Treasury, the Post Fund would be able to take advantage of investment services provided by the State Treasurer through the Pooled Money Investment Account. The State Treasurer provides information, expertise, and a large base of funds to invest. Because the largest source of Post Fund income is the interest on Post Fund and trust fund (member deposits with the home) investments, the professional management of those investments by the State Treasurer could result in higher revenues to the Post Fund over the long run.

Therefore, we recommend that legislation be enacted to establish the Post Fund as a state fund in the State Treasury, and that the Post Fund be subject to appropriation in the Budget Act of 1981.

Business and Transportation Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 155 from the General Fund — Budget p. BT 1

Requested 1980–81	$12,675,227
Estimated 1979–80	12,655,605
Actual 1978–79	11,478,876
Requested increase (excluding amount for salary increases) $19,622 (+ 0.2 percent)	
Total recommended reduction	$145,600

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
155	Support	General	$12,450,227
	Support	Reimbursements	225,000
	Total		$12,675,227

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Data Processing Savings. Reduce by $145,600.* Recommend deletion of 10 clerical positions. Further recommend 10 additional clerical positions be limited to June 30, 1981. — 243

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 Hayward, 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 382.6 positions.

The Constitution gives the department exclusive power, in accordance with laws enacted by the Legislature, to license the manufacture, importa-

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

tion 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

Licensing is intended to prevent (1) unqualified persons from engaging in the sale, manufacture or importation of alcoholic beverages, and (2) the sale or manufacture of alcoholic beverages 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 53 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 compliance or "enforcement" element is intended 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 prescribed 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, training and personnel duties. This element also drafts 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 budget proposes an appropriation of $12,450,227 from the General Fund for support of the Department of Alcoholic Beverage Control which is $19,622, or 0.2 percent, above estimated current-year expenditures. Anticipated budget-year reimbursements of $225,000 result in a total expenditure program of $12,675,227. Table 1 shows budget data for the department's three program elements.

Table 1
Department of Alcoholic Beverage Control
Budget Summary

	Estimated 1979–80	*Proposed 1980–81*	*Change*	
			Amount	*Percent*
Licensing	$7,742,699	$7,670,199	$−72,500	−1.0%
Personnel-years	236.6	243.4	6.8	2.9
Compliance	3,217,055	3,247,544	30,489	1.0
Personnel-years	95.6	98.3	2.7	2.8
Administration	1,695,851	1,757,484	61,633	3.6
Personnel-years	50.4	51.9	1.5	3.0
Subtotals	$12,655,605	$12,675,227	$19,622	0.2%
Less Reimbursements	$225,000	$225,000	—	—
Totals	$12,430,605	$12,450,227	$19,622	0.2%
Personnel-years	382.6	393.6	11	2.9

Departmental support budgeted from the General Fund will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget includes four significant changes.

Full-Year Savings Due to Staff Reduction Realized

Last year, the Governor's Budget proposed, and the Legislature approved, the deletion of 45 positions from the department, including 30 positions from the compliance program and 15 positions from the licensing program. The Budget Act of 1979 included: (a) $585,000 for one-half year costs to phase out the 45 positions and (b) $170,000 for personnel relocation costs to permit the transfer of personnel among the field offices because of varying attrition rates.

Because the adjustments will be completed in 1979–80, full-year personal service savings will be realized in 1980–81. The department's proposed budget for salaries and wages was reduced by $617,401 to reflect these savings. In addition, the proposed budget for personnel relocation was reduced by $129,000. The remaining $41,000 provides for the department's usual relocation costs due to transfers.

Salary Savings Requirements Reduced

When budgeting for salaries and wages, agencies normally recognize that salary levels will fluctuate and that all positions will not be filled for a full 12 months. Experience shows that savings will accrue due to the following factors: vacant positions, leaves of absences, turnover, delays in the filling of positions, and the refilling of positions at the minimum step of the salary range. Therefore, to prevent overbudgeting, an estimate of salary savings is included in each budget as a percentage reduction in the gross salary and wage amount.

In recent years, the department has had to hold positions vacant in order to meet its budgeted salary savings level. For 1980–81, it proposes to reduce the salary savings requirements by $197,000 (including related staff benefits). The adjustment is based on a review of the vacancy rates which would have occurred if positions had not been held open to meet budgetary constraints. We recommend approval of this adjustment.

Workload Study

The supplementary report accompanying the Budget Act of 1976 directed that the department develop workload measures for its licensing and compliance staff. In response, the department proposed a formula of one compliance investigator for each 1,000 licenses. It indicated, however, that too many factors affected licensing workload to allow a similar ratio for the licensing element to be developed. In July 1979, the Department of Finance cited the absence of adequate work standards as the reason why the department had not been able to justify additional staff despite increased workload.

The 1980–81 Governor's Budget provides $64,350 in contract services for a workload/staffing study. Because the study should provide an improved basis for projecting the department's personnel needs, we recommend that the request be approved.

Mobile Radios for Compliance Staff

The budget proposes $62,000 to provide one mobile radio for each vehicle assigned to compliance staff. These radios would allow direct contact with local law enforcement during field investigations.

Departmental compliance personnel frequently visit premises which are suspected of serving minors or obviously intoxicated patrons. In addition, they often investigate licensees which engage in, or permit in their place of business, drug trafficking, prostitution, and gambling. During this work, investigators are involved in hazardous situations which frequently require assistance from local law enforcement. Currently, the investigators must locate a telephone to request such assistance. Mobile radios would enable investigators to request help more quickly, thereby reducing the risk of serious injury. For this reason, we recommend that this request be approved.

Departmental Funding

The Department of Alcoholic Beverage Control is supported by the General Fund, but is a revenue producing agency. It collects and distributes license fees according to 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.

As shown in Table 2, the department estimates that 1980–81 General Fund revenue from fees and charges will amount to $10,995,000, which is $825,000, or 7.0 percent less than will be received in the current year. The reduction is anticipated to occur because no revenue will be received in

1980–81 (or thereafter) from Chapter 216, Statutes of 1978. This measure authorized seasonal businesses with on-sale general licenses issued before July 1, 1977, to convert them to year-round, on-sale general licenses for a $6,000 fee. Under Chapter 216, requests for conversions were to have been filed before January 1, 1980.

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

	Actual 1978–79	*Estimated 1979–80*	*Estimated 1980–81*
Miscellaneous income	$6,639	—	—
Original license fees	2,473,450	$2,500,000	$2,500,000
Transfer fees	4,326,800	4,400,000	4,450,000
Special fees	312,036	200,000	200,000
Service charges	142,372	175,000	200,000
Penalties	189,365	180,000	190,000
General Fund portion of annual fees and offers in compromise	1,575,416	1,575,000	1,575,000
Surcharge on annual fees	1,442,063	1,500,000	1,500,000
Seasonal license conversions	1,062,000	915,000	—
Caterer's authorization, permits and managers certificates	352,495	375,000	380,000
Totals	$11,882,636	$11,820,000	$10,995,000

Insure Data Processing Conversion Savings

We recommend a reduction of 10 clerical positions in accordance with the position phase-out contained in the department's approved data processing conversion project.

We further recommend that 10 additional clerical positions be limited to June 30, 1981, for the same reason.

Two years ago, 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 Office of Information Technology 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 at the end of 1979–80 and 10 more by June 30, 1981.

Last year, the Legislature limited 10 clerical positions to June 30, 1980, in accordance with the feasibility study. However, the 10 positions have not been eliminated from the 1980–81 Governor's Budget. Accordingly, we recommend that 10 clerical positions be deleted from the department's budget, for a General Fund savings of $145,600.

The department indicates that the conversion project is on schedule. Therefore, we recommend that 10 additional clerical positions be limited to June 30, 1981.

Business and Transportation Agency
ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 156 from the General Fund — Budget p. BT 5

Requested 1980–81	$252,328
Estimated 1979–80	249,795
Actual 1978–79	211,125
Requested increase (excluding amount for salary increases) $2,533 (+1.0 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 and San Francisco.

The board is an independent agency and is not subject to departmental control. Board staff consists of two attorneys and two clerical employees. Approximately 25 percent of the appealable decisions rendered by the department over the years have actually been appealed to the board.

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, reviews board decisions. During 1978–79, 119 appeals were filed and 104 decisions were issued. The appeals board reversed 20 departmental decisions. In addition, 70 cases that had been held in abeyance pending judicial review of the validity of the distilled spirits minimum price posting laws were returned to the Department of Alcoholic Beverage Control. These cases were dismissed by the department as a result of the May 1978 California Supreme Court decision holding such laws to be invalid.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The board proposes an expenditure of $252,328 for 1980–81 which is $2,533, or 1.0 percent, above the current year estimated expenditure. This increase consists of $147 for employee benefits and $2,386 for higher operating costs.

Business and Transportation Agency
STATE BANKING DEPARTMENT

Item 157 from the State Banking Fund — Budget p. BT 6

Requested 1980–81	$5,513,989
Estimated 1979–80	5,180,375
Actual 1978–79	4,319,465
Requested increase (excluding amount for salary increases) $333,614 (+6.4 percent)	
Total recommended reduction	$187,042

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
157	Department Support	State Banking	$5,413,989
—	Reimbursements		100,000
	Total		$5,513,989

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *Bank Examiners. Reduce by $167,042.* Recommend deletion of eight proposed new positions. 247
2. *Training. Reduce by $20,000.* Recommend deletion of $20,000 based on lack of a complete training plan. 249

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 also regulates licensed companies which sell money orders and travelers checks either for domestic uses or for purposes of transmitting money abroad.

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", and acts as an agent for approximately 1,600 local treasurers in supervising the handling of public funds by depository banks.

The department headquarters is in San Francisco, with branch offices in Los Angeles, Sacramento, and San Diego. The current authorized staff is 142.7 positions.

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

ANALYSIS AND RECOMMENDATIONS

The department proposes an expenditure of $5,513,989 from the State Banking Fund, which is $333,614, or 6.4 percent, over estimated current year expenditures. This amount will increase by the amount of any salary

Table 1
Cost and Staffing Data
State Banking Department

Program	*Elements*	*Actual 1978–79* Personnel-Years	*Actual 1978–79* Cost	*Estimated 1979–80* Personnel-Years	*Estimated 1979–80* Cost	*Proposed 1980–81* Personnel-Years	*Proposed 1980–81* Cost
1. Licensing and supervision of banks and trust companies	Investigation of application for new facilities	6.5	$206,894	7.5	$278,014	8.0	$294,412
	Continuing supervision of existing banks	121.4	3,864,150	122.8	4,552,019	131.3	4,852,030
	Continuing supervision of trust activities	4.9	155,971	5.0	185,342	5.3	195,047
2. Payment instruments		1.0	35,100	4.6	105,000	4.6	110,000
3. Certification of securities		0.3	10,124	0.3	11,000	0.3	12,000
4. Administration of local agency security		1.2	36,172	1.2	37,000	1.2	38,000
5. Supervision of California business and industrial development corporations		0.3	11,054	0.3	12,000	0.3	12,500
6. Term Loan Program		—	—	—	—	—	—
7. Departmental administration (prorated to departmental programs)	Executive and administrative services	(9.5)	(190,570)	(10.0)	(253,130)	(10.0)	(265,000)
	Legal and legislative services	(11.3)	(247,121)	(12.0)	(294,000)	(14.0)	(352,927)
	Research—information services	(6.5)	(152,497)	(8.5)	(183,150)	(10.0)	(224,000)
Totals		135.6	$4,319,465	141.7	$5,180,375	151.0	$5,513,989
Reimbursements			−323,653		−100,000		−100,000
Net Totals			$3,995,812		$5,080,375		$5,413,989

STATE BANKING DEPARTMENT—Continued

or staff benefit increase approved for the budget year. The department reimbursements of $100,000, which are included in the expenditure total, are derived primarily from fees for (1) examining trust companies, (2) conducting special examinations of banks and (3) administering the local agency security program.

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

Examination Workload Overstated

We recommend a reduction of eight proposed examiner positions, for a savings of $167,042.

The department is proposing an increase of 8 examiners and two clerical support positions to meet additional workload in bank examination. Justification is based on a projected increase in the number of banks and branches, resulting in more examinations. Also, according to the Governor's Budget, the passage of the International Bank Act may require the department to perform more detailed examinations.

Our analysis of the department's projected workload indicates that the proposed examiner positions are not justified for the following reasons:

1. Examination cycle and scope. Effective January 1, 1980, Chapter 1028, Statutes of 1979, requires the superintendent to examine each bank under state jurisdiction at least once every two calendar years. Problem institutions are subject to more frequent examinations. Prior to 1980, the examination requirement was "at least once each calendar year."

Currently, the department is operating on a 20-month examination cycle. The extension of the cycle to 24 months will enable existing staff to handle a larger examination workload.

The scope of the required examination is specified in Section 1900 of the Financial Code: "On each biennial examination, 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 article of incorporation and all applicable provisions thereof are being complied with and into such other matters as the superintendent may determine."

The department can vary the scope of examinations and still meet the mandate of Section 1900. The determination of the examination scope depends on such factors as (1) the condition of the bank at the prior examination, (2) the quality of the bank's internal operations and loan controls, and (3) information provided by the existing Overseer Program. The Overseer Program has three examiners assigned to visit banks on a recurring basis in order to keep informed of the internal management, policies and operations of the banks. This information allows the department to design the scope of bank examinations accordingly.

In 1979, examinations were begun on 125 banks using a variable scope approach. Under this approach, some banks were examined more exten-

STATE BANKING DEPARTMENT—Continued

sively than others. Of the 125 bank examinations, 113 were completed and 12 were still in progress at the time of the preparation of this analysis. The total examination time was 59,323 hours. Table 2 shows the distribution of banks examined and the average time for each examination.

Table 2
Banks Examined in 1979

Bank Assets	*Number of Banks*	*Average Examination Hours*
Over $10 billion	1	9,828 [a]
$1 billion to 10 billion	3	4,091 [b]
$500 million to $1 billion	7	1,014
$100 million to $500 million	19	892
$50 million to 100 million	16	647
$10 million to $50 million	56	336
Less than $10 million	23	185
Total	125	

[a] Examination not completed in 1979. Figure is the amount of time spent for the prior examination.
[b] Figure is time spent for one bank examination only. Examination of other two banks not complete.

Based on available 1979 data and examination data for prior years, we estimate that the average time for one examination in 1979 was approximately 637 hours. The average was approximately 800 hours for pre-1979 examinations.

The department projects an examination workload of 115 banks in 1980-81. Using the higher average examination time of 800 hours, and assuming a comparable mix of banks in terms of assets, the projected workload will require 92,000 hours. The department's current level of staffing will be adequate to handle this projected workload, particularly since the department has recently filled several vacant positions and increased the number of examiners who exclusively perform bank examinations to 69 examiners.

2. Electronic data processing. The department is expanding its electronic data processing and statistical analysis capability in support of the overseer and examination functions. It has begun implementing an automated linesheet program to independently access computer records of automated banks. The program automates the selection of linesheets containing information essential for loan analysis, and thus will enable examiners to determine more readily the necessary scope of the examination. The department anticipates that the implementation of the program will result in a possible 20 percent reduction in the examination time spent in the field. Field time now constitutes approximately 85 percent of total examination time. When this EDP program is fully phased in, total examination time will be reduced by as much as 17 percent.

3. International Banking Act 1978 (IBA). The Act allows foreign banking corporations to receive domestic (U.S.) deposits, and to perform banking activities similar to domestic banks. Foreign banking corporations are required to be chartered either by state or by federal authorities.

The current process of foreign banking corporation examination is less detailed and extensive than the examination process for state-licensed domestic banks. The process necessarily becomes more complex as foreign banking corporations are licensed to receive domestic deposits. Depending on the number of foreign banks accepting domestic deposits, and the amount of such deposits, examination workload will increase. But there is no information to estimate the extent of such increase. Presently, no applications have been filed with the department by foreign banking corporations seeking to accept domestic deposits. Examiner positions for this activity should not be requested until more information regarding the possible workload impact of IBA is available.

Based on the above findings, we recommend that the eight proposed examiner positions be denied for a savings of $167,042.

Training

We recommend deletion of $20,000 for training based on lack of complete plan for using the funds.

The department's budget requests $52,656 for training purposes. Of this amount, $20,000 was added by the Business and Transportation Agency at its own initiative. The department does not have a plan for using these additional funds. We therefore recommend that this amount be deleted.

Business and Transportation Agency

DEPARTMENT OF CORPORATIONS

Item 158 from the General Fund — Budget p. BT 12

Requested 1980–81	$11,309,393
Estimated 1979–80	10,546,985
Actual 1978–79	8,533,003
Requested increase (excluding amount for salary increases) $762,408 (+7.2 percent)	
Total recommended reduction	$205,655

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
158	Department Support	General	$8,058,001
—	Reimbursements	Various	3,251,392
	Total		$11,309,393

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Investment Program. Reduce by $71,950.* Recommend reduction of two legal and one clerical positions requested to review qualification applications, and approval of two legal and one clerical positions on a limited-term basis. 252
2. *Lender-Fiduciary Complaint Processing. Reduce by $37,583.* Recommend deletion of two proposed positions. 253

DEPARTMENT OF CORPORATIONS—Continued

3. *Financial Examinations and Medical Surveys.* Concur with proposal to use $210,300 General Fund money to replace loss in reimbursements, and recommend department discuss alternatives for funding examinations and surveys. 254
4. *Training. Reduce by $27,000.* Recommend deletion of $27,000 due to lack of training plan. 256
5. *Attorney General Fees. Delete $69,122.* Recommend deletion of $69,122 overbudgeted for Attorney General services. 256

GENERAL PROGRAM STATEMENT

The primary mission of the Department of Corporations is to protect the public from unfair investment practices, 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 administration 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. This program also reviews license applications of prospective securities broker-dealers and investment advisors. The Lender-Fiduciary program carries out the licensing and examining of lender-fiduciary institutions regulated by the department. The Health Care Service Plan program is responsible for regulating health care service plans under the Knox-Keene Health Care Service Act of 1975, and for administering the charitable trust statutes as they relate to health care service plans.

The department is administered by the Commissioner of Corporations, who is appointed by the Governor. The department's headquarters is in Sacramento, with branch offices in San Francisco, Los Angeles and San Diego. The Governor's Budget for 1979–80 proposed that the San Diego office be closed. The Legislature restored funds for this office which is currently staffed with eight positions. In the current year, the department is authorized a total of 321.6 positions.

ANALYSIS AND RECOMMENDATIONS

The department proposes total expenditures of $11,309,393 from the General Fund and reimbursements in the budget year, which is an increase of $762,408, or 7.2 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The department anticipates that $3,251,392 of total expenditures will be covered by reimbursements, primarily in fees for examining the financial records of licensees. Table 1 shows the cost and staffing data for the department's programs and their supporting elements.

Table 1
Cost and Staffing Data
Department of Corporations Programs

		Actual 1978–79		*Estimated 1979–80*		*Proposed 1980–81*	
Program	*Element*	*Personnel-Years*	*Cost*	*Personnel-Years*	*Cost*	*Personnel-Years*	*Cost*
Investment	Qualifications	74.1	$1,875,382	77.6	$2,438,240	81.8	$2,524,768
	Franchises	8.3	228,192	8.9	294,870	10.6	346,507
	Regulation and enforcement	76.4	2,181,086	83.0	2,811,909	84.8	2,897,789
	Commodities	0.3	7,017	0.3	3,650	—	—
Lender-Fiduciary	Check Sellers and Cashers Law	0.8	21,686	0.8	26,032	0.8	27,228
	Credit Union Law	35.4	962,253	43.0	1,468,574	44.1	1,545,159
	Escrow Law	21.7	589,511	26.1	878,934	28.1	947,932
	Industrial Loan Law	13.2	378,380	16.7	536,629	17.6	573,857
	Personal Property Brokers Law and California Small Loan Law	32.1	881,511	17.5	556,859	21.1	642,920
	Trading Stamp Law	0.1	749	0.1	1,951	0.1	2,061
Health Care Service Plan	Licensing	16.4	440,318	13.7	443,337	15.0	496,576
	Financial examinations	12.1	323,178	10.1	325,395	15.4	476,841
	Medical survey	7.9	229,696	6.7	267,086	6.7	277,052
	Enforcement	13.8	414,044	11.6	493,519	12.8	550,703
Administration (cost prorated to other programs)	General office	(6.4)	(193,329)	(8.0)	(311,273)	(8.0)	(342,259)
	Accounting and personnel	(6.9)	(141,097)	(7.0)	(173,129)	(7.0)	(179,583)
Totals		312.6	$8,533,003	316.1	$10,546,985	338.9	$11,309,393
Reimbursements			−2,945,306		−3,280,485		−3,251,392
Net Totals			$5,587,697		$7,266,500		$8,058,001

DEPARTMENT OF CORPORATIONS—Continued

Proposed Program Changes

The department proposes to increase funding for certain program activities by $710,783 and program staff by 20 positions. Table 2 summarizes the proposed increases, which include $135,000 to be reimbursed according to an interagency agreement with the Department of Health Services.

Table 2
Department of Corporations
Summary of Proposed Increases
1980–81

Program	*Activity*	*Position*	*Amount*
Investment	Review qualification applications	4	$97,972
	Restore San Diego staff	2	36,814
Lender-Fiduciary	Review and investigate complaints	4	72,124
	Examine license applications	1	28,883
	EDP audit	2[a]	42,273
Health Care Service Plan (HCSP)	Maintain regular financial exams and medical survey	—	210,300[b]
	Audit PHP costs	5	135,000[c]
	Administer charitable trust statutes	2	57,077
	Attend Group Health Association meetings	—	3,340
Administration	Training	—	27,000
Total Increase in Activities		20	$710,783
Other Increases		—	51,625
Total		20	$762,408

[a] These positions will also provide services to the investment program and the HCSP program.
[b] Amount requested from General Fund to replace loss in reimbursements.
[c] This amount will be reimbursed by the Department of Health Services according to an Interagency Agreement.

Investment Program Staffing

We recommend (1) a reduction of two proposed legal and one clerical positions, for a savings of $71,950 and (2) the approval of two legal and one clerical positions on a limited-term basis.

The department is requesting an increase of four legal and two clerical positions for the Investment program. The department's workload projections indicate that total qualification and franchise filings will increase very slightly in 1980–81 over the current year. Table 3 shows that the primary increase will be in *small offering notifications* (up by 1,000). Persons or legal entities proposing securities offerings under this category are required to file a notice with the department, but the offerings are exempt from the Corporate Securities Law. Starting in the current year, the department will no longer systematically review these notices. Therefore, this increase in small offering notices does not justify the additional positions requested. Because of a significant increase in filings between 1976 and 1979, however, the department has a backlog of about 700 qualification and 80 franchise filings. Our analysis indicates that two legal positions and one clerical support person would be adequate to process the backlog and keep up with the small increase in projected workload. We therefore recommend that two legal positions and one clerical position be deleted from the budget, for a savings of $71,950. We further recommend that the remaining two legal positions and the one clerical position be authorized for a limited term of two years, until the existing backlog is eliminated.

Table 3
Department of Corporations
Investment Program
Workload Data

A. Number of Qualification Filings

	1977–78	*1978–79*	*Estimated 1979–80*	*Projected 1980–81*
Permit	4,270	4,484	4,700	4,700
Coordination	1,256	1,485	1,500	1,600
Notification	142	175	165	175
Notices (small offering)	27,216	31,930	32,000	33,000
Totals	32,884	38,074	38,365	39,475
Percent change over previous year	23.5%	15.8%	0.8%	2.9%

B. Number of Franchise Filings

	1977–78	*1978–79*	*Estimated 1979–80*	*Projected 1980–81*
Franchise registration	241	270	300	300
Franchise renewal	194	243	280	280
Totals	435	513	580	580
Percent change over previous year	33.4%	17.9%	13.1%	0%

Lender-Fiduciary Program Complaint Processing

We recommend a reduction of two proposed positions for the Lender-Fiduciary Program, for a savings of $37,583.

During 1978–79, the Lender-Fiduciary program regulated 5,681 licensed locations throughout California, including check sellers and cashers, credit unions, escrow offices, industrial loan offices, and personal property broker offices. With the increase in the number of licensed locations, the department projects that the number of consumer complaints filed will increase particularly against escrow offices, industrial loan offices and personal property broker offices. Table 4 shows the total complaints filed under the various laws administered by the program, and the number of licensed locations. To process the projected increase in complaints, the department is requesting three additional auditors and one clerical position.

Table 4
Number of Licensed Locations and Complaints Filed
1976–77 to 1980–81

	1976–77	*1977–78*	*1978–79*	*Estimated 1979–80*	*Projected 1980–81*
Licensed locations	4,426	5,119	5,681	6,179	6,589
Percent change over previous year	—	15.6%	11.0%	8.8%	6.6%
Complaints filed	3,920	4,476	6,130	7,296	7,994
Percent change over previous year	—	14.2%	36.9%	19.0%	9.5%

DEPARTMENT OF CORPORATIONS—Continued

Currently, four examiners handle complaints in the Lender-Fiduciary program. The department has recently adopted a new procedure which places the burden of resolving complaints on the licensees, with department staff responsible for reviewing the complaints and their resolution. This has enabled the department to process complaints within two to three weeks of filing, which has resulted in the elimination of any complaint backlog. We estimate that one additional auditor with clerical support will be sufficient to handle the projected increase in complaints and thus recommend two proposed auditor positions be deleted for a saving of $37,583.

Lender-Fiduciary License Applications

The program has a backlog of over 300 license applications. About 220 of the applications are for personal property broker licenses and 50 are for escrow licenses. This backlog has been growing since 1976, and has increased by over 160 percent, from 117 to 305 pending applications, since November 1978. The backlog has lengthened the total time needed for an application to be processed from a normal work cycle of 45 days to approximately 120 days. Section 22210 of the Financial Code requires the commissioner to either issue a license or file a statement of issues within 60 days of receiving a complete application prepared in accordance with the provisions of Section 11500 of the Government Code. Our analysis indicates that the department's request for one additional examiner position to review license applications and thereby help eliminate the backlog and comply with the requirement of Section 22210 of the Financial Code, is justified.

Administering Charitable Trust Statutes

The department licenses 75 health care service plans (HCSPs) with approximately 14 million enrollees in California, under the provisions of the Knox-Keene Health Care Service Plan Act of 1975.

Effective January 1, 1980, pursuant to Chapter 1305, Statutes of 1978, the department is responsible for administering the charitable trust statutes as they relate to health care services plans. Section 10825 of the Corporations Code provides that: "A corporation is subject at all times to examination by the Commissioner of Corporations, on behalf of the state, to ascertain the condition of its affairs and to what extent, if at all, it fails to comply with trusts it has assumed or has departed from the purposes for which it is formed. In case of any such failure or departure, the Commissioner of Corporations shall institute in the name of the state, the proceeding necessary to correct the noncompliance or departure."

Administration of the charitable trust statutes will increase the workload of plan examinations as well as the review and processing of license applications. We recommend approval of the request for two additional positions to administer this statute.

Funding of Financial Examinations and Medical Surveys

We recommend that the department comment at budget hearings on the necessity of conducting routine examinations and surveys more often than once every five years. The department should also be prepared to *discuss alternatives for funding routine examinations and surveys to reduce a potential increasing demand on the General Fund.*

Chapter 1061, Statutes of 1979 (AB 1128), limits the expenses paid by health care service plans to the department for financial examinations and medical surveys to those expenses incurred for *additional or nonroutine examinations only.* This statute becomes operative on July 1, 1980.

Currently, the department charges licensees the *full cost* of the financial examinations and medical surveys which the department is mandated by the Knox-Keene Act to conduct "as often as deemed necessary", but "not less frequently than once every five years." The department examines an average of 20 licensees a year. Chapter 1061 does not alter this mandate; it merely limits the types of examinations and surveys for which licensees can be billed.

The department estimates that 75 percent of the financial examinations and 90 percent of the medical surveys conducted are routine, and therefore not reimbursable. Thus, as a result of Chapter 1061, the department will incur an estimated loss of reimbursements of $210,300 in the budget year, assuming it maintains the same ratio of routine and nonroutine examinations and medical surveys. We recommend that lost reimbursements be replaced by General Fund money for the budget year, as the department proposes. At the same time, we question the necessity of conducting these examinations and surveys on a three year cycle, as the department is now doing. We recommend that the department be requested to comment at the budget hearings on the necessity of conducting routine examinations and surveys more often than once every five years as permitted by statute.

As the number of licensed health care service plans increases, the provision of Chapter 1061 will result in a loss of additional reimbursements. Thus, more General Fund money will be required to fund the examinations and surveys mandated by the Knox-Keene Health Care Service Plan Act. To reduce this increasing demand on the General Fund, the Legislature may wish to consider decreasing the number of examinations and surveys required. Another alternative would be to fund routine examinations and surveys by assessment fees and license fees. Currently, these fees are used to support the program's licensing and enforcement activities. This alternative would entail an increase in the assessment rate per enrollment unit which is now at the statutory limit of 18 cents, or an increase in license fees which are set at $2,500 per application. We recommend that the department be prepared to discuss at the budget hearings the above alternatives and any other options which it is considering to reduce a potential increasing demand on the General Fund.

Interagency Agreement

The department has an interagency agreement with the Department of Health Services to conduct examinations of pre-paid health plans' costs and utilization and prepared specified reports. The agreement will require the department (Corporations) to allot no less than four additional staff positions to perform duties specified in the agreement. The department is requesting four examiner positions and one clerical support posi-

DEPARTMENT OF CORPORATIONS—Continued

tion for these activities. We recommend that the positions be approved only for the time period during which the agreement is to be in effect.

Training

We recommend deletion of $27,000 for training based on the lack of a comprehensive plan.

The department's budget requests $54,076 for specialized training. Of this amount, $27,000 was added by the Business and Transportation Agency at its own initiative. The department does not have a plan for using these additional funds. We therefore recommend that the $27,000 be deleted.

Overbudgeting of Attorney General Fees

We recommend deletion of $69,122 to adjust for the department's overbudgeting for Attorney General services.

The budget estimates Attorney General services will cost $122,220 in the current year, and proposes $108,560 for these services in the budget year. The actual amount paid in 1978–79 was $45,276. During the first five months of the current year, the department utilized 349.5 hours of Attorney General services at a cost of $15,256. Based on actual experience, we project a cost of $39,438 for 840 hours of services in the budget year. This estimate approximates the projection by the Attorney General for 1980–81 services to the department. On this basis, we recommend that $69,122 be deleted from the Budget Bill.

Business and Transportation Agency

DEPARTMENT OF CORPORATIONS—LEGISLATIVE MANDATES

Item 159 from the General Fund — Budget p. BT 12

Requested 1980–81	$3,780
Estimated 1979–80	3,780
Actual 1978–79	N/A
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 941, Statutes of 1975, requires health care services plans to be licensed by the Department of Corporations. Each plan is required to establish a department-approved system 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.

Pursuant to Section 2231(a) of the Revenue and Taxation Code, this item appropriates $3,780 from the General Fund to reimburse the County of Contra Costa for costs associated with satisfying the provisions of Chapter 941.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT

Items 160–162 from the General Fund — Budget p. BT 20

Requested 1980–81	$9,572,401
Estimated 1979–80	5,854,857
Actual 1978–79	5,451,216
Requested increase (excluding amount for salary increases) $3,717,544 (+63.5 percent)	
Total recommended reduction	$2,587,053

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
160	Department of Economic and Business Development—State Support	General	$4,072,401
161	State appropriation to the Small Business Expansion Fund	General	3,800,000
162	State appropriation to the California Economic Development Grant and Loan Fund	General	1,700,000
	Total		$9,572,401

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Century Freeway Project. Reduce Item 160 by $106,123; reduce Item 161 by $1,200,000 and reduce Item 162 by $1,075,000.* Recommend deletion of program to assist businesses affected by the Century Freeway Project.	259
2. *New Deputy Director Position. Reduce Item 160 by $42,930.* Recommend deletion of proposed deputy director for Small Business Development Program.	260
3. *Small Business Contracts—New Projects. Reduce Item 160 by $87,000.* Recommend deletion of unspecified amount budgeted for projects.	264
4. Small Business Expansion Fund. Recommend annual expenditures be appropriated in the Budget Bill (Item 161.1)	264
5. Economic Development Grant and Loan Fund. Recommend amount required for expenditure in 1980–81 be appropriated in the Budget Bill (Add Item 162.1) with loan repayment funds to be used to offset General Fund costs.	265
6. *Contracted Services. Reduce Item 160 by $30,000.* Recommend proposed contract for economic information be deleted.	266
7. *Contracted Services. Reduce Item 160 by $41,000.* Recommend proposed contract for a travel survey be deleted.	267

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

8. *Word Processing Equipment. Reduce Item 160 by $5,000.* Recommend deletion of excess amount budgeted for equipment. 267
9. Program Performance Measures. Recommend department develop measures of program effectiveness, as required by law. 267

GENERAL PROGRAM STATEMENT

The Department of Economic and Business Development was established in 1977 for the purpose of stimulating the state's economic growth. It replaced the Department of Commerce and consolided several economic development-related programs, previously located in several state departments, under one umbrella organization.

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 plans;
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 socio-economic structure.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $9,572,401 from the General Fund for the support of the Department of Economic and Business Development in 1980–81, which is an increase of $3,717,544, or 63.5 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. In addition to the proposed $9.5 million General Fund appropriation, the department's budget includes $2.1 million in federal Economic Development Administration (EDA) funds. Staffing and expenditures, by program, for the past, current, and budget year are shown in Table 1.

Budget-Year Changes

Table 2 identifies the significant change in departmental expenditures. The budget proposes a net staff increase of seven positions, six of which will be established administratively during the current year. These new positions include four in the Office of Local Economic Development for the Century Freeway Project, one each in the Office of International Trade and Visitor Services, and a new deputy position for the Office of Small Business Development. The proposed clerical staff increase in the Office of International Trade and Visitor Services is justified by the workload information submitted, and we recommend approval.

Table 1
Budget Requirements
Department of Economic and Business Development, All Funds

	Personnel-years			Expenditures (thousands)		
Programs	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*
Economic planning, policy and research development	6.5	7.6	7.1	$273.2	$317.9	$327.6
Business and industrial development	8.6	10.4	10.4	242.4	357.5	371.9
International trade	4.6	7.2	7.7	214.0	333.8	359.7
Visitor services	4.5	5.3	6.8	253.4	508.4	516.1
Local economic development	14.5	9.3	8.8	2,082.5	3,338.4	3,955.7
Small business development	7.1	9.1	9.6	1,781.9	2,877.3	5,397.3
Administration	13.5	19.6	19.6	610.7	775.8	750.6
Totals	59.3	68.5	70.0	5,458.1	8,509.1	11,678.9
Reimbursements				−221.4	−231.0	−6.0
Federal funds				−542.5	−2,423.3	−2,100.5
Small Business Expansion Fund				757.0	—	—
Net Total General Fund Costs				$5,451.2	$5,854.8	$9,572.4

Table 2
Major Program Changes in 1980–81

Changes	*Personnel Changes (Personnel-years)*	*General Fund*	*Federal Funds*	*Totals*
1979–80 Revised Budget	65.7	$5,854,857	$2,423,258	$8,278,115
1. Program Change Proposals				
a. Local economic development assistance—Century Freeway	4.0	1,075,000	—	1,075,000
b. Increase Small Business Expansion Fund—Century Freeway	—	1,200,000	—	1,200,000
c. Increase Small Business Expansion Fund—Reserves	—	1,300,000	—	1,300,000
d. New deputy position	1.0	42,930	—	42,930
2. All Other Changes	2.0	99,614	−322,775 [a]	−223,161
Proposed 1980–81 Budget	72.7	9,572,401	2,100,483	11,672,884
Net Change from Revised 1979–80	7	$3,717,544	$−322,775	$3,394,769

[a] Reflects termination of the Public Works and Employment Act, Title II funding for a federally-financed economic development program.

Century Freeway Project

We recommend that General Fund support for assistance to businesses affected by the Century Freeway Project be deleted, for a General Fund savings of $2,381,123. (Items 160, 161, and 162.)

The Century Freeway project will construct 17 miles of freeway from the Los Angeles airport to the City of Norwalk. The cost of constructing the project is estimated at approximately $885 million. In addition, a $300 million housing replacement program is required under a consent decree issued in connection with the *Keith v. Volpe* court case. The decree requires the Department of Housing and Community Development (HCD) to be the lead agency in an 8–10 year program of relocating, rehabilitating, or replacing 4,200 housing units which have been or will be displaced by the freeway. Funding for both of these project elements is split between the federal and state highway funds on a 92 percent/8 percent basis. The budget for HCD (Item 163) includes $1.7 million in reimbursements from Caltrans, as the first step of the required housing program.

The budget of the Department of Economic and Business Development proposes a total of $2,381,123 from the General Fund for relocation and other related technical assistance to businesses affected by the Century Freeway Project.

This amount includes:

1. Four positions in the Office of Local Economic Development (Item 160)	$101,123
2. Travel (Item 160)	5,000
3. State-guaranteed loans and technical assistance (for transfer to the Small Business Expansion Fund—Item 161)	1,200,000
4. Grants, loans, and technical assistance. (for transfer to the California Economic Development Grant and Loan Fund—Item 162)	1,075,000
Total	$2,381,123

Our analysis indicates that the proposal should not be approved for two reasons:

1. No justification for this expenditure has been submitted to the Legislature, and the department is unable to demonstrate why the project is needed. When this analysis was written, the department had not developed a plan identifying the number of businesses affected or the problems to be corrected. Without this information the proposal cannot be analyzed.
2. Costs related to the Century Freeway Project should be charged to the State Transportation Fund rather than to the General Fund. Under current law, the Department of Transportation is required to provide financial and technical assistance to businesses affected by highway construction, and it has a Relocation Assistance Program (RAP) to comply with this requirement.

If it can be demonstrated that the existing services provided by Caltrans are inadequate and need to be expanded, the cost of the additional services is more appropriately a charge to the highway funds.

For these reasons, we recommend the deletion of the proposal, for a savings of $2,381,123 to the General Fund.

New Exempt Position Unjustified

We recommend that a proposed deputy executive director position be deleted, for a General Fund savings of $42,930 (Item 160).

Chapter 875, Statutes of 1979 (AB 1656) makes the director of the Small Business Development Office an appointee of the Governor rather than of the advisory board. Because under existing law each gubernatorial appointee is entitled to have one exempt position reporting to him/her, Chapter 875 automatically gives the director an exempt entitlement. Effective January 1, 1980, the department established administratively a deputy executive director position for the Office of Small Business Development, which is proposed to be continued in the budget year.

The department offers no workload justification or other pertinent information to substantiate the need for this new position. The only apparent reason for the request is that a new exempt entitlement has been created and it must be filled. That reason alone is not sufficient to justify a new position within the department. Nor does existing law require or imply that a new position be established, because an existing position may be filled with an exempt appointment.

The Office of Small Business Development (OSBD) already has six authorized professional positions, one of which has been vacant for nearly a year. Our analysis indicates that this level of staffing is adequate to handle the existing management workload of the office. If workload increases in the future, the department should first fill the vacant position before requesting additional personnel.

Progress in the Small Business Development Program

Last year, our analysis identified several ongoing administrative and management problems in the Small Business Development Program. In recognition of these problems, the Legislature included strong fiscal controls on the program in the 1979 Budget Act. Subsequently, the program was restructured to resolve past administrative and management problems by the enactment of Chapter 875, Statutes of 1979 (AB 1656), in September 1979.

Chapter 875 places the administrative responsibility for the program with the Office of Small Business Development (OSBD), and makes the Small Business Development Board an advisory body to that office. In addition, Chapter 875 provides significant changes in program scope, including (1) a reduction in the maximum state guarantee on loans made by development corporations from 95 percent to 90 percent of the principal, and (2) an increase in the reserve requirement from 50 percent to 100 percent of the guaranteed amount. It also expands the lending scope of development corporations to include revolving lines of credit and interim financing. The new law shifts the entire cost of the development corporation's annual administrative costs to the state, but requires the corporations to be independent of state funding within four years.

During the July–December 1979 period, the number of requests for assistance increased significantly, as shown in Table 3, and program activities expanded accordingly.

Table 3
Selected Workload Data for the Small Business Development Program

	Number of Requests	
Program Elements	*1978–79*	*1979–80 (6 months)*
Technical assistance (on starting, operating, financing a business)	4,665	3,272
Bonding assistance	1,477	1,105
Financial assistance	1,386	848
Business transfers	281	301
Total requests	7,809	5,526

Table 3 shows that the total number of requests for assistance during the first half of 1979–80 amounted to 5,526, or 70.8 percent of the total requests made during the entire 1978–79 fiscal year. In addition, the OSBD has prepared several business and information guides on starting, financing and buying/selling a business. Currently, the office is working on a list of licenses, permits and registrations required to do business in California, as mandated by the License Information Act (Chapter 654, Statutes of 1979; AB 788).

Specific program accomplishments during July–December 1979 included:

1. *Bonding.* Builders' Mutual Surety (the contractor) increased its bonding activity, issuing 284 bonds and 1,876 licenses and permits. The company is raising its bonding capacity, using loans from the federal and local governments, thus reducing the need for state fiscal support. State funding for this program is proposed to be reduced from the $249,000 in the current year to $130,000 in 1980–81.

2. *Business Transfer Program.* In 1978–79, the two consulting firms retained under this program completed the transfer of 16 businesses with total employment of 253, for a total purchase price of $2.4 million at a state cost of $194,596, or $12,162 per transfer. In 1979–80, the two contractors must complete at least 16 transfers each in return for the total contract fee of $100,000, or $6,250 per transfer. For 1980–81, OSBD is proposing to commit the same amount of state funds as in the current year.

3. *Financial Underwriters of Stockton.* Under a contract with the department, this firm provided technical assistance to 70 firms and arranged $1.3 million in financial assistance to 21 disadvantaged businesses in the northern San Joaquin Valley at a state cost of $50,000.

4. *Management and Technical Assistance through Regional Corporations.* Three regional corporations provided a variety of services to small businesses ranging from pre-loan packaging to post-loan monitoring and management problem-solving.

5. *State-Guaranteed Loans through Regional Corporations.* Prior to the enactment of Chapter 875, lending activity was limited because of administrative difficulties in the program, and because the major California banks withdrew from the program after the reserve requirements were lowered from 100 percent to 50 percent of the guaranteed loan.

Chapter 875 restored the 100 percent reserve requirement, resulting in a dramatic growth in lending activity, as the major banks resumed participation in the program.

Table 4 contrasts lending activity through the three regional corporations during 1978–79 with the activity during the first six months of 1979–80, as reported by the regional corporations to OSBD. It also shows the projected amount of encumbered reserves at the end of 1979–80, based on the total amount of reserves encumbered by loans which were approved, but not yet disbursed as of December 31, 1979.

Table 4
Summary of Lending Activity, Using Guarantee-Reserves From the Small Business Expansion Fund

	1978–79	*1979–80 (Six months)*
Loans encumbered as of 7/1	$2,379,210	$1,976,415
Unencumbered reserves as of 7/1	589,457	1,941,536
Number of guaranteed loans	31	24
Total guaranted financing	$2,395,200	$2,003,600
Guaranteed portion (encumbered reserves)	1,787,115	1,867,670
Guarantee-rate (percent)	75%	93%
Number of defaulted loans	2	1
Guaranteed amount defaulted	$389,406	$15,321
Loan-encumbered reserves as of 12/31/79	N/A	4,088,722 [a]
Unencumbered reserves as of 12/31/79	N/A	321,646 [b]
Additional reserves yet to be allocated	—	1,300,000 [c]
Loan-encumbered reserves as of 6/30	1,976,415	3,169,120 (proj.)
Unencumbered reserves as of 6/30	1,941,536	— (proj.)

[a] This figure is $536,052 less than the $4,624,774 shown in the OSBD program summary. Our figure appropriately assumes a reserve requirement of 50 percent on guaranteed loans made from July through September 1979, when the reserve level was officially raised to 100 percent by the OSBD board. The OSBD figure assumes 100 percent reserve on all loans made since July 1, 1979.

[b] This figure is $536,052 more than the $−214,406 (overencumbrance) figure in the OSBD summary. By assuming the appropriate reserve requirement for loans made during the July–September 1979 period, we arrive at a higher unencumbered balance than OSBD.

[c] Appropriated by the 1979 Budget Act, but not yet allocated by OSBD to the regional corporations.

Table 4 shows that during the first 6 months of 1979–80, nearly as much guaranteed financing was provided as in the entire 1978–79 fiscal year. Encumbered reserves during the first half of 1979–80 actually exceeded the 1978–79 amount, because of the higher guarantee-rates in the current year. This increased lending activity, combined with reinstatement of the 100 percent reserve requirement in September 1979 raised the amount of encumbered guarantee-reserves to almost $4.1 million and reduced unencumbered reserves to $321,646 as of December 31, 1979.

In addition, new loans totaling $3.1 million were approved by the regional corporations during the July 1 through December 31, 1979 period, but not disbursed. The portion of the $3.1 million total which will be disbursed during the January–June 1980 period will have to be added to the encumbered reserves at the end of 1979–80.

Although OSBD still has not allocated to the corporations the $1.3 million guarantee-reserve provided by the 1979 Budget Act, the nearly $4.1 million in encumbered reserves as of December 1979 together with additional encumbrances during the January–July 1980 period are expected to leave the office with no unencumbered reserves at the end of 1979–80.

Appropriation for Small Business Expansion Fund Proposed to Double

The budget proposes a $3,800,000 General Fund appropriation to the Small Business Expansion Fund for guaranteeing loans to small and disadvantaged businesses. These loans would be made through regional development corporations. A $1.2 million portion of the $3.8 million total is proposed for guaranteeing relocation and other related loans to small businesses affected by the Century Freeway Project in Los Angeles, discussed earlier.

The remaining $2.6 million is proposed to support the loan guarantee

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

activity in 1980–81, using 3 regional development corporations located in San Francisco, Fresno and Los Angeles. This amount is double the $1.3 million appropriated for the same purpose in 1979–80. The Governor's Budget states that the 100 percent increase in this appropriation is required by the enactment of Chapter 875 which raised the participating corporations' loan reserve requirement from 50 percent to 100 percent of the total outstanding balance of guaranteed loans.

We recommend approval of the proposed $2.6 million appropriation for the following reasons:

1. The reserve requirement for new loans has been doubled;
2. All currently available reserves are expected to be encumbered as of June 30 1980, with no unencumbered reserve carryover;
3. Demand for state guaranteed small business loans is expected to remain high in 1980–81.

Contract Services for New Projects Overbudgeted

We recommend that "contract services—new projects," be reduced, for a General Fund savings of $87,000 (Item 160).

The department is requesting $417,000 for new contract services in its Small Business Development Program. Of that total amount, $130,000 is proposed for contracting with Builders' Mutual Surety to provide bonding assistance for small business, and $200,000 is budgeted for contracts in the Business Transfer Program. The remaining $87,000 had not been proposed for any specific purpose at the time this analysis was written. The department could only indicate some general program areas where the funds may be used, but had no detailed proposal to justify the need. On this basis, we recommend deletion of the $87,000.

Small Business Expansion Fund

We recommend that the amount required for expenditure in 1980–81 and in subsequent years from the Small Business Expansion Fund be appropriated in the Budget Bill (add Item 161.1).

The Small Business Expansion Fund is a depository for state General Fund appropriations to guarantee loans made by private lenders to small businesses through regional development corporations. Recently enacted legislation (Chapter 875, Statutes of 1979) also permits the use of the fund for specified direct, short-term loans by the corporations. Money in the fund is continuously appropriated without regard to fiscal year, and remains available for guaranteeing or letting loans. The state's guarantee-liability is limited to the amounts appropriated from the General Fund. Money from the Small Business Expansion Fund is allocated periodically by the Advisory Board to the Office of Small Business Development of the department to the active regional corporations for their use as loan guarantees, or direct loans. Defaulted loans are paid off from the guarantee account of the corporation which originated the loan and the liability is limited to the balance in each corporation's guarantee-reserve account. Current law specifies a maximum guarantee of 90 percent of the loan amount and a reserve requirement of 100 percent of the guaranteed amount.

We recommend that beginning in 1980–81 and continuing annually thereafter, the Legislature appropriate, as a separate item in the Budget Bill, the amount required for annual expenditures from the Small Business Expansion Fund to assure annual legislative review and control over this fund.

California Economic Development Grant and Loan Fund

We recommend that the amount required for expenditure in 1980–81 and in subsequent years from the California Economic Development Grant and Loan Fund be appropriated in the Budget Bill (add Item 162.1). We further recommend that the uncommitted fund balances resulting from repayments on loans be used to offset current General Fund support for the Department of Economic and Business Development (Item 160).

The California Economic Development Grant and Loan Fund was established in 1977 as a depository for federal, state and local funds. The funds are used to make economic development grants and loans to public and private entities for the primary purpose of creating jobs in areas of high unemployment.

Under this program, federal funds are allocated by the Economic Development Administration (EDA) under Section 304 of the Public Works and Economic Development Act of 1965 for economic development projects, such as public works, business loans, and technical assistance. The states are required to match the federal contribution to each project on a $1 for $4 basis. The states select the projects, but must submit them to EDA for approval.

Projects are funded under this program either as grants or loans. Grants are provided to public and nonprofit agencies, primarily for public works and development facilities needed for local or regional business expansions. Loans ranging from $100,000 to $350,000 are provided directly to public agencies, or private businesses wishing to locate or expand their operations in high unemployment areas. These are generally long-term, low interest loans, and may be used for financing the cost of fixed assets, equipment, or for working capital. The loans must be for projects in an area with EDA-approved Overall Economic Development Plan, applicants must demonstrate their inability to secure a loan from other sources. Loan repayments are deposited in the fund, and may be reallocated as economic development grants or loans without a federal match requirement as long as they are used according to provisions of Section 304.

All funds deposited in the California Economic Development Grant and Loan Fund are continuously appropriated without regard to fiscal year, and remain available for authorized economic development expenditures.

For the past two years, the fund acted as a depository for an annual state appropriation of $625,000 to match federal Section 304 funds. Grant and loan funds were allocated to local entities by the Office of Local Economic Development of the department. Beginning in 1979, however, the fund began to accumulate loan repayments. As noted above, these funds can be used to support a variety of projects. In the current year, $50,000 from the fund was provided to the Southwest Border Regional Commission.

Under federal law, no portion of any loan repayments are considered to be federal funds, and these amounts may be used for any economic development purpose approved by the Legislature. Thus, these funds could be appropriated by the Legislature to replace existing General Fund revenues used to support economic development activities, or to expand the state's economic development effort.

Neither the balances in the Economic Development Grant and Loan Fund nor the expenditures from the fund have been reported in the Governor's Budget in the past. As a result, the Legislature has not had an opportunity to participate in the specific determination of how these funds are to be used.

To assure annual legislative review and control over this program, we recommend that the Legislature appropriate the required amount for expenditure in the 1980 Budget Bill and in future Budget Bills. In addition, we recommend that the fund balances resulting from the repayment of loans be appropriated by the Legislature for specific uses. In our analysis of the Southwest Border Regional Commission (Item 39) we recommend that $50,000 from this source be used to replace the proposed General Fund appropriation. We recommend the remaining balances be used to reduce the 1980–81 General Fund appropriation for support of the Department of Economic and Business Development (Item 160).

Unjustified Contracted Services

We recommend that the proposed contract for computerized economic information be deleted, for a General Fund savings of $30,000 (Item 160).

The budget includes $30,000 to continue a current year contract with Data Resources, Incorporated (DRI). This contract provides the department with computerized economic information, including U.S. and California data base, as well as access to the U.C.L.A. econometric model. This information is used by the Office of Planning, Policy and Research Development (OPPRD) of the department in preparing reports, such as the quarterly "California Outlook" and the monthly "Consumer Price and Labor Force Statistics," as well as special studies. The publications are distributed, on a limited basis, to interested governmental officials.

Our analysis indicates that continuation of this contract in 1980–81 is not justified for the following reasons:

1. The major portion of the contract-cost is for accessing DRI's U.S. economic data base and the U.C.L.A. econometric model. We understand, however, that, beginning July 1, 1980, the U.S. economic data base will be available to all state agencies through the California Fiscal Information System (CFIS) of the Department of Finance. In addition, all interested state agencies currently have access, at nominal cost, to another econometric model used by the Department of Finance.

2. About $3,000 of the total contract-cost is for accessing Security Pacific's California Data Bank, available through DRI. We are informed by the Department of Finance that this data bank will also be available through CFIS, beginning September 1, 1980. In the meantime, California economic data are available at no additional cost from the Department of Finance and other state agencies.

Consequently, it appears that all of the economic information the OPPRD proposes to contract for on a sole-source-basis with DRI, will be available on a time-sharing basis from other state agencies at no significant additional cost. Therefore, we recommend disapproval of the proposed contract with DRI.

Travel Survey Should Be Done In-House

We recommend that $41,000 budgeted in contracted services for a travel survey be deleted (Item 160).

The department's proposed budget for contracted services includes $41,000 for a travel survey to be completed by a private consultant. This proposal was included in the 1979–80 Governor's Budget but was deleted by the Legislature.

The survey is to provide information to the Office of Visitor Services regarding the interests, travel patterns, and spending habits of tourists visiting California, in order to target promotional efforts in the most cost-effective manner.

Our analysis indicates that this survey can be completed in-house at no additional state cost. The Office of Visitor Services already has the methodology for such a survey. Furthermore, additional professional research staff approved for the current year and increased clerical staff proposed for the budget year should accommodate the staff needs of the survey. If the office considers this survey a high research priority, it should reorder the priorities of its own staff rather than add contract funds. Accordingly, we recommend these funds be deleted.

Funding for Word Processor Unnecessary

We recommend deletion of proposed funding for word processing equipment, for a General Fund savings of $5,000 (Item 160).

The department's proposed budget includes $5,000 for word processing equipment in the Office of International Trade. This amount was originally requested to pay the anticipated 1980–81 lease-cost of authorized word processing equipment which was to be acquired on a lease-purchasee agreement during 1979–80. Subsequent to the original request, however, the department purchased the equipment with current-year savings. Consequently, the $5,000 for 1980–81 is no longer needed.

Program Performance Measures

We recommend that the Department of Economic and Business Development develop specific program performance measures, as required by law.

Chapter 345, Statutes of 1977 (SB 28), which created the Department of Economic and Business Development, requires the department to submit annual reports to the Governor and to the Legislature. This report must contain information on the effectiveness of the department in carrying out its statutory functions and responsibilities. Chapter 345 further specifies that such information must be based on specific program performance measures developed by the department in cooperation with the Department of Finance.

During 1978, the department developed a system of measuring work-

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

load, and its first annual report, published in February 1979, listed accomplishments measured in units of workload. To date, however, no measures of program effectiveness have been developed. Therefore, we recommend that the department comply with the law by developing measures of program effectiveness. These measures should be used in evaluating the effectiveness of the department's programs in subsequent annual reports.

Business and Transportation Agency

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Items 163 and 165 from the General Fund and Item 164 from the Energy and Resources Fund — Budget p. BT 25

Requested 1980–81	$114,707,830
Estimated 1979–80	55,322,644
Actual 1978–79	22,170,726
Requested increase (excluding amount for salary increases) $59,385,186 (+107.3 percent)	
Total recommended reduction	$3,080,470

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
163	Department of Housing and Community Development. For direct support of departmental operations.	General	$11,640,542
164	Department of Housing and Community Development. For support.	Energy and Resources	610,000
165	Department of Housing and Community Development. For local assistance.	General	4,972,000
—	Prior year balances available from Chapter 1043, Statutes of 1979	General	250,000
—	Health and Safety Code, Section 41176	Housing Pre-development Loan	1,200,000
—	Health and Safety Code, Section 50660	Housing Rehabilitation Loan	5,128,114
—	Health and Safety Code, Section 18060.2	Mobilehome Revolving	2,681,203
—	Health and Safety Code, Section 50660	Solar Energy Revolving Loan	61,200
—	Health and Safety Code, Section 41187	Urban Housing Development Loan	750,000
—	Health and Safety Code, Section 50740	Rental Housing Construction Incentive	72,000,000
—	Health and Safety Code Section 50778	Home Ownership Assistance	5,000,000
—	Reimbursements	—	4,796,556
—	Federal funds	—	5,618,215
	TOTAL	—	$114,707,830

SUMMARY OF MAJOR ISSUES AND RECOMMENDATION

		Analysis page
1.	*Mobilehome Program Transfer. Reduce Item 163 by $641,633.* Recommend deletion of General Fund support and increase in reimbursements to continue the existing funding agreement.	272
2.	*Urban Housing Development Loan Fund. Reduce Item 165(d) by $1,675,000.* Recommend deletion of augmentation to Loan Fund.	273
3.	*Staff support for Predevelopment Loan Funds. Reduce Item 165 by $60,000.* Recommend deletion of one position for rural predevelopment loan fund. Recommend deletion of one position for urban development loan fund if recommendation number 2 is approved.	274
4.	*Housing elements. Reduce Item 163 by $111,337.* Recommend deletion of three positions to comply with legislative intent.	276
5.	$100 Million Housing Program. Recommend that prior to budget hearings the department submit a status report on the implementation of Chapter 1043, Statutes of 1979 to the Legislature.	277
6.	*Manufactured Housing Study. Reduce Item 163 by $50,000.* Recommend reduction of contract services for preparation of report on manufactured housing.	278
7.	*Affordable Housing Design Contest. Reduce item 163 by $500,000.* Recommend deletion of Affordable Housing Design competition.	279
8.	*Administration. Reduce Item 163 by $42,500.* Recommend deletion of proposed deputy director for administration.	280
9.	Administration. Recommend control language to prohibit funding of a position previously deleted by the Legislature.	281

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 three programs: (1) Codes and Standards, (2) Community Affairs, (3) Research and Policy Development.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures for support of the Department of Housing and Community Development totaling $114,707,830 from various funds in 1980–81. This is $59,385,186, or 107 percent, more than estimated

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Departmental expenditures in the past, current, and budget years are summarized in Table 1, by program and funding source. Table 1 shows that General Fund appropriations comprise 14.7 percent of the total budget. The proposed 1980–81 General Fund expenditures of $16,862,542 are $437,794, or 3 percent, more than the estimated current year General Fund expenditure. Table 1 also shows that the special funds created by Chapter 1043, Statutes of 1979—the Housing Rehabilitation Loan Fund, the Rental Housing Construction Incentive Fund, and the Home Ownership Assistance Fund—account for $82 million, or 72 percent of the total budget. The amounts in these special funds were appropriated from the General Fund by Chapter 1043.

Table 2 shows the significant changes in the department's 1980–81 budget, including changes from the General Fund, special funds, federal funds, and reimbursements. It shows that of the net changes totaling $59,385,186, $437,794 are from the General Fund, $63,536,130 are from special funds, $5,191,916 are from decreased federal funds, and $603,778 are from reimbursements.

The significant General Fund changes include the addition of the solar design competition ($500,000) transfer of mobilehome program from DMV ($641,000) and the reduction in the augmentations to the rural predevelopment loan fund (−$1,025,000). The significant special fund changes include the increased second year funding for the 1979 Housing program ($64.5 million) and the addition of the solar water heating program in migrant camps ($610,000). The significant federal fund changes include a reduction due to a one-time pass through of migrant camp

Table 1
Department of Housing and Community Development
Expenditure and Source of Funds

Program Expenditures	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*
Codes and Standards Program	$4,579,357	$5,330,739	$6,498,769
Community Affairs Program	16,387,427	48,008,020	105,539,541
Research and Policy Development Program	586,970	748,885	1,360,420
Emergency Services Program	563,392	1,235,000	1,309,100
Administration—distributed	(851,237)	(1,155,058)	(1,547,673)
Administration—undistributed	53,580	—	—
Totals, Program Expenditures	$22,170,726	$55,322,644	$114,707,830
Source of Funds			
General Fund	*$11,526,803*	*$16,424,748*	*$16,862,542*
Farmworker Housing Grant Fund	*452,133*	*316,906*	—
Housing Predevelopment Loan Fund	*1,069,458*	*1,223,062*	*1,200,000*
Housing Rehabilitation Loan Fund	*37,597*	*7,000,000*	*5,128,114*
Mobilehome Revolving Fund	*1,563,339*	*2,579,440*	*2,681,203*
Solar Energy Revolving Loan Fund	*81,757*	*108,171*	*61,200*
Urban Housing Development Loan Fund	*510,053*	*166,808*	*750,000*
Rental Housing Construction Incentive Fund	—	*10,000,000*	*72,000,000*
Home Ownership Assistance Fund	—	*2,500,000*	*5,000,000*
Energy and Resources Fund	—	—	*610,000*
Federal Funds	*3,882,809*	*10,810,131*	*5,618,215*
Reimbursements	*3,046,777*	*4,193,378*	*4,796,556*

construction funds to local agencies ($5,191,916). The significant reimbursement changes include the increased Century Freeway project ($710,000 from Caltrans) and increased planning assistance ($488,750 from OPR).

Table 2
Department of Housing and Community Development
Proposed 1980–81 Budget Changes

	General Fund	*Special Fund*	*Federal Funds*	*Reimbursements*	*Total*
1979–80 Current Year Revised	$16,424,748	$23,894,387	$10,810,131	$4,193,378	$55,322,644
A. Workload Changes					
Administrative support	238,000	—	—	—	238,000
Migrant camp maintenance	500,000	—	—	—	500,000
Energy-related plan review	—	—	—	185,000	185,000
Housing Advisory Service	450,000	—	—	—	450,000
Urban predevelopment loans	175,000	—	—	—	175,000
Rural predevelopment loans	−1,025,000	—	—	—	−1,025,000
(Subtotal workload)	($338,000)	—	—	($185,000)	($523,000)
B. Program Changes					
Deputy director	42,500	—	—	—	42,500
Migrant study	67,500	—	—	—	67,500
Technical assistance	339,000	—	—	—	339,000
Transfer migrant day care	−425,000	—	—	—	−425,000
Route 2 assistance	—	—	—	159,000	159,000
Change in reimbursements	—	—	—	−938,986	−938,986
Manufactured housing study	50,000	—	—	—	50,000
Comprehensive planning	—	—	—	488,750	488,750
Century Freeway	—	—	—	709,414	709,414
Transfer of mobilehome programs	641,000	—	—	—	641,000
Onetime pass through federal programs	—	—	−5,191,916	—	−5,191,916
1979 Housing program (AB 333)	—	64,500,000	—	—	64,500,000
Solar design competition	500,000	—	—	—	500,000
Solar heating migrant camps	—	610,000	—	—	610,000
Change in loan funds	—	−1,573,870	—	—	−1,573,870
One-time appropriations—not carried forward	−1,656,713	—	—	—	−1,656,713
(Subtotal program changes)	($−441,713)	($63,536,130)	($−5,191,916)	($418,178)	($58,320,679)
C. Cost Changes					
Price increases	541,507	—	—	—	541,507
Totals Proposed Budget Changes	$437,794	$63,536,130	$−5,191,916	$603,178	$59,385,186
1980–81 Proposed Expenditures	$16,862,542	$87,430,517	$5,618,215	$4,796,556	$114,707,830

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

CODES AND STANDARDS PROGRAM

The Codes and Standards Division is responsible for protecting the public from unsafe and unsanitary structures through the development and enforcement of adequate building and housing standards and regulations. The department operates five inspection programs which are required by:

1. the state housing law and earthquake protection law
2. employee housing law
3. mobilehome parks and accessory structures law
4. mobilehome manufacturing law
5. factory built housing law

Transfer of Mobilehome Program

We recommend that funding for the Mobilehome Licensing and Regulation program continue to be derived from Department of Motor Vehicles reimbursements, for a General Fund savings of $641,633.

Currently, the Department of Motor Vehicles (DMV) administers a program to license and regulate mobilehome manufacturers, dealers, and sales persons. In order to fund this program, DMV charges an annual fee which is deposited in the State Transportation Fund, Motor Vehicles Account.

The budget proposes to transfer this program to HCD in order to consolidate it with other mobilehome programs such as those providing for the inspection of mobilehome manufacturers' facilities and mobilehome parks. This transfer is to be achieved by means of an interagency agreement between DMV and HCD which will become effective March 8, 1980.

DMV will fund this program in the current year from the Motor Vehicle Account. In the budget year, the department proposes to support the licensing activity from the General Fund, even though DMV will continue to collect and deposit licensing fees in the Motor Vehicle Fund. General Fund support would be provided until legislation granting HCD the authority to collect the fees is enacted.

Until appropriate legislation is enacted, we believe DMV should continue to transfer revenues derived from licensing fees to HCD under the provisions of the interagency agreement. In this way, program expenditures would be tied directly to the funds collected for that purpose. Because this would result in a savings to the General Fund, we recommend that Item 163 be reduced by $641,633.

COMMUNITY AFFAIRS PROGRAM

The Community Affairs program seeks to assist residents in obtaining decent housing in liveable communities. It does so by providing technical and financial assistance to housing sponsors and local governments. Financial assistance is provided in the form of grants, loans, and housing subsidies funded from local, state, and federal sources. This program has five elements:

1. housing development and technical assistance;
2. rehabilitation loans, grants and assistance;
3. farmworker housing development services;
4. planning and review;
5. housing replacement, relocation and demonstration.

Urban Development Loan Fund

We recommend deletion of the proposed augmentation of the Urban Housing Development Fund, for savings of $1,675,000 in Item 165(d).

Loan Fund Status. The Urban Housing Development Loan Fund was established by Chapter 1177, Statutes of 1977, to provide loans to public agencies and nonprofit corporations to assist in the development of housing for low income urban families. The program acts as a revolving source of development funds that can be used for expenses (excluding administration and construction) incurred in the process of securing long term financing. The loan term is 18 months, and interest is charged at the average yield of the Pooled Money Investment Account, unless waived.

Chapter 1177 appropriated $0.5 million from the General Fund to the loan fund in 1977, and the Budget Act of 1979 appropriated an additional $1.5 million.

As of December 1979, the department had approved 24 loans worth $2,146,000. At that time the fund had a total of $8,856 available for commitment. The department anticipates that the fund will receive an additional $1 million from loan repayments in the budget year.

The department has approximately 5 loan applications requesting $250,000 currently on file awaiting approval.

Budget Proposal. The budget proposes an additional $1,675,000 from the General Fund for transfer to the Urban Housing Development Fund in 1980–81. The department maintains that this amount is needed to meet the demand for loan funds. The department cites the backlog of applications awaiting funding as evidence of this demand.

The department has approved 24 loans since the start of the program. Eighteen of these loans totaling $669,000 have been in the $20,000 to $60,000 range. The loans have helped produce 1,359 units, at a state cost per unit of $492. The remaining six loans, totaling $1,477,000, have been larger, ranging from $115,000 to $389,000. They have helped produce 294 units, at a state cost per unit of $5,023. Table 3 shows the recipients and amounts of the six loans.

Table 3
HCD-Urban Housing Development Loan Fund
Loan Recipients and Loan Amounts

Recipient	*Location*	*Units*	*Loan Amount*
Minority Contractor's Association of Los Angeles	LA	20	$389,000
Satellite Senior Homes Inc.	Oakland	150	238,000
LA Housing Authority	LA	50	300,000
Oakland Better Housing, Inc.	Oakland	30	200,000
Unitarian Housing Association	Santa Monica	32	115,000
Alternative Housing for the Aging	LA	12	235,000
Totals		294	$1,477,000

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Our analysis indicates that the department is not administering this program so as to maximize the number of low cost housing units that can be produced. If the department adopted a policy of awarding loans based on number of units produced per $1,000 of state money, less state money would be required to develop the same number of units. For example, the cost of providing seed money for the 294 units shown in Table 3 would have been $144,648, rather than $1,477,000, if more cost-effective applications (such as those in the $20,000 to $60,000 range, discussed above) had been funded.

If the department restricts funding to the more cost-effective loans, the $1 million in repayments anticipated during 1980–81 could help reduce 2,032 units for low income persons. As Table 4 shows, this is only 28 less units than the number of units that could be developed with the proposed $1,675,000 augmentation, if the department continues to provide funds at the same cost per unit. On this basis, we recommend the deletion of the proposed augmentation to the Urban Housing Development Loan Fund, for a savings of $1,675,000 in Item 165(d).

Table 4
Housing Units Assisted
Comparison of HCD Results and LAO Recommendations

Past History (1978–1980)	*Units*	*$/Unit*	*Loan Amount*
6 loans ($115,000–$389,000)	294	@$5,023	$1,477,000
18 loans ($20,000–$60,000)	1,359	@492	669,000
Total, loans approved	1,653	@$1,298	$2,146,000
1980–81 Governor's Budget			
30 loans—Budget proposal	2,060	@$1,298	$2,675,000
25 loans—LAO recommendation	2,032	@492	1,000,000
Difference	28	806	$1,675,000

Additional Staffing for Predevelopment Fund Programs

We recommend that one position for rural predevelopment fund workload be deleted from Item 163 for a savings of $30,000. In the event the Legislature accepts our recommendation to delete the appropriation to the urban development fund, we further recommend one position for related workload be deleted from Item 163, for a savings of $30,000.

The current departmental unit which administers the urban and rural predevelopment loan funds consists of three professional positions and supportive staff. The budget proposes two additional positions for 1980–81, based on increased workload resulting from proposed augmentations to the programs.

The department originally proposed an increase of $1.25 million to the rural predevelopment fund. The Governor's Budget, however, proposes an increase of only $225,000. As a result, workload in this program will be significantly less than anticipated when the positions were first proposed.

In addition, the implementation of an approved computer accounting system plus increased staff support in the Administration Division should enable the existing program staff to absorb the minor workload increase. Accordingly, we recommend that one position be deleted, for a savings of $30,000.

If our recommendation to reduce $1,675,000 from the proposed appropriation to the Urban Housing Development Loan Program is approved, the anticipated workload justifying the second position will not materialize. We would therefore recommend the second workload position be deleted, for a savings of $30,000.

Housing Elements

Government Code Section 65302 requires that local agencies submit a housing element component for their local general plans to the department for review. Health and Safety Code Section 50459 authorizes the department to promulgate regulations delineating the content of the housing element.

There has been much confusion and controversy generated in recent years regarding whether the guidelines promulgated by the department are mandatory or advisory. At issue is the role of the state in determining the adequacy of plans approved locally.

In the Budget Act of 1979, the Legislature deleted two positions proposed by the department to provide additional staffing for the housing element review process. In addition, the Supplemental Report of the 1979 Budget Act states:

> "It is legislative intent that no funds appropriated by this act or from any other source shall be expended to enforce or in any other way to promote the state housing element guidelines by imposing any fiscal or legal requirements upon cities and counties or for purposes of requiring local government to include any specific provision in a local housing element: and provided further, that the department shall not expend any funds to approve or disapprove local housing elements or to participate in litigation involving local housing elements, except the department may review such housing elements and, at the end of the fiscal year, report its findings to the Legislature."

In response, the Governor included this statement in his 1979 Budget Act veto messages:

> The language in the Supplemental Report of the Committee of Conference on the Budget Bill relating to the housing element guidelines of the Department of Housing and Community Development is contrary to statutory law. If the department were to comply with the request of the Legislature as stated in the supplemental language, it would be in violation of State law. The law requires localities to adopt a housing element developed pursuant to regulations promulgated by the department. On November 17, 1977, the department adopted binding regulations (entitled "Housing Element Guidelines") as authorized by law.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Therefore, notwithstanding Section 16 of the Budget Act, I am directing the department to continue to review housing elements for adequacy under the 1977 Guidelines and to take all appropriate actions to enforce the housing elements.

Compliance with Legislative Intent

We recommend that the department not conduct enforcement activities, pursuant to legislative direction, and that three positions be deleted, for a savings of $111,337 in Item 163.

In the Supplemental Report, the Legislature set forth criteria for determining when funds could be used for housing element review, and specified that no funds were to be used to: (1) enforce guidelines, (2) promote guidelines, (3) approve or disapprove housing elements, (4) participate in litigation.

The department reports that it will utilize a total of 8.8 personnel-years in the current year to provide review (7.4), technical assistance (0.9), and enforcement services (0.5).

In the current year, staff assigned to cover enforcement workload is relatively low (6 percent of total staff time) because current-year activities have focused on agencies which have complied with the submission requirements. In the budget year, substantially more staff will be directed to enforcement activities because the department will focus on those agencies which have not complied with the requirements contained in its regulations. Our analysis indicates that the enforcement effort will increase to approximately three personnel-years because of the changing nature of the workload.

The issue of whether departmental guidelines pertaining to the housing element should be mandatory or advisory is a major policy issue that should be resolved by the Legislature. Accordingly, we recommend that legislation be enacted to clarify the department's role and authority in reviewing local housing elements. Pending resolution of this policy issue, we recommend deletion of three positions for enforcement of housing elements for savings of $111,337 on the basis that the proposed positions would be used in the manner contrary to legislative intent as expressed in the Supplemental Report of the 1979 Budget Act.

$100 Million Housing Program

Chapter 1043, Statutes of 1979, provided $100 million for stimulating the production of low and moderate cost housing units. The $100 million included $82 million for a new Rental Construction Incentive Program, $7.5 million for a Homeownership Assistance program, $10 million for an expanded deferred payment rehabilitation loan program, and $0.5 million for departmental administration.

Status Report on Chapter 1043.

We recommend that the department submit an implementation plan for Chapter 1043, including program regulations and anticipated schedule *of fund disbursements, to the fiscal subcommittees prior to the department's budget hearings.*

Although Chapter 1063 was enacted to provide a one-time stimulus to the housing industry, 2–4 years will be needed to fully implement the statute's requirements. The department has developed a staffing plan and has begun to fill 18 positions. It is also developing regulations. Once regulations are adopted, the department can begin committing funds to eligible housing sponsors.

At the time of the preparation of the Analysis, the department has not completed its implementation plan for Chapter 1043. In order to provide the Legislature with an opportunity to review the program's development at an early stage, we recommend that the department present a status report to the fiscal subcommittees prior to the department's hearings.

Century Freeway Housing Program

The Budget proposes $1,778,682 and 26 positions to implement a court decree relating to the Century Freeway Construction program. This consent decree resulted from the *Keith v. Volpe* court case regarding a 17 mile freeway corridor from the Los Angeles airport to the City of Norwalk. The decree requires HCD to be the lead agency in a 8–10 year program of relocating, rehabilitating, or replacing 4,200 housing units which have been or will be displaced in this corridor. The cost for the housing component will be included in the total project budget. The court decree is the result of almost 10 years of litigation and negotiations between the plaintiffs' attorney, Cal Trans, the federal highway administration, and the department.

The $1.8 million proposed for 1980–81 is fully reimburseable through an interagency agreement with the Department of Transportation (Cal Trans). This amount represents the first step in a far greater program. Construction of the Century Freeway project is estimated to cost approximately $885 million and the housing replacement program will add $300 million. The funding for the project will be split between the federal and state highway funds on a 92 percent/8 percent basis.

There are several issues related to the Century Freeway program which should be considered by the Legislature.

First, the judicial branch has interpreted federal law in a way that will greatly increase the federal and state cost of constructing new freeways. The court decree places a much greater emphasis on meeting the housing needs of the corridor area, and as a result, housing issues will take on a much greater importance in the freeway construction process. The court decree is significant in that the additional cost of mitigating housing problems will result in large increases in the total cost of freeway projects. This will reduce the number of projects that can be undertaken, because individual projects will be more costly.

Second, our analysis of the position descriptions and duty statements of both the proposed HCD positions and the existing CalTrans staff suggests a significant potential for overlap and duplication. For instance, HCD is proposing a number of right-of-way and rehabilitation positions, even though CalTrans is heavily staffed in these areas already. While we would prefer to avoid possible overlap and duplication, we recognize that this is required, in part, by the court decree. Since the implementation plan requires HCD to provide policy and management direction and CalTrans to provide the technical and operational work, some overlap between the two agencies is inevitable. However, the department and CalTrans have not developed a formal implementation plan to identify the responsibilities of each agency. When HCD staff develops this plan and submits it to the federal highway administration for funding, we will have a better basis for evaluating this issue.

RESEARCH AND POLICY DEVELOPMENT PROGRAM

The research and policy development program provides research support to the department by identifying housing needs and by developing and recommending solutions. It does this by annually updating the California Statewide Housing Plan and reviewing state, local government plans, and developing housing data and statistical information. The budget for the division includes $1.3 million to support 23 research and policy development positions.

Manufactured Housing Study

We recommend reduction of $50,000 from Item 163 to delete funding for a proposed study of the manufactured housing industry in California.

The department proposes to evaluate the contributions of the manufactured housing industry in meeting the demand for affordable housing. The amount of $50,000 will be used to hire a consultant to prepare the report.

Our review of the current workload of the research and policy development division indicates that this study can be performed without additional staff, for two reasons.

First, the division has the authority to establish priorities for its research workload and to concentrate its efforts on the most beneficial areas of research. If the department considers manufactured housing to have a high priority, staff resources should be shifted to that area and away from lower priority work.

Second, the department previously indicated that it would not require additional staffing for this purpose. The department bases its request for additional funding on the need to respond to legislative mandates such as Resolution Chapter 82, Statutes of 1979 (SCR 26). This resolution requests that the department submit to the Legislature a comprehensive study of the condition of the California manufactured housing industry. However, during legislative hearings on this bill the department's position was that the study could be provided with existing resources.

Affordable Housing Design Contest

We recommend the deletion of funds proposed for an affordable housing design competition, for a savings of $500,000 in Item 163.

The department proposes $500,000 for a competition designed to encourage innovative energy saving ideas for the construction of housing units affordable to the moderate to low income person. The proposed expenditure includes $300,000 for cash awards, $160,000 for an interagency agreement with the Office of Appropriate Technology (OAT), and $40,000 for HCD administrative costs.

This proposal for a design contest aimed at affordable housing is very similar to the passive solar design competition established by Chapter 1367, Statutes of 1978 and administered by OAT. In enacting Chapter 1367, the Legislature's intent was to demonstrate the technical and economic feasibility of designing solar features into residential construction. The emphasis was on moderately priced housing with sales prices limited to $50,000 per unit for multi-family projects and $80,000 for single family dwellings.

The department indicates that the new competition would be structured and advertised to elicit broad participation from architects and builders in order to "foster innovative energy-efficient low cost housing plans designed specifically for California climates." We are unable to verify the structure or detail of the proposed program because no formal plan has been submitted by either OAT or HCD.

In the absence of detailed information on the proposal, we recommend deletion of the funds for the following reasons. First, the competition appears to be duplicative of the previous contest sponsored through OAT. Unless the department can show that the emphasis would be different or the participating architects or builders would be different, we can identify no additional benefits that would be produced through the contest.

Second, there is no assurance that the state effort will add to the results of the federal effort in promoting energy efficient design in low cost housing. The federal Department of Housing and Community Development, in conjunction with the American Institute of Architects, has sponsored an extensive program of various design competitions. The winning designs, many of which were either from California or applicable to California climatic zones, were published and are widely disseminated throughout the state.

Third, we have no basis for verifying the need for the amount proposed for cash awards. Preliminary plans indicate that the department intends to award a total of $300,000 for cash awards in the $15,000–$25,000 range. In contrast, the OAT contest awarded a total of $150,000 for cash awards in the $3,000–$5,000 range. Although it may be difficult to determine the precise amount of awards needed to encourage participation, the department should be required to justify the proposed level of cash awards.

Fourth, it is essential that the concept of "affordable" housing be defined in order that reasonable program results will be achieved. The department must show that the competition will result in practical and useable energy-saving ideas in housing for persons of low and moderate income.

Our analysis suggests that, if a designer or builder chooses to utilize solar or energy saving techniques, the design models are already available. The problem facing the architect or builder is one of financing, which is not addressed by this program. For these reasons, we recommend deletion of $500,000 for an affordable housing design competition.

ADMINISTRATIVE SUPPORT

The administrative program gives direction to the department's activities, establishes operating procedures, and provides centralized support in the legal, accounting, personnel and budgeting functions. The department proposes 13.5 new positions for the administrative program. These positions include a deputy director for administration, a legal counsel, an auditor, a program analyst, four accountants, two personnel analysts, and three clerical. The budget also includes $67,500 for a management review of the Administrative Services Division.

The proposals represent a 33 percent increase in funds allocated to administrative support. This growth is attributable to increased workload due to new legislative mandates as well as an attempt to improve areas of administrative weakness.

During the past year, audits of the department performed by the Department of Finance and the Auditor General's office have identified problems in the department's internal operations. The Auditor General's report of September 25, 1979 cited "serious continuing administrative deficiencies in personnel, travel and contracting procedures." In response to deficiencies identified in these reports, the department has developed travel and personnel guidelines and proposed additional staffing in the areas of personnel, contracts, and auditing. In general, the proposed staffing increase represents an attempt to strengthen internal management capability and to deal with the increased workload of new housing finance programs.

The department continues to face problems in attempting to manage the wide range of existing programs. These problems include: lack of computer capability to track loan status, lack of expenditure accountability on the part of individual program managers, and lack of adequate contract administration capability. The addition of major new programs such as the $100 million housing production program, the transferred DMV positions, and the Century Freeway project will only exacerbate the present situation.

Outside Review Needed

We recommend the deletion of the proposed Deputy Director for administration, for a savings of $42,500 in Item 163.

The budget proposes the establishment of a Deputy Director for administration, at the CEA II level. The budget also includes $67,500 for a management consultant to review the internal operations of the department.

It would be premature to establish the deputy director position before the management review is performed and evaluated. In the budget year, the department proposes adding technical personnel, and developing a computer system to handle administrative workload. The management review will study the effects of these augmentations, and will identify the need for additional steps, including management reorganization. We believe the existing administrative structure should be retained until the internal review is performed and evaluated.

Therefore, we recommend the deletion of the deputy director position until the report of the management consultant can be evaluated.

Control Language Needed

We recommend that control language be added to Item 163 to prohibit funding of a position previously deleted by the Legislature.

A "Special Assistant to the Commission on Housing and Community Development" was proposed in the 1976–77 Governor's Budget but was not approved by the Legislature.

Despite the Legislature's action, the department established this position in both the 1978–79 and 1979–80 fiscal years, using funds made available from the Business and Transportation Agency through an interagency agreement. The department budget does not include funds for the position in the 1980–81 year. We anticipate, however, that the interagency agreement with the agency will be continued.

Our analysis indicates that the department's action is contrary to the provisions of Control Section 15 of the Budget Act which specifically prohibits any appropriation of state funds from being used to achieve any purpose which has been denied by formal action of the Legislature. To prohibit the department from continuing this practice in the budget year, we recommend the following control language:

> "... provided that no funds appropriated by this item or any other item be used to establish a special assistant to the Commission on Housing and Community Development."

Business and Transportation Agency

DEPARTMENT OF INSURANCE

Item 166 from the General Fund — Budget p. BT 40

Requested 1980–81	$12,958,634
Estimated 1979–80	12,583,577
Actual 1978–79	10,775,584
Requested increase (excluding amount for salary increases) $375,057 (+3.0 percent)	
Total recommended reduction	$41,745

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
166	Support	General	$8,848,040
—	Support	Insurance Commissioners Trust	460,157
—	Support	Reimbursements	3,650,437
	Total		$12,958,634

DEPARTMENT OF INSURANCE—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *Fraudulent Claims Investigators. Reduce by $11,745.* Recommend approval of two special investigators instead of two senior special investigators. 284
2. *Training. Reduce by $30,000.* Recommend reduction in request for training. 285
3. Insurance Adjusters. Recommend enactment of legislation to transfer the authority to license independent and public insurance adjusters from the Department of Consumer Affairs to the Department of Insurance. Recommend further that the Insurance Commissioner be given the authority to promulgate necessary rules and regulations for the licensure and supervision of independent and public adjusters. 286

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 in terms of direct premiums written in the state is estimated at approximately $19 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. The department maintains headquarters in San Francisco and branch facilities in Los Angeles, San Diego and Sacramento. It is currently authorized 390.5 positions.

To perform its mission, the department administers two regulatory programs. The Regulation of Insurance Companies program includes: (1) the company consumer services element, which processes general public inquiries and complaints regarding the actions of insurance companies, and investigates insurance fraud; (2) the tax collection element which collects premium, retaliatory, and surplus line broker taxes from insurance companies; and (3) the general regulation element which conducts field examinations and rating examinations of insurers at least once every five years.

The Regulation of Insurance Producers program includes: (1) the producer licensing element which reviews applicants' qualifications, conducts license examinations, and issues and renews licenses; and (2) the producer compliance element which investigates complaints concerning insurance agents and brokers.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $12,958,634 for support of the Department of Insurance in 1980–81, which is an increase of $357,057, or 3.0 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for

Table 1
Cost and Staffing Data
Department of Insurance Programs

		Actual 1978–79		*Estimated 1979–80*		*Proposed 1980–81*	
Program	*Element*	*Personnel-Years*	*Cost*	*Personnel-Years*	*Cost*	*Personnel-Years*	*Cost*
Regulation of Insurance Companies	Company consumer services	70.3	$1,946,487	74.8	$2,310,881	78.1	$2,575,838
	Tax collection..............................	5.4	165,755	6.0	187,560	6.0	191,409
	General regulation	161.8	4,947,897	158.5	5,886,363	158.9	5,956,322
Regulation of Insurance Producers	Producer licensing	82.2	2,085,272	81.2	2,493,783	83.3	2,512,539
	Producer compliance.................	56.6	1,630,173	51.9	1,704,990	53.2	1,722,526
Administration (cost prorated to other programs)		(57.1)	(1,664,741)	(51.2)	(1,801,253)	(53.2)	(1,864,587)
Totals		376.3	$10,775,584	372.4	$12,583,577	379.5	$12,958,634
Reimbursements			−3,387,633		−3,630,141		−3,650,437
Net Totals			$7,387,951		$8,953,436		$9,308,197

DEPARTMENT OF INSURANCE—Continued

the budget year. The department anticipates that budget year expenditures of $3,650,437 will be covered by reimbursements, primarily in the form of fees for examining insurance companies. Cost and staffing data for the department's programs are displayed in Table 1.

Bureau of Fraudulent Claims

Chapter 1070, Statutes of 1978 (AB 3521), established a Bureau of Fraudulent Claims within the department's Division of Consumer Affairs. The bureau is responsible for enforcing Section 556 of the Insurance Code which makes it "unlawful to (1) knowingly present or cause to be presented any false or fraudulent claim for payment of a loss under a contract of insurance, (2) knowingly prepare, make or subscribe any writing, with intent to present or use the same, or to allow it to be presented or used in support of any such claim."

Chapter 1070 also requires any state-admitted insurance company to forward to the bureau, within 60 days after determining that a claim appears to be fraudulent, information relative to the factual circumstances of the claim.

The bureau began operation in April 1979. It conducts investigations involving insurance fraud, provides public information concerning fraud, cooperates with law enforcement agencies, and performs related activities. The bureau is supported by assessment fees paid by all admitted insurers. The annual fee is limited by statute to a maximum of $500. The fee has been set at $264 for the current year. Currently, the bureau is staffed with 10 positions, including seven investigators and three clerical positions.

Insurance Fraud Information System. From July through December 1979, the bureau received 265 cases of apparent fraud forwarded by insurance companies. The number of cases referred have been increasing each month, and the bureau currently receives seven to 10 cases daily. The department anticipates that referred cases will increase as more insurance companies and agents become aware of the bureau's existence and mandated functions.

Assuming that the current rate of referral continues, the department will receive 1,820 cases to 2,600 cases in the budget year. The department has contracted to develop an automated Fraudulent Insurance Claims Information System in anticipation of the increasing workload. This system will enable the bureau to categorize and track case information. The system will also serve as a central source of data to assist fraud investigations by other law enforcement agencies. The bureau is requesting one key data operator to enter information into the system. We recommend approval.

Senior Level Investigator Positions Not Justified

We recommend that requested two investigator positions be approved at a lower classification level than proposed, for a savings of $11,745.

The bureau estimates that approximately 5 percent of the cases forwarded by insurance companies contain sufficient information to warrant assignment for further investigation. For 1980–81, the caseload is expected to range from 90 to 130 cases. Case experience indicates that an average of 200 hours is required to process and investigate each assigned case to the point where the case is closed for lack of evidence or referred to the appropriate agency for prosecution. Thus, each investigator can investigate a maximum of nine major cases per year. Based on the projected workload, the department is requesting two additional senior special investigator positions.

Our analysis indicates that the department's request for new positions is justified by workload. We recommend, however, that the positions be approved at the special investigator level instead of at the senior level. According to the bureau, senior special investigators and special investigators are assigned cases of similar complexity. Moreover, invesigators at both levels require approximately the same amount of training in insurance fraud investigative techniques upon joining the staff. Thus, in terms of duties and expertise in insurance fraud investigations, the two levels are very similar. Approving the proposed new positions at the special investigator level rather than the senior level will result in savings of $11,745.

Specialized Training

We recommend the reduction of $30,000 requested by the department for specialized training.

The department is requesting $116,060 for staff training in the budget year, which is twice the current year's estimated expenditures. Table 2 shows the trend in training expenditures since 1977–78. The requested amount will provide approximately $295 for each proposed position in the budget year.

Table 2
Expenditures on Specialized Training
1977–78 to 1980–81

	Actual 1977–78	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*
Total training	$70,735	$35,432	$58,000	$116,060
Authorized positions	379.6	376.3	390.5	393.5
Training per authorized position	$186.34	$94.16	$148.53	$294.94

A departmentwide training program was established in 1978. Prior to that time, all training funds were expended on electronic data processing (EDP) audit training for insurance examiners. The department now maintains that this limited approach to training is inadequate because the insurance industry is changing and developing at a rapid rate. New and varied industry practices and the extensive application of computer technology have required advanced audit and investigative expertise to enable the department to effectively supervise and regulate the industry.

The training plan for 1980–81 includes training for selected staff in all divisions. Approximately 61 percent of the requested funds are proposed for technical training, primarily EDP audit training and training in various aspects of the insurance industry and practices. About 29 percent of the proposed funds will be expended for management training, and the remaining 10 percent will be used for training clerical and support staff as part of the department's upward mobility and affirmative action program.

Our analysis has identified two problems with the proposal:

1. Total amount of training. The training plan proposes in-service and outside training for approximately 800 training slots. For the 393.5 positions proposed in the budget year, this results in an average of two training sessions per position. The department estimates that the average duration of a training session is three work days. The plan, therefore, proposes an estimated total of 19,200 hours of training, the equivalent to 9.6 positions in the budget year. Because training will be concentrated in the consumer affairs, field examination, and rate regulation divisions, resources in terms of staff hours will be decreased in these divisions accordingly.

2. Rate of training. The department maintains that it lacks technical personnel who are current with the industry's changes and development, and that it needs personnel who can effectively manage department staff. The department also anticipates several retirements within its managerial staff in the next few years.

The department proposes to provide management training to approximately 50 staff members, including 30 existing management staff, and 20 others in order that they could qualify for promotional opportunities. The department, however, has experienced a relatively low turnover, particularly of managerial personnel. For 1977–78 and 1978–79, the turnover was approximately four each year. It is estimated that there will be approximately 10 vacancies due to retirements in the managerial staff within the next two years. Thus, it would appear that the department will not be able to absorb all of the personnel it proposes to train into managerial or supervisory positions during the budget year. Moreover, providing an average of four to five training sessions in one year for each of the 50 staff members appears to be a relatively ambitious rate of training.

Our review also indicates that the department is proposing a wide range of training for both technical and managerial staff, varying from training in basic insurance principles to advanced management seminars and conferences. Our analysis indicates that a wide range of options exists for employees to obtain training. For example, employees in San Francisco can attend one of the numerous public or private institutions offering courses or degrees in both technical subjects and in the areas of business management or public administration.

For these reasons, we recommend that the department assume a more gradual rate of training, particularly in the area of management development, therefore resulting in a savings of $30,000 in training funds in 1980–81.

Independent Insurance Adjusters and Public Adjusters

We recommend enactment of legislation transferring the authority to license independent and public insurance adjusters from the Department of Consumer Affairs to the Department of Insurance. This would result in estimated annual savings of $43,550 to the Private Investigators and Adjusters Fund and a corresponding increase in General Fund support.

We further recommend that the Insurance Commissioner be given the authority to promulgate necessary rules and regulations for the licensure and supervision of independent and public adjusters.

The Consumer Affairs Division of the department processes inquiries and complaints filed by policyholders regarding insurance rates and the disposition of claims. This activity provides the department with a source of information about insurance company rating policies and claims management practices. It also assists policyholders and beneficiaries in obtaining fair and equitable treatment in connection with disputed premium charges and claims. The Fraudulent Claims Bureau is also part of this division.

When a claim is filed by a policyholder or beneficiary to a policy, it is reviewed by the insurance company. The circumstances of the claim are then investigated by an adjuster who subsequently evaluates the validity of the claim. Adjusters may be employed by insurance companies as company staff. Most companies have claim reviewers or adjusters who review casualty and auto claims. Adjusters may also operate on an independent basis, and contract with companies for investigation work on specific types of claims. The independent adjusters function as agents of insurance companies. Adjusters may also function as public adjusters, and contract with individual insurance claimants, thus acting as agents of consumers.

The Department of Insurance licenses and regulates insurance companies, and insurance brokers and agents. It does not license insurance adjusters.

The Department of Consumer Affairs' Bureau of Collection and Investigative Services is responsible for licensing all independent adjusters and public adjusters. For 1979–80, there are an estimated 623 licensees. Of these, 10 percent to 15 percent function as public adjusters. Licensees either work on an individual basis or are employed by firms, many of which have large numbers of adjusters on the staff. The bureau estimates that it will receive 85 complaints for the current year, with more than 75 percent of these complaints filed against public adjusters. The bureau indicates that because of limited staff and a lack of expertise relative to insurance practices and law, the majority of consumer complaints cannot be mediated.

To the extent that adjusters act as agents of insurance companies, their practices are regulated by the Department of Insurance through its regulation of insurance company practices. Currently, complaints on claims handling, underwriting, and policyholder service comprise the bulk of all complaints filed with the department. Because of the function performed by insurance adjusters, complaints filed against adjusters generally fall into the claims handling category. Table 3 shows the volume of claims-handling complaints filed in 1978 and 1979.

Our review indicates that under current industry practice, once a contractual relationship exists between a claimant (consumer) and a public adjuster, the insurance company will not settle the claim directly with the insured, but will deal with the adjuster. If the adjuster does not perform the investigation according to industry standards, the consumer may not be able to recover promptly the appropriate amounts for damages.

DEPARTMENT OF INSURANCE—Continued

Table 3
Complaints on Claim Handling
Filed With the Department of Insurance
1978 to 1979

Claim-Handling Complaints	*1978*	*1979*
Total filed	7,982 [a]	7,948
Justified complaints	4,476	5,340
Percent of total	56.1%	67.2%

[a] The department estimates that there is an under-estimation of about 927 complaints in this category.

Based on our analysis, we recommend that enactment of legislation providing for the licensing of independent and public adjusters by the Department of Insurance rather than by the Department of Consumer Affairs. This transfer of authority will enable more effective supervision of overall industry practices. Moreover, the information and expertise available to the Department of Insurance regarding the insurance industry will enable it to provide better protection and service to consumers.

We further recommend that the Insurance Commissioner be given the authority to promulgate necessary rules and regulations for the licensure and supervision of practices of independent and public adjusters.

If the present fee schedule for insurance adjusters as established by the bureau is maintained, the transfer of the licensing function from the Department of Consumer Affairs to the Department of Insurance will result in an estimated annual revenue decrease of $43,550 in the Private Investigators and Adjusters Fund and a corresponding increase in revenue to the General Fund. It is estimated that the increase in Department of Insurance workload will not be significant and that any costs would be offset by revenue from licensing fees.

Business and Transportation Agency
RIOT AND CIVIL DISORDERS INSURANCE

Item 167 from the General Fund — Budget p. BT 45

Requested 1980–81	0
Estimated 1979–80	$ – 1,876,904
Actual 1978–79	– 409,851

GENERAL PROGRAM STATEMENT

Chapter 345, Statutes of 1979 (AB 539), abolished the California Riot and Civil Disorders Insurance Association. The association, established in 1969, administered the state's riot and civil disorder reinsurance program which was designed to increase the availability of property insurance in areas where such insurance was difficult to obtain because of potential for heavy losses due to riots or civil disorders. In recent years, private market reinsurance has been readily available, and this program is no longer necessary.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Budget Bill shows a zero appropriation because the program has been terminated. However, the state's insurance contract provided for annual partial refunds of accumulated premiums by the association to the General Fund, as long as the program was in effect. The refund for 1978–79 was $459,851. The contract also provided for the refund of 75 percent of all remaining accumulated premiums upon termination of the program. In the current year, the refund will be $1,876,904. Any additional refunds of past years' premium payments received during the budget year will be credited to this item and deposited in the General Fund.

Business and Transportation Agency

DEPARTMENT OF REAL ESTATE

Item 168 from the Real Estate Fund — Budget p. BT 46

Requested 1980–81	$12,932,024
Estimated 1979–80	12,500,261
Actual 1978–79	$10,136,097
Requested increase (excluding amount for salary increases) $431,763 (+3.4 percent)	
Total recommended reduction	$143,049

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
168	Support	Real Estate	$11,765,822
	Education and Research	Real Estate	389,202
	Recovery act claim	Real Estate	537,000
	Support	Reimbursements	240,000
	Total		$12,932,024

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Microfilm Project. Reduce by $67,000.* Recommend reduction of $67,000 because of the decrease in the volume of microfilming. 293
2. *Attorney General Fees. Reduce by $26,049.* Recommend reduction of $26,049 because department overbudgeted for Attorney General services. 293
3. *Overtime Funding. Delete $50,000.* Recommend deletion of $50,000 proposed for cash compensation of overtime worked. 297

DEPARTMENT OF REAL ESTATE—Continued

4. Subdivision Systems Project. Recommend approval to extend project through 1980–81, and recommend that the department be required to continue submitting quarterly project progress reports to the fiscal committees and the Joint Legislative Budget Committee. 297
5. Reserve for Education and Research. Recommend that the department comment at budget hearings on alternatives to utilize the accumulated surplus in the education and research reserve. 298

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for enforcing the Real Estate Law, and protecting the public in the sale of subdivided property and real property security, as well as in real estate transactions handled by agents.

The department is administered by the Real Estate Commissioner, who is appointed by the Governor. Department headquarters are in Sacramento, with district offices in San Francisco, Los Angeles, San Diego, Sacramento, Fresno, and Santa Ana. For the current year, the department has 357 authorized positions.

To perform its mission, the department administers four programs: (1) transaction activities, (2) offerings and securities, (3) policy and planning, and (4) administration. The *transaction* activities program is responsible for protecting the public in transactions with real estate salespersons and brokers. This program consists of the licensing, and regulatory and recovery elements. The licensing function includes (a) the preparation, administration, and scoring of examinations required for salesperson and broker licensing, (b) the maintenance of license records, and (c) the handling of inquiries received from licensees and the public. The regulatory and recovery element takes disciplinary action against licensees for violations of real estate law. This element also investigates claims made against the recovery reserve in the Real Estate Fund, and assists in the recovery of money when violations of law by a licensee in department-licensed transactions impose a financial loss on a complainant.

The *offering and securities* program is responsible for protecting the public from fraud and misrepresentation of facts in sales of subdivided lands and real estate securities. The program contains two elements: (1) in-state subdivisions, and (2) real property securities.

Functions performed under the *policy and planning* program include (1) the support of real estate courses and projects in educational institutions, (2) legislative liaison, and (3) course approval and continuing education activity.

The *administration* program includes the management and policy formulation functions of the commissioner's office and central services such as accounting, publications and personnel. Program costs include overhead expenditures, and are prorated among the three operating programs.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $12,932,024 from the Real Estate Funds and reimbursements for support of the Department of Real Estate in 1980–81, which is an increase of $431,763, or 3.4 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. For the budget year, the department is requesting 409 authorized positions, including 68 new positions, to administer its programs.

Real Estate Fund

Table 1 illustrates the condition of the Real Estate Fund which supports the department's programs. Available fund resources are projected to be $19,931,047 in 1980–81. The proposed appropriation of $12,692,024 from the fund will result in an accumulated fund surplus of $7,239,023 on June 30, 1981. The table shows that the surplus, which has been decreasing in recent years, is expected to decline by 21.6 percent during the budget year.

Chapter 271, Statutes of 1976, established a separate account in the Real Estate Fund for the purpose of real estate education, research and recovery. One-fourth of all license fees collected by the department is paid into this account, with 80 percent of funds in the reserve allocated for education and research, and 20 percent for recovery reserve. Table 1 also shows that the reserve for education and research is projected to increase by 31.5 percent during the budget year, while the portion of the Real Estate Fund suplus available to support departmental activities other than education and research is expected to decrease to $532,095 during the same period.

Table 1
Real Estate Fund Condition

	1978–79	*Estimated 1979–80*	*Change Over Previous Year*	*Projected 1980–81*	*Change Over Previous Year*
Accumulated surplus July 1	$9,873,400	$10,806,345	9.4%	$9,238,547	−14.5%
Revenue	10,288,716	10,692,500	3.9	10,692,500	—
Total resources available	$20,162,116	$21,498,845	6.6%	$19,931,047	−7.3%
Expenditures	9,355,771	12,260,298	31.0	12,692,024	3.5
Accumulated surplus June 30	$10,806,345	$9,238,547	−14.5%	$7,239,023	−21.6%
Surplus Available for Appropriation					
Department of Real Estate	$6,126,693	$3,646,247	−40.5%	$532,095	−85.4%
Reserve for education and research	2,679,647	3,633,445	35.6	4,776,873	31.5
Reserve for recovery	2,000,005	1,958,855	−2.1	1,930,055	−1.5

Program Staffing

Table 2 displays the cost of staffing data for the department's four program elements. The total expenditures of $12,932,024 proposed by the department include $537,000 for recovery act claims, $389,202 for funding real estate education and research projects, and $12,005,822 for department support.

Table 2
Cost and Staffing Data
Department of Real Estate

		Actual 1978–79		*Estimated 1979–80*		*Proposed 1980–81*	
Program	*Element*	*Personnel-Years*	*Cost*	*Personnel-Years*	*Cost*	*Personnel-Years*	*Cost*
Transaction activities	Licensing	71.7	$2,398,539	75.1	$2,582,819	60.1	$2,406,488
	Regulatory and recovery	164.4	4,825,637	164.3	4,643,727	159.6	4,738,348
Offerings and securites	Subdivisions	84.5	2,208,902	163.7	4,476,591	169.2	4,967,409
	Real estate securities	2.4	65,628	2.6	68,785	2.6	74,261
Policy and planning	Education and research	3.9	473,313	3.9	541,220	3.9	550,803
	Legislative liaison	2.2	59,657	2.3	83,350	2.2	85,074
	Continuing education	3.9	104,421	4.0	103,769	3.4	109,641
Administration (cost prorated to other programs)		(32.6)	(877,206)	(33.1)	(928,424)	(33.1)	(977,782)
Totals		333.0	$10,136,097	415.9	$12,500,261	401.0	$12,932,024
Reimbursements		-	−780,476	-	−240,000	-	−240,000
Net Totals		-	$9,355,621	-	$12,260,261	-	$12,692,024

Microfilming of Licensee Files

We recommend a reduction of $67,000 for microfilming of licensee files because the volume of microfilming will be lower than projected. We further recommend that the department defer microfilming subdivision public report files until the Subdivision Systems Project is completed and a feasibility study for the microfilming project has been conducted.

During 1979–80, the department began microfilming its master files which contain approximately 400,000 items and provide information on all real estate licensees. The project's current year operating expenses are estimated at $97,000. The master file microfilming project will be completed by the end of the current year.

The department is requesting $97,000 for microfilming in 1980–81. In the budget year, the department will need to microfilm approximately 52,600 new licensee files and update licensee information in the master files.

We estimate that the volume of microfilming to be performed in the budget year will be significantly lower than the current year's volume. The projected 52,600 new files to be microfilmed is equivalent to approximately 13 percent of the total master files microfilmed in the current year. According to the department, the cost of necessary supplies for this ongoing microfilming function plus the cost of maintaining the two microfilm machines will be $30,000 in 1980–81.

The department states that $67,000 of the requested $97,000 will fund the microfilming of subdivision public report files. A feasibility study for this project, however, has not been conducted. Moreover, the department is currently reviewing its subdivision public report process under the Subdivision Systems Project. (A discussion of this review project is presented in a later section of this analysis.) This review will not be completed until the end of the budget year. The department anticipates that the review will result in changes to simplify as well as to increase the efficiency and effectiveness of the subdivision public report process. Thus, the microfilming project is premature.

We therefore recommend that $67,000 be reduced from the department's budget because of the lower operating costs associated with a lower microfilming volume in 1980–81. We further recommend that the department defer its plan to microfilm its public report files until (a) the review process has been completed, and (b) a feasibility study has been conducted. At that time, the department should submit a proposal to fund the project.

Overbudgeting of Attorney General Services

We recommend a reduction of $26,049 because Attorney General services are overbudgeted.

The department is requesting $399,066 for Attorney General services in the budget year. At the hourly rate of $46.95 set for 1980–81, this is equivalent to approximately 8,500 hours of service. The department utilized 7,587 hours of Attorney General services in 1978–79 and 2,400 hours within the first five months of the current year. Based on past experience, the Attorney General estimates that the department will utilize 7,945 hours of services in the budget year, at a cost of $373,017. The department agrees that the Attorney General's estimate is appropriate. We therefore recommend that the amount budgeted for Attorney General services be reduced by $26,049.

Subdivision Public Report Filings

Section 11018.2 of the Business and Professions Code requires that a public report from the Real Estate Commissioner be obtained before any lots or parcels in a subdivision can be sold or leased, or offered for sale or lease. The subdivision public report discloses information to the prospective buyer on such matters as the availability of services such as sewage facilities, public utilities, and schools. A subdivider must substantiate the facts and statements included in the report.

There are two types of public report filings: (1) standard filings, and (2) common interest filings. The standard filings are for subdivisions with no areas owned in common, whereas common interest filings are required for subdivisions which include areas owned in common such as those subdivisions involving condominiums. The required documentation for a public report is more extensive for common interest filings than for standard filings, and the process time is longer.

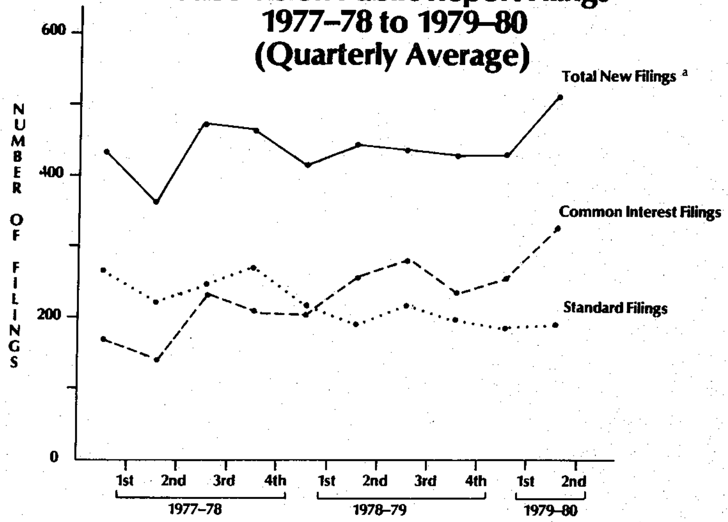
The law also requires that public reports be amended when there are substantive changes in the setup of offerings for sale of subdivisions. The commissioner's report is in effect for five years, and must be renewed after the expiration in order that subdivisions can continue to be offered for sale or lease. Thus, besides new filings, the department also receives applications to amend or renew public reports.

According to the department, deputy commissioners require 17 hours on the average to review a common interest public report, while the average time needed to review a standard report is approximately five hours. Deputy commissioners' workload also include reviewing amendment and renewal applications, and issuing preliminary public reports.

1. Recent Increase in Filings. The number of new standard and common interest filings has increased since 1977–78. The department estimates that total new filings in the current year will increase by 8.3 percent over 1977–78. Chart 1 illustrates the growth in both common interest filings and standard filings. In particular, common interest filings are growing as a percentage of total filings. Since 1977–78, standard filings comprised 57.8 percent of all new filings received by the department. During the first six months of the current year, standard filings dropped to 38.9 percent. The growth in subdivision filings has resulted in a backlog of filings. This backlog is expected to grow because a larger percentage of new filings are for common interest subdivisions which require more time to process.

2. Estimated Backlog. In previous years, the department did not consistently maintain data on the volume of applications, particularly amendment and renewal applications. Thus, there is no accurate measure of the total number of pending filings. According to the department, there is an estimated total subdivision filing backlog (including new and amended filings) of almost 7,000 cases.

Chart 1
Department of Real Estate
Subdivision Public Report Filings
1977–78 to 1979–80
(Quarterly Average)



[a] Total new filings include only standard and common-interest filings. Filings for amended public reports and renewal reports are not included.

Table 3 shows the number of *new* filings issued since 1977–78, and the number of pending new filings. As the table indicates, the department has not been able to issue reports as fast as filings are being received. With no

Table 3
New Subdivision Filings Received Issued and Pending [a]

	1977–78	*1978–79*	*Estimated 1979–80*	*Estimated 1979–80 (with additional staff)*
Total new filings received	5,211	5,355	5,646 [b]	5,646
New standard filings	3,012	2,418	2,194	2,194
New common-interest filings	2,199	2,937	3,450	3,450
New public reports issued	3,883	4,019	4,502 [c]	5,933
Standard reports issued	2,584	2,118	2,262	2,922
Common-interest reports issued	1,299	1,901	2,240	3,011
Cumulative pending filings (since 1977–78)	1,328	2,664	3,808	2,375
Standard filings pending	428	728	660	—
Common-interest filings pending	900	1,936	3,146	2,375

[a] Does not include filings for amendment and renewal of public reports because consistent data are not available for past years.
[b] Estimate based on data from first six months of 1979–80.
[c] The estimated rate of report issuance does not reflect the department's increase in staffing beginning December 1979, which include 15 additional deputy commissioners and 32 temporary positions all administratively established.

increase in the rate of output, the backlog of new filings would increase from 1,328 on June 30, 1978 to an estimated 3,808 on June 30, 1980. At the staffing level of the first half of the current year, this backlog of new filings is equivalent to approximately 10 months of the department's subdivision workload.

Currently, the estimated time for a developer to obtain a public report is approximately 18 to 20 months. Such delay imposes additional costs for developers and consequently, prospective buyers.

3. Administratively Established Positions. In the current year, the department administratively established 31 additional positions (deputy commissioners, appraisers, legal and clerical) and 32 temporary positions to eliminate the backlog, and to reduce the delay in issuing public reports. The temporary positions include 18 graduate legal assistants and 14 management services technicians. The department estimates that the temporary positions will perform various report issuing functions which currently requires 4.5 hours per deputy commissioner's workday. We estimate that the additional deputy and temporary positions should be able to reduce the backlog of new files from 3,808 to 2,375 by the end of the current year, as shown in Table 3.

The department is requesting $285,210 to continue the 32 temporary positions until December 1980, in order that the remaining backlog can be eliminated. We recommend that the department's request be approved.

4. Projected Workload Increase in 1980–81. The department projects 6,100 new filings and 2,800 amendment and renewal filings for the budget year. Based on this projection, and assuming the same ratio of common interest to standard filings as in the current year, we estimate that the department will require approximately 48 deputy commissioners to handle the projected workload. This is an increase of 13 deputies over the number of currently authorized positions. It is likely that the percentage of total filings in the common interest category will continue to increase. Thus, the total subdivision workload is likely to be even heavier than trends in the number of new filings would indicate. This, in turn, will require additional deputy commissioners to prevent the backlog from growing.

The department is requesting authorization to make permanent the 31 positions which were administratively established in December 1979. The 31 positions include 15 deputy commissioners, 10 clerical support positions, two legal positions and four appraisers. The two legal positions would continue to supervise the temporary graduate legal assistants and assist in the legal review of public report documents. The four appraisers are requested to analyze proposed budgets of common interest subdivisions.

Based on workload projections, we recommend that the department's request be approved.

Overtime Funding

We recommend deletion of $50,000 budgeted for paid overtime.

The department has obtained approval from the State Personnel Board for temporary reallocation of deputy commissioners in the subdivision section to a workweek group under which deputy commissioners can get cash compensation for overtime worked on weekends and holidays. This reallocation is approved for the six months period from September 1979 through February 1980. The primary justification for the reallocation is that the large backlog of filings is causing delays in the issuance of reports. This problem had been compounded by high turnover and the hiring freeze.

The current year estimate for paid overtime worked by deputy commissioners is $30,000. The department is requesting $50,000 for cash compensation of overtime for the budget year. Department records indicate that for September, October, November and December, the first four months for which the temporary reallocation is in effect, department deputies worked a total of 895 hours of paid overtime. This experience indicates that the department will not expend the current year estimate of $30,000 for cash compensated overtime. Further, this overtime was worked prior to the establishment of temporary staff and additional deputy commissioner positions to help reduce the backlog.

For the budget year, the department is requesting 32 temporary positions and 31 additional permanent positions to handle the projected increase in subdivision workload as well as to continue department's effort to reduce the number of pending applications. The increase in staff will reduce the need for deputies to work overtime. We therefore recommend that the $50,000 be deleted from the budget.

Subdivision Systems Project (SSP)

We recommend supplemental report language directing the department to continue submitting quarterly progress reports on the Subdivision Systems Project.

The growth in subdivision filings have resulted in a backlog and delay in report issuance. This has necessitated a review of the subdivision process and the simplification of its procedures.

The department has initiated the Subdivision Systems Project to identify methods to simplify the processing of subdivision applications and to coordinate the implementation of improvements. The project is currently staffed with five positions, including a project manager, two management analysts, one management services technician, and one graduate assistant. The 1979 Budget Act requires the department to report quarterly to the Legislature on the progress of the project, and authorizes the Secretary for Business and Transportation to review the work schedule and systems design.

1. *Forms simplification and elimination.* The SSP has reviewed and analyzed the need for the 64 documents currently required for common interest subdivision applications, and 19 have been targeted for total or partial elimination. Some of the documents can be eliminated administratively, while statutory changes are necessary to eliminate others. The

DEPARTMENT OF REAL ESTATE—Continued

elimination of the documents will reduce the time and paperwork burden on developers filing for public reports. According to the department, this will not, however, result in major time saving for deputy commissioners who review public report filings, because the 19 documents do not require extensive review.

2. *Pilot project to expedite complete filings.* One reason why it takes so long to process subdivision filings is that filings are often not complete. The department has initiated a pilot project to provide priority processing for public report filings which are complete. The objective is to test if more expeditious processing will act as an incentive for developers, title companies, and other applicants to file complete packages of documents.

3. *Files management system.* Because of the growth in the number of files in the inventory, the department has major problems in locating files and in files control. Changes are currently being implemented to standardize file control procedures among and within district offices.

4. *Additional tasks.* A review of deputy commissioner workload in issuing public reports is currently in progress. The department also has contracted with private consulting firm to analyze the usefulness of the Preliminary Public Report which is required before developers can advertise and accept reservations of sale. A similar review of the Final Public Report will also be conducted in the current year. As part of the simplification project, the SSP also plans to review (1) the workflow of department appraisers who analyze and review proposed budgets of common interest subdivisions, and (2) the status of all pending files to determine the actions necessary to complete these files for public report issuance.

Due to the delay in staffing the project, and the expansion of the project scope beyond a simplification of procedures to include a more thorough evaluation of the subdivision process, the Subdivision Systems Project will not be completed until the end of the budget year. The extension of the project until that time will also permit the project team to assist in the implementation of any approved changes in the subdivision process. The department is requesting $150,000 to extend funding of the five temporary positions through the budget year, in order that the SSP can be completed. We recommend approval of the department's request. We further recommend adoption of the following supplemental report language: "The department shall submit project progress reports quarterly on the Subdivision Systems Project to the fiscal committees of the Legislature, the Joint Legislative Budget Committee, the Department of Finance and the Business and Transportation Agency."

Reserve for Education and Research

We recommend that the department be requested to comment at budget hearings on alternatives for utilizing more effectively the accumulated surplus in the education and research reserve.

Section 10450.6 of the Business and Professions Code provides that 20 percent of all license fees collected by the department be reserved in a separate account in the Real Estate Fund for purposes of education and research. The objective is to provide adequate funds to support educational and research efforts related to the real estate industry.

With the growth of the real estate industry, California now has approximately 400,000 licensees. The department estimates current year license fee revenue of $5,475,000. The projected revenue for the budget year is $5,500,000. Table 4 shows the license fees collected by the department, the size of the education and research reserve and expenditures for these purposes.

Table 4
Education and Research Reserve and Expenditures

	Actual 1977–78	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*
License fee revenue	$5,460,478	$5,308,789	$5,475,000	$5,500,000
Amount allocated to reserve	1,092,095	1,061,757	1,095,000	1,100,000
Reserve for education and research (June 30)	1,558,091	2,679,647	3,633,445	4,776,873
Education and research expenditures	487,000	261,500	389,202	389,202
Expenditures as percent of revenue allocated to reserve	44.6%	24.6%	35.5%	35.4%

Since 1977–78, total expenditures for education and research have been less than fifty percent of the annual license fee revenue allocated to the education and research reserve. The department has used funds from the reserve to support various projects at the University of California, California State Universities and Colleges, California Community Colleges, and the California Student Aid Commission. During the first six months of the current year, the department expended $135,355 to fund 5 research projects and to maintain real estate centers at two University of California campuses, at an annual cost of $94,000. the department estimates that expenses for the current year will be $389,202, and proposes that the same amount be provided in the budget year for approximately 32 research projects.

The growth in licensee fee revenues relative to education and research expenses will result in a continuing growth in the reserve. For 1980–81, a projected $1,100,000 will be available to the separate reserve for education and research. This amount is over two and one-half times the proposed expenses for 1980–81.

The unexpended surplus is not available for other use. Under the provisions of Section 10470.1 (c) of the Business and Professions Code, the Real Estate Commissioner has the authority to transfer, at his discretion, any amount in excess of $400,000 in the separate account allocated for education and research to the Real Estate Fund general account which supports the department's operations. This is one way to utilize the education and research surplus. It would also offset a portion of the annual deficit in the Real Estate Fund general account, as Table 1 shows revenues to the fund for general support are estimated to be less than support expenditures in 1980–81. As a result, the accumulated surplus in the fund is projected to decline from $3,646,247 in the current year to $532,095 by the end of the budget year.

Another way to limit the growth of the reserve surplus is to lower the portion of license fees that must be allocated to the education and research

DEPARTMENT OF REAL ESTATE—Continued

account. This, however, would require legislation. There may be other alternatives for utilizing this surplus effectively as well.

We recommend that the department comment during the budget hearings on various alternatives for utilizing the accumulated surplus in the education and research reserve.

Recovery Act Claims

When a member of the public obtains a fraud judgment based on a loss suffered because of a fraud committed by a real estate licensee while performing acts covered by the Real Estate Law and the licensee is unable to pay the judgment, the claim may be made against the Real Estate Fund. Section 10474 of the Business and Professions Code provides that claims made against the separate reserve in the Real Estate Fund for education, research, and recovery purposes cannot exceed $40,000 for any one licensee for which the cause of action occurred on or after January 1, 1975. For actions which occurred prior to that date, but after July 1, 1964, the maximum is set at $20,000 per licensee. Chapter 464, Statutes of 1979 (SB 617) amends the limit to $100,000 per licensee if the cause of action occurred on or after January 1, 1980.

The cost of claims have increased in the past several years. Table 5 shows the number of paid claims and the total amount paid since 1977–78.

Table 5
Recovery Act Claims

	Actual 1977–78	*Actual 1978–79*	*Estimated 1979–80*	*Projected 1980–81*
Number of claims paid	29	24	25	25
Claims amount	$244,727	$397,083	$500,000	$537,000

The department estimates total claims of $500,000 in the current year and $537,000 in the budget year. Department records indicate that a total of $213,799 has been paid during the first six months of the current year. Based on past experience, the department's claims projections are reasonable. We therefore recommend that $537,000 for recovery act claims be approved.

Business and Transportation Agency

DEPARTMENT OF SAVINGS AND LOAN

Item 169 from the Savings and Loan Inspection Fund — Budget p. BT 52

Requested 1980–81	$6,585,295
Estimated 1979–80	6,544,371
Actual 1978–79	5,340,660
Requested increase (excluding amount for salary increases) $40,924 (+0.6 percent)	
Total recommended reduction	$25,000

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
169	Support	Savings and Loan Inspection	$6,565,874
	Reimbursements		19,421
	Total		$6,585,295

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Financial Evaluation System. Recommend approval of $135,000 subject to approval of the Feasibility Study Report and Implementation Plan by the State Office of Information Technology. Further recommend funds not be expended until 30 days after submission of the approved study to the Joint Legislative Budget Committee and the fiscal committees. 304
2. *Training. Reduce by $25,000.* Recommend deletion of $25,000 due to lack of a plan for using training funds. 304

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-licensed 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 to have 160 positions.

The department is supported from the Savings and Loan Inspection Fund. Fund revenues are derived from an annual assessment levied on all state-regulated associations. The assessment is proportional to association assets, and is set by the commissioner at a level sufficient to fund the department's annual operating costs.

The department performs its responsibilities under the "supervision and regulation" program. This program is divided into six elements: (1) examination, (2) appraisal, (3) facilities licensing and legal assistance, (4) economic and financial information, (5) management information systems, and (6) administration.

DEPARTMENT OF SAVINGS AND LOAN—Continued

The examination element is by law responsible for examining each licensed association at least once every two years to: verify that the association is complying with law, regulations and directives; evaluate the soundness of operating policies and procedures; and ascertain the financial soundness and solvency of the association. This element also handles consumer complaints and inquiries.

The appraisal element makes field appraisals of real property upon which loans have been made by associations. The facilities licensing and legal assistance element conducts hearings and renders decisions on applications for new associations, branch offices, and mergers.

To assist other program elements, the economic and financial information element provides the department with statistical and analytical information, and the management information systems element provides electronic data processing services.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $6,585,295 for support of the department in 1980–81. This is an increase of $40,924, or 0.6 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The department anticipates that $19,421 of the total expenditures will come from reimbursements for travel expenses incurred for appraising out-of-state loans.

Savings and Loan Inspection Fund Condition

The department projects that $6,901,582 in the Savings and Loan Inspection Fund will be available for support of the department in 1980–81. Table 1 displays the condition of the Savings and Loan Inspection Fund. The proposed budget appropriation of $6,565,874 will leave a surplus of $335,708 in the fund on June 30, 1981, which is equivalent to 5.1 percent of the department's planned expenditures for the budget year. A surplus of this size is permitted by the 1979 Budget Act. The act prohibits the department from establishing assessments on savings and loan associations that would result in a fund surplus exceeding 10 percent of the department's total budgeted expenditures.

During the current year, the department lowered assessment fees to comply with the Budget Act language. This accounts for the decline in the year end surplus from 20.6 percent of total department expenditures for 1978–79 to 5.3 percent estimated for the current year, as illustrated by Table 1.

Table 1
Savings and Loan Inspection Fund Condition

	Actual 1978–79	*Estimated 1979–80*	*Percent Change Over Previous Year*	*Proposed 1980–81*	*Percent Change Over Previous Year*
Accumulated Surplus					
July 1	$903,995	$1,098,190	21.5%	$345,582	−68.5%
Revenues	5,530,520	5,772,342	4.4	6,556,000	13.6
Total Available Resources	$6,434,515	$6,870,532	6.8%	$6,901,582	0.4%
Expenditures					
Savings and Loan Inspection Fund	$5,336,325	$6,524,950	22.3%	$6,565,874	0.6%
Accumulated Surplus June 30	$1,098,190	$345,582	−68.5%	$335,708	−2.8%
Surplus as Percent of Expenditures	20.6%	5.3%	—	5.1%	—

Cost and staffing data for the department's programs are presented in Table 2.

Table 2
Department of Savings and Loan Programs
Cost and Staffing Data

	Actual 1978–79		*Estimated 1979–80*		*Proposed 1980–81*	
Program and Elements	*Personnel Years*	*Cost*	*Personnel Years*	*Cost*	*Personnel Years*	*Cost*
Supervision and Regulation						
Examination	72.4	$2,079,522	62	$2,717,705	62	$2,573,181
Appraisal	33.3	1,036,180	34	1,404,911	34	1,455,262
Facilities licensing and legal assistance	6.5	272,949	4	356,791	6	346,383
Economic and financial information	7.1	216,842	6	382,061	6	307,999
Management information system	7.0	463,754	9	510,384	9	665,518
Administration	37.3	1,271,413	44	1,172,519	40	1,236,452
Totals	163.6	$5,340,660	159	$6,544,371	157	$6,585,295
Reimbursements		−4,335		−19,421		−19,421
Net Totals		$5,336,325		$6,524,950		$6,565,874

Facilities Licensing and Legal Assistance

Effective January 1, 1980, pursuant to Chapter 1003, Statutes of 1979 (AB 654), the Savings and Loan Commissioner has the authority to approve savings and loan branch applications without hearings, as previously required. The department's budget for the current year provided for the elimination of three legal positions beginning January 1980 because of the reduced workload anticipated as a result of Chapter 1003. The department projects the same number of branch applications in 1980–81, as in the current year. However, it projects a 20 percent increase in new association applications and a 12 percent increase in legal workload related to promulgating, amending, and revising administrative regulations. To handle this projected workload and to assist in drafting a revision of the Savings and Loan Association Law discussed below, the department is requesting that two legal positions be restored in the budget year. We recommend approval of the department's request.

DEPARTMENT OF SAVINGS AND LOAN—Continued

Legal Consultant Services

The existing Savings and Loan Association Law was enacted almost 50 years ago. Certain provisions in the law are not longer appropriate or applicable to current industry practices because of the industry's tremendous growth and development in recent years. The budget requests $43,000 for legal consultant services to assist department staff in drafting a revision of the statutes in order to supervise and regulate the industry more effectively. We recommend approval of this request.

Redesign of Financial Evaluation System

We recommend approval of $135,000 to redesign the department's financial evaluation system, subject to approval of the Feasibility Study by the State Office of Information Technology in the Department of Finance. We further recommend that no funds be expended until 30 days after the Feasibility Study and Finance's approval are submitted to the Joint Legislative Budget Committee and the fiscal subcommittees.

The department's existing financial evaluation system provides periodic reports and statements on the financial condition and performance of associations. These computer reports are derived from information reported quarterly by savings and loan associations. The present system, however, does not have the capability to take into account external economic and financial variables which may affect the performance of the industry as well as individual associations.

The department plans to contract with an outside consultant during the current year, to study the feasibility of developing a model of association financial performance incorporating these external variables which could provide early warning of financial difficulties. The study will determine whether external factors linked with association data can provide better prediction of future performance and potential association problems.

The department is requesting $135,000 in the budget year to redesign, reprogram, and implement these modifications to the existing system if the feasibility study demonstrates that the predictive capability of the model can be enhanced.

Whether the redesign project is warranted will depend on the findings of the Feasibility Study. It is also possible that other alternatives which are less costly will be identified by the consultant's study.

We recommend, therefore, that the department's request for $135,000 be approved, subject to approval of the Feasibility Study Report and Implementation Plan by the State Office of Information Technology in the Department of Finance. We further recommend that funds for the project not be expended until 30 days after the Feasibility Study and the results of the Finance review are forwarded to the Joint Legislative Budget Committee and the fiscal subcommittees.

Training

We recommend deletion of $25,000 based on the lack of a comprehensive plan for training.

The department's budget requests $49,925 for staff training. Of this amount, $25,000 was added by the Business and Transportation Agency. The department did not initially request the additional funds and does not have a plan for using them. We recommend that the $25,000 be deleted.

Business and Transportation Agency

CALIFORNIA TRANSPORTATION COMMISSION

Item 170 from the Transportation Planning and Development Account, State Transportation Fund — Budget p. BT 56

Requested 1980–81	$968,005
Estimated 1979–80	927,577
Actual 1978–79	584,245
Requested increase (excluding amount for salary increases) $40,428 (+4.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Expenditure Display. Recommend supplemental report language requesting that the commission's budget display all legislative appropriations. 306
2. Sacramento Meetings. Recommend supplemental report language requiring that at least one-half of commission meetings be held in Sacramento. 306
3. Transportation Planning and Development Account. Recommend that all Transportation Planning and Development Account funds be incorporated into the State Transportation Improvement Program development process. 307
4. Allocation of Capital Outlay Funds. Recommend legislation to provide commission authority to allocate all state revenues appropriated for capital outlay in the area of mass transportation. 308

GENERAL PROGRAM STATEMENT

The California Transportation Commission was created by Chapter 1106, Statutes of 1977, to replace the California Highway Commission, California Toll Bridge Authority, Aeronautics Board, and State Transportation Board. The commission 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 ex-officio members.

The commission's major responsibilities include: (1) evaluating the Department of Transportation's annual budget; (2) determining transportation projects to be funded within annual appropriations; (3) adopting a five-year State Transportation Improvement Program; (4) adopting and issuing one-year and five-year transportation revenue estimates to be used by regional transportation programs; (5) resolving differences between state and regional transportation agencies' improvement programs and (6) issuing a California Transportation Plan in a biennial report.

CALIFORNIA TRANSPORTATION COMMISSION—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $968,005 from the Transportation Planning and Development (TP and D) Account, State Transportation Fund, for support of the commission in 1980–81, which is an increase of $40,428, or 4.4 percent, over the estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The budget proposes 12 positions to support commission activities in 1980–81, the same number as in the current year. This total includes an executive secretary appointed by the commission, six professional staff and five clerical positions.

Display of Expenditures

We recommend adoption of supplemental report language requesting the commission to include all legislative appropriations in its budgets for future years.

The estimated current year expenditures do not include $5 million appropriated to the commission by Chapter 161, Statutes of 1979 (SB 620), for allocation to transportation projects to improve the interface of transportation modes. This amount is included, instead, as part of the estimated current year expenditures of the Department of Transportation. Because the commission is responsible for allocating these funds, including the $5 million in the department's budget distorts the budgets of both agencies. We therefore recommend the following supplemental report language:

"Future budgets of the commission should include all legislative appropriations made to it, including $5 million appropriated by Chapter 161, Statutes of 1979 for the 1979–80 fiscal year."

Sacramento Meetings

We recommend supplemental report language requiring the commission to hold at least one-half of its meetings in Sacramento.

The commission has conducted meetings in various locations throughout the state since its inception in 1978. Approximately one-third of the commission's meetings have been held in Sacramento during the past year. This policy has provided commissioners with an opportunity to become familiar with transportation needs throughout the state and to personally view proposed project sites. It also has afforded commissioners an opportunity to meet with local officials and citizens regarding transportation needs and projects.

Our analysis indicates that the commission should now return to the policy of its predecessor (the Highway Commission) and hold one-half of its meetings in Sacramento. When commission meetings are held outside of Sacramento, the state is required to pay travel and per diem expenses for the commission staff, Department of Transportation staff, and other state and legislative employees who attend the hearings. Holding more meetings in Sacramento would result in savings to the state. Although local agencies would incur additional costs for travel to Sacramento, these costs would be more than offset by savings to the state because the largest single group attending commission meetings is based in Sacramento.

Moreover, our analysis indicates that the commission has less need to visit local sites, now that it has adopted the 1979 State Transportation Improvement Program (STIP). Projects adopted in 1979 will serve as the foundation for future programs. Therefore, the commission will have fewer new projects to review for inclusion in subsequent versions of the STIP. If one-half of its meetings are held outside of Sacramento, the commission will still have ample opportunity to view proposed local projects.

For these reasons, we recommend supplemental report language as follows:

"The California Transportation Commission should hold at least one-half of its meetings in Sacramento."

Inclusion of TP and D Account Funds in STIP

We recommend the adoption of supplemental report language directing the commission to include all Transportation Planning and Development Account monies in its STIP development process.

The authority provided in Chapter 1106 has enabled the commission to review transportation policies and allocate transportation funds on a comprehensive basis, taking into consideration all modes of transportation. At the present time, the commission includes State Highway Account and Aeronautics Account funds in its fund estimates. The proposed expenditure of the portion of those funds allocated by the commission is included in the STIP. Not all TP and D Account funds, however, have been included in the STIP development process.

Our review indicates that, in order to provide the commission and local agencies with a better overview of funding available for transportation improvements:

1. All TP and D Account funds should be reflected in the commission's annual fund estimate. Included would be funds available for program support, the State Transit Assistance Program, rail capital improvements, mass transit guideways and rolling stock, and intermodal facilities.
2. TP and D funds allocated by the commission should be programmed by the commission in its adopted STIP, and by the department in its proposed STIP.

The adoption of these proposals would also bring the commission into greater compliance with existing provisions of Chapter 1106. Therefore, we recommend the adoption of the following supplemental report language:

"The commission is requested to include in its annual fund estimate, all funds expected to be available from the Transportation Planning and Development Account. Funds allocated by the commission should be proposed for programming in the department's State Transportation Improvement Program (STIP), and should be programmed in the commission's adopted STIP."

Computerization of the STIP

Last year, the Legislature authorized up to $100,000 for use by the commission in computerizing the STIP. In Budget Act language, the Legislature provided that if such a system were developed, "(1) the Department of Transportation and local agencies shall cooperate fully in the effort, and (2) access to the system shall be provided to the Department of Finance and to the Legislature."

To date, the commission has not developed its computerized data base for the STIP. For the commission to complete this project, the full cooperation of the Department of Transportation is essential. The department must assist the commission's efforts to develop this data base, as well as the commission's efforts to standardize the data provided by regional transportation planning agencies for inclusion in the adopted STIP.

The Legislature may wish to request comments from the commission on its progress and the extent to which the department has assisted in computerizing the STIP. Comments from the department describing its efforts and any difficulties it has encountered would also be of assistance to the Legislature in assessing the progress of these efforts. We also discuss this issue in our analysis of the department's budget.

Need for Legislation

We recommend legislation to require that all funds appropriated from the Transportation Planning and Development (TP and D) Account for capital outlay be allocated by the California Transportation Commission.

Among the funds which the commission is authorized to allocate are those appropriated by the Legislature for capital outlay on state highways. In the mass transportation area, however, the responsibility for allocation of capital outlay funds is fragmented. The commission is responsible for allocating mass transit guideway funds and a portion of funds provided for intermodal transfer facilities. The Department of Transportation is responsible for allocating intercity and commuter rail improvement funds (although commuter rail expenditures must first be included in regional Transportation Improvement Plans). The department is also responsible for allocating funds for abandoned railroad rights-of-way, and a portion of the funds available for grade separation projects (although projects in both of these categories must first be selected by the commission). Finally, the Legislature sometimes appropriates funds for specific projects.

The enactment of Chapter 161 has increased the funding available for mass transportation capital outlay. If the commission is to allocate funds on the basis of a comprehensive plan, it must be given the same allocation authority over mass transportation funds that it now possesses for highway funds. Therefore, we recommend that legislation be enacted which provides authority for the commission to allocate all state revenues appropriated for capital outlay in the area of mass transportation.

Business and Transportation Agency
DEPARTMENT OF TRANSPORTATION

Items 171–183 and 512–514 from various funds — Budget p. BT 58

Requested 1980–81	$1,647,339,382
Estimated 1979–80	1,690,164,337
Actual 1978–79	1,246,566,893
Requested decrease (excluding amount for salary increases) $42,824,955 (−2.5 percent)	
Total recommended reduction	$59,240,395

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Annual Expenditure Report. Recommend Budget Bill language requiring that the department and the California Transportation Commission jointly develop an annual capital project expenditure variance report.	317
2. Personnel Data. Recommend supplemental report language requesting Department of Finance report on measures to improve Department of Transportation personnel data.	320
3. Department Budgeting Procedures. Recommend supplemental report language requesting that the department comply with the State Administrative Manual in preparing its budget proposals.	323
4. *Consultant Services. Reduce Items 171, 172, 174, and 176 in the total amount of $15,541,538.* Recommend reduction in consultant and professional services.	324
5. *Claims and Legal Actions. Reduce Item 172 by $6,905,955.* Recommend reduction in amount budgeted for cost of legal settlements.	325
6. *Aeronautics Support. Reduce Item 171 by $112,000.* Recommend reduction in staff consistent with legislative policy.	326
7. *Land and Building Improvements. Reduce Item 513 by $13,888,000.* Recommend reduction in unsubstantiated requests for improvements to department facilities.	330
8. *Bicycle Commuter Facilities. Reduce Item 182 by $1,000,000.* Recommend deletion of proposed bicycle program due to lack of justification and duplication with existing programs.	333
9. *Reimbursed Work. Reduce Item 172 by $1,123,595.* Recommend increase in reimbursements for work performed for other agencies.	334
10. *Understated Reimbursements. Reduce Item 172 by $318,513.* Recommend increase in reimbursements for local	334

DEPARTMENT OF TRANSPORTATION—Continued

highway work.

11. *Highway Research. Reduce Item 172 by $417,500.* Recommend deletion of low priority projects. 335
12. Program Definition Changes. Recommend supplemental report language requesting department to limit major program redefinitions. 338
13. *Equipment Services. Reduce Item 172 by $996,474.* Recommend reduction of proposed equipment mechanic and preventive maintenance positions. 339
14. *Technical Services. Reduce Item 172 by $186,023.* Recommend increase in reimbursements for technical services. Also recommend supplemental report language requesting department to collect such reimbursements. 340
15. *Recreational Ridesharing. Reduce Item 172 by $175,054.* Recommend reduction in unjustified ridesharing programs. 342
16. *Traffic Control Services. Reduce Item 172 by $440,092.* Recommend reduction in traffic control and facilities staff. 343
17. *Toll Collection Staff. Reduct Item 172 by $189,498.* Recommend reduction in toll collection personnel. 345
18. *Road Equipment. Reduce Item 513 by $2,428,139.* Recommend reduction of amount overbudgeted for purchase of road equipment and passenger vehicles. 346
19. *Motorized Equipment Training School. Reduce Item 172 by $250,000.* Recommend reduction to reflect savings from operation of equipment training school. Request that department report on training school savings. 347
20. Clarifying Legislation. Recommend department propose legislation to consolidate and recodify existing statutory authority in mass transportation. 352
21. Program Measurement. Recommend Budget Bill language requiring establishment of quantifiable goals and measurements in the Mass Transportation Program. 352
22. *Mass Transit Overbudgeting. Reduce Item 174 by $2,081,-227.* Recommend reduction due to overbudgeting of general expenses. 352
23. *Discretionary Local Assistance. Reduce Item 174 by $10,-228,970.* Recommend reduction in discretionary local assistance. 353
24. *Transit Operator Assistance. Reduce Item 174 by $312,-603.* Recommend reduction in unnecessary assistance activities. 354
25. Transit Guideway Program. Withhold recommendation pending submission of priority list by California Transportation Commission. 357
26. Intercity Transportation Modes. Recommend legislation to permit expenditures for alternative intercity transportation modes. 358

27. *Intercity Bus Transportation. Reduce Item 174 by $1,166,-780.* Recommend deletion of intercity bus program consistent with legislative policy. 358
28. *Rail Support Activities. Reduce Item 174 by $1,123,240.* Recommend reduction for unjustified expenditures to support rail program. 359
29. Rail Passenger Development Plan. Recommend supplemental report language requesting specified data in department plan. 361
30. Southern Pacific Commute Service. Recommend Budget Bill language specifying conditions for contracting with Southern Pacific Transportation Company. 363
31. Reversion of Unexpended Funds. Recommend Budget Bill language requiring reversion of funds not expended for completion of report mandated by Chapter 161. 364
32. *Transfer Facilities. Reduce Item 174 by $153,378.* Recommend reduction due to lack of justification for staffing increase. 365
33. *Transportation Planning. Reduce Item 176 by $201,816.* Recommend reduction for unjustified district planning activities. 367

GENERAL PROGRAM STATEMENT

Chapter 1253, Statutes of 1972, created the Department of Transportation (Caltrans) in the Business and Transportation Agency, to replace the Departments of Public Works and Aeronautics. The responsibilities of the former entities are now carried out through two divisions—Highway Transportation and Aeronautics. Chapter 1253 also established the Division of Mass Transportation and the Division of Transportation Planning. The four divisions seek to implement and coordinate the development and operation of the various transportation modes and facilities in California.

The department's 1980–81 budget is approximately $1.65 billion. Legislative appropriations account for approximately $906 million of the total, with the remaining $741 million provided by reimbursements and federal funds.

ANALYSIS AND RECOMMENDATIONS

The proposed expenditures of the Department of Transportation are displayed in Table 1 by item and funding source.

The budget proposes expenditures of $1,647,339,382 for support of the Department of Transportation activities in 1980–81, which is $42,824,955, or 2.5 percent, less than estimated current year expenditures. Department expenditures will increase by the amount of any salary or staff benefit increase approved for the budget year. Any such increases will tend to offset the reduction in departmental expenditures shown in the budget.

Funding for 15,228.7 personnel-years is proposed in the budget, an increase of 369.4 personnel-years, or 2.5 percent, over the current year estimate. The net increase reflects a substantial addition to highway project development staff and related reductions in administrative and

DEPARTMENT OF TRANSPORTATION—Continued

other nonproject staff, as well as various other changes in personnel performing a wide variety of department activities.

Table 1
Department of Transportation
1980–81 Proposed Program Expenditures by Item and Fund Source

Item No.	*Description*		*Amount*	*Fund*[a]
171	Support, Aeronautics Program		$1,619,950	Aeronautics Account
	(a) Aeronautics	$1,643,792		
	(b) Reimbursements	−23,842		
172	Support, Highway Transportation Program		474,000,539	State Highway Account
	(a) Maintenance	247,881,535		
	(b) Rehabilitation	44,537,205		
	(c) Operational improvements	67,388,523		
	(d) Operations	41,361,900		
	(e) Local assistance	14,231,248		
	(f) Program development	12,325,080		
	(g) New facilities	74,520,532		
	(h) Administration	66,642,242		
	(i) Reimbursements	−8,419,779		
	(j) Federal funds	−86,467,947		
173	Support, Highway Transportation Program		49,375	Environmental License Plate Fund
174	Support, Mass Transportation Program		20,518,598	Transportation Planning and Development Account
	(a) Mass transportation	23,482,585		
	(b) Reimbursements for purposes of Section 7204.4 of the Revenue and Taxation Code	−674,641		
	(c) Reimbursements	−783,486		
	(d) Federal funds	−1,505,860		
175	Support, Mass Transportation Program		58,115	State Highway Account
176	Support, Transportation Planning Program		5,502,317	Transportation Planning and Development Account
	(a) Transportation planning	8,816,355		
	(b) Reimbursements	−3,314,038		
177	Transfer to Transportation Planning and Development Account		(30,000)	Aeronautics Account
178	Transfer to Transportation Planning and Development Account		(10,718,671)	State Highway Account
	(a) State funds	(5,853,300)		
	(b) Federal funds	(4,865,371)		
179	Local Assistance, Aeronautics Program		700,351	Aeronautics Account
180	Local Assistance, Highway Transportation Program		25,986,400	State Highway Account
	(a) Local assistance	154,327,400		
	(b) Federal funds	−128,341,000		
181	Local Assistance, Highway Transportation Program		1,000,000	Energy and Resources Fund
182	Local Assistance, Mass Transportation Program		54,900,000	State Highway Account
183	Local Assistance, Transportation Planning Program		2,031,500	Transportation Planning and Development Account
512	Capital Outlay, Mass Transportation Program		35,000,000	Transportation Planning and Development Account
513	Capital Outlay, Highway Transportation Program		109,383,000	State Highway Account
	(a) Rehabilitation	127,767,000		

	(b) Operational improvements	103,014,000		
	(c) Local assistance	2,000,000		
	(d) New facilities	271,496,000		
	(e) Reimbursements	−55,000,000		
	(f) Federal funds	−339,894,000		
514	Capital Outlay, Highway Transportation Program		148,125	Environmental License Plate Fund
	Total, Budget Act Appropriation		$730,898,270	
Add:	Reimbursements—Support		12,541,145	Reimbursements
	(a) Aeronautics Program (Item 171)	23,842		
	(b) Highway Transportation Program (Item 172)	8,419,779		
	(c) Mass Transportation Program (Item 174)	783,486		
	(d) Transportation Planning Program (Item 176)	3,314,038		
	Reimbursements—Capital Outlay Highway Transportation Program (Item 513)		55,000,000	Reimbursements
	Reimbursements—Mass Transportation (non-Budget Act)		674,641	Reimbursements
	Total, Reimbursements		$68,215,786	
	Continuing Statutory Appropriations			
	(a) Chapter 1092, Statutes of 1972, Highway Transportation Program		451,423	Bicycle Lane Account
	(b) Chapter 1130, Statutes of 1975, Mass Transportation Program		3,471,749	State Highway Account
	(c) Chapter 1349, Statutes of 1976, Mass Transportation Program		7,844	Transportation Planning and Development Account
	(d) Chapter 161, Statutes of 1979, Mass Transportation Program		75,000,259	Transportation Planning and Development Account
	(e) Chapter 1364, Statutes of 1978, Highway Transportation Program		400,000	State Highway Account
	(f) Chapter 259, Statutes of 1979, Highway Transportation Program		7,086,758	State Highway Account
	Total, Continuing Statutory Appropriations		$82,487,017	
	Aeronautics Account Continuing Appropriations		$4,625,500	Aeronautics Account
	Toll Bridge Funds, Highway Transportation Program		84,092,686	Toll Bridge Funds
	(a) Support	$33,724,686		
	(b) Capital Outlay	50,368,000		
	Federal Funds—Support		87,973,807	Federal
	(a) Highway Transportation Program (Item 172)	86,467,947		
	(b) Mass Transportation Program (Item 174)	1,505,860		
	Federal Funds—Local Assistance		132,341,000	Federal
	Federal Funds—Capital Outlay, Highway Transportation Program		385,764,000	Federal
	(a) Item 513	339,894,000		
	(b) Chapter 1364, Statutes of 1978	45,870,000		
	Federal Funds—Carryover Balances		67,010,300	Federal
	(a) Local Assistance, Highway Transportation Program			
	(1) Chapter 259, Statutes of 1979	143,669,862		
	(2) Chapter 359, Statutes of 1978	16,352,741		
	(3) Chapter 219, Statutes of 1977	1,109,729		
	(4) Less succeeding year balances	−101,452,032		
	(b) Capital Outlay, Highway Transportation Program			
	(1) Budget Act of 1979	50,000,000		
	(2) Budget Act of 1977	2,471,863		
	(3) Less succeeding year balances	−45,141,863		
	Total, Federal Funds		$673,089,107	
	Total, Program Expenditures		$1,647,339,382	

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

DEPARTMENT OF TRANSPORTATION—Continued

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. The annual planning process actually begins eight months earlier, in November, when the CTC adopts estimates of revenues available to the department and regional agencies. Using these revenue estimates, the department then prepares a proposed STIP which is submitted to the CTC in December. Regional TIP's are also submitted to the CTC, which holds hearings on the plans beginning in April and continuing until the STIP is adopted. Public hearings are held from July to mid-August at which time appeals on the adopted STIP may be raised.

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.

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.

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. 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 is also required to submit a proposed STIP to the commission not later than December 1. After the STIP is adopted by the commission, the department is responsible for implementing 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 scheduled for subsequent years in the five-year STIP.

The 1980 STIP

The proposed 1980 STIP was submitted by the department to the CTC in late November 1979. A revised version of this document was submitted to the commission in December. The 1980 STIP proposes the expenditure of $7.3 billion over a five-year period. Of this amount, $2.6 billion is proposed for capital expenditures on highway projects and another $296 million is proposed for transit guideway projects. The 1979 STIP called for $6.5 billion in expenditures, of which $2.5 billion was proposed for highway capital outlay and $189 million was proposed for transit guideway projects.

Nonproject activities comprise 57 percent of the 1980 STIP expenditures. These activities include highway maintenance, personnel costs, administration and ongoing programs of the department. Nonproject expenditures are proposed at $4.2 billion in the 1980 STIP, a $625 million, or 17 percent, increase over the 1979 STIP amount. Personnel salary increases and higher-than-expected inflation account for much of this expenditure change.

Resources. The 1980 STIP appears to be underfunded by at least $200 million. STIP documents identify only $7.1 billion in resources as compared to total expenditures of $7.3 billion. The department acknowledges this discrepancy, and explains that it expects to fund the difference with revenues to be received after the five-year STIP period. Although we have not analyzed this revenue shortfall in detail, it implies that a deficit may occur if the STIP is delivered on schedule.

Revenues from several sources have been increased in the 1980 STIP. The increased revenues have been programmed to (1) absorb increased project delivery costs, (2) build some additional noninterstate projects, and (3) increase significantly the amount of interstate programming in the later years of the STIP. Specifically, the increased revenues have come from:

- assumption of a new cash accounting method wherein Highway Account surplus funds now being held for project encumbrances will be used to start additional projects;
- use of more toll bridge revenues to fund toll bridge maintenance operations. This will free highway funds now being spent on bridge maintenance but will reduce the amount of transit funds made available to the Metropolitan Transportation Commission; and
- interstate revenues which have been increased approximately $500 million or 40 percent, over the five-year estimate in the 1979 STIP.

Other Significant Changes. Many projects included in the 1979 STIP

DEPARTMENT OF TRANSPORTATION—Continued

do not appear in 1980 STIP. This is due to inflated project costs, limited revenues, statutory constraints, and problems in project delivery. Specifically, the 1980 STIP:

- excludes approximately $150 million in projects, including $60 million in primary projects, which were included in the 1979 STIP; and
- delays construction of one-half of the noninterstate projects.

STIP Assumptions. Resources and expenditures in the 1980 STIP are based on a number of key assumptions made by the department. The department assumes that:

- fuel supplies will be adequate and demand for fuel will decline somewhat;
- fuel revenues will rise slightly before leveling off;
- construction cost inflation will be 10 percent in 1980–81, 9 percent in 1981–82, and 8 percent thereafter; and
- the department will have the necessary staffing mix to deliver STIP projects.

STIP Analysis. We have not had an opportunity to analyze in detail the proposed 1980 STIP. The California Transportation Commission, however, has retained the services of a consulting firm to provide a detailed analysis of the plan. The consultant's findings will be released before the budget hearings. Our discussions with the consultant indicate that the forthcoming report will be of considerable assistance to the Legislature in interpreting the proposed STIP. We will be prepared to provide additional comments on the STIP during the budget hearings.

Computerization of the STIP

At present, the Department of Transportation has the only STIP data base aggregated on a statewide basis. As a result, both the commission and the regional planning agencies are dependent upon the department for STIP information. The commission does not have a data base with which it can independently assess the impacts on the STIP of alternate revenue, expenditure, or project scheduling assumptions.

Last year, the Legislature attempted to provide for an independent data base by appropriating $100,000 to the California Transportation Commission so that the commission could computerize the STIP. The Legislature also provided language in the 1979 Budget Act which stated that if such a system were developed, "(1) the Department of Transportation and local agencies shall cooperate fully in the effort and (2) access to the system shall be provided to the Department and to the Legislature."

To date, the commission has not developed its computerized data base for the STIP. For the commission to complete this project, the full cooperation of the department is essential. The department must assist the commission's efforts to develop this data base, as well as the commission's efforts to standardize the data provided by regional transportaion planning agencies for inclusion in the adopted STIP.

The Legislature may wish to request comments from the commission on the extent to which the department has assisted in computerizing the STIP. Comments from the department describing its efforts and any difficulties it has encountered would also be of assistance to the Legislature in assessing the progress of these efforts.

Annual Expenditure Report

We recommend Budget Bill language requiring that the department and the California Transportation Commission jointly develop a format for an annual report which compares actual versus adopted expenditure levels for each project in the two previous State Transportation Improvement Programs, including amendments. We further recommend that the department and the commission report to the Joint Legislative Budget Committee, fiscal committees and the transportation policy committees of the Legislature by December 1, 1980 on the results of their efforts.

The California Transportation Commission annually adopts the State Transportation Improvement Program (STIP) setting forth the capital expenditures which the department will undertake during the next five years. The department, however, does not provide data to the Legislature on the status of projects adopted by the commission in previous STIP's. A report which compares the actual and planned annual expenditures for each project, as adopted, would aid the Legislature and the commission in evaluating (1) the department's progress in delivering projects already adopted, and (2) the department's ability to deliver projects in the future.

We recommend that the department prepare such a report. This document should include expenditure data for all projects adopted by the commission during the previous two years. Any projects which are removed or added by subsequent commission amendments should be appropriately referenced. The report should also display for each project, actual versus planned expenditures for the two previous years.

Specifically, we recommend that the Legislature adopt the following language for inclusion in Item 513:

"Provided, that the Department of Transportation and the California Transportation Commission shall develop jointly an annual capital project expenditure variance report. This report shall include, for each project adopted by the commission during the two previous years, a comparison of obligated expenditures versus planned expenditures. The first report shall be submitted by March 1, 1981 and by March 1 of each year thereafter. Further, the department and the commission shall report to the Joint Legislative Budget Committee, fiscal committees and the transportation policy committees of the Legislature by December 1, 1980 on the progress of the department's and the commission's efforts."

Progress Toward Project-Related Hiring Goals

In March 1979, the department initiated a program to augment its project-related staff by 742 persons, or approximately 15 percent, by August 1979. The department's goal was to bring the number of project-related personnel to 5,665.

August 1979 Testimony. On August 30, 1979, the department and the Legislative Analyst were asked to testify before a joint transportation hearing on the department's hiring program and other related issues. The department testified that, as of that date, the number of project-related personnel on board was 5,100, and that another 106 persons were firmly

DEPARTMENT OF TRANSPORTATION—Continued

committed to joining the department. This indicated that 283 (38 percent) of the 742 persons required to meet the staffing goal of 5,665 persons had been hired (net of attrition). Based on our analysis of data provided by the department, we testified that the department had increased staff by 276, or 37 percent, of the planned 742 personnel addition.

Revised Estimates. In January 1980, the department provided updated personnel data, including personnel on board: (1) at the beginning of the hiring program; (2) in August 1979 and (3) in January 1980. These figures, as well as those provided in the August 1979 testimony are shown in Table 2. This table also includes *our* estimate of personnel on board at each point in time. Except for the number of personnel-on-board at the start of the hiring program, we agree with the department's figures.

Our estimate of project personnel on board at the beginning of the program is based on the department's hiring goals—742 (net) new hires needed to bring total project personnel to 5,665. Thus, we calculated that when the program began, the department had 4,923 project personnel on board (5,665 minus 742). The department is now using the *filled* position count of 4,832 in April of 1979 as the base for measuring accomplishments under the hiring program.

At the same time it revised its estimate of the number of project personnel on board at the start of the program, the department came up with a new method of estimating the number of project-related personnel. Originally the department developed its project-related personnel count by aggregating the project-related units within the department. Subsequently, the department conducted a person-by-person census of project personnel. The census found that 5,090 project-related personnel—not 4,923 as originally indicated or 4,832 as the department subsequently claimed—were on board at the start of the hiring program. We are unable to determine whether the department's census provides a better count of project personnel than the unit estimate. In analyzing the department's progress in meeting its hiring goals, therefore, we use both unit and census estimates.

Table 2
Department of Transportation
Total Project Personnel and Hiring Goals

	August 1979 Testimony		*January 1980 Estimates*			
			Department		*Analyst*	
	Department	*Analyst*	*Unit*[a]	*Census*[b]	*Unit*[a]	*Census*[b]
Goals (total to be hired as of:)						
• August 1979	5,665[c]	5,665	5,665	5,665	5,665	5,665
• September 1980	—	—	6,100	6,100	6,100	6,100
Personnel on board						
• Program Start	[d]	4,923	4,832	5,090	4,923	5,181
• August 1979	5,206[e]	5,199	5,038	5,296	5,038	5,296
• January 1980	—	—	5,238	5,496	5,238	5,496

[a] Based on the aggregation of personnel in project-related units.
[b] Based on a census of project-related personnel.
[c] The department testified that the August 1979 goal was 5663.
[d] The department did not provide this information in its testimony.
[e] Includes firm commitments.

Despite the fact that the department first *reduced* its estimate of on-board staff by 91 and then *increased* it by 258, it has consistently maintained its August 1979 hiring goal at the original level of 5,665. As a result, the number of new hires necessary to meet the goal has changed several times.

The information presented in Table 2 indicates the following:

1. The department did not have 5,100 project-related staff on-board in August, as it maintained at the joint transportation hearing. Instead, it had 5,038. This discrepancy reflects the fact that 62 nonproject personnel were erroneously included in the project-related category in the August testimony.

Using this data, we estimate that by August, the hiring program had increased project-related staffing by 115 (net), not 276 as we originally testified. Thus, by the target month, the department had achieved only 15 percent of its goal (see Table 3).

2. Between the program's inception and January 1980 (approximately 9 months), the department hired (net) 315 project-related staff. This represents 42 percent of the original goal (based on the unit estimating procedure) of 742 new hires. It represents 65 percent of the new hires called for when the census is used (5,665 − 5,181 = 484).

Unfortunately, given the changes in the estimates of both the original staffing levels and the August levels, we cannot state with certainty just how successful the special hiring program has been.

The department estimates that to accomplish all of the project-related work planned for the budget year, additional project staff must be hired. Therefore, a new goal of 6,100 project-related personnel on board by September 1980 has been established.

Table 3
Department of Transportation
Progress in Achieving Hiring Goals

	Analyst August 1979 Testimony	*January 1980 Estimates*			
		Department		*Analyst*	
		Unit[a]	*Census*[b]	*Unit*[a]	*Census*[b]
New Hire Goal[c]					
• August 1979	742	833	575	742	484
• September 1980	—	1,268	1,010	1,177	919
Number of Net New Hires[d]					
• August 1979	276	206	206	115	115
• January 1980	—	406	406	315	315
Percentage of Goal Achieved					
• August Personnel vs. August Goal	37%	25%	36%	15%	24%
• January Personnel vs. August Goal	—	49%	71%	42%	65%
• January Personnel vs. September Goal	—	32%	40%	27%	34%

[a] Based on the aggregation of personnel in project-related units.
[b] Based on a census of project-related personnel.
[c] From Table 2: personnel goal less program start.
[d] From Table 2: personnel less program start.

We estimate that as of January 1980, the department had achieved, on the unit basis, 27 percent of its adjusted (September 1980) new hire goal. Based on census data, 34 percent of the adjusted new hire goal had been

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achieved.

Inconsistent Personnel Data

We recommend supplemental report language requesting that the Department of Finance report on measures to improve the personnel data of the Department of Transportation.

The problems with the data on project-related staff are indicative of the problems that one encounters in trying to ascertain how many people the department employs and how they are used. The department's personnel information is incomplete and unreliable. Because it is constantly being revised, the data is difficult, if not impossible to track. These problems are illustrated by the following:

1. The department could not provide us with a simple summary of its present vacancy and authorized staffing totals. Such a report used to be prepared on a monthly basis, but it has been discontinued. Instead, we were given a new "position summary report." We found, however, that the numbers shown for established positions in 1979–80 actually included 405 positions the department expects to be authorized in 1980–81. Thus, a comparison between the established positions and current vacancies is not possible without adjustments to the data.

2. Authorized position totals vary from report to report. Some reports include part-time or temporary positions or legislative and departmental adjustments in their totals while others do not. Because the reports do not specify which personnel categories or which adjustments are included, comparison between different reporting materials is often impossible.

3. Redefinitions make month-to-month or annual comparisons invalid. The changes in the concept of project-related personnel, as discussed in the previous section, illustrate these difficulties.

The accumulation and presentation of accurate, comprehensible staffing information is essential for legislative understanding of the department's budget. Such information, however, is not available. In its present state, the department's data is confusing and probably can be understood only by a few staff members in the department. This is entirely unsatisfactory. The Legislature should not have to rely on the department to interpret and analyze departmental personnel information. The material should be explicit enough to permit an independent assessment of personnel issues by the Legislature.

Because the department's personnel information falls far short of meeting legislative needs, we recommend that the Legislature adopt the following supplemental report language for inclusion in Item 172:

"The Department of Finance shall report to the Legislature on solutions for improving the personnel data of the Department of Transportation. The report shall consider, but not be limited to: (1) a monthly reporting mechanism for vacancy data which compares vacant positions to the number of positions authorized by the Legislature; (2) vacancy information which identifies positions by type (permanent, part-time, permanent-intermittant, and any other); (3) the identification of administrative or other adjustments, including definitional changes to authorized personnel figures and (4) an explanation of the relationship between the Department of Transportation's figures for positions and personnel-years.

The report shall be submitted to the fiscal committees and the Joint Legislative Budget Committee by December 1, 1980."

BUDGET OVERVIEW

Covering the first year of the five-year STIP, the 1980–81 Governor's Budget establishes the overall direction of department activities. As shown in Table 4, the budget proposes expenditures for 1980–81 of $1,647,339,382. When compared to estimated expenditures in the current year, as shown in the budget, the 1980–81 total is $42,824,955 or 2.5 percent lower. However, the estimated 1979–80 expenditure total presented in the Governor's Budget does not allow a meaningful comparison of expenditure changes to be made. This is because major adjustments have been made to the original 1979–80 expenditure figures since the Legislature's approval of the budget as a result of the enactment of Chapter 161, Statutes of 1979 (SB 620), enactment of Chapter 1060, Statutes of 1979 (AB 1098), and changes made by the California Transportation Commission in adopting the 1979 State Transportation Improvement Program.

To provide a basis for making a meaningful comparison of changes in expenditures, we developed an adjusted 1979–80 expenditure total which excludes: (1) administratively established positions; (2) all mass transportation appropriations included in Chapter 161; and (3) various one-time appropriations which will no longer be available for expenditure after June 30, 1980.

Using this adjusted total as a basis for comparison, the $1,647,339,382 expenditure proposed for 1980–81 is 10.1 percent, or $151,624,874, above the current year figure of $1,495,714,508. This expenditure change reflects more accurately the implementation of Chapter 161 and the augmentation of highway engineering staff.

Significant Program Changes

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

Aeronautics. The major changes proposed in the Aeronautics program are less frequent inspections of airports and heliports, for a reduction of $130,566, and addition of personnel to represent the state before the Civil Aeronautics Board, at a cost of $112,000.

Highway Transportation. The most significant change in the highway transportation program is the proposed increase in capital outlay related staff. The department has proposed a 1085.8 personnel-year increase in the capital outlay elements of the program over authorized 1979–80 levels. This increase is offset to some extent by a reduction of 403.9 personnel-years in nonproject activities. This results in a net increase of 681.9 personnel-years ($24 million) over the number of personnel-years (4044.1) approved by the Legislature in the 1979 Budget Act.

Table 4
Proposed 1980–81 Department of Transportation Budget Changes

	State Highway Account	*Aeronautics Account*	*TP and D Account*	*Federal Funds*	*Reimburse-ments*	*Other*	*Total*
1979–80 Current Year Adjusted [a]	$709,877,762	$6,417,398	$10,844,530	$660,767,765	$60,631,509	$47,175,544	$1,495,714,508
1. Cost Changes, Operating Expenses	$20,892,449	$111,178	$497,902	$2,019,922	$307,631	$1,350,479	$25,179,561
2. Workload and Program Changes							
A. Aeronautics							
1. State operations	—	$141,725	—	$−109,000	$23,842	—	$56,567
2. Local assistance	—	275,500	—	—	—	—	275,500
Subtotals	—	($417,225)	—	($−109,000)	($23,842)	—	($332,067)
B. Highways							
1. State operations	$−5,530,821	—	—	$14,000,000	$671,026	$9,022,568	$18,162,773
2. Local assistance	−27,383,929	—	—	−4,148,580	—	1,000,000	−30,537,509
3. Capital outlay	−51,333,649	—	—	559,000	6,910,232	27,566,125	−16,298,292
Subtotals	($−84,248,399)	—	—	($10,410,420)	($7,581,258)	($37,588,693)	($−28,668,028)
C. Mass Transportation							
1. State operations	—	—	$21,313,552	—	$−328,454	$98,642	$21,083,740
2. Local assistance	$25,293,000	—	70,800,000	—	—	—	96,093,000
3. Capital outlay	—	—	35,000,000	—	—	3,000,000	38,000,000
Subtotals	($25,293,000)	—	($127,113,552)	—	($−328,454)	($3,098,642)	($155,176,740)
D. Planning							
1. State operations	—	—	$−395,466	—	—	—	$−395,466
2. Local assistance	—	—	—	—	—	—	—
Subtotals	—	—	($−395,466)	—	—	—	($−395,466)
Total Proposed Changes	($−38,062,950)	($528,403)	($127,215,988)	($12,321,342)	($7,584,277)	($47,175,544)	($151,624,874)
1980–81 Proposed Expenditures	$671,814,812	$6,945,801	$138,060,518	$673,089,107	$68,215,786	$89,213,358	($1,647,339,382)

[a] 1979–80 estimated expenditures less (1) administratively established positions, (2) one-time appropriations which will no longer be available for expenditure after June 30, 1980, and (3) all Chapter 161 appropriations.

The budget also proposes a reduction of $5 million in projected road equipment expenditures as a result of the motorized equipment training and preventive maintenance programs. Also proposed are a $2 million increase in ridesharing programs, increased emphasis on the maintenance and rehabilitation of housing units on state-owned right-of-way and a new $1 million program to establish commuter bicycle facilities.

Finally, the department is proposing small increases in toll bridge collection activities, miscellaneous maintenance activities and the establishment of a program to develop park-and-ride (carpool staging) facilities as provided under Chapter 161.

Mass Transportation. The Mass Transportation program is scheduled for several major changes, reflecting primarily the enactment of Chapter 161. Local assistance increases include $53 million for aid to local transit service, $60.2 million for the construction of mass transit guideways and $20 million for discretionary local assistance. Other changes include an increase of $1 million for intercity bus support, $7.8 million for intercity and commuter rail service support and $3.0 million for alternative fuels research. Implementation of these and other programs will require increased state support of $1.6 million (46 personnel-years), the major portion of which is requested for the rail program (26.3 personnel-years).

Planning. Few changes occur in the Transportation Planning program although resources are being redirected from transportation systems planning to energy planning and updating of district planning guides.

Department Budgeting Procedures

We recommend supplemental report language requesting that future department budget proposals fully comply with provisions of the State Administrative Manual in providing program and fiscal information and include complete descriptions of budget proposals in the supporting documentation.

We further recommend that future changes in department budget definitions and formats be reflected for the three fiscal years displayed in the Governor's Budget.

This is the third year in which the department's entire budget has been formally presented to the Legislature for appropriation as required by Chapter 1106, Statutes of 1977 (AB 402). Prior to the enactment of Chapter 1106, the highways portion of the budget was reviewed and approved by the now-defunct California Highway Commission.

The establishment of legislative budgeting imposed significant additional requirements on the department's budget preparation process. We anticipated that some problems would occur in developing the new budget procedures. Problems did occur and we discussed them briefly in the 1979 Analysis of the Budget Bill. By the third year, however, we expected changeover problems to have been resolved and the department's budget presentation to more closely reflect the requirements imposed on all state agencies by the State Administrative Manual (SAM). This has not occurred, and in attempting to analyze the department's budget, we have encountered substantial problems in the following areas:

1. *Budget Change Proposals (BCPs).* The budget package submitted

DEPARTMENT OF TRANSPORTATION—Continued

by the department excluded some BCPs, included others which should have been excluded and contained others which were either incomplete, incorrect, or could not be reconciled with the Governor's Budget.

2. *Mass Transportation Program Technical Errors.* Some expenditures were double-counted; some expenditures for expired programs were not deleted and Chapter 161 provisions were not fully integrated into the overall department budget.

3. *Unsubstantiated Requests.* Major operating expenditures were budgeted as lump-sum figures with insufficient supporting justification. These include reimbursements, consulting expenses and general expenses.

4. *Definition Changes.* Program definitions have once again been changed, resulting in a shift of staff and expenditures from program to program. In addition, approximately 1600 personnel-years associated with technical services were redistributed throughout all portions of the budget. These changes made analysis of program change proposals cumbersome at best, and impossible in some instances.

The department's budget staff have been responsive to our requests. They subsequently provided some of the material that was missing from the initial department presentation. This has been of some help to us in completing our analysis, but the short review time available has limited the value of the additional material.

The Legislature's consideration of the department's budgets for future years will be greatly facilitated if the department corrects the problems identified in this analysis and complies with the Department of Finance's budgeting requirements. These requirements are clearly outlined in SAM.

Accordingly, we recommend that the Legislature direct the department to comply fully with the provisions of the State Administrative Manual. We further recommend that whenever major definition or format changes are made by the department, all relevant fiscal and program information be displayed in the budget on the same basis for the past, current and budget years.

Specifically, we recommend that the Legislature adopt the following supplemental report language for Item 172:

"The department shall comply fully with provisions of the State Administrative Manual in preparing its budget presentation to the Legislature. Further, the department shall display all relevant fiscal and program information on the same basis for the past, current and budget years whenever major definition or format changes are made."

Consultant Services

We recommend a reduction of $15,541,538 in the amount budgeted for consultant and professional services. This recommendation will result in the following amounts being deleted: (1) $119,147 in Item 171; (2) $10,801,448 in Item 172; (3) $4,607,291 in Item 174; and (4) $13,652 in Item 176.

In 1980–81 the department proposes the expenditure of $244.6 million for operating expenses and equipment, an increase of $22.2 million, or 9.9

percent, over 1979–80 expenditures. Most of the individual operating expense categories would increase by small percentages, and some categories would actually decline. Proposed expenditures for consultant and professional services, however, would increase by $8.8 million, or 36.5 percent over the current year level, bringing the total to $32.9 million.

Overbudgeting. Analysis of this increase resulted in an agreement with the department that a reduction of $5.3 million is warranted to adjust for major errors in the department's calculations of the proposed expenditures.

Our analysis indicates that, in addition to $5.3 million, another $10.2 million reduction in the department's proposed consultant expenditures is warranted. This $10.2 million has been identified only in lump-sum amounts. The budget materials supporting the $10.2 million expenditure lack sufficient detail for us to analyze the reasonableness of the department's request. Because this expenditure has not been substantiated, we recommend that it be deleted along with the $5.3 million that the department acknowledges is unnecessary.

Our total recommended reduction in consulting and professional services, therefore, is $15,541,538. This amount consists of the department's error and the unsubstantiated lump-sum expenditures which should be deleted as follows: (1) $119,147 in Item 171; (2) $10,801,448 in Item 172; (3) $4,607,291 in Item 174 and (4) $13,652 in Item 176.

Claim and Legal Actions

We recommend a reduction in the amount budgeted for claims and legal actions for a savings of $6,905,955 in Item 172.

The budget proposes the expenditure of $12.7 million for tort liability claims and related legal actions. This amount is $6.9 million, or 119 percent, above the $5.8 million authorized by the Legislature for the current year, and $8 million, or 170 percent, more than actual expenditures in 1978–79.

The department's budget year request is based on its assessment of cases now in progress. The department admits, however, that the $12.7 million amount "is an estimate only and should not be construed as an accurate assessment of what costs may be actually incurred."

The cost of tort settlements is unpredictable, and fluctuates from year-to-year. We can find no basis, however, for assuming that claims will increase as sharply as the department's request indicates they will. In fact, actual claims expenditures for the first four months of 1979–80 total only $336,000. Consequently, we believe the department's $12.7 million estimate is too high.

We recommend that the department's 1978–79 actual expenditure be adjusted upward by a factor of 10 percent for both the 1979–80 and 1980–81 fiscal years. This would provide $5,757,523 for claims and legal expenditure in the budget year. This amount is more in line with the department's recent experience, and makes possible the deletion of $6,905,955 in Item 172.

DEPARTMENT OF TRANSPORTATION—Continued

I. 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 $6,969,643, or 6.8 percent above current year adjusted expenditures. State operations are budgeted to increase by 11.4 percent (to $1,643,792), and local assistance is proposed to increase by 5.2 percent (to $5,325,851).

Program staff are budgeted at 41.9 personnel-years, a reduction of 1.2 personnel-years from the adjusted current year level of 43.1. This reduction reflects: (1) a reduction of 3.7 personnel-years for technical and professional services which have been shifted to other programs in the department; (2) an increase of 1.6 personnel-years in the safety and local assistance element; (3) a reduction of 1.9 personnel-years for administrative consolidation and (4) an increase of 2.8 personnel-years in the planning and noise element.

Support Activities

We recommend a reduction of $112,000 and 2.8 personnel-years from the Aeronautics Account (Item 171) related to support expenditures in the Aeronautics Program.

Air Route Review. An increase of 2.8 personnel-years is requested in the planning and noise element so that division staff can participate in rate or route applications before the federal Civil Aeronautics Board (CAB).

By state law, the Public Utilities Commission (PUC) is responsible for regulating intrastate air travel. In the past, the PUC also has represented the State of California's interest before those federal regulatory agencies with jurisdiction over air passenger travel, including the CAB.

Recently, however, federal courts have held that, under the 1978 Airline Deregulation Act, virtually all *regulatory* functions previously performed by the PUC in the aeronautics area must now be performed by the CAB.

The issue raised by the request for 2.8 additional personnel-years is:

> Should the PUC, despite losing its regulatory responsibilities, continue to represent California's interests before the CAB, or should that responsibility be shifted to the Department of Transportation?

The administration has sought to have the department act as California's representative before the CAB. Specifically:

- The Governor, on July 13, 1979, sent a letter to the CAB which designated the department as the responsible agency.
- The administration sponsored legislation which would have removed the PUC's statutory authority to regulate intrastate air travel. This legislation has not been enacted as yet.
- In the proposed Governor's 1979–80 Budget, 14 positions related to airline regulation were deleted from the PUC budget, and two positions were added to the department's budget for this purpose. The 14 PUC positions were restored by the Legislature but were subsequently vetoed by the Governor. In acting on the department's 1979–80 request, the Legislature refused to authorize the two new positions

requested by the Governor.

- On November 28, 1979, the Director of Finance notified the Chairman of the Joint Legislative Budget Committee that, using authority provided by Control Section 28 of the 1979 Budget Act, she intended to authorize the two positions in the department. The chairman, on behalf of the committee, recommended that the director not establish the positions. The department, however, administratively established 0.8 personnel-years for this purpose on a temporary basis.

Our analysis indicates that the best interests of the state and local governments will be furthered if the state is represented at Civil Aeronautics Board hearings. Currently, however, the state lacks representation because the Governor deleted positions from the PUC's budget and vetoed legislation which would have provided the PUC with specific authority to represent the state's interests. Existing law provides for the PUC to regulate the operations of air carriers. The authority to act as the state's representative is not specified by law for either the PUC or the department. This authority, however, has been, and still is, implicit in the PUC's regulatory authority. Until this authority is deleted from the law, the PUC, rather than the department appears to be authorized to represent the state before the CAB.

We recommend, therefore, that the Legislature delete the 2.8 personnel years and $112,000 proposed in the department's budget for state representation before the Civil Aeronautics Board.

II. HIGHWAY TRANSPORTATION

The 1980–81 fiscal year marks only the third time the highway portion of the department's budget has been formally presented to the Legislature for appropriation, as required by Chapter 1106, Statutes of 1977. Consistent with Chapter 1106, the highway program is divided into eight elements: (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 $1,433,601,332 for highways, which is $56,637,340, or 3.8 percent, below estimated current year expenditures. Table 5 provides a comparison of highway expenditures for the past, current, and budget years.

Table 5 summarizes the distribution of personnel-years associated with the expenditure elements. It shows an increase in 1980–81 of 497.6 personnel-years from the estimated 1979–80 total of 14,238.

The funding sources supporting the various program activities and associated staff are displayed in Table 6. This table shows that federal funds and the State Highway Account provide most of the monies to fund the highway program.

Table 5
Highway Transportation Program
Staffing and Expenditures[a]

	Actual 1978–79		Estimated 1979–80		Proposed 1980–81	
	State Operations	*Capital Outlay & Subventions*	*State Operations*	*Capital Outlay & Subventions*	*State Operations*	*Capital Outlay & Subventions*
Expenditures by Element						
a. Rehabilitation	27,728,208	111,305,211	40,244,238	161,908,307	45,819,495	141,870,000
b. Operational improvements	50,343,233	89,623,242	60,839,808	141,011,170	67,733,679	114,861,125
c. Local assistance	16,704,408	89,168,397	12,799,562	48,500,895	14,267,671	2,000,000
Subventions	—	179,708,901	—	234,784,522	—	215,422,700
d. Program development	11,463,490	—	13,584,595	—	12,325,080	—
e. New facilities	48,009,301	274,380,142	61,152,565	324,680,838	78,995,749	356,748,758
f. Administration	76,723,420	—	109,277,672	—	69,010,301	—
g. Operations	40,239,556	—	47,664,774	—	51,810,093	—
h. Maintenance	197,079,379	—	233,789,726	—	262,736,681	—
Totals	$468,290,995	$744,185,893	$579,352,940	$910,885,732	$602,698,749	$830,902,583
Personnel-Years by Element						
a. Rehabilitation	813.3	—	951.9	—	1,158.3	—
b. Operational improvements	1,636.9	—	1,721	—	1,989.8	—
c. Local assistance	339.5	—	283.8	—	332.2	—
d. Program development	264.2	—	280.4	—	331.8	—
e. New facilities	1,430.5	—	1,593.9	—	2,107.2	—
f. Administration	3,033.9	—	3,012	—	1,494.1	—
g. Operations	956.2	—	1,039.7	—	1,117.8	—
h. Maintenance	5,334.9	—	5,445.3	—	6,204.4	—
Totals	13,809.4	—	14,328	—	14,735.6	—

[a] Comparisons between years may be inappropriate because of major program definition changes in 1979–80 and the pro-rata redistribution of professional and technical services in 1980–81.

Table 6
Highway Transportation Program
Funding Sources
1978–79 to 1980–81

Funding Source	*Actual 1978–79*		*Estimated 1979–80*		*Proposed 1980–81*	
	State Operations	*Capital Outlay & Subventions*	*State Operations*	*Capital Outlay & Subventions*	*State Operations*	*Capital Outlay & Subventions*
1. State Highway Account	$340,471,003	$169,821,734	$460,275,815	$243,316,104	$474,000,539	$142,856,158
2. Federal funds	97,426,937	450,332,858	85,500,000	592,685,233	86,467,947	581,115,300
3. Reimbursements	15,554,517	90,891,145	7,213,727	48,500,895	8,419,779	55,000,000
4. Toll Bridge Funds	14,838,538	31,196,281	26,293,082	22,880,000	33,724,686	50,368,000
5. Transportation Planning and Development Account	—	1,325,530	—	2,672,465	—	—
6. Bicycle Lane Account	—	537,131	36,436	660,728	36,423	415,000
7. California Environmental License Plate Fund	—	81,214	33,880	170,307	49,375	148,125
8. Energy and Resources Fund	—	—	—	—	—	1,000,000
Totals	$468,290,995	$744,185,893	$579,352,940	$910,885,732	$602,698,749	$830,902,583

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

The budget for this element proposes the expenditure of $187.7 million in 1980–81, of which $141.8 million is for capital outlay. The amount requested is $14.4 million, or 7.1 percent, below current year estimated expenditures of $202.1 million. Total personnel-years are projected to increase 206.4 from the current year, to a level of 1,158.3 in the budget year. The majority of this increase, however, occurs as a result of the department's pro rata redistribution of personnel-years formerly accumulated under its technical services element. This redistribution accounts for 145.7 of the 206.4 personnel-year increase, leaving a net gain of 60.7 personnel-years (6.4 percent).

Land and Building Improvements

We recommend that $13,888,000 budgeted for capital improvements to department land, buildings and facilities be deleted from Item 513 because the department has not provided information substantiating the need for these improvements.

Chapter 1106 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 is intended to insure that the commission, as an independent entity, can determine project allocations on the basis of statewide importance and need.

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.

New Requirements. Prior to 1979–80, the department was unique among state agencies in that its "nontransportation" projects were not subject to legislative appropriation or review by the Public Works Board. The Budget Act of 1979, however, removed this exemption and made these nontransportation projects subject to the normal review process.

Our staff met with representatives of the department early in the 1979–80 fiscal year to explain the supporting documentation that the Legislature would need in order to review proposed nontransportation projects. We also explained the procedural requirements that departments proposing capital outlays are expected to meet. These requirements are set forth in Section 8 of the Budget Act and the State Administrative Manual (SAM). It was understood that little could be done to meet the requirements for projects budgeted in 1979–80. Projects proposed in the 1980–81 budget, however, were expected to meet these requirements. To date, these requirements have not been met.

Department Response. We requested from the department supporting documentation for the land and buildings projects but were informed that none had been prepared. A brief list of projects which might be undertaken in 1980–81 was cited by the department as support for its request. The department apparently assumed that the inclusion of expenditures for these land, buildings, and facilities projects in the five-year State Transportation Improvement Program (STIP) was sufficient to meet the legislative requirements.

Including a list of nontransportation projects in the STIP does not satisfy requirements placed on the department by the Legislature in Control Section 8 of the 1979 Budget Act. Nor does the summary list, which represents only a portion of the budget amount of possible projects, meet the requirements. The Legislature is therefore being asked to appropriate $13.8 million for projects which have not been substantiated.

Recommended Action. We recommend that the Legislature delete the $13.8 million requested for these projects, on the basis that the projects have not been justified. If the information on the need for these projects is submitted in the proper form, and sufficiently in advance of budget hearings to permit review, we will prepare a supplemental analysis of the funding request.

We are not recommending deletion of another $4.2 million budgeted in support costs for this program because we are unable to determine what portion of this amount is directly related to the capital expenditure request. We will attempt to identify those capital-related expenditures and recommend further reductions in this item during budget hearings.

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 and (c) system operation improvements—high-occupancy vehicle lanes, passing and climbing lanes, and lane delineation and channelization.

Both the current and budget years reflect substantial increases in project development and capital outlay expenditures over 1978–79, in accordance with increases proposed in the five-year STIP. However, expenditures in this element are projected to decline from $201.8 million in 1979–80 to $182.6 million in 1980–81 (9.5 percent). All of this decrease will occur in capital outlay, reflecting in part the completion of project work carried over from the 1978–79 fiscal year into the current year.

Staffing levels in this element are proposed to increase from 1,721 personnel-years in 1979–80 to 1,989.8 personnel-years in 1980–81. Most of this increase, however, occurs as a result of the department's pro rata redistribution of personnel-years formerly shown in its technical services ele-

DEPARTMENT OF TRANSPORTATION—Continued

ment. This redistribution accounts for 146.3 of the 268.8 personnel-years increase, leaving a net gain of 122.5 personnel years (7.1 percent). The net increase is for project development activities mandated by the Legislature.

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 $215.4 million will be subvened to local agencies in the budget year. This compares to $234.8 million in expected subventions during the current year. The budget shows capital outlay work performed on a reimbursible basis for others decreasing from $48.5 million in the current year to $2 million in the budget year. This, however, does not indicate any significant reduction in reimbursed work. Instead, the decline reflects a change in the department's program definitions. Reimbursed work on behalf of others is now part of the new highway construction element. Reimbursed capital outlay expenditures in the highway construction element are expected to total $44 million in the budget year.

The budget proposes an increase of 48.4 personnel-years to a total of 332.2. This increase, however, includes 51 personnel-years redistributed from technical and professional services in the administration element. When this shift is accounted for, basic program staff decrease by 2.6 personnel-years (0.9 percent).

Local Highway Assistance

During fiscal subcommittee hearings on the department's 1979–80 budget, representatives of local government requested that the budget be augmented to provide additional local subventions. These funds were requested to assure that local governments would be able to match all available federal *highway* funds made available under the federal Surface Transportation Assistance Act of 1978. In response, the Legislature increased local highway subventions by $15 million. The funds were appropriated to the department but were to be allocated by the California Transportation Commission.

Our review indicates that these funds are not being used for the purposes intended by the Legislature. The Transportation Commission has allocated $9.5 million of the $15 million to match federal-aid urban (FAU) funds for *transit*-related activities, rather than highway funds. The remaining $5.5 million has been allocated to match federal bridge replacement funds.

The allocation of the $15 million to match funds made available by the federal Surface Transportation Assistance Act of 1978 meets the general allocation guidelines established by the Legislature. The allocation of approximately two-thirds of this amount to transit-related projects, however, as permitted under FAU guidelines in the federal statute, appears not to be in accordance with the Legislature's intent in providing additional highway funds.

We are not aware of the loss of any federal transportation funds because of any local agency's inability to provide matching funds. Moreover, given the significant measure of relief already provided to local government through Chapter 282, Statutes of 1979 (AB 8), we do not expect a matching problem to occur in the budget year. Thus, we do not recommend that this transportation assistance program for local agencies be continued by the Legislature.

Bicycle Commuter Facilities

We recommend that funds for a new bicycle commuter facility program be deleted, for a $1,000,000 savings in Item 182.

The department's budget proposes the establishment of a new $1 million program to develop commuter bicycle facilities throughout the state. The program would place bicycle lockers and racks in high density employment and shopping areas within the state's major urban centers to encourage the use of bicycles for short trips. By encouraging greater use of bicycles, the program seeks to conserve motor vehicle fuel and improve air quality. Funding for the program would come from the proposed Energy and Resources Fund.

Proposal Incomplete. Our analysis of this proposal indicates that it is premature. At the time this analysis was prepared, the department was unable to provide information on:

(1) the specific criteria that would be used to award program capital grants;

(2) the type and location of facilities and equipment which ultimately would be purchased with program funds;

(3) who would be responsible for installing and maintaining the facilities;

(4) who would be liable for damages resulting from use of the facilities;

(5) the role of private institutions in sharing program costs;

(6) the target population groups which would use the facilities;

(7) how the new program would be coordinated with existing recreational and commuter bicycle programs, both state and federal and

(8) how program operations and resource expenditures would be evaluated.

Existing Bicycle Programs. In a report to the Legislature entitled *An Evaluation of the California Bikeways Act* (February 1979), we noted that:

1. there are at least six bicycle facility programs in addition to the state's bicycle commuter program;
2. the California Bikeways Act had failed to produce commuter facilities because of inadequate funding which in turn resulted from the Governor's veto of the program's appropriation and
3. local agencies had responded very slowly in requesting bikeway funding that was available.

Based on our review of existing bicycle programs, we have concluded that needed coordination of bicycle programs will not be facilitated if

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another, narrowly-focused program is established. The department's proposal has not been adequately defined. There may be a need for additional assistance to bicycle programs, but it must be accompanied by the improved integration of existing programs.

For these reasons, we recommend that the Legislature deny funding for the proposed bicycle commuter facility program, for a savings of $1,000,000 in Item 182.

We also note that the proposed program would be supported by the Energy and Resources Fund. This fund, however, does not exist in law. Legislation would have to be enacted before any program funds could be made available.

Reimbursed Work for Others

We recommend that both the local assistance and reimbursement schedules in Item 172 be reduced by $1,123,595 to reflect reductions in expenditures for reimbursed work activities. These actions will not affect the net appropriation amount from Item 172.

The Reimbursed Work for Others component of the local assistance program includes highway activities performed by department staff for other state and local agencies. By definition, these activities do not benefit the state highway program. Rather, this work is done at the request of other agencies that are unable to do the work themselves. Such projects must fulfill an essential public purpose, and must be fully reimbursed by the requesting agency. Work done for other agencies which also benefits the state highway program is included in other components of the department's budget.

Expenditure Discrepancy. Budget data provided by the department shows a reduction of 10 personnel-years in these reimbursed work activities in 1980–81. Expenditures for these activities, however, are scheduled to increase by $671,026. When asked to explain the discrepancy, the department acknowledged that an error had been made and that total expenditures should also show a decline in the budget year.

Our analysis indicates that expenditures should decline by $452,569 in the budget year because of the decrease in staffing of 10 personnel-years. The $671,026 which the department added to its expenditure base should also be deleted for a total reduction of $1,123,595. On this basis, we recommend that both program costs and reimbursements be reduced by $1,123,595 to properly reflect the proposed staffing reductions. These reductions will reduce the local assistance and reimbursement schedules in Item 172 but will not change the net amount appropriated in the item.

Understated Reimbursements

We recommend a reduction of $318,513 in Item 172 to reflect increased reimbursements from local agencies for highways work performed by department staff.

A portion of the highway work performed for other agencies benefits the state highway program as well as local highway programs. Expenses for this dual-purpose work are shared by the department and the particular local agencies involved. These activities are distinguished from work performed by the department which only benefits the agencies requesting the work. The latter is fully reimbursed by the requesting agencies, and is budgeted as a separate element of the highway program.

In the 1980–81 budget, the department has identified 7.1 personnel-years of dual purpose work which were incorrectly budgeted in the work-for-others element. Our analysis indicates that the reimbursements from local agencies for their portion of the shared expenses have not been included in the budget. The department acknowledges that additional reimbursements should be reflected in the highway program's budget.

Therefore, we recommend that additional reimbursements of $318,513 (equivalent to 7.1 personnel-years of staff work effort) be credited against the expenditure total in Item 172. This increase in reimbursements will permit a reduction of $318,513 in the net expenditure total of the item.

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 at $12.3 million in 1980–81, $1.2 million (9.3 percent) less than in the current year. Personnel-years are projected to increase from 280.4 in the current year to 331.8 in the budget year. The increase of 51.4 personnel-years, however, occurs as a result of the department's pro rata redistribution of personnel-years formerly budgeted under its technical services element. If the additional 52.9 personnel-years for these services are excluded, program development staffing declines by 1.5 personnel-years (0.5 percent) in the budget year.

Highway Research

We recommend a reduction of $417,500 in the amount budgeted for highway research activities in Item 172. This action will delete low priority projects proposed by the department but will have little effect on the total accomplishments of the research program.

The department's highway research activities encompass a wide range of theoretical and applied research, testing and evaluation, and demonstration projects. Its facility research promotes the design of safe and efficient highways, while its environmental research explores the impact of highway facilities on the surrounding physical and social environment.

The budget proposes a reduction of 2.5 personnel-years from the current staffing level of 44.7 personnel-years for these activities. The proposed level of 42.2 personnel-years would be supported by expenditures of $3.6 million.

We asked the department to provide information on the new research projects proposed for 1980–81 and to identify the relative priority of these projects. Our review indicates that 13 of the 62 proposed projects could either be deleted or deferred without adversely affecting the department's overall research program. These 13 projects include: (1) evaluation

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of an elliptical tire design; (2) alternative energy sources for roadside rests and (3) a telephone system for freeway traffic flow information. These projects were also given a low priority by the department among those submitted for approval.

Elimination of these low priority projects will enable the department to focus its attention on more critical research to extend the useful life of the existing road system and increase its operating efficiency. Moreover, the funds saved from cancellation or deferral of these projects can be used to defray rapidly rising costs in other elements of the highway program. On this basis, we recommend deletion of the research projects in the department's priority group number 3 (lowest priority), for a savings of $417,500 in Item 172.

e. New Facilities

The new facilities element is the largest—in dollar terms—of the eight highway program elements, and has 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 $435.7 million in this element, an increase of $49.9 million, or 12.9 percent, from the estimated current year expenditures. When the projected 1980–81 expenditures are adjusted for anticipated increases in construction costs, the 1980–81 budget would support approximately the same or a slightly reduced level of facilities construction as estimated in current year.

Of the total $435.7 million budgeted for 1980–81, approximately $356.7 million is earmarked for capital outlay, with the remaining $79 million going to the support of state operations. When reviewed on a component-by-component basis, the largest portion of the new facilities expenditures is found in the new highway facilities component, where a total of $388.3 million has been proposed. Of the remaining amount, $43.1 million is programmed for toll bridge expenditures while $4.3 million is proposed for development of new bicycle facilities.

The $388.3 million budgeted for new highway facilities consists of $72.4 million in state operations (support) expenditures and $315.9 million in capital outlay expenditures. The capital outlay amount as reported in the budget, however, is not directly comparable to the amount budgeted in the current year for new highway construction. This is because the budget year estimate for capital outlay includes $44 million in reimbursed capital outlay expenditures which are budgeted as part of the local assistance program in 1979–80. If the $44 million is removed from the capital outlay total so as to permit comparison of the amounts budgeted in these two years, new highway capital outlay expenditures are reduced to $271.8 million in 1980–81. This is 14.2 percent less than the current year amount of $308.9 million.

The staffing level for the new facilities element increases from 1,593.9

personnel-years in 1979–80 to 2,107.2 personnel-years in 1980–81. This is a 513.3 personnel-year difference. This change, however, includes 222.1 personnel-years which have been redistributed to this element from the technical services' element. The true increase in program staff is 291.2 personnel-years, or 18.9 percent, most of whom have been added to new highway construction activities.

Capital Outlay Personnel

Item 164.1 of the 1979 Budget Act appropriated $12 million to the department for the purpose of bringing $75,000,000 in unbudgeted projects to a "ready-to-advertise" state by June 30, 1980. Of this amount, $10 million was vetoed by the Governor, leaving $2 million for project acceleration activities. Later, Chapter 1060, Statutes of 1979 (AB 1098), augmented this amount by $8 million.

Chapter 1060 also required that the department report quarterly to the Legislature and the California Transportation Commission on its progress in accelerating highway construction projects. The department's first progress report was due January 1, 1980. At the time this analysis was prepared, the report had not been received.

The department has proposed revisions in its highway capital outlay staffing levels for both the current and budget years. In the current year, 207.7 additional personnel-years were administratively established. A net increase of 681.9 personnel-years over the authorized 1979–80 figure is proposed in the budget year. The 681.9 personnel-year increase reflects an increase of 474.2 personnel-years over the revised 1979–80 total.

Table 7 displays the department's proposed changes in highway capital outlay staff. Proposed additions are displayed for each of the three capital outlay elements in the highway program: rehabilitation; operational improvements and new facilities. Table 7 shows that slightly more than half (359.5) of the 681.9 personnel-year increase proposed in the budget year will occur in the new facilities element. The remaining 322.4 personnel-year increase will be distributed almost equally among the rehabilitation (158 personnel-years) and operational improvements (164.4 personnel-years) elements.

The increases in personnel-years understate the change in project staffing. This is because they reflect the impact of the deletion of approximately 400 personnel-years in nonproject activities. Thus, the proposed addition to project staff in the three capital elements is actually 607.5 personnel-years in 1979–80 and 1,085.9 in 1980–81. The department has made these deletions in nonproject staff to partially offset the large increases proposed in project staff. It is unable, however, to identify the specific positions that will be deleted.

Table 7 shows how the proposed increases will be distributed by type of project activity. Of the 1,085.8 additional personnel-years, 356.3 are proposed for the acceleration of interstate projects while another 342 are proposed for work on the Century Freeway. Other major increases reflect the department's effort to recover from the 1978–79 hiring freeze (153.8 personnel-years) and work activities associated with the March 1979 adjustments to the 1979 State Transportation Improvement Program (137.9 personnel-years).

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Table 7
Highway Transportation Program
Major Changes in Project Development Personnel
1979–80 and 1980–81 over 1979–80 Authorized

Project Development Activity	Rehabilitation		Operational Improvements		New Facilities		Total Changes from 1979–80 Authorized	
	1979–80	1980–81	1979–80	1980–81	1979–80	1980–81	1979–80	1980–81
1. 1978–79 Hiring Freeze [a]	35.3	42.3	58.2	92.7	41.7	18.8	135.2	153.8
2. March Supplement [b]	78.8	52.3	15.3	15.3	70.3	70.3	164.4	137.9
3. Accelerated Interstate	41.3	129.1	41.3	129.0	41.3	98.2	123.9	356.3
4. Chapter 1060 (AB 1098) [c]	-	5.0	-	11.7	-	10.1	-	26.8
5. June CTC action [d]	-	-	9.0	12.0	20.0	32.0	29.0	44.0
6. LA 105 (Century Freeway)	-	-	-	-	130.0	342.0	130.0	342.0
7. Non-STIP [e]	-	-	-	-	25.0	25.0	25.0	25.0
Subtotals	155.4	228.7	123.8	260.7	328.3	596.4	607.5	1085.8
Less Mandated Savings [f]	−58.1	−70.7	−81.7	−96.3	−260.0	−236.9	−399.8	−403.9
Totals	97.3	158.0	42.1	164.4	68.3	359.5	207.7	681.9

[a] Reflects additions to offset effects of personnel shortage incurred during hiring freeze.
[b] Reflects March 1979 additions of projects and expenditures to the 1979 State Transportation Improvement Program (STIP).
[c] Chapter 1060, Statutes of 1979, appropriated $8 million to accelerate projects to a ready-to-advertise status.
[d] Reflects the project mix approved by the California Transportation Commission in adopting the 1979 STIP.
[e] Reflects work effort on projects not included in the adopted STIP.
[f] Personnel-year savings imposed by the department in non-project activities to offset staffing increases for project development activities.

The figures in Table 7 reflect the department's plan to accelerate highway project development activities. The magnitude of this plan and the increased staff proposed to implement the plan appear to mark a major change in department policy. Previously, the department has maintained that increased project development work could be accomplished within authorized staff levels. Now, the department is seeking approval for major increases in total authorized staffing levels in order to accelerate the highway program.

The success of the department's efforts cannot be measured at this early date. Results will depend to a large extent on the department's success in hiring new engineering staff and the relative productivity of such staff. We will continue to monitor the implementation of this plan.

f. Administration

We recommend supplemental report language requesting that the department limit its redefinitions of program activities.

The administration element contains the business, legal, management and other technical services necessary to support the highway program. This element has four components: (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 services and (4) external costs—tort liability payments, pro rata charges and Board of Control claims.

Significant changes in this element were reflected in both the 1979–80 and 1980–81 budget proposals. The professional and technical services component of the element was created in the 1979–80 budget with a staffing level of approximately 1,900 personnel-years. This occurred when activities that were formerly designated as part of the General Support Program were redistributed throughout the department's budget. The bulk of this reassignment was reflected in the highway administration's technical services component. The 1980–81 budget reverses last year's action, and approximately 1,500 personnel-years will be removed from this element and redistributed for a second time to other areas of the department. Thus, personnel-year and expenditure totals have fluctuated dramatically, and made year-to-year comparisons a nearly impossible task in this and other elements.

The budget shows expenditures in this element declining from $119.2 million in 1979–80 to $69 million in 1980–81. This $40.2 million reduction and the parallel decrease in staff from 3,012 personnel-years to 1,494 personnel-years primarily reflect the personnel shifts previously discussed.

We recommend that the Legislature adopt supplemental report language in Item 172 which requests the department to limit its program definition changes as follows:

"The department shall limit, to the extent possible, major changes in program definitions as well as the movement of large numbers of personnel from one program to another. This shall be done in order to provide the Legislature with a consistent basis for program comparison and analysis."

Equipment Services

We recommend that $314,676 budgeted for 12 additional equipment mechanics be deleted from Item 172. We recommend that the department convert 12 existing maintenance positions to mechanic positions to perform the proposed activities.

We also recommend that another $681,798 budgeted for 26 additional preventive maintenance personnel be deleted from Item 172 and that 26 existing positions be used to perform the proposed activities.

The department is requesting an increase of 38 personnel-years for its equipment services operations. Of this total, 12 personnel-years are proposed for additional equipment mechanics, and the remaining 26 personnel-years are proposed for the department's new equipment preventive maintenance program.

The department reports that the 12 mechanics' positions are needed to replace 12 positions which were used to establish its motorized equipment training school. The department established this school to improve maintenance staff training, increase staff productivity and reduce major equipment repair costs. (This school is discussed under the maintenance element.) These positions could not be replaced when training school operations began because the administration's hiring freeze was in effect. The department also maintains that the positions are needed to reduce the

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backlog of road equipment awaiting repair, modification or fabrication. Reducing this backlog will make more equipment available and thus reduce "down-time" in maintenance operations.

Our analysis indicates that minimizing equipment "down-time" is desirable. It does not indicate, however, that a staff increase is necessary. Converting 12 existing maintenance positions to equipment mechanic positions would provide the staff necessary to increase equipment availability. With more equipment available, maintenance crews will be able to increase their productivity. This productivity increase, in turn, will reduce the need for maintenance staff. Our analysis suggests that the conversion of 12 maintenance positions would not affect the net output of the maintenance staff.

For this reason, we recommend that the request for 12 additional personnel-years be deleted, for a savings of $314,676 in Item 172. We also recommend that 12 existing maintenance positions be converted to equipment mechanic positions so that the department is able to increase equipment availability.

Preventive Maintenance Staff. The department states that its proposed increase of 26 personnel-years for equipment preventive maintenance crews will extend the average life of fleet vehicles by one year. A reduction in equipment "down-time" is also anticipated. The department has proposed a reduction of approximately 10 percent in its annual capital equipment purchases in anticipation of the extended life expectancies. No related personnel savings, however, have been reflected in the budget.

Here again, our analysis indicates that increased equipment availability should result in increased worker productivity. This productivity increase should be sufficient to free-up the additional personnel-years requested for preventive maintenance. As a result, we do not believe that additional personnel years are justified and recommend that $681,798 (26 personnel-years) in Item 172 be deleted.

Taken together, these two recommendations would delete 38 personnel-years and $996,474 from Item 172. These figures are equivalent to 0.7 percent of the current maintenance staff and 0.4 percent of current maintenance expenditures. The increased productivity resulting from (1) reduced equipment down-time and (2) operation of the equipment training school should offset the minor changes we have recommended.

Technical Services for Other Agencies

We recommend a reduction of $186,023 in Item 172 to reflect increased reimbursements from local government and other state agencies. We also recommend supplemental report language requesting the department to collect these reimbursements from the agencies which will receive professional and technical services from the department.

A portion of the department's highway administrative activities involves work performed for local government and other state agencies. The amount of this work is small compared to the total administrative activities of the highway program.

The department's budget provides for a gradual elimination of the services provided to local government and other state agencies, beginning in the current year. This is being done, in part, to assist the department in meeting its goals for administrative consolidation. Fewer outside activities will permit a more efficient administrative structure and enable the department to better focus its attention on higher-priority state project development activities. The phase-out is being accomplished over two years so that projects currently underway can be completed.

The budget proposes a 50 percent reduction (5 personnel-years) in work performed for local government activities and a 90 percent reduction (15 personnel-years) in work performed for other state agencies. These reductions will leave the staffing level for local government assistance at 5 personnel-years and the staffing level for state agency assistance at 1.5 personnel-years, for a total of 6.5 personnel-years.

Our review of the department's budget indicates that it does not include reimbursements for the remaining services to be provided. Therefore, we recommend that reimbursements in Item 172 be increased by $186,023 (the cost of supporting the 6.5 personnel-years) and that supplemental language be adopted requesting the department to recover such reimbursements from the agencies served. This will permit a reduction of $186,023 in the amount appropriated in Item 172.

Specifically, we recommend that the Legislature adopt supplemental report language for Item 172 as follows:

"The department shall recover reimbursements for technical and professional services provided to other agencies. The amount recovered shall be equal to the cost of providing such services."

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.

Expenditures in this element are proposed to rise from $47.6 million in the current year to $51.8 million in the budget year. Approximately one-half of this $4.2 million, or 8.8 percent, increase is requested for the department's ridesharing and carpool operations, and the remaining half is requested for traffic flow management and the rehabilitation of state-owned residential units not scheduled for immediate demolition.

Staffing is proposed to increase from 1039.7 personnel-years in 1979–80 to 1117.8 in 1980–81, an increase of 78.1. Included in this increase are 67.5 personnel-years redistributed from the technical and professional services

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element. The remaining 10.6 personnel-year increase (1 percent) represents the true staffing change and occurs primarily in the ridesharing program.

Recreational Ridesharing Programs

We recommend deletion of five personnel-years for a savings of $175,054 in Item 172, because adequate justification has not been submitted for the department's recreational ridesharing program. We further recommend that the department identify at budget hearings any additional personnel involved in recreational ridesharing.

The department's Office of Ridesharing administers several programs designed to encourage motorists to use carpools and other mass transportation services. The primary focus of the office is on commuters. During the current year, the office initiated programs to encourage the use of carpools and similar services for recreational trips. For example, Operation Ski-lift in the Lake Tahoe region and the Mammoth Recreational Ridesharing program in the Mammoth Mountain area provide (a) computerized matches of skiers who wish to share rides to and from the recreational areas and (b) information on existing bus service to the areas. The office staff state that the effort has not been successful because (a) gasoline supply has been adequate during the ski season and (b) poor weather conditions reduced the number of persons traveling to the ski areas. They also maintain that Operation Ski-lift began too late in the season to permit an effective information campaign.

The department administratively established 3.1 personnel-years in the current year to staff the Operation Ski-lift activities. The department is proposing that five personnel-years be allocated for these activities in the budget year even though the program's success to date has been minimal. This is shown in department figures which indicate that requests for information on the program totalled approximately 300 during the first month of operation.

Positions Not Justified. Our analysis indicates that the five personnel-years are not justified for two reasons. First, the opportunities to increase recreational ridesharing programs do not appear to be substantial. Office staff concede that a high percentage of these recreational trips are already made with more than one person in the car. This is to be expected because, unlike commuting skiing tends to be a group activity. The natural tendency for skiers to travel in groups probably was a major reason why the two recreational ridesharing programs have not been successful to date. Second, commuter ridesharing offers a greater opportunity to reduce the number of vehicle trips. Office resources are already spread among 10 different commuter-related services and would be spread further if new ridesharing programs are launched, even if additional staff is made available. Our analysis of the ridesharing programs indicates that the office should concentrate its resources on those activities which promise the greatest payoff in terms of reducing the number of vehicle trips. Operation Ski-lift does not fall into this category.

For these reasons recommend that the five personnel-years involved in

Operation Ski-lift be deleted, for a savings of $175,054 in Item 172. We further recommend that the department identify in budget hearings any additional personnel involved in recreational ridesharing.

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 million, or 12.4 percent, in the budget year to a total of $262.7 million. Most of this increase is necessary because of inflation in maintenance materials costs and other program operating expenses.

The proposed personnel-year total of 6,204.4 is 759.1 higher than the estimate for the current year. All of this increase represents the redistribution of professional and technical services personnel-years from the administration element. Basic program staffing levels are proposed to decline by 10 personnel-years (less than 1 percent) in 1980–81 when this redistribution is ignored. Beyond these changes, the highway maintenance program will be composed largely of the same activities being performed in the current year.

Traffic Control and Service Facilities

We recommend a reduction of $440,092 (14.8 personnel-years) in the amount budgeted for additional traffic control and service facilities staff in Item 172. We recommend approval of the remaining 3.5 personnel-years budgeted for maintenance of electrical signs and control devices.

The traffic control and service facilities element of the maintenance program includes activities directed toward protecting the safety of highway users. This is done by controlling traffic through the use of mechanical and electrical devices. Such devices include signs, lighting, guardrails, snow and ice control and drawbridges. The issuance of transportation permits and pavement delineation are also included as element activities.

The budget proposes a staffing increase of 26 personnel-years for these traffic control activities. Of this total, 7.7 personnel-years reflect a redistribution of staff from other elements of the maintenance program. The remaining 18.3 personnel-years are proposed because of increases in inventory and workload for a net increase of 1.8 percent. This change also reflects the assignment of a higher priority to the traffic control activities by the department than in prior years.

We reviewed the department's proposal to determine whether workload and inventory changes justified an increase in staff. We found that in five of the seven activity areas of this element, productivity was projected to decline in the budget year.

The maintenance of electrical devices is the only activity where produc-

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tivity improves. Table 8 compares the changes in workload, staffing and productivity measures from the current year to the budget year, for each activity.

We also analyzed the effect on output if staffing levels were held to their 1979–80 totals. Our analysis indicates productivity would have to increase by 0.1 percent to 1.4 percent in six of the seven activities to offset the projected workload increase in 1980–81. In the remaining element activity, electrical, there would have to be an 8.1 percent increase in productivity to handle the workload with no increase in staff. We conclude that a productivity increase of 0.1 percent to 1.4 percent in the other six activities is a reasonable target for the department to achieve and that additional staff for these activities should not be approved.

Therefore, we recommend that 14.8 of the 18.3 additional personnel-years proposed for workload increases be deleted, for a reduction of $440,092 in Item 172. We recommend approval of the remaining 3.5 personnel-years proposed for electrical maintenance activities.

Table 8
Traffic Control and Service Facilities
Proposed Staffing and Workload Changes
1979–80 to 1980–81

Activity	*Estimated 1979–80*	*Proposed 1980–81*	*Change* Amount	*Change* Percent
1. Pavement delineation				
a. Paintstrip miles	50,110	50,799	689	1.4%
b. Personnel-years	140.9	143.0	2.1	1.5
c. Miles/personnel-year	355.6	355.2	−0.4	−0.1
2. Signs				
a. Centerline miles	15,308	15,346	38	0.2
b. Personnel-years	94.7	96.2	1.5	1.6
c. Miles/personnel-year	161.6	159.5	−2.1	−1.3
3. Electrical				
a. Luminaries and controllers	5,031	5,424	393	7.8
b. Personnel-years	226.1	229.6	3.5	1.5
c. Luminaries/personnel-year	22.2	23.6	1.4	6.3
4. Traffic safety devices				
a. Devices	1,721	1,734	13	0.7
b. Personnel-years	134.9	137.0	2.1	1.5
c. Devices/personnel-year	12.7	12.6	−0.1	−0.8
5. Snow and ice control				
a. Lane miles	47,472	47,506	34	0.1
b. Personnel-years	291.2	295.7	4.5	1.5
c. Miles/personnel-year	163.0	160.6	−2.4	−1.5
6. Transportation services				
a. Facilities	100	100	0	—
b. Personnel-years	163.3	165.9	2.6	1.6
c. Facilities/personnel-year	0.6	0.6	0	—
7. Transportation permits				
a. Permits	125,369	126,839	1,470	1.2
b. Personnel-years	132.6	134.6	2	1.5
c. Permits/personnel-year	945.4	942.3	−3.1	−0.3

Toll Collection Personnel

We recommend a reduction of $189,498 in Item 172 and a deletion of 7.6 personnel-years proposed for toll collection on state toll bridges.

The budget proposes the addition of 12.5 personnel-years for toll collection operations on two of the state's toll bridges. This increase is proposed for both the current and budget years. The department's request includes an additional 6.6 personnel-years to cover traffic volume increases on the San Diego-Coronado Bay Bridge and another 5.9 personnel-years for expanded toll collection operations on the Antioch Bridge. If approved, these requests would increase the total state toll collection staffing level from 355 personnel-years to 367.5 personnel-years (3.5 percent).

San Diego-Coronado Bay Bridge. The department's request for additional staff in San Diego is based on the need to respond to increases in traffic volume. Our request for actual traffic counts from the department, however, produced information which shows that the average monthly traffic volume on the San Diego-Coronado Bay Bridge actually *declined* in 1979–80 from 1978–79. These figures are shown in Table 9 along with those for the state's other toll bridges.

Table 9 shows that monthly traffic counts on the San Diego-Coronado Bay Bridge experienced in 1979–80 are 6,868 vehicles, or 0.6 percent, lower than those experienced in 1978–79. (This was the only bridge where traffic counts declined.) Even if traffic counts increase on the San Diego-Coronado Bridge later in the year, our review indicates that the 1978–79 staffing level will be sufficient to handle the workload.

Table 9
Average Monthly Traffic on State Toll Bridges
1978–79 and 1979–80

	Average Monthly Traffic		Change	
Bridge	*1978–79*	*1979–80*	*Amount*	*Percent*
Antioch	47,721[a]	89,221	41,500	86.9%
Richmond-San Rafael	432,531	437,618	5,087	1.2
S.F./Oakland Bay Bridge	2,881,589	3,026,882	145,293	5.0
San Mateo	601,411	634,696	33,285	5.5
Dumbarton	217,018	224,051	7,033	3.2
Carquinez	963,416	991,356	27,940	2.9
Benecia	712,273	728,313	16,040	2.3
Vincent Thomas	726,803	755,002	28,199	3.9
San Diego/Coronado	1,137,833	1,130,965	−6,868	−0.6
Totals	7,720,595	8,018,104	297,509	3.8%

[a] Bridge open for use only part of the year.

Therefore, we recommend the 6.6 personnel-year addition for these operations be deleted for a savings of $164,570 in Item 172.

Antioch Bridge. The Antioch Bridge was opened to traffic midway through the 1978–79 fiscal year. Consequently, fewer personnel-years of staff effort were needed for bridge toll operations than if the bridge had been open for the full year. The department's request to increase staffing levels for 1979–80 and 1980–81 reflects the bridge's year-round operational status. Also, toll collection activities have expanded since the operation

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moved from a temporary, two-booth facility to a permanent, three-booth facility.

Our discussions with district toll collection personnel revealed that the department plans to staff the Antioch toll operations with 15 full-time positions. Plans also include two part-time positions to fill in when members of the regular staff are ill or are on vacation. This mix of staff indicates that the actual number of personnel-years which will be expended will be less than the budgeted total of 17.

We find that no more than 16 personnel-years are required for the Antioch toll operations. Therefore, we recommend deletion of one additional personnel-year. This will result in an additional savings of $24,934 to Item 172.

Highway Road Equipment

We recommend that the amount budgeted for acquisition of new and replacement vehicles and road equipment in Item 513 be reduced by $2,428,139.

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 10,000 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 the prior year level of $15 million. Also, the department has "aged" its inventory in recent years to extend the equipment's service life. Because of these events, many equipment purchases were deferred.

In last year's budget, the department proposed an expenditure of $43 million for vehicles and road equipment. A large part of this request was for the purchase of replacement units which had been deferred from prior years. The Legislature deleted approximately $2 million from this request on the basis of more accurate cost data which showed that the department had overbudgeted for these expenditures.

Department Overbudgeted. The 1980–81 budget proposes equipment and vehicle expenditures of $30.2 million. This will permit the purchase of approximately 1,000 items of equipment, including 500 passenger vehicles, 325 trucks and an assortment of graders, tractors, and loaders.

We requested more detail on the types of vehicles needed and unit costs. The department responded with preliminary data on the types and costs of individual vehicles. This data was not sufficiently detailed to permit a complete analysis of the equipment request. The department, however, conceded that it had overestimated the costs of the new vehicles by $2,428,139 and agreed this amount should be deleted from the requested amount. As more detailed data becomes available, we will analyze it to determine if further changes in the equipment request are warranted.

Therefore, we recommend that the $2,428,139 overbudgeted for new vehicles be deleted, for a savings in Item 513. We withhold approval of the remaining $27,771,861 budgeted for highway road equipment, until the department provides additional substantiating documentation for its request.

Motorized Equipment Training School

We recommend a reduction of $250,000 in Item 172 to reflect expected savings in personal injury and tort liability claims. We expect these savings to accrue from the department's motorized equipment training school operations. We also recommend supplemental language requesting that information pertaining to such savings be included in information submitted annually in support of the department's budget request.

In our *1979 Analysis of the Budget Bill*, we reported that the department had established a statewide road equipment training school situated at the California National Guard's Camp San Luis Obispo. The school was initiated because of a demonstrated need for better trained maintenance personnel and the need to limit burgeoning maintenance repair costs. Costs for these training operations were budgeted at $1.6 million, but no provision was made for offsetting savings.

The Legislature approved supplementary language requesting that the department prepare estimates of future savings and determine the "break-even" point for the program. The department was requested to submit a report to the Legislature on December 1, 1979. A brief report was submitted which addresses these issues.

The report concludes that the equipment training program, in conjunction with a new equipment preventive maintenance program, will reduce emergency equipment maintenance costs by $1.2 million annually and overall equipment maintenance costs by $2.3 million annually. On the basis of these estimates, the department has proposed reductions of $5 million in its annual capital equipment budgets.

The department's estimated savings are somewhat speculative because they are based on the experience of training schools operating in Arkansas and Washington, not on experience in California. The department's commitment to reduce its requests for capital equipment purchases, however, implies that substantial savings in capital costs will be realized.

Additional Savings. The department's report does not include an estimate of potential personnel cost savings that will result from the school's operation. The report refers to reductions in worker compensation and tort liability claims experienced in other states, but no such savings, however, are estimated for the department's school.

It is reasonable to assume that better-trained employees will have fewer accidents when performing work activities. Job injuries and liability claims should decrease or, at a minimum, increase more slowly as employees complete their training. These benefits should translate into savings which can be used to offset the costs of operating the training school. We can find

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no analytical basis for accurately estimating the savings which will accrue from the operation of the training school. To allow for such savings, however, we are recommending a reduction in the department's support budget.

We recommend a reduction of $250,000 in Item 172 to reflect expected savings in personal injury and tort liability claims. This amount is equal to approximately 2 percent of the $12.7 million budgeted in 1980–81 for such liability claims. We also recommend supplemental report language requesting that data documenting changes in these expenditure categories resulting from equipment school operations be included in future budget materials submitted by the department.

Specifically, we recommend the Legislature approve supplemental language for Item 172 as follows:

"The department is requested to prepare data comparing the changes in expenditures for tort liability claims and worker compensation as a result of the operations of the equipment training school. This information should be included in materials submitted by the department in support of its budget request."

III. 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. Requested funding and staff increases for these elements, as well as new programs provided under Chapter 161, Statutes of 1979 (SB 620) are shown in Table 10.

Significant Program Changes

As Table 10 indicates, the budget proposes expenditures for this program of $191,920,552, an increase of $155,521,950, or 427 percent over adjusted current year expenditures of $36,398,602.

State Operations. The budget proposes $28,020,552 for state support of mass transportation activities, an increase of $21,428,950, or 325 percent, above the current year level. Of the total budgeted amount, $20,576,713 is proposed for appropriation in the Budget Bill. The remainder will be funded from federal funds, reimbursements and other appropriations. Staffing is proposed to increase from the adjusted current year level of 177.5 personnel-years to a budget year total of 211.5 personnel-years. This represents a program staff increase of 46 personnel-years, and a reduction of 12 technical service and professional personnel-years which are prorated to the program.

Proposed changes include: (1) $11 million to extend the discretionary local assistance and intercity bus programs into the budget year, and (2) approximately $10 million for consulting contracts, and other miscellaneous costs.

Local Assistance. The budget proposes $125,900,000 for local assistance: (1) $53 million for local transit assistance; (2) $7.8 million for support

Table 10
Proposed 1980–81 Mass Transportation Program Changes

	Personnel-Years	*Personal Services Operating Expense and Equipment*	*State Operations*	*Local Assistance*	*Capital Outlay*	*Total*
1979–80 Current Year Adjusted [a]	177.5	($4,358,829)	$6,591,602	$29,807,000	—	$36,398,602
1. Operating Expenses and Equipment	—	(345,210)	345,210	—	—	345,210
2. Proration of Technical Services	−12.0	(73,257)	73,257	—	—	73,257
3. Program Changes						
a. Full mobility transportation	—	—	−76,708	—	—	−76,708
b. Transit operator assistance	4.1	(135,232)	336,819	25,158,888	3,000,000	38,495,707
c. Interregional public transportation	4.6	(173,635)	3,813,526	—	—	3,813,526
d. Transfer facilities and services	−1.1	(−41,809)	928,004	134,112	—	1,062,116
e. Transportation demonstration projects	−0.6	(−21,561)	1,107,748	—	—	1,107,748
f. Administration	5.1	(98,975)	98,975	—	—	98,975
g. Work for others	−7.2	(−235,861)	−726,588	—	—	−726,588
Subtotals	(4.9)	($108,611)	($5,481,776)	($25,293,000)	($3,000,000)	($43,774,776)
4. Chapter 161 Programs						
a. Guideway projects	1.2	($36,938)	36,938	—	$35,000,000	$35,036,938
b. Abandoned railroad rights-of-way	1.5	(46,172)	46,172	—	—	46,162
c. Discretionary local assistance	8.0	(259,751)	10,259,751	10,000,000	—	10,259,751
d. State transit assistance	1.0	(30,781)	30,781	53,000,000 [b]	—	53,030,781
e. Intercity bus	4.0	(172,476)	1,172,476	—	—	1,172,476
f. Rail operations	13.1	(500,584)	500,584	7,800,000 [b]	—	8,300,584
g. Rail capital	7.6	(290,415)	290,415	—	—	290,415
h. Grade separation projects	1.0	(38,212)	38,212	—	—	38,212
i. Intermodal facilities	3.7	(153,378)	153,378	—	—	153,378
j. Alternate fuels	—	—	3,000,000	—	—	3,000,000
Subtotals	(41.1)	($1,528,707)	($15,528,707)	($70,800,000)	($35,000,000)	($111,328,707)
Proposed 1980–81	211.5	($6,341,357)	$28,020,522	$125,900,000	$38,000,000	$191,920,552

[a] 1979–80 estimated expenditures less (1) administratively established positions, (2) one-time appropriations which will no longer be available for expenditure after June 30, 1980, and (3) all Chapter 161 appropriations.

[b] Capital outlay and local assistance not subject to appropriation in the Budget Bill.

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of intercity and commuter passenger rail service; (3) $10 million for discretionary local assistance; (4) $200,000 for abandoned railroad rights-of-way; (4) $7.5 million for intermodal transit facilities; and (5) $47.4 million for mass transit guideways provided from the Highway Account under Article XIX of the Constitution. A portion of the funds for guideways ($28.9 million) will be placed in reserve for Los Angeles County pursuant to Chapter 921, Statutes of 1979 (AB 1429).

Capital Outlay. A total of $38 million is requested for capital outlay as follows: (1) $35 million for expenditure on mass transit guideways and rolling stock, and (2) $3 million provided on a continuing basis to acquire abandoned railroad rights-of-way.

CHAPTER 161 (SB 620) PROGRAM

Chapter 161 enacted major changes in state support for rail and local transit programs. The act also amended provisions of the Transportation Development Act, under which local transit systems receive assistance from sales tax funds.

In addition, Chapter 161 appropriated Transportation Planning and Development (TP and D) Account funds to (1) the California Transportation Commission for intermodal transportation facility projects, and (2) the Secretary for Business and Transportation for research associated with alternative motor vehicle fuels (discussed in detail in our analysis of Item 33) and for local transit service assistance (the State Transit Assistance Program). After deducting the cost of specified state operations, one-half of the remaining transfer is directed to this program. Funds are allocated to regional transportation planning agencies on a population formula basis. These local agencies then allocate funds to transit systems on a discretionary basis, with priority consideration given to claims to (a) offset fuel price increases, (b) enhance existing transit service, or (c) meet high-priority transit needs.

Chapter 161 also imposed significant new responsibilities upon the Department of Transportation. TP and D Account funds were appropriated to the department to purchase abandoned railroad rights-of-way and construct grade separation projects over certain passenger railroad lines. Funds also were appropriated for the department to (1) prepare plans and specifications to purchase and/or lease passenger railroad cars and improve rail lines and related facilities, (2) contract for commuter and intercity rail services, and (3) provide intercity bus transportation or feeder services. Finally, the act authorized the use of TP and D Account funds for the construction of mass transit guideways and the purchase of rolling stock.

Expenditures from the Transportation Planning and Development Account

The major funding source for proposed mass transit expenditures is the Transportation Planning and Development Account (formerly 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 transferred from the General Fund to the TP and D account is based on a formula which differentiates between the total value of gasoline sales and the total value of taxable items other than gasoline.

Enactment of Chapter 161 changed TP and D Account funding in two ways. First, it altered the formula used to calculate the spillover, increasing significantly the potential transfer of funds into the account. Second, it limited the amount transferred in any fiscal year to $110 million, adjusted for changes in the Consumer Price Index or state per capita personal income.

The Governor's Budget estimates a transfer of $110 million in 1979–80, and $125 million in 1980–81. Because of the volatility of gasoline prices and sales, the spillover could fall below the maximum transfer level in future years. Our analysis indicates, however, that for this to occur in 1980–81, the percentage increase in taxable sales during the next year must exceed the percentage increase in dollar gasoline sales by 20 percentage points or more. (For example, taxable sales increase 25 percent and dollar gasoline sales increase 5 percent.)

Budgeting for the Implementation of Chapter 161

The department's proposed budget for programs established by Chapter 161 was developed separately from the budget for the remainder of the Mass Transportation program. Reconciliation of the entire program was not attempted until the very end of the budgeting process when the various programs were compared for consistency. This occurred because (1) Chapter 161 was enacted midway through the 1980–81 budget process, and (2) Chapter 161 programs are viewed by the department as distinct from other division activities and are administered by a special program manager.

Resource Requirements. According to the department, most of the Chapter 161 programs will be implemented in the current year using existing resources. Support costs will not be funded from the appropriations in the act. The department is requesting an additional 41.1 personnel-years in the budget year to continue implementation of the act.

Constraints on Analysis

Our analysis of the Mass Transportation program budget is hampered by several factors:

1. Virtually no supporting documentation is provided to justify the changes contained in the budget for new programs under Chapter 161. Although the department has attempted to provide needed information, most of the documentation could not be developed in time for consideration in our analysis.

2. By separating Chapter 161 allocations from other mass transportation budget proposals, the Budget presentation and supporting documentation is fragmented and confusing. This dual process for building the budget also leads to (a) overlapping resource requests in several program areas, and (b) occasional double budgeting of consulting contracts and other operating expenses.

3. The budget contains numerous technical errors which make it difficult to reconcile with supporting documentation.

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Need for Clarifying Legislation

We recommend that the department propose legislation which would consolidate and recodify its existing statutory authority in the mass transportation area.

The department's authority in the area of mass transportation is codified in 36 statutes. Supplemental language to the 1979 Budget Act requested the department to prepare a report on its existing mass transportation authority and to include draft legislation to consolidate its authority. The report, completed in November of 1979, proposes recodification of existing law and proposes other minor changes.

Our review indicates that the report organizes and clarifies the numerous statutes pertaining to the department's mass transportation authority. It also eliminates redundant or outdated sections of law. We recommend, therefore, that the department, using this report as its basis, prepare draft legislation which would: consolidate its authority in the mass transportation area, recodify existing law, and delete outdated sections of the statutes.

Measurement of Accomplishments

We recommend Budget Bill language in Item 174 which would require the department to provide quantifiable goals and measurements for the Mass Transportation program.

In our analysis of the 1979–80 budget, we stated that the Mass Transportation program provided no indication of a process by which specific proposals (or existing functions) are selected for support. We also pointed out that criteria for assessing program accomplishments are lacking and that division staff should develop quantifiable goals and measures.

Some progress toward this goal has occurred. Several of the programs created by Chapter 161 include a process for project selection and fund allocation. Also, in response to language in the 1979 Budget Act, the division prepared draft standards to be used in evaluating passenger rail proposals. Despite these improvements, most mass transportation programs administered by the division still lack quantifiable goals and measures. The Legislature's ability to evaluate the success of the department's mass transportation program is dependent upon the development of this information. Therefore, we recommend Budget Bill Language in Item 174 as follows:

"The Department shall develop (1) quantifiable goals and (2) measurements to assess achievement of these goals, for each component within the Mass Transportation program. Where appropriate, such goals and measures shall also be provided for activities within each component. This information shall be transmitted to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1980."

Overbudgeting in Mass Transportation

We recommend that the Transportation Planning and Development Account (Item 174) be reduced by $2,050,193 for overbudgeted general expenses. We also recommend a reduction of $31,034 and 0.5 personnel-

years for technical budgeting errors.

Our analysis of the department's budget reveals that the department overbudgeted general expenses for the Mass Transportation Program by $2,050,193. The budget also includes, erroneously, $31,034 and 0.5 personnel-years for support of demonstration projects. The department acknowledges these errors. Therefore, we recommend reductions totaling $2,081,227.

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) are improved in terms of accessibility and service levels. The budget proposes expenditures of $636,355. This represents a decrease of less than 1 percent from the 1979–80 adjusted budget.

b. Transit Operator Assistance

Both financial and technical assistance to operators are offered within this element. Major assistance and capital outlay programs include (1) the State Transit Assistance Program, (2) a discretionary local assistance program, (3) the abandoned railroad rights-of-way program, and (4) mass transit guideway programs under Article XIX of the Constitution, and Chapter 161, Statutes of 1979. Transit development programs and administration of federal and state aid functions are among the other assistance activities provided by the department.

The department proposes expenditures in this element of $161,547,842. This represents an increase of approximately $10.9 million (519 percent) for state operations, $88.2 million (393 percent) for local assistance, and $38 million for capital outlay, over adjusted current year expenditures.

Discretionary Local Assistance

We recommend a reduction of $10,228,970 and 7.0 personnel-years from the Transportation Planning and Development Account (Item 174) for discretionary local assistance.

Chapter 161 appropriated $10 million to the Secretary of Business and Transportation to allocate to those areas with special public transportation needs which cannot be met otherwise. These funds are available for allocation until June 30, 1980. The secretary has solicited project proposals and, as of December, received applications totaling $152 million. These applications fall into the following categories:

Transit Vehicles and Operations	40%
Construction	43%
Rights-of-Way Acquisition	9%
Miscellaneous	8%
Total	100%

The agency expects to encumber the entire $10 million prior to June 30, 1980.

The department's budget requests $10 million in the state support item (Item 174) to continue this program in the budget year. Examination of the department's budget reveals that funds for this program should have been included under local assistance, not support. The department acknowledges this error. On this basis, we recommend a reduction of $10 million.

Proposed Budget Augmentation. Because the proposed $10 million for discretionary local assistance is budgeted incorrectly, the department informs us that a Finance letter will be submitted prior to legislative hearings. According to the department, this letter will propose (a) reduction of $10 million in state support, (b) augmentation of $10 million in local assistance, and (c) Budget Bill language authorizing the department to administer this program. We withhold recommendation on the proposed augmentation, pending review of the request.

If the request is presented to the Legislature as outlined above, however, we expect to raise the following issues:

1. The department is not authorized to administer this program. Chapter 161 provides this authority to the Secretary of Business and Transportation. A change of this nature represents a shift in policy and such authority should be specified by legislation.

2. Chapter 161 provides an appropriation for one year only. It is our understanding that the Legislature intended that this program be reviewed after one year. This will facilitate legislative control over the future of the program.

3. Continued appropriation of discretionary funds to the departments limits the Legislature's ability to specify appropriations by program category. Under the process established by Chapter 1106, Statutes of 1977 (AB 402), most capital outlay transportation funds are appropriated by the Legislature for expenditure by category. The California Transportation Commission allocates these funds, and the department expends them. We have recommended, in our analysis of the commission's budget, that all mass transportation capital outlay funds be handled in this manner. If, however, the Legislature wishes to provide discretionary funding, we recommend that authority for allocation be given to the California Transportation Commission.

Discretionary Program Support. To support the discretionary local assistance program, the department is requesting the addition of 7.0 personnel-years. Based on our recommendation to delete funding for this program, we recommend that the seven positions also be deleted, for a savings of $228,970.

Transit Operator Assistance Activities

We recommend a reduction of $312,603 and 6.4 personnel-years from the Transportation Planning and Development Account (Item 174) for transit operator assistance activities.

Social Service Transportation Improvement. Chapter 1120, Statutes of 1979 (AB 120) provides for the consolidation of transportation services required by social service recipients. The act appropriates $85,000 to the Secretary of Business and Transportation for 1980–81 to perform several activities including: (1) contracting for a study of the insurance problems of existing social service transportation services, and (2) submitting several reports to the Governor and Legislature on problems related to implementation of the act. This amount is included in the secretary's 1980–81 budget.

In December, the secretary delegated his responsibilities for this program to the Director of the Department of Transportation. To implement the act, the department is requesting 1.5 personnel-years and $49,942. Expenditures for implementation of this program should be reimbursed by the Business and Transportation Agency using the funds appropriated by Chapter 1120. The proposed budget, however, does not indicate that reimbursements will fund this activity. We recommend, therefore, that the department's reimbursement schedule be increased by $49,942, and that the appropriation from Item 174 be reduced by the same amount.

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

The budget proposes the addition of 5.6 personnel-years and $186,452 for this purpose. The department will use 4.6 of the personnel-years to review six projects: a Sacramento light rail project; BART mainline crossovers and spur tracks; San Francisco Municipal Railway (MUNI) station facilities; a Santa Clara guideway project; a Port of Oakland guideway project; and the Los Angeles (Wilshire Corridor) guideway. The other 1.0 personnel-year is requested to review unspecified projects which are expected to receive mass transit guideway funding under Chapter 161.

Five of these projects were proposed for review in the 1979–80 budget. In our *Analysis of the 1979 Budget Bill,* we stated that we did not expect review to be required during the current year for three of the projects (Santa Clara, Sacramento and BART). Our expectation proved to be correct and review will occur in 1980–81. Last year, the department requested 0.6 personnel-years for review of these three projects. This year's request for review of the same projects is 2.3 personnel-years. The department has not provided justification to support this higher staffing level. Consequently, we recommend that the department's request be reduced by 1.7 personnel-years to bring it to the level of last year's request.

We also recommend that the 1.0 personnel-year for expected review of new projects under Chapter 161 be deleted from the department's request because, (1) the request is premature, and (2) the preliminary list of project applications under Chapter 161 is primarily a duplication of projects proposed for review by the other 4.6 personnel-years.

We therefore recommend a reduction of 2.7 personnel-years, for a savings of $89,897.

Transportation Development Act Administration. The Secretary for Business and Transportation delegated his authority to administer the Transportation Development Act (TDA) to the department. The department proposes devoting 10.6 personnel-years for TDA administration in the budget year, 0.7 of which is proposed to review waiver applications from specified TDA requirements. Enactment of Chapter 161, however, eliminated provisions which authorize these waivers. Staffing for this purpose is no longer needed, and we therefore recommend deletion for a

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savings of $22,897.

Underbudgeted TDA Reimbursements. Chapter 1002, Statutes of 1979 (AB 86), specifies that the costs of administering the Transportation Development Act (TDA) shall be reimbursed from TDA funds. As discussed above, the secretary has delegated his administrative authority to the department. We recommend that 9.9 personnel-years be approved for this function at a cost (including associated operating expenses) of $323,829 in the budget year. The department's budget, however, indicates a reimbursement of only $285,000 from TDA funds. We therefore recommend increasing the department's reimbursement schedule by $38,829 and reducing the appropriation in Item 174 by the same amount.

Technical Assistance for Guideway Projects. The department is requesting 1.5 personnel-years and $49,943 to provide technical assistance in the design and implementation of fixed guideway facilities. According to the department, these funds would be used to (1) assist four local agencies in designing and implementing the facilities, (2) evaluate new guideway projects, (3) assist in multimodal corridor studies and (4) assist the San Francisco Municipal Railway (MUNI) in developing and selecting alternative methods to transfer passengers between a Southern Pacific depot and a MUNI station.

We recommend that these positions be deleted, for these reasons:

- Discussions with staff of the four local agencies that are supposed to receive assistance in guideway development indicate that only one agency (the Metropolitan Transit Development Board) will actually request any significant assistance from the department. Moreover, the board is willing to fully reimburse the department for the cost of the assistance it receives.
- One agency told us it would request minimal assistance from the department, but also on a fully reimbursable basis.
- The other two agencies indicate that no department assistance is required.
- MUNI staff state that department assistance in the passenger-transfer project would be minimal, with MUNI reimbursing the department.
- Budget detail provided by the department indicates that the multimodal corridor studies identified in this request will be completed in the current year.

Based on our review, existing staff can provide the necessary assistance to local agencies. Further, any work for local agencies should be fully reimbursed. Therefore, we recommend deleting 1.5 personnel-years from Item 174, for a savings of $49,943.

Abandoned Railroad Rights-of-Way. Chapter 161 appropriated $9 million for acquisition of abandoned railroad rights-of-way. This money must be encumbered by June 30, 1980. The budget proposes an augmentation of 1.5 personnel-years and $61,095 to administer contracts and oversee the expenditure of these funds during the budget year.

The department currently employs 0.8 personnel-years to administer the acquisition of abandoned railroad rights-of-way. No documentation has been provided by the department to justify the need for increased staff for this activity. Therefore, we recommend a reduction of 1.5 personnel-years and $61,095.

Mass Transit Guideway Program

We withhold recommendation on the request to expend $35 million for mass transit guideways and rolling stock pending development of a project priority list.

The budget proposes an appropriation of $35 million to fund exclusive mass transit guideway projects. This activity is authorized by Chapter 161, which established the following process for promoting guideway projects: (1) the California Transportation Commission selects criteria for evaluation of projects, (2) the department submits to the commission its evaluation of projects, (3) the commission determines the priority of the projects, (4) the Governor includes an expenditure proposal for projects in the budget, (5) the Legislature appropriates funds, and (6) funds are allocated by the commission to projects on the basis of their priority.

Because this is the first year of the program, the priority of individual projects has not yet been determined. The commission anticipates completing this task by June 1, 1980. The Legislature, therefore, is being requested to appropriate $35 million for projects that have not been identified in accordance with the Chapter 161 process. For this reason we withhold recommendation on this request until the commission provides its list of project priorities.

State Transportation Assistance Funds

Chapter 161 appropriates State Transportation Assistance (STA) funds to the Secretary of Business and Transportation for allocation to local agencies. The secretary will allocate approximately $53 million in STA funds in the budget year. The expenditure of these funds, however, is displayed in the department's budget, rather than in the secretary's budget. Displaying STA funds in this manner distorts the budgets of both the department and the Business and Transportation Agency.

In our analysis of the agency's budget, we recommend that STA funds be exhibited in a "Special Transportation Programs" display in the Governor's Budget. Consistent with our recommendation on the secretary's budget, we recommend that the $53 million be deleted from department expenditure totals.

This action will not affect the department's appropriations in the Budget Bill because the STA funds are continuously appropriated by Chapter 161.

c. Interregional Public Transportation

Activities in the interregional public transportation element include: (1) support of intercity and commuter rail and bus passenger service, (2) improvement of rail and bus passenger facilities, (3) purchase and lease of rail capital equipment, (4) implementation of the State Bus Plan, and (5) update and implementation of the State Rail Plan for freight service.

This element proposes expenditures of $6,003,776 for state operations and $7.8 million for rail service subventions. This is an increase of approximately $5.7 million (2,068 percent) in state operations and $7.8 million in subventions over the adjusted 1979–80 budget.

DEPARTMENT OF TRANSPORTATION—Continued

Alternative Intercity Transportation Modes

We recommend enactment of legislation authorizing the department to expend funds previously appropriated for intercity and commuter rail passenger service for either rail or bus needs.

Chapter 161 appropriated, for three years, $15 million for rail capital improvements and $21 million for rail operations support. It also appropriated, for one year, $1 million for intercity bus transportation. The department is responsible for allocating these funds to specific projects.

The public sector provides subsidies for *intracity* bus transit, but most state funding for *intercity* or long-haul commute service is directed toward rail. It is not clear, however, that support of rail service is always more cost-beneficial than support of bus service. In the San Bernardino-Los Angeles corridor, for example, the department advocates increased bus and rail service. Corridor studies conducted by the department often recommend a combination of increased bus and rail service to meet future travel demand.

Hearings have been held to consider initiation or continuation of rail service in several intercity and commute corridors in the state. The department has pointed out that rail provides a right-of-way that is needed in heavily congested areas. Conversely, the Southern Pacific Transportation Company and/or Greyhound Lines have testified that in these specific corridors: (1) bus service can be provided less expensively than rail service, and (2) based on current levels of usage, buses are more energy efficient than trains.

Limited state funds can be used most effectively if they are allocated to the most cost-beneficial transportation mode (or combination of modes) in a corridor where public support is deemed desirable. The current funding mechanism does not allow the department to make trade-offs between bus and rail service, thereby reducing the number of persons who can be served with state funds. To promote better utilization of these funds, we recommend legislation authorizing the department to allocate funds previously appropriated in Chapter 161 for intercity and commuter rail service for either rail or bus needs.

Intercity Bus Component

We recommend a reduction of $1,166,780 and 3.9 personnel-years proposed for support of intercity bus transportation from the Transportation Planning and Development Account (Item 174).

Chapter 161 appropriated $1,000,000 to the department to contract for intercity bus transportation. These funds are available for allocation until June 30, 1980. The department has solicited project proposals from private carriers and is nearing the end of its selection process. Most of the proposals request funds to provide service (rather than facilities) between rural or small urban areas and middle-size or large urban areas for one and one-half to two years. The department expects to encumber the entire $1 million prior to June 30, 1980.

Improper Budgeting. The department requests an additional $1 million under state support (Item 174) to continue the bus program in the budget year. As with the program for discretionary local transportation assistance, the department acknowledges that funding for the bus program is improperly budgeted. It intends to submit a Finance letter which will reduce Item 174 by $1 million, and place the requested funds in local assistance. Therefore, we recommend deletion of this amount from Item 174.

Further, Chapter 161 specifies a one-year appropriation for support of intercity bus transportation. It is our understanding that the Legislature intended that this program be reviewed after one year. This will facilitate legislative control on the future of the program.

The Finance letter pertaining to extension of this program has not yet been submitted. We withhold recommendation on the proposed augmentation pending review of the Finance request.

Intercity Bus Support. The budget proposes the addition of 3.0 personnel-years and $128,292 to evaluate and select new projects for the intercity bus program in 1980–81. Based on our previous recommendation to eliminate funding for the Intercity Bus Program in the budget year, we recommend reduction of funding for unnecessary program support.

State Intercity Bus Plan. In last year's Budget Act, the Legislature approved 1.3 personnel-years to develop a state bus plan. Development of the plan was expected to require three years and 3.9 personnel-years of effort during that period. The department now intends to complete the plan in two years, and is requesting an increase of 2.2 personnel-years and $94,081 in the budget year.

Approval of this request would provide a total of 4.8 personnel-years of effort for this task (1.3 personnel-years in 1979–80, and 3.5 personnel-years in 1980–81). The department's request exceeds the original projected need of 3.9 personnel-years by 0.9 personnel-years. Because the department has not justified the need for additional support, we recommend a reduction of 0.9 personnel-years and $38,488.

Rail Component

We recommend a reduction of $1,123,240 and 25.0 personnel-years from the Transportation Planning and Development Account (Item 174) for unjustified rail support activities.

Added Staff. The department's budget proposes an augmentation of $829,211 and 21.7 personnel-years for implementation of the rail capital, rail operations and grade separation programs funded by Chapter 161. These positions would be added both in the current and budget years to a baseline authorized staffing level of 18.9 personnel-years.

The department has failed to justify the need for additional staff to implement this program. No documentation of need was submitted as part of the department's original budget change proposal. Since that time, we have been provided a list of planned activities, and the tasks required to accomplish them. The department has not linked these activities to personnel-years of effort required. In the absence of information substantiating the need for these personnel-years, we cannot recommend approval of the department's staffing request.

In addition, our review of information submitted with the request indi-

DEPARTMENT OF TRANSPORTATION—Continued

cates the following deficiencies in the department's proposal:

1. The average personal services expense budgeted for the requested 21.7 personnel years is $36,873. This compares to a departmental average of $26,037. Presumably, new positions should be budgeted at or below the departmental average.
2. Technical errors overstate consultant and general expenses by $2,324,786 for this element. (Our analysis and recommendation appear earlier in our analysis of the department's budget.)

Because of inadequate justification and the improper budget assumptions discussed above, we recommend a reduction of $829,211 and 21.7 personnel-years from Item 174.

State Rail Freight Plan Update. The division requests 3.3 personnel-years and $121,529 to update the State Rail Freight Plan. This plan is needed so that unprofitable railroad freight branch lines may qualify for federal assistance. An update of the plan is proposed because (1) new federal definitions have increased the number of rail lines eligible for assistance and (2) pending federal legislation is expected to add even more eligible lines.

The amount requested is not justified for the following reasons:

1. The Legislature approved an increase of 1.9 personnel-years in the 1979 Budget Act to update this plan.
2. We are informed that at least one personnel-year currently involved in *implementation* of the Rail Freight Plan will no longer be needed for that task.

We therefore recommend a reduction of 3.3 personnel-years and $121,529. The 1.9 personnel-years currently authorized, in addition to the 1.0 personnel-year no longer required in the implementation area, should be sufficient to complete this task.

Reimbursed Staff Services. California provides a portion of the rail passenger operating subsidy for (1) three San Diego-Los Angeles trains and (2) one Bakersfield-San Francisco train. A second state-supported Bakersfield-San Francisco train is expected to begin service in February 1980. AMTRAK, which provides the remainder of the subsidy, operates all of these trains.

The 1979 AMTRAK Reorganization Act (P.L. 96-73) provides that states entering into joint service are to be reimbursed by AMTRAK for staff services in an amount equal to 1.5 percent of the total operating losses and associated capital costs for any jointly provided service. The amount of reimbursement is calculated by AMTRAK and credited toward the department's share of operating subsidies for a given service. Reimbursements credited in this manner lower the state's required subsidy, but they do not offset the state's staff support cost. Because the AMTRAK legislation specifies that these funds are for staff services, we recommend that reimbursements be credited toward staff support. Based upon the department's draft Rail Passenger Development Plan, we estimate total operating losses for state-supported AMTRAK trains of $11.5 million in the budget year. We therefore recommend a reduction of 1.5 percent of this amount, or $172,500.

Rail Passenger Development Plan

We recommend supplemental report language in Item 174 directing that in future years the Governor's Budget be consistent with the department's Rail Passenger Development Plan. We also recommend that this plan be prepared by December 1st of each year. Finally, we recommend supplemental report language which directs the department to include specified data in the plan.

The department is required to include in its annual budget the amounts to be expended from funds appropriated by Chapter 161 for rail capital and operating purposes. Our analysis of this information, provided in the department's Rail Passenger Development Plan, has been hampered by two factors. First, the expenditures outlined in the plan do not agree with the planned expenditures in the Governor's Budget. Second, the report was provided to us in draft form. Therefore, we are not certain that the planned expenditures represent official departmental policy. We also have concluded that, although the report provided much useful information, the inclusion of additional data would facilitate legislative oversight of this program.

For reasons given above, we recommend supplemental report language in Item 174 as follows:

"Future Rail Passenger Development plans prepared pursuant to Section 68 of Chapter 161, Statutes of 1979 shall be submitted by December 1st of each year and shall be consistent with expenditures proposed in the Governor's Budget. These plans shall include:

(1) The proposed yearly expenditure of all state funds for rail purposes;
(2) Estimated total operating costs by year for each of the services proposed for state support;
(3) Estimated total capital costs for each project proposed for state support;
(4) Estimated yearly revenues from sources other than state funds. This should be provided for all passenger services and capital projects proposed for state support; and
(5) Annual actual or estimated, expenditures for each service or capital project, beginning with fiscal year 1979–80."

Proposed Rail Plan

Table 11 displays the department's three-year plan for expenditure of rail funds appropriated by Chapter 161. Capital expenditures total $15 million, and operating expenditures total $25 million over the period 1979–80 through 1981–82. Planned operating expenditures exceed the $21 million Chapter 161 appropriation because the department anticipates that not all of the projects shown in Table 11 will proceed on schedule.

Proposed Standards. Our supplemental analysis of the department's proposed 1979–80 budget issued in April 1979 recommended that the department propose "economic, social and environmental standards (that) would be utilized to evaluate . . . future passenger rail ventures." The department has included in its draft report financial and ridership goals which would be used to evaluate the efficacy of state support for a given rail line. Two measures are identified: (1) loss (or subsidy) per

DEPARTMENT OF TRANSPORTATION—Continued

Table 11
Proposed Expenditure of Funds Appropriated by Chapter 161 for Rail Operations and Capital Improvements (in thousands)

Operations Expenditures	*1979–80*	*1980–81*	*1981–82*	*Total*
Intercity:				
Los Angeles/San Diego	[a]	[a]	$700	$700
San Joaquin—				
San Francisco/Bakersfield	$600	$1,400	1,800	3,800
Bakersfield/Los Angeles	—	—	1,000	1,000
Los Angeles/Sacramento	—	500	900	1,400
Los Angeles/Santa Barbara	—	200	200	400
San Jose/Sacramento	—	200	600	800
Commuter:				
San Jose/San Francisco	1,900	5,100	4,200	11,200
Los Angeles/Oxnard	—	1,400	1,200	2,600
Los Angeles/San Bernardino	—	700	1,300	2,000
Los Angeles/Orange County	—	500	600	1,100
Total Operations	$2,500	$10,000	$12,500	$25,000
Capital Expenditures				
Intercity:				
Los Angeles/San Diego	200	—	—	200
San Joaquin—				
San Francisco/Bakersfield	600	250	—	850
Bakersfield/Los Angeles	—	—	200	200
Los Angeles/Sacramento	—	—	—	—
Los Angeles/Santa Barbara	—	150	—	150
San Jose/Sacramento	—	400	200	600
Commuter:				
San Jose/San Francisco	2,720	1,230	2,050	6,000
Los Angeles/Oxnard	—	2,000	1,000	3,000
Los Angeles/San Bernardino	—	1,800	1,200	3,000
Los Angeles/Orange County	—	600	400	1,000
Total Capital	$3,520	$6,430	$5,050	$15,000

[a] Revenues to be provided from a source other than Chapter 161 appropriations.

passenger mile, and (2) passenger-miles per train mile. The specific goals differ according to whether a service is long-haul intercity, short-haul intercity, or commuter. These goals are to be reached within three years of service implementation. The department also considered, but rejected, a minimum fare revenue standard.

We have not completed our review of the specific goals proposed for each category of service. The proposed standards for intercity service, however, are identical to those adopted at the federal level in the AMTRAK Reorganization Act. Neither have we examined in detail the department's rationale for rejecting a minimum fare revenue standard. Nevertheless, the department's proposal appears to be an important step, because it provides the Legislature with a basis for determining the proper level of state support for rail service.

Plan is Opimistic. Initiation of rail service is dependent upon a lengthy hearing process which may include several levels of appeal. In last year's supplemental analysis, we concluded that the requested support for the overnight Sacramento-Los Angeles service was unnecessary because the process required to initiate service would extend beyond the current year. The department no longer expects the overnight service to become operational during the current year.

If railroad companies continue to oppose initiation of new service, many of the projects identified in the department's plan may be delayed or discarded. The plan calls for expenditure of $15.7 million in operations and $7.05 million in capital improvements for rail lines currently operating.

San Diego-Los Angeles Service

The 1979 Budget Act required the department to prepare a report analyzing the cost-effectiveness, energy conservation and environmental impact of the state-supported San Diego-Los Angeles trains, and to compare these results to similar measures for other modes of transportation in the corridor. The department has released a draft of the required report. According to the draft, ridership on the state supported trains during the first 11 months of 1979 was 1,091,750, an increase of 41.5 percent over the comparable period in 1978. Between September of 1978 and August of 1979, operating revenue provided 56 percent of service costs. In August of 1979, this percentage reached a three-year high of 82 percent.

Virtually no information is provided, however, on energy or environmental impacts; the report also failed to compare in any depth rail service to other modes of service in this corridor. The department intends to retain a consultant to examine energy and environmental effects, however, no plans have been made to address the question of the efficacy of rail versus other modes.

Southern Pacific Commute Service

We recommend Budget Bill language in Item 174 which would: (1) require that state's share of operating support for the Southern Pacific commute service in the budget year be a specified sum not to exceed 50 percent of the estimated operating loss; (2) limit the growth in state support in future years to the growth in the Consumer Price Index; (3) require that any contract negotiated by the Department of Transportation pertaining to the Southern Pacific Commute Service include a clause which provides that state funds committed are subject to annual appropriation by the Legislature; and (4) require the department to submit a copy of the proposed contract to the Joint Legislative Budget Committee, the fiscal and transportation policy committees of the Legislature, and the Legislative Counsel 30 days prior to signing a contract with the Southern Pacific Transportation Company.

The department is authorized under Section 14035 of the Government Code to enter into contracts with railroad corporations to provide passenger rail services. Contract negotiations between the department and the Southern Pacific Transportation Company (S.P.), aimed at continuation of the San Jose-San Francisco service, are currently in progress. In order to assure continuation of this service, state and/or local governments must offset at least a portion of the operating deficit for the service.

The draft Rail Passenger Development Plan envisions that $11.2 million, or 53 percent of Chapter 161 operating monies, will be used to support the

DEPARTMENT OF TRANSPORTATION—Continued

San Jose-San Francisco service. The plan also calls for total capital acquisitions and improvements at a cost of $79 million. Six million dollars in rail capital funds, and approximately $7.0 million in mass transit guideway funds are proposed as the state's share of capital improvement revenues.

We expect that the state will be bound by the provisions of any contract signed by the department. Because no formal review by the Legislature is provided under current law and in view of the long-term fiscal implications of a contract with S.P., we recommend that the Legislature adopt the following Budget Bill language in Item 174 which would provide safeguards against a substantial commitment of state funds:

"1. State support for the San Francisco-San Jose commute service shall be specified in the contract at a sum not to exceed 50 percent of the estimated operating loss of the service in 1980–81.

"2. State support in any subsequent fiscal year shall not increase faster than the rate of change in the Consumer Price Index for San Francisco-Oakland as reported by the U.S. Department of Labor during the 12-month period ending the preceding March. The growth rate may be adjusted for changes in the level of service.

"3. Thirty days prior to signing a contract with the Southern Pacific Transportation Company, the Department of Transportation shall submit a copy of the proposed contract to the fiscal and transportation policy committees of both houses of the Legislature, the Joint Legislative Budget Committee, and the Legislative Counsel for review and comment.

"4. The Department of Transportation shall contract with the Southern Pacific Transportation Company only if a clause is included in the contract which provides that any state funds committed are subject to annual appropriation by the Legislature."

This language would (1) virtually guarantee that local support will be provided if service to the residents of the corridor is continued (the department's Rail Passenger Development Plan proposes state funding of approximately 50 percent of the 1980–81 operating loss), (2) provide incentives for the Southern Pacific to control its operating costs for passenger rail service, (3) provide the Legislature with the opportunity to comment on any portion of the contract which it finds is not in the state's best interests, and (4) allow future Legislatures to discontinue funding if, for example, state priorities change or revenues are not sufficient to continue support for the service. (This clause is standard for some state contracts, including leases or lease/purchase of data processing equipment.)

Completion of Mandated Report

We recommend Budget Bill control language which would require that funds appropriated by Chapter 161, Statutes of 1979, be reverted to the Transportation Planning and Development Account.

Chapter 161 required the department to submit a report, not later than January 1, 1980, on its plans to purchase and lease rail capital equipment. It also appropriated $1,000,000 to prepare plans, specifications and estimates for that report.

The department explains that completion of the report has not required the expenditure of the entire $1 million, and that the remainder of these funds will be used to prepare other reports and testimony necessary for "program implementation." Our understanding of the Legislature's intent is that these funds were to be used only for the specified report. Therefore, we recommend the following Budget Bill control language:

"As of June 30, 1980 all funds appropriated by Chapter 161, Statutes of 1979, Section 71 (c) (2) (G), but not expended to prepare the report specified in Section 67 of that act, shall revert to the unencumbered surplus of the Transportation Planning and Development Account."

d. Transfer Facilities and Services

We recommend a reduction of 3.7 personnel-years and $153,378 from the Transportation Planning and Development Account (Item 174) proposed for transfer facilities activities.

Section 99319 of the Public Utilities Code 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. The budget proposes expenditures of $8,703,404 for this element, which is $1,104,719 (15 percent) more than adjusted current year expenditures.

Project Evaluation and Administration. Chapter 161 appropriated $2,741,995 to the department for allocation to seven specified intermodal facility projects, and $150,000 to pay for administration and inflationary price increases for those projects. It also appropriated $5 million to the California Transportation Commission for unspecified intermodal facility projects. These amounts are budgeted for expenditure in 1979–80. The department is requesting 3.7 personnel-years and $153,378 to administer these two programs in the budget year.

Our review indicates that this request is not justified, for the following reasons:

1. The Legislature appropriated funds for the unspecified projects to the California Transportation Commission. The department is authorized to make recommendations on specific projects. If the commission wishes to delegate its authority for administration of the program to the department, it should do so in writing. It should also reimburse the department for its costs in connection with these activities.
2. Chapter 1349, Statutes of 1976, specified that a portion of all sales tax revenues transferred into the TP and D Account be available to fund construction of intermodal facilities. Chapter 161 deleted this requirement, which should result in reduced workload for current staff. Thus, current authorized positions should be sufficient to administer additional funds.
3. As with other requests for support of Chapter 161 programs, the department has not provided workload justification for the requested addition of staff.

For these reasons, we recommend a reduction of 3.7 personnel-years and $153,378.

DEPARTMENT OF TRANSPORTATION—Continued

e. Transportation Demonstration Projects

Activities in this element include both demonstration projects performed under contract with the federal government or required by state legislation, and research in areas of transit improvement. Several projects funded by Chapter 1349, Statutes of 1976, will be concluded during the current year.

The budget proposes expenditures for these projects of $5,973,656, an increase of $4,201,483, or 237 percent, over adjusted current year expenditures. The budget also proposes 18.1 personnel-years, an increase of 0.4 over the adjusted current year total of 17.7 personnel-years.

Alternative Fuels Program

Chapter 161 appropriated $10 million for an alternative fuels research program. Like the State Transportation Assistance funds, this amount was appropriated to the Business and Transportation Secretary but appears in the department's budget. Department budget material includes $7 million in fuels expenditures in 1979–80 and the remaining $3 million in 1980–81. Inclusion of these expenditure amounts distorts both the department's and the agency's budgets. The expenditures should be shown in the agency's budget, not in the department's budget.

Consistent with our recommendation on the agency's budget, we recommend that the $3 million for alternative fuels research be deleted from the department budget. This action will not affect the department's appropriations in the Budget Bill because the $3 million was appropriated by Chapter 161.

f. Administration and g. Work for Others

The administration element includes expenditures and staff from program and general administration, legal services and external costs. Personnel-years previously displayed in this element for technical and professional services have been prorated to each component in the mass transportation program. A more detailed discussion of this new proration system is presented earlier in this analysis.

The work-for-others element contains program activities provided to public agencies on a reimbursable basis. A net decrease of $650,739 is proposed for this element due to a reduction in contract work for the San Diego Metropolitan Transportation Development Board.

IV. TRANSPORTATION PLANNING

The Transportation Planning Program contains four elements: (a) statewide planning; (b) regional planning; (c) administration; and (d) reimbursed services.

Significant Program Changes

The budget proposes expenditures of $14,847,855, a 1 percent decrease from current year adjusted expenditures of $14,977,838. The proposed budget provides funding for 139.7 personnel-years, a reduction of 28.9 from an adjusted current year level of 168.6 personnel-years.

Personnel Changes. The reduction of 28.9 personnel-years is composed of: (1) a reduction of 20.6 personnel-years for professional and technical services prorated to other programs in the department; (2) a reduction of 5.1 personnel-years in administration; (3) a reduction of 3.7 personnel-years in statewide and regional planning and (4) an increase of 0.5 personnel-years for reimbursed services.

Planning Efforts

We recommend a reduction of 6.0 personnel-years, and $201,816 from the Transportation Planning and Development Account (Item 176) for unjustified district planning activities.

The Department's statewide and regional planning activities will require 96.4 personnel-years, excluding 10.2 personnel-years assigned to these two elements for technical and professional services. This is a reduction of 3.7 personnel-years and $131,395 from the current year adjusted level.

The proposed budget for this program reflects expenditures necessary to accomplish department planning responsibilities. Activities are oriented toward (1) regional transportation planning assistance, (2) air quality plans, (3) more efficient use of the transportation system through Transportation Systems Management planning and analysis, (4) studies concerning alternative transportation improvements in specific corridors, (5) analyses of the potential impacts of transportation improvements and (6) update of annual district planning guides.

District Planning Guide. The budget proposes an increase of 6.0 personnel-years and $201,816 to update planning guides prepared by each of the department's districts. These guides identify problems, alternative solutions and proposed expenditures in non-capital outlay areas during the upcoming year. The department's first set of reports, scheduled to be completed by June 30, 1980, primarily address ridesharing and preferential access activities.

During the current year, 6.0 personnel-years are authorized for this activity. The department claims that needed resources were underestimated in the current year, and that additional staff is required to prepare these plans in the budget year. No additional documentation or workload estimates have been submitted to explain why preparation of these plans requires 12 personnel-years rather than the 6 personnel-years provided. We recommend, therefore, a reduction of 6.0 personnel-years and $201,816.

Business and Transportation Agency

OFFICE OF TRAFFIC SAFETY

Items 184–185 from the Motor Vehicle Account, State Transportation Fund, and from federal funds — Budget p. BT 100

Requested 1980–81	$303,150 [a]
Estimated 1979–80	293,460 [a]
Actual 1978–79	0
Requested increase (excluding amount for salary increases) $9,690 (+3.3 percent)	
Total recommended reduction	$96,752

[a] State funds only. Refer to Table 1 for display of federal funds.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Motor Vehicle Account Support. Reduce Motor Vehicle Account Appropriation in Item 184 by $86,320.* Recommend reduction in amount budgeted as state matching funds.	370
2. Data Processing Analyst Position. Recommend authorization of limited term technical position to assist department in use of electronic data processing.	370
3. Information Officer Position. Recommend deletion of position based on lack of effectiveness, with savings to be used to fund data processing position.	370
4. *Consultant and Professional Services. Reduce consultant and professional services category in Item 184 by $75,000 and reallocate funds to grant program. Reduce Motor Vehicle Account appropriation in Item 184 by $10,432.* Recommend reduction to correct for overbudgeting.	371

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.

OTS is responsible for allocating traffic safety assistance grants from the Federal Highway Administration and the National Highway Traffic Safety Administration to state and local agencies. 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.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total program support of $15,303,150 for 1980–81 in two Budget Bill items. This amount consists of $303,150 from the Motor Vehicle Account of the State Transportation Fund and $15,000,000 in federal funds. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The federal government provides 100 percent of the funds for grants to state and local agencies and approximately 85 percent of the funds needed to cover OTS's program administration costs. The remainder of the administrative costs are funded by the Motor Vehicle Account, State Transportation Fund. Table 1 displays the funding sources and availability of funds as shown in the Governor's Budget.

Table 1
Funding Summary
Office of Traffic Safety

Funding Source	*Purpose*	*1978–79*	*1979–80*	*1980–81*
Federal	Grants to state/local agencies and program administration	$8,565,628 [a]	$36,621,964 [b]	$15,000,000 [c]
Motor Vehicle Account	Program administration	—	293,460 [d]	303,150 [d]
Totals		$8,565,628	$36,915,424	$15,303,150

[a] Actual expenditure.
[b] Total amount of federal funds available for expenditure. Includes carryover from previous year.
[c] New federal funds.
[d] Estimated and proposed state funds.

The expenditures in the current year ($36,915,424) are disproportionately large because federal funds for more than one year are treated as expenditures in 1979–80. These funds are available for three years following the year of appropriation. Any unexpended or unallocated amounts generally are carried forward at the end of each fiscal year. As a result, a meaningful comparison of the budget year to the current year cannot be made.

Office Support and Grants to State Agencies (Item 184)

This item proposes $303,150 from the Motor Vehicle Account of the State Transportation Fund as the state's share of support for administration of the Traffic Program and $6 million in federal funds for administration and grants to state agencies in 1980–81. The office has a total of 34 positions which 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 proposals. In the budget year, OTS proposes expenditures of $1,558,806 for these administrative purposes. Federal funds will comprise $1,255,656 of this amount. A total of $4,744,344 in federal funds is available for grants to state agencies.

OFFICE OF TRAFFIC SAFETY—Continued

Local Assistance (Item 185)

This item provides $9,000,000 in new federal funds to implement projects proposed by 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 be allocated to local agencies. As a matter of policy, OTS allocates approximately 60 percent to local agencies with the remaining funds ($6,000,000) providing support for state activities.

Reduce State Matching Funds

We recommend that the amount budgeted in Item 184 as the state's share of administrative costs be reduced from $303,150 to $216,830, for a Motor Vehicle Account savings of $86,320.

Prior to 1979, OTS's administrative costs were fully funded by the federal government. In 1979, however, federal regulations were adopted which require state matching funds. Thus, the 1979–80 budget included $273,860 from the Motor Vehicle Account as the state's share. This amount represents 25 percent of OTS administrative costs.

The Governor's Budget requests $303,150 from the Motor Vehicle Account as the state's share for the budget year. This amounts to 23.4 percent of OTS administrative costs. According to OTS, the required state match in the current fiscal year is 13.91 percent. We understand that the same percentage match will be applied in 1980–81. Therefore, we recommend a reduction of $86,320 in the amount appropriated from the Motor Vehicle Account because OTS has overbudgeted the amount required for state matching funds.

Potential for Data Processing

We recommend (1) the authorization of one limited-term senior data processing analyst position, and (2) the deletion of one information officer I position, with no fiscal adjustment in the budget required.

In early 1979, OTS awarded a $30,000 contract to a private consulting firm to prepare a management information and evaluation system study report. The report, which recommended various computer applications in the office, was issued in March 1979. The office transmitted the report to the State Office of Information Technology in the Department of Finance in May, with a request for approval so that it could begin implementing the report's recommendations. This request was subsequently withdrawn by OTS, because Finance found that report to be inadequate. OTS has assigned one staff member to continue exploring potential EDP uses to improve office procedures, but little progress has been made.

Our review of the consultant's report indicates that there is a potential for the *limited* application of EDP to improve the office's effectiveness, primarily in the areas of accounting, reporting and grants management. The office is in need of technical assistance to develop these applications. Therefore, we recommend authorization of a senior data processing analyst position on a one-year limited term basis. This position could be filled as a training and development assignment and funded from savings resulting from the elimination of an information officer which we recommend below.

Information Officer Position

An information officer I position was established in OTS to provide management and coordination of the office's public information and education activities. The office believes that these activities are important. However, routine federal reviews of OTS activities have noted that the value of OTS public information activities in relation to funds expended is "minimal." These reviews have also noted the lack of planning for a public information program, and OTS has been encouraged to secure the assistance of an outside contractor to perform this function. We understand that OTS will develop a proposal to secure this assistance in January 1980. In the absence of evidence that the information officer I position is resulting in significant benefits to the traffic safety program, we have no basis for recommending that it be continued in 1980–81. Accordingly, we recommend that the position be deleted.

Savings resulting from this recommendation could be used to fund the data processing analyst position recommended above. The salary levels are the same for both positions. Thus, if both recommendations are approved, no fiscal adjustment in the budget is necessary.

Overbudgeting for Consultant and Professional Services

We recommend that (1) the amount budgeted in Item 184 for consultant and professional services be reduced $75,000 in federal funds and that it be reallocated to the amount available for grants to state or local agencies; and (2) the amount budgeted in Item 184 as the state's share of administrative costs be reduced by $10,432, for a savings to the Motor Vehicle Account.

The proposed budget includes $387,665 for consultant and professional services. These funds are requested for a number of services, as displayed in Table 2.

Table 2
Office of Traffic Safety
Consultant and Professional Services Detail

	Amount Budgeted
Auditing Services	$200,000
Management Information System	45,000
Workshops, conferences	10,000
Department of General Services, data communications consulting	10,000
Department of Transportation, clerical services	3,000
Stephen P. Teale Consolidated Data Center	60,000
Contingencies	59,665
Total	$387,665

A review of this information indicates that the amount requested is more than will be required in the budget year. For example, although $60,000 is included for services from the Teale Data Center in 1980–81,

OFFICE OF TRAFFIC SAFETY—Continued

actual billings to OTS by the Teale Center were $32,165 in 1978–79, and at the current rate of use, a similar amount will be expended in 1979–80. Therefore, based on the pattern of actual use, the amount allocated for Teale Center services can be reduced by $25,000. We also recommend the deletion of $50,000 from the $59,665 requested for contingencies. Justification has not been provided for this level of contingency funding. Deletion of these federal funds from the administrative support category will provide an additional $75,000 which can be reallocated to the amounts available for state and local grants. This deletion will also result in a savings of $10,432 to the Motor Vehicle Account, because the cost of administration will be reduced.

Business and Transportation Agency

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 186 from the Motor Vehicle Account, State Transportation Fund — Budget p. BT 102

Requested 1980–81	$269,432,104
Estimated 1979–80	268,110,373
Actual 1978–79	213,854,390
Requested increase (excluding amount for salary increases) $1,321,731 (+0.5 percent)	
Total recommended reduction	$5,946,676

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. *Service Desk Operators. Reduce by $61,750.* Recommend deletion of five service desk operator positions in Los Angeles Communication Center because current staffing level appears to be sufficient.	375
2. *Data Processing Technician. Augment by $5,804.* Recommend upgrading data processing technician position to data processing technician supervisor. Also recommend elimination of sergeant position in Los Angeles effective July, 1981.	376
3. *Communications Support Equipment. Reduce by $28,765.* Recommend reduction because equipment in Los Angeles is not needed.	376
4. *Communications Technology Study. Reduce by $150,000.* Recommend reduction because communications study requirements have not been defined.	377
5. Regional Helicopter Program. Recommend department study new helicopter programs to determine use, duplication of existing services and opportunities for reimbursement.	377

6. *Emergency Medical Technician. Reduce by $139,500.* Recommend reduction because training and equipment costs for emergency medical technicians are overstated. 378
7. Abandoned Vehicle Abatement. Recommend appropriation of Abandoned Vehicle Trust Fund balance to Motor Vehicle Account. 380
8. Inspection Facilities. Recommend legislation granting limited peace officer status to commercial vehicle inspection specialists. 380
9. Staged Accident Investigations. Recommend department discontinue Staged Accident Investigation activity because it duplicates Department of Insurance responsibility. 382
10. *Operating Expenses and Equipment. Reduce by $94,815.* Recommend reduction because operating and equipment expenditures are overbudgeted. 383
11. *Use of CHP Pool Vehicles. Reduce by $46,457.* Recommend reduction because home use of vehicles is unwarranted in certain instances and funds for purchasing vehicles are overbudgeted. Also recommend legislation restoring Board of Control authority over CHP vehicle use. 383
12. *Data Processing Charges. Reduce by $49,130.* Recommend reduction because department has overestimated funds for use of Teale Data Center. 385
13. *Salary Savings. Reduce by $4,776,511.* Recommend reduction because budget underestimates department vacancy rate. 385
14. *Services to Lieutenant Governor. Reduce by $92,000.* Recommend reduction because some services are inappropriate and others are not reflected in reimbursement schedule. 386
15. CHP Personnel Practices. Recommend State Personnel Board study use of CHP uniformed personnel in nonenforcement duties. 386
16. *Communications Section Management. Reduce by $42,255.* Recommend deletion of lieutenant in communications section because section has duplicative management. 387
17. *Leasing of Patrol Facilities. Reduce by $471,297.* Recommend reduction because of overbudgeted expenditures. Also recommend establishing reserve for projected increases in future leasing expenditure. 388

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 commercial vehicles and 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 vehicle theft.

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.

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 an appropriation of $269,432,104 from the Motor Vehicle Account, State Transportation Fund for support of the Department of the California Highway Patrol in 1980–81. This is an increase of $1,321,731, or 0.5 percent, above estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Significant program changes proposed in the Governor's Budget include (a) the purchase of communications equipment at a cost of $710,440, (b) a request for 23.5 additional communication positions at a cost of $317,000 and (c) nine new positions for additional inspections of vehicles and terminals involved in the transportation of hazardous materials at a cost of $294,123.

The Governor's Budget displays the distribution of expenditures and personnel among the four programs. However, because of a technical error, the budget overstates expenditures and workforce in the department's Vehicle Theft Control activity in 1979–80 and 1980–81, and makes an equivalent understatement in the Accident Control activity in the Traffic Management program. Tables 1 and 4 display program staffing and expenditures in the correct amounts.

TRAFFIC MANAGEMENT

Traffic management is the largest department program, accounting for $247,347,767 or 92 percent of the proposed budget. Approximately 88 percent of the uniformed personnel and half of the nonuniformed personnel are employed in this program. According to department estimates, 90 percent of the uniformed personnel in the program are used regularly on patrol duty. Approximately 88 percent of an officer's time is spent in "on-sight" patrol, with the balance consumed by activities such as report writing.

The three primary elements of the traffic management program are accident control, optimizing safe traffic flows and assistance to highway users. A fourth element is flight operations, which will cost $2,535,165 during the budget year. The department deploys four single-engine planes, with two based in Coalinga and one each in Barstow and El Centro. In addition, the department deploys six helicopters. The helicopter in San Francisco is used almost exclusively in traffic management. Four helicopters in Sacramento, Barstow, Fresno and Redding generally assist other law enforcement agencies, transport injured people and perform search-and-rescue missions in recreational areas. The helicopter in Los Angeles is used both in traffic management and search-and-rescue.

Table 1 presents program staffing and expenditure levels.

Table 1
Traffic Management Program
Staffing and Expenditure Data

	Actual 1978–79	*Estimated 1979–80*	*Percent Change*	*Proposed 1980–81*	*Percent Change*
Program expenditures	$193,341,458	$246,086,986	27.3%	$247,347,767	0.5%
Personnel-years					
Uniformed	4360.7	4369.4	0.2	4404.6	0.8
Nonuniformed	849.4	1008.9	18.8	1016.4	0.7
Totals	5210.1	5378.3	3.0%	5421.0	0.8%

Los Angeles Communications Center Staffing

We recommend deletion of five service desk operators in the Los Angeles Communications Center for a savings of $61,750.

The department's budget proposes the expenditure of $61,750 to add five additional service desk operators (SDOs) to the Los Angeles Communications Center (LACC). The operators answer calls from allied agencies, freeway telephones and the CHP emergency phone line. Our analysis indicates that these positions may not be needed, for three reasons.

Staffing formula indicates adequate staffing. Our analysis of the department's communications staffing formula and the workload of LACC operators indicates that from 36 to 42 service desk operators are needed in the center. Currently, the department has 37 civil service SDO positions and five operators supported from federal Comprehensive Employment and Training Act (CETA) funds, for a total of 42 operators. Therefore, it appears that LACC currently has sufficient SDO personnel to provide an adequate level of service.

In addition, recent statistics indicate that the operator workload is not increasing. LACC data reveals that 1.4 percent fewer calls were received between January 1979 and July 1979 than during the same period in 1978. Finally, the completion of the new LACC in 1979 is expected to increase productivity of center personnel during the budget year.

Shift reorganization should increase efficiency. Service desk operators are currently assigned to one of three eight-hour shifts: 6 a.m. to 2 p.m., 2 p.m. to 10 p.m., and 10 p.m. to 6 a.m. According to LACC staff, this creates operational problems when one shift ends and other begins. Therefore, the arrangement will be changed to require some SDO person-

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

nel to begin work in the middle of the standard shifts. This change also will increase personnel availability during peak commute hours and reduce the staff during off-peak hours. According to LACC staff, the plan should decrease personnel needs and increase overall efficiency.

Additional CETA employees may be available. Los Angeles County has offered to support 10 additional service desk operator positions using federal CETA funds. Together with the five new positions requested in the budget, this would increase the number of service desk operators to 57. This is well above the level justified by the department's staffing standards.

For these reasons, we recommend that state support for SDO positions in LACC be limited to the 37 currently authorized, and that the five requested positions be deleted for a savings of $61,750. Any positions above this level should be supported by federal funds available for that purpose.

Communications Systems Maintenance

We recommend an augmentation of $5,804 to upgrade the data processing technician position in LACC to data processing technician supervisor. We further recommend that one sergeant position in LACC be converted to a limited term position expiring July 30, 1981.

The department has requested a data processing technician for LACC, at a cost of $16,726, to maintain the center's new computer system. Currently, the center is assigned a traffic sergeant who has technical expertise in data processing systems.

Upgrade the technician position. We recommend that the requested data processing technician position be upgraded to data processing technician supervisor at an additional cost of $5,804. The upgraded position could relieve the traffic sergeant of supervisorial responsibility for employees who enter reference material into LACC computers.

Eliminate sergeant position. Our review indicates that there is no reason to continue a uniformed officer in a technical position which can and should be filled by nonuniformed personnel. Therefore, we recommend that the sergeant position be eliminated after the data processing technician becomes familiar with the LACC system. This training can be accomplished in less than one year, thereby permitting the elimination of a sergeant position before July 1, 1981.

Eliminating this sergeant position will leave LACC with five sergeants to serve as watch commanders. The department determined a year ago that this number is sufficient to provide continual supervision in the center.

Two technicans will eventually be required to provide data processing maintenance services to LACC. We anticipate that the department will request a second data processing technician in its 1981–82 budget.

Communications Center Equipment

We recommend a reduction of $28,765 because requested equipment for the Los Angeles Communications Center is not necessary.

The budget proposes expenditures of $97,400 for equipment in the Los Angeles Communications Center (LACC).

Auxiliary electrical equipment. The budget includes $2,800 to purchase a battery pack and battery charger for LACC. This equipment is intended to increase the reliability of the power supply to the microwave sysem in the center.

According to LACC staff, the center has an existing Uninterruptable Power Supply (UPS) system to provide reliable power to the center's computer and communications equipment. Staff also has indicated that the UPS system has sufficient capacity to handle the microwave system. Connecting the microwave system to the UPS system would eliminate the need to purchase the battery pack and charger. Therefore, we recommend a reduction of $2,800.

Microfiche readers. The department budget proposes to (a) purchase 30 microfiche readers and (b) copy LACC reference material onto microfiche. Copying the material and purchasing the readers will cost $93,600 in the budget year. Maintaining the reference material will cost $1,000 annually.

Currently, the LACC has 12 radio dispatch consoles and 18 service desk operator (SDO) consoles. Our analysis indicates that it is not necessary to purchase a microfiche reader for each console, as the department proposes. The SDO consoles are arranged in such a way that two consoles can share one reader. This shared use will increase the efficiency of the readers. If personnel on paired consoles need to use the reader simultaneously, the existing reference manuals also would be available at the console. Accordingly, we recommend that funding for nine readers be deleted for a savings of $25,965.

Communications Technology Study Unspecified

We recommend deletion of $150,000 for a communications technology study until the department is able to identify the specific subject matter of the study.

The budget requests $150,000 for a communications consultant who will be retained to analyze one or more issues pertaining to the use of communication technology in the department's programs. According to the department, these issues might include the feasibility of (a) consolidating communication dispatch operations, (b) satellite communications, (c) vehicle locator devices and (d) improving communications equipment for motorcycle patrol officers.

The CHP has indicated that the study will not be a comprehensive review of all departmental communication issues. However, it is unable to identify the specific problem or problems that will be studied. State funds should not be allocated until the department can more adequately define the scope of the study. On this basis, we recommend the deletion of the $150,000.

Department Helicopter Program

We recommend that the department, with the assistance of other agencies, report to the Joint Legislative Budget Committee and the fiscal committees by December 1, 1980 on (1) the utilization of the new CHP helicopters, (2) possible duplication of existing services, and (3) the potential for reimbursement of state costs.

The department currently operates six helicopters in its traffic management program. Three of these helicopters—those in Barstow, Fresno and Redding—began operation during the current year as multipurpose, multijurisdictional helicopters. Along with the regional helicopter based in Sacramento, these helicopters perform search and rescue missions, transport patients between hospitals, evacuate injured persons from generally inaccessible locations and assist other law enforcement agencies as requested, as well as support the traditional CHP responsibility of traffic control. Services are provided to other agencies without charge.

Our analysis of the proposal to deploy helicopters in Barstow and Fresno indicated that the CHP programs might duplicate services offered by other public agencies in those areas. For example, the San Bernardino Sheriff's Office operates five helicopters which supply nearly all the services provided by the CHP helicopter. Hospital transfers in the region are provided by a helicopter service affiliated with a local hospital. In Fresno, the naval air station in the region furnishes search and rescue and medical evacuation services in areas with rough terrain.

In order to determine the effect of these new CHP helicopter programs on the level of services in these three regions, we recommend the adoption of the following supplemental report language:

"The California Highway Patrol, with the assistance of the sheriffs' offices in San Bernardino, Fresno and Shasta counties, shall report to the Joint Legislative Budget Committee and the fiscal committees by December 1, 1980 on (1) the utilization of the new CHP helicopters, (2) the effect of CHP service on existing helicopter services in the regions including any possible duplication of service, and (3) the opportunities for securing reimbursement for services provided to other public agencies and the general public."

Emergency Medical Technician Training and Equipment

We recommend a reduction of $139,500 because training and equipment costs related to emergency medical technicians are overstated.

The budget requests $214,000 to (a) purchase emergency medical technician (EMT) equipment and (b) provide training to recertify certain personnel classified as EMT-I. EMT equipment is used by certified officers in rural areas to provide emergency medical service where ambulances may not be readily available. Our analysis indicates that the full amount requested is not justified, for two reasons.

Training costs are overbudgeted. The department's operating expense budget includes $18,000 for recertifying "EMT-I (Ambulance)" personnel to "EMT-I (Public Safety)." The CHP equipment budget also includes $18,000 for this training. We therefore recommend reducing the budget by $18,000 to eliminate the double-budgeting.

Additional EMT equipment is unnecessary. The department currently has EMT kits in 450 patrol cars assigned to 900 EMT officers in the state. The department proposes to purchase an additional 450 kits at a cost of $135,000 and assign a kit to each certified officer. According to the department, assigning a kit to each officer will provide a more direct sense of personal accountability for the equipment. The department also states that supplies would more likely be replaced if used by only one officer.

Our analysis indicates that this purchase is not warranted. Using this equipment for only one shift per day is not an effective use of state resources. Furthermore, CHP officers should be responsible enough to insure that equipment in an EMT kit is complete when the kit is turned over to the next officer on duty.

However, kits should be available to EMT certified officers who transfer to other CHP offices which do not have this equipment. The department has not been able to determine the transfer rate among officers in rural areas, but the rate probably does not exceed 5 percent annually. This would require the purchase of 45 additional EMT kits. Therefore, we recommend that $121,500 ($135,000 minus the cost of 45 kits) be deleted from the budget. The remaining $13,500 would permit the purchase of kits for EMT-certified officers who transfer.

REGULATION AND INSPECTION

The regulation and inspection program is composed of 10 activities in the current year. Chapter 1039, Statutes of 1979 (SB 399), will terminate the department's responsibility for administering the school crossing guard service by July 1, 1980. In addition, Chapter 723, Statutes of 1979 (AB 904), eliminated department responsibilities for standards and conformity control of vehicular devices during the current year. Other department responsibilities to be phased out administratively during the current year include (a) approval and certification of vehicular devices sold at the retail level and (b) vehicle noise reduction and control. Finally, the Governor's Budget does not propose funding the Abandoned Vehicle Abatement program in the budget year.

The Governor's Budget is proposing total net expenditures of $16,813,-032 for regulation and inspection in 1980–81, a decrease of $4,025,763 (19 percent). This reflects reductions in expenditures currently funded through reimbursements (a $580,200 decrease) and the Abandoned Vehicle Trust Fund ($3,580,748). Proposed expenditures from the Motor Vehicle Account are $138,566 (0.8 percent) above current year estimates. Table 2 shows staffing and cost data for the program.

Table 2
Regulation and Inspection Program
Staffing and Expenditure Data

	Actual 1978–79	*Estimated 1979–80*	*Percent Change*	*Proposed 1980–81*	*Percent Change*
Program expenditures	$15,877,457	$16,629,666	4.7%	$16,768,232	0.8%
Personnel-years					
Uniformed	224	211.1	−5.8	207.2	−1.8
Nonuniformed	585.1	225.5	−61.5	218.1	−3.3
Totals	809.1	436.6	−46.0%	425.3	−2.6%

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Abandoned Vehicle Abatement Program Costs

We recommend appropriating the July 1, 1980 balance in the Abandoned Vehicle Trust Fund to the Motor Vehicle Account, State Transportation Fund.

The department has been administering the Abandoned Vehicle Abatement program since 1973. This program reimburses local agencies for costs incurred in removing abandoned vehicles from public and private property. Funds to reimburse the agencies and pay CHP administrative costs are provided by the Abandoned Vehicle Trust Fund. The budget does not propose continuing the program in 1980–81.

The Budget Act of 1979 appropriated $1,539,237 from the trust fund for expenditures in the current year. This was intended to eliminate the trust fund balance prior to discontinuing the program. However, the department underestimated the June 30, 1979 balance and as a result $3,580,748 is available to the trust fund for 1979–80. The department currently estimates that $2,357,902 will be spent for CHP administrative costs during 1979–80. Such an expenditure, along with the $1,222,846 encumbered for reimbursements to local agencies, would eliminate the fund balance. As indicated in Table 3, however, this estimate of administrative costs is substantially above the level of previous years. We estimate that *actual* support costs for 1979–80 will be about $200,000. This expenditure would leave $2.1 million in the trust fund after 1979–80. We therefore recommend appropriating the July 1, 1980 fund balance into the Motor Vehicle Account, thereby eliminating the trust fund balance.

Table 3
Expenditures for CHP Administration of Vehicle Abatement Program

1973–74	$81,639
1974–75	165,003
1975–76	304,741
1976–77	145,546
1977–78	144,080
1978–79	189,068

Inspection Facilities Staffing

We recommend legislation which would grant limited peace officer status to commercial vehicle inspectors in department inspection facilities.

The department is responsible for weighing and inspecting commercial vehicles to insure that the vehicles are in safe mechanical condition and comply with the state's vehicle weight laws. To perform these functions, the department operates (a) inspection facilities in seven locations statewide which both weigh and inspect vehicles, (b) platform scale facilities which only weigh vehicles and (c) portable scales, using mobile road enforcement teams which weigh and inspect vehicles away from the fixed facilities. Currently, seven sergeants, 41 traffic officers and 89 nonuniformed commercial vehicle inspectors are assigned to these functions.

Under current law, only uniformed CHP personnel are authorized to issue citations for violations of the Vehicle Code. Therefore, traffic officers must be present at scale and inspection facilities, even though the commercial vehicle inspectors weigh and inspect the vehicles and often complete the enforcement documents. In most cases, the responsibility of the traffic officer is limited to signing the citation.

Our analysis indicates that nonuniformed inspectors can perform all aspects of the commercial vehicle activity, making possible significant savings to the state. Our conclusion is based on two factors:

Uniformed personnel are not used efficiently. Department traffic officers receive 20 weeks of cadet training in the Academy before beginning road patrol. Most of this training is not relevant to the work involved at the inspection facilities. In fact, traffic officers must receive an additional 80 hours of training before they are assigned to the facilities. The state therefore is expending a considerable sum to train officers in excess of the skills needed to perform vehicle inspection duties.

Nonuniformed employees have been used in other states successfully. The Washington State Police Department has performed its vehicle weighing and inspection functions for several years using only two commissioned officers, whose duties are purely administrative. The Oregon Department of Transportation has staffed its weighing program entirely with nonuniformed personnel since 1941. The nonuniformed personnel in both states are granted limited peace officer powers.

The experience of these states has been positive, and staff report few problems as a result of using nonuniformed personnel in place of uniformed officers. For example, only four assaults have occurred against Oregon weighmasters since 1941. Use of nonuniformed personnel in the two states has reduced personnel costs because both the salaries and the cost of retirement benefits for these employees are lower than those provided to uniformed staff. In addition, the turnover rate for nonuniformed personnel is lower.

The fiscal implications of staffing California inspection facilities with nonuniformed personnel are significant. Salary and benefits for the average CHP traffic officer will cost the state $30,031 in 1979–80, while the average commercial vehicle inspector will cost only $19,771, a difference of $10,260. Replacing the 41 traffic officers with nonuniformed inspectors would save $420,660 annually. There would be additional savings in the cost of training.

In order for the state to realize these savings, however, civilian inspectors must be granted limited peace officer powers. There is a precedent for granting such authority in California. Nonuniformed personnel in local police and traffic management departments in California are granted peace officer powers while performing parking control duties. Personnel involved in these activities are able to issue citations but are not given full-time police powers. We recommend legislation granting similar powers to commercial vehicle inspectors.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

VEHICLE OWNERSHIP SECURITY

This program includes the vehicle theft element, which is aimed at recovering stolen vehicles, and the vehicle identification number component, which identifies and renumbers vehicles when identification plates have been removed or are missing. Proposed expenditures are $5,296,105, a decrease of $97,616 (2 percent).

Table 4 displays proposed staffing and expenditure levels for the Vehicle Ownership Security Program.

Table 4
Vehicle Ownership Security Program
Staffing and Expenditure Data

	Actual 1978–79	*Estimated 1979–80*	*Percent Change*	*Proposed 1980–81*	*Percent Change*
Program expenditures	$4,635,475	$5,393,721	16.4%	$5,296,105	−1.8%
Personnel-years					
Uniformed	108	96	−11.1	96.7	0.7
Nonuniformed	21.1	22.5	6.6	21.9	−2.7
Totals	129.1	118.5	−8.2%	118.6	0.1%

Staged Accident Investigation by CHP

We recommend that the department discontinue the pilot program to determine the need for a Staged Accident Investigation activity in the department.

The department proposes to continue during the budget year a pilot program to investigate automobile accidents which appear to be deliberately staged. The pilot program is intended to help the department in deciding if a need exists for specialized department involvement in this activity. During the budget year, approximately four personnel-years will be devoted to this pilot program, under the supervision of vehicle theft investigation coordinators. If the department continues this program as an ongoing activity, it will be established as a separate activity within the department's Traffic Management program.

We recommend that the department not proceed with this pilot program. Our review indicates that the Department of Insurance should be the lead agency investigating such incidents. Drivers fabricate automobile accidents almost exclusively for the purpose of fraudulently filing insurance claims, and Chapter 1070, Statutes of 1978, established the Bureau of Fraudulent Claims within the Department of Insurance to investigate such cases.

We recommend that the CHP inform Department of Insurance investigators of cases in which regular CHP accident investigations indicate that an accident may have been staged for fraudulent purposes. The bureau can then utilize information from the CHP together with information received from other law enforcement agencies in order to complete an investigation. This approach will provide for a more coordinated insurance fraud investigation process, and is consistent with the Legislature's intent as expressed in Chapter 1070.

ADMINISTRATIVE SUPPORT

Proposed expenditures for administrative support are budgeted at $40,-391,967, a decrease of 0.4 percent from the current year estimate. The six elements of this program include administrative services, management and command, budget and fiscal management, operational planning and analysis, training and the Statewide Integrated Traffic Records System.

Administrative costs are prorated among the department's other three operating programs. Expenditure and staffing information for administrative support is presented in Table 5.

Table 5
Administrative Support Program
Staffing and Expenditure Data

	Actual 1978–79	*Estimated 1979–80*	*Percent Change*	*Proposed 1980–81*	*Percent Change*
Program expenditures	$30,109,308	$40,548,928	34.7%	$40,391,967	−0.4%
Personnel-years					
Uniformed	269.8	270.5	0.2	271.9	0.5
Nonuniformed	647.9	829	28.0	772.9	−6.8
Totals	917.7	1099.5	10.0%	1,044.8	−5.0%

Overbudgeted Operating Expenses and Equipment Requests

We recommend a reduction of $94,815 because operating and equipment expenditures are overbudgeted.

Our analysis indicates that the department's requests for additional vehicles and printing expenses are not fully justified.

Vehicle purchase. The department proposes to purchase eight vans at a cost of $72,000. These vans will be used by CHP personnel as part of the physical performance testing program. Our analysis of the equipment schedule indicates that the budget includes sufficient funds to purchase 16 such vans. The department concedes the extra $72,000 is an error. We recommend a reduction of this amount.

Administrative printing costs. The budget proposes expenditures of $88,427 for administrative printing costs. The budget allocates $22,815 for "various materials." Department staff state that these funds are a contingency against unanticipated printing needs or increased costs. If department printing needs increase and funds cannot be reallocated from other sources within the department, CHP can use its contingency authorization provided in Item 187. Accordingly, we recommend a reduction of $22,815.

Use and Replacement of Pool Vehicles

We recommend a reduction of $46,457 because (a) staff vehicles are unnecessarily driven home and (b) replacement expenditures are overbudgeted.

We further recommend legislation restoring authority to the State Board of Control to regulate state vehicles use by members of the Highway Patrol.

The department maintains a fleet of 232 unmarked automobiles. It assigns 70 of these vehicles as staff pool vehicles in division offices and

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Sacramento headquarters, and 43 vehicles to senior management personnel. The remaining vehicles are assigned for vehicle theft and applicant investigations, and for other special functions. The department proposes to replace 45 of its automobiles during the budget year at a cost of $286,000.

The use of state vehicles by other state agencies is regulated by rules established by the State Board of Control. However, Section 13956 of the Government Code specifically exempts members of the Highway Patrol from board regulations concerning the use of state vehicles. Therefore, the department has complete discretion concerning the use of the department vehicles.

We have three recommendations concerning the use and replacement of CHP staff vehicles.

Reduce the number of home use permits. Current department policy permits vehicles to be driven home at night by the (a) commissioner, (b) deputy commissioner, (c) assistant commissioners, (d) division and assistant division commanders and (e) area commanders. As a result, vehicles may be driven home by the commanders and assistant commanders of the (a) Planning and Analysis, (b) Administrative Services, (c) Personnel and Training and (d) Enforcement Services divisions. According to the department, authorization to take vehicles home is warranted because these personnel must be able to respond to emergencies and natural disasters where response times and reliable communications are critical.

Our analysis indicates that there is no justification for managers of administrative divisions in headquarters to take state vehicles home. Discussions with CHP staff indicate that emergency responses by executive management after business hours occur very infrequently. An equivalent service could be provided by installing a CHP radio in the employee's home or private vehicle, and reimbursing the individual for travel expenses associated with an emergency response.

Accordingly, we recommend a reduction of $25,424 to reflect the deletion of four of the 45 replacement staff vehicles.

Restore regulation of CHP vehicle use. Prior to 1953, the Board of Control regulated the use of state vehicles by all state employees. Chapter 1310, Statutes of 1953 exempted members of the CHP from board authority. We believe board regulation of the CHP should be restored for three reasons. First, current CHP use of some of its pool vehicles, as discussed above, may not be consistent with board policy for other state agencies. Second, it is not appropriate to have only one state agency (the CHP) excluded from board regulation. Finally, board regulations take into consideration the nature of duties in authorizing home-use permits. Therefore, regulation by the board would not interfere with the performance of duties by CHP members. We therefore recommend legislation restoring the authority of the Board of Control to regulate the use of state vehicles by Highway Patrol members.

Reduce funds available for purchase. The department budget indicates that the purchase price for each of the 45 replacement vehicles will be $6,356. According to the Department of General Services, however, the compact cars to be purchased by CHP will cost only $5,843 each.

We recommend a reduction of $21,033 to correct for this overbudgeted cost of the 41 vehicles which we recommend be purchased.

Overbudgeted Data Center Charges

We recommend a reduction of $49,130 in data processing charges because the department has overestimated its use of the Teale Data Center.

The department's budget includes $435,430 for payment to the Stephen P. Teale Consolidated Data Center in 1980–81. This is the same amount that the budget estimates will be expended in the current year.

Our analysis indicates that this request is excessive for two reasons. First, the department has historically overestimated its use of the Teale Center, as indicated in Table 6. For example, the department spent $162,234 on Teale Center services from July through November 1979. Allowing for increases in Teale Center use for processing annual reports in January and February, we estimate that the department will spend $400,000 for the Teale Center during the current year. The Department of Finance Price Letter advises departments to budget 1980–81 Teale Center services at the rate in effect during the current year. Therefore, there does not appear to be a need to budget more than $400,000 to continue the current level of Teale Center use in 1980–81.

Second, the department is modifying a number of its data processing programs, and we estimate that these modifications will further reduce expenditures for Teale Center by $13,700 in 1980–81.

Our analysis, therefore, indicates that $386,300 should be sufficient Teale Center funding for the department to meet its needs. Accordingly, we recommend a reduction of $49,130.

Table 6
Projected and Actual Use of Teale Center

	1976–77	*1977–78*	*1978–79*	*1979–80*
Projected	$505,000	$505,000	$555,500	$435,430
Actual	253,000	409,264	396,000	400,000 [a]

[a] Based on actual use as of December 1, 1979, adjusted to reflect additional workload in January and February 1980.

Underestimated Salary Savings

We recommend a reduction of $4,776,511 because the budget underestimates the department's position vacancy rate.

The department budget estimates that the number of vacant positions during the budget year will be the equivalent of 122.7 personnel-years. With 7,141.4 authorized personnel-years, this implies a vacancy rate of 1.7 percent. Our analysis indicates that this vacancy rate is well below the department's historical experience. Table 7 displays the vacancy rates experienced from 1977–78 to the present.

This estimate of an average vacancy of 3.7 percent is supported by the department's record of reverting unexpended funds for salary and benefits to the Motor Vehicle Account. During 1976–77, 1977–78 and 1978–79, the department reverted $9,152,553 in funds budgeted for salaries and benefits to the account. This was in addition to the amount originally deducted for estimated vacancies (salary savings) when the budgets were submitted.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Table 7
Department Vacancy Rate
(Percent of Authorized Personnel)
1977–78 to 1979–80

	1977–78	*1978–79*	*1979–80*[a]	*Three Year Average*
Uniformed personnel	2.2%	3.7%	2.9%	3.0%
Nonuniformed personnel	3.2	7.1	7.9	5.8
Totals	2.5%	4.6%	4.3%	3.7%

[a] Through January 1, 1980.

To properly budget the department's personal services needs, we recommend increasing the salary savings deduction from a 1.7 percent vacancy rate to 3.7 percent, for a savings of $4,776,511.

Services to Lieutenant Governor's Office

We recommend a reduction of $92,000 because of improperly budgeted services for the Lieutenant Governor, and an increase in reimbursements of $46,000.

The CHP and the Lieutenant Governor's Office have an interagency agreement under which the CHP assigns a traffic officer and a sergeant to the Lieutenant Governor. According to the CHP, the traffic officer serves as a driver and the sergeant serves as a press representative for the Lieutenant Governor. Our analysis indicates that this arrangement is not appropriate.

Delete the sergeant position. As discussed in more detail in our analysis of the Lieutenant Governor's Office (Item 46), the use of a CHP sergeant as a press officer for the Lieutenant Governor does not appear to be appropriate. We therefore recommend that this position be deleted for a savings of $46,000.

Increase reimbursements. The driver will cost $46,000 in the budget year, and the CHP is to be fully reimbursed by the Lieutenant Governor. However, the CHP reimbursement schedule does not reflect this payment. Therefore, we recommend increasing the reimbursement schedule by $46,000, and reducing Item 186 by the same amount.

Recommend Study of CHP Personnel Practices

We recommend that the State Personnel Board conduct a study to determine the number of CHP uniformed employees presently performing duties which might be more appropriately and efficiently performed by nonuniformed employees.

The Governor's Budget proposes 4,980 uniformed personnel for the California Highway Patrol during the budget year. CHP is authorized to deploy 4,150 traffic officers on road patrol duties. An additional 47 officers are assigned as vehicle theft investigators. The remaining uniformed personnel (683 positions) perform special duties (such as commercial vehicle enforcement or accident investigation) or administrative functions.

Our analysis of the use of uniformed personnel in the CHP indicates that certain functions performed by uniformed personnel could more efficiently be performed by nonuniformed employees. For example, the principal responsibility of many lieutenants in CHP field offices is to supervise the clerical personnel. In addition, traffic officers in the Traffic Operations Center in Los Angeles perform precisely the same job as nonuniformed employees of the Department of Transportation (Caltrans) assigned to the center. The Caltrans employees earn up to 46 percent less than the traffic officers. Finally, the development of department data processing systems has been managed by uniformed officers with little or no previous data processing experience.

The potential savings from reclassifying uniformed officers performing nonenforcement duties to nonuniformed classifications would be significant. Uniformed personnel generally are higher paid than nonuniformed personnel. More importantly, the costs to the state in higher pension benefits and other fringe benefits are substantially greater for the uniformed personnel. During the budget year, a uniformed employee will cost the state 22.6 percent more in retirement benefits, and 72.5 percent more in health and welfare and workers compensation expenses.

In addition, using CHP officers in nonenforcement tasks does not appear to be an appropriate use of uniformed personnel. CHP officers are highly trained to provide assistance to motorists and enforce the Vehicle Code on state highways. The department should increase its effort to use officers for these purposes and utilize nonuniformed employees for those jobs which, in other state agencies, are performed by nonuniformed civil service personnel possessing the required job skills.

The personnel practices of the CHP should be reviewed to determine what opportunities for savings exist. The State Personnel Board (SPB) has an audit and control unit responsible for auditing personnel practices of the individual state agencies to ensure compliance with state civil service laws and rules. This unit has not conducted or scheduled an audit of the CHP. It is our understanding that, if directed to do so by the Legislature, the board could complete such a study of the CHP during 1980 within its budgeted resources. Given the savings that might result from such a study, we recommend adoption of the following supplemental report language:

"The State Personnel Board shall (1) conduct a study to determine the number of California Highway Patrol uniformed employees presently performing duties which might more appropriately and efficiently be performed by nonuniformed employees, and (2) report its findings and recommendations to the Joint Legislative Budget Committee and fiscal committees by December 1, 1980."

We make the same recommendation in our analysis of the SPB (Item 140).

Excessive Communications Section Management

We recommend deletion of the lieutenant in the Communications Section, Administrative Services Division, for a savings of $42,255 because an additional management position is not warranted.

During the current year, the department reorganized its headquarters communications section. Communications planning and program evaluation activities, which previously were a responsibility of the department's Planning and Analysis Division, are now the responsibility of a separate unit in the communications section.

Prior to the reorganization, the communications section was commanded by a nonuniformed telecommunications systems manager (TSM). After the reorganization, a lieutenant was transferred to manage the section. The TSM position was not eliminated; the lieutenant position was added to assume the commander position.

Our review of the responsibilities of the TSM prior to the reorganization does not indicate a need for additional management in that section. Further, we find no compelling reason to assign a uniformed officer as commander. A sergeant is currently assigned to the section to provide the perspective of CHP field officers in communications planning. We can find no justification to assign an additional uniformed position. We therefore recommend deletion of the lieutenant position from the section, for a savings of $42,255.

Overbudgeted Expenditures for Leased Patrol Facilities

We recommend a reduction of $471,297 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 64 locations in 1980–81. 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) of the Department of General Services indicate that stated CHP lease terms in facilities have been overbudgeted in the current year and/or the budget year.

This is the fourth consecutive year in which the department has overbudgeted lease expenditures. While the uncertainty surrounding future lease terms makes it difficult to estimate the amounts needed, estimates made by the department often have been well above any reasonable rental level. In addition, the department budget shows increases in some rental payments, even though the lease on these facilities continues through the budget year with no improvements anticipated by DSM staff. The department can and should prepare future leasing schedules with more accuracy.

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 and our recommendations by facility follow.

Arrowhead. The lease schedule indicates that the department is moving to a new facility in the middle of the existing lease and that the rent will increase from $1,200 per month to $5,000. However, DSM staff state that even if a move is made (and none is anticipated), it could not occur until after the budget year. Therefore, we recommend a reduction of

$45,600 in the budget year to correct for this overbudgeting.

Garberville. The department's rental schedule indicates that the rent will increase from $425 per month to $1,500 in January, 1980, although the lease does not expire until February 1981. According to DSM staff, the rent will increase as a result of facility improvements, but not before July 1980. In addition, the final rental terms have not been established. Therefore, we recommend a reduction of $6,450 in the current year. An additional $12,900 should be held in reserve pending agreement on a new rental rate.

Hollister-Gilroy. The lease schedule indicates that the department is paying $3,500 per month for the facility. However, DSM records state that the department will be paying $700 per month until the lease expires in 1982. We recommend a reduction of $33,600 for 1979–80 and for 1980–81 to adjust for this overbudgeting.

Monterey. The rental schedule indicates that a rent increase from $1,133 per month to $5,200 per month will occur in July 1980 as a result of moving to a new facility. However, DSM staff are not aware of any such move. In addition, the lease does not expire until after the budget year. Therefore, we recommend a reduction of $48,804 during the budget year to correct for this overbudgeting.

San Andreas. The department has budgeted a monthly lease payment of $4,000 beginning in October 1979, and continuing through the budget year. However, DSM records indicate a four year lease was signed in September 1979, with monthly payments of $850. Therefore, we recommend a reduction of $28,350 in the current year and $37,800 in the budget year.

Santa Barbara. The lease schedule indicates that the monthly rental will increase from $845 to $5,000 beginning January 1, 1981. While terms of the new lease have not been determined, we estimate that the new rental rate will not exceed $3,500 per month. Therefore, we recommend a reduction of $9,000 in the budget year. An additional $15,930 should be held in reserve pending agreement on a new rental rate.

Santa Maria. The budget states that the rent on the Santa Maria facility will increase from $700 to $1,500 in July, 1980. The facility will undergo improvements which will increase the rent. However, according to DSM staff, both the completion date and the new rent are undetermined at this time. In addition, DSM records indicate that the rent payment currently is $500, not $700. Therefore, we recommend a reduction of $2,400 for both the current year and budget year to reflect the overbudgeted rent. An additional $12,000 should be held in reserve for 1980–81 pending agreement on a new lease.

Santa Rosa. The rental schedule indicates a rent increase from $1,196 per month to $5,200 per month in July 1980 as a result of moving to a new facility. However, DSM staff do not anticipate such a move. Therefore, we recommend a reduction of $48,048 in 1980–81 to reflect this overbudgeting.

Trinity River. The department budget indicates a mid-lease increase from $200 to $3,500 beginning in January 1980. Although the facility will undergo improvements, DSM staff do not anticipate a rent increase until July 1980. In addition, although a final rental rate has not been deter-

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

mined, DSM staff estimate that the rate will not exceed $1,500 per month. Therefore, we recommend a reduction of $19,800 in the current year and $24,000 in the budget year. In addition, $15,600 should be held in reserve pending agreement on a new rental rate.

Purchase of leased facilities. The department proposes to purchase currently leased facilities in Buellton, Contra Costa, Hayward, Santa Ana and South Sacramento during the budget year. However, the lease schedule indicates that rent will be paid beyond the date of purchase. We therefore recommend a reduction of $131,445 in the budget year to correct this overbudgeting.

Summary—Overbudgeting of Leased Facilities

In summary, we recommend that the overbudgeted amounts for leased facilities in the current year be reappropriated to cover budgeted expenses for leasing in 1980–81. This would reduce proposed leasing costs by $90,600. When added to recommended reductions of $380,697 for overbudgeting in 1980–81, total recommended reductions amount to $471,297.

Table 8 shows our recommended adjustments to the CHP leasing schedule for overbudgeting and for establishing a future lease reserve.

Table 8
Adjustments to CHP Rental Schedule-Buildings

Facility	*CHP Estimate for Current Year Expenditures*	*Overbudgeted Amounts 1979–80*	*Overbudgeted Amounts 1980–81*	*Reserve for Projected Increases*
Alturas	$4,400	—	—	$43,200
Arrowhead	14,400	—	$45,600	—
Crescent City	9,904	—	—	23,856
Garberville	11,550	$6,450	—	12,900
Hollister-Gilroy	42,000	33,600	33,600	—
Malibu	54,000	—	—	43,800
Monterey	13,596	—	48,804	—
Riverside	9,000	—	—	10,500
San Andreas	37,700	28,350	37,800	—
Santa Barbara	10,140	—	9,000	15,930
Santa Maria	8,400	2,400	2,400	12,000
Santa Rosa	31,080	—	48,048	—
Susanville	6,216	—	—	6,138
Trinity River	22,200	19,800	24,000	15,600
Twentynine Palms	6,400	—	—	8,400
Total	$280,986	$90,600	$249,252	$192,324

Proposed CHP leasing expenditures	$1,627,896
Less Recommended Reductions:	
Reappropriations for overbudgeted amounts, 1979–80	$90,600
Overbudgeted amounts, 1980–81	249,252
Amounts budgeted for purchased facilities	131,445
Subtotal, Recommended Reductions	$471,297
Adjusted line-item total	$1,156,599
Recommended held in reserve	($192,324)

Future Leasing Arrangements. The rental budget for CHP offices covers five facilities for which lease arrangements will expire during 1980–81. 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 $192,324, 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.

Department of the California Highway Patrol

DEFICIENCY PAYMENT

Item 187 from the Motor Vehicle Account, State Transportation Fund — Budget p. BT 115

Requested 1980–81	$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. The Joint Legislative Budget Committee must be notified at least 30 days before the authorization of funds for *contingency* expenditures and within 10 days after the authorization of funds for *emergency* expenditures. No expenditures have ever been authorized from this item.

Department of the California Highway Patrol

ADVANCE PURCHASE AUTHORIZATION

Item 188 from the Motor Vehicle Account, State Transportation Fund — Budget p. BT 115

Requested 1980–81	$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

ADVANCE PURCHASE AUTHORIZATION —Continued

the authority to incur automotive purchase obligations up to $2,500,000 in 1980–81 for vehicles to be delivered in 1981–82. 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 189–195 from various funds — Budget p. BT 118

Requested 1980–81	$177,372,024
Estimated 1979–80	175,734,658
Actual 1978–79	152,687,602
Requested increase (excluding amount for salary increases) $1,637,366 (+0.9 percent)	
Total recommended reduction	$1,479,518

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
189	Anatomical Donor Designation and Petit Jury Selection	General	$205,926
190	Departmental Operations	State Transportation Fund, Motor Vehicle Account	136,232,752
—	Reimbursements	—	10,972,673
191	For Payment of Deficiencies in Appropriations	State Transportation Fund, Motor Vehicle Account	(500,000)
192	Collection of Vehicle Use Taxes	Transportation Tax Fund, Motor Vehicle License Fee Account	22,818,267
193	Environmental License Plate Issuance	California Environmental License Plate	5,121,365
194	Bicycle License Tag Issuance	State Bicycle License and Registration	88,908
195	Undocumented Vessel Registration	Harbors and Watercraft Revolving	1,932,133
	Total		$177,372,024

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *International Registration Plan Study. Reduce Item 190 by $100,000.* Recommend deletion of funds for proposed study. 399
2. Centralized Registration Process. Recommend report to Legislature as to fiscal effect of fully centralized registration renewal. 400
3. Mandatory Vehicle Inspection Certificates. Recommend supplemental language directing department to (1) ex- 401

plore use of automation to reduce program cost, and (2) report findings to the Legislature by December 1, 1980.

4. Determine Savings. Recommend Legislature be informed of budget year savings resulting from use of optical character readers in driver license extension process. 402
5. Photo Processing for Driver Licenses and Identification Cards. Recommend department report to Legislature prior to budget hearings as to plans for in-house photo processing capability. 402
6. *Negligent Drivers. Reduce Item 190 by $190,000.* Recommend reduction to eliminate funding for group educational meetings. 403
7. *Occupational Licensing and Regulation Program. Reduce Item 190 by $513,000.* Recommend reduction in accordance with department's review of program. 404
8. *Transfer of Function. Reduce Item 190 by $445,578.* Recommend personnel and budget reduction to reflect transfer of mobilehome complaint center to Department of Housing and Community Development. 405
9. *Public Information Unit. Reduce Item 190 by $21,858.* Recommend deletion of assistant information officer position based on analysis of workload. 407
10. Field Office Operations. Recommend supplemental language directing department to (1) explore methods for improving customer service, and (2) report its findings to the Legislature by December 1, 1980. 407
11. *Automated Inventory Management. Reduce Item 190 by $94,445.* Recommend reduction to reflect anticipated savings. 408
12. *Operating Expenses and Equipment. Reduce Item 190 by $114,637.* Recommend reduction to correct for overbudgeting and deletion of inadequately justified items. 409

GENERAL PROGRAM STATEMENT

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

1. Vehicle Licensing and Titling—to protect the public 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.

DEPARTMENT OF MOTOR VEHICLES—Continued

4. Compulsory Financial Responsibility—to encourage California motorists to maintain financial responsibility (for example, automobile liability insurance).
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 will operate 152 field offices in 14 districts throughout California, as well as a central headquarters facility in Sacramento.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $177,372,024 from various sources for support of the Department of Motor Vehicles in 1980–81, which is an increase of $1,637,366, or 0.9 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The proposed expenditures include reimbursements of $10,972,673 for services the department will provide to other agencies and the public.

Table 1 shows expenditures by program for the past, current and budget years. Table 2 lists the individual changes that account for the $1.6 million increase, including program changes proposed in the Governor's Budget. More detail on significant program changes is provided in Table 5.

Table 1
Department of Motor Vehicles
Program Expenditure Summary

Program	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*	*Change from Current Year Amount*	*Change from Current Year Percent*
1. Vehicle licensing and titling	$75,731,710	$86,469,915	$87,031,884	$561,969	0.6%
2. Driver licensing and control	53,072,714	60,143,162	60,081,195	−61,967	−0.1
3. Occupational licensing and regulation	8,894,168	10,460,163	10,766,418	306,255	2.9
4. Financial responsibility	4,005,112	4,610,632	4,575,648	−34,984	−0.8
5. Associated services	10,983,898	14,050,786	14,916,879	866,093	6.2
6. Administration (distributed to program)	(14,041,443)	(16,758,947)	(16,721,332)	(37,615)	0.2
Totals	$152,687,602	$175,734,658	$177,372,024	$1,637,366	0.9

Table 2
Department of Motor Vehicles
Summary of Budget Expenditure Changes from
1979–80 to 1980–81

				Changes from Current Year	
		Personnel-Years	Amount	Personnel-Years	Amount
1. Personal Services Adjustments for Authorized Positions:					
a. Merit salary adjustment	Revised [a]	7357.1	$105,406,502	—	—
	Proposed [b]	7355.6	106,363,669	–1.5	$957,167
b. Salary savings	Revised	–145.9	–3,165,423	—	—
	Proposed	–145.7	–3,190,910	0.2	–25,487
c. Staff benefits (rate increase and increase for merit salary adjustment)	Revised	—	29,832,844	—	—
	Proposed	—	30,305,966	—	473,122
2. Budget Change Proposals					
a. Workload Adjustments:					
1. Costs related to changes in authorized positions	Revised	–12.2	11,952	—	—
	Proposed	90.1	1,263,324	102.3	1,251,372
2. Changes to operating expenses and equipment not related to changes in authorized positions	Revised	—	45,099,290	—	—
	Proposed	—	44,786,243	—	–313,047
b. DMV Automation—Phase I: Revenue accounting	Revised	–2.5	–8,707	—	—
	Proposed	–5.1	850,224	–2.6	858,931
c. South Coast Air Basin Emission Inspection:					
1. Reimbursed	Revised	7.5	90,153	—	—
	Proposed	—	—	–7.5	–90,153
2. Nonreimbursed	Revised	19.4	352,224	—	—
	Proposed	19.4	359,136	—	6,912
d. Administrative adjudication of traffic infractions (reimbursed)	Revised	8.5	238,765	—	—
	Proposed	2.7	83,378	–5.8	–155,387
e. Driver license micrographics system	Revised	—	—	—	—
	Proposed	–26.9	89,655	–26.9	89,655
f. Computer terminals purchase	Revised	—	—	—	—
	Proposed	—	50,407	—	50,407

Table 2—Continued
Department of Motor Vehicles
Summary of Budget Expenditure Changes from
1979–80 to 1980–81

		Personnel-Years	Amount	Changes from Current Year: Personnel-Years	Changes from Current Year: Amount
g. ZIP code pre-sort and bulk mailing of license plates	Revised	4.2	−509,718	—	—
	Proposed	4.2	−507,833	—	1,885
h. International Registration Plan	Revised	—	—	—	—
	Proposed	—	100,000	—	100,000
i. New Statutes:					
1. AB 777, Chapter 625: Drivers' licenses: extensions	Revised	−187.2	−1,626,532	—	—
	Proposed	−181.8	−3,193,743	5.4	−1,567,211
2. SB 836, Chapter 884: Drivers' licenses medical information	Revised	—	—	—	—
	Proposed	1.3	34,054	1.3	34,054
3. SB 1004, Chapter 1180: Mobilehomes: taxation	Revised	0.6	13,301	—	—
	Proposed	−0.8	−21,546	−1.4	−34,854
Totals, Gross Expenditures					
Revised 1979–80		7,049.5	$175,734,658		
Proposed 1980–81		7,113.0	177,372,024		
Net Change				63.5	$1,637,366
Reimbursements					
Revised 1979–80		—	−$11,026,480		
Proposed 1980–81		—	−10,972,673		
Net Change				—	$53,807
Federal funds					
Revised 1979–80		(2)	($126,626)		
Proposed 1980–81		—	—		
Net Change				(−2)	($−126,626)
Totals, Net Expenditure Changes				63.5	$1,691,173

[a] Revised—1979–80 expenditures.
[b] Proposed—1980–81 budgeted.
[c] Does not include operating expenses and equipment related to changes in personnel requirements, budget change proposals, new statutes or special items.

Department's Work Force Request

Personnel-years for the Department of Motor Vehicles in 1980–81 are budgeted at 7,113, compared to 7049.5 in 1979–80. This is a net increase of 63.5 personnel-years, or 0.9 percent. Personnel-years are shown by program in Table 3 for the prior, current and budget years.

Table 3
Staffing by Program

Program	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*	*Change from Current Year*	
				Number	*Percent*
1. Vehicle licensing and titling	3565.2	3438.1	3458.0	19.9	0.6%
2. Driver licensing and control	2602.4	2443.8	2449.9	6.1	0.2
3. Occupational licensing and regulation	360.7	359.2	364.9	5.7	1.6
4. Financial responsibility	182.4	177.2	175.5	−1.7	−0.1
5. Associated services	555.4	631.2	664.7	33.5	5.3
6. Administration (distributed)	(649.4)	(663.9)	(653.6)	(−10.3)	1.6
Totals	7266.1	7049.5	7113.0	63.5	0.9%

The department estimates that it will process a total of 19,468,200 vehicle registrations and 607,400 undocumented vehicle registrations, and issue 5,276,000 driver licenses and 682,700 identification cards. These major workload indicators reflect a growth of 3.2 percent in vehicle registrations, 1.4 percent in undocumented vehicle registrations, 9.7 percent in driver license issuance, and 16.4 percent in identification card issuance.

Funding Support

Funds to support the department are appropriated from a variety of special funds. Most of the money, however, comes 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
Department of Motor Vehicles
Sources of Funding, 1980–81

Fund	*Dollar Amount*	*Percent of Total Support*
Motor Vehicle Account, State Transportation Fund	$136,232,752	76.8%
Motor Vehicle License Fee Account, Transportation Tax Fund	22,818,267	12.9
Reimbursements from various funds	10,972,673	6.2
California Environmental License Plate Fund	5,121,365	2.9
Harbors and Watercraft Revolving Fund	1,932,133	1.1
General Fund	205,926	0.1
State Bicycle License and Registration Fund	88,908	[a]
Total	$177,372,024	100.0%

[a] Less than one-tenth of one percent.

DEPARTMENT OF MOTOR VEHICLES—Continued

Significant Program Changes

The budget proposes six significant program changes, of which all but two will produce substantial savings in the budget year and/or subsequent fiscal years. These changes are shown in Table 5. The table also indicates whether the individual changes were initiated by legislation or by the department. The savings proposed in the budget, when added to the savings resulting from changes made in prior years, will bring total departmental staffing to a level that is 356 positions below the 1977–78 level.

Table 5
Significant Program Changes

Action	*Personnel-Years*	*Fiscal Effect*	*Subsequent Year Savings*	*Cause of Change*
Driver license renewal extension	−181.8	−$3,193,743	yes	Chapter 625, Statutes of 1979
License plate mailing efficiencies	4.2	−507,833	yes	Department
Field office automation, Phase I	−5.2	850,224	yes	Department
South Coast Air Basin Mandatory Emission Inspection Program	19.4	359,136	no	Chapter 1154, Statutes of 1974
International Registration Plan study	—	100,000	no	Department
Driver license micrographics system	−29.6	89,655	yes	Department
Totals	−193.0	−2,302,561		

Reimbursement for Use Tax Collection

Section 4750.5 of the Vehicle Code requires the Department of Motor Vehicles to collect the use tax on the sale of vehicles by individuals, and transmit the proceeds to the State Board of Equalization. The law requires the board to reimburse DMV for the costs of collecting the tax. The Department of Finance must approve the reimbursement amount.

In our Analysis of the 1979 Budget Bill, we pointed out that the appropriate level of reimbursement has been at issue since the program's inception in 1963. The department maintains that the current reimbursement level (budgeted at $3,556,420 for 1980–81) significantly understates DMV's costs because it applies only a 4 percent overhead rate to personal services budgeted for this program. Attempts by DMV to incorporate a more realistic overhead rate in the reimbursement formula have not received Department of Finance approval.

The Supplemental Report to the 1979 Budget Act directed the Department of Finance to (1) determine actual costs to DMV to collect the tax, and (2) report its findings to the Joint Legislative Budget Committee and the Joint Legislative Audit Committee by October 1, 1979. The Legislature also directed the Auditor General to review the report and advise the Joint Legislative Budget Committee and the fiscal subcommittees as to the adequacy of the methods used by the Department of Finance in making its determination and subsequent findings.

The report, released by the Department of Finance on October 15, 1979, concludes that the 4 percent overhead rate should be increased. The report, however, does not recommend a specific adjustment to the rate. The Auditor General is in the process of reviewing the Department of Finance's report, and anticipates that his review will be completed by the time of budget hearings.

I. VEHICLE LICENSING AND TITLING

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

The department estimates that this program will process 1,669,600 original and 17,033,000 renewal registrations in 1980–81, and collect approximately $1,116,055,500 in revenues. Support for the program is budgeted at $87,031,884, an increase of 0.6 percent over 1979–80 estimated expenditures.

International Registration Plan Study

We recommend the funds budgeted to study an alternative to the current method of prorating commercial vehicle registration fees be deleted, for a savings of $100,000 in Item 190.

California participates with other states in common regulatory agreements regarding commercial carrier registration and licensing. These agreements are intended to minimize the registration complexities faced by interstate commercial carriers, and at the same time provide a means for sharing vehicle fees among the states in which the carriers operate. The Governor's Budget includes $100,000 to study the International Registration Plan (IRP) as an alternative to current agreements. According to DMV, this plan has been adopted by approximately 20 states.

Information submitted in support of the budget request states that the study is needed because California cannot participate in the IRP without a unanimous vote of the state's Reciprocity Commission. This commission consists of the Directors of Transportation and Motor Vehicles, the Commissioner of the Highway Patrol, the State Controller and the Lieutenant Governor. Chapter 132, Statutes of 1978, authorizes the state to participate in the IRP provided the commission finds that joining the plan would not result in a loss of revenue to the Motor Vehicle Account or to cities and counties. According to DMV, revenue from existing regulatory agreements was approximately $22 million in 1978. The proposed study is intended to provide the information that the commission would need to determine the fiscal impact of joining the IRP.

We recommend the funds requested for the study be deleted for the following reasons. First, the department's budget change proposal states that "There is not a problem with the existing proportionate registration and licensing system". Second, although the budget proposes $100,000 for the study, the supporting material indicates that the cost could be considerably higher. The materials identify three alternative study methods: (1) an in-house effort by DMV costing $192,500, of which $35,000 would be for

DEPARTMENT OF MOTOR VEHICLES—Continued

consulting services, (2) exclusive use of an outside consultant, and (3) a study directed by the Department of Finance. The department selected the third alternative on the basis that the state had the expertise to perform the study, with consulting assistance, and that the results would have more credibility if the study were managed by the Department of Finance. The proposal states that "Although specific details have not been obtained, it is likely that the cost for the study by the Department of Finance will not exceed the estimated cost of $192,500 for the task force study." Therefore, it is not clear as to what the total cost of the study will be.

Third, the $100,000 requested is to be made available to the Department of Finance for the purposes of securing outside consulting assistance for economic impact analyses. This amount is in addition to costs which will be absorbed by DMV, the Highway Patrol and Finance. It is not clear why $100,000 is needed for consultant services, given that an in-house study performed by DMV (alternative number 1) would require only $25,000 for economic impact analysis and $10,000 for consultant assistance to draft legislation, for a total of $35,000 in consulting services.

Finally, the issue of California participation in the IRP may become moot if the federal government preempts state licensing of interstate commercial vehicles. This possibility was discussed recently in a recent report to the President from the Secretary of Transportation. Federal preemption would likely take the form of truck licenses issued by the federal government.

For these reasons, we do not find the request justified, and recommend that $100,000 be deleted from the Budget Bill.

Enhanced Registration Renewal

We recommend that the department report to the Legislature prior to hearings on the 1980–81 budget, on the net fiscal effect of a fully centralized registration renewal process.

In 1978–79 the department implemented its "enhanced registration renewal" process. This process encourages vehicle owners to renew registration by mail rather than visits to DMV offices. The objective is to reduce costs associated with the manual processing of registration renewals. To encourage owners to use the mail, registration renewal notices sent to owners include an addressed envelope.

The department had estimated significant personnel and postage savings from the enhanced process based on the assumption that 50 percent of the renewals would be mailed. As of October 31, 1979, 63 percent of the renewals were mailed, resulting in additional net savings to the department.

Our analysis indicates that greater use of the renewal-by-mail option would save additional state funds. To determine what these savings would be, we recommended in our Analysis of the 1979 Budget Bill that DMV evaluate the net fiscal impact of a fully centralized registration renewal process.

To date, the department has not undertaken such an evaluation, although it acknowledges the potential for reducing state costs by making greater use of the mails. Consequently, we recommend that the department provide information regarding specific savings opportunities so that the Legislature can consider whether further steps to encourage renewal by mail should be taken. This information should be made available prior to budget hearings, and should contain an analysis of possible exceptions to a strict mail-in policy, including the imposition of special processing fees for unnecessary walk-in renewals.

Mandatory Vehicle Inspection

We recommend supplemental report language directing the department to (1) assess the feasibility of using automated methods to assist in processing vehicle inspection certificates for vehicles whose owners reside in the South Coast Air Basin, and (2) report its findings to the Legislature by December 1, 1980.

In accordance with Chapter 1154, Statutes of 1973, a mandatory vehicle inspection program was implemented in the South Coast Air Basin in March 1979. The Governor's Budget proposes that DMV be authorized 19.4 personnel-years and $359,136 to process vehicle inspection certificates for vehicles whose owners reside within the boundaries of the South Coast Air Basin. The certificates, which are required for transfers of ownership and original registrations, differ from those required for vehicles whose owners reside in other regions of the state. In processing transfers and registrations, DMV must determine whether the correct certificate has been obtained, based on the owner's address. This determination adds to the cost of transaction processing.

It is possible that the additional cost associated with the residency determination can be reduced substantially through partial automation of the current process. Possibilities include flagging the records of owners maintained in DMV's central computer files to enable a quick determination via terminals located in field offices, or using terminals to access a computer file of addresses. The extent to which automation may reduce DMV's costs in this area can be determined only after an analysis of alternatives to the current manual method. The department should explore automation opportunities in this program now. Therefore, we recommend that the following supplemental report language be adopted: "The department shall assess the feasibility of using automated methods to assist in processing vehicle inspection certificates for vehicles whose owners reside in the South Coast Air Basin, and report its findings to the Legislature by December 1, 1980." The savings resulting from an automated system would be even greater if the mandatory inspection program is extended to other air basins.

II. DRIVER LICENSING AND CONTROL

This program is designed to promote the public's safe 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 also include providing anatomical donor stickers with driver licenses and identification cards, and furnishing information to county jury commissioners to expand potential jury populations.

During the 1980–81 budget year, this program is expected to process 5,276,000 original and renewal driver licenses, and send an estimated 126,000 warning letters to negligent drivers. The program's support request is $60,081,195, a decrease of 0.1 percent from the current year.

Driver License Extensions

We recommend that the department report to the fiscal subcommittees, at the time of budget hearings, on the estimated budget year savings which would result from use of an optical character recognition process as part of the driver license extension program.

Prior to 1978, a driver license could be renewed for an additional four-year period only by appearing at a DMV field office and receiving a passing score on a written test. Chapter 658, Statutes of 1978, established a pilot program allowing a two-year extension by mail, with no test required. Chapter 625, Statutes of 1979, authorized the department to extend a person's driver license for a single four-year period. This extension is also accomplished by mail, and no test is required. The department has estimated that Chapter 625 will permit a reduction of 181.8 personnel-years and a savings of $3,193,743 in the budget year, because of reduced field office workload. These savings are reflected in the Governor's Budget. The four-year extension does not affect revenue, because the statute provides that the regular renewal fee ($3.25) be charged for each extension.

Our review of the department's automation projects discloses that additional savings from this program might be achieved in the budget year if optical character recognition equipment, rather than data entry personnel, was used to process extension notices. The department is in the process of estimating the amount of these savings. We recommend that the department report to the fiscal committees on the potential for realizing additional savings during the budget hearings.

Photo Processing

We recommend that the department report, to the Joint Legislative Budget Committee and the fiscal subcommittees prior to budget hearings, on the department's plans to establish a departmental capability to provide photo-processing for driver license and identification cards.

Since 1961 the department has contracted with the private sector to provide photo-processing for driver licenses and identification cards. The proposed budget includes $2,291,543 in 1980–81 for contract services. In the Analysis of the 1979 Budget Bill, we recommended that DMV evaluate the feasibility of establishing an in-house capability to meet photo-processing requirements.

The department has now completed its evaluation, and concludes that an in-house system would result in net savings of $639,000 by the third year of operation, and an ongoing annual savings of $500,000. It is estimated that 2.5 personnel-years and $1,094,050 would be required in 1980–81 to establish a capability to assume the photo-processing workload when the current contract expires on December 31, 1981. The Governor's Budget does not include funding for this project. However, the department has indicated that a plan to establish an in-house capability will be prepared in January 1980 and it may request additional funding to implement the plan during the budget year. Therefore, we recommend that the department report this plan to the Legislature prior to the budget hearings.

Eliminate GEM Funding

We recommend elimination of funding for group educational meetings, for a savings of $190,000 (Item 190).

The budget includes $15,670,380 and 593.5 personnel-years to control and treat negligent drivers. This is accomplished through warning letters, group educational meetings (GEM) and individual hearings. The objective of these treatment methods is to produce a positive effect on the driving record. The department evaluates each method periodically, based on statistical analyses. Reports of its findings have concluded that each method is cost-effective in terms of the *probable* number of accidents prevented. However, our evaluation of one of these methods, the GEM, suggests that it is not an effective program.

A September 1979 report by the department entitled *The Effectiveness of Accredited Traffic Violator Schools in Reducing Accidents and Violations* states that such schools have no beneficial impact on an individual's subsequent driving record. In fact, the department's report states that it should not be concluded that the GEM and other driver improvement programs have a large impact on subsequent driving records. The report also states that ". . . effects largely dissipate after six months to one year."

Further, the department caused a reduction in GEM attendance by making attendance voluntary instead of mandatory. As a result, approximately one-half of those requested to attend a GEM do not appear. Such departmental manipulation of GEM attendance would seem to be inconsistent with claims that attendance has a significant positive effect on the driving record.

It is likely that a more strongly-worded initial warning letter would be more effective than the GEM. Currently, the warning letter states that "the department does not want to take restrictive measures and is confident that you will cease driving in an unsafe manner." The letter does not describe what meaures might be taken. A more effective approach would be to inform the negligent driver of possible restrictive measures and make it clear that penalties *will* result if additional convictions for traffic safety violations occur.

Given the findings contained in the department's September report, we are not able to justify continued state support for the GEM. Consequently, we recommend that state funding for the GEM be deleted from the Budget Bill. We were unable to identify the precise amount of savings that would result from eliminating the GEM because data provided to us by the department is contradictory and estimated savings range from $190,000 to $475,000. Accordingly, we recommend that $190,000—the minimum possible savings—be deleted. We will recommend a greater reduction during the budget hearings if additional data which we have requested indicates that savings have been underestimated.

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 $10,766,418 for 1980–81, an increase of $306,255, or 2.9 percent, over the estimated current year expenditure.

Department Evaluates Program

We recommend that Item 190 be reduced by $513,000 to reflect savings recommended by the department with respect to the Occupational Licensing and Regulation Program.

The Occupational Licensing and Regulation program has experienced substantial growth over the past 10 years, as shown in Table 6. In the past, both our office and the Commission on California State Government Organization and Economy have concluded that there is a need to evaluate this program. The growth in program cost, the fact that many of its activities are undertaken at the department's discretion (rather than required by law), and the possible overlap with other state consumer protection efforts, have combined to underscore the need for an evaluation.

In reponse to these concerns, the department has completed an evaluation of the program which was released in November 1979. The evaluation report contains several recommendations which, if implemented, would result in estimated savings of between $513,000 and $579,000 annually. The department's budget, however, does not reflect any of these savings. Therefore, we recommend that the budget be reduced $513,000.

Table 6
Historical Growth in Occupational Licensing and Regulation Program

	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	8,894,168	–0.5	257.0
1979–80 [a]	10,460,163	17.6	319.9
1980–81 [b]	10,766,418	2.9	332.2

[a] Estimated
[b] Proposed

Transfer of Mobilehome Complaint Center

We recommend that Item 190 be reduced by $445,578 and 18.8 personnel-years be deleted to reflect the planned transfer of the mobilehome complaint center to the Department of Housing and Community Development.

The mobilehome complaint center is one of the consumer-protection activities funded by the department. This center was established to receive and act on complaints from the purchasers of mobilehomes. The proposed budget for DMV includes 18.8 personnel-years and $445,578 to fund this center in 1980–81. The Governor's Budget, however, also includes $550,258 in Item 163 to reflect the proposed transfer of the complaint center to the Department of Housing and Community Development. (This request is discussed further in our analysis of Item 163—Department of Housing and Community Development). According to DMV, the transfer is scheduled to occur on March 8, 1980. Therefore, funds included in the Governor's Budget for DMV should be deleted (Item 190).

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 $500 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 budget requests $4,575,648 for the financial responsibility program in 1980–81, a decrease of 0.8 percent from estimated current expenditures. Program inputs and outputs are summarized in Table 7.

Table 7

Financial Responsibility Program

A. Program Input

	Personnel-Years			Program Cost		
Program Elements	*1979–80*[a]	*1980–81*[b]	*Change*	*1979–80*[a]	*1980–81*[b]	*Change*
Driving privilege control	157.2	155.9	−0.8%	$4,104,489	$4,075,069	−0.7%
Information services	4.2	4.0	−4.8	109,369	104,618	−4.3
Administration distribution	15.8	15.6	−1.3	396,774	395,961	−0.2
Totals	177.2	175.5	−1.0%	$4,610,632	$4,575,648	−0.8

B. Program Output

Program Elements	*Output*	*1979–80*[a]	*1980–81*[b]	*Change*
Driving privilege control	Accident reports processed	550,000	575,000	4.5%
	Commercial information requests	32,500	30,900	−4.9
	Commercial information request fees	$51,300	$52,300	1.9

[a] Estimated.
[b] Proposed.

DEPARTMENT OF MOTOR VEHICLES—Continued

Predicted Savings Have Not Occurred

On January 1, 1979, Chapter 997, Statutes of 1978, increased from $250 to $350 the property damage threshold for reporting accidents. The threshold was increased to keep pace with the rising cost of repairs. DMV expected the increase to reduce the number of accident reports filed, and thus to reduce the cost of processing the reports. Chapter 549, Statutes of 1979, increased the reporting threshold to $500 effective January 1, 1980. DMV estimated that this increase would further reduce filings and permit additional annual savings of $128,000. The most recent data available from DMV, however, does not reflect any significant change in the number of accident reports filed. As a result, the proposed budget does not incorporate the predicted savings.

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. The program utilizes the department's network of service locations to provide identification cards, vessel registration, tax collection, off-highway vehicle and bicycle licensing, and the issuance of special license plates.

The department is requesting $14,916,879 to support this program in 1980–81, an increase of $866,093, or 6.2 percent over estimated current year expenditures. As in previous years, major increased program costs are anticipated in the environmental license plate registration activity.

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 $16,721,332, a decrease of $37,615, or 0.2 percent, from the estimated current year expenditures. Administration costs are distributed to the department's various programs. Program inputs are summarized in Table 8.

Table 8
Departmental Administration
Program Input

Program Elements	*Personnel-Years* 1979–80[a]	1980–81[b]	*Percent Change*	*Program Costs* 1979–80[a]	1980–81[b]	*Percent Change*
Executive	33.1	33.2	0.3%	$948,901	$969,808	2.2%
Program administration	200.5	202.3	0.9	5,361,911	5,483,489	2.3
Legal	22.5	22.5	—	683,517	699,877	2.4
Fiscal and management business	136.6	135.0	−1.2	2,774,654	2,809,184	1.2
Personnel management services	81.9	77.8	−5.0	1,897,123	1,870,853	−1.4
Research and development	15.0	14.9	−0.7	394,261	385,174	−2.3
Program development and evaluation	40.7	40.4	−0.7	1,120,706	1,165,291	4.0
Public information	4.2	4.2	—	122,736	120,568	−1.8
EDP services	129.4	123.3	−4.7	3,455,138	3,217,088	−6.9
Totals	663.9	653.6	−1.6%	$16,758,947	$16,721,332	−0.2%

Reduce Public Information Unit Staffing

We recommend that one assistant information officer position be deleted for a savings of $21,858 (Item 190).

As shown in Table 8, the budget includes 4.2 personnel-years and $120,568 to fund the department's public information activities in 1980–81. Activities include issuing press releases, guiding television reporters and camera crews through departmental units, developing articles for specialized publications, and publishing the monthly DMV newsletter and various departmental bulletins. Information provided by the department indicates that, prior to 1975, the activities of this unit were performed by a four-person unit serving DMV, the California Highway Patrol and the Department of Transportation.

The department has not provided sufficient workload indicators for the 4.2 personnel-years proposed in the Governor's Budget. Further, our analysis indicates that a number of the materials produced by the DMV unit are not essential to DMV operations or do not require a significant effort to produce. The monthly newsletter, pamphlets for citizen advisory groups and special bulletins are examples of materials which are either nonessential or easily produced.

We recommend the deletion of one assistant information officer position, for a savings of $21,858. The remaining staff will be sufficient to produce necessary public information materials.

Field Office Operations

We recommend supplemental report language requiring the department to (1) explore methods of providing improved customer service in DMV field offices, and (2) report its findings to the Joint Legislative Budget Committee and the fiscal subcommittees by December 1, 1980.

In 1980–81, DMV will serve the public at 152 field offices located throughout the state and one headquarters office. The field offices range from small facilities serving a relatively small number of customers to large offices where over a hundred customers must wait at any one time to accomplish their business. Some customers wait for periods in excess of two hours.

Field office managers have employed a number of techniques to reduce waiting time and improve service. However, the techniques used vary among the field offices, and there is no uniform approach to facilitating customer service. For example, we observed a line at the San Diego Normal Street field office which wound its way around the office in such a manner as to block the testing area. The San Francisco field office avoids such unmanaged lines by the use of stanchions and cords, such as those used by banks, to channel customers to the busier service windows. Some field offices maintain an information window and have improvised hand-printed overhead directional signs to aid customers.

DEPARTMENT OF MOTOR VEHICLES—Continued

Conditions Can be Improved

Improvements in service can be realized by means other than added staffing and expanded offices. Examples of possible improvements include signs indicating average waiting periods and the location of a nearby field office which may be less crowded. Increased use of mail transactions and the techniques used by some of the field offices, as discussed previously, can also help to improve the management of field office traffic. The department should consider these and other means of improving customer service, including the use of consultants who may be able to recommend proven methods which have been developed in the private sector.

Therefore, we recommend that the following supplemental report language be adopted: "The department shall explore methods to improve customer service in DMV field offices, including techniques designed to manage customer lines and minimize waiting periods, and report its findings to the Joint Legislative Budget Committee and the fiscal subcommittees by December 1, 1980.

VII. DEPARTMENTAL AUTOMATION

Automation projects budgeted for 1980–81 reflect the department's strong commitment to using computers to reduce costs and improve services. Major activities and an indication of expected results are displayed in Table 9.

Table 9

Significant Automation Activities Planned for 1980–81

		Expected Results	
Activity	*Amount Budgeted*	*Continue or Improve Level of Service*	*Realize Savings*
Field office automation	$850,224	X	X
Driver licenses micrographics	89,655	X	X
New cost accounting system	139,804	X	X
Computer replacement study	[a]	X	
Order writing	[a]	X	X

[a] To be accomplished with existing resources.

As indicated in Table 9, all but one of these activities should result in savings. The one exception is a study which is a part of the department's continuing effort to upgrade its main computer complex to meet increasing information processing requirements. These requirements include, in addition to departmental needs, the processing of millions of law enforcement requests annually for driver and vehicle information maintained in the department's automated files. These requests are usually initiated through remote terminals connected to the California Law Enforcement Telecommunications System, with 24-hour service provided on a seven-day-a-week basis.

Automated Inventory Management Savings

We recommend a reduction of 9.5 personnel-years and $94,445 (Item 190) which will result from the development of an automated inventory management system.

In the current year, the department's Division of EDP Service completed development of a new and more fully-automated inventory management system. The new system became operational in December 1979 and replaced a semi-automated process. According to DMV, the new system has automated a number of manual tasks, thereby permitting the reduction of 9.5 personnel-years and net annual savings of $94,445. These savings are not reflected in the proposed 1980–81 budget. We recommend elimination of the 9.5 personnel-years and the reduction of $94,445 (Item 190).

Miscellaneous Reductions

We recommend that the amount budgeted for operating expenses and equipment be reduced by $114,637 (Item 190).

The Governor's Budget includes $45,000,609 for operating expenses and equipment in 1980–81, an increase of 1.2 percent over estimated current year expenditures. Table 10 displays the allocation of these funds to major expense categories in 1980–81 as compared to current year estimated expenditures.

Table 10
Operating Expenses and Equipment Detail

Category	*1979–80*[a]	*1980–81*[b]	*Change*
General expenses	$9,482,877	$10,195,786	7.5%
Printing	2,856,858	3,107,169	8.8
Communications	9,308,823	9,749,024	4.7
Travel, in-state	1,342,340	1,510,548	12.5
Travel, out-of-state	64,632	65,190	0.9
Consultant and professional services	290,669	249,804	−14.0
Data processing	5,342,262	4,525,275	−15.3
Facilities operations	7,925,371	8,723,373	10.1
Equipment	2,221,053	1,407,610	−36.6
Pro rata charges	5,621,396	5,446,830	−2.7
Totals	$44,456,281	$45,000,609	1.2%

[a] Estimated.
[b] Proposed.

A review of the operating expenses and equipment budget with DMV staff resulted in a joint determination that the request could be reduced $107,052 by deleting overbudgeted amounts. We have determined that an additional $7,585 can be saved by eliminating an item for which inadequate justification has been provided, as discussed below. The components of the total recommended reduction are shown in Table 11.

Table 11
Recommended Operating Expense and Equipment Reductions

Item or category	*Recommended Reduction*
Printing	$58,118
Safety equipment	32,934
Miscellaneous unspecified expenses	16,000
Video recorder	7,585
Total	$114,637

Agreed upon reductions. Analysis of the detail supporting the department's printing request indicates that the requirement for a number of the forms, envelopes and other materials comprising the printing request is overstated by $58,118. Further, safety equipment totaling $32,934 for peace officers in the Division of Compliance can be deleted because the safety equipment was budgeted erroneously. Finally, $52,800 budgeted for unspecified miscellaneous expenditures in the department's various divisions can be reduced by $16,000 because the department has decided to budget all unspecified expenditures in the Division of Administration for fiscal control purposes. This decision resulted in a new estimate for such expendiures which is $16,000 *less* than the amount budgeted.

Additional reduction. The budget request includes $7,585 for a video recorder for the training unit. We recommend deletion of this amount because the department has not adequately shown why existing camera equipment is incapable of meeting training requirements.

Business and Transportation Agency
TRAFFIC ADJUDICATION BOARD

Items 196 from the Driver Training Penalty Assessment Fund — Budget p. BT 135

Requested 1980–81	$1,603,678
Estimated 1979–80	1,155,588
Actual 1978–79	138,179
Requested increase (excluding amount for salary increases) $448,090 (+38.8 percent)	
Total recommended reduction	$25,000

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
196	Support	Driver Training Penalty Assessment	$1,198,045
	Reimbursements	Federal	405,633
	Total		$1,603,678

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Delete Unnecessary Allocations. Reduce by $25,000.* Recommend reduction of amount budgeted for certain operating expenses and equipment. 413

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 responsibilites 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 receives $6,500. In addition, members are 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. The report is 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 general 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 Committee

Chapter 722 also establishes a Traffic Adjudication Advisory Committee of ten members to assist the board in developing rules, regulations, procedures and program evaluation guidelines. Additional members will be added to the extent that additional counties participate in the demonstration program. Advisory committee members serve without compensation but are reimbursed for expenses.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes $1,603,678 to fund the board's activities in 1980–81, which is $448,090, or 38.8 percent, more than estimated current year expenditures. This amount will increase by the amount of any salary

TRAFFIC ADJUDICATION BOARD—Continued

or staff benefit increase approved for the budget year. Funding to support the board is derived from an appropriation of $1,198,045 from the surplus in the Driver Training Penalty Assessment Fund and $405,633 in federal reimbursements.

The budget proposes a total authorized staff of 41.5 positions including 22.6 new positions to support the start-up of field office operations.

Significant First-Year Activities

The board started operation on January 1, 1979. Activities during the first year have focused on preparing for implementation of the pilot program, which is to begin on July 1, 1980. Although Chapter 722 authorizes the pilot project in Sacramento, Yolo and Placer Counties, the initial program will be limited to the first two counties, because Placer County does not have a municipal court district (a requirement for participation in the program).

Significant activities during the start-up period include (1) continuing development of regulations for operation of the pilot program, (2) acquisition of computing equipment and design of automated processes for processing traffic citation and hearing information, (3) selection of two consulting firms to perform the required traffic safety and cost-benefit evaluations, (4) planning and acquisition of leased office space in Woodland and Sacramento for the pilot field offices, and (5) hiring of field office personnel to permit sufficient training prior to the commencement of program operation on July 1.

Budget Requirements are Tentative

As noted in our Analysis of the 1979 Budget Bill, the categorical budget allocations must be viewed as tentative because of the newness of this program. Personnel and operating expense requirements are based on several unproven assumptions including the number of hearings, the rate at which adjudication will occur, and the ability to meet the starting date of the program. More accurate information relative to funding requirements will be available once the pilot operation has begun.

Selection of Consultants

On August 17, 1979, the board instituted a request for proposal (RFP) to acquire independent consulting services in accordance with Chapter 722. The RFP was sent to 28 consulting firms, and solicited separate bids for the two areas of evaluation specified in Chapter 722: (1) an analysis of the traffic safety impacts of administrative adjudication as compared to the court system, and (2) an analysis of the costs and benefits of administrative adjudication.

Six proposals ranging in cost from $130,927 to $396,319 were received in response to the traffic safety evaluation portion of the RFP. Seven proposals to perform the cost-benefit evaluation were received. The cost of these proposals ranged from $496,902 to $798,964. Each proposal was reviewed and ranked by a team comprised of one representative each of the Department of Finance, Office of Traffic Safety, and the Legislative Analyst. The resultant rankings were provided to the board for its consideration in selecting consulting services. Table 1 displays information regarding the proposals including the rankings determined by the evaluation committee.

Table 1
Traffic Adjudication Board
Evaluation Proposals—Summary Data

Consulting Firm	*Rank*	*Proposed Personnel-Hours*	*Cost*
A. Traffic Safety			
JGM Associates	1	9,430	$396,319
Dunlap and Associates	2	9,206	216,513
Science Applications, Inc.	3	2,996	152,174
ABT Associates	4	a	150,000
Stanford Research Institute	5	a	187,158
Coopers and Lybrand	6	a	130,927
B. Cost/Benefit Analysis			
Science Applications, Inc.	1	18,759	$798,896
Arthur Young and Co.	2	14,330	496,902
ABT Associates	3	a	696,913
Crain and Associates	4	a	743,643
JGM Associates	5	a	718,303
Stanford Research Institute	6	a	798,964
Coopers and Lybrand	7	a	792,847

a. Personnel-hours were computed only for those vendors making oral presentation to the board.

The three highest-ranked firms in the traffic safety evaluation category and the two highest-ranked firms in the cost-benefit category made oral presentations to the board at its request. Following these presentations, the board selected Dunlap and Associates for the traffic safety evaluation, and Science Applications, Inc. for the cost-benefit evaluation. The combined cost of these contracts will be approximately $1 million.

Delete Unnecessary Allocations

We recommend that the amount requested for operating expenses and equipment be reduced by $25,000.

Examination of the detail supporting the total operating expenses and equipment request of $708,109 shows that within the total amount (1) $358,158 is requested for consultant and professional services, (2) $3,000 is requested for a closed circuit television surveillance system, and (3) $6,170 is requested for 183 chairs. Our analysis indicates that these amounts should be reduced by $25,000. First, no justification has been provided for $19,000 of the amount requested for consultant and professional services. Second, the television surveillance camera is unnecessary, because the proposed budget includes $2,000 for intrusion control alarms in each of the two field offices. These alarms should provide sufficient security. Third, a review with board staff regarding the justification for the number of chairs proposed resulted in agreement that the request could be reduced by $3,000.

TRAFFIC ADJUDICATION BOARD—Continued

Computer Problems May Impact Program Starting Date

The acquisition of computing equipment to meet information processing needs, once field office operations begin, was a significant project of the board in 1979. The equipment, associated software, and training were acquired from Sperry Univac on a 57-month lease, with a total contract value of approximately $240,000. The equipment was installed on October 16, 1979. The development of application programs for the computer was to have been accomplished by the Department of Motor Vehicles through an interagency agreement.

The lease was terminated in January 1980 by mutual agreement in accordance with contract provisions when it became apparent that the contractor was experiencing difficulty in bringing the computing system to a state of operational readiness. As an alternative, the Department of Motor Vehicles will provide computer support at its data center through an interagency agreement.

As a result of this delay, operational computer support for the board will not be available until approximately October 1, 1980. Chapter 722, however, requires that the administrative adjudication process be operational on July 1, 1980. In order to meet this requirement, the board would have to develop manual procedures in lieu of the automated processes now under development and train its staff accordingly. The same staff would then require retraining for the automated process at the same time it was attempting to implement a manual process. This could have an adverse impact on the initiation of administrative adjudication proceedings, and the board is considering postponing operation of the pilot program until the computer system is operational.

Business and Transportation Agency

STEPHEN P. TEALE CONSOLIDATED DATA CENTER

Item 197 from the Stephen P. Teale Consolidated Data Center Revolving Fund — Budget p. BT 137

Requested 1980–81	$18,314,338
Estimated 1979–80	17,766,148
Actual 1978–79	13,533,364
Requested increase (excluding amount for salary increases) $548,190 (+3.1 percent)	
Total recommended reduction	$188,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Justification for New Computer. Recommend supplemental report language to provide Legislature an opportunity to review justification for anticipated new computer.	416
2. Additional Facility. Recommend data center advise fiscal subcommittees during budget hearings as to additional facility requirements.	417

3. *Time-sharing Computer. Reduce by $188,000.* Recommend reduction to reflect redetermination of costs to support new service. 417
4. Mass Storage System. Recommend information be provided to Legislature prior to budget hearings justifying funding of mass storage systems. 418
5. Overcontrol by General Services. Recommend supplemental report language to avoid imposition of unnecessary overhead and billing charges. 418

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Consolidated Data Center is one of four such centers authorized in 1972 by the Legislature. The center, which provides computer services to 75 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 budget proposes an expenditure of $18,314,338 for the data center in 1980–81, which is an increase of $548,190 or 3.1 percent above estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The proposed budget is 35 percent over actual 1978–79 expenditures. The growth in expenditures is the result of enhancements to the center's capacity in the last two years that were needed to respond to workload increases. It is also indicative of the substantial growth in information processing requirements in various state agencies.

Rate Stability

The data center has maintained its service rates to customers at the 1978–79 level, despite the significant increase in its budget. Further, no rate increases are anticipated for the 1980–81 fiscal year. This rate stability is possible because of several major factors: (1) the success of a program to encourage more use of available computing capacity by offering substantial discounts for evening, night and weekend processing, (2) reduced equipment costs resulting from final purchase payments on two of the center's three large computers, (3) use of the center's revolving fund to absorb temporary operating losses, and (4) continuing improvements in equipment technology resulting in improved system performance at reduced costs.

Significant Current Year Activities

The data center is now implementing several significant enhancements to its data processing capability in order to meet customer demands. These include (1) installing equipment to produce computer-generated output on microfilm at less cost than is now incurred through contractual arrange-

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

ment with a commercial service center, (2) establishing a new computer system to meet the time-sharing requirements of the Department of Transportation, the California Fiscal Information System and other state agencies, and (3) continuing the conversion of data stored on magnetic tape to a large-capacity mass storage system.

In addition to these activities, the data center has also (1) installed an additional large-capacity computer (Amdahl V/7), (2) a "page-printer" which uses laser technology to provide high volume print capability at less cost than impact printers, and (3) established a dedicated computing system to serve exclusively the data processing requirements of the State Controller. The budget includes 22 new positions and approximately $400,000 for support of this dedicated system. Previously, the center provided service to the Controller on the center's shared computers. Security concerns expressed by the Controller regarding the scheduled operation of the new state payroll system in early 1980 and the writing of checks totaling $44 billion annually by the Controller, led him to request the dedicated computer system.

Major Budget Year Activities

Three major activities are contemplated by the data center for the budget year: (1) acquisition of an additional large-capacity, high-speed computer to meet anticipated workload growth, (2) development of "distributed-processing" capability, which distributes computing power to customers by linking terminals and smaller computers to the center's main computer complex, and (3) acquisition of leased space to house additional equipment contemplated for workload growth, distributed processing support, system testing and the California Fiscal Information System. The budget includes funds to accomplish all of these activities except the acquisition of additional space which will cost an estimated $1 million to prepare for occupancy and would result in costs of approximately $275,000 in annual lease payments.

Planned Acquisition of New Computer

We recommend supplemental report language requiring the data center to submit an approved feasibility study report to the Joint Legislative Budget Committee and the fiscal committees 30 days prior to the expenditure of funds acquiring an additional computer.

The data center plans to acquire an additional large-capacity, high-speed computer in 1980–81 to meet projected workload requirements. Center management indicates that the computer would most likely be an IBM 3033AP, the most powerful computer currently marketed by IBM. Section 4 of the Budget Act and the State Administrative Manual require the center to develop, and the Department of Finance to approve, a feasibility study report containing justification for such an acquisition, including an analysis of alternatives. The center is now in the process of preparing this report.

The Legislature should have an opportunity to review the merits of this or any other possible major new acquisition because such a project could have significant implications for state costs and facility needs. Therefore, we recommend the following supplemental report language:

"The data center is requested to submit an approved feasibility study report prepared in accordance with Section 4 of the Budget Act and the State Administrative Manual, to the Joint Legislative Budget Committee and the fiscal committees 30 days prior to the expenditure of funds for acquiring an additional computer."

Current Facility Approaching Saturation

We recommend that the data center advise the fiscal subcommittees, at the time of the budget hearings, of anticipated additional facility requirements.

The Teale Data Center's computer facility is located in the Department of Motor Vehicles' main office building in Sacramento. The site has undergone continuous modification and expansion since the center was established there in 1974. The center's computer complement has grown from two computers in 1974 to four by June 1980, and could total six or more by October 1981. Staffing and peripheral equipment (disks, tapes, printers, and communications equipment) have increased along with the computers.

Further, expansion is not possible at the Department of Motor Vehicles' site. The center's administration will be moved from the present location during the current year to provide room for equipment and essential support staff which must be located at the computer center.

The center has initiated planning for a second facility estimated at 40,000 square feet. It indicates that the additional space will be necessary by July 1, 1981, almost one year earlier than had previously been estimated. This space would be leased because there is not sufficient time to plan for and construct a new facility for occupancy by July 1, 1981.

The Legislature needs to consider the center's facility needs in connection with the 1980–81 budget, because (1) the cost could be as much as $1,000,000 in 1980–81, (2) no funds have been included in the Governor's Budget for this purpose, and (3) justification of new equipment related to the additional site requirement is pending. Therefore, we recommend that center management be prepared to discuss this issue during the budget hearings.

Time-Sharing Computer

We recommend a reduction of $188,000 to reflect a reduced estimate of cost for an additional computer.

Another new computer will be installed at the Teale Center during the current year to meet the time-sharing requirements of the Department of Transportation, the California Fiscal Information System, and other users requiring this type of computer service. (Time-sharing is a technique whereby the computer's "time" is accessed and used simultaneously by customers using terminals at various locations throughout the state.) The center's proposed budget includes $908,000 to support this additional computer in 1980–81. Our review of additional information provided by center management indicates that the actual amount required will be approximately $720,000. Therefore, we recommend the spending authorization be reduced by $188,000.

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

Mass Storage System

We recommend that the data center provide information to the Joint Legislative Budget Committee and the fiscal subcommittees, prior to the budget hearings, justifying funding of mass storage systems.

In June 1979, the data center installed a new mass storage system (MSS). This system, which stores over one billion items of electronically-encoded information (for immediate access by the computer), was justified on the basis that it is a more cost-effective method of data storage than conventional magnetic tape. The proposed budget includes $600,000 for lease of the MSS and associated staff. The budget includes an additional $269,000 as the partial-year cost to provide for installation and operation of a second MSS as a part of the Controller's dedicated computer system.

Since the Department of Finance approved the initial MSS, conversion of magnetic tape files to the new storage medium has lagged far behind projections. As a result, savings have not materialized at the rate anticipated. The data center is attempting to increase the conversion of users' tape files to the MSS, and is preparing a report to indicate the extent of progress.

According to center management, preliminary data indicate that the MSS is cost-effective. However, we have been unable to validate this finding because of the preliminary nature of the report. For this reason, the data center should provide the Joint Legislative Budget Committee and the fiscal subcommittees with additional information justifying funding for both the current and planned MSS. This information should be available prior to the time the budget is heard.

Overcontrol by General Services

We recommend adoption of supplemental report language directing that the state's management of computer output microfilm processes at the Teale Data Center be accomplished in the most cost-effective manner.

Effective July 1, 1980, the data center will begin computer output microfilm (COM) production and processing on new equipment which will be installed during the current year. This new service will replace a contract with a commercial facility, and enable estimated annual net savings of $270,000.

The center plans to incorporate the charges to customers for this service as a normal part of its existing interagency agreement and billing processes. This can be accomplished at no added cost. However, the Department of General Services, which administers the commercial contract for COM services and usually reviews and approves departmental requests for microfilming, has indicated its intent to perform the following COM management activities once the new service is available at the Teale Center: (1) review and approve all new COM applications *before* submission for service to the Teale Data Center, (2) prepare and negotiate an interagency agreement with the Teale Center for all COM service to be provided by the center, and (3) bill each of the center's customers monthly for COM services provided by the data center. The Department of General Services would also charge Teale Center customers for performing these functions, including department overhead.

Our review indicates that there is no reason for the Department of General Services to prepare interagency agreements and bill Teale Center customers. This proposal represents an unnecessary billing and overhead function which will result in added costs to Teale Center customers. Further, the Department of General Services proposal to require review and approval of all *new* COM applications also represents an attempt to foster an unnecessary overhead burden on COM users. Users should be required to receive approval from General Services only when necessary and in accordance with appropriate criteria which should be included in the State Administrative Manual. The State Office of Information Technology in the Department of Finance should approve such criteria.

Anticipated savings from the new COM facility at the Teale Center will be reduced by this billing and control proposal. Therefore, we recommend the following supplemental report language:

"To minimize overhead charges for computer output microfilm services, the Teale Data Center should incorporate such services into the data center's normal interagency agreement and billing processes. It is also requested that no mandatory requirements for review and approval of new computer output microfilm applications be imposed by the Department of General Services unless the requirements are provided for in the State Administrative Manual (SAM). Any such criteria should be approved by the State Office of Information Technology in the Department of Finance before inclusion in SAM."

Resources Agency

WATERWAYS MANAGEMENT PLANNING

Item 198 from the General Fund — Budget p. R 1

Requested 1980–81	$350,469
Estimated 1979–80	270,181
Actual 1978–79	276,701
Requested increase (excluding amount for salary increases) $80,288 (+29.7 percent)	
Total recommended reduction	$180,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Program Objectives.* Recommend Legislature clarify the land-use planning and regulatory process under the Wild and Scenic Rivers Act.	421
2. *Contractual Services. Reduce by $180,000.* Recommend reduction of funds for further planning contracts on the Klam-	423