Planning and Research Account (Item 161) proposed for transfer facilities activities.

Chapter 1349, Statutes of 1976, requires the department to evaluate proposed projects which improve the interface of various types of transportation. This element includes functions for assessing and listing selected projects by priority.

Project Evaluation and Administration. An increase in staff of 5.3 personnel-years and funding of $181,184 is proposed in this element to prepare the annual project priority list for the Legislature and to administer contracts for project construction. Of this total, 1.1 personnel-years and approximately $34,604 are requested to identify and assign priority to potential projects. This activity is already being performed by existing staff, and the department has not indicated that additional workload in project evaluation will occur in the budget year. We therefore recommend a reduction of 1.1 personnel-years and $34,604.

Statewide Plan. The department is also asking that 0.7 personnel-years and $23,900 be added to the element's current resources so that a Statewide Intermodal Transfer Facility Plan can be prepared. This request is based on recent federal legislation authorizing $40 million nationwide through the federal 1981–82 fiscal year to develop intermodal facilities. However, neither appropriations nor guidelines for these appropriations have been provided for this program by the federal government. We believe the request should be deferred until there is some assurance of federal funding and program determinations have been made by federal authorities. We therefore recommend that the requested funds and staff be deleted at this time.

e. Transportation Demonstration Projects

We recommend a reduction of 1.5 personnel-years and $37,000 from the General Fund (Item 160) to delete specified transit research projects.

Activities in this element include both demonstration projects performed by contract with the federal government or requested by state legislation, and research in areas of transit improvement. Several projects under the auspices of the Federal Highway Administration will be concluded during the current year.

Transit Research. A total of 2.6 personnel-years and $320,000 (of which $240,000 are federal funds and $80,000 are provided from the Transportation Planning and Research Account) are requested for several research

DEPARTMENT OF TRANSPORTATION —Continued

projects. Deferral of the hydrogen bus project and applied transit bus research, due to reduced staff during the current year, is the basis for a proposed increase of 1.1 personnel-years. The remaining 1.5 personnel-years are requested for three purposes: (a) research and development of electric powered vehicles; (b) identification of bus passenger accident causes, with recommendations for equipment modification, and (c) project administration and performance of "short special studies".

We believe that the latter set of proposals is not warranted. Development of electric vehicles is already being performed at various educational institutions. Identification of bus accident causes is not within the department's jurisdiction. Finally, project administration needs should be absorbed within existing workload. We therefore recommend a reduction of the 1.5 personnel-years for a savings of approximately $37,000 to the Transportation Planning and Research Account. Federal funds should also be reduced by $148,000.

f. Administration and g. Work for Others

The administration element includes expenditures and staff from program and general administration, technical and professional services, and external costs. Charges previously included in the former General Support Program have been prorated across the four remaining department programs and are presented in the individual programs for both the current year and budget year.

The work-for-others element contains program activities provided to public agencies on a reimbursable basis. A net increase of $336,875, due to an additional $410,000 of contract work for the San Diego Metropolitan Transportation Development Board and a decrease of $93,125 in other contracts, is proposed in this element's budget.

3. AERONAUTICS

The Aeronautics Program contains four components: (a) safety and local assistance, (b) administration, (c) planning and noise, and (d) work for others.

Proposed program expenditures for the budget year are $6,423,671, or 2.9 percent below estimated current year expenditures of $6,614,404. This decrease results from reducing heliport inspections from a three-year cycle to a six-year cycle, and decreasing local assistance subventions. Program staff are budgeted at 45.5 personnel-years, a reduction of 0.6 personnel-years from the 46.1 level in the current year. Proposed staffing and expenditures by element are presented in Table 7.

Table 7
Aeronautics Program
Staffing and Expenditures[a]

	Actual 1977–78	Estimated 1978–79	Proposed 1979–80
Expenditures by element:			
a. Safety and Local Assistance	$5,451,733	$5,922,200	$5,618,198
b. Administration	360,056	435,038	375,577
c. Planning and Noise	164,885	239,647	405,187
d. Work for Others	6,730	17,519	24,709
Total program expenditures	$5,983,404	$6,614,404	$6,423,671
Personnel-year by element:			
a. Safety and Local Assistance	19.3	19.8	18.3
b. Administration	10.7	19.1	18.0
c. Planning and Noise	4.9	6.7	8.5
d. Work for Others	0.2	0.5	0.7
Total program personnel-years	35.1	46.1	45.5

[a] Comparisons between current year and budget year figures may be inappropriate because of program definition changes.

Annual Deficits Continue

Program expenditures are funded from the Aeronautics Account, State Transportation Fund. Proceeds from the seven-cent per gallon tax on aircraft fuel (less approved claims for refunds) and the two-cent per gallon tax on noncommercial aircraft jet fuel are the principal revenue sources of the account.

Beginning in fiscal year 1977–78, annual program support expenses and local assistance subventions exceeded annual revenues. As seen in Table 8, accumulated surplus funds from previous years have been supporting program activities to an increasing degree each year. Because the Aeronautics Account is the only source of funds authorized for program support, a continuation of these expenditure and revenue trends will lead to a deficit balance in the account by July 1, 1982.

Table 8
Aeronautics Account
Resources and Expenditures
Fiscal Years 1976–77 through 1979–80

	Actual 1976–77	Actual 1977–78	Estimated 1978–79	Proposed 1979–80
Accumulated Surplus (adjusted) July 1	$6,436,205	$7,150,379	$5,007,773	$2,694,782
Revenues:				
1. Motor Vehicle Fuel Tax Transfers	4,182,709	4,478,650	4,752,000	5,039,000
2. Less Tax Refunds	−1,328,197	−1,063,539	−800,000	−500,000
Net Tax Revenues	$2,854,512	$3,415,111	$3,952,000	$4,539,000
3. Other Revenues[a]	423,495	597,607	445,000	458,000
Total Annual Revenues	$3,278,007	$4,012,718	$4,397,000	$4,997,000
Expenditures				
1. State Operations	651,919	961,429	1,559,991	1,521,969
2. Local Assistance	1,782,204	5,193,895	5,150,000	5,010,351
Total Annual Expenditures	$2,434,123	$6,155,324	$6,709,991	$6,532,320
Annual Surplus (Deficit)	$843,884	($2,142,606)	($2,312,991)	($1,535,320)
Accumulated Surplus June 30	$7,280,089	$5,007,773	$2,694,782	$1,159,462

[a] Includes interest on the Local Agency Aid Fund, surplus money investment income, and miscellaneous revenues, less transfers and accumulated surplus adjustments.

DEPARTMENT OF TRANSPORTATION —Continued

Reversal of this trend in the account can be achieved by (a) increasing available revenues and/or (b) reducing annual program expenditures.

We believe that the Aeronautics Program should not rely on support from sources outside of the Aeronautics Account. The account was created to assist a particular population group (airport and aircraft operators), and general support from the state's taxpayers is not appropriate. Consequently, our recommendations focus on reductions in low priority or unjustified activities, as well as on the need for legislation to bring account resources into balance with expenditures.

Refund Mechanism Unnecessary

We recommend legislation be enacted to delete provisions permitting a tax refund of five cents per gallon out of the seven cents per gallon tax paid on aircraft fuel.

Section 8101.5 of the Revenue and Taxation Code provides that the purchaser of aircraft fuel may claim a refund of five cents of the seven-cent tax on each gallon of aircraft fuel, if the purchaser paid the tax and the claim is approved. As shown in Table 8, refunds paid under this provision have dropped from $1,328,197 in fiscal year 1976–77 to an estimated $500,000 during the budget year despite continued growth in tax revenues transferred to the account.

This decrease of over 62 percent in refund payments is probably due to two circumstances. First, increases in motor vehicle fuel prices have caused the five-cent amount to become smaller and smaller in relation to the gallon price, thus possibly discouraging refund applications. Second, program staff indicate that refund applications may actually result in the assessment of state charges. This is because the 6 percent fuel sales tax, which is not levied on aircraft fuel at the retail level, is assessed upon the filing of a refund claim. At a gallon price of 83.7 cents or greater, the sales tax to be paid exceeds the refund. Because aircraft fuel prices are generally between 80 cents and 90 cents per gallon, refund claims more often than not result in sales tax charges.

It is likely that the refund provisions will contribute to further deterioration of resources in the Aeronautics Account. While the increased burden on users caused by elimination of the refund provisions appears relatively minor, the additional $500,000 available to the account due to deletion of present refund provisions would significantly improve the account's fiscal situation. If continuation of program activities in their present form is deemed worthwhile, we believe that legislation to eliminate aircraft fuel tax refunds can help prevent the need for future tax increases or support from other fund sources.

Support Activities

We recommend a reduction of $108,045 (3.1 personnel-years) from the Aeronautics Account (Item 163) related to support expenditures in the Aeronautics Program.

Program support activities involve the safety, planning and noise, and administrative functions. We are recommending reductions in activities which we believe have little value or are of low priority given the financial position of the Aeronautics Account.

Airport Ground Access. The budget proposes the addition of 0.3 personnel-years to analyze and develop alternative methods for airport access. Documentation supporting this request fails to indicate expected accomplishments or objectives. Furthermore, we do not believe that this level of effort will result in a meaningful product. Therefore, we recommend that the proposed personnel-years be reduced for savings of $7,693.

Air Route Review. An increase of 2.0 personnel-years is requested in the planning and noise element so that division staff can review and evaluate current and proposed air routes in California and participate in rate or route applications before the federal Civil Aeronautics Board (CAB) and the state Public Utilities Commission (PUC). This additional involvement is not warranted because the CAB and PUC, which have responsibility for reviewing route and rate changes, already have the resources, staff, and public input needed to reach their decisions. In addition, advocacy of a different route structure by division staff would seem to be contradictory to the thrust of recent federal airline deregulation efforts. A reduction of $71,249 and 2.0 personnel-years is therefore recommended.

Airport Land Use Commissions. The division is proposing an increase of 0.8 personnel-years to provide advice, assistance, and expertise to the staffs of Airport Land Use Commissions (ALUC). The commissions are responsible for insuring compatible land uses in the vicinity of airports. However, as stated in the department's request, most ALUC's are not effective due to a lack of adequate statutory authority or funding. Until additional legislation grants greater authority and sufficient resources, we believe this request is premature and recommend a reduction of $29,102 and deletion of the proposed personnel-years.

Local Assistance

We recommend a reduction in Item 168 of $500,000 in increased grants and loans to local governments for airport purposes.

The division provides local assistance through acquisition and development grants, the establishment of a local agency loan fund, and allocations for the construction of recreation/reliever and training airports. The budget proposes the elimination of $150,000 in funds for recreation and reliever airport construction because of a lack of interest on the part of local governments. However, increases of $300,000 in acquisition and development grants and $200,000 for the local agency loan program are requested for fiscal year 1979–80.

Caltrans' justification for the increase in grants is based on the fact that aviation fuel tax revenues are increasing. Although this is correct, Table 8 also shows that program expenditures continue to exceed available revenues. Again, the fiscal future of the Aeronautics Account dictates remedial action to correct this imbalance. Moreover, availability of funds, by itself, is not a sufficient reason to justify increased expenditures. We therefore recommend that the proposed increase of $500,000 in grants and loans to local governments be deferred until growth in account surpluses occurs.

DEPARTMENT OF TRANSPORTATION —Continued

4. HIGHWAY TRANSPORTATION

The 1979–80 fiscal year marks only the second time the highway portion of the department's budget has been formally presented to the Legislature for appropriation under Chapter 1106, Statutes of 1977. Consistent with Chapter 1106, the highway program is displayed in an eight element breakdown, including: (a) rehabilitation; (b) operational improvements; (c) local assistance; (d) program development; (e) new facilities; (f) administration; (g) operations; and (h) maintenance. Each of these elements is in turn broken down into its several components.

The budget proposes the expenditure of $1,384,061,000 for highways which is $5,486,733, or 0.4 percent, below the current year expenditure of $1,389,547,733. Table 9 provides a comparison of highway expenditures for the past, current, and budget years. Table 9 also summarizes the distribution of personnel-years associated with the expenditure elements, and shows a net decline in 1979–80 of 17.4 personnel-years from the estimated 1978–79 total of 16,624.3. The funding sources supporting the various program activities and associated staff are displayed in Table 10, which shows that federal funds and the State Highway Account provide the vast majority of highway program funding.

1978–79 Adjustments

Although Table 9 indicates that total highway program expenditures remain level between the current and budget years, an expenditure "bulge" exists in the current year which obscures the analysis of any trends developing in particular program areas. The department reports that the current year highway budget contains at least $131.6 million in funds carried over from 1977–78. Of this total, $80 million represents the cost of projects which were awarded after June 30, 1978, while the remaining $51.6 million is identified as a reserve to cover increased costs for projects not yet awarded and other projects which could not be fully funded in the 1977–78 year. If the $131.6 million were not included in the current year, the expenditure total for 1979–80 would show an increase over 1978–79, rather than the slight decrease exhibited in the table.

Table 9
Highway Transportation Program
Staffing and Expenditures [a]

	Actual 1977–78		Estimated 1978–79		Proposed 1979–80	
	State Operations	*Capital Outlay Subventions*	*State Operations*	*Capital Outlay Subventions*	*State Operations*	*Capital Outlay Subventions*
Expenditures by element						
a. Rehabilitation	$22,796,260	$97,542,243	$24,705,536	$150,677,060	$23,808,000	$116,485,000
b. Operational Improvements	41,726,639	94,552,646	46,859,650	137,152,834	47,553,000	118,050,000
c. Local Assistance	16,191,460	43,296,654	10,360,189	50,896,000	10,427,000	51,119,000
Subventions	—	169,712,050	—	229,053,416	—	303,060,000
d. Program Development	16,163,162	—	17,905,298	—	13,806,000	—
e. New Facilities	47,848,683	250,200,488	53,873,053	372,341,905	45,075,000	309,700,000
f. Administration	40,360,382	1,334,350	87,808,999	—	105,836,000	—
g. Operations	41,723,677	—	31,132,751	—	33,142,000	—
h. Maintenance	175,679,573	—	176,781,042	—	206,000,000	—
Total program expenditures	$402,489,836	$656,638,431	$449,426,518	$940,121,215	$485,647,000	$898,414,000
Personnel-years by element						
a. Rehabilitation	778.5	—	939.4	—	871.3	—
b. Operational Improvements	1,620.2	—	1,744.6	—	1,704.3	—
c. Local Assistance	381.8	—	343.3	—	317.4	—
d. Program Development	437.7	—	442.4	—	300.0	—
e. New Facilities	1,449.2	—	1,527.3	—	1,547.4	—
f. Administration	1,386.9	—	3,444.5	—	3,157.6	—
g. Operations	906.3	—	976.3	—	960.6	—
h. Maintenance	5,317.2	—	5,206.5	—	5,748.3	—
Total program personnel-years	12,277.8	—	14,624.3	—	14,606.9	—

[a] Comparisons between current year and budget year figures may be inappropriate because of program definition changes.

Table 10
Highway Transportation Program
Funding Sources

Funding Sources	*Actual 1977–78*		*Estimated 1978–79*		*Proposed 1979–80*	
	State Operations	*Capital Outlay Subventions*	*State Operations*	*Capital Outlay Subventions*	*State Operations*	*Capital Outlay Subventions*
Federal Funds	$60,510,311	$412,806,671	$66,455,000	$609,530,341	$56,500,000	$603,900,000
State Highway Account	312,409,206	140,250,481	358,367,198	265,876,934	404,510,000	220,030,000
Toll Bridge Funds	18,258,278	58,500,722	20,573,755	9,002,000	20,538,000	22,880,000
Transportation Planning and Research Account	36,459	754,968	25,582	3,979,802	—	—
Bicycle Lane Account	—	985,609	40,536	689,464	—	415,000
Environmental Protection Program Fund	—	43,326	37,000	146,674	30,000	70,000
Reimbursements	11,275,582	43,296,654	3,927,447	50,896,000	4,069,000	51,119,000
Total	$402,489,836	$656,638,431	$449,426,518	$940,121,215	$485,647,000	$898,414,000

Financial Condition of the State Highway Account.

The financial condition of the State Highway Account has been a subject of some controversy during the past two years. The account's condition was analyzed in our May 1977 report to the Legislature, *The Budget, Six-Year Plan, Cash Flow, and Management of the Department of Transportation,* and in last year's Analysis of the Budget Bill.

This year is the first time the department has provided a similar assessment in its supplemental reports to the 1979–80 budget. The projected condition of the State Highway Account, as reflected in the department's proposed STIP, is shown in the "Resources" section of these reports. This information is summarized in Table 11 which also reflects adjustments made to the budget since the department issued its proposed STIP. This table includes the $100 million transfer from the Motor Vehicle Account. Further adjustments will be shown in the department's March budget revisions.

Available Cash Carryover. The first entry in Table 11 is the available cash carryover from the prior year. This is the net unencumbered cash in the State Highway Account. It excludes funds committed to projects which are programmed but not yet covered by signed contracts. The available carryover was $347.8 million on July 1, 1978 and is estimated to be $262 million on July 1, 1979.

Annual Program. The annual program reflects state revenues, less (1) state support costs for operations such as maintenance, engineering, and administration, (2) state revenues used to match federal aid, (3) local assistance subventions for planning and local highway construction, (4) transfers and appropriations to other programs, and (5) mass transportation subventions for Proposition 5 diversions of State Highway Account funds. A net annual surplus for these basic program costs is then calculated. Finally, from this amount, state-only capital outlay contract expenditures are deducted, leaving the net accumulated surplus.

Table 11
State Highway Account
Proposed Department Financial Plan
For State Resources, 1978–79 Through 1983–84
(in millions)

	1978–79	*1979–80*	*1980–81*	*1981–82*	*1982–83*	*1983–84*
Available Carryover July 1	$347.8	$262.0	$277.6	$259.2	$202.8	$151.9
Annual Program						
State Revenues	562.1	670.3	574.0	555.0	546.0	532.0
Less:						
State Operations, Highways	358.3	404.5	397.5	420.2	434.9	455.7
Match for Federal Aid	53.7 [a]	37.3	38.4	39.1	41.5	39.9
Local Assistance Subventions	47.6	42.4	22.2	22.2	22.2	22.2
Transfers and Appropriations	8.5	7.9	8.9	11.3	11.3	12.1
Mass Transportation Program	15.2	22.3	26.3	28.8	28.2	28.9
Net Annual Surplus (Deficit)	$78.8	$155.9	$80.7	$33.4	$7.9	($26.8)
Less: State-Only Contracts	164.6 [a]	140.3	99.1	89.8	58.8	69.5
Accumulated Surplus	$262.0	$277.6	$259.2	$202.8	$151.9	$55.6

[a] Approximation based on STIP data. Actual expenditures not available due to different program definitions.

DEPARTMENT OF TRANSPORTATION —Continued

Available State Funds. Table 11 shows $55.6 million in available state revenues at the end of 1983–84. As discussed earlier, additional federal revenues beyond those reflected in the table are available to the program for capital outlay. These could permit a decrease in the use of state funds below the level shown in the table. Adjustments to the budget are anticipated in March, and it is likely that these adjustments will change the amount of state funds available during the five-year period.

It should be noted that the accumulated surplus is an unencumbered balance. The actual balances in the State Highway Account (which includes encumbered but undisbursed funds) could exceed the unencumbered balance on July 1, 1984 by as much as $100 million.

Staff Benefits Overestimated

We recommend that the amount budgeted for payment of department staff benefits in Item 164 be reduced by $17,300,000.

Review of the department-wide expenditure totals for personnel benefits in 1978–79 and 1979–80 reveals substantial increases over comparable amounts for 1977–78. The department reports that these increases are due to a miscalculation for health and other employee benefits, and that expenditure totals should be reduced by $15.0 million in the current year and $17.3 million in the budget year.

At this time, the department has not completed its analysis of where the $17.3 million reduction should be made. We expect that the department will make this information available before the start of hearings on the proposed budget, thereby permitting proper adjustment of these expenses throughout the various program elements and components. In the meantime, we recommend a reduction of $17.3 million from Item 164.

Merit Salary Adjustments

We recommend that the amount budgeted for employees' merit salary increases in Item 164 be reduced by $1,795,465.

Amounts budgeted for merit salary expenditures reflect the fact that, in any fiscal year, various department staff will become eligible for promotions and corresponding salary increases. While it is not known exactly how many employees will be promoted, the department must estimate these promotions so that it can budget for the additional salary expenses. The Department of Finance typically instructs departments to budget for merit salary increases equal to approximately one percent of existing net salaries and wages.

Budgeted Figures Too High. Comparison of the proposed amount for merit salary adjustments in the budget year with amounts for prior years, suggests that the former are greatly overstated. The budget projects merit increases at $4.4 million in 1979–80, $1.7 million or 63 percent above current year increases. Table 12 illustrates this change and provides a comparison with similar expenditures in prior years. The table clearly shows that adjustments for 1979–80 represent a sharp departure from trends and levels established in prior years.

Table 12

Merit Salary Expenditures Fiscal Years 1973–74 to 1979–80

Fiscal Year	*Net Salaries and Wages*[a]	*Merit Salary Expenditures*	*Merit Salaries as Percentage of Net Salaries and Wages*	*Merit Salary Change from Prior Year*	*Percentage Change from Prior Year*
1974–75	$250,781,923	$2,206,880	0.88%	—	—
1975–76	236,723,880	2,083,170	0.88	$−123,710	−5.6%
1976–77	228,075,674	2,052,681	0.90	−30,489	−1.5
1977–78	256,360,561	2,244,829	0.88	192,148	9.4
1978–79	271,334,993	2,707,254	1.00	462,425	20.6
1979–80	275,286,825	4,421,072	1.61	1,713,818	63.3

[a] Figures for 1978–79 and 1979–80 have not been adjusted for reductions pursuant to Section 27.2 of the Budget Act of 1978.

Department Response. Discussions with department staff reveal that the budgeted $4.4 million is based on preliminary personnel data provided by the State Controller and has not been adjusted to reflect later refinements in authorized staff and salary levels. More recent information provided by the department indicates that its merit salary adjustment should be $3.9 million and not the $4.4 million originally proposed.

Reduction Recommended. Our own calculations and interpretation of the Department of Finance's budget price letters support a further reduction in the budgeted merit salary amount. Finance's guidelines clearly state that merit salary adjustments shall not exceed one percent of the net salaries and wages as adjusted for Section 27.2 reductions. The one percent guideline, which corresponds to the department's 1978–79 merit salary adjustment, would limit the department's 1979–80 merit increases to $2,625,607. The derivation of their amount is shown in Exhibit 4.

We recommend a reduction of $1,795,465 in Item 164 to eliminate overstated merit salary adjustments.

Exhibit 4

Adjustments to Department of Transportation Merit Salary Expenditures

Salaries and Wages Categories	*Personnel-Years*	*Budgeted Expenditures*
Authorized positions	15,885.3	$275,286,825
Add new positions	+186.7	+3,143,896
Less salary savings	−608.1	−9,790,410
Total salaries and wages	15,463.9	$268,640,311
Less Section 27.2 adjustment	−350.0	−6,080,232
Net salaries and wages	15,113.9	$262,560,079
Budgeted merit salary adjustment		$4,421,072
Less allowable merit salary adjustment (1 percent of net salaries and wages)		−2,625,607
Difference (recommended reduction)		$1,795,465

a. Rehabilitation

The rehabilitation element includes those activities which extend the service life of highway facilities through the restoration and reconstruction of facilities which have deteriorated due to age, usage, or disasters. In

DEPARTMENT OF TRANSPORTATION —Continued

some instances, improvements, or protective betterments, are made to existing structures to reduce the likelihood of serious damage at a future date. This element also contains resources for the construction and improvement of district buildings and facilities.

The budget for this element proposes the expenditure of $140.3 million in fiscal year 1979–80, of which $116.5 million is for capital outlay. This represents a reduction of $35 million from the current year estimated expenditure total of $175.3 million. Total personnel years are projected to decline 68.1 from the current year, to a level of 871.3 in the budget year. The decreases in both expenditures and staff reflect the completion of design work and construction inspection of many storm damage projects in the current year.

Public Works Board Review

We recommend legislation be enacted permitting the Legislature and requiring the Public Works Board to review proposed capital outlay projects involving land, buildings, and improvements to facilities owned by the department.

Chapter 1106, Statutes of 1977, requires that Budget Act appropriations from the State Highway Account be made on a program basis without identifying specific capital outlay projects. Under this statute, the California Transportation Commission is responsible for allocating appropriated funds to specific projects within the budget's program categories.

This statutory provision is intended to insure that the commission, as an independent entity, can determine project allocations on the basis of statewide importance and need. However, department projects funded by the State Highway Account include not only highway and other transportation projects but also construction of department buildings, improvements to existing support facilities (such as maintenance buildings or district headquarters), and nonhighway land purchases. The department is unique among state agencies in that these "nontransportation" projects are *not* subject to legislative appropriation or review by the Public Works Board.

We believe that legislation should be enacted to alter this situation. Whereas the commission is rightfully responsible for an independent allocation of funds for transportation projects, we believe that the Legislature should establish priorities for, review the merits of, and allocate funds to capital outlay projects involving land, buildings, and improvements to nontransportation facilities. In addition, review of these projects by the Public Works Board is warranted so that nontransportation capital outlay projects are treated in a consistent manner throughout state government.

b. Operational Improvements

The operational improvements element encompasses activities and structural improvements designed to increase the capacity and efficiency of the existing highway system. The components of this element include: (a) safety improvements—signals, median barriers, warning signs, and crash barriers; (b) compatibility improvements—sound walls, roadside rests, vista points, highway planting, and fish and wildlife preservation; (c) system operation improvements—high-occupancy vehicle lanes, passing and climbing lanes, and lane delineation and channelization.

Both the current and budget years reflect increases in project development and capital outlay over 1977–78, in accordance with increases proposed in the five year STIP.

However, expenditures in this element are projected to decline from $184 million in 1978–79 to $165.6 million in 1979–80. Most of this decrease will be realized in capital outlay, reflecting in part the completion of project work carried over from fiscal year 1977–78 into the current year. Overall staff levels in this element decline from 1,744.6 personnel years in 1978–79 to 1,704.3 personnel years in 1979–80 primarily as a result of program definition changes within this element.

c. Local Assistance

The department's activities in this element fall into two general areas. First, the department acts as a coordinating agency for state and federal funds which are subvened to local agencies, and attempts to insure that these funds are expended according to established guidelines. Second, the department undertakes highways and road work on behalf of local agencies, for which it is fully reimbursed.

It is estimated that $303 million for capital outlay will be subvened to local agencies in the budget year. This compares to $229 million in expected subventions for the current year. As explained in the STIP, approximately $146 million of the $303 million represents a carryover of unused local funds, while the remaining $157 million reflects new resources to be provided in the budget year. Expenditures for reimbursed work for others are expected to remain relatively constant at $51.1 million, although the department has begun to curtail this program by eliminating those activities for which no agreement or contract has been signed. It is not known whether the department will continue to reduce the reimbursed work program in future budgets.

Elimination of Grade Separation Program

We recommend that the department prepare detailed information (1) explaining the basis for its proposal to terminate the Grade Separation Program, (2) describing the legislation necessary to implement the proposal, and (3) identifying alternatives to the present program.

We withhold recommendation on the proposed termination until we have analyzed this information.

Section 190 of the Streets and Highways Code requires that each annual budget of the department set aside $15 million out of the Grade Separation Fund to support grade separation projects. These projects involve the separation of grades carrying motorized or nonmotorized traffic from those carrying rail traffic, and are funded according to an annual priority list developed by the Public Utilities Commission (PUC). In developing its priority schedule, the PUC evaluates proposed projects using criteria which include traffic volumes, accident and fatality statistics, safety improvement potential and other considerations. Projects which are placed on the PUC list may then be funded by the department (in order of priority) if (1) an application requesting funding has been received by the

DEPARTMENT OF TRANSPORTATION —Continued

department from local entities and (2) all necessary design work and working agreements have been made ready by the particular local agency.

Termination Proposed. The department proposes that legislation be enacted to terminate the grade separation program in January 1980. Accordingly, the budget provides $7.5 million (or one-half the required $15 million total) to fund the program through the first six months of the 1979–80 fiscal year. It is estimated that six personnel-years would be saved if the proposed action were implemented.

Potential Problems. Discussions with department representatives have failed to shed light on the basis for the proposed termination. Although there has been some reference to the fact that accidents and fatalities at grade crossings represent only a small portion of all traffic-related injuries statewide, the department has not indicated whether the funds might be better spent on other safety-related projects.

Our analysis reveals several potential problems with the termination plan. First, if the program is ended on January 1, 1980, the $7.5 million remaining in the program may not be spent at all. This is because applications for project funding are not required before April 1 of the fiscal year in which expenditures have been authorized. Local agencies seeking funds might be unable to ready their applications if an earlier due date were established.

Second, the administration proposes to terminate the program abruptly, with no provision for phase-out. Many local agencies have already committed financial and technical resources to the completion of grade separation projects on the presumption that they would receive state support in the near future. Similarly, entities which are now eligible for supplemental funding for inflationary increases in final project costs could be faced with the problem of not having sufficient funds to complete projects already underway.

Finally, the department has not developed the legislation necessary to terminate the program.

Additional Information Required. We believe that, because of the policy and fiscal implications of the department's proposal, the termination plan should not be approved until additional details of and a satisfactory justification for the proposal have been prepared and made available for review by the Legislature.

In order that analysis of the termination proposal may be completed expeditiously, we recommend the department submit to the Legislature a detailed justification for the proposal, along with plans for the legislation necessary to implement it and a discussion of alternatives to the present program.

Grade Crossing Equipment Installation

We recommend that the amount budgeted for installation of local grade crossing protection equipment in Item 169 be reduced by $1 million because available federal funds are sufficient for this purpose.

As provided in Section 1231 of the Public Utilities Code, the Public

Utilities Commission has the authority to expend State Highway Account funds made available for the installation of local railroad grade crossing protection equipment. Traditionally, the program has been funded through an annual appropriation of $1 million, although in recent years state funding has been sporadic because of the availability of federal funds for this purpose.

Federal Program. Approximately $8 million is available annually in federal support to California for installation of grade crossing devices. Moreover, this assistance is provided on a 90 percent federal—10 percent local ratio while the state program operates on a 25 percent state, 25 percent local, and 50 percent railroad cost formula. The department reports that local agencies prefer to utilize the federal program with its more favorable formula and greater funding level.

The department reports that $1 million for this equipment has been included in the proposed budget. In view of the availability of eight times more funding under the federal program, we recommend that the $1 million appropriation of state funds be deleted.

Grade Crossing Maintenance Subventions

Under the grade crossing maintenance program, local agencies and railroads share the cost of maintaining railroad grade crossings. As provided in Section 1202.2 of the Public Utilities Code, the Public Utilities Commission is required to divide the maintenance costs in the same proportion as construction costs are divided. This section further provides that the total local share of divided maintenance costs shall be limited to the funds set aside in the department's budget for this purpose.

The department's 1979–80 budget proposes that expenditures for the maintenance subvention program be eliminated, and that legislation be enacted to repeal Section 1231.1 of the Public Utilities Code. This section provides that funds up to $1 million annually be allocated to this program. The department reasons that if the expenditure requirement is removed, local agencies would be relieved of any legal responsibility for payment of grade crossing maintenance costs. Various railroad corporations would then be responsible for all such maintenance costs.

We concur with the department's plan to eliminate this program, but for other reasons. Because 90 percent of the costs of constructing grade crossing protection facilities are paid for by the federal government and because the railroads realize a substantial benefit from the installation of such equipment, the maintenance of these facilities does not represent an unreasonable burden for the railroads to bear. California is one of only four states providing maintenance assistance of this magnitude. Most other states provide only token amounts of support for such costs. Although these actions would shift $1.2 million in costs to the railroads, this should not impose a serious burden on them, given the substantial savings realized by the railroads because of the reduced property tax burdens resulting from the passage of Proposition 13.

DEPARTMENT OF TRANSPORTATION—Continued

d. Program Development

The program development element encompasses three component areas of activities, including: (1) research—theoretical, applied, and environmental studies designed to improve the construction, maintenance, and safety of highways; (2) system planning—road mapping, monitoring construction progress, and preparation of the STIP and other reports; and (3) highway programming—scheduling of capital investments and determination of the distribution of resources.

Expenditures in this element are budgeted to decline in 1979–80 to $13.8 million, a $4.1 million decrease from the current year. Similarly, personnel-years are projected to decline from the current level of 442.4 to 300 in the budget year. Changes in both of these areas are due to the transfer of several functions to other areas of the department's operations.

e. New Facilities

The new facilities element is the largest—in dollar terms—of the eight highway program elements, and is composed of three components: (1) new highway construction—new development along with additions to or the upgrading of existing facilities; (2) new toll bridge construction—additions to existing toll bridges or the construction of new and replacement facilities; and (3) new bicycle facilities—widening of existing roadways and construction of separate bikeways.

The budget proposes the expenditure of $354.8 million in this element, a drop of $76.4 million from the estimated current year expenditure level of $431.2 million. The major reasons for the decline in total expenditures are that the current year level has been substantially increased by the addition of $66 million in Chapter 1364, Statutes of 1978, (AB 3020) funds, and an additional $83 million in unspent capital outlay and other funds was carried over from the 1977–78 year.

Of the $354.8 million budgeted for 1979–80, approximately $309.7 million is earmarked for capital outlay, with the remaining $45.1 million going to the support of state operations. The largest portion of these expenditures is found in the new facilities component, where a total of $335.3 million has been budgeted. Of the remaining amount, $16 million is programmed for additional work on the new Dumbarton Bridge while $3.4 million is expected to be spent on the development of new bicycle facilities.

Expenditure and personnel levels displayed in the budget are likely to be revised before the start of budget hearings because of additional state and federal revenues which will be available in the budget year. Until such changes are proposed and acted upon, current figures—and any trends they may indicate—should be viewed as preliminary in nature.

f. Administration

The administration element contains the business, legal, management, and other technical services necessary to support the highway program. This element has four components which are: (1) program administration—budgeting, business and fiscal management, training, and data processing; (2) general administration—personnel, evaluation, employee relations, public information, and financial control; (3) professional and technical services—legal, laboratory, and equipment services; and (4) external costs—tort liability payments, pro rata charges, and Board of Control claims.

Because of significant changes in program definition and the distribution of the former General Support Program among the department's other major programs, the administration element has absorbed a net total of approximately 1,800 personnel-years which formerly were in other elements and components. Actual personnel-years increase by 16.5 in the budget year.

Expenditures in this element increase $18 million over the current year to a new total of $105.8 million. However, the figures are not directly comparable due to the redefinition and redistribution of functions.

Operating Expense Budget

We recommend that Item 164 be reduced by $6 million in the amount budgeted for department operating and contingency expenses. Of this recommended reduction, $500,000 relates to costs for electronic data processing, and the remaining $5,500,000 represents a reduction in the amount budgeted for an operating contingency fund. We further recommend that notification of expenditures from the reserve be provided to the Department of Finance and the Joint Legislative Budget Committee.

A major component of the department's total support costs in any fiscal year is for operating expenses and equipment. For 1979–80 the department proposes the expenditure of $216.1 million, an increase of $26.1 million or 13.7 percent, over 1978–79. Nearly all of the budget year increase occurs in four of the operating expense categories, while the remaining nine categories show only small to moderate increases. Administrative pro rata charges are expected to increase $2.8 million (35.6 percent) over the current year, maintenance and construction materials are budgeted to increase $8.4 million (8 percent), highway equipment purchases are scheduled to increase $5.5 million (13 percent), and the operating contingency fund is slated to increase $5.3 million (68.8 percent) over 1978–79.

Data Processing Costs. One area of discrepancy in the department's operating expense projections is the charge for data processing services provided by the Teale Data Center. The department has budgeted $4.3 million in 1979–80, a $206,000 increase over the current year and a $711,000 increase over 1977–78. A part of these increases is the result of data processing development activities associated with the changeover to legislative budgeting, while inflationary adjustments account for a substantial portion. However, because the Teale Data Center is expected to keep its rates at the current year level, which in turn declined two percent from 1977–78, an inflationary cost increase should not be budgeted.

Although we have requested data distinguishing costs associated with development from those associated with inflation, the department has not provided the requested breakdown. Therefore, we have developed our own estimates of the proper expenditure level in this category. We estimate that, even with a $280,000 allowance for increased developmental costs, the department has overstated its needs for Teale services by $500,-000. We recommend this amount be deleted for a corresponding savings to the State Highway Account.

Contingency Fund Increase. Included in the department's operating expense totals is a reserve of $13 million for increased costs arising from natural disasters. Although the department budgets for "normal" winter damages, it assumes that other emergencies and disasters may occur and that a reserve adequate to cover costs associated with such occurrences is necessary. Department plans, although sketchy, indicate that this $13 million reserve is unallocated and would be parceled out to individual districts for emergency road openings as needs arise.

While some level of contingency funding for natural disasters is necessary, the department has been overly generous in increasing the $7.7 million current year reserve to $13 million in the budget year. Although the department realized disaster expenditures of this magnitude in 1977–78, none of the 1978–79 reserve has been expended to date. Moreover, storm damage as severe as that in 1977–78 does not occur frequently.

We recommend that the damage reserve be reduced by $5.5 million to a total of $7.5 million, and that this net figure be set aside. We further recommend the department notify the Department of Finance and the Joint Legislative Budget Committee when expenditures are made from the reserve amount, indicating both the amount of and reasons for such expenditures. Any unused funds remaining at the end of the fiscal year should revert to the State Highway Account.

Personnel Additions

We recommend a reduction of 8.4 personnel-years for additional business and personnel management staff, for a savings of $260,000 in Item 164.

The department is requesting an 11.5 personnel-year increase in administrative staff for business and personnel services. The department states that the additional positions are needed because of increasing work and services mandated by the Legislature. Of the additional staff, 4.8 personnel-years would be used for work related to legislative budgeting, conflict of interest code requirements, discrimination complaints and related employee services, while 3.6 personnel-years are associated with increased library and various business services. The remaining 3.1 personnel-years would be assigned to fiscal management and accounting activities related to legislative monitoring and control.

Because the department already employs more than 2,000 persons who provide general administrative or business management services, and because we expect that recent reorganizations will produce economies and efficiencies in administrative activities, we recommend 8.4 personnel-years of the requested increase be denied, for a savings of $260,000. The remaining 3.1 personnel-year increase should be approved so that improvements may be made in the department's ability to respond to legislative requests for expenditure and program data. However, we expect that the addition of such personnel will result in noticeable improvements in these services during the budget year.

g. Operations

Activities within this element are designed to maintain and improve the manner in which roads, bridges, tunnels, and associated facilities are operated. Although these activities are related to those in the operational improvements element, the latter is directed toward providing structural improvements while the operations element is oriented toward orderly traffic flow. The four components of this element are: (1) ridesharing—carpools, transit information, and development of work schedules supportive of mass transportation; (2) traffic operations—message signs, ramp metering, road surveillance, and emergency road service; (3) toll collection—collection of tolls on state bridges; and (4) real property services—airspace and property leases, sale of surplus property, and management of state-owned housing units.

Proposed personnel-years and expenditure levels are about the same as in the current year despite changes in activity definitions in the element's functions. Net personnel-years decline by 15.7 to a total of 960.6. These gross totals, however, obscure the fact that the department expects to eliminate night toll collection personnel while adding others in traffic surveillance and supervision activities. Proposed expenditures rise to $33.1 million in budget year, an increase of $2 million over the current year, but do not reflect the same mix of activities because of the program shifts.

Elimination of Toll Bridge Collection

We recommend that the proposed elimination of night toll collection along state toll bridges be rejected because it could result in a net loss of approximately $5.5 million in toll bridge revenues and, consequently, reduce funding of bridge operations and transit improvements.

The department's budget proposes the elimination of toll collection along the state's nine toll bridges during the period from ten p.m. to six a.m., for a reduction of 55 toll bridge collector positions and $1.5 million. The budget does not show a corresponding reduction in toll bridge revenues resulting from this proposal.

Recent estimates furnished by the department indicate that the proposal should actually result in the elimination of 43 personnel-years at a savings of approximately $830,000. Moreover, these estimates show that the elimination of night toll collection could reduce toll bridge revenues by $6,290,000, causing a net loss in revenue of $5,460,000.

Toll revenues are used to (a) pay costs of operation, maintenance, rehabilitation, and safety improvements, (b) meet bonding obligations of the California Toll Bridge Authority (TBA), and (c) repay the department for expenses incurred in advance study work on toll bridge projects. Remaining revenues from the San Francisco-Oakland Bay Bridge, the San Mateo-Hayward Bridge, and the Dumbarton Bridge are deposited in the Toll Bridge Revenue Account for allocation by the Metropolitan Transportation Commission (MTC) to fund capital projects submitted by the area's eligible public transportation systems and the department. Net revenues from the state's other six bridges are accumulated for future rehabilitation or improvements.

We believe that the proposal is not fiscally sound because the resulting

DEPARTMENT OF TRANSPORTATION —Continued

loss in revenue may affect bridge upkeep and new bridge construction. The proposed budget expenditure of $22.9 million in capital outlay indicates that nearly $8 million is programmed for bridge reconstruction and restoration projects. In addition, nearly $13 million of the total is budgeted for construction of the new Dumbarton Bridge (scheduled for completion in the 1981–82 fiscal year). The proposed 1979–80 expenditure is expected to increase by $22 million to $44.9 million during fiscal year 1980–81 because of Dumbarton Bridge construction. If toll revenues are reduced, the funding of new bridge construction or future debt service requirements for the Dumbarton Bridge could be constrained.

Moreover, the proposal contradicts the department's philosophy of encouraging the use of public transportation. A December 23, 1977 agreement between MTC and the department indicates that at least $8 million in toll revenue should be available annually for MTC allocation. However, elimination of night toll collection could result in the loss of up to $2.9 million in net revenues for MTC's allocation of transit improvement projects in the 1979–80 fiscal year.

We believe that the proposal could inhibit the financing of bridge rehabilitation and new construction, as well as limit the improvement of existing transit operations. We therefore recommend that the proposed elimination of night collection be rejected.

Traffic Surveillance and Evaluation

We recommend that the amount budgeted for increased traffic monitoring, evaluation, and supervision in Item 164 be reduced by $241,800 (7.8 personnel-years).

The department has proposed increases in its traffic surveillance activities in both the 1978–79 and 1979–80 fiscal years. These increased activity levels translate into a 31.6 personnel-year augmentation in the current year, of which 14.9 personnel-years are proposed for carryover to the budget year. Currently, the department employs approximately 285 persons in these traffic operations activities.

We believe that 7.8 of the 14.9 personnel-years proposed for carryover to the budget year can be eliminated without a significant impact on traffic operations. Furthermore, some of the proposed activities appear to be of low priority. Therefore, we recommend that 2.0 of the requested 7.0 positions for traffic flow surveillance be eliminated, that the 1.9 positions for maintenance of evaluation standards be eliminated, and that the additional 3.9 positions for traffic management supervision be eliminated for a total reduction of $241,800.

h. Maintenance

Activities in the maintenance element, which the department has designated as its first priority for expenditures, contains five components: (1) roadbed—resurfacing and repair of flexible and rigid pavements; (2) roadside—litter removal, vegetation control, roadside rests, and minor damage repair; (3) structures—bridges, pumps, tunnels, tubes, and vista points; (4) traffic control and service facilities—snow removal, pavement markings, electrical equipment, and special transportation permits; and (5) auxiliary services—administration, training, maintenance stations, and employee relations.

Expenditures for maintenance activities are proposed to increase by $29.2 million, or 16.5 percent, in the budget year, to a total of $206 million. Most of this increase results from inflation in the costs of maintenance services and the shift of 401 personnel-years into this element from the operations element. Beyond these changes, the department proposes to add 140.8 personnel-years for the maintenance of new road and landscape inventories, and operation of a motorized equipment training academy.

Additions to Staff

We recommend that the amount budgeted for increased maintenance personnel in Item 164 be reduced by $616,900 (19.9 personnel-years) in order to keep staff ratios at their present levels.

Landscape Maintenance. The department expects that 563 acres of landscaping will be added in fiscal year 1979–80 to the existing 16,353 acres now maintained, a 3.4 percent increase. To maintain the additional acreage, the department proposes to add 48.2 personnel years to the current base of 926, an increase of 5.2 percent.

The different percentage increases for staff and workload suggest either an easing of staff-to-workload ratios or an overestimate of additional staffing needs. If the percentage staff increase were held to that for increased landscape inventory, an addition of only 31.5 personnel-years would be required. We recommend that the present ratio be maintained, permitting the reduction of 16.7 personnel years and $517,700 from the department's request.

Transportation Permit Issuance. As in the case of landscape personnel, a discrepancy exists between the requested staff increase for the issuance of special permits and the expected increase in related workload. The number of permits issued is expected to increase 2,261 from a base of 123,100, a 1.8 percent increase. However, the proposed addition of 5.2 personnel-years above the current base of 107.6 would allow a staff increase of 4.8 percent. We recommend that the current staff-to-work ratio be maintained, permitting the reduction of 3.2 personnel years and $99,200 from the department's request.

Real Property Services

We recommend that the amount budgeted for the management and operation of the department's property programs in Item 164 be reduced by $465,000 (15 personnel-years) because some of the department's proposed activities are unnecessary and resources requested for other plans lack justification.

The budget proposes the addition of 30 personnel-years to the department's property management services, an increase of 10.2 percent over the existing staff level of 293 personnel-years. Plans call for the distribution of these additional staff among several programs in this component.

Motorist Information Signs. Chapter 680, Statutes of 1978, provides for the development and implementation of a test program permitting the placement of business logos on rural highway signs. These signs would provide for the advertising of nearby businesses and motorist services,

DEPARTMENT OF TRANSPORTATION —Continued

with the state receiving reimbursement for the costs of providing the additional signs. The department proposes the addition of 10 personnel years to implement this program.

In discussions with program staff, we have determined that the 10 personnel-year figure reflects a very preliminary estimate of program needs. We concluded that plans for this program are not final and that the need for additional staffing has not been substantiated.

In our analysis of the legislation authorizing this project, we estimated that costs would be minor and could be absorbed by the department, reimbursement provisions notwithstanding. Also, we note that another department project to place and maintain vending machines at roadside rest areas will be accomplished with the addition of only two personnel-years.

Therefore, we recommend the logo test program request be reduced to an addition of two personnel-years, for a savings of $248,000 and eight personnel-years.

Rental Unit Rehabilitation. The department owns approximately 500 rental units within the right-of-way of rescinded Highway Route 2 in Los Angeles. These units were purchased by the state several years ago in anticipation of developing freeway facilities. Since the initial purchase date, most of the original owners, whose property was purchased and who were provided with relocation assistance, have moved and have been replaced by persons renting the 60 to 70 year-old units from the state.

The department now proposes to rehabilitate these units and sell them, in some cases at costs below market value, to the current tenants. Although this would appear to violate Article XIX of the State Constitution, the department cites an opinion by the state Attorney General that such sales are permissible if they relieve an environmental problem. This opinion, dated April 14, 1978, concluded that "the Department of Transportation may consider the potential dislocation of a large number of households, as presented in this case, as an effect which may be mitigated within the meaning of Article XIX, Section 1 (a)." The department's own legal staff originally found that these sales would be unconstitutional, but this finding was superseded by the Attorney General's opinion.

Because of the age and condition of the state-owned units, any work necessary to bring them up to current building codes may produce costs which approach or exceed the return from the units' later sale, especially if they are sold for less than market value. It may be more cost-effective in the long run to sell the units in their present condition to persons who would agree to perform the work necessary to meet local codes. This would relieve the department of considerable time and expense which it would otherwise have to devote to this activity. Therefore, we recommend that four of the eight requested personnel-years be deleted for a savings of $124,000 and that the remaining four personnel-years be assigned to activities which will expedite the disposal of such property and dwellings without additional cost to the state.

Route 30 Property Disposal. The department has requested a staffing increase of three personnel-years to begin disposing of property within the

Route 30 right-of-way. The department expects this route to be rescinded by the CTC, adding approximately 500 parcels to the existing property inventory and increasing the backlog of properties slated for disposal. However, information furnished by the department reveals that the backlog of parcels is in part the result of a request by the Office of Planning and Research to hold excess parcels off the market until it can be determined whether they can be used to support the Governor's Urban Strategy Program.

Department representatives have informed us that disposal of the excess property to the present tenants will involve the analysis of each tenant's financial ability to purchase a particular home, as well as arranging any necessary supplemental financing. Even so, the department is not certain of the need for the requested staff additions.

We recommend that the department use its existing staff to carry out property disposal plans, and that the three personnel-years be deleted for a savings of $93,000. Staff which had been diverted to other activities during the holding period should be sufficient to perform anticipated work. Also, the financial counseling and analysis proposed by the department is more appropriately a function of private financial and lending institutions.

Highway Road Equipment

We recommend that the amount budgeted for acquisition of new and replacement passenger vehicles in Item 453 be reduced $1,917,300.

The maintenance, rehabilitation, and improvement of state highways requires that the Department of Transportation maintain a large inventory of road vehicles and other related capital equipment. The department's current inventory is estimated at 9,950 vehicles and other pieces of equipment, or about 35 percent of the entire state inventory. Given this large capital equipment inventory and the nature of its use, the replacement of existing, and acquisition of additional, equipment often constitutes a major expenditure by the department.

Expenditures for this road equipment have fluctuated noticeably in recent years, reflecting both the age and composition of the department's fleet, as well as major changes in operating conditions. Because of the department's cash-flow crisis and personnel reductions in 1975–76, vehicle and equipment purchases dropped to only $3.4 million in that year from a prior year level of $15 million. Also, the department has "aged" its inventory in recent years to extend its service life. Because of these events, many equipment purchases were deferred.

The department reports that vehicle and road equipment purchases can no longer be deferred, and has requested an expenditure of $43 million for new equipment in the budget year. Our review concludes that the department's estimates of equipment and vehicle costs are overstated and that a final determination of total needs has not been completed.

Revised Cost Estimates. We have compared the department's unit cost estimates with those being used by the Department of General Services and have found the latter to be substantially lower. Using the General Services figures for vehicles common to both departments and allowing

DEPARTMENT OF TRANSPORTATION —Continued

for an inflationary increase in costs, we estimate savings of approximately $1,000 each on the purchase of 1,350 passenger cars and trucks. Consequently, we recommend a total reduction of $1,417,300 in the estimated purchase cost of these passenger vehicles.

Depreciation and Resale Value. We also reviewed the department's estimated return from the sale of old vehicles and equipment, and its figures for the depreciation value of the existing fleet. We believe that both figures are conservative. Department staff agree that their estimates may be slightly understated. Our own estimates recommend increasing the department's depreciation estimate from $6 million to $6.3 million and estimated resale values from $700,000 to $900,000. The total difference of $500,000 represents additional credits which can be applied to the total purchase request, thus permitting a reduction in the expenditure total.

Home Storage Permits. The department is currently reviewing its policies regarding the use of vehicle home storage permits in response to the Department of General Services' efforts to reduce permit issuance. Reductions in the number of permits may provide for reduced vehicle needs in various state agencies, including Caltrans, which reports 1,600 permits are currently in use. Depending on the results of the study, further reductions may be possible in the department's vehicle needs and inventory.

Motorized Equipment Training School

We recommend a reduction of $500,000 (18 personnel-years) in Item 164 to reflect savings in operational and equipment costs which should accrue from the department's operation of a statewide motorized equipment training school.

We further recommend that the department prepare estimates substantiating future savings from the operation of the training school.

In last year's Analysis of the Budget Bill, we noted the absence of an effective and coordinated preventive maintenance program within the department. This had been reported earlier in the department's own internal audit. At that time, we recommended that preventive maintenance activities be improved, especially in view of the large equipment fleet and high incidence of damage to such equipment.

Equipment School Operational. Since our report, the department has proceeded with the establishment of a statewide equipment training school situated at the California National Guard's Camp San Luis Obispo. According to the department, operations commenced in January 1978 and are being funded from existing resources, as were initial start-up costs. In the budget year, the department is requesting $1.6 million (56 personnel-years) to continue operation of the program. Of this amount, approximately $1 million represents salaries which will be paid to about 1,100 employees attending the classes. Remaining funds will support ongoing operations, equipment, and instructors' costs.

Although we did not specifically recommend establishment of the school to meet preventive maintenance needs, we can foresee benefits accruing from it. We expect that personnel will be better trained and have fewer accidents, that equipment damage will be reduced, and that the overall work product will improve. Similarly, we expect that these projected accomplishments will result in significant savings to the department. However, the department has been unable to provide any data on projected savings from operation of the school, although it has acknowledged that savings should eventually equal or exceed program costs. If this does not occur, the program should be terminated.

Because the department will complete the training of 1,500 employees by the start of the 1979–80 fiscal year, and expects to train another 1,100 during the budget year, savings should begin accruing by the start of the budget year and continue throughout the life of the program. We believe it is reasonable to expect savings of approximately $500,000 by the end of the budget year. This would represent a return of 15 percent on the $3.5 million we expect to have been invested in the program by that time. Therefore, we recommend the department's request be reduced by $500,000 to reflect expected savings. We further recommend that the department prepare estimates of future savings and a projection of the "break-even" point between the costs and savings of operating this program.

Business and Transportation Agency
OFFICE OF TRAFFIC SAFETY

Items 170–171 from federal funds — Budget p. 366

Requested 1979–80	$12,272,700
Estimated 1978–79	11,253,404
Actual 1977–78	11,199,553
Requested increase $1,019,296 (9.1 percent)	
Total recommended reduction	None

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
170	Office of Traffic Safety (support)	Federal	$1,720,840
171	Office of Traffic Safety (local assistance)	Federal	10,551,860
	Total		$12,272,700

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

We recommend approval.

GENERAL PROGRAM STATEMENT

Chapter 1492, Statutes of 1967, established the California Traffic Safety Program. The Office of Traffic Safety (OTS) was subsequently created to implement this program and the requirements of the National Highway Safety Act of 1966.

OFFICE OF TRAFFIC SAFETY—Continued

OTS is responsible for allocating traffic safety assistance grants from the Federal Highway Administration and the National Highway Traffic Safety Administration. Its principal responsibilities are to (1) develop and update the California Comprehensive Traffic Safety Plan, (2) coordinate ongoing traffic safety programs, (3) provide technical assistance and information, (4) assist state and local agencies in identifying traffic safety needs and deficiencies as well as in developing and implementing traffic safety programs, and (5) approve project funding for eligible traffic safety projects. All OTS grants and office expenses are paid by federal funds.

ANALYSIS AND RECOMMENDATIONS

Office Support (Item 170).

This program provides executive and management services to the California Traffic Safety Program. The 35 positions within OTS assist state and local agencies in solving traffic safety problems by identifying deficiencies, visiting potential grant recipients to identify needs and monitoring the implementation of the grant proposal. In the budget year, OTS proposes expenditures of $1,720,840 for these purposes.

Local Assistance (Item 171)

This program provides funds to implement projects proposed by state and local agencies. In conformance with the National Highway Traffic Safety Act, the program identifies 18 different traffic safety standards, including motorcycle safety, driver education and emergency medical services. Federal law requires that at least 40 percent of the assistance money expended by OTS must be allocated to local agencies. Past trends indicate that approximately 60 percent is allocated to local agencies with the remaining funds providing support for state activities.

According to the Governor's Budget, OTS will spend $10,551,860 from this item during the budget year. However, discussions with OTS staff indicate that this amount is incorrect and that $10,556,000 will be available under Item 171 in 1979–80. In addition, $5,327,160 is available for expenditure by state agencies in 1979–80. These expenditures are reflected in the budgets of the individual agencies.

Table 1 summarizes the resources available to OTS for 1979–80.

Table 1
Revenues and Expenditures of OTS
1979–80

Available Resources	
Federal Funds	$13,609,000
Carry over	4,005,000
Total Revenues	$17,614,000
Available for Expenditure	
Office Support (Item 170)	$1,720,840
Local Assistance (Item 171)	$10,566,000
State Assistance	5,327,160
Total Expenditures	$17,614,000

Unexpended Balances

In the past, OTS has accumulated unexpended balances which were available for allocation in the following year. This is because state and local agencies have not made application for or used the funds which OTS has made available. For example, in the current year, OTS has committed $3,255,000 to the California Highway Patrol (CHP) to aid in enforcing the 55 mile-per-hour speed limit. However, the federal government has not decided whether this money must be used exclusively for this purpose. In addition, the federal government authorizes project expenditures over a four year period. Therefore, funds are often carried over from year to year. During the current year, OTS estimates that these unexpended balances will equal $4,005,000.

Business and Transportation Agency
DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 172 from the Motor Vehicle Account, State Transportation Fund — Budget p. 367

Requested 1979–80	$228,900,813
Estimated 1978–79	218,404,266
Actual 1977–78	216,361,343
Requested increase $10,496,547 (4.8 percent)	
Total recommended reduction	$5,063,715

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
172	California Highway Patrol	Motor Vehicle Account State Transportation Fund	$228,900,813

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Communications Dispatchers. Reduce by $183,498.* Recommend deletion of 13 radio dispatch positions in Los Angeles.	338
2. *Radio Dispatch Supervisors. Reduce by $76,930.* Recommend deletion of five supervisors in Los Angeles.	338
3. *Mobile Radio Extenders. Reduce by $1,800,000.* Recommend reduction because the equipment will cost significantly more than budgeted and a pilot test is necessary to determine its usefulness.	340
4. Vehicle Replacement. Recommend department consider operating costs of individual patrol vehicles in determining when to remove vehicles from service.	341
5. Vehicle Purchase. Withhold recommendation on $175,189 for vehicle option pending completion of replacement vehicle bid process.	342

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

6.	Fleet Management Information System. Recommend system be programmed to provide data on monthly operating costs.	343
7.	*Automobile Operations. Reduce by $2,408,231.* Recommend reduction because department overstated automobile operating costs.	343
8.	*Automotive Specialists. Reduce by $22,265.* Recommend deletion of 1.5 positions to comply with department staffing standards.	344
9.	*Soft Body Armor Carriers. Reduce by $42,000.* Recommend reduction because replacement not necessary during budget year.	345
10.	Aircraft Operation. Withhold recommendation on continued operation of Sacramento helicopter pending department evaluation. Recommend department require reimbursement for costs incurred in nonmotorist-related activities.	345
11.	Proposed Budget Reductions. Recommend deletion of five regulatory activities as proposed in the Governor's Budget. Also recommend department comment on status of legislation during budget hearings.	346
12.	*Regulatory Activities. Reduce by $144,498.* Recommend reduction because estimate of half-year expenditures exceed Department of Finance guidelines.	348
13.	*Commercial Vehicle Inspection Specialists. Reduce by $7,422.* Recommend deletion of one position because additional weigh-station lanes may not be available during budget year.	349
14.	Vehicle Theft Information System. Recommend that the department and Department of Justice explore transferring data processing system to Department of Justice.	350
15.	*Vehicle Equipment Safety Commission. Reduce by $13,650.* Recommend reduction because department will not pay dues during budget year.	352
16.	Patrol Retirement. Recommend legislation clarifying departmental personnel eligible for "patrol" retirement benefits.	352
17.	*Data Processing Charges. Reduce by $95,708.* Recommend reduction because department historically overestimates funds for use of Teale Data Center.	353
18.	*Management Information System. Reduce by $100,000.* Recommend reduction because of overbudgeted expenditures.	353
19.	*Leasing of Patrol Facilities. Reduce by $143,873.* Recommend reduction because of overbudgeted expenditures. Also recommend establishing reserve for projected increases in future leasing arrangements.	354
20.	*Equipment Expenditures. Reduce by $25,640.* Recom-	356

mend denial or reduction in miscellaneous equipment requests.

GENERAL PROGRAM STATEMENT

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

The regulation of motor vehicles and equipment is the department's second program. Inspection of vehicles and commerical terminals are among the activities performed by both uniformed and nonuniformed personnel in this program. The third program is vehicle ownership security which includes investigation and inspection activities to control the state's vehicle theft rate.

Finally, the administrative support division provides general management to the other three programs. In addition, this division oversees the training of cadets at the patrol's academy in Bryte.

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

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $228,900,813 in 1979–80 for support of the Department of the California Highway Patrol. This is an increase of $10,496,547, or 4.8 percent above estimated expenditures in the current year. The department's activities are funded entirely from the Motor Vehicle Account of the State Transportation Fund.

Adjustments in various department activities during the budget year will reduce the patrol's total authorized staff by 445.6 positions, to a total of 7,404.6. This reduction is achieved primarily by transferring responsibility for hiring school crossing guards from the department to the appropriate counties. The transfer, however, does not result in savings to the Motor Vehicle Account because the counties fully reimburse the department for costs associated with the activity. This transfer will eliminate 453 "blanket" positions within the department. This and other reductions are partially offset by 59.5 additional positions for several communications centers.

Other significant program changes affecting the budget include (a) the continued installation of a management information system at a cost of $2,482,774, (b) a request for $1.8 million to complete the installation of mobile radio extenders in the department's patrol vehicles, (c) proposed additional personnel for commercial vehicle inspection, (d) a reduction of 39.0 positions from current staffing levels in the regulation and inspection program made possible by the proposed elimination of the department's responsibility in several areas, and (e) the elimination of 19 positions in the department's vehicle theft control activity. Table 1 summarizes the proposed budget reductions using the 1978–79 expenditure and staffing levels as a basis for comparison.

In addition, during the 1979 Legislative Session, the department intends to sponsor legislation that would (a) provide for a radar speed enforcement program and (b) make it easier for law enforcement officials to remove the drinking driver from the state's roadways.

Table 1

Summary of Proposed Reductions From 1978–79 Expenditure and Staffing Levels

Program	*Activity*	*Amount Reduced*	*Positions Reduced*	*Effective Date*	*Legislation Required*[a]
Regulation and Inspection	School Crossing Guards	$1,250,000[b]	453.0[c]	January 1, 1980	Yes
	Approval and Certification of Retail Vehicular Devices	42,214	3.0	January 1, 1980	Yes
	Vehicular Equipment Standards Development and Enforcement	282,075	11.3	January 1, 1980	Yes
	Vehicle Noise Reduction and Control	209,556	18.1	January 1, 1980	Yes
	Abandoned Vehicle Abatement	1,500,000	6.6	July 1, 1979[d]	Yes
Vehicle Ownership Security	Vehicle Theft Control	362,437	19.0	July 1, 1979	No
Administrative Services	Management Development	171,808	6.0	July 1, 1979	No
Total Reductions		$3,817,590	517.0		

[a] Department position on need for legislation.
[b] Reimbursement from contracting counties.
[c] Actual number of personnel, not full-time equivalent positions.
[d] Contracts expire June 30, 1979. Department does not plan to renew.

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DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Reductions for Sections 27.1 and 27.2—Budget Act of 1978

In the current year, the department reduced its budget by $2,298,823 for operating expenses and equipment to comply with Section 27.1 of the Budget Act of 1978. This reduction was accomplished by reducing the funds budgeted for patrol vehicle purchases. In addition, the department eliminated 205.8 positions for a savings of $4,509,000 to comply with Section 27.2. The Governor's Budget states that the positions to be eliminated will be identified at the time of the budget hearings.

TRAFFIC MANAGEMENT

Traffic management is the largest department program, accounting for $209,131,934 or 91.4 percent of the proposed budget. Approximately 89.1 percent of the department's uniformed personnel and 51.6 percent of its nonuniformed personnel are employed in this program. According to department estimates, over 90 percent of the uniformed personnel in this program are used regularly on patrol duty, and about 88 percent of an officer's time is spent in "on-sight" patrol, with the balance consumed by activites such as report writing.

The three primary elements of the traffic management program are accident control, optimizing safe traffic flow and assistance to highway users. A fourth element is flight operations, which will cost $1,787,556 during the budget year. The department deploys four single-engine planes, with two based in Coalinga and one each in Barstow and El Centro. The department proposes to replace the El Centro aircraft in 1979–80 at a cost of $54,928. In addition, the department currently deploys three helicopters, one each in Sacramento, San Francisco and Los Angeles. A fourth helicopter, based in Los Angeles, crashed in September 1978. The department plans to replace this helicopter in March 1979. Table 2 presents program staffing and expenditure levels.

Table 2
Traffic Management Program
Staffing and Expenditure Data

	Actual 1977–78	*Estimated 1978–79*	*Percent Change Over Previous Year*	*Proposed 1979–80*	*Percent Change Over Previous Year*
Program Expenditures	$197,004,349	$198,242,372	0.6%	$209,131,934	5.5%
Personnel-Years					
Uniformed	4,606.6	4,611.3	0.1	4,617.1	0.1
Nonuniformed	936.3	931.2	−0.5	988.2	6.1
Total Program Personnel-Years	5,542.9	5,542.5	0%	5,605.3	1.1%

Los Angeles Communications Center Overstaffed

We recommend the deletion of 13 radio dispatch positions for a savings of $183,498. We also recommend a deletion of five radio dispatch supervisors in Los Angeles Communications Center for a savings of $76,930.

The department is requesting $702,325 to add 59.5 positions to several communications centers. Included in this request are 24.5 positions for the Los Angeles Communications Center (LACC). This is an increase of five radio dispatchers, five radio dispatch supervisors and 14.5 service desk operators. Service desk operators have responsibility for answering telephone calls to the department. In Los Angeles, this includes the phones installed along the freeways.

Radio Dispatch Positions. The new Los Angeles Communications Center is expected to be in operation before July 1979. The center will provide dispatch service for those area offices presently served by the existing LACC, as well as for the Newhall office, which currently has its own dispatch center.

The two existing dispatch centers have authorization for 62 dispatchers and 27 service desk operators at this time. The proposed additional positions would increase the staffing level to 67 dispatchers and 41.5 service desk operators.

The department Planning and Analysis Division has analyzed the staffing requirements of the new Los Angeles Communication Center, and has concluded that 56 radio dispatchers and 41.25 service desk operators will be required to staff the center effectively. According to the Planning and Analysis Division's analysis, therefore, the Communications Center would be significantly overstaffed if the request for additional positions is granted. The department's analysis indicates that the center would have 11 dispatchers above the number required. Moreover, two of the 56 dispatchers that the department analysis found to be necessary would be used in the event of sick leave or vacation. Because the department's analysis already considers such absences in determining the needed staffing level, this amounts to double-counting. Therefore, the center would have 13 excess positions if the budget request were approved.

Accordingly, we recommended that 13 radio dispatcher positions, including the five proposed new positions, be deleted for a savings of $183,-498. Because a number of dispatch positions usually are vacant, these deletions should not result in layoffs.

Dispatch Supervisors. The department has also requested five additional radio dispatch supervisors in LACC. These positions would be in addition to the five civilian supervisors and the five uniformed supervisors already at the center.

We believe these five new positions are not justified for two reasons. First, the existing LACC and the Newhall dispatch centers are currently authorized 89 dispatchers and service desk operators. Applying the Planning and Analysis Division staffing formula justifies 95.5 dispatch and service desk positions in the new LACC once Newhall is incorporated into the center. Therefore, only 6.5 additional dispatch and service desk operators will be required to service the new center. LACC will be authorized one additional supervisor when the Newhall dispatch center is merged with LACC. (This supervisor is not one of the new positions requested in the budget year.) We do not believe 6.5 additional positions warrant more than one additional supervisor.

Second, the new LACC will have all of the dispatchers and service desk

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

operators in one room. Currently, service desk operators work in a different room from the dispatchers. Working in one room will greatly facilitate efficient supervision and thereby reduce the need for supervisors.

For these reasons, we believe that the five proposed supervisors can be deleted for a savings of $76,930.

Mobile Radio Extenders

We recommend that funding for mobile radio extenders be deleted in the budget year for a savings of $1.8 million.

We further recommend that the department apply to the Office of Traffic Safety for federal funding of 450 extender units during the current year.

The department proposes to purchase mobile radio extenders for patrol vehicles. These devices enable officers to communicate with dispatch centers and other officers while away from the in-patrol vehicles. The department believes this will increase efficiency and contribute to the officer's safety.

During 1978–79, the department plans to apply for a grant through the Office of Traffic Safety (OTS) for federal funding to equip approximately 22.5 percent of its 2,000 patrol vehicles with the extenders. According to OTS staff, a commitment has been made by OTS to finance the purchase of 450 extender units during the current year, enough to equip vehicles used by officers certified as Emergency Medical Technician-I. OTS has also reserved $900,000 for additional purchases during the budget year. However, the department has not yet filed a grant application to OTS for the equipment purchase.

The department proposes equipping the remaining 1,550 patrol vehicles with radio extenders during the budget year. This would be accomplished through the $900,000 OTS grant and a $1.8 million state appropriation for a total of $2.7 million.

We recommend that the budget proposal be deleted for the following reasons. First, discussions with staff of the Communications Division of the Department of General Services, OTS and a major manufacturer of the extender equipment indicate that the $2.7 million is well below what it would actually cost to purchase the units needed to equip all 1,550 remaining identifiable patrol vehicles. One major manufacturer estimates the cost of the necessary equipment is at least $2,500 per vehicle. Communications Division and OTS staff believe the cost could be closer to $3,000 per vehicle. Assuming a unit cost of $2,500, equipping 1,550 vehicles would cost at least $3.9 million, plus installation and maintenance, rather than $2.7 million as stated in the budget. If the department proposes to equip motorcycles as well, an additional 200 units would be required, adding another $500,000 in equipment cost. Furthermore, preliminary estimates by the Communications Division staff indicate that the cost of installation is approximately $150 per unit, and annual maintenance costs of the complete extender unit range from $160 to $215 per unit. This would further increase the cost of equipping 1,550 cars by $232,500, and would increase annual maintenance costs an additional $240,000 to $333,250.

Second, no evaluation has been made of how much the extenders would contribute to the officers' efficiency and safety. Most police agencies which currently utilize extender-type equipment have other patrol vehicles nearby that can provide timely assistance to an officer needing help. Highway Patrol officers, on the other hand, can be 30 or more minutes away from the nearest patrol officer. Consequently, use of extenders may not result in immediate assistance to an officer requesting it. In our judgment, the patrol should undertake a pilot project to evaluate the potential of this equipment before committing itself to spending $3.2 million in state funds to install the equipment on all vehicles, plus up to $430,000 annually for maintenance of the 2,000 extender units. The pilot project can be carried out with the units OTS has agreed to finance.

Patrol Vehicle Replacement

We recommend the department consider operating costs of individual patrol vehicles in determining when to remove vehicles from service, rather than rely exclusively on the number of miles driven.

Current CHP policy is to remove patrol vehicles from service after the vehicle has been driven for 75,000 miles. In our judgment, there are two reasons why this is not a sound policy. First, automotive operating costs per mile vary widely from car to car. Therefore, cost-effective utilization of vehicles is not realized by driving each automobile a predetermined number of miles. Second, as will be discussed later, there is evidence that many of the department's vehicles are still useable as patrol vehicles after they are sold by the CHP.

The department states that the maintenance and repair costs of a vehicle driven 75,000 miles are high enough to warrant the purchase of a new patrol car. Data supplied by the department, however, indicate that these costs are not uniformly high. A study was made of the 178 patrol vehicles with 70,000 or more miles that were in service in August 1978. The results of this survey are summarized in Table 3. The data indicate that, while the average vehicle has maintenance and repair costs of 3.3 cents per mile, these costs range from 0.87 cents per mile to 11.8 cents per mile. The costs of 49.4 percent of the vehicles surveyed deviate by more than one-third from the average maintenance and repair cost. By replacing all cars once they reach a given mileage level, the department tends to operate vehicles with substantial mechanical problems for too extended a time, and does not operate those vehicles with few problems long enough.

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Table 3
Maintenance and Repair Costs per 1,000 Miles of In-Service CHP Vehicles Driven 70,000 Miles or More
August, 1978

Division	*Number of Cars 70,000 Miles or more*	*Mean Maintenance and Repair Cost*	*Range of Maintenance and Repair Cost 60 Percent of Cars*
Northern	17	$24.26	$18.07–$38.45
Valley	23	37.53	27.32 – 42.08
Golden Gate	29	37.02	27.27– 49.35
Central	22	29.68	22.27– 44.25
Southern	21	41.87	30.52– 52.32
Border	28	33.61	26.69– 41.63
Coastal	19	21.12	14.15– 31.37
Inland	19	30.24	20.77– 40.17
Statewide	178	$32.57	$18.81–$46.26

In addition, the department sells many of the used automobiles to other parties once the cars have been driven for 75,000 miles. Between January 1976, and October 1978, 237 vehicles were sold to other law enforcement agencies, mostly in California and Montana. The experience of these agencies with used CHP vehicles indicate that patrol cars could be utilized by the CHP beyond 75,000 miles.

In Montana, the Sheriffs' Departments have a traffic enforcement responsibility similar to the CHP's and many departments must cover terrain that is comparable to, if not more rugged than, California's. For example, the Sheriff's office in Butte, Montana drives its vehicles through mountainous county roads and highways that are often covered with snow. In two years, the Butte office has purchased five used CHP patrol vehicles. One vehicle has been driven 75,000 additional miles. Other police agencies in Montana state that their cars are driven an additional 30,000 to 60,000 miles after they are purchased from CHP.

We believe that, in deciding when to remove patrol cars from service, the department should consider the per mile cost of operating a particular car, and not rely exclusively on the number of miles the car has been driven. The department should also consider the effect that significant repairs might have on a particular car's average maintenance costs. While an expensive repair increases the cost per mile of operation in the short term, these costs may decline to a favorable level once the repair is completed. For these reasons, we recommend the department remove a car from service only if the operating costs per mile exceeds a specified cost for a period of three consecutive months, with no significant decline in costs per mile during that period.

We withhold recommendation on $175,689 for a patrol vehicle option pending completion of the replacement vehicle bid process.

The department is requesting $7,223,715 to purchase 1,268 patrol vehicles during the budget year. The department will purchase 364 1979 model patrol vehicles and 904 1980 model vehicles. The department estimates the purchase price of a 1979 car to be $6,789.13. A 1980 car is expected to cost $7,264.32. These estimates include the price of power adjustable seats. The power adjustable seats allows the driver's seat to move up and down, as well as forward and back. The department believes this option will increase the comfort of traffic officers who spend most of their duty in the car. This option costs an additional $131.97 in the 1979 model year and will cost an estimated $141.21 in the 1980 model year.

We withhold recommendation on the funds needed to equip the 1,268 cars with this option. At this time, it is not clear whether this option is available on patrol vehicles. The department is currently in the process of receiving bids for replacement vehicles and will determine the availability of the power assisted seats by February 1979. If the option is not available to the department, we recommend a reduction of $175,689 in funding for automobile purchases.

Fleet Management Information System

We recommend that the Fleet Management Information System be programmed to provide data on the monthly cost of operating patrol vehicles.

The department currently maintains a Fleet Management Information System (FMIS) which provides operating cost data on each vehicle used by the patrol. Currently, monthly reports are sent to division and area offices detailing information on individual automobiles within each jurisdiction. This information includes the miles driven during the month, as well as the average gasoline and oil consumption and reported maintenance and repair costs on a per mile basis. Finally, FMIS indicates the average amount of downtime and department labor expended per month on each automobile. These data are presented as an average per mile over the life of the car, rather than an average per mile for the month presented.

We believe the FMIS reports should also provide information on the operating costs for the reported month. This will enable management to determine how much it costs to operate each car *currently*, rather than what it cost over the entire operational life of the vehicle. Trends in operating costs may be discerned more accurately from actual monthly operating costs over a recent period than from month-to month changes in average lifetime operating costs. This additional information would also be useful in implementing our recommendations concerning the criteria used in deciding when to replace patrol vehicles.

Automotive Operating Costs Overstated

We recommend a reduction of $2,408,231 because the department has overstated automobile operating costs.

The patrol's proposed expenditures for automobile operations are $13,-802,095, representing six percent of the department's total budget. This expenditure level is the product of the total mileage projected to be driven by traffic officers and sergeants and the projected cost per mile. Components of the cost per mile figure include petroleum products (gasoline, oil, and lubrication), maintenance and repair by nondepartment mechanics, washing, and tires.

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The department estimates that 95,308,814 patrol miles will be driven during the budget year, at a cost of 14.5 cents per mile. Table 4 presents the department's calculations of the cost of automobile operations.

In our judgment, the department estimates do not accurately reflect current operating costs because the estimate of automotive operating cost during 1978–79, on which the budget year estimate is based, is too high. Data supplied by the department indicate that the actual operating cost in 1978–79 is closer to 11.3 cents per mile than it is to the 14.4 cents that the department uses in its calculations. As a result, the department's estimate for 1979–80 is also inflated. The Fleet Administration Division of the Department of General Services estimates that the division's operating costs will increase 6 percent during the budget year. Increasing actual operating costs in 1978–79 of 11.3 cents by 6 percent results in an estimated 12.0 cents per mile for 1979–80. Using this figure in place of the 14.5 cents per mile used by the department, we estimate that automobile operations will cost $11,393,864. This is $2,408,231 less than the department estimate. We recommend a reduction of this amount.

Table 4
Department Calculations of Automobile Operations Costs for 1978–79 and 1979–80

1978–79	
Actual Traffic Officer/Sergeant hours in 1977–78	8,454,638
Attrition rate at 23/month	−267,306
Graduated cadets to the field	112,868
Net projected 1978–79 hours	8,300,200
Actual 1977–78 mileage	97,281,299
÷ 1977–78 actual Traffic Officer/Sergeant hours	÷8,454,638
= Projected miles per Traffic Officer/Sergeant hour	11.50626
× Projected 1978–79 hours	×8,300,200
= Projected 1978–79 mileage	95,504,259
× Projected 1978–79 cost per mile	$.14444
Total projected 1978–79 automobile operations	$13,794,695
1979–80	
Projected 1978–79 Traffic Officer/Sergeant hours	8,300,200
Attrition rate at 23/month	−267,306
Graduated cadets to the field	250,320
Net projected 1979–80 Traffic Officer/Sergeant hours	8,283,214
× Miles per Traffic Officer/Sergeant hours	11.50626
= Estimated 1979–80 mileage	95,308,814
× Projected 1979–80 cost per mile	$.14481
Total projected 1979–80 automobile operations	$13,802,095

Automotive Specialists

We recommend the deletion of 1.5 automotive specialist positions for a savings of $22,265.

The department is requesting one new automotive specialist position for the Tejon office. The department's staffing formula for automotive specialist positions justifies 1.0 automotive specialist position in Tejon.

According to the department's monthly staff count of January 1979, Tejon already has an automotive specialist. An additional position, thus, would assign one more position to the office than necessary.

In addition, the department is requesting 0.5 positions for the Santa Rosa office. However, four area offices in the same division as Santa Rosa have a total of 2.0 more automotive specialists than the staffing formula justifies for these offices. Thus, the department should be able to fill the requested half-time position with excess staff from other offices.

For these reasons, we recommend a budget reduction of $22,265 to reflect the deletion of 1.5 automotive specialist positions.

Soft Body Armor Carriers

We recommend a reduction of $42,000 because replacement of soft body armor carriers is not needed during the budget year.

The department is requesting $42,000 to replace 3,000 soft body armor carriers. These cotton and polyester carriers are worn in conjunction with bullet-proof vests and are designed to absorb body perspiration. This undergarment is necessary because the bullet resisting material in a bullet-proof vest is reduced in strength when wet.

According to the department, these soft body armor carriers are designed to last a minimum of two years, as warranted by the manufacturer. The first shipment of carriers was received by the department and deployed to the officers in August 1978. The final shipments were received in January 1979. If the carriers will last at least two years, they will not need replacement before August 1980. Therefore, the money to replace the carriers is not needed during the budget year.

Aircraft Operations

We withhold recommendation on continued operation of the helicopter based in Sacramento pending receipt of the department's evaluation.

We recommend the department require reimbursement for any costs incurred by departmental aircraft for activities not related to motorists.

The department has operated a Sacramento-based helicopter since 1976–77 under a grant from the federal government. Beginning with the budget year, the department proposes to assume the full cost of operating this helicopter, which is estimated at $362,878 from the Motor Vehicle Account.

Federal grant restrictions resulted in 80 percent of the helicopter's flight hours being used either assisting local law enforcement departments or in medical evacuation missions. The remaining 20 percent could be used for CHP related activities.

If this 80/20 split between non-CHP and CHP activities was continued in 1979–80, it would result in the use of Motor Vehicle Account funds for many nonvehicle related activities. The department, however, intends to use the helicopter almost entirely for CHP missions, once it assumes funding responsibility. The aircraft will be available on call, however, for local law enforcement assistance and medical evacuation.

We have two concerns about the proposed use of state funds for helicopter operation in Sacramento. First, it is not evident a helicopter can be justified for exclusive CHP use in Sacramento. The cost of operating a

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helicopter is considerably more than the cost of a ground unit and it is less effective as an overall enforcement vehicle.

Second, we are concerned about the use of Motor Vehicle Account funds for nonmotorist related uses. Several times during the current year, for example, the Sacramento helicopter, as well as other department aircraft, have been involved in searches for lost aircraft. We believe such activity should not be paid out of the Motor Vehicle Account. Moreover, use of account funds for this purpose may not be constitutional.

A department study of helicopter operations is now in preparation pursuant to SCR 35 (1977 Session). This may provide additional information on the Sacramento project. Therefore, we withhold recommendation on proposed funding for the continued operation of the Sacramento helicopter until we have received and analyzed this report (which is expected in late January). If the department decides to continue to use aircraft for nonmotorists related activity, we recommend that the Legislature direct the department to require reimbursement for costs incurred. If necessary, legislation should be enacted permitting the department to obtain such reimbursement.

Current Year Helicopter Costs

The department estimates that it will spend $446,840 on helicopter operations during the current year. However, this estimate does not consider the savings in operating costs resulting from the crash of one helicopter based in Los Angeles. Using department data, we estimate that the department will fly 480 fewer hours than originally budgeted because (a) the Los Angeles helicopter will be unavailable for seven of the 12 months and (b) the three remaining helicopters were grounded for two weeks pending investigation of the Los Angeles crash. The department estimates the total operating cost of the helicopter to be $98 per hour. Therefore, expenditures will be reduced by $47,040 in 1978–79, and this excess should revert to the Motor Vehicle Account.

REGULATION AND INSPECTION

The regulation and inspection program consists of ten activities during the current year. The Governor's Budget proposes total net expenditures of $15,073,267 in 1979–80. Although this is a reduction of 21.6 percent from current year expenditures, almost none of this reduction affects the Motor Vehicle Account. The activities which are to be eliminated are currently funded either through reimbursements (30.1 percent of the total reduction) or from the Abandoned Vehicle Trust Fund (68.7 percent).

Proposed Budget Reductions

We recommend the following regulation and inspection activities be eliminated as proposed in the Governor's Budget: school crossing guards, approval and certification of vehicular devices sold at the retail level, development of vehicle regulations, vehicle noise control and abandoned vehicle abatement. We further recommend the department be prepared to discuss the status of legislation required to terminate the above activities during the budget hearings.

The Governor's Budget proposes to terminate five activities in the regulation and inspection program. We concur with this proposal because these activities generally divert the department from its primary objective of enhancing the safe movement of vehicles on the state highways.

School Crossing Guards. Currently, the department hires and trains school crossing guards pursuant to contracts with 14 counties. The 14 counties fully reimburse the department for all costs. In January 1979, there were 453 school crossing guards employed by the department.

Section 42201(c) of the Vehicle Code requires the patrol to renew contracts with any county that requests the service if the county held a contract in June 30, 1970. If this activity were continued in 1979–80, reimbursements would equal $1.25 million.

We recommend approval of the department's proposal to terminate this program. Only 14 (including Los Angeles and Santa Clara) of the state's 58 counties are participating in this program; the other 44 counties (including some of the smallest counties in the state) hire and train their own guards. We know of no reasons why these 14 counties should not be capable of hiring and training the guards without the assistance of the Highway Patrol.

Approval and Certification of Vehicular Devices Sold at the Retail Level. Section 26106 of the Vehicle Code requires manufacturers to submit their vehicle equipment to the department for testing. The department determines if the equipment conforms to state requirements. In addition, uniformed personnel inspect retail outlets to insure that the vehicle equipment sold is approved for sale in California, although the code does not require the department to do so.

We recommend approval of the department's proposal to eliminate this activity. The quality of the equipment tested has substantially increased nationwide since the program began. Therefore, in our judgment, the state's involvement is no longer necessary. If the activity is discontinued, the state will realize an annual savings of $158,883.

Standards and Conformity Control. The Vehicle Code requires the department to develop regulations relating to vehicle equipment, such as headlights and taillamps. Any vehicles or vehicle equipment sold in California must comply with these regulations. Eliminating this activity will reduce department expenditures by $380,429 annually.The National Highway Traffic Safety Administration (NHTSA) develops regulations for this equipment, and we do not believe the department needs to duplicate the efforts of NHTSA. Therefore, we concur with the Governor's proposal.

Vehicle Noise Control and Enforcement—Section 23100 of the Vehicle Code requires the department to develop regulations establishing test procedures and instrumentation to be used in enforcing noise limits. In addition, the department uses two-man noise enforcement teams to monitor electronically the noise emanating from vehicles. The department requires violators to reduce the vehicle noise.

Less than one percent of the vehicles tested in 1977–78 were found to violate noise limits. This suggests that the problem of vehicle noise is a limited one that can be addressed as part of the normal patrol function. Patrol officers routinely stop excessively noisy vehicles without the use of

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

electronic equipment.

In sum, we believe the department can effectively respond to excessive vehicle noise violations within its normal patrol function, and need not assign officers specifically to noise enforcement duty. Eliminating the noise enforcement teams will save $628,041 in 1979–80.

Abandoned Vehicle Abatement—The department uses the Abandoned Vehicle Trust Fund to reimburse cities and counties that dismantle vehicles abandoned on public and private property. A total of $1.5 million would be expended if this activity were continued in 1979–80.

Because of the value of scrap metal, towing operators usually do not charge local governments for removing abandoned vehicles. In over 90 percent of the cases, therefore, the reimbursements cover only the administrative costs of complying with the abatement requirements in the Vehicle Code.

We see no pressing need for the department to be involved in this activity. First, abandoned vehicles are primarily a local rather than a state problem. Second, removing these vehicles is not generally considered to be a police function; many cities' vehicle abatement programs are administered by health or building and conservation departments. If the Legislature wishes to reimburse local governments for the cost of abandoned vehicle removal, this reimbursement could be handled without CHP involvement, either through the Controller's Office directly or through a department in the Resources Agency.

To eliminate CHP involvement in vehicle abatement, legislation would have to be enacted. Section 22665 of the Vehicle Code requires the department to administer a local abatement program on behalf of a local authority if the authority requests it.

During the 1978 session, the Legislature authorized the transfer of $3 million from the Motor Vehicle Account of the State Transportation Fund to the Abandoned Vehicle Trust Fund over a two year period. If the Legislature eliminates the state's involvement in vehicle abatement entirely, it would be appropriate to transfer the money remaining in the trust fund back to the Motor Vehicle Account.

If legislation to terminate all of these activities is not enacted, the department will be faced with the existing workload in these areas. This, in turn, would increase the department's staffing requirements. In order to provide the fiscal committees with sufficient information to review the proposed budget, we recommend that the department be prepared to comment on the status of the proposed legislation at the time of the budget hearings.

Overbudgeting of Activities to Be Eliminated

We recommend a reduction of $144,498 because the department's estimates of half-year expenditures are not consistent with Department of Finance guidelines.

The department proposes to spend $728,175 to support three regulatory activities until January 1, 1980, in order to permit legislation terminating these activities to take effect. These activities are (a) approval and certification of devices, (b) standards and conformity control and (c) vehicle noise reduction and control. According to the Department of Finance, the proposed amount should be equal to one-half of full-year funding.

The department originally proposed $1,167,353 for these activities in 1979–80. One-half of this spending level would be $583,677. This suggests that $144,498 can be deleted from Item 172.

Continuing Program Activities

The Governor's Budget proposes to continue six different inspection activities. School buses will continue to be inspected annually as required by law. In addition, the department will inspect and certify emergency vehicles, armored cars, farm labor transportation vehicles, and commercial vehicles and terminals, and insure against leakage of hazardous materials transported on the highways. Table 5 presents proposed staffing and expenditure levels.

Table 5

Regulation and Inspection Program
Staffing and Expenditure Data

	Actual 1977–78	*Estimated 1978–79*	*Percent Change Over Previous Year*	*Proposed 1979–80*	*Percent Change Over Previous Year*
Program Expenditures	$14,336,807	$15,112,956	5.4%	$15,062,967	−0.3%
Personnel-Years					
Uniformed	232.6	233.2	0.3	209.9	−10.0
Nonuniformed	643.3	655.9	2.0	243.1	−62.9
Total Program Personnel-Years	875.9	889.1	1.5%	453.0	−49.0%

Commercial Vehicle Inspections

We recommend the deletion of a Commercial Vehicle Inspection Specialist position for a savings of $7,422.

The department proposes the addition of three additional Commercial Vehicle Inspection Specialists (CVIS) positions, effective January 1, 1980. These positions would staff additional weighing lanes that the California Department of Transportation (Caltrans) will install at the Wheeler Ridge and Castaic inspection facilities. The department proposes to assign two CVIS positions to Castaic, and one position at Wheeler Ridge.

According to Caltrans, the additional lane at Wheeler Ridge will probably not be ready until well after January 1, 1980. At this time, a decision has not been made concerning the design of the additional lane. In addition, time requirements for awarding the contract and constructing the lane may postpone the availability of the additional lane until the 1980–81 budget year. We therefore recommend the deletion of one of the proposed CVIS positions for a savings of $7,422. The department should request authorization for the position once the additional lane is within two months of completion.

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III. VEHICLE OWNERSHIP SECURITY

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

Proposed expenditures for this program are budgeted at $4,705,912, a decrease of 6.8 percent from the current year. The decline reflects a reduction of 19 uniformed positions and $362,437 in the vehicle theft control element. Cost and staffing data for the program are presented in Table 6.

Table 6

Vehicle Ownership Security Program
Staffing and Expenditure Data

	Actual 1977–78	*Estimated 1978–79*	*Percent Change Over Previous Year*	*Proposed 1979–80*	*Percent Change Over Previous Year*
Program Expenditures	$5,020,187	$5,048,938	0.6%	$4,705,912	−6.8%
Personnel-Years					
Uniformed	115.3	115.5	0.2	96.6	−16.4
Nonuniformed	25.5	25.1	−1.6	25.1	0
Total Program Personnel-Years	140.8	140.6	−0.1%	121.7	−13.4%

Vehicle Theft Control

The department coordinates and assists the vehicle theft control activities of local police and sheriff departments. In addition, CHP performs its own vehicle theft investigations. Early indications from the department are that this reduction in personnel will probably result in less assistance to local law enforcement agencies rather than in any cutback in CHP investigations. In the past, we have recommended that the department limit its role in the vehicle theft area to coordinating local vehicle theft control efforts and that it not undertake its own investigations. We believe the department could cut 19 positions from vehicle theft control without sacrificing any high priority objectives. We recommend the department be prepared to discuss the effect of this personnel cut on the department's investigative and coordinative activities during the budget hearings.

Vehicle Theft Information System

We recommend that the Highway Patrol and the Department of Justice explore the feasibility and practicality of transferring the Vehicle Theft Information System to the Department of Justice.

The department maintains a Vehicle Theft Information System (VTIS) which will cost $56,163 during the budget year. The output of VTIS is used by vehicle theft investigators within the department and local police agencies to help control the incidence of vehicle theft. VTIS includes information on those automobile models stolen most frequently, as well as on the movement of stolen vehicles across counties, and provides an overview of statewide theft and recovery activity.

The data for VTIS are obtained from the Stolen Vehicle System (SVS), maintained by the Department of Justice. Data on the SVS file are copied onto tape each day by the Department of Justice, and the tape is sent to the Highway Patrol. The patrol uses its own computer programs to obtain the VTIS output. In effect, the Department of Justice and the Highway Patrol maintain duplicate computer files.

We believe the state could obtain the same quality output from VTIS at a lower cost if the data processing was handled by the Department of Justice. At the present time, however, the Department of Justice is bringing new data processing equipment on line. Because of the problems likely to be encountered in this process, it probably would not be prudent to transfer VTIS to Justice until the 1980–81 fiscal year. In the meantime, we recommend that representatives of the Highway Patrol, Departments of Justice and Finance explore the feasibility and practicality of transferring the data processing involved in VTIS to the Department of Justice.

IV. ADMINISTRATIVE SUPPORT

Proposed expenditures for administrative support functions are budgeted at $31,598,639, an increase of 6.6 percent over the current year estimate. The six elements of the program include administrative services, management and command, budget and fiscal management, operational planning and analysis, training, and the Statewide Integrated Traffic Records System.

Administration costs are prorated among the department's other three operating programs. Expenditure and staffing information for administrative support is presented in Table 7.

Proposed Changes in Staffing

The budget proposes to eliminate the management development section of the department's training division. This will result in a reduction of 6.0 positions, with savings of $171,808. The management development section offers courses to department management in such areas as data analysis, administrative management, and press relations. Because this activity duplicates training offered by other state agencies or educational institutions, we concur with the proposed termination.

Table 7

Administrative Support Program Staffing and Expenditure Data

	Actual 1977–78	*Estimated 1978–79*	*Percent Change Over Previous Year*	*Proposed 1979–80*	*Percent Change Over Previous Year*
Program Expenditures	$28,234,517	$29,639,133	5.0%	$31,598,639	6.6%
Personnel-Years					
Uniformed	277.5	265.0	−4.5	260.5	−1.9
Nonuniformed	655.7	654.4	−0.2	658.8	0.7
Total Program Personnel-Years	933.2	919.4	−1.5%	919.3	0%

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Vehicle Equipment Safety Commission

We recommend a reduction of $13,650 because dues for the Vehicle Equipment Safety Commission will not be paid in 1979–80.

The department line-item budget indicates that $13,650 in dues will be paid in the budget year to the Vehicle Equipment Safety Commission (VESC). This is an interstate commission comprised of 42 states and the District of Columbia. Its primary purpose is to develop uniform state vehicle equipment regulations. We understand that the Department will not pay dues for 1979–80 because it has determined that this activity is of low priority, even though funds are included in the budget for that purpose. Accordingly, we recommend that expenditure be deleted from the budget.

Eligibility for Patrol Retirement Benefits

We recommend enactment of legislation specifying Highway Patrol positions and specific duties which meet requirements for "patrol" membership in the Public Employees Retirement System.

State employees who are classified as "patrol" members by the Public Employees Retirement System (PERS) receive the highest level of retirement benefits provided in state civil service for comparable length of service. Patrol members may receive 50 percent of final compensation at age 50 with 25 years of service. In contrast, "safety" members and "miscellaneous" members with equal years of service must be 55 and 60 years old, respectively, to receive 50 percent of final compensation. Section 20017 of the Government Code defines who in the California Highway Patrol may be classified as a "patrol" member. It states that a"patrol" member includes any CHP employee "whose principal duties consists of active law enforcement service, except those whose principal duties are those of a telephone operator, clerk, stenographer, machinist, mechanic or otherwise clearly do not fall within the scope of active law enforcement, *even though such a person is subject to occasional call, or is occasionally called upon, to perform duties within the scope of active law enforcement"* (emphasis added).

Under current policy, all uniformed personnel, including the Commissioner, the Deputy Commissioner, the Assistant Commissioners, and various uniformed administrators are classified as "patrol" members. Many of these employees have duties that are not "within the scope of active law enforcement" service. For example, captains and lieutenants in area offices are administrators and are not involved in actual law enforcement. Also, no uniformed personnel in division offices, with the exception of vehicle theft investigators, are involved in active law enforcement. Finally, the 114 uniformed employees who work in administration, and the planning and analysis, enforcement services and personnel and training divisions in headquarters do not have duties that are related to active law enforcement. It is not clear to us whether the law entitles these employees to "patrol" member status.

The Public Employees Retirement System (PERS) will upon request review a position and its duties and advise a department as to the appropriate retirement benefit category for that position. However, PERS is primarily an administrative agency which has no accurate means of auditing participants in the state patrol retirement system. A department retains discretion within statutory constraints, regarding the classification of its employees in the various components of the state retirement system.

In addition, PERS makes these evaluations based on the duties of the classification, not those of the individual employee. This makes a proper determination of an individual's retirement benefit category very difficult. For example, the job specification for State Traffic Officer in the Highway Patrol is so broad, it encompasses both an employee whose sole function is road patrol and one whose job is entirely administrative.

This distinction among the different membership classes is important from the standpoint of cost. The state contribution rate for patrol members is 31.31 percent of the employee's salary. In contrast, the contribution rate for a "safety" member is only 20.07 percent of salary. We estimate the state would save $1,216,041 in reduced contributions during the budget year if these employees were classified as "safety" members.

We believe a clarification of legislative intent is necessary to specify which duties within the Highway Patrol merit "patrol" benefits.

Overbudgeted Data Processing Charges

We recommend a reduction in data processing charges of $95,708 because the department has consistently overestimated its use of the Teale Data Center.

The department projects payments of $478,538 to the Stephen P. Teale Consolidated Data Center. This reflects a 10 percent increase for ongoing requirements and a reduction of $75,000 due to implementation of the department's Management Information System.

Historically, the department has overestimated its use of the Teale Center, as Table 8 shows. In the past three years, the department has spent 81 percent or less of its budgeted expenditures at the Teale Center. Based on the department's past projections, we estimate the department will spend $382,830 in 1979–80 for Teale Center services, or 20 percent less than the department estimates. We therefore recommend a reduction of $95,-708.

Table 8
Projected and Actual Use of Teale Center

	1976–77	*1977–78*	*1978–79*
Projected	$505,000	$505,000	$555,500
Actual	253,000	409,264	396,000 [a]
Actual as Percent of Projection	50.1%	81.0%	71.3%

[a] Based on actual use as of November 1, 1978. The department estimates it will spend $503,216 in 1978–79. However, Teale Center staff state that use does not vary significantly through the year. Therefore, $396,000 is an appropriate estimate of projected usage.

Management Information System

We recommend a reduction of $100,000 because the department has overbudgeted expenditures relating to the Management Information System.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

The department is requesting $2,482,774 for the continued implementation of a Management Information System (MIS). This funding level includes purchasing sufficient equipment to provide backup capability in case there is a failure in the operating equipment.

Included in this request is $80,000 for equipment on a CHP purchase order to be paid for by the California Department of Transportation (Caltrans). Caltrans will integrate its equipment with the CHP MIS to circulate information on road conditions.

CHP plans to use this extra equipment as additional backup if Caltrans does not receive the necessary approval to implement its plan. We believe that CHP has planned for sufficient backup equipment and should not budget funds for Caltrans equipment. Therefore, we recommend a reduction of $80,000 from the CHP equipment budget.

In addition, the CHP is budgeting $20,000 in increased maintenance costs which would result if the vendor accelerates the installation schedule. This acceleration would save the department $25,000 in reduced teletype costs during the budget year. The department's budget, however, does not reflect this savings. We recommend a reduction of $20,000 to correct this error. Increased maintenance costs can be absorbed with the money saved by the early elimination of the teletypes. The remaining $5,000 should then revert to the Motor Vehicle Account.

Leasing of Patrol Facilities

We recommend a reduction of $143,873 for overbudgeted leasing expenditures. We further recommend that future funds for projected increases in leasing expenditures be held in reserve until new lease terms are established and expenditures are authorized.

The patrol will lease land, offices and other facilities at 66 locations in 1979–80. Monthly charges and lease expiration dates are presented in the department's line-item budget. Our review of the patrol's leasing schedule and discussions with personnel in the Division of Space Management (DSM) within the Department of General Services indicate that stated CHP lease terms in five facilities have been overbudgeted in the current year and/or the budget year.

We recommend that the overbudgeted amounts in the current year schedule be reappropriated to the budget year, thereby reducing proposed lease expenditures in the budget year. We also recommend reductions for overstated expenditures in the budget year. Discussion of the discrepancies by facility and our recommendations follow.

Chico. The department has budgeted a monthly lease payment of $2,742 starting November 1978 and continuing through the 1979–80 fiscal year. Construction problems have delayed the occupancy date to February 1979. In the meantime, the department has been occupying its old building, at a monthly payment of $1,150.

In addition, the department will be purchasing the new facility on August 1, 1979. Therefore, the department should not be paying rent after that date. We recommend a reduction of $4,776 in the current year and $32,904 in the budget year to correct this overbudgeting.

Lakeport. Both the department's lease schedule and the staff of DSM state that the lease on this office expires on June 30, 1980. Nonetheless, the budget provides for a rent increase from $1,200 to $4,200 per month, beginning January 1, 1980. In addition, the lease states the monthly rent is $1,110. We recommend a reduction of $1,200 in 1978–79 and $19,200 in 1979–80 to compensate for this overbudgeting.

Malibu. The budget states that the monthly rent increased from $600 to $4,500 on January 1, 1979, and will continue at that level through 1979–80. In fact, the rent was raised to $650 and the lease will expire on December 31, 1979. No new lease terms have been negotiated. We recommend a reduction of $23,100 during the 1978-79 and $23,100 during the budget year to correct the overbudgeting for the period July 1, 1979, through December 31, 1979. An additional $23,100 should be held in reserve for 1979–80 pending negotiation of a new lease.

Mariposa. The department has budgeted for a monthly lease of $800 from August 1, 1978, to June 30, 1979. The department has also budgeted $3,700 per month during the budget year. DSM records indicate the monthly lease payment from August 1, 1978, until 1983 to be $696. Therefore, we recommend a reduction of $1,144 during the current year and $36,048 during the budget year.

Santa Maria. The lease schedule indicates that the lease does not expire until January 31, 1983. Nonetheless, the department is budgeting for a $200 per month increase in rent for the budget year. We recommend a reduction of $2,400 to rectify this error.

Overbudgeted Leasing of Facilities Summary

In summary, we believe that the overbudgeted leasing of facilities in the current year should be reappropriated to the budgeted expenses for leasing in 1979–80. This would reduce proposed leasing costs by $30,220. When recommended reductions of $113,652 for overbudgeting in 1979–80 are included, our recommended reductions total $143,873.

Future Leasing Arrangements. The rental budget for CHP offices includes five facilities for which lease arrangements will expire during 1979–80. The department has anticipated increased monthly charges for these leases, although final terms have not been approved. We recommend that funding for increments in leases expiring during the budget year, which total $74,150, be held in reserve. If department costs for the affected facilities do not increase, unexpended monies in this reserve should revert to the Motor Vehicle Account, State Transportation Fund, rather than be available for other department expenditures.

Table 9 illustrates adjustments to the CHP leasing schedule for overbudgeting and establishing a future lease reserve.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Table 9
Adjustments to CHP Rental Schedule—Buildings

Facility	*CHP Estimate for Current Year Expenditures*	*Overbudgeted Amounts 1978–79*	*Overbudgeted Amounts 1979–80*	*Reserve for Projected Increases*
Alturas	$4,800	—	—	$3,600
Central Los Angeles	16,140	—	—	2,730
Chico	26,536	$4,776	$32,904	—
Lakeport	14,400	1,200	19,200	—
Malibu	30,000	23,100	23,100	23,100
Mariposa	8,148	1,144	36,048	—
San Andreas	7,080	—	—	30,690
Santa Cruz	24,360	—	—	5,630
Santa Maria	6,000	—	2,400	—
Twentynine Palms	6,400	—	—	8,400
Total	$143,864	$30,220	$113,652	$74,150
Proposed CHP leasing expenditures			$1,441,739	
Less recommended reductions:				
Reappropriation for overbudgeted amounts, 1978–79			$30,220	
Overbudgeted amounts, 1979–80			113,652	
Subtotal, recommended reductions			$143,873	
Adjusted line-item total			$1,297,666	
Recommended held in reserve			($74,150)	

Equipment Expenditures

We recommend a reduction of $26,040 because of overbudgeted or unnecessary equipment expenditures.

Closed Circuit Television. The department requests $2,000 for a closed circuit television system in the San Francisco area office. The department states that the equipment is needed because no uniformed personnel are available after business hours. Motorists who come to report accidents are admitted to the office after talking to a dispatcher through an intercom. The department states that the equipment is necessary to allow the dispatchers to see the people before letting them into the office lobby.

According to the CHP facilities section, accident report information should be given through the department's emergency number, Zenith 1-2000, or through the intercom at area offices that are open all night. There is no need to let anyone into the office. Therefore, we recommend the deletion of the television system, for a savings of $2,000.

Mini Computer. The department is requesting $12,000 for a mini computer. This computer would enable the department's Planning and Analysis Division to perform various statistical analyses on short notice.

In contacting manufacturers of various small computer systems meeting the department's requirements, we believe that this equipment can be purchased for no more than $7,400, plus $960 in annual maintenance charges. Therefore, we recommend a reduction of $3,640.

Solar Cells. The department is requesting $20,000 to purchase two sets of solar energy cells. These cells would generate electricity for two radio microwave transmitter sites in the desert. The department states that the electrical power presently supplied to the sites is not sufficiently reliable. Without electrical power in these sites, there will be a communications blackout in a wide desert area.

However, we have not been able to document the extent of this unreliability. Moreover, the current electrical power costs are sufficiently low to make solar power economically infeasible. The cost of electricity at each site is approximately $360 per year. At this rate, it would take more than 27 years of utility savings to recover the cost of the cells. Therefore, we recommend deletion of the two solar cells, with a savings of $20,000.

Department of the California Highway Patrol
DEFICIENCY PAYMENT

Item 173 from the Motor Vehicle Account, State Transportation Fund — Budget p. 379

Requested 1979–80	$1,000,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 42272 of the Vehicle Code prohibits the creation of deficiency payments in support of this department. Moreover, the department cannot obtain additional funds from the Emergency Fund. The Legislature, recognizing that emergencies could occur in a department of this size, has provided funds each year which may be used for any approved deficiency. Authorizations for contingency expenditures become effective 30 days after written notification to the Joint Legislative Budget Committee or 10 days for emergency expenditures.

Department of the California Highway Patrol
ADVANCE PURCHASE AUTHORIZATION

Item 174 from the Motor Vehicle Account, State Transportation Fund — Budget p. 379

Requested 1979–80	$2,500,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Because the automotive model year and the state's fiscal year do not coincide, the California Highway Patrol must on occasion order cars in one fiscal year for delivery in the next. This item provides the department with the authority to incur automotive purchase obligations up to $2,500,000 in 1979–80 for vehicles to be delivered in 1980–81. No funds have ever been expended under this procedure. It provides authorization only, with actual expenditures made from the department's regular budget in the years affected.

Business and Transportation Agency
DEPARTMENT OF MOTOR VEHICLES

Items 175–181 from various funds — Budget p. 383

Requested 1979–80	$152,672,646
Estimated 1978–79	146,726,002
Actual 1977–78	137,365,681
Requested increase $5,946,644 (4 percent)	
Total recommended reduction	$473,865

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
175	Anatomical Donor Designation and Petit Jury Selection	General	$144,086
176	Departmental Operations	State Transportation Fund, Motor Vehicle Account	127,266,120
177	For Payment of Deficiencies in Appropriations	State Transportation Fund, Motor Vehicle Account	(500,000)
178	Collection of Vehicle In-Lieu Taxes	Transportation Tax Fund, Motor Vehicle License Fee Account	20,469,535
179	Environmental License Plate Issuance	California Environmental Protection Program	2,935,761
180	Bicycle License Tag Issuance	State Bicycle License and Registration	65,207
181	Undocumented Vessels Registration	Harbors and Watercraft Revolving Fund	1,791,937
	Total		$152,672,646

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Personal Services. Recommend that funds for personal services be allocated properly. 365
2. Program Changes. Recommend department be prepared to discuss status of legislation necessary to implement proposed program changes. 366
3. Use Tax Collection. Recommend audit to establish actual cost of use tax collection. 367
4. *CLETS Support. Reduce Item 176 by $715,910.* Recommend reduction in Motor Vehicle Account support of Department of Justice Telecommunication System. 368
5. *Unpaid Parking Violations. Augment Item 176 by $686,698.* Recommend disapproval of proposal to terminate new program. 370
6. Fee Increase. Recommend that department increase administrative fees as provided by law. 371
7. Exempt Vehicle Registration. Withhold recommendation pending further detail on the Administration's proposal. 372

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV), a major component of the Business and Transportation Agency, is responsible for protecting the public interest and promoting public safety on California's roads and highways. The department includes the Divisions of Drivers Licenses, Regis-

DEPARTMENT OF MOTOR VEHICLES—Continued

tration, Field Office Operation, Administration, Electronic Data Processing, and Compliance. Through these divisions, the department administers the following six programs:

1. Vehicle Licensing and Titling—to protect the public's interest by identifying ownership through the process of vehicle registration.
2. Driver Licensing and Control—to promote safety on highways by licensing and controlling drivers.
3. Occupational Licensing and Regulation—to provide public protection by licensing and regulating occupations and businesses related to the manufacture, transportation, sale, and disposal of vehicles, and the instruction of drivers in safe operation on the highways.
4. Compulsory Financial Responsibility—to encourage California motorists to maintain financial responsibility.
5. Associated Services—to provide services, not directly related to motor vehicles or drivers' licensing, to the public and to other state agencies as required by statute.
6. Administration—to administer Vehicle Code provisions and statutes, to establish departmental policy, and to provide management support services to all departmental programs.

In the budget year, the department proposes the operation of 152 field offices in 14 districts throughout California, as well as a central headquarters facility in Sacramento. Personnel years for 1979–80 are projected at 6,937.9 compared to 7,397 in 1978–79, a decrease of 6.2 percent.

The department also estimates that it will process a total of 18,756,900 vehicle registrations and 618,000 undocumented vehicle registrations, and issue 5,145,000 drivers' licenses and 653,650 identification cards. These major workload indicators reflect a growth of 2.3 percent in vehicle registrations, 4 percent in undocumented vehicle registrations, 6 percent in driver's license issuance, and 12.7 percent in identification card issuance.

ANALYSIS AND RECOMMENDATIONS

DMV proposes expenditures in the budget year of $152,672,646, an increase of $5,946,644 or 4 percent over the current year. These expenditures do not include federal funds of $343,178 and reimbursements of $10,229,497 for services the department will provide to other agencies and the public.

Expenditure totals and a breakdown by program are shown in Table 1 which includes actual and estimated expenditures for the two previous years. Table 2 provides a detailed account of changes over the current year including major program reductions proposed in the Governor's Budget. More detail on the major changes is provided in Table 5.

Table 1
Department of Motor Vehicles
Program Expenditure Summary

Program	Actual 1977–78	Estimated 1978–79	Proposed 1979–80	Change from 1978–79	Percent Change
1. Vehicle Licensing and Titling	$73,418,201	$79,587,616	$83,164,927	$3,577,311	4.5%
2. Driver Licensing and Control	52,507,284	55,588,194	56,933,707	1,345,513	2.4
3. Occupational Licensing and Regulation	8,939,991	9,014,281	9,576,378	562,097	6.2
4. Financial Responsibility	3,189,703	3,436,971	2,747,169	−689,802	−20.1
5. Department of Motor Vehicles Associated Services	9,040,405	9,669,982	10,823,140	1,153,158	11.9
6. Administration—Distributed to Programs	(14,548,621)	(14,812,489)	(15,865,700)	(1,053,211)	7.1
Totals, Programs	$147,095,584	$157,297,044	$163,245,321	$5,948,277	3.8%
Less Reimbursements	−9,331,303	−9,701,190	−10,229,497	−528,307	5.4
Less Federal Funds	−398,600	−869,852	−343,178	526,674	−60.5
Net Totals, Programs	$137,365,681	$146,726,002	$152,672,646	$5,946,644	4.0%

Department's Work Force Request

The Department of Motor Vehicles' budget for 1979–80 proposes a net decrease of 459.1 personnel years, or 6.2 percent from the revised 1978–79 total of 7,397 personnel-years. This results from the proposed elimination of 518.3 personnel-years based on program changes, all of which require enabling legislation, which is partially offset by increases in other areas. Personnel years are shown by program element in Table 3 for the prior, current and budget years.

Reductions per Sections 27.1 and 27.2—Budget Act of 1978

The budget reflects a reduction of $1,828,587 in operating expenses and equipment and a personal services reduction of $2,326,877 (189 personnel-years) in the current year to comply with Sections 27.1 and 27.2 of the 1978 Budget Act. The reduction in operating expenses and equipment was accomplished by reducing allocations in numerous line item categories, including the deferral of new leases for additional office space. The personnel-year reduction has been accomplished by (1) not filling vacancies and (2) eliminating authorized positions because anticipated workload did not materialize, primarily in the unpaid parking violation program. The net effect of these reductions on the department's overall operation has been minor. Position reductions were made primarily in areas which were not experiencing backlogs in workload.

Table 2
Summary of Budget Expenditure Changes From Current Year

				Changes From Current Year		
		Personnel-Years	*Amount*	*Personnel-Years*	*Amount*	*Percent*
1. Personal Services Adjustments for Authorized Positions:						
a. Merit Salary Adjustment	Revised [a]	7508.5	$92,170,383	—	—	—
	Proposed [b]	7508.5	93,643,045	—	$1,472,662	0.93
b. Salary Savings	Revised	−100.5	1,926,322	—	—	—
	Proposed	−95.1	1,926,322	5.4	—	—
c. Staff Benefits (Rate Increase and Increase for Merit Salary Adjustment)	Revised	—	25,204,156	—	—	—
	Proposed	—	28,033,821	—	2,829,665	1.80
d. Reduction per Section 27.2 of 1978 Budget Act (included in 1.a., b. and c. above)	Revised	189.0	−2,326,877	—	—	—
	Proposed	189.0	−2,326,877	—	—	—
2. Workload Adjustment:						
a. Costs Related to Changes in Authorized Positions	Revised	−72.3	−797,952	—	—	—
	Proposed	—	−154,579	72.3	643,373	0.41
b. Changes to Operating Expenses and Equipment Not Related to Changes in Authorized Positions [e]	Revised	—	42,457,110	—	—	—
	Proposed	—	46,174,211	—	3,717,101	2.36
1. Workload					(1,854,516)	(1.18)
2. Price					(1,862,585)	(1.18)
c. Reductions per Section 27.1 of the 1978 Budget Act	Revised	—	—	—	—	—
	Proposed	—	1,863,796	—	—	—
3. Unpaid Parking Violation Program	Revised	61.7	970,562	—	—	—
	Proposed	(93.3)[c]	686,687	61.7[d]	−283,875	−0.18
4. Computer Replacement	Revised	—	—	—	—	—
	Proposed	—	244,486	—	244,486	0.15
5. Drivers' Licenses Soundex System	Revised	—	300,000	—	—	—
	Proposed	2.6	125,485	2.6	−174,515	−0.11
6. DMV Automation—Phase I: Revenue Accounting	Revised	—	—	—	—	—
	Proposed	3.8	125,842	3.8	125,842	0.08

7. Enhanced Registration Renewal Processing	Revised	—	—	—	—	—
	Proposed	—	848,486	—	848,486	0.54
8. New Motor Vehicle Board Hearing Increase	Revised	—	25,034	—	—	—
	Proposed	—	25,034	—	—	—
9. New Statutes:						
a. AB 593, Chapter 658: Drivers' Licenses: Extensions	Revised	—	—	—	—	—
	Proposed	47.8	460,846	−47.8	−460,846	−0.29
b. AB 2815, Chapter 714: State Board of Control: Discharge from Accountability	Revised	—	—	—	—	—
	Proposed	—	−1,087	—	−1,087	—
c. AB 3564, Chapter 689: Fingerprinting	Revised	—	7,303	—	—	—
	Proposed	—	10,430	—	3,127	—
d. SB 1381, Chapter 768: Vehicles: Fleet Registration	Revised	—	—	—	—	—
	Proposed	—	28,758	—	28,758	0.02
e. SB 1446, Chapter 997: Vehicles: Financial Responsibility	Revised	−0.4	148,000	—	—	—
	Proposed	−9.1	−296,000	−8.7	−148,000	−0.09
10. Proposed Reductions:						
a. Issue Single License Plate	Revised	—	—	—	—	—
	Proposed	—	−325,950	—	−325,950	−0.21
b. Eliminate Unpaid Parking Violation Program (Reflected in 3. above)	Revised	—	—	—	—	—
	Proposed	(−93.3)	(−686,698)	(−93.3)	(−686,698)	(−0.44)
c. Eliminate Registration of Exempt Vehicles	Revised	—	—	—	—	—
	Proposed	−17.0	−110,017	−17.0	−110,017	−0.07
d. Eliminate Hearing Review Process	Revised	—	—	—	—	—
	Proposed	−9.0	−113,749	−9.0	−113,749	−0.07
e. Extension of Driver Licenses (4 years with fee)	Revised	—	—	—	—	—
	Proposed	−283.3	−1,595,248	−283.3	−1,595,248	−1.01

Table 2—Continued
Summary of Budget Expenditure Changes From Current Year

				Changes From Current Year		
		Personnel-Years	*Amount*	*Personnel-Years*	*Amount*	*Percent*
f. Increase Financial Responsibility Threshold to $1,000	Revised	—	—	—	—	—
	Proposed	−89.7	−591,126	−89.7	−591,126	−0.38
g. Eliminate Salesperson Licensing Program	Revised	—	—	—	—	—
	Proposed	−26.0	−160,810	−26.0	−160,810	−0.10
Totals, Gross Expenditures						
Revised 1978–79		7,397.0	$157,297,044			
Proposed 1979–80		6,937.9	163,245,321			
Net Change, Gross Expenditures				−459.1	$5,948,277	3.78%
Reimbursements						
Revised 1978–79		—	−9,701,190			
Proposed 1979–80		—	−10,229,497			
Net Change, Reimbursements				—	−528,307	
Federal Funds						
Revised 1978–79		(24.1)	($869,852)			
Proposed 1979–80		(10.8)	(343,178)			
Net Change, Federal Funds				(−13.3)	($−526,674)	
Totals, Net Expenditure Changes				−459.1	$5,419,970	3.67%

[a] Revised—1978–79 Expenditures.
[b] Proposed—1979–80 Budgeted.
[c] Represents the level at which this program would have been established had it not been proposed for elimination.
[d] Reflects reestablishment of limited term positions necessary for continuation of existing staffing level until planned program termination effective January 1, 1980.
[e] Does not include operating expenses and equipment related to changes in Personnel Requirements, Budget Change Proposals, New Statutes or Special Items.

Table 3
Staffing by Program Element

Program Element	*Actual 1977–78*	*Estimated 1978–79*	*Proposed 1979–80*	*Change from 1978–79*	*Percent Change*
I. Vehicle Licensing and Titling	3722.9	3647.1	3591.6	−55.5	−1.5%
II. Driver Licensing and Control	2617.6	2618.0	2311.4	−306.6	−11.7
III. Occupational Licensing and Regulation	390.3	368.9	351.9	−17.0	−4.6
IV. Financial Responsibility	187.0	191.6	91.7	−99.9	−52.1
V. Associated Services	551.2	571.4	591.3	19.9	3.5
VI. Administration (distributed)	(674.4)	(639.5)	(653.6)	(14.1)	2.2
Total	7469.0	7397.0	6937.9	−459.1	−6.2%

Personnel-Year Requirements Understated

We recommend that $265,491 budgeted as a reserve for personnel increases be reallocated to personal services and the personnel-year requirements adjusted accordingly.

In reviewing the department's budget we note that the Department of Finance failed to accurately reflect the full number of personnel-years approved in the budget year. In one instance, at least 93.3 personnel-years proposed for half-year funding in the budget year are not reflected in 1979–80 personnel-year totals. Normally, such limited term positions would be enumerated in the budget detail covering changes in authorized positions. The net effect is that the total number of personnel-years actually proposed is understated in 1979–80.

In addition, the operating expenses and equipment line item includes an allocation of $265,491 as a "Reserve for Personnel Increases." Although these funds were approved by the Department of Finance for approximately 23 workload-related positions, the allocation was posted to the general expense category to avoid increasing the personnel-year count. This action is misleading, and also will require additional paperwork during the year to establish these positions administratively. We recommend that these funds be allocated appropriately and the personnel-years adjusted accordingly.

Funding Support

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

Table 4
Sources of Funding, 1979–80

Fund	*Dollar Amount*	*Percent of Total Support*
Motor Vehicle Account, State Transportation Fund	$127,266,120	83.2%
Motor Vehicle License Fee Account Transportation Tax Fund	20,469,535	13.4
California Environmental Protection Program Fund	2,935,761	1.9
Harbors and Watercraft Revolving Fund	1,791,937	1.2

DEPARTMENT OF MOTOR VEHICLES—Continued

Federal Funds	343,178	.2
General Fund	144,086	.1
State Bicycle License and Registration Fund	65,207	—[a]
Total	$153,015,824	100.0%

[a] Less than one-tenth of one percent.

Status of the Motor Vehicle Account

In recent years, DMV and California Highway Patrol costs have grown faster than fund revenues. The hiring freeze and lack of any employee cost-of-living increase in the current year, together with previous actions by the Executive and Legislative Branches to reduce demands on the fund, have combined to reverse the deteriorating trend in the Motor Vehicle Account's financial condition. Dramatic evidence of this reversal is given by a proposed 900 percent increase in the amount transferred to the State Highway Account (from $10 million in 1978–79 to $100 million in 1979–80). This improvement in fund condition is not likely to be permanent because the same factors which caused the steady deterioration in previous years are still present. However, personnel reductions proposed by the Governor for these two departments, if approved, should improve the fund's condition.

A number of factors can be expected to have an adverse effect on the long-term condition of the Motor Vehicle Account. First, it is probable that employees will be granted a cost-of-living increase in the budget year and in future years. Second, fees charged by DMV for drivers licenses and vehicle registration continue to be lower than the cost of the licensing and registration activities. In fact, the California Transportation Commission, in its November 1978 biennial report to the Legislature, noted that drivers' license fees would have to be raised from the current $3.25 to $10.00 to cover an estimated annual shortfall of $35 million in this program. Similarly, the report indicated that the $11 vehicle registration fee should be raised to $13 to prevent a $60 million shortfall in this activity. Finally, the report found truck weight fees to be insufficient to cover maintenance and repair costs associated with the operation of heavy trucks. Previous estimates by the Department of Transportation indicate that the difference between these costs and weight fees collected approximates $70 million annually.

Major Program Changes

We recommend that the department comment on the status of the legislation required to implement the proposed program reductions for the 1979–80 fiscal year at the time of the budget hearings.

The budget reflects seven specific program reductions which require the enactment of legislation. These reductions are shown in Table 5. Each proposal is addressed in more detail in our discussion of the related program area.

Table 5
Proposed Program Reductions

Action	Personnel-Years	Budgeted Half-Year Savings	Estimated Full-Year Savings	Legislation Required
Extend Driver License Period	283.3	$1,595,248	$3,190,496	Yes
Eliminate Unpaid Parking Violation Period	93.3	686,698	1,373,396	Yes
Increase Financial Responsibility Reporting Threshold	89.7	591,126	1,182,252	Yes
Issue Single License Plate	—	325,950	651,900	Yes
Eliminate Licensing of Salespersons	26.0	160,810	321,620	Yes
Eliminate Review of Hearing Decisions	9.0	113,749	227,498	Yes
Eliminate Registration of Exempt Vehicles	17.0	110,017	220,034	Yes
Totals	518.3	$3,583,598	$7,167,196	

We recommend that the department be prepared to comment on the status of the required legislation at the time of the budget hearings.

Insufficient General Fund Support

It is apparent that the Motor Vehicle Account, State Transportation Fund, is supporting activities in two areas which should be supported in whole or part by the General Fund. The issue of appropriate funding source has been addressed in previous years by the Legislature. For example, in the 1978–79 budget, the Legislature included $400,000 in General Fund support to recognize general benefits to the state's law enforcement community through the use of the department's SOUNDEX system. This appropriation was vetoed by the Governor.

We continue to believe a more appropriate allocation of costs for certain of the department's activities is needed.

Reimbursement for Use Tax Collection

We recommend that the Fiscal Management Audit Division of the Department of Finance be required to (1) determine actual costs to the Department of Motor Vehicles to collect the use tax from the sale of vehicles between individuals, and (2) submit its report to the Joint Legislative Budget Committee and the Joint Legislative Audit Committee by October 1, 1979.

Further, we recommend that the Auditor General review this report and advise the Budget Committee as to the adequacy of the methods used by the Department of Finance in making its determination and subsequent findings.

Section 4750.5 of the Vehicle Code requires the Department of Motor Vehicles to collect the use tax on the sale of vehicles between individuals, and transmit the proceeds to the State Board of Equalization. In turn, "The State Board of Equalization shall reimburse the department for its costs incurred in carrying out the provisions of this section. Such reimbursement shall be effected under agreement between the agencies, approved by the Department of Finance."

There has been continuing controversy regarding the appropriate level of reimbursement since the program's inception in 1963. The department indicates that the reimbursement level, budgeted at $3,079,069 for 1979–80, significantly understates its costs. This, according to the department, is due to the use of a four percent overhead rate (applied to personal services budgeted for this program).

The department contends that an overhead rate of 51.41 percent, rather

DEPARTMENT OF MOTOR VEHICLES—Continued

than four percent, should be used, and that this would justify increased reimbursement in the budget-year of $1,448,459.

We believe the Department of Motor Vehicles should be reimbursed fully for its cost to collect use taxes in order to avoid using the Motor Vehicle Account to underwrite a General Fund activity. However, because there is disagreement between DMV and the Board of Equalization as to the department's actual costs and no factual basis for resolving this disagreement, the Fiscal Management Audit Division of the Department of Finance should audit the department's collection program in order to make an independent determination of the actual cost to DMV of carrying out this program. The Auditor General should review Finance's efforts and comment on the adequacy of methods used in the audit. The combination of the Department of Finance report and the Auditor General's review should provide the Legislature sufficient information upon which to validate the level of General Fund reimbursement necessary to offset DMV costs.

Reduce Motor Vehicle Account Support of CLETS

We recommend that the amount budgeted in Item 176 for Motor Vehicle Account support of the California Law Enforcement Telecommunications System be reduced $715,910.

The California Law Enforcement Telecommunications System (CLETS) is a computer-based data network which links local law enforcement agencies to certain Department of Justice and Department of Motor Vehicles automated data files. The practice has been to charge to the Motor Vehicle Account the total cost of CLETS message traffic attributable to DMV files and the state's stolen vehicle file. These charges have grown from $4.1 million in 1975–76 to an estimated $7,159,103 million in 1979–80. These funds are allocated to the Department of Justice Data Center. Table 6 displays the growth of DMV support for this data center in the period 1975–76 through 1979–80.

Table 6
Department of Justice Data Center Fund Source

		Fiscal Year			
Fund	*1975–76*	*1976–77*	*1977–78*	*1978–79*[a]	*1979–80*[b]
Motor Vehicle Account, State Transportation Fund	$4,121,948	$5,700,922	$6,738,482	$6,761,935	$7,159,103
General Fund	4,092,240	3,458,364	3,690,783	4,790,617	6,524,053
Total	$8,214,188	$9,159,286	$10,429,265	$11,552,552	$13,683,156

[a] Estimated.
[b] Proposed.

The original basis for determining the Motor Vehicle Account's share of CLETS support costs was the assumption that all message traffic to the DMV files pertained directly to vehicle-related law enforcement activities. However, over the years an undetermined but significant amount of CLETS message traffic to DMV files has been for uses not vehicle-related. Such uses include identification of persons suspected of violating nonvehicle related laws, address verification and, increasingly, queries by district attorneys throughout the state for the purpose of locating parents with child support obligations.

Because of this trend, and in recognition of the substantial projected growth in CLETS traffic resulting from increasing automation of local law enforcement inquiry capabilities, we questioned in the 1977–78 Analysis the historical basis for determining the Motor Vehicles Account's share of CLETS support costs. The matter was addressed by the Departments of Justice, Motor Vehicles and Finance and the conclusion was essentially that there was no practical method of accounting for such uses in order to determine how much Motor Vehicle Account support should be. Because of this and the potential cost to install a message accounting system, the issue remains unresolved.

We believe that a practical interim resolution of the issue would be to reduce Motor Vehicle Account support of CLETS by a specific percentage amount. Therefore, until such time as a more appropriate amount can be determined, we recommend an initial reduction of ten percent. Adoption of this recommendation would reduce Motor Vehicle Account support by $715,910 in the budget year. A corresponding increase in General Fund support for the Department of Justice telecommunications system would be required and we make this recommendation in our discussion of Item 47.

1. VEHICLE LICENSING AND TITLING

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

The department estimates that this program will process 1,878,900 original and 16,580,000 renewal registrations in 1979–80 and collect approximately $1,088,250,000 in revenues. Support for the program is budgeted at $83,164,927, an increase of 4.5 percent over 1978–79 totals. Table 7 displays the program's personnel-years, costs and output for the current year and the budget year.

Table 7
Vehicle Licensing and Titling
Program Input

	Personnel-Years			*Program Costs*		
Program Elements	*1978–79*[a]	*1979–80*[b]	*Change*	*1978–79*[a]	*1979–80*[b]	*Change*
Vehicle Ownership, Registration, Documentation and Certificate Issuance	1,622.4	1,562.3	−3.7%	$35,500,184	$36,328,632	2.3%
Vehicle Fee Collection and Accounting	1,162.9	1,130.9	−2.8	26,642,671	28,063,151	5.3
Vehicle Record and File Maintenance	361.8	378.3	4.6	6,538,852	7,067,726	8.1
Vehicle Information and Sale of Records	163.5	175.8	7.5	2,966,867	3,258,227	9.8
Administration Distribution	336.5	344.3	2.3	7,939,042	8,447,191	6.8
Totals	3,647.1	3,591.6	−1.5%	$79,587,616	$83,164,927	4.5%

DEPARTMENT OF MOTOR VEHICLES—Continued

PROGRAM OUTPUT

Program Elements	*Output*	*1978–79*[a]	*1979–80*[b]	*Change*
Vehicle Ownership, Registration, Documentation and Certificate Issuance	Vehicle Registration	18,339,700	18,756,900	2.3%
Vehicle Fee Collection and Accounting	Fees, Motor Vehicle Account	$388,670,000	$403,250,000	3.8
	Fees, Motor Vehicle License Fee Account	$600,000,000	$685,000,000	14.2
Vehicle Information and Sale of Records	Information Requests—Fee Charged	1,004,000	1,073,000	6.9
	Information Fees	$993,400	$1,061,600	6.9
	Information Requests, No Fee Charged	15,674,800	16,826,500	7.3
	Records Produced for Private Companies	16,495,000	19,037,000	15.4
	Income From Records Produced for Private Companies	$412,400	$475,900	15.4%

[a] Estimated.
[b] Proposed.

Unpaid Parking Violations

We recommend disapproval of the Governor's proposal to eliminate the unpaid parking violation program. We recommend further that Item 176 be augmented $686,698 (to be financed from increased fees) to provide full-year funding.

Beginning January 1, 1978, Chapter 1179, Statutes of 1975, requires the department not to renew the registration of any vehicle owned or leased by a person who fails to respond to a parking violation. Participating courts notify the department whenever a person fails to respond within 15 days. The department then collects bail for the parking offenses plus administrative charges at the time a vehicle is registered.

The Governor's Budget proposes to discontinue this program in the budget year through legislation. Accordingly, the budget reflects a personnel reduction of 93.3 personnel-years and $686,698 in one-half year savings.

The purpose of this program is to increase local revenues and address the scofflaw problem at no cost to the state. Individual courts are not mandated to participate in the new program and those electing to do so on a random basis. As a result, the amount of bail collected by DMV reflects a small but gradual growth. Table 8 displays the approximate amount of bail collected from the program's inception through November 1978.

Table 8
Unpaid Parking Violation Bail Collection
April 1978–November 1978

	Month							
	April	*May*	*June*	*July*	*August*	*September*	*October*	*November*
Amount	$80	$770	$2,100	$5,650	$23,250	$42,250	$84,511	$95,455

Considering that the Judicial Council estimated the amount of unpaid parking violations to be in excess of $20 million in fiscal year 1976–77, the current rate of collection is indeed surprisingly small. However, the amount is increasing steadily, and as more courts come into the system, further increases can be anticipated.

A thorough evaluation of the program has not been completed. The department's January 1979 report to the Legislature entitled "An Evaluation of Selected Portions of the Unpaid Parking Violation Program of the Department of Motor Vehicles," stated that "... no conclusions regarding the impact of this program ... can appropriately be made at this time." Further, the report indicates that the information necessary to support conclusions will not be available until the latter part of 1979.

We believe the Governor's action to discontinue this new program is premature, and may be unwise. An evaluation of the program is underway, and the results will enable the Legislature to make a more informed decision as to whether the program should be continued. Furthermore, the program has shown the potential to generate significant revenues for local governments. Whether this potential will be realized is something that will not be known for some time. Given the impact of Proposition 13 on local revenues, we believe this source should be thoroughly evaluated before being rejected.

Although we acknowledge that the program is not being administered in such a way as to be self-supporting as intended (see next section), we believe that the program should be continued in the budget year. Therefore, we recommend that the Governor's proposal to terminate the program be denied, and that the budget be augmented by $686,698, to be derived entirely from fees imposed on registrants.

Adjust Fees Now

We recommend that the Legislature direct the department to immediately increase the fee charged to collect unpaid parking violation bail amounts.

The Unpaid Parking Violation Program was designed to be self-supporting. The enabling legislation requires the department to collect at the time of registration a fee sufficient to cover the state's costs.

The current "administrative service fee" charged by the department in accordance with Chapter 1179 is $2.00. According to the department's January report to the Legislature, this fee is not covering costs and it projects a deficit of $768,542 in this activity by the end of the 1979–80 fiscal year. The department is recommending that it raise the fee to $3.00 effective January 1, 1980. This increase would result in a budget year deficit of $278,673.

Chapter 1179 is clear in requiring that a fee adequate to cover the state's cost be charged. Further, the proposal by the department to eliminate the entire program not later than January 1, 1980 renders useless a fee increase effective on that date.

We recommend that the Legislature direct the department to increase the fee immediately to whatever level is needed to ensure that the state's

DEPARTMENT OF MOTOR VEHICLES—Continued

cost is reimbursed fully in accordance with the law. If approved, this recommendation would generate sufficient revenue to the Motor Vehicle Account to offset the augmentation for full-year funding recommended above.

Exempt Vehicle Registration

We withhold recommendation on the Governor's proposal to eliminate the registration of exempt vehicles because the department has not provided information as to how the proposal would be implemented.

In addition to titling, registering and issuing license plates for private and commercial vehicles, the department provides the same services at no fee to governmental agencies and others designated by law. Most of these fee-exempt vehicles do not require the annual renewal of registration. Others, such as those owned by disabled veterans, are renewed annually. According to DMV records, approximately 261,000 of the 18 million vehicles now registered in the state are exempt vehicles.

The department is proposing to eliminate through legislation the registration of exempt vehicles. As reflected in the budget, this will enable the department to eliminate 17 positions during the budget year for a one-half year savings of $110,017. However, the department has not developed an alternative method of dealing with exempt vehicles. Conceivably, alternatives could range from ending the fee-exempt status to, at least with respect to governmental agencies, requiring that they be responsible for titling, registration and plate issuance. Until an alternative has been proposed and we have had an opportunity to review it, we are unable to make a recommendation regarding the proposal to eliminate the program. Therefore, at the time the budget is heard, the department should be prepared to discuss the treatment of exempt vehicles under its proposal for program reduction.

Eliminate Front License Plate

We recommend disapproval of the Governor's Budget proposal to issue a single license plate. We recommend further that Item 176 be augmented by $325,950 to provide for the continued issuance of two license plates.

Budget support documentation indicates that the department will be proposing legislation to eliminate the front license plate on vehicles. The budget reflects a one-half year savings of $325,950 in 1979–80 based on issuance of a single license plate. We recommend disapproval of this proposal.

We have contacted law enforcement agencies with respect to this proposal and have found considerable opposition. Although it is difficult to quantify monetarily the value associated with the requirement that vehicles display two license plates, it is obvious that the Governor's Budget proposal will have an adverse impact on law enforcement efforts. That impact will have a monetary value. For example, an officer looking for a particular vehicle can now observe the license plates of vehicles moving in both directions and parked on opposite curbs. This capability increases the probability of recovering stolen vehicles over what it would be if the officer could observe only rear plates. Similarly, citizens noting suspicious vehicles in neighborhoods can now copy a license number from a window, whereas they might be reluctant to go out and walk around a vehicle in order to see the rear plate. Police officials cite surveillance activities and vehicle checks at border crossings as other examples of police functions which would be hampered by elimination of one license plate from each vehicle. We agree with the suggestion offered by the Los Angeles County Sheriff that in lieu of eliminating the license plate the state increase its fees to cover the cost of the additional plate, which is approximately 50 cents per plate.

Enhanced Registration Renewal

We recommend that the department evaluate the net fiscal impact of a fully centralized registration renewal process.

In the current year the department has started to implement its "enhanced registration renewal" process. This process involves increased emphasis on encouraging vehicle owners to renew registration by mail rather than visits to DMV offices. The objective is to reduce costs associated with the processing of registration renewals. To encourage owners to use the mail, registration renewal notices sent to owners include an addressed envelope. A key part of this new process is an automated remittance-processing system which has been installed recently at DMV headquarters.

The department has estimated personnel and postage savings from the enhanced process of approximately $1.2 million in 1979–80, based on the assumption that 50 percent of the renewals will continue to be mailed in.

Although the new process encourages owners to renew registrations by mail, it does not discourage those who elect to renew in person. It is possible that a greater effort to encourage mailing would save additional state funds. We believe that the department should determine the fiscal effects of a 100 percent mail-in response taking into consideration the effect on field office workload and staffing. The department should keep the Legislature apprised of its findings through its quarterly progress reports.

II. DRIVER LICENSING AND CONTROL

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

During the 1979–80 budget year, this program is expected to process 5,145,000 original and renewal drivers' licenses, and send an estimated 146,000 warning letters to negligent drivers. The program's support request is $56,933,707, an increase of 2.4 percent over the current year.

Program inputs and outputs are shown in Table 9.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 9
Driver Licensing and Control
Program Input

Program Elements	*Personnel-Years* *1978–79*[a]	*1979–80*[b]	*Change*	*Program Costs* *1978–79*[a]	*1979–80*[b]	*Change*
Drivers' License Issuance	1,502.8	1,229.6	−18.2	$31,914,861	$32,298,663	1.2%
Post Licensing Control..........	679.6	639.2	−5.9	14,324,712	14,615,040	2.0
Certificate Issuance................	11.0	11.0	—	304,461	303,690	−.2
Information Services..............	199.8	202.4	1.3	3,900,276	4,183,465	7.3
Administration Distribution	224.8	229.2	1.9	5,143,884	5,532,849	7.6
Totals......................................	2,618.0	2,322.4	−11.7%	$55,588,194	$56,933,707	2.4%

Program Output

Program Elements	*Output*	*1978–79*	*1979–80*	*Change*
Drivers' License Issuance......	Driver's Licenses Issued..	4,853,000	5,145,000	6.0%
	Drivers' License Fees......	$15,601,000	$16,526,000	5.9
Post Licensing Control	Warning Letters Sent	144,000	146,000	1.4
	Group Meetings	4,240	4,240	—
	Hearings and Reexaminations	94,500	99,250	5.0
Certificate Issuance	Special Operators Certificates Issued	16,910	11,960	−29.3
Information Services	Information Requests—Fee Charged	9,620,000	10,015,000	4.1
	Information Fees	$5,132,000	$5,343,000	4.1
	Information Requests—No Fee Charged...............	6,895,000	7,505,000	8.8

[a] Estimated.
[b] Proposed.

Driver License Extensions

We recommend approval of the Governor's Budget proposal to extend drivers' licenses for four years provided the authorizing legislation contains provisions designed to ensure that no adverse impact on road safety will result.

Chapter 658, Statutes of 1978, allows the department to conduct a pilot program of extending drivers' licenses for up to two years. This pilot has reduced workload, and the proposed budget reflects a reduction of 47.8 personnel-years and $556,846. Chapter 658 requires DMV to submit an interim report on the pilot program to the Legislature by July 1, 1981, with a final report due by December 31, 1983. It also authorizes the department to charge a fee for extensions. Therefore, no impact on license fee revenue is to occur.

In addition to reflecting position and budget reductions made possible by the pilot program, the budget proposes further reduction of 283.3 positions and $1,595,248 made possible by a four-year license extension for drivers with good records. The department intends to seek authorizing legislation to permit this change.

We agree with the concept of a four-year extension because it offers an opportunity to reduce the department's cost in a manner that will be more convenient to drivers. On the other hand, we have not been presented with details as to how the proposed extensions will be accommodated.

In our judgment, the extension criteria should include such factors as age and health and should not result in a reduction in license fee revenue. Further, the department should have the ability to rescind an extension if a "good" driving record shows signs of deterioration. For these reasons, our support of the proposal is dependent upon a maintenance of fee revenue and provisions in the enabling legislation which are designed to prevent an adverse impact on road safety as the result of the four-year extension.

Proposed Elimination of Departmental Review

We recommend approval of the Governor's Budget proposal to eliminate nine positions associated with the departmental review of hearing referee decisions.

The budget proposes the deletion of nine driver improvement analysts, for a budget year savings of $113,749. This deletion is not discussed in the budget narrative. Under current law, decisions made by hearing referees at all formal and certain informal hearings must be received by the department. There are at least three levels of review under the current process. We believe that the rights of individuals can be protected under a streamlined internal review process. Therefore, we support such a proposal.

Treatment Method Not Cost-Effective

We recommend the elimination of probation violation hearings for a savings of $416,496 (Item 176).

As shown in Table 9, the budget includes $14,615,040 and 639.2 personnel-years to carry out the department's program to control and treat negligent drivers. This is accomplished through warning letters, group educational meetings and individual meetings. Included in individual meetings are hearings conducted to deal with individuals who have violated probation terms imposed by the department. The purpose of the probation violator hearings is to determine what further action the department should take, such as, for example, license suspension or revocation.

The department has developed a system to evaluate and report periodically on the effectiveness of each of the program's treatment methods. To date, three reports have been issued. In addition, we have been provided with a summary of the fourth report, which is scheduled for release in February 1979. Each of these reports and the summary have shown the probation violation hearing component to be the least cost-effective treatment method. Further, according to the recent summary, the February status report will contain data indicating that the probation violation hearing costs exceed the benefits resulting from the hearing.

In lieu of eliminating this treatment method, the department has decided to evaluate alternatives to it, and a study is scheduled for completion sometime in 1980.

We support the consideration of alternatives to the probation violation hearing. However we see no justification for continuing a program that is not cost-effective. Consequently, we recommend that the Legislature act now to eliminate funding for probation violation hearings, for a savings of $416,496.

DEPARTMENT OF MOTOR VEHICLES—Continued

Negligent Drivers Should Pay

We recommend legislation requiring negligent operators to pay the cost of post-licensing control treatment methods.

At present, good drivers in California pay most of the $14.6 million cost incurred by the department to treat negligent drivers. This is because all drivers support the cost of the program through regular fees, even though negligent drivers constitute a relatively minor portion of licensed drivers. We believe it would be more appropriate to shift the cost of treatment to those drivers who make the program necessary.

This concept is already employed in financing programs aimed at persons convicted of driving under the influence of alcohol. Persons electing to receive treatment at a private facility incur at least a portion of the treatment cost dependent upon their ability to pay. Further, a December 1978 report issued jointly by DMV and the Department of Alcohol and Drug Abuse entitled "An Evaluation of Alcohol Abuse Treatment as an Alternative to Drivers License Suspension or Revocation," states that "The Department of Motor Vehicles should be permitted to assess multiple DUI (driving under the influence) offenders a fee equal to the cost of imposing the mandated licensing action. . . *Such a mechanism would shift in excess of $1.5 million dollars of cost from the general public to the driver group causing the expenditure.*" (Emphasis added) We support this concept and recommend that it be applied also to appropriate components of the post-licensing control program.

Automated Order Writing Project

We recommend that Item 176 be reduced by $150,539 to reflect net savings made possible by automating the production of documents associated with the post-licensing control program.

The department now generates through manual processes a variety of "orders" affecting the driving privilege of California drivers. These orders include mandatory and discretionary actions such as license revocation, reinstatements and probationary actions.

In mid-December, 1978 the department initated a project to automate the order-writing process and reduce the cost associated with it. According to documentation provided by the department, implementation of this project is scheduled to be completed during the budget year and should result in a minimum savings of $150,539 in 1979–80. Therefore, the budget should be reduced by that amount.

III. OCCUPATIONAL LICENSING AND REGULATION

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

Support for the program is budgeted at $9,576,378 for 1979–80, an increase of $562,097, or 6.2 percent, over the current year. Program inputs and outputs are presented in Table 10.

Table 10
Occupational Licensing and Regulation
Program Input

Program Elements	*Personnel-Years* 1978–79[a]	1979–80[b]	*Change*	*Program Cost* 1978–79[a]	1979–80[b]	*Change*
Occupational Licensing	102.5	77.6	−24.3%	$2,216,666	$2,237,123	0.9%
Occupational Regulation	220.8	227.9	3.2	5,810,805	6,266,247	7.8
Administration Distribution	45.6	46.4	1.8	986,810	1,073,008	8.7
Totals	368.9	351.9	−4.6%	$9,014,281	$9,576,378	6.2%

Program Output

Program Elements	*Output*	*1978–79*[a]	*1979–80*[b]	*Change*
Occupational Licensing	Business Licenses issued	$28,450	$30,020	5.5%
	Special Plate Fees	936,000	980,000	4.7
	Salesperson, Representatives and Verifier Licenses Issued	56,690	21,970	−61.2
	Salesperson, Representatives and Verifier Fees	810,000	470,500	−41.9
	Driving School Licenses Issued	310	320	3.2
	Driving Instructor Licenses Issued	2,460	2,790	13.4
	Driving School and Instructor License Fees	52,800	56,600	7.2
Occupational Regulation	Consumer Complaints	22,800	25,200	10.5
	Dealer and Dismantler Reviews	590	570	5.6
	Administrative Actions	1,490	1,590	6.7
	Administrative and Dismantler Fees	2,078,000	2,089,000	3.0
	New Motor Vehicle Board Fees	225,000	240,000	6.7

[a] Estimated.
[b] Proposed.

Growth Underscores Need for Evaluation

The Occupational Licensing and Regulation program has experienced substantial growth over the past 10 years. Table 11 displays this growth. In the past, both our office and the Commission on California State Government Organization and Economy have cited the need to evaluate this program. The growth in program cost, the fact that many of its activities are at the department's discretion, and the possible overlap with other state agency consumer protection efforts combine to underscore the need for an evaluation of this program.

In response to these concerns, the department has initiated an evaluation of the program and plans to present a final report to the Governor and the Legislature by November 1, 1979. Significant issues to be addressed by the evaluation include (1) staffing levels, (2) a determination of the appropriateness of the department's consumer protection activities, (3) the feasibility of consolidating such activities with those of other agen-

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 11
Historical Growth in Occupational Licensing and Regulation Program

Year	*Budget*	*Change Over Previous Year*	*Cumulative Change*
1970–71	$2,491,180	—	—
1971–72	3,028,175	21.6%	21.6%
1972–73	3,384,102	11.8	35.8
1973–74	4,471,215	32.1	79.5
1974–75	5,202,322	16.4	108.8
1975–76	6,880,199	32.2	176.2
1976–77	7,506,322	9.1	201.3
1977–78	8,939,991	19.1	258.9
1978–79	9,014,281 [a]	0.8	261.8
1979–80	9,576,378 [b]	6.2	284.4

[a]Estimated.
[b]Proposed.

cies, (4) a cost-effectiveness analysis of the department's consumer protection activities, and (5) the appropriate source of funding for these activities.

In 1976–77 the Legislature allocated $4,247,901 from the General Fund to partially support the program, in lieu of using funds from the Motor Vehicle Account. This was done on the basis that the program protected the general welfare of all state citizens, rather than just motorists. The Governor, however, vetoed this General Fund appropriation.

Discontinuation of Salespersons Licensing

We recommend approval of the Governor's Budget proposal to eliminate the licensing of vehicle salespersons, provided the authorizing legislation contain provisions to safeguard consumers by making vehicle dealers accountable for the activity of the salespersons they employ.

The department now licenses persons engaged in the sale of cars, mobilehomes and motorcycles. According to the budget, the department will introduce legislation to eliminate licensing such salespersons. The budget provides one-half year funding for the current effort, and reflects the elimination of 26 personnel-years and a savings of $160,810.

We believe state licensing of salespersons can be eliminated without jeopardizing the interests of consumers. This would require shifting the responsibility to control salespersons from the state to the dealers who employ them. The employer is in the best position to monitor salesperson activities. Besides having a vested interest in their job performance, the employer has daily contact with salespersons—an opportunity not available to state regulators. Holding an employer responsible for "regulation" of his or her employees would provide a strong incentive for the employer to exercise more discretion in hiring salespersons, and monitor their job activities more carefully.

For this reason, we recommend that the budget proposal to discontinue licensing salespersons be approved, provided that the enabling legislation also lay the foundation for an adequate level of consumer protection.

IV. FINANCIAL RESPONSIBILITY

The purpose of this program is to enforce and administer the Compulsory Financial Responsibility Law. Every driver or owner of a motor vehicle is required to maintain financial responsibility (automobile liability insurance, self-insurance, or bonds as specified). The law requires that drivers must report to DMV any accident in which property damage exceeds $350 or which results in death or personal injury, show proof of financial responsibility, and maintain responsibility for three years after an accident in order to compensate persons who may be injured or whose property may be damaged in a subsequent accident.

The department's request for the financial responsibility program in 1979–80 is $2,747,169, a decrease of 20.1 percent. If the Legislature concurs with a major program change proposed in the budget, there will be a net 52.1 percent reduction in personnel-years. Program inputs and outputs are summarized in Table 12.

Table 12
Financial Responsibility Program Input

	Personnel-Years			*Program Costs*		
Program Element	*1978–79*[a]	*1979–80*[b]	*Change*	*1978–79*[a]	*1979–80*[b]	*Change*
Driving Privilege Control	169.9	73.4	−56.8%	$2,959,646	$2,269,360	−23.3%
Information Services	5.5	2.0	−63.7	115,359	89,258	−22.6
Administration Distribution	16.2	16.3	0.6	361,966	388,551	7.3
Totals	191.6	91.7	−52.1%	$3,436,971	$2,747,169	−20.1%

Program Output

Program Elements	*Output*	*1978–79*	*1979–80*	*Change*
Driving Privilege Control	Accident Reports Processed	$595,000	$445,460[c]	−25.1%
Information Services	Commercial Information Requests	28,980	25,870	−10.7
	Commercial Information Request Fees	40,300	37,600	−6.7

[a] Estimated.
[b] Proposed.
[c] This is a revised figure. The amount shown in the Governor's Budget does not reflect proposed program reductions.

Existing Program is Ineffective

The current financial responsibility program is generally perceived as ineffective, and in the 1977–78 Analysis we recommended that it be eliminated.

Although the Legislature did not accept our recommendation, it addressed the issue in 1978 by (1) providing funds for the study of an alternative method to ensure that drivers maintain insurance, and (2) raising the property damage threshold for reporting purposes from $250 to $350.

Pay-As-You-Drive Study

In approving the department's budget for the current year, the Legislature added $150,141 to conduct a study addressing the pay-as-you-drive concept of automobile insurance as an alternative to the current financial responsibility program. In accordance with supplemental budget lan-

DEPARTMENT OF MOTOR VEHICLES—Continued

guage, staff representatives of designated legislative committees comprise a monitoring group overseeing the study effort. The study schedule has slipped due in part to cancellation of an initial request for proposal, which solicited bids from the private sector for conduct of the study, when it was determined that the proposal had failed to attract satisfactory responses. The department has plans to release in February 1979, a second request for proposal. Because of the delay, it is not anticipated that the consultant's final report will be submitted to the Legislature in October 1979 as planned. At the time this analysis was prepared, no new date for the report had been set.

Increased Reporting Threshold

We recommend approval of the Governor's Budget proposal to increase to $1,000 the property damage threshold for reporting accidents to the departments.

In recognition of significant increases in the cost to repair "fender benders," Chapter 997, Statutes of 1978, raised the threshold for reporting accidents from $250 to $350. This legislation has enabled a budget year reduction of 9.1 personnel-years and a savings of $296,000.

The department is proposing a further increase, to $1,000, in order to eliminate an additional 89.7 personnel years for a half-year savings of $591,126. Because we have previously recommended elimination of this program on the basis that it was not cost-effective, we support efforts to reduce the program. Further, we believe that the department's proposal to increase the reporting threshold to a level which will effectively cut the program effort in half once again raises a serious question about the justification for continuing this program.

V. DEPARTMENT OF MOTOR VEHICLES, ASSOCIATED SERVICES

The purpose of this program is to provide the public with a variety of auxiliary services not directly related to the regulation of street vehicles or driver licensing. This program utilizes the department's network of service locations to provide identification cards, vessel registration and tax collection, off-highway vehicle and bicycle licensing, and the issuance of special license plates.

The department is requesting $10,823,140 to support this program in 1979–80, an increase of $1,153,158 (11.9 percent). Major increased program costs are in Environmental License Plate Issuance and Identification Card Issuance. The department requests 19.9 additional personnel-years to handle workload increase.

Program inputs and outputs are summarized in Table 13.

VI. DEPARTMENTAL ADMINISTRATION

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

The budget request for this program is $15,865,700, an increase of $1,053,211, or 7.1 percent. The largest increases in the program are in the areas of program management and fiscal and business management. Ad-

Table 13
Associated Services Program Input

Program Element	Personnel-Years 1978–79[a]	1979–80[b]	Change	Program Costs 1978–79[a]	1979–80[b]	Change
Identification Card Issuance	109.8	119.7	9.0%	$2,304,056	$2,709,259	17.6%
Undocumented Vessel Registration	97.6	101.5	4.0	1,689,079	1,831,274	8.4
Environmental License Plate Issuance	100.4	94.8	−5.6	1,623,004	2,077,742	28.0
Use Tax	185.7	191.9	3.3	2,382,225	2,499,826	4.9
OHV Registration	61.0	65.5	7.4	1,157,611	1,215,731	5.0
Bicycle Licensing	0.5	0.5	—	133,220	65,207	−51.0
Administration Distribution	16.4	17.4	6.1	380,787	424,101	11.4
Totals	571.4	591.3	3.5%	$9,669,982	$10,823,140	11.9%

Program Output

Program Elements	Output	1978–79[a]	1979–80[b]	Change
Identification Card Issuance	Identification Cards Issued	579,880	653,650	12.7%
	Identification Card Fees	$1,710,000	$1,927,000	12.7
	Identification Cards Outstanding	1,020,000	1,325,000	29.9
Undocumented Vessel Registration	Vessel Registration	593,900	618,000	4.0
	Vessel Registration Fees	$1,892,100	$1,968,000	4.0
	Registered Vessels	552,000	574,000	4.0
Environmental License Plate Issuance	Environmental License Plate Registration	455,500	569,500	25.0
	Environmental License Plate Fees	$6,927,700	$8,611,900	24.3
Use Tax	Use Tax Collections	$136,833,000	$140,322,000	2.5
OHV Registration	OHV Registrations	130,400	134,500	3.1
	OHV Fees	$2,326,000	$2,431,000	4.5
Bicycle Licensing	Bicycle License Tags Issued	not provided in budget		

[a] Estimated.
[b] Proposed.

Table 14
Departmental Administration
Program Input

Program Elements	Personnel-Years 1978–79[a]	1979–80[b]	Change	Program Costs 1978–79[a]	1979–80[b]	Change
Executive	27.3	27.3	—	$618,395	$652,174	5.5%
Program Administration	188.4	194.9	3.4%	4,585,567	4,980,545	8.6
Legal	22.9	22.9	—	513,787	552,087	7.4
Fiscal and Management Business	124.8	137.0	9.8	2,035,942	2,415,588	18.6
Personnel Management Services	85.6	85.0	−0.7	1,958,561	2,047,494	4.5
Research and Development	19.7	19.6	−0.5	459,062	480,337	4.6
Program Development and Evaluation	58.8	58.5	−0.5	1,355,401	1,467,232	8.2
Public Information	4.1	4.1	—	91,998	96,482	4.9
EDP Services	107.9	104.3	−3.3	3,193,776	3,173,761	−0.6
Totals	639.5	653.6	2.2%	$14,812,489	$15,865,700	7.1%

[a] Estimated.
[b] Proposed.

DEPARTMENT OF MOTOR VEHICLES—Continued

ministration costs are distributed to the department's other operational programs.

Program inputs are summarized in Table 14.

Management Overhead

We recommend a reduction in the amount budgeted for personal services for departmental administration commensurate with approved staffing reductions.

DMV is budgeted for 6.2 percent *less* personnel years in 1979–80 than it is in 1978–79. However, the budget indicates that every program in which substantial personnel reductions are proposed also reflects an *increase* in distributed administrative overhead. Table 15 displays a comparison of program personnel-years to distributed administrative personnel-years.

Table 15

Personnel-years vs. Distributed Administrative Personnel-years

Program	*Program Personnel-Years* 1978–79	1979–80	Change	*Distributed Administrative Personnel-years* 1978–79	1979–80	Change
Vehicle Licensing and Titling	3310.6	3247.3	−63.3	336.5	344.3	7.8
Driver Licensing and Control	2393.2	2082.2	−311.0	224.8	229.2	4.4
Occupational Licensing and Registration	323.3	305.5	−17.8	45.6	46.4	0.8
Financial Responsibility	175.4	75.4	−100.0	16.2	16.3	0.1
DMV Associated Services	555.0	573.9	18.9	16.4	17.4	1.0
Totals	6,757.5	6,284.3	473.2	639.5	653.6	14.1

This table demonstrates, for example, that although the budget proposes to reduce staffing in the Driver Licensing and Control Program by 311 personnel-years, it also proposes to increase the administrative distribution by 4.4 personnel-years. While we appreciate the fact that there may be reasons for some increases in departmental administration, it appears to us that the budget should also reflect more reduction in administration than has been proposed, considering the magnitude of proposed staffing reductions. We believe that it will be possible to make further reductions depending on the extent to which the Legislature accepts departmental proposals to reduce programs.

After each fiscal committee has completed its action on proposed program reductions, the department should be prepared to discuss the relationship of administrative and program personnel-year requirements and recommend appropriate reductions in administrative resources.

Continue Quarterly Progress Reports

We recommend that the department continue its quarterly progress reports to the Legislature regarding replacement of the Management and Reporting Control System, Soundex Consolidation, the Program Planning, Budgeting, and Control System (including cost accounting) and automa-

tion enhancements.

In approving the budget for the current year the Legislature added supplemental report language requiring a quarterly progress report from the department on various activities which were of continuing concern to the fiscal committees. These reports are useful because they provide information on progress made by the department in addressing selected problem areas, such as the installation of a modern cost-accounting system. The reports identify implementation problems and include comparisons of actual and estimated project costs and benefits. We believe that these reports should be continued.

Operating Expenses and Equipment

The budget proposes $44,951,413 for operating expenses and equipment, an increase of 9.9 percent over estimated current year expenditures. A major element of this increase is one over which the department has no control, the pro rata charge for general state administration. This is increased 18.5 percent in the budget year.

Reduce Minor Equipment Allocation

We recommend that the amount budgeted for minor equipment be reduced by $64,000.

The department's budget for minor equipment expenditures in 1979–80 amounts to $401,605. This represents an increase of 69.4 percent over estimated expenditures of $237,128 in the current year. According to the budget, the major share of this increase occurs in the allocations to the Division of Driver's Licenses. In discussing this increase with department staff it was determined that $64,000 budgeted for minor equipment associated with the phaseout of the SOUNDEX system could be eliminated from the budget because the funds are budgeted twice.

Training Requirements

We recommend that the amount budgeted for specialized training be reduced $85,868. We recommend further that the department be prepared to discuss at the budget hearing the costs of the one hour per week field office training program and the justification for continuing it as presently structured.

The proposed budget includes $260,868 for specialized training. These funds will be allocated for specific courses in accordance with a 1979–80 training plan which has not yet been developed. In addition, it appears that about 20,000 on-the-job training hours will be used in field offices per month. Some field office training is in part due to the varied office hour program, which by statute allows participating field offices to be closed to the public one hour per week. The department has elected to designate this one hour as a general training period rather than for regular work.

We have two primary concerns with proposed expenditures for training in the budget year. First, despite a proposed 6.2 percent *decrease* in total departmental staffing, the specialized training budget reflects a proposed *increase* of $11,422. The basis for the increase is the department's contention that such factors as employee bargaining and increasing automation will require new training outlays. This may be true. However, past train-

DEPARTMENT OF MOTOR VEHICLES—Continued

ing plans have included a number of courses which we believe are nonessential. Further, reductions in training needs due to proposed substantial personnel reductions should offset to some degree new training needs. For these reasons and because we have no detailed information supporting the budget year request, we recommend that the amount budgeted for specialized training be reduced $85,868. This reduction will provide the department $175,000 with which to acquire special training courses.

Second, we are concerned that the policy on arbitrarily setting aside one-hour per week for field office training may not result in a judicious use of employee time. The amount of time made available for training field office employees should be determined by actual needs, not arbitrarily. Time off for training should be given only to those who require it, and only for as long as the specific training requires.

According to a January 1979 report entitled "A Progress Report of the Department of Motor Vehicles' Varied Officer Hour Pilot Program," costs associated with the one-hour training program have not been determined. Further, the report states that, "It is apparent that time reported for training has shown a substantial increase (around double) in field offices statewide during the initial year of the program." Although the report questions how much of this increase is actually additional training expended as opposed to more accurate reporting, we believe the magnitude of the program is such that the Legislature should be apprised of its costs and given justification for its continuation in its present form. This information should be developed by the department and made available for review prior to the budget hearings.

Photo Processing

We recommend that the department evaluate the feasibility of establishing an in-house capability to meet photo-processing requirements now performed by a private contractor.

Since 1961 the department has contracted wth private sources to meet photo-processing requirements related to licenses. This service is used also for the production of identification cards issued by the department. The proposed budget includes $2,499,350 in 1979–80 for these contractual services. It is our understanding that the department has not evaluated in any formal sense the feasibility of performing these services in-house since the original decision was made to contract with a commercial vendor in 1961. Further, the contract for these services expires on December 31, 1979.

In our judgment, an evaluation is overdue and should be initiated at once. If it appears that it might be feasible to establish an in-house capacity but this cannot be accomplished upon termination of the current contract, any future contract should contain appropriate termination clauses to provide the state sufficient flexibility to establish its own facility. The department should report progress in addressing this issue in its quarterly progress report to the Legislature.

Need for New Program Should be Demonstrated

We recommend that the department provide the Legislature a description of the Operation Outreach Program, including the need it is intended to fulfill, its scope and ultimate cost implications.

The department has established in its Gilroy field office an Operation Outreach Program to assist Spanish-speaking persons in obtaining driver's licenses or identification cards. The department has informed us that program costs to date have been minor. However, the department indicates that the program may be expanded to other offices. According to DMV, approximately 45 of the most commonly used forms are already provided in Spanish. Given this fact, the need for and benefits of this program are unclear. Accordingly, we believe the department should provide the Legislature an explanation of the need for the program, plans for its expansion and ultimate cost implications.

VII. DEPARTMENTAL AUTOMATION

Automation projects budgeted for 1979–80 reflect the department's strong commitment to use computers in order to reduce costs and improve services. The more significant of these activities are listed in Table 16 along with an indication of their purpose.

Table 16

Significant Automation Activities Budgeted for 1979–80

		Purpose	
Activity	*Amount Budgeted*	*Continue or Improve Level of Service*	*Realize Savings*
Purchase of Remittance Processing Equipment	$848,486	x	x
Replacement of Automated Name Index and Data Communications Computers	244,486	x	
Field Office Automation: Accounting	125,842	x	x
Soundex Consolidation	125,485	x	x
Order Writing	74,129	x	x

As indicated above, all but one of these activities should result in savings. The one exception represents the replacement of two departmental computers in order to maintain an established level of service and avoid a processing backlog. Two new computers were acquired in the current year in order to replace the computer used for the automated name index function. This replacement was necessary because of a projected workload which would have exceeded the existing computer capacity. Funds budgeted in 1979–80 for computer replacement include costs to lease, operate and maintain these new computers.

In addition, the department's data communications computer is scheduled for replacement in the budget year because it is approaching its processing capacity. The growth in data communications which necessitates this replacement includes substantial increases in processing demand to meet the data access requirements of the California Law Enforcement Telecommunications System (CLETS). It appears that the department's need in this area could be met by a joint-use facility operated by the Department of Justice to meet both CLETS and DMV data communica-

DEPARTMENT OF MOTOR VEHICLES—Continued

tions processing requirements.

Page Printing System

We recommend the deletion of four positions and a reduction of $53,700 made possible by a new printing system.

The department plans to install in the current year a page printing system to reduce the cost of printing computer output. According to the department, the new system will enable the elimination of three data processing technicians and one office assistant II position for a budget-year savings of $53,700 including staff benefits. Because the proposed budget does not reflect these anticipated savings, we recommend that these positions be deleted and the budget reduced $53,700.

Magnetic Tape Storage Cabinets

We recommend that the department explore the feasibility of acquiring surplus magnetic tape storage cabinets from the Stephen P. Teale Consolidated Data Center.

The Teale Data Center and the DMV computing facility are located adjacent to one another in the DMV headquarters building. Both centers have constantly experienced space problems due to frequent equipment additions necessary to meet workload growth. One area in which need has increased rapidly is the storage of magnetic tapes. In order to conserve space the Teale Data Center has installed modern tape cabinets which maximize storage space. The tape cabinets used by DMV are older and do not optimize space in a similar manner.

The Teale Center is scheduled to install in the budget year a new mass storage system which will be used in lieu of magnetic tapes. Installation of this system will result in as many as 40 cabinets becoming surplus. These cabinets can hold approximately 25,000 reels of tape. We have notified DMV staff of this situation and believe that it offers an opportunity for DMV to free, at little cost, up to 500 square feet of scarce computer room space.

Business and Transportation Agency
TRAFFIC ADJUDICATION BOARD

Item 182 from the Traffic Adjudication Fund — Budget p. 401

Requested 1979–80	$1,000,534
Estimated 1978–79	387,482
Actual 1977–78	—
Requested increase $613,052 (158 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Traffic Adjudication Board was established by Chapter 722, Statutes of 1978, which also provides for a demonstration program to administratively adjudicate traffic safety violations in lieu of adjudication by the courts. The board is responsible for establishing and conducting this program.

Board responsibilities include (1) adopting rules and regulations, (2) arranging for the Office of Administrative Hearings to provide hearing officers, (3) hearing appeals from decisions of hearing officers, (4) adopting within prescribed limits a schedule of monetary and other sanctions for traffic safety violations, and (5) appointing an executive director who shall be the board's chief administrative officer.

The board's five members are appointed by the Governor. Their term of office is for the period of the demonstration program, January 1, 1979, through July 1, 1984. Three of the board's members must represent the counties designated in the demonstration program: Sacramento, Yolo and Placer. Under the law, the board of supervisors of each of these counties submits a list of nominees to the Governor, who then appoints one member from each list. Compensation is fixed by law at $6,250 annually for each member other than the chairman, who shall receive $6,500. In addition, members will be reimbursed for necessary expenses.

Program Scope

The three-county demonstration program will be conducted for traffic safety violations occurring within these counties' municipal court districts. The program may be expanded to additional counties at the request of the board of supervisors and with the approval of the Traffic Adjudication Board, provided that sufficient funding exists to accommodate expansion.

Annual Reports to the Legislature

The board is required to submit an annual report on the progress of the demonstration program to the Governor and the Legislature on January 1 of each year. These reports are to be accompanied by an evaluation of the program prepared by an independent consultant retained by the board. The consultant's evaluation shall address areas specified in Chapter 722, including cost-benefit analyses regarding the program's impact on the judicial system, law enforcement, local government, defendants, the gen-

TRAFFIC ADJUDICATION BOARD—Continued

eral public, driver improvement programs and the Department of Motor Vehicles. The evaluation shall also include an analysis of the impact of administrative adjudication on traffic safety as compared to the court system.

Advisory Body

Chapter 722 also establishes a Traffic Adjudication Advisory Committee to assist the board in developing rules, regulations, procedures and program evaluation guidelines. There will be ten advisory committee members initially. Additional memberships will be created to the extent that additional counties participate in the demonstration program. Members will represent a number of jurisdictions as specified in Chapter 722, which also specifies the appointing authority for each membership. Advisory committee members serve without compensation but are reimbursed for expenses.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget requests $1,000,534 to fund the board's operation in 1979–80. The board became operational on January 1, 1979. Current year estimated expenditures are $387,482. The Budget Bill displays a zero appropriation for Item 182 because full funding of the board's operations is provided by the federal government through the State Office of Traffic Safety.

According to the Governor's Budget, the board's activities from January 1, 1979, to June 30, 1980, will focus on planning and development. Program operation is anticipated to begin by July 1, 1980. The Department of Motor Vehicles is currently providing staff support to help initiate operations. The department is reimbursed by the board for this support.

The categorical budget allocations identified in the Governor's Budget must be viewed as tentative because of the newness of this program. The board has an allocation of federal funds within which it can operate, and Department of Motor Vehicles staff assigned to assist the board have developed the budget based on information contained in the Office of Traffic Safety project agreement. Budget allocation refinements can be anticipated once the board has been appointed and begins fulfilling its responsibilities.

Business and Transportation Agency

STEPHEN P. TEALE CONSOLIDATED DATA CENTER

Item 183 from the Stephen P. Teale Consolidated Data Center Revolving Fund — Budget p. 402

Requested 1979–80	$16,275,275
Estimated 1978–79	13,898,975
Actual 1977–78	11,061,178
Requested increase $2,376,300 (17.1 percent)	
Total recommended reduction	$280,829

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *EDP Operations Expense. Reduce by $70,000.* Recommend reduction based on redetermination of need.	391
2. *Facilities Operations. Reduce by $45,000.* Recommend elimination of contingent funds for minor capital outlay.	392
3. *Pro rata charges. Reduce by $165,829.* Recommend reduction of amount budgeted for pro rata charges to eliminate billing for previous year.	392

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Consolidated Data Center is one of four such centers authorized by the 1972 Session of the Legislature. The center, which provides computer services to over 70 state government units, was established to provide a modern computing capability to its users while at the same time minimizing the total cost of data processing to the state. The center's operation is reimbursed fully by its customers, and annual increases in its budget reflect increased user workload for the most part.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes an expenditure program for the data center totaling $16,275,275 in the budget year as compared with estimated expenditures of $13,898,975 in the current year. This is a 17.1 percent increase over current year estimated expenditures and is 22.8 percent over the amount approved by the Legislature in enacting the 1978–79 budget. This difference between these two percentages is due to enhancements to the center's capacity in the current year to respond to unanticipated workload increases.

Major New Developments

The proposed budget includes funds to accomplish three significant new developments as displayed in Table 1.

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

Table 1
Proposed New Developments

Subject	*Estimated Cost*
Added computer capacity to meet user workload needs	$1,071,400
Statewide timesharing system	963,606
Computer output microfilm system	523,996
Total	$2,559,002

Since it was established, there have been six significant increases in the center's computing power. The last major increase was accomplished in November 1978. These changes have been necessary to meet increased demand for services from the center's customers. It is important to note that work processed by the center is subject to justification by user departments in accordance with extensive criteria maintained in the State Administrative Manual as required by Section 4 of the Budget Act.

Because of current year growth patterns and projected workload increases, the center requires a significant increase in capacity if it is to maintain its current level of service. The budget includes $1,071,400 for this purpose, which is a "rough" estimate of total additional computing power requirements, subject to refinement for reasons discussed below.

Factors Affecting Cost

The amount proposed is subject to change because of the following factors:

1. The specific method of establishing added capacity is now being determined. For example, added capacity can be obtained through integration with existing computers or by acquisition of a "stand-alone" computer. This latter possibility is under consideration in response to concern expressed by the State Controller. As one of the center's major users, the Controller is concerned about security related to the new state payroll system under development and the system's responsiveness to workload demands.

2. The implementation of a proposed statewide timesharing system to meet the "on-line" requirements of users accessing Teale Data Bases via remote data communications terminals is under consideration. Again, the solution to this particular need and related costs may vary because existing equipment may be upgraded or a separate time-sharing computer linked to Teale's main computers may be acquired.

3. After selection of specific solutions, actual cost of both added capacity for workload and the timesharing facility will be determined by the equipment market, which in recent years has been characterized by continuing increases in performance accompanied by significant decreases in price.

Because of these factors, we will be prepared at the time of budget hearings to recommend adjustments to the budget if specific solutions have been selected and estimates refined.

Equipment Upgrades Should Be Less Frequent

Significant upgrades to augment computer capacity are often both disruptive and costly. The upgrade process interferes with the provision of reliable computer support to those agencies that depend upon the data processing center. It also places a heavier demand on personnel resources, sometimes with undesirable results. Finally, the procurement process itself is very costly because of the difficulties involved in preparing complex equipment specifications and evaluating vendor proposals.

We believe that increasing costs for data processing personnel coupled with decreases in equipment costs make it in the state's interest for the Teale Center to acquire a reasonable amount of surplus computing capacity when equipment upgrades are planned.

Computer Output Microfilm

In addition to providing for increases in computing capacity, the budget also includes $523,996 to establish at the Teale Center a state-run facility to produce computer output on microfilm in lieu of more expensive paper copy. At present, this capability is provided through a contract with a private vendor. It appears that the number of microfilm frames produced by this process has grown to a level sufficient to justify a state-operated facility which is expected to provide the same or improved level of service at a reduced cost. The State Data Processing Officer in the Department of Finance indicates that a state facility will be established unless the private contractor can provide equivalent service at less cost. Therefore, the expenditure of these funds will depend upon a competitive acquisition which will include a bid for continued private contractor processing.

Effect of New Developments on Rates

In recent years the center has made a number of rate adjustments which have effectively reduced the cost to process a unit of work at the center. In addition, substantial discounts have been offered to encourage users to schedule more work on "swing" and "graveyard" shifts in order to reduce prime-time (day-shift) demand. This is an important consideration because it is the prime time demand which ultimately results in the acquisition of added capacity.

Although it is too early to assess a 1979–80 rate structure, past history and continued increases in user demand, along with decreasing equipment prices, suggest that there should be no significant changes in rates during the budget year.

Reduce EDP Operations Expense

We recommend that the amount budgeted for EDP Operations Expense be reduced $70,000.

In examining the detail supporting an allocation of $1,632,029 for EDP operations expense, it appears that $70,000 of the allocation represents over-budgeting and can therefore be eliminated. The funds represent $30,000 for a job scheduler software package and $40,000 for unidentified software. The center does not intend to require the former package and could identify no intended use for the latter amount.

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Reduce Facilities Operation Cost

We recommend a reduction of $45,000 in the amount budgeted for facilities operation.

The proposed budget includes $45,000 for minor capital outlay. This amount, included as a contingency, can be eliminated because there are no plans for its expenditure.

Allocation of Pro Rata Charges

We recommend that the amount budgeted for administrative pro rata charges be reduced $165,829.

Government Code Sections 11270–11277 authorize the State Board of Control to assess pro rata charges to special funds in order to recover general support costs incurred by agencies such as the Controller, the State Personnel Board and the Legislature. Such charges have not been assessed against the Teale Center because until recently the center had received its support directly from the operating budgets of its customer departments.

However, Chapter 585 (Statutes of 1976) established a revolving fund to enable the center to meet annual cash-flow requirements. With the establishment of this fund, the Department of Finance has advised the Board of Control to assess pro rata charges to this special fund in order to recover the cost of state administrative services provided through the Teale Center to its special fund customers. The proposed budget includes $330,003 for this purpose.

Although we support the concept of recovering these costs, we do not agree with the method chosen by the Department of Finance, which in this case would assess the center in 1979–80 for two full years of such costs. According to staff of the Department of Finance, the proposed 1979–80 allocation of $330,003 includes actual 1977–78 pro rata costs of $165,829 and estimated 1979–80 costs totaling $165,174. Further, we understand that if this method is accepted the 1980–81 budget will include an assessment for both 1978–79 and 1980–81.

In our judgment, past amounts owed by special fund agencies should be collected directly from those agencies. Collecting multiple-year costs as proposed would cause an unrealistic increase in center rates resulting in General Fund users paying a surcharge along with the special fund users, which are the real target of the pro rata charges.