3. Essential utility, site development and equipment—includes projects needed to make new buildings usable or continue usability of existing buildings.
4. Meet existing instructional capacity needs in higher education—includes projects that are critical, and for which no alternatives are available other than reducing enrollments.
5. Improve program efficiency or cost effectiveness—includes new office buildings alterations, etc.
6. Energy conservation projects—includes projects with a payback period of less than five years.
7. Energy conservation projects—includes projects with a payback period greater than five years.

Table 3 shows how we categorize the projects funded by this item that our analysis indicates are warranted.

Table 3
Major Projects by Descriptive Category
Department of Veterans Affairs
Item 1970-301-036

Category	*Item Number/Project Title*	*Analyst's Proposal*	*Estimated Future Cost*
1.	None		
2.	None		
3.	(h) Upgrade street lighting	$278,000	—
	(1) Increase primary electric service	35,000	$641,000
	Subtotals	($313,000)	($641,000)
4.	None		
5.	None		
6.	(j) Reinsulate steam mains	$319,000	—
	Subtotals	($319,000)	(—)
7.	None		
	Totals	$632,000	$641,000

Business, Transportation and Housing Agency
SOLARCAL OFFICE

Item 2060 from the General Fund — Budget p. BTH 1

Requested 1982–83	$261,000
Estimated 1981–82	(94,000) [a]
Actual 1980–81	(109,000) [a]
Requested increase (excluding amount for salary increases) $167,000 (+178 percent)	
Total recommended reduction	None

[a] Reflected in budget of the Secretary of Business, Transportation and Housing

SOLARCAL OFFICE—Continued

GENERAL PROGRAM STATEMENT

The Governor established the SolarCal Council in May 1978 by executive order. The order directs the council to (1) advise the Governor on means for achieving rapid development of solar energy in the state, (2) develop administration policies concerning commercialization of solar energy, (3) make information on solar energy available to the public, and (4) promote cooperation with the federal government and public and private interests regarding solar energy. Members of the council represent various private industries involved in solar energy.

The Governor also established as part of the council a Local Government Commission on Renewable Resources and Conservation. The commission is composed of local officials appointed by the Governor. It is directed to assist local government officials in adopting ordinances to enhance solar energy development and promote cooperation in renewable resource development and conservation between state and local governments.

The SolarCal Office serves as staff to the council and the commission. It also provides staff support to the Public Utilities Commission (PUC) Solar Advisory Committee through contract with the PUC.

The office has 3.5 authorized positions in the current year. It also plans to administratively establish 3.5 positions in the current year to perform work previously performed by consultants paid from temporary help funds. This is the first year in which the SolarCal Office is funded through a separate item in the Budget Bill. In previous years, the office was funded through the Secretary of Business, Transportation and Housing's budget.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $261,000 from the State Energy Resources Conservation and Development Account in the General Fund to the Secretary for Business, Transportation and Housing to support the SolarCal Office in 1982–83. The proposed appropriation is $167,000, or 178 percent, greater than the appropriation to support the office's activities in 1981–82. The budget anticipates, however, that total expenditures by the office in 1982–83 will be $23,000, or 8 percent, less than estimated 1981–82 expenditures, including those supported by reimbursements. Total expenditures will increase by the amount of any salary or staff benefit increase approved for the budget year.

The reason for the reduction in reimbursements to the office is that these funds, which the office previously received from the Energy Commission and the PUC, would be appropriated directly to the office in the Budget Bill.

The net decrease in office expenditures results from (1) savings in office overhead made possible by financing office activities from a direct appropriation rather than through reimbursements, and (2) shifting more of the council's cost of travel and expenses to council members.

The budget incorrectly indicates that 8.5 positions will be authorized in the budget year. The budget includes sufficient funds for seven positions and a half-time student intern in the budget year.

Our analysis indicates that the proposed level of expenditures in the budget year is appropriate.

Business, Transportation and Housing Agency

SOLAR ENERGY CONSERVATION MORTGAGE CORPORATION

Item 2080 from the General Fund — Budget p. BTH 2

Requested 1982–83	$240,000
Estimated 1981–82	–
Actual 1980–81	–
Requested increase $240,000	
Total recommended reduction	$240,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Startup Costs. Reduce by $240,000 and eliminate Item 2080-001-025.*** Recommend reduction because state funds are not needed to establish the corporation. 277

GENERAL PROGRAM STATEMENT

Chapter 1033, Statutes of 1981, created the Solar Energy Conservation Mortgage Corporation (also known as "Sunny Mac") to facilitate the financing of solar energy conservation measures by individuals and firms. The corporation will purchase loans or advances of credit issued by financial institutions for energy conservation measures such as solar energy or wind power facilities, insulation and storm windows. The corporation will then pool the debt and sell secured secondary mortgages to investors in the same manner that federally-authorized mortgage corporations sell interests in home loans to private investors.

The corporation is authorized to sell shares to those entities that do business with it, such as private savings and loans, banks and other financial institutions. The capital raised in this manner can be used to finance the purchase of loans. The corporation has a seven member board of directors—one each appointed by the Secretary of Business, Transportation and Housing (to represent the solar industry), the Governor, and the State Treasurer, and four appointed by stockholders. Under Chapter 1033, the first stockholders meeting must be held before May 30, 1983.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $240,000 from the Fuel Allocation Revenue Account in the General Fund to the Secretary to establish Sunny Mac as a private corporation in 1982–83. This would be the first year in which funding is provided to the corporation.

Appropriation Not Needed to Establish the Corporation

We recommend the deletion of Item 2080-001-025 for a savings of $240,000 because state funds are not needed to establish a private corporation.

The budget proposes to spend $240,000 in 1982–83 to (1) prepare a stock prospectus, (2) sell shares and (3) perform other activities related to establishing the corporation.

Although three of the board members will be appointed by state officials, the majority will be appointed by private stockholders. Thus, despite the quasi-public nature of Sunny Mac, the corporation will be controlled

SOLAR ENERGY CONSERVATION MORTGAGE CORPORATION—Continued

by private entities and will operate free of the controls that apply to most state agencies.

Our analysis indicates that a General Fund loan should not be necessary to get Sunny Mac off the ground. The corporation, instead, could either borrow money or obtain capital from private sources to pay initial expenses. This should not prove difficult. The same financial institutions that would use Sunny Mac as a secondary market for their loans have indicated to the Legislature a willingness to pay for startup costs associated with a comparable entity, the California State Mortgage Association ("Callie Mae"). We believe it would also be in their interest to provide initial capital for Sunny Mac, in view of the fact that they would benefit from the corporation's activities.

For these reasons, we recommend the deletion of Item 2080-001-025 for a General Fund savings of $240,000.

Business, Transportation and Housing Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 2100 from the General Fund — Budget p. BTH 3

Requested 1982–83	$13,811,000
Estimated 1981–82	13,904,000
Actual 1980–81	13,473,000
Requested decrease (excluding amount for salary increases) $93,000 (−0.7 percent)	
Total recommended reduction	None

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

The department maintains 23 district and branch offices throughout the state, as well as a headquarters in Sacramento. The department is authorized 379.6 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $13,811,000 from the General Fund for support of the Department of Alcoholic Beverage Control in 1982–83. This is $93,000, or 0.7 percent, less than estimated current-year expenditures. The decrease, however, makes no allowance for any salary or staff benefit increases that may be approved for the budget year.

Expenditure of anticipated reimbursements totaling $280,000 during the budget year results in a total expenditure program of $14,091,000.

Table 1 shows budget data for the department's three program elements in the current and budget years.

Table 1
Department of Alcoholic Beverage Control
Budget Summary
(dollars in thousands)

	Estimated 1981–82	Proposed 1982–83	Change Amount	Change Percent
Expenditures				
Licensing	$9,468	$9,441	−$27	−0.3%
Compliance	4,663	4,650	−13	−0.3
Administration	(1,742)	(1,735)	(−7)	(−0.4)
Subtotals	$14,131	$14,091	−$40	(−0.3%)
Less Reimbursements	227	280	53	(23.4)
Totals	$13,904	$13,811	−$93	−0.7%
Personnel-Years				
Licensing	226.8	215.5	−11.3	−5.0%
Compliance	103.4	98.2	−5.2	−5.0
Administration	49.4	46.9	−2.5	−5.1
Totals	379.6	360.6	−19	−5.0%

Departmental Funding

The Department of Alcoholic Beverage Control is supported by the General Fund and is a revenue-producing agency. It collects and distributes license fees according to a schedule established by statute. Original license fees, for example, are deposited directly in the General Fund. License renewal fees, intracounty transfer fees, and amounts paid under "offers of compromise" (that is, penalties in lieu of license suspension) are deposited in the Alcoholic Beverage Control Fund. Prior to the enactment of Ch 101/81 (SB 102), which reduced state financial aid to local governments in lieu of the reductions required by the so-called AB 8 deflator, 90 percent of the money on deposit in the fund was distributed among the state's 58 counties and more than 400 cities using a statutory formula, and the remaining 10 percent was deposited in the General Fund. Under Chapter 101, all of the money collected from such fees is transferred to the General Fund.

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

	Actual 1980–81	Estimated 1981–82	Estimated 1982–83
Miscellaneous income	$17	—	—
Original license fees	2,751	$3,000	$3,000
Transfer fees	4,234	4,450	4,450
Special fees	318	300	300
Service charges	274	250	250
Penalties	301	300	300
Annual fees and offers in compromise	11,793	16,500	15,500
Surcharge on annual fees	1,538	1,500	1,500
Caterer's authorization, permits, and managers certificates	462	450	450
Totals	$21,688	$26,750	$25,750

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

As shown in Table 2, the department estimates that revenue to the General Fund in 1982–83 from fees and charges will amount to $25,750,000. This is $1,000,000, or 3.7 percent, less than estimated receipts in the current year. The department indicates that this reduction will result from the loss of all offers in compromise, due to the staff reductions discussed below. However, because these offers result from cases pursued in the current as well as the budget year, and because the department will still have a compliance program in 1982–83, it is likely that anticipated budget-year revenues are underestimated.

Budget Proposes 5 Percent Staff Reduction

As indicated in Table 1, the department proposes to reduce its staff by 19 positions for 1982–83. This proposal is designed to achieve the 5 percent reduction ($727,000) required of many General Fund agencies by the Governor.

Although the budget shows that staffing for all three program elements—licensing, compliance, and administration—will be reduced by 5 percent, the department indicates that it will be difficult to reduce the number of personnel devoted to licensing activities without imposing unreasonable delays on the applicants, or reducing the time spent on investigations to an unacceptable level. Therefore, the primary impact of the reduction will be felt in the compliance area. In fact, the department expects the number of investigations to drop from 6,400 in 1981–82 to 4,800 in the budget year, and accusations filed to decline from 1,700 to 1,300.

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

Business, Transportation and Housing

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 2120 from the General Fund — Budget p. BTH 7

Requested 1982–83	$286,000
Estimated 1981–82	287,000
Actual 1980–81	274,000
Requested decrease (excluding amount for salary increases) $1,000 (−0.3 percent)	
Total recommended reduction	$51,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Attorney Workload. Reduce Item 2120-001-001 by $51,000.* Recommend deletion of one attorney position, because of declining workload.	281
2. Cost Effectiveness. Recommend enactment of a constitutional amendment to abolish the appeals board, because it is no longer cost-effective (Potential savings: up to $290,000 annually).	282

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 (ABC) relating to penalty assessments or to the issuance, denial, transfer, suspension, or revocation of any alcoholic beverage license. The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal, which, upon petition, review board decisions.

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 once each month, alternating between Los Angeles and San Francisco. Board staff consists of two attorneys and two clerical employees.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $286,000 from the General Fund for support of the Alcoholic Beverage Control Appeals Board in 1982–83. This is $1,000, or 0.3 percent, below current-year estimated expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

For 1981–82, the board was authorized two attorneys, a legal secretary, and an office technician. To comply with the 5 percent reduction required of many General Fund agencies by the administration, the board proposes to delete the legal secretary position. This would represent the first change in staffing levels in 19 years.

Attorney Position Not Justified by Workload

We recommend deletion of one attorney position because of a decline in workload, for a General Fund savings of $51,000 (Item 2120-001-001).

The board issued an average of approximately 220 decisions annually during its first 15 years of operation. The number of cases to be decided, however, has been declining since the mid-1960s. During the last five years the board has decided an average of only 110 cases annually—one-half the number decided during the earlier period. In 1980–81, the board handled only 87 cases, its lowest ever. Preliminary data on workload in the current year indicates that the decline may be continuing. In the first six months of 1981–82, the board decided 33 cases. There is reason to expect that the number of decisions will decrease further in the future. As a result of reduced staffing in the Department of Alcoholic Beverage Control, fewer cases are likely to reach the board. The department expects the number of accusations to fall from 2,256 in 1979–80 to 1,300 in 1982–83, and the number of applications requiring hearings to drop from 419 in 1980–81 to 175 in 1982–83.

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD—Continued

Our analysis indicates that for many years one attorney could handle an average of 110 cases per year. Based on 1980–81 workload of 87 cases, we, recommend that one of the two attorney positions be deleted for a General Fund Savings of $51,000.

The Board Is No Longer Cost-Effective

We recommend that a constitutional amendment be enacted to abolish the Alcoholic Beverage Control Appeals Board because the board is no longer cost-effective given declining workload, for an annual General Fund savings of up to $290,000.

The board was established for the purpose of providing an inexpensive and expeditious method of settling disputes over decisions issued by the Department of Alcoholic Beverage Control. For the reasons indicated below, the board is no longer achieving this objective.

Cost Per Case Has Risen. Because the board is not able to reduce its costs in response to workload decreases, the cost per case handled by the board has risen. Table 1 shows the cost per decision for the board compared to the state courts of appeal.

Table 1

Comparison of Costs per Case for the Courts of Appeal and the Alcoholic Beverage Control Appeals Board [a]

	1978–79	*1979–80*	*1980–81*	*1981–82*	*Average Percent Increase*
Courts of Appeal					
Cost per written disposition	$1,986	$2,320	$2,397	$2,697	10.9%
Cost per appeal filed	922	1,047	1,087	1,217	9.8
Appeals Board					
Cost per written decision	2,030	2,151	3,150	4,348	30.1
Cost per appeal filed	1,774	1,993	2,250	2,760	15.9

[a] Amounts shown for 1978–79 and 1979–80 are actual. Caseloads for 1980–81 and 1981–82 for the courts of appeal are projected, based on historical average increase of 7 percent per year. Caseload for the board in 1981–82 is projected from six-month data.

Our analysis indicates that the cost per decision should be less for the board than for the courts of appeal because the board deals with only one area of law, and these cases involve a relatively small number of legal issues most of which have been adjudicated previously. For these reasons, the board should be able to handle nearly all of its cases with greater efficiency than the courts, whose cases are more diverse and likely to be of greater complexity.

As shown in Table 1, however, the board's per case cost is significantly higher than the courts. For example, we estimate that the board's cost per written disposition was $3,150 in 1980–81, compared to a cost of about $2,400 per disposition for the courts of appeal. This difference will increase in 1981–82 because the number of cases decided by the board is declining.

Impact of Transferring Board Duties to the Courts of Appeal. Until 1967, board decisions were appealable to the superior courts. Because of long delays in resolving cases at this level, however, the Legislature in 1967 provided that board decisions be appealed directly to the courts of appeal.

If the board were abolished, we would recommend that review of department decisions be handled directly by the courts of appeal in order to prevent the delay of cases.

Currently, one court of appeal judge handles approximately 105 cases annually. Therefore, the appeals board workload (87 cases in 1980–81), if it were transferred to a single court of appeal district, could require one additional judge. If, however, the caseload was distributed among all six courts of appeal districts, it probably could be absorbed within existing resources, without an additional judge. Even if one additional judge were needed, that ongoing cost would be approximately 50 percent of the board's ongoing costs.

Not only could the courts of appeal handle the board's workload at less cost to the state; they probably could decide the cases more expeditiously. Currently, the board takes five to seven months to render a decision. In southern California, where most of the board's cases originate, it takes two to seven months to hear a civil case at the appellate level.

Because the courts of appeal can handle the board's workload less expensively and at least as expeditiously, we recommend that a constitutional amendment be presented to the voters abolishing the board and requiring decisions rendered by the department to be reviewed by the courts of appeal.

Business, Transportation and Housing Agency

STATE BANKING DEPARTMENT

Item 2140 from the State Banking Fund — Budget p. BTH 9

Requested 1982–83	$6,585,000
Estimated 1981–82	6,298,000
Actual 1980–81	5,261,000
Requested increase (excluding amount for salary increases) $287,000 (+4.6 percent)	
Total recommended reduction	59,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Operating Expenses Overbudgeted. Reduction of $14,000.*** Recommend reduction because according to Department of Finance guidelines, the department overbudgeted telephone expenses. — 285
2. ***Operating Expenses Overbudgeted. Reduction of $25,000.*** Recommend reduction because the department did not link out-of-state travel costs to its examination of foreign banks, thereby overbudgeting out-of-state travel expenses. — 286
3. ***New Office. Reduction of $20,000.*** Recommend deletion of funds for reclassification of a bank examiner II position to head a proposed Office of Policy and Procedures because the department currently has two offices which can provide the proposed services. — 286
4. Legislation Proposed to Establish a Department of Financial Institutions. Recommend the creation of a Department of — 287

STATE BANKING DEPARTMENT—Continued

Financial Institutions, with one division for banking and another for savings and loans. This new department would accommodate changes in the banking and savings and loan industry, and reduce the cost of state regulation.

GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from the economic losses that result when a bank or trust company fails. The department regulates only those banks that choose to operate under a state charter. Because some banks choose to operate under federal authority, not all banks in California are regulated by this department. As of September 30, 1981, there were 246 state-chartered banks with 1,562 branch offices doing business in California. These banks had total assets of $58.3 billion.

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

The department headquarters is in San Francisco, and it has branch offices in Los Angeles, Sacramento and San Diego. The current authorized staff is 154 positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $6,585,000 from the State Banking Fund for support of the department in 1982–83. This is an increase of $287,000, or 4.6 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 also proposes expenditures of $122,000 from reimbursements derived primarily from fees for (1) examining trust companies, (2) conducting special examinations of banks, and (3) administering the local agency security program. The department is, thus, requesting a total expenditure program of $6,707,000 for the budget year.

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

Operating Expenses Overbudgeted

We recommend a reduction of $14,000 to correct overbudgeting for telephone expenses.

The department is requesting $85,000 for telephone expenses in 1982–83. The Department of Finance has instructed agencies to budget telephone costs for 1982–83 at a level 26 percent above actual expenditures for 1980–81. As a result, we estimate the department's budget for 1982–83 should include $71,000 for telephone costs. We recommend, therefore, a reduction of $14,000 to correct for this overbudgeting.

Table 1
Expenditure and Staffing Data
State Banking Department
(dollars in thousands)

Program		Actual 1980–81		Estimated 1981–82		Proposed 1982–83	
		Personnel-Years	Expenditure	Personnel-Years	Expenditure	Personnel-Years	Expenditure
1. Licensing and supervision of banks and trust companies	Investigation of application for new facilities	6.9	$283	6.5	$288	6.5	$294
	Continuing supervision of existing banks	118.2	4,840	138.8	5,800	138.8	6,100
	Continuing supervision of trust activities	3.5	143	3.7	155	3.7	59
2. Payment instruments		0.7	28	0.8	33	2.3	92
3. Certification of securities		0.2	8,000	0.2	9,000	0.2	9,000
4. Administration of local agency security		1.2	49	1.4	60	1.4	55
5. Supervision of California business and industrial development corporations		0.5	20	0.6	24	1.1	37
6. Departmental administration (prorated to departmental program)	Executive and administrative services	(9.0)	(372)	(11.5)	(550)	(11.5)	(557)
	Legal and legislative services	(11.3)	(517)	(14.0)	(607)	(14.0)	(661)
	Policy information services	(5.8)	(217)	(6.5)	(250)	(8.5)	(304)
Totals		131.2	$5,371	152.0	$6,368	154.0	$6,707
Reimbursements		—	−110	—	−70	—	−122
Net Totals			$5,261		$6,298		$6,585

STATE BANKING DEPARTMENT—Continued

Out-of-State Travel Overbudgeted

We recommend a reduction of $25,000 to correct overbudgeting for out-of-state travel expenses.

The department is requesting $55,000 for out-of-state travel in 1982–83, which is an increase of $30,000, or 120 percent, over estimated current-year expenditures. Out-of-state travel funds are used by staff members to represent department interests nationally. In addition, the department conducts examinations of "foreign" banks (those incorporated in other states or countries) for solvency and solidity, pursuant to Division 1, Chapter 15 of the California Financial Code. Table 2 shows actual expenditures for out-of-state travel and the number of foreign banks examined, for fiscal years 1977–78 through 1982–83.

Table 2
Out-of-State Travel and Foreign Banks Examined
State Banking Department

	Actual				*Estimated*	*Proposed*
	1977–78	*1978–79*	*1979–80*	*1980–81*	*1981–82*	*1982–83*[a]
Out-of-State Travel Expenditures	$6,000	$3,000	$4,000	$9,000	$25,000	$55,000
Foreign Banks Examined[a]	25	23	34	34	50	55

[a] Examined on a calendar-year basis.

Table 2 indicates that the department's spending for out-of-state travel is not closely linked to the number of foreign bank examinations conducted. In 1981–82, sixteen additional banks came under state charter, an estimated increase in workload of 47 percent. The budget for out-of-state travel costs in the same year increased by 178 percent. In the budget year, only five additional foreign banks are projected to come under state charter. The budget, however, proposes an additional increase for out-of-state travel of 120 percent.

Our analysis indicates that the method used by the department to project its out-of-state travel requirements is not valid. Out-of-state travel costs should be budgeted to reflect actual spending requirements and should be directly linked to the projected number of out-of-state examinations to be conducted. A 120 percent increase in out-of-state travel costs to accommodate a 10 percent increase in projected foreign bank examinations appears excessive based on actual costs incurred in 1980–81.

Recognizing that air fares and other associated expenses will increase in 1982–83, we recommend a 20 percent increase in the out-of-state travel budget, for a total of $30,000. This would result in a savings of $25,000.

Establishment of an Office of Policy and Procedures Unwarranted

We recommend deletion of funds requested to reclassify a bank examiner II position to a C.E.A. I to head a new Office of Policy and Procedures for a savings of $20,000. We further recommend the department quantify for the Legislature the requests for information it receives from the public and banking industry.

The budget proposes the establishment of a new Office of Policy and Procedures to replace the department's existing Research and Information Services Office. The new office would centralize the research of interpretations relating to the regulation of banks, and compile and publish a policy manual for the banking industry and the public. This office would maintain records of past department opinions and present issues to be resolved by the Superintendent of Banks and a senior policy committee, composed of senior deputies within the department. The budget requests $20,000 to reclassify a bank examiner II to a C.E.A. I position to head this office.

Our analysis fails to support the need for the proposed new office. The department currently operates two programs—Legal and Legislative Services, and Research and Information Services—which release interpretations of the banking laws, conduct legal research, and prepare and publish weekly and annual reports regarding banking regulatory policy. In 1981–82, the Research and Information Services office began a centralized statistical bank analysis function as an early warning system to detect unfavorable operating trends. In our judgment the two existing offices contain the resources necessary to develop the proposed policy manual and maintain a central reference file on department opinions.

Furthermore, our analysis indicates that the department does not quantify the number of requests for information it receives from the banking industry and the public. Consequently, the department cannot project the number of requests for department opinions it expects to receive in 1982–83. Without this information, it is not clear that the establishment of a new office is needed.

Finally, the reclassification of a bank examiner II position to a C.E.A. I would establish a senior policy officer who would research and present issues to be reviewed by a Senior Policy Committee. Currently, a supervising bank examiner position supervises the work of the Research and Information Services Office. This position could perform the functions envisioned for the senior policy officer in linking the Superintendent and the Senior Policy Committee with the industry and the public.

For these reasons, we do not believe that there is sufficient justification for a new Office of Policy and Procedures or for reclassifying a bank examiner II position to a C.E.A. I position. If, however, the Superintendent chooses to establish this office, we recommend that any associated costs be absorbed within the department's $6.6 million budget.

We further recommend that the department quantify the requests for information it receives from the public and the banking industry. This will enable the Legislature to determine staffing requirements for this function on a more reliable basis in the future.

Establish a Department of Financial Institutions

We recommend the enactment of legislation to establish a Department of Financial Institutions, with one division for Banking and another for Savings and Loans.

Currently, both the Department of Banking and Savings and Loan perform similar functions in their regulation of state chartered financial institutions.

Recently, the Department of Savings and Loans has experienced a significant decrease in its workload. Because state chartered savings and loan associations have converted to federal charter, association assets under state charter in 1982–83 are projected to be 50 percent below the 1980–81 level. As a result, total assets to be examined in 1982–83 are expected to decrease by 65 percent from the 1980–81 level. In response, the Department of Savings and Loan proposes to delete 69 authorized positions in the

STATE BANKING DEPARTMENT—Continued

budget year.

Given this decrease in workload and staffing, it is not clear that the regulation of state chartered savings and loans continues to warrant a separate department. We believe trends in the savings and loan industry provide the Legislature an opportunity to restructure state regulation of financial institutions, thereby decreasing administrative costs in both departments and providing the opportunity for other efficiencies in regulation and oversight activities.

It appears that the activities of the Department of Banking and the Department of Savings and Loan are sufficiently similar that they could be placed in a single department. Both have early warning capabilities to detect insolvency. Both conduct financial examinations using similar methods, and both must adopt "parity" regulations with federal lending laws.

For these reasons, we recommend the enactment of legislation establishing a Department of Financial Institutions with separate divisions of Banking and Savings and Loan. Funding sources for the new divisions would continue to be separate and distinct.

Our analysis of the Department of Savings and Loan (Item 2340-001-337) contains the details associated with this recommendation.

Business, Transportation and Housing Agency

DEPARTMENT OF CORPORATIONS

Item 2180 from the General Fund — Budget p. BTH 15

Requested 1982–83	$7,851,000
Estimated 1981–82	8,047,000
Actual 1980–81	8,129,000
Requested decrease (excluding amount for salary increases) $196,000 (−2.5 percent)	
Total recommended reduction	$200,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2180-001-001—Support		General	$7,847,000
2180-101-001—Legislative Mandate		General	4,000
Total			$7,851,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. ***Clerical Positions. Reduce by $71,000.*** Recommend reduction of 4.5 office assistant II positions because of inadequate justification and a stable workload. — 291
2. ***Auditor Positions. Reduce by $100,000.*** Recommend reduction of four auditor I positions because department has not established how many additional examinations it would conduct with the increased staff. — 292
3. ***Operating Expenses Overbudgeted. Reduce by $29,000.*** Recommend reduction to correct for overbudgeting. — 293

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 trust. 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 licenses and examines 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. In the current year, the department has a total of 346.6 authorized positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $7,851,000 from the General Fund for support of the department in 1982–83. This is a decrease of $196,000, or 2.5 percent, below estimated current-year expenditures. This, however, makes no allowance for the cost of any salary or staff benefit increase that may be approved for the budget year. The requested appropriation also includes $4,000 for a legislative mandate.

The department also proposes expenditures of $5,421,000 from reimbursements, primarily in the form of fees for examining the financial records of licensees. Thus, total program expenditures for the department will be $13,272,000 in the budget year. Table 1 shows the cost and staffing data for the department's programs and their supporting elements.

Five Percent Reduction In Baseline Budget

In accordance with the Governor's action to reduce the baseline budget of most General Fund agencies, the department has reduced its operating expenses by 5 percent, or $400,000. A reduction in operating expenses of $171,000 includes decreases in training, equipment, consultating contracts, and the use of the Attorney General's staff to represent the department in enforcement matters. In addition, the department has deleted two corporation examiner II positions, one staff counsel I position, an office assistant II position and a special investigator position for a cost savings of $230,000.

The department projects it may eliminate an unidentified number of examinations in its Investment program and Health Care Service Plan program because of these reductions. Our review of the department's proposed reductions indicates that these changes should not have an adverse impact on the operation of its regulatory programs.

Table 1
Expenditure and Staffing Data
Department of Corporations Program

		Actual 1980–81		*Estimated 1981–82*		*Proposed 1982–83*	
Program	*Element*	*Personnel-Years*	*Expenditure*	*Personnel-Years*	*Expenditure*	*Personnel-Years*	*Expenditure*
Investment	Qualifications	84.1	$2,862,000	87.4	$3,088,000	85.2	$3,272,000
	Franchises	6.8	260,000	6.8	285,000	6.9	303,000
	Regulation and enforcement	84.7	3,329,000	85.8	3,415,000	84.6	3,638,000
Lender-Fiduciary	Check Sellers and Cashers Law	0.4	14,000	0.4	12,000	0.4	13,000
	Credit Union Law	37.2	1,368,000	37.3	1,484,000	39.4	1,602,000
	Escrow Law	21.7	750,000	21.7	859,000	23.0	929,000
	Industrial Loan Law	12.0	471,000	12.1	471,000	17.8	619,000
	Personal Property Broker Law and California Small Loan Law	30.5	1,127,000	30.4	1,152,000	32.4	1,249,000
	Trading Stamp Law	0.2	8,000	0.2	8,000	0.2	8,000
Health Care Service Plan	Licensing	15.8	597,000	16.2	648,000	16.4	686,000
	Financial examinations	9.1	341,000	9.4	374,000	8.5	366,000
	Medical survey	3.4	144,000	3.5	193,000	3.6	177,000
	Enforcement	9.3	389,000	9.6	442,000	9.7	406,000
Administration (prorated to other programs)	General office	(8.5)	(364,000)	(10.0)	(440,000)	(10.0)	(456,000)
	Accounting and personnel	(7.6)	(213,000)	(8.0)	(257,000)	(8.0)	(267,000)
Program Totals		315.2	$11,655,000	320.8	$12,431,000	328.1	$13,268,000
Reimbursements		—	−3,527,000	—	−4,388,000	—	−5,421,000
Net Totals		315.2	$8,128,000	320.8	$8,043,000	328.1	$7,847,000
Legislative Mandate			$1,000		$4,000		$4,000
Totals		315.2	$8,129,000	320.8	$8,047,000	328.1	$7,851,000

Request for Office Assistants Unjustified

We recommend deletion of 4.5 proposed office assistant II positions because the need for these positions has not been documented on a workload or output basis, for a savings of $71,000.

The budget proposes to add one office assistant II position in the department's San Francisco office to accommodate additional clerical workload created by an increase in the number of licensees. In addition, it proposes 4.5 office assistant II positions to meet increased workload associated with the overall administration of the department's Lender-Fiduciary program.

Our analysis indicates that the workload information submitted by the department supports the need for an additional office assistant II position in the department's San Francisco office. This information, however, does not justify the establishment of 4.5 office assistant II positions for its Lender-Fiduciary program.

The primary responsibilities of the office assistant II position include basic clerical duties, use of the department's index data file, and completion and mailing of examination reports on those lending and financial investment firms subject to the department's regulatory authority. The department contends that because of limited staff, it now takes six weeks to two months to complete and mail examination reports to the firms licensed by the department. The department justifies its request for 4.5 new positions by citing a backlog in uncompleted examination reports.

The department, however, was unable to identify the size of its backlog of uncompleted examination reports, or identify this backlog as a percentage of the yearly production of reports. In addition, the department has not identified the amount of processing time it would save with an increase in staff, or to what degree the backlog of examination reports would be reduced if the additional office staff positions were approved. Without information identifying potential administrative efficiencies or improvements in the level of service, we have no basis for documenting the need for an increase in staff.

Table 2 shows the actual, estimated and projected number of licensees in the department's Lender-Fiduciary program from 1977–78 through 1982–83.

Table 2
Department of Corporations
Licensees of Lender-Fiduciary Program

Actual				*Estimated*	*Projected*
1977–78	*1978–79*	*1979–80*	*1980–81*	*1981–82*	*1982–83*
5,134	5,697	6,117	6,768	6,947	7,192

This table indicates that although the number of licensees in the Lender Fiduciary program increased an average of 10 percent a year from 1977–78 to 1980–81, the number of licensees in the program is expected to increase by only 3 percent a year from 1980–81 through 1982–83. Our analysis indicates that the number of applications for licensure under the six laws administered by the department's Lender-Fiduciary program has stabilized.

Because the department does not have adequate workload information

DEPARTMENT OF CORPORATIONS—Continued

to support its request for additional staff, and given that the number of licensees appears to have stabilized, we recommend deletion of the 4.5 new office assistant II positions, for a savings of $71,000.

Request for Additional Audit Staff

We recommend deletion of four proposed auditor I positions, for a savings of $100,000.

The department proposes to increase its audit staff by adding four auditor I positions. These new positions would be used to examine industrial loan companies. Currently, the department is authorized 88 auditors in its Lender-Fiduciary program. These auditors examine check sellers and cashers, credit unions, escrow companies, and property brokers, as well as industrial loan companies. Except for auditors in its Health Care Service Plan program that specialize in examinations of health care service plans, the department does not use its auditors to audit any one particular industry.

Industrial loan companies make loans to individuals and other entities, taking as security real or personal property. A portion of their financing is through the sale of thrift certificates. Section 18393 of the Financial Code authorizes the Commissioner of Corporations to conduct a yearly examination of all licensed industrial loan companies. Although the department's policy is to examine the main branch of an industrial loan company annually and all branch offices once every 48 months, it has not adhered to this policy.

Table 3 shows the regulation of industrial loan companies by the department from 1977–78 to 1982–83 as it relates to (1) the number of companies licensed, (2) gross assets under regulation, (3) the number of examinations conducted, and (4) authorized staff.

Table 3
Department of Corporations
Regulation of Industrial Loan Companies
(dollars in thousands)

	Actual				*Estimated*	*Projected*
	1977–78	*1978–79*	*1979–80*	*1980–81*	*1981–82*	*1982–83*
Licensees	430	461	494	533	575	575
Examinations [a]	202	205	136	134	199	199
Gross assets	$773	$884	$1,031	$1,086	$1,200	$1,350
Authorized staff	13.1	13.2	12.9	12	12.1	17.8

[a] Includes examination of main and branch offices.

Table 3 indicates that the department has not conducted annual examinations of all licensed industrial loan companies. As gross assets under the department's regulatory authority increased, the number of examinations has actually decreased. The department anticipates licensing 575 industrial loan companies in 1982–83, but projects it will conduct only 199 examinations. The department is requesting a significant increase in the budget year for the regulation of industrial loan companies (from 12.1 personnel-years to 17.8 personnel-years), yet it projects that it will conduct the same number of examinations in 1982–83 as it did in 1981–82.

For these reasons, we recommend deletion of four auditor I positions in Item 2180-001-001 for a savings of $100,000.

Overbudgeted Operating Expenses

We recommend a reduction of $29,000 in operating expenses to correct for overbudgeting.

The department is requesting $182,000 for postage and office supplies in the budget year—an increase of 31 percent of its estimate of current-year expenditures.

Our analysis indicates that the department has overbudgeted for operating expenses. Table 4 shows the actual, estimated and projected expenditures for postage and office supplies from 1978–79 through 1982–83.

Table 4

Actual and Projected Operating Expenses

	Actual			Estimated	Budgeted	Analyst's Proposal
	1978–79	1979–80	1980–81	1981–82[a]	1982–83	1982–83[b]
Postage	$83,605	$78,197	$106,201	$98,678	$128,000	$109,000
Office supplies	44,004	39,330	50,105	40,106	54,000	44,000
Total	$127,609	$117,527	$156,306	$138,784	$182,000	$153,000

[a] Estimate based on actual expenditures from July through December 1981.
[b] Allows for a 10 percent increase over current-year estimates.

Based on the department's actual expenditures on these items during the first six months of the current year, we estimate expenditures will be $138,784 in 1981–82 and $153,000 in 1982–83. On this basis, we recommend a reduction of $29,000 to correct for this overbudgeting.

Legislative Mandates

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, Contra Costa County 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 $4,000 from the General Fund to reimburse Contra Costa County for costs associated with satisfying the provisions of Chapter 941.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT

Item 2200 from the General Fund — Budget p. BTH 23

Requested 1982–83	$7,782,000
Estimated 1981–82	7,829,000
Actual 1980–81	6,761,000
Requested decrease (excluding amount for salary increases) $47,000 (0.6 percent)	
Total recommended reduction	$325,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2200-001-001	—Department of Economic and Business Development—State Support. Includes $3,024,000 transfer to the Small Busniess Expansion Fund	General	$7,413,000
2200-101-001	—State appropriation to the California Economic Development Grant and Loan Fund	General	325,000
2200-490	—Reappropriation—State support of Commission on Industrial Innovation	General	44,000
Total			$7,782,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Economic Development Grant and Loan Fund. Recommend proposed expenditure be appropriated in the Budget Act (add new Item 2200-101-922 for $1,075,000) to provide legislative review and control. 298
2. ***Economic Development Grant and Loan Fund. Reduce Item 2200-101-001 by $325,000.*** Recommend deletion of General Fund appropriation, because proposed level of lending activity can be achieved without an appropriation from the General Fund. 299
3. Appropriation to the Small Business Expansion Fund. Recommend Budget Bill language requiring specific designation of amount appropriated. 299

GENERAL PROGRAM STATEMENT

The Department of Economic and Business Development is the state's principal agent for:

1. Coordinating federal, state and local economic development policies and programs, so as to maximize their effectiveness;
2. Applying for and allocating federal economic development funds;
3. Assisting state agencies to implement 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 economy. The department's staff consists of 77.4 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes three appropriations of $7,782,000 from the General Fund for support of the Department of Economic and Business Development (DEBD) in 1982–83. This is a decrease of $47,000, or 0.6 percent, from estimated current-year expenditures. This, however, makes no allowance for the cost of any salary or staff benefit increase that may be approved for the budget year.

The budget for the department includes a reappropriation of $44,000. These funds were provided for support of the department by the 1981 Budget Act. The budget proposes that they be reappropriated to support the Commission on Industrial Innovation during the July–December 1982 period.

In addition to the $7.8 million General Fund appropriation, the proposed budget includes $175,000 in federal funds (Economic Development Administration planning grants) and $12,000 in reimbursements. Past, current and budget-year expenditures and funding are shown in Table 1.

Table 1
Department of Economic and Business Development
Summary of Budget Requirements and Funding

	Staff-years			*Expenditures (thousands)*		
Program	*Actual 1980–81*	*Estimated 1981–82*	*Proposed 1982–83*	*Actual 1980–81*	*Estimated 1981–82*	*Proposed 1982–83*
Small business development	9.2	10.2	10.2	$1,756	$4,712	$4,670
Local economic development	8.7	8.9	7.1	2,779	1,477	630
Business and industrial development	8.1	11.9	11.9	322	454	475
International trade	6.6	7.4	7.4	326	331	350
Tourism	6.7	7.9	7.4	489	515	538
Economic planning, policy and research	6.3	9.4	9.4	310	511	433
Commission on industrial innovation	—	3.0	1.5	—	156	44
Administration	20.1	18.7	18.8	895	795	829
Total Requirements	65.7	77.4	73.7	$6,877	$8,951	$7,969
Funding						
1. General Fund	*61.3*	*73.0*	*70.7*	*$6,761*	*$7,829*	*$7,782*
2. Small Business Expansion Fund[a]	—	—	—	*−3,096*	—	—
3. State Transportation Fund	—	—	—	*2,275*[b]	—	—
4. Federal Trust Fund	*3.1*	*4.0*	*3.0*	*858*	*996*	*175*
5. Reimbursements	*1.3*	*0.4*	—	*79*	*126*	*12*
Total Funding	*65.7*	*77.4*	*73.7*	*$6,877*	*$8,951*	*$7,969*

[a] Depository for annual General Fund appropriations to guarantee loans made to small businesses by private lenders. The estimated $3.1 million appropriation in 1981–82 and proposed $3 million appropriation for 1982–83 are included in the net total General Fund figures.

[b] One time appropriation for loans and loan guarantees to assist small businesses affected by construction of the Century Freeway in Los Angeles.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

Budget-Year Changes

The $868,000 decrease in department expenditures from all sources during the budget year reflects the following significant changes:

1. ***Loss of Federal Grant and Loan Funds.*** Effective October 1, 1981, the federal government discontinued an economic development grant and loan program under Section 304 of the Public Works and Economic Development Act of 1965. As a result, federal funds are expected to decline by $821,000. The Governor's Budget proposes a state General Fund appropriation of $325,000 for this program, the same amount as in 1981–82.

2. ***Five Percent Reduction.*** The 1982–83 General Fund budget base for the department has been reduced by $399,000 to comply with the 5 percent reduction imposed by the adminstration on many General Fund agencies. To achieve this reduction, the budget proposes deletion of 2.2 temporary help positions plus minor reductions in the operating budgets of each of the department's programs. These reductions total $127,000. In addition, the budget proposes to discontinue funding for the California Commission on Industrial Innovation after December 31, 1982, or six months prior to the original termination date. This would reduce the department's authorized staff by the full-year equivalent of 1.5 positions, and would save $126,000. Finally, the amount proposed for as-yet-unspecified, new projects under the small business development program has been reduced by $146,000.

These reductions are not expected to have a significant effect on the department's ability to meet its statutory responsibilities.

3. ***Reduction to the Small Business Development Program.*** The budget proposes to reduce the General Fund appropriation to the Small Business Expansion Fund (used to guarantee loans made by private lenders to small businesses) from the current-year level of $3,100,000 to $3,024,000, a reduction of $76,000. Also, the operating budget of the small business development program has been reduced by $40,000, for a total reduction of $116,000 in this program.

The impact of the reduction cannot be assessed at this time, because the demand for loans during the budget year cannot be projected accurately. Loan demand is largely determined by the prevailing economic conditions and interest rates.

4. ***Increased Operating Expenses.*** A $410,000 increase is requested for operating expenses to offset the effects of price increases. In addition, the budget requests an increase of $58,000 for administrative support of regional development corporations under the Small Business Development Program in anticipation that the Small Business Advisory Board will approve state funding for two new rural development corporations. Under current law, the state must pay the initial administrative expenses of these corporations.

Table 2 summarizes the budgetary effects of these proposed changes.

Section 304 Grant and Loan Program

The Section 304 Grant and Loan program is funded from the California Economic Development Grant and Loan Fund, and seeks to promote the development of economically depressed areas in the state.

Description. In prior years, federal funds were allocated to California by the Economic Development Administration (EDA) under Section 304 of the Public Works and Economic Development Act of 1965 for specific

Table 2
Budget Year Changes
(in thousands)

	General Fund	*Federal Funds*	*Totals*
1981–82 Revised Net Budget	$7,829	$996	$8,825
1. Program Changes			
a. Termination of federal funds for grant and loan program	—	−821	−821
b. Reduction in Small Business Development Program	−116	—	−116
2. Cost Changes			
a. Inflation adjustment	410	—	410
b. New rural development corporations	58	—	58
3. 5 percent reduction	−399	—	−399
1982–83 Proposed Net Budget	$7,782	$175	$7,957
Net Change	−$47	−$821	−$868

economic development projects. The state was required to match the federal contribution to each project on a $1 for $4 basis.

Assistance may be provided under this program either in the form of grants or loans. Grants are allocated by the Office of Administration and are administered by the Office of Local Economic Development. They are made primarily for public works and development facilities needed for local or regional economic development. Loans are allocated and administered by the Office of Small Business Development, and are provided to public agencies, or to private businesses wishing to locate or expand their operations in economically distressed areas. The loans generally are long-term, and have interest below conventional market rates. The proceeds of these loans may be used to finance the cost of fixed assets and equipment, or to provide working capital. The loans must be for projects located in an area with an EDA-approved Overall Economic Development Plan, and applicants must demonstrate their inability to finance the projects from conventional sources.

Program Activity. The actual and projects receipts and expenditures for this program during the past, current, and budget years are shown in Table 3. The table indicates that, over time, the amounts allocated for grants is decreasing. In 1982–83, all program funds are budgeted for allocations as loans. As a result of this shift from grants to loans, the program expects to achieve greater leverage, since the amount received from loan repayments can be lent to additional borrowers.

Shrinking Federal Participation. In its first year of operation (1977–78), this program received $1.5 million in federal Section 304 funds, which were matched with $625,000 from the General Fund. As Table 3 shows, state matching allocations were maintained at $625,000 per year during 1979–80 and 1980–81, but the federal allocations in these years were significantly less than the 1977–78 level. As a result, the state has become the primary funding source for this economic development program.

Federal Allocations Terminated. In September 1981, the Section 304 program was terminated by the federal government. The budget proposes to continue the program at a reduced level, using the $325,000 General Fund appropriation and loan repayments. These repayments are depos-

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

ited in a revolving account of the California Economic Development Grant and Loan Fund, and are available for any economic development purpose, consistent with provisions of Section 304 of the Public Works and Economic Development Act of 1965.

Table 3
California Economic Development Grant and Loan Fund
Summary of Receipts and Expenditures
(in thousands)

	Actual 1979–80	*Actual 1980–81*	*Estimated 1981–82*	*Projected 1982–83*
Balance as of July 1	$1,320	$1,290	$2,984	$159
Receipts				
Federal allocations [a]	897	640	—	—
State allocations	625	1,700 [b]	325	325
Loan repayments [c]	263	431	600	750
Total funds available for grants and loans	$3,105	$4,061	$3,909	$1,234
Expenditures				
Grants	$923	$277	$75	—
Loans	892	800	3,675	1,075
Total Expenditures	$1,815	$1,077	$3,750	$1,075
Unencumbered funds as of June 30	$1,290	$2,984	$159	$159

[a] From the Economic Development Administration, pursuant to Section 304, Public Works and Economic Development Act of 1965.

[b] Includes $625,000 from the General Fund, as state match of federal funds and a one-time appropriation of $1,075,000 from the Highway Account of the State Transportation Fund to assist small businesses affected by construction of the Century Freeway in Los Angeles.

[c] Actual and projected revenues available for new grants and loans from repayment of amortized loans made under this program.

Legislative Oversight Needed for Grant and Loan Fund

We recommend that the $1,075,000 proposed in the budget for expenditures from the California Economic Development Grant and Loan Fund be appropriated in the Budget Bill (add Item 2200-101-922), in order to provide annual legislative review and control of these expenditures.

Currently, all funds deposited in the California Economic Development Grant and Loan Fund are continuously appropriated without regard to fiscal year, and remain available for economic development expenditures. Unlike most other state funds, they are not appropriated each year by the Legislature. As a result, the Legislature does not have an opportunity to participate in the specific determination of how these funds are to be used. Currently, that determination is made by the Department of Economic and Business Development.

To provide annual legislative review and control over these expenditures, we recommend that, beginning in 1982–83, the Legislature appropriate these funds annually in the Budget Bill.

The budget proposes an expenditure of $1,075,000 for new loans in 1982–83. Accordingly, we recommend that an Item 2200-101-922 be added to the 1982 Budget Bill, appropriating $1,075,000 from the California Economic Development Grant and Loan Fund.

General Fund Subsidy Should Be Eliminated

We recommend deletion of Item 2200-101-001, because the level of loan activity proposed in the budget can be achieved without an appropriation from the General Fund, for a savings of $325,000.

The budget proposes a $325,000 General Fund appropriation for the Section 304 grant and loan program in the budget year. This would provide for an expenditure level of $1,075,000.

Our analysis indicates that the department can achieve a $1,075,000 level of loan activity even without the proposed General Fund appropriation. The budget shows an unencumbered reserve of $159,000 in this fund as of June 30, 1983. At the time this analysis was prepared, the department acknowledged that it had no plans to expend the $159,000 in 1982–83. Given other pressing demands on the General Fund in the budget year, we see no reason to appropriate additional funds from this source when other funds with far greater restrictions on them will be held in reserve. Consequently, we recommend that the $159,000 be used in lieu of a corresponding amount from the General Fund to finance the proposed level of activity in 1982–83. This would offset the need for $159,000 of the $325,000 General Fund appropriation, but still would maintain the same level of loan activity proposed in the 1982–83 budget.

Furthermore, our analysis indicates that *additional* carry over balances from 1981–82 should be available in the budget year to support the proposed level of loan activity. In the past, the department has been unable to spend all of the funds available to it. As shown in Table 3, $3,105,000 was available for grants and loans in 1979–80, yet only $1,815,000 was spent. In 1980–81, the department had more money available ($4,061,000), yet spent only 59 percent of what it spent the previous year ($1,077,000).

In contrast, the budget estimates that the department will spend $3,750,000 of the $3,909,000 available in the current year—three and one-half times more than what it spent last year. In light of past experience, it is reasonable to assume that at least $166,000 of these funds (4 percent) will not be used in 1981–82 and thus will be available for expenditure in 1982–83. This, combined with the $159,000 in uncommitted funds identified in the budget, would be sufficient to support the level of loan activity proposed in the budget.

For these reasons, we recommend deletion of Item 2200-101-001, for a General Fund savings of $325,000.

Loan Guarantee Funds Should Be Identified in Budget Bill

We recommend adoption of Budget Bill language in Item 2200-001-001, requiring designation of the specified amount of General Fund appropriation proposed to be transferred to the Small Business Expansion Fund, in order to maintain the separate designation of this appropriation.

The budget proposes a General Fund appropriation of $3,024,000 to the Small Business Expansion Fund for the purpose of guaranteeing loans made by private lenders to small businesses under the small business development program. In the past, appropriations for this purpose were specifically identified in the Budget Act.

The 1982–83 Budget Bill, however, does not identify or schedule separately the amount proposed to be appropriated to the Small Business Expansion Fund. The proposed amount is included in Item 2200-001-101 within the $4,801,000 scheduled for support of the Office of Small Business Development.

If the use of these funds is not specifically designated, the department could allocate the funds between the operating budget of the Office of Small Business Development and the Small Business Expansion Fund, without further legislative review.

In order to provide for adequate legislative control over the use of these funds, we recommend that Budget Bill language in Item 2200-001-001 be adopted as follows:

"Provided that of the amount appropriated in Schedule (e) of this item for support of the Office of Small Business Development, $3,024,000 shall be for transfer to the Small Business Expansion Fund."

Loan Guarantee Funds Transferred

The loan guarantee program of the department provides for state guarantees of loans (up to 90 percent of their face value) made by private lenders to disadvantaged, small businesses through state-designated regional development corporations.

The guarantees are provided through the guarantee account of each regional corporation, which receives annual, continuous appropriations from the General Fund. The loans made by lenders through a regional corporation are encumbered against the funds in the guarantee account of that corporation. The law requires maintenance of a 100 percent reserve in the guarantee account for the guaranteed portion of the loan. These funds are available to pay off, at the lender's request, the guaranteed portion of the loan in case of default by the borrower. Guarantee accounts of the regional corporations used to be deposited with and maintained by the State Treasurer.

Chapter 875, Statutes of 1979 (AB 1656), provided for transfer of the loan guarantee accounts from the State Treasurer to lending institutions designated by the regional corporations and approved by the state. Regulations for the transfer were to be provided by the Office of Small Business Development (OSBD). The intent of this provision was to maximize investment earnings on these loan guarantee accounts, and also to encourage participation of banks in the program by depositing a portion of the loan guarantee accounts with them.

The regulations developed by the OSBD called for transfer of the loan guarantee accounts to separate trust accounts with a single bank, to be managed by that bank, in order to (1) maximize interest earnings, (2) centralize management and (3) minimize administrative costs. The regulations permitted each regional corporation to designate 30 percent of its trust account to be deposited in specified lending institutions to encourage their participation in the program. Also, the regulations authorized the use of 25 percent of the interest earned by the trust accounts to be used by the regional corporations for direct loans, administrative expenditures, or technical assistance, as provided by Chapter 875.

Following a competitive bidding process, Crocker Bank was selected in 1981 by the regional corporations and OSBD to manage, as a single trust, the loan guarantee accounts of the regional corporations. The budget reports the transfer of $13.4 million in loan guarantee funds from the State Treasurer to the Crocker Bank trust accounts in 1981–82, and proposes a transfer of $3.1 million in 1982–83.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—REAPPROPRIATION

Item 2200-490 from the General Fund — Budget p. BTH 23

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The 1981 Budget Act appropriated $7,604,173 from the General Fund (Item 220-001-001) for support of the Department of Economic and Business Development. This appropriation included $200,000 for first-year funding of a Commission on Industrial Innovation, to be created by executive order. Because the commission was not established until November 1981, the budget estimates that only $156,000 of the $200,000 will be spent during 1981–82. The remaining $44,000 is proposed to be reappropriated for support of the commission during 1982–83. The budget proposes to terminate the commission by the end of December 1982, six months prior to the original termination date.

Business, Transportation and Housing Agency

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 2240 from the General Fund and various funds — Budget p. BTH 30

Requested 1982–83	$32,607,000
Estimated 1981–82	35,184,000
Actual 1980–81	32,947,000 [a]
Requested decrease (excluding amount for salary increases) $2,577,000 (−7.3 percent)	
Total recommended reduction	$1,530,000
Recommendation pending	$652,000

[a] Excludes one-time expenditures of $105,549,000 (Ch. 1043/79)

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2240-001-001—Support		General	$6,326,000
2240-101-001—Local Assistance		General	7,845,000
Continuous Appropriation—Health and Safety Code, Section 50516		Housing Predevelopment Loan	1,200,000
Continuous Appropriation—Health and Safety Code, Section 50661		Housing Rehabilitation Loan	374,000
Continuous Appropriation—Health and Safety Code, Section 18060.2		Mobilehome Revolving	9,956,000
Continuous Appropriation—Health and Safety Code, Section 18502.5		Mobilehome Parks Revolving	1,400,000
Continuous Appropriation—Health and Safety Code, Section 18078.6		Mobilehome and Commercial Coach License Fee	1,484,000

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Continuous Appropriation—Health and Safety Code, Section 50531	Urban Housing Development Loan	1,650,000
Continuous Appropriation—Health and Safety Code, Section 50740	Rental Housing Construction	981,000
Continuous Appropriation—Health and Safety Code, Section 50778	Homeownership Assistance	201,000
Continuous Appropriation—Health and Safety Code, Section 50701	Land Purchase	390,000
Continuous Appropriation—Government Code, Section 16370	Special Deposit—Office of Migrant Services	800,000
	Federal Trust	(37,323,000)
		(37,323,000)
Total		$32,607,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Special Funds. Recommend that amounts to be expended from nine special funds supporting State Operations be appropriated in the Budget Bill to ensure legislative review and control of the department's administrative expenditures. 306
2. Comprehensive Planning Assistance Grants—Reduce reimbursements by $110,000. Recommend reduction of $110,000 in reimbursements because program has been terminated. 307
3. ***Manufactured Housing Titling and Registration Program—Reduce by $221,000. (Item 2240-001-648), Mobilehome Revolving Fund.*** Recommend reduction for data processing services to correct overbudgeting. 307
4. ***Facilities Operations—Rent. Reduce by $124,000 ($26,000 General Fund in Item 2240-001-001 and $98,000 in various special funds).*** Recommend reduction in funds for rent to correct overbudgeting. 308
5. ***Facilities Operations—Minor Capital Outlay. Reduce by $534,000 ($67,000 General Fund in Item 2240-001-001 and $467,000 in Various Special Funds.*** Recommend deletion of $534,000 requested for unidentified building alterations projects. 309
6. ***Facilities Operations—Reserve. Reduce by $435,000 (Item 2240-001-648, Mobilehome Revolving Fund).*** Recommend reduction to eliminate contingency reserves for possible additional space needs because request is premature. 309
7. Century Freeway Housing Replacement Program—Reduce reimbursements by $350,000. Recommend reduction of funds for consulting contracts because neither the amount of or need for these contracts has been justified. 310
8. ***California Housing Advisory Service—Reduce by $200,000. (Item 2240-001-001 General Fund).*** Recommend deletion of $200,000 for the California Housing Advisory Service because department has not submitted statutorily required program evaluation demonstrating effectiveness of this program. 310

9. ***Equipment—Reduce by $16,000 (Item 2240-001-001, General Fund).*** Recommend reduction of $7,000 in equipment and $9,000 in lease costs because excess equipment in storage should be used before new equipment is purchased. 311
10. Employee Housing Program. Recommend that department report on new fee schedule prior to budget hearings. 311
11. Manufactured Housing Titling and Registration Program. Recommend that department report on status of plans for staff reduction prior to budget hearings. 312
12. Electronic Data Processing. Recommend that the Legislature require 30-days advance notice be given to the fiscal committees and the Joint Legislative Budget Committee before any funds for the development and implementation of data processing system are expended. 312
13. Small Cities Community Development Block Grant Program. Withhold recommendation on the $326,000 General Fund match for administration (Item 2240-001-001) and the federal administration match of $326,000 (Item 2240-001-890) pending receipt of specific information on program implementation and workload justifications. 316
14. Deferred Payment Rehabilitation Loan Program. Recommend legislation: (1) shortening the allocation period for loan commitments and (2) restricting extensions of allocation periods. 320
15. Deferred Payment Rehabilitation Loan Program. Recommend supplemental language directing the department to re-evaluate program policy and to report its conclusions to the Legislature by October 1982. 321

GENERAL PROGRAM STATEMENT

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

(1) To protect the public from inadequate construction, manufacture, repair or rehabilitation of buildings, particularly dwelling units;
(2) To promote, provide and assist in the provision of safe, sanitary and affordable housing;
(3) To identify and define problems in housing, and devise appropriate solutions to these problems.

The department carries out these responsibilities through three programs: (1) Codes and Standards, (2) Community Affairs, and (3) Research and Policy Development.

The department has 554 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures totaling $73,634,000 from various funds, including federal funds and reimbursements, for support of the Department of Housing and Community Development (HCD) in 1982–83. This is $20,949,000, or approximately 39.8 percent, over estimated current year expenditures. Excluding federal funds and reimbursements, budgeted expenditures are $32,607,000, or 7.3 percent, less than estimated current year expenditures. This, however, makes no allowance for the cost of any salary or staff benefits increases that may be approved for the

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

budget year. Salary and staff benefit increases approved in the 1981 Budget Act resulted in an estimated increase of $407,000 to the department's budget in the current year.

Table 1 presents a summary of departmental expenditures, by program and funding source, together with the proposed changes, for the three-year period ending June 30, 1983. It shows that the proposed General Fund appropriations account for about 20 percent of the department's expenditures. The department's 12 special funds will support approximately 25 percent of HCD's 1982–83 budget. Over one-half of the HCD expenditures in the budget year will be federally funded.

The department anticipates receiving federal funds totaling $37 million in 1982–83. This is $24,069,000, or 182 percent, more than the amount of federal funds expected in the current year. The increase is due primarily to the proposal in the budget that the state assume responsibility for the Small Cities Block Grant Program. In the past, federal community development block grants have been provided by the Department of Housing and Urban Development directly to local governments, and have not appeared on the state's budget.

Table 1
Department of Housing and Community Development
Expenditures and Source of Funds
(in thousands)

Program Expenditures	*Actual 1980–81*	*Estimated 1981–82*	*Proposed 1982–83*	*Change (Amount)*	*Change (Percent)*
Codes and Standards Program	$7,889	$13,300	$15,190	$1,890	14.2
Community Affairs Program	139,261	37,771	56,833	19,062	50.5
Research and Policy Development Program	2,004	1,614	1,611	−3	—
Emergency Services Program	87	—	—	—	—
Administrtion	(2,255)	(2,415)	(2,465)	50	(2.0)
Total Expenditures	$147,251	$52,685	$73,634	$20,949	(39.8)
Source of Funds					
General Fund	$28,728	$12,860	$14,171	$3,034	23.6
Farmworker Housing Grant Program	16	70	—	−70	−100.0
Housing Predevelopment Loan Fund	676	1,657	1,200	−457	−27.6
Housing Rehabilitation Loan Fund	342	1,335	374	−961	−72.0
Mobilehome Revolving Fund	1,535	9,700	9,956	256	2.6
Mobilehome Parks Revolving Fund	—	1,365	1,400	35	2.6
Mobilehome and Commercial Coach License Fee Fund	—	1,453	1,484	31	2.1
Solar Energy Revolving Loan Fund	20	—	—	—	—
Urban Housing Development Loan Fund	161	1,484	1,650	166	11.2
Rental Housing Construction Fund	96,202	4,297	981	−3,316	−77.1
Homeownership Assistance Fund	8,671	553	201	−352	−63.6
Land Purchase Fund	886	410	390	−20	−4.9
Office of Migrant Services Fund	—	—	800	800	100
Energy and Resources Fund	610	—	—	—	—
Motor Vehicle Account, State Transportation Fund	642	—	—	—	—
Total State Funds	$138,489	$35,184	$32,607	−$2,577	−7.3
Federal Trust Fund	6,827	13,254	37,323	24,069	181.6
Reimbursements	3,928	4,247	3,704	−543	−12.8
Total Funds Available	$149,244	$52,685	$73,634	$20,949	39.8

Table 2 summarizes the significant changes in the department's proposed budget for 1982–83, including changes affecting the General Fund, special funds, federal funds, and reimbursements. This table indicates that during the budget year, increased expenditures are proposed from the General Fund ($1.3 million) and federal funds ($24.1 million), and reduced expenditures are expected from special funds ($3.8 million), and from reimbursements ($543,000). The net increase of $20.9 million is primarily the result of the $24 million increase in federal funds.

The General Fund changes proposed in the budget include the transfer of the Office of Migrant Services Program from the State Operations category of the budget to Local Assistance ($4.2 million) and the repayment of a $1.5 million General Fund loan made by (Ch 1149/80) for start-up costs associated with the Mobilehome Titling and Registration Program. The principal change proposed in special fund expenditures is the reduction in funds available under AB 333 housing programs ($5 million).

Table 2

Department of Housing and Community Development
Proposed 1982–83 Budget Changes
(in thousands)

	General Fund	*Special Funds*	*Federal Funds*	*Reimbursements*	*Total*
1981–82 Current Year, Revised	$12,860	$22,324	$13,254	$4,247	$52,685
1. Program Changes					
State Operations					
Small Cities CDBG administration			326		326
Rural Demonstration Program contract expiration			−180		−180
HUD Homeownership Program contract expiration			−103		−103
Housing Assistance (Aftercare) increase			36		36
Indian CFBG increase			15		15
OMS Transfer to local assistance	−4,200			−800	−5,000
Local Assistance					
Housing Assistance for Disabled (Ch 1154/79) ends	−250				−250
Seniors Shared-Housing Program (Ch 1135/81) ends	−50				−50
OMS Transfer to local assistance	4,200	800			5,000
Small Cities CDBG program			22,674		22,674
Housing assistance (Aftercare) increase			1,200		1,200
Indian CDBG increase			101		101
Reduction in AB 333 funds		−5,028			−5,028
2. Cost Changes					
Price Increase	317	287			604
Reimbursement changes				257	257
Loan Repayment (Ch 1149/80)	1,500				1,500
Personal Services adjustment	58	53			111
3. Special Adjustments					
2 percent current-year adjustment	208				208
Travel adjustment (Section 27.10)	116				116
5 percent budget-year adjustment	−544				−544
One-time OAL expenditure	−44				−44
1981–82 Proposed Program	$14,171	$18,436	$37,323	$3,704	$73,634

Reduction in Budget for State Operations

Pursuant to a directive from the Governor that certain General Fund agencies reduce their budgets by 5 percent, the department proposes reductions in its 1982–83 budget totaling $544,000. Table 3 summarizes how this reduction would be achieved by the department.

1982-83

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 3
Department of Housing and Community Development
Five Percent Budgetary Reductions

	Amount
Authorized positions	$62,000
· one position and related expenses	
· staff benefits	
· temporary positions and related expenses	
Salary savings	45,000
Operating expenses not related to reduced positions	227,000
State programs	210,000
· annual augmentation of Urban Housing Development Loan Fund	
Total reductions	$544,000

As indicated in Table 3, the department proposes to delete one authorized position as well as some temporary positions. In addition, the department proposes to reduce operating exnenses by cutting funding for travel and contractual services.

The primary program reduction proposed by the department is elimination of the annual General Fund subsidy to the Urban Housing Development Loan Fund. Our analysis indicates that this reduction will probably not result in any substantial disruption of that program. In 1982–83 the fund is expected to have available for expenditure $2,110,000 from loan repayments, interest, and prior year's balance. In addition, the 1982–83 budget includes an augmentation of $770,000 from the General Fund. With the additional funds, the 1982–83 program will be able to maintain the same level of loan activity that is anticipated in the current year with only a 2 percent reduction in the average loan amount.

Special Fund Expenditures Deleted from Budget Bill

We recommend that state operation amounts to be expended from special funds be appropriated in the Budget Bill to continue annual legislative oversight of the HCD's operating budget.

Table 4 lists nine special funds that finance various activities of the department. The table also shows the level of expenditures from each fund proposed for 1982–83 in the budget document.

The 1981 Budget Act appropriated $28,533,000 for support of HCD in 1981–82. This amount included $10,067,000 from the General Fund, $12,850,000 from various special funds, $717,000 from the Federal Trust Fund, and $4,899,000 in reimbursements.

For 1982–83, the administration is proposing that none of the special fund support expenditures ($13,995,000) be included in the Budget Bill. Were this policy to be adopted, only expenditures from the General Fund, the Federal Trust Fund, and reimbursements would be subject to approval by the Legislature as part of the annual budget process. Balances in the special fund would be made available to the department through various appropriations, and the use of these balances would not require further action on the part of the fiscal committees.

To assure annual legislative review and control over all expenditures of state funds for administration of the HCD, we recommend that the special funds listed in Table 4 be appropriated in the Budget Bill. (We note that some of the recommendations included in this analysis are contingent upon legislative approval of this recommendation.)

Table 4
Special Fund Support Expenditures Excluded from the Budget Bill

Fund Code	*Name of Fund*	*Recommended Support Appropriation*
245	Mobilehome Parks Revolving Fund	$1,400,000
451	Mobilehome and Commercial Coach License Fee Fund	1,484,000
635	Housing Predevelopment Loan Fund	171,000
648	Mobilehome Revolving Fund	9,956,000
925	Land Purchase Fund	33,000
929	Housing Rehabilitation Loan Fund	374,000
936	Homeownership Assistance Fund	201,000
938	Rental Housing Construction Fund	299,000
980	Urban Housing Development Loan Fund	77,000
	Totals, Special Funds	$13,995,000

Reduce Reimbursements to Reflect Termination of Federal Program

We recommend the reduction of $110,000 requested for the Research and Policy Development Program (reduce reimbursements by $110,000 in Item 2240-001-001) to reflect the termination of the federal Section 701 planning grant program.

The budget proposes the expenditure of $110,000 in reimbursements from the Office of Planning and Research (OPR). These reimbursements represent Section 701 Comprehensive Planning Assistance Grants provided by the U.S. Department of Housing and Urban Development. In the past, Section 701 grants have been made to OPR, and OPR has distributed the funds to various state and local agencies, including HCD. The HCD staff have used the funds to make grants to local entities to help finance comprehensive planning activities.

The U.S. Congress failed to make an appropriation for Section 701 grants in federal fiscal year 1982. As a result, the state does not anticipate receiving any funds under this program in the budget year. The department acknowledges that its proposed budget should be adjusted to reflect the 701 program's demise. Accordingly, we recommend that the budget for the Research and Policy Development Program be reduced by $110,000 and that a corresponding reduction be made in reimbursements (Item 2240-001-001).

Data Processing Services Overbudgeted

We recommend a reduction of $221,000 from the Mobilehome Revolving Fund (Item 2240-001-648) to correct overbudgeting for contracted data processing services.

Chapter 1149, Statutes of 1980 (AB 2915), transferred the responsibility for the titling and registration of manufactured housing (mobilehomes) from the Department of Motor Vehicles to HCD, effective July 1, 1981. The act transferred the authority to (1) charge and collect annual registration fees, (2) issue registration decals, and (3) administer the statutory provisions related to vehicle license fees for manufactured housing and commercial coaches.

The HCD Manufactured Housing Titling and Registration Program contracts with the Department of Motor Vehicles (DMV) for data processing services. The department estimates that it will spend approximately

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

$590,000 in the current year and a similar amount in the budget year for data processing service provided by DMV. The DMV reports, however, that it will receive $369,000 in the budget year for services provided to HCD's titling and registration program. Accordingly, we recommend a reduction of $221,000 in the amount budgeted from the Mobilehome Revolving Fund for data processing services, in order to reconcile this amount with the charges identified by DMV. We note that action on this recommendation is contingent on a decision by the Legislature to make this fund subject to appropriation in the Budget Bill, as we recommend.

Facilities Operations

The budget proposes $2,136,000 for facilities operations in 1982–83. This is $347,000, or 20 percent, more than estimated current year expenditures. Facilities operations include expenditures for rent, utilities, and special repairs and maintenance.

The department was unable to provide back-up information on the expenditures proposed for facilities operations in the budget year. Nor was it able to justify the specific amount budgeted. We understand that, rather than develop estimates on an item-by-item basis, HCD simply increased the 1981–82 base budget by 8.5 percent to provide for price and workload increases.

We have attempted to project the department's facilities operations requirements in the budget year, based on detailed information provided on 1981–82 expenditures by the department. Our estimates are shown in Table 5, and several of them are discussed below.

Table 5

Facilities Operation Budget for 1981–82 and 1982–83 (in thousands)

	1981–82	*Legislative Analyst's Estimate 1982–83*
Rent	$1,018	$1,105
Utilities	24	26
Space management services	125	136
Alterations	400	434
Reserve	222	435
Totals	$1,789	$2,136

Overbudgeting for Rent

We recommend a $124,000 reduction in facilities operations because rent is overbudgeted, for a savings of $26,000 to the General Fund in Item 2240-001-001 and $98,000 to various special funds.

As shown in Table 5, the department is requesting $1,105,000 for rent in 1982–83. According to the Space Management Division of the Department of General Services, the department is presently leasing approximately 106,000 square feet, at a cost of $957,387 in the current year. No major additions in rental space requirements are planned for the budget year. The HCD advises us that rents under two of its 20 leases will be increased in 1982–83. Adjusting the current year rental requirements for these two leases, we estimate that $981,000 will be required for rent in 1982–83. Consequently, we recommend a reduction in the department's facilities operations budget to correct for overbudgeting, for a savings of $124,000 ($26,000 General Fund in 2240-001-001 and $98,000 in other special funds). We note that action on this recommendation is contingent on a decision by the Legislature to make these special funds subject to appropriation in the Budget Bill, as we recommend.

Improper Budgeting for Minor Capital Outlay

We recommend deletion of $534,000 requested for alteration projects ($67,000 General Fund in Item 2240-001-001 and $467,000 in other special funds) because the proposed projects cannot be identified.

Table 5 shows that $434,000 is proposed for building alteration projects in 1982–83. In addition, we estimate that $100,000 is budgeted for space management charges in connection with these projects.

The department is unable to identify any specific projects that would be undertaken with these funds. The $534,000 is proposed solely as a contingency amount to accommodate any future needs that may be identified. Consequently, we have no basis on which to recommend approval of this request, and instead recommend that the $534,000 be deleted because no justification for the request has been presented. If the HCD can identify specific alteration projects that warrant funding, projects in excess of $10,000 can be resubmitted for funding through the normal minor capital outlay process.

We note that action on this recommendation is contingent on a decision by the Legislature to make these special funds subject to appropriation in the Budget Bill, as we recommend.

Premature Budgeting for Space

We recommend a $435,000 reduction in funds budgeted from the Mobilehome Revolving Fund (Item 2240-001-648) for facilities operations, because these funds have been budgeted prematurely.

The department has set aside $222,000 in the current year, to cover the anticipated costs of meeting additional space needs related to the Manufactured Housing Titling and Registration Program. This amount has been increased in the budget year to $435,000. The contingency funds would be available to finance space needed to accommodate a potential increase in data processing activity.

Our analysis indicates that this request is premature. Changes in HCD data processing activities depend on the outcome of a Feasibility Study Report (FSR) for the Titling and Registration Program. As of January 1982, no solicitation of bids for the FSR had been prepared. Furthermore, once the FSR is prepared, it must still be approved by HCD and the Department of Finance, and a second bidding process will be necessary for the selection of the vendors. Based on experience with similar data processing proposals, it is unlikely that space needs can be identified and new space obtained to meet those needs until the spring of 1983. This would allow HCD to identify its needs to the fiscal committees during the 1983–84 budget process, and thus provide the Legislature with a better basis for determining funding requirements.

In order to allow for legislative review and oversight before substantial funds are committed for new space, we recommend a reduction of $435,000 in the Mobilehome Revolving Fund (Item 2240-001-648) to eliminate contingency funds. We note that action on this recommendation is contingent on a decision by the Legislature to make the Mobilehome Revolving Fund subject to appropriation in the Budget Bill, as we recommend.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Need for Consultant Contracts Has Not Been Established

We recommend a reduction of $350,000 (reduce reimbursement in Item 2240-001-001) in funding for consulting contracts relating to the Century Freeway Housing Replacement Program because the department has not justified the amount requested or the need for the contracts.

The HCD budget includes $350,000 for consulting and professional services relating to the Century Freeway housing replacement project in Los Angeles. The department reports that the funds would be used to support cooperative agreements with the local jurisdictions regarding the siting of relocated housing units.

Our analysis indicates that some coordination will be required between the department and the local jurisdictions in establishing appropriate sites for relocated housing. The department, however, has not provided information justifying the need for the contracts or the amount requested. Furthermore, no explanation has been provided as to why the existing HCD staff assigned to the Century Freeway project cannot perform these activities to be carried out under the proposed consulting contracts.

In the absence of specific information justifying the need for and amount of the contracts, we have no analytical basis for recommending approval of the request. Accordingly, we recommend that the Legislature delete $350,000 requested for these consulting contracts.

Legislative action on this item will require conforming action on the Caltrans budget (Item 2660-001-042).

Statutorily Required Evaluation Report Overdue

We recommend deletion of $200,000 from the General Fund (Item 2240-101-001) for support of the California Housing Advisory Service because the department has not submitted the statutorily required program evaluation demonstrating effectiveness of this program.

The California Housing Advisory Service (CHAS) was established by Ch 1354/78 for the purpose of aiding self-help rehabilitation and owner-building activities through the provision of technical assistance and information. The CHAS is authorized to provide annual grants ranging from $3,000 to $50,000 to local nonprofit community organizations and public agencies to encourage owner-building and self-help rehabilitation through workshops, on-site instruction, design assistance, and local clearinghouses.

In 1981, the program distributed $435,000 in grants to 19 local agencies. The program requests $200,000 for these grants in 1982–83.

Sections 50690 through 50699 of the Health and Safety Code require the department to submit a program evaluation report to the Governor and the Legislature prior to January 1, 1982, containing recommendations for the improvement, continuation, or termination of CHAS. This requirement was intended to assure that the Legislature would have available comprehensive information on the usefulness and effectiveness of the program. The required report has not been submitted by the time this *Analysis* was written.

In the absence of information substantiating the need for effectiveness of the CHAS, we are unable to recommend continuation of the program. We, therefore, recommend deletion of support for the California Housing Advisory Service, for a General Fund savings of $200,000 in Item 2240-101-001. Should the department submit the required evaluation prior to budget hearings, we will review it and report our findings to the fiscal committees, along with any modifications to our recommendations that may be warranted.

Excess Equipment in Basement

We recommend a reduction of $16,000 from the General Fund (Item 2240-001-001) because the department has surplus office equipment and does not require funds to purchase new office equipment.

The department's equipment schedule indicates it will spend $7,000 for new office furniture in the budget year.

The department currently is leasing the basement of its Sacramento headquarters (Plaza Building), at an annual cost of $9,000, to store its excess and surplus equipment. The staff was unable to provide any inventory or estimated value of the stored equipment. Our inspection of the items indicates that the surplus equipment is mostly office furniture.

We believe that this equipment should be used before new furniture is purchased. If, on the other hand, the stored equipment does not meet department needs, it should be transferred to other state agencies or sold, and the lease for the storage space terminated.

Accordingly we recommend a reduction of $7,000 in equipment and $9,000 in lease costs for a savings of $16,000 to the General Fund (Item 2240-001-001).

Failure to Adjust Fees per Legislative Action

We recommend that prior to budget hearings, the department report on: (1) Why the department failed to revise the fee schedule in accordance with the legislative action in the 1981–82 budget, (2) what action the department will take to adjust for the resulting reduction in fee support for the program in 1981–82, and (3) when the revised fee schedule will be prepared and implemented.

The Employee Housing Program in the Division of Codes and Standards is responsible for enforcing minimum sanitary and safety standards in employee housing units and labor camps in the state that are occupied by five or more employees. Employee housing regulations require operators of these units or camps to obtain annual operating permits and to comply with prescribed standards. Currently, 900 camps are registered under the state enforcement program. The Labor Code permits local agencies to assume local enforcement of the statewide sanitary and safety regulations. Where a local agency has opted to enforce the standards, the department must annually monitor and evaluate the local enforcement effort.

The annual fees collected by the state program are deposited in the General Fund to offset the cost to the General Fund of administering this program.

The Legislature, in the 1981 Budget Act, revised the funding for the Employee Housing Program by providing for increased fees to support the program. The increase in fee revenues—$107,000—was offset by a corresponding reduction in General Fund support.

As of January 1982, the department had neither adopted nor proposed a revised fee schedule for this program.

The budget estimates that the Employee Housing Program will collect approximately $353,000 in fees during the current year. This is $103,000 more than was collected in fees by the program in 1980–81. This estimate is based on the assumption that the revised fee schedule will be adopted and take effect by January 1982. Because the revised schedule has not been

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

adopted, the revenue available to support the program in 1981–82 will be less than $353,000, and the department will either have to reduce the size of the program or divert resources from other legislatively-approved programs to the Employee Housing Program in order to avoid a deficit in the current year operations.

To permit the Legislature to evaluate the department's performance in complying with the provisions of the Budget Act of 1981, we recommend that prior to budget hearings the department report on: (1) why it has failed to revise the fee schedule in accordance with the action taken by the Legislature in enacting the 1981–82 budget, (2) what action the department will take to adjust for any shortfall in funds for the program below the level anticipated in the budget, and (3) when the revised fee schedule will be implemented.

Request for Staff Reductions Report

We recommend that prior to budget hearings the department report on the status of its plans to reduce staff positions in the Mobilehome Titling and Registration Program.

Chapter 1149, Statutes of 1980, transferred the responsibility for titling and registration of mobilehomes from the Department of Motor Vehicles to the Department of Housing and Community Development. The 1981–82 budget proposed the addition of 167.5 positions to the department for administration of the program. During hearings on the 1981–82 budget, the department reported that it planned to reduce the 167.5 new positions as automation increased processing under the program.

The department's original plan was to eliminate 15 staff positions in 1981–82 and 72 additional positions before January 1984, as a result of increased productivity.

The 1982–83 budget includes $1.2 million for increased data processing for the titling and registration program. Given the large commitment of funds, we believe the department should be able to identify for the Legislature the reduced staffing needs resulting from the expanded automated systems. We recommend, therefore, that prior to budget hearings, the department report on the status of its plans to reduce staffing levels in the titling and registration program. Its report should include: (a) an updated timetable for staffing reductions, (b) an identification of the specific positions to be eliminated, and (c) the cost savings expected from the reduction of staff and increased automation.

Report on EDP Plans

We recommend that the fiscal committees and the Joint Legislative Budget Committee be given 30-days' advance notice by the Director of Finance before any funds appropriated for the development and implementation of a data processing system for the titling and registration program are spent.

The budget proposes the expenditure of $1.2 million for the development and operation of an electronic data processing system (EDP) to support the Manufactured Housing Titling and Registration and the Occupational Licensing programs. In contrast, estimated current year expenditures for data processing are only $26,000. The $1.2 million request reflects HCD's estimate of system design, implementation, and maintenance costs in 1982–83, based on "Needs Assessment" performed by the California

Information Technology Advisory Board (CITAB) in December 1981.

Section 4 of the annual Budget Act and Section 4921 of the State Administrative Manual (SAM) require all departments planning new EDP systems to prepare a Feasibility Study Report (FSR) prior to any expenditure of funds. All FSR's must be submitted to the Department of Finance for approval.

The department plans to contract for an FSR covering the titling and registration program in the current year. The HCD budget for 1981–82 includes $100,000 for this purpose. It is unclear, however, whether this FSR will be completed prior to July 1982 because the department had not started either the FSR specifications or bidding process as of January 1982. The experience of other agencies indicates that such processes take at least 4–6 months to complete.

Historically, departments that have not had extensive EDP experience have encountered significant problems in preparing the FSR and in implementing new EDP systems. Given the magnitude of the proposed project and the potential amount of the expenditure, we believe the Legislature should be given information that will allow it to closely monitor the project. We, therefore, recommend that prior to authorizing the expenditure of the $1.2 million for development and implementation of an EDP system to service the titling and registration program and related programs, the Department of Finance submit a 30 days' advance written notice to the fiscal committees and the Joint Legislative Budget Committee. This notification should be accompanied by the approved FSR and an estimate of the anticipated project costs. We recommend the following control language be added to the Budget Bill to achieve this purpose:

> "Provided, that none of the funds appropriated to the Department of Housing and Community Development for the development and operation of a data processing project shall be expended sooner than 30 days after the Director of Finance has submitted in writing to the Assembly Committee on Ways and Means, the Senate Committee on Finance, and the Joint Legislative Budget Committee, notification of her intent to authorize such expenditures, a copy of the approved Feasibility Study Report and a summary of expected project costs."

SMALL CITIES COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The federal Omnibus Budget Reconciliation Act of 1981 included a provision that allows states to assume responsibility for administering the Small Cities portion of the Community Development Block Grant Program (CDBG). This program, which is administered at the federal level by the Department of Housing and Urban Development (HUD), provides funds on a competitive basis to cities with populations under 50,000 and to counties with populations under 200,000 for economic and community development activities.

The budget proposes that the Department of Housing and Community Development take over administration of the program from HUD in the budget year. The department's budget includes $23 million in Small Cities CDBG funds, $22.7 million of which will be distributed to the local eligible communities and $326,000 of which will be set aside to partially fund the state's costs of administering the program.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Federal Block Grant Requirements

Under the federal legislation, a state *may*, upon demonstrating compliance with certain federal requirements, begin administering the Small Cities program within the state in 1982. States, however, are not required to assume responsibility for this program in 1982 or at any point in the future. If a state declines to take over administration of the program, the regional HUD office will continue to manage the program as it has in the past. Selected federal provisions and requirements that apply to the Small Cities portion of the CDBG are as follows:

Allocation formula: California communities have historically received 2.5 percent of the total amount of Small Cities CDBG money available nationwide. The state is expected to receive similar share of available funds in FFY 83.

Matching requirements: The state must certify that it will provide from state resources a 10 percent match for the state's Small Cities allocation. In addition, the state must provide matching funds on a dollar-for-dollar basis for administrative costs (see Administrative expenditures below).

Restriction on the use of funds: Generally, grants may be used in the eligible communities only to fund community development activities permitted in the enabling federal statutes. Funded activities must either: (a) benefit low and moderate income individuals; (b) aid in the prevention or elimination of slums and blight; or (c) meet a particular urgent need in the targeted communities.

Administrative expenditures: States may use up to 2 percent of the federal funds to cover administrative expenses on the condition that state funds are provided on a matching dollar-for-dollar or in-kind basis. Any administrative costs above this level must be paid 100 percent by the state.

Other provisions: States must certify that the state program: (a) will include a planning component for community development; (b) will include provisions for technical assistance to local jurisdictions; (c) is designed based on consultations with local elected officials; and (d) complies with applicable federal law related to civil rights and environment protection.

Appropriations Authorized

Table 6 shows both the national appropriations and the allocations made to California communities under the Small Cities CDBG. As the table indicates, the level of program funds nationwide is expected to decline in FFY 83, based on authorization levels in the Omnibus Reconciliation Act.

Table 6
Small Cities Community Development Block Grant Program
Authorized Appropriations and Allocations (in millions)

	Actual FFY 81	*Estimated FFY 82*	*Estimated FFY 83*
National Small Cities CDBG Authorization	$934	$1,100	$920
Allocation to California communities	26	25	23

Impact on California

The state may exercise its option to assume responsibility for administering the Small Cities program, beginning in 1982–83. We believe that the Legislature should consider the following in reaching a decision to accept or reject the Governor's recommendation that the state assume responsibility for the program in the budget year.

Annual option: The legislature's decision to assume or to forego state administration of the program in FFY 83 is *not* binding on the state's option in FFY 84, or any future year, so long as adequate advance notice of the state's choice is given.

Effect of local assistance: Approximately 45 local California communities are currently receiving funds under the federally-administered Small Cities CDBG. The total number of eligible communities in the state is estimated at 180. No changes in eligibility will occur if the state assumes administration of the program, since federal statutes remain applicable. The number of local jurisdictions, however, that *receive* funding may increase or decrease, depending on the allocation formula adopted for the Small Cities CDBG program.

State allocation formula: As of January 1982, no specific plan had been formulated for the allocation of the CDBG funds included in the Governor's 1982–83 Budget. The department anticipates that a formula will be developed sometime in the first quarter of 1982.

Advantages of taking over administration of the program:

1. State administration of the program would allow enhanced coordination between the federal program and existing state community and economic development programs
2. State administration insures that the maximum amount will be available for California communities
3. The HUD's regional office staff is being reduced, which may mean additional administrative delays in disbursing grants to eligible communities; state program administration could spare local entities from such delays.

Disadvantages related to taking over program administration of the program:

1. The state would be required to provide an additional $326,000 in state funds annually to match federal funds.
2. The Reagan Administration may propose major reductions in the CDBG programs, thus disrupting state administration of the program.

State administration. The budget designates the Department of Housing and Community Development as the primary state agency responsible for administration of the Small Cities CDBG. The CDBG federal regulations require the Governor to advise the regional HUD office of the state's intent to assume the program by July 1982. As proposed, HCD would take over the program in October 1982, the start of FFY 83.

Table 7 summarizes the department's plans for administration of the Small Cities CDBG in 1982–83. The state administrative match of $326,000 consists of (a) $215,000 to support five HCD staff positions and (b) $110,000 in state in-kind contributions. The five existing staff positions will be diverted from current assignments in the Research and Policy Division (housing element review function) and the Community Affairs Division (administrative function).

A total of $652,000 (one-half federal funds and one-half state funds) is

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

budgeted for HCD to administer the Small Cities CDBG program. As indicated in Table 7, the department proposes 15 positions to manage the program in 1982–83.

The department advises us that the 10 percent match out of state resources that is required for California to take over the program in 1982–83 will be more than satisfied by existing community development programs. These programs include the Predevelopment, Housing Rehabilitation, and Rural Demonstration programs.

Table 7
Small Cities Community Development Block Grant Program
1982–83

Federal appropriation (estimated)	$23,000,000
State contributions (administrative match)	326,000
Total program	$23,326,000
Amount available for grants	22,674,000
HCD administration set-aside	(652,000)
Personnel	15

Justification for Administrative Costs Pending

We withhold recommendation on $652,000 ($326,000 in Item 2240-001-001 and $326,000 in Item 2240-001-890) proposed to cover the state's administrative costs for the Small Cities Community Development Block Grant Program, pending receipt of specific information on program implementation and workload justification.

At the time this analysis was prepared, the department had not submitted any budget change proposals (BCPs) for the 10 additional positions or the 5 redirected positions. Further, no workload estimates or other materials justifying the amount requested for administration were available from either HCD or the Department of Finance.

Without such supportive documentation, we have no analytical basis on which to recommend approval of the amount proposed to administer the Small Cities CDBG program. The department has indicated that it will be able to provide more detail on workload justification and program organization prior to the legislative hearings on the department's budget.

Therefore, we withhold recommendation on $652,000 which includes $326,000 in Item 2240-001-001 proposed as the state's required contribution and $326,000 in Item 2240-001-890 proposed for the federal administrative match for the administration of the Small Cities Community Development Block Grant Program, pending receipt of specific workload justification.

THE DEFERRED PAYMENT REHABILITATION LOAN PROGRAM

The Deferred Payment Rehabilitation Loan Program (DPRLP) was established in the Department of Housing and Community Development pursuant to Chapter 884, Statutes of 1978 (SB 966), to provide low interest loans "for financing all or a portion of the cost of rehabilitating existing housing to meet rehabilitation standards."

Under this program, loan funds are provided to local entities operating federally-funded programs that provide housing rehabilitation assistance for low and moderate income households. Ch 884/78 appropriated $2 million from the General Fund to the Housing Rehabilitation Loan Fund for the initial support of the program. Chapter 1043, Statutes of 1979 (AB 333) appropriated an additional $10 million for expansion of the original program.

Under regulations promulgated by the Department of Housing and Community Development, the program is divided into three components: General, Multifamily, and Residential Hotels. The General program, which is funded with $2 million in SB 966 funds and $5 million in AB 333 funds, provides loans for rehabilitation activities related to single family units and rental units.

The Multifamily section was provided $2 million for the rehabilitation of rental housing developments which contain a minimum of five units. The Residential Hotels component provides $1 million in low-interest loans for the rehabilitation of residential hotels meeting specified standards.

Under the AB 333 portion of the DPRLP, the department was directed to establish a Demonstration Housing Rehabilitation Program for the Elderly and Handicapped. The demonstration program was allocated $2 million out of the $10 million appropriation to make deferred payment loans for the acquisition and/or rehabilitation of rental housing for elderly or handicapped households having low or very low income. As of November 1981, the program had made funding commitments with 10 local agencies totaling $2 million.

Using funds provided under the program, local agencies provide deferred payment rehabilitation loans to eligible households, at an interest rate of 3 percent per annum on the original unpaid balance. Generally, the maximum loan available is $10,000 per unit, or $20,000 per unit if room additions are to be financed. Repayment requirements differ, depending on the borrower's status and on the eligibility of the subsequent purchaser of the assisted unit.

Table 8 outlines the program's repayment policies. A loan made to an elderly homeowner for rehabilitation of the unit in which he or she resides does not come due for full repayment until the rehabilitated property is sold or otherwise transferred by the borrower. In contrast, all other DPRLP loans to owner-occupants have a term of five years, and are due in full if the property is transferred before the five-year period is up. The nonelderly borrower may be granted an unlimited number of five-year extensions so long as he demonstrates that refinancing of the DPRLP loan is not affordable with his net adjusted income. Program regulations provide that refinancing is affordable if the borrower's total shelter expenditures do not exceed 25 percent of his net income.

As indicated in Table 8, DPRLP loans to owners of eligible rental units are also due in full after five years or upon transfer of the assisted units. These loans are renewable for a maximum of 30 years if the local entity concludes that low income residents of the complex will benefit from the extension.

Loans to owner-occupants under DPRLP are assumable by a subsequent purchaser of the rehabilitated unit if the purchaser has low or moderate income. Although all DPRLP loans may be repaid prior to the due date, no incremental repayments are permitted.

Table 8
Deferred Payment Rehabilitation Loan Program Repayment Requirements

Borrower	*Tenant*	*Term of Loan*	*Extensions*	*Assumable Loan*	*Advance Repayment*
Owner-Occupant of Unit	Low/moderate income elderly	Payable upon transfer of property	N/A	Yes, if subsequent purchaser is eligible low/moderate income	Permitted (no incremental) payments
	Low/moderate income nonelderly	5 years or upon transfer of property	Unlimited, if borrower shows refinancing is unaffordable	Yes, if purchaser is eligible low/moderate income	Permitted (no incremental) payments
Rental Unit Owner	Rental unit tenants must be eligible low/moderate income	5 years or upon transfer	Maximum of 3 extensions (20 years) if low/moderate income tenants continue to benefit	If approved by department	Permitted (no incremental) payments

Generally, the amounts of the loans may not exceed the actual costs of meeting rehabilitation standards. Under program regulations, "rehabilitation standards" are defined as the applicable state or local building or housing standards adopted by the local government pursuant to the State Housing Law under the Health and Safety Code. Most loans are leveraged with other housing rehabilitation funds obtained by local entities from other federal, state, local, or private sources. Leveraged funds include Community Development Block Grants, Marks-Foran Residential Rehabilitation loans, CHFA Concentrated Rehabilitation Area loans, CHFA areawide systematic code enforcement program funds, and FmHA funds.

Table 9 summarizes the total lending activity under each component of the Deferred Payment program. The table shows that, as of December 1981, loan commitments had reached approximately $7.1 million under the General program, $2.2 million under the Multi-family program, and $1.1 million under the Residential Hotels program. In addition, the table indicates that approximately $171,000 in administrative grants have been awarded. Under AB 333, the department may use DPRLP funds for administrative grants to local public and nonprofit agencies that are intended to assist the recipient in the operation of local housing rehabilitation programs. The DPRLP regulations limit these grants to local entities operating in rural areas. Grants may not exceed 15 percent of the total DPRLP loan commitment awarded.

Table 9

Financial Status
Deferred Payment Rehabilitation Loan Program
December 1981

	SB 966			*AB 333*		
Program	*Committed*	*Funded*	*Percent*	*Committed*	*Funded*	*Percent*
General	$2,160,107	$1,456,020	67.4%	$4,984,350	$956,133	19.1%
Multi-Family				2,198,500	20,000	0.1
Hotel				1,100,000	46,165	4.1
Administrative Grants	4,500 [a]			166,858	46,707	28.0
	$2,164,607	$1,456,020	67.4%	$8,449,708	$1,069,005	12.6%

[a] Committed in 1981 out of disencumbered SB 966 funds.

To date, 150 loan commitments and 15 administrative grants have been awarded to 81 local agencies. Table 9 shows that, as of December 1981, approximately $1.45 million, or 67 percent of the total funds committed under SB 966 had been released to participating local agencies for HCD-approved rehabilitation loans. Approximately $1.07 million, or 13 percent of the funds appropriated by AB 333 for loans and administrative grants, has been disbursed by the department to local agencies.

Concentration of Funding Distribution

Table 10 summarizes the funding commitment and disbursement activity through December 1981. Our analysis of program operations to date indicates that awards have tended to go to a limited number of local agencies. One-fifth of the funded agencies received commitments amounting to 37 percent of the total available DPRLP funds. Nearly one-half of the funded local agencies received multiple funding commitments. Most notably, the cities of Anaheim, San Pablo, and Vallejo collectively were awarded 16 commitments amounting to approximately $1.2 million or 11 percent of the total DPRLP funds available.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Twenty percent of the funds under both DPRLP and the Demonstration Housing Rehabilitation Project for the Elderly and Handicapped have been committed to rural entities in accordance with statutory requirements.

Table 10
Deferred Payment Rehabilitation Loan Program
Funding and Disbursements Summary
December 1981

Source	*Loan Commitments*	*Funds Disbursed*	*Percent Disbursed*	*Administrative Grant Commitments*	*Grants Disbursed*	*Percent Disbursed*
SB 966 funds	$2,160,107	$1,456,020	(67%)	$4,500	—	—
AB 333 funds	8,282,850	1,022,298	(12)	166,858	$46,707	(27%)
Totals	$10,442,957	$2,478,318	(23)	$171,358	$46,707	(27%)

Disbursement Activity

We recommend legislation be enacted (1) shortening the 12-month period during which a local agency with a loan commitment must allocate its awarded funds to local rehabilitation projects, and (2) restricting extensions of the original collection period to those agencies having already allotted a substantial portion of their committed funds and demonstrating an unforeseeable delay in further disbursement of funds.

Local agencies must allocate their committed funds to specific HCD-approved rehabilitation projects within one year after the effective date of the DPRLP funding contract. An extension of 12 months may be granted. As of December 1981, several local entities had not fully allocated the SB 966 funds committed to them in 1979 and 1980. Overall, agencies with SB 966 funding commitments (awarded in 1979) have used only 67 percent of their committed funds. The City of Oakland received a second DPRLP funding commitment of $75,000 in 1981 before having expended any of the $100,000 previously committed to it.

Agencies receiving AB 333 funds show similar delays. By December 1981, these agencies had allocated only 12 percent of the funds originally committed in January and June of 1981.

It is, of course, possible for unforeseeable events to cause some delay in the allocation of funds by the local agencies to specific rehabilitation projects. Nevertheless, the slow rate at which funds are being disbursed suggest either inadequate local management of committed funds, or excessive delay in the HCD loan approval process.

According to program staff, the loan review process, takes an average of 38 working days, or 7.5 weeks from the date HCD receives a proposed loan application to the date that funds are released by the program to the local agency.

The turnaround time associated with DPRLP loan reviews is generally comparable with the review and processing times associated with other HCD loan and grant programs. No program-specific excessive delays in DPRLP reviews appear to be caused by current administrative and accounting practices.

Delayed disbursement and utilization of the committed funds may also result from poor local planning, or delays in identifying specific projects for the requested rehabilitation loans. Because unnecessary delays in utilizing rehabilitation assistance funds ties up state funds that are needed and could be used elsewhere in this or other programs, we recommend that legislation be enacted (1) shortening the period during which a local agency with a loan commitment must allocate its awarded funds to local rehabilitation projects, and (2) restricting extensions of the original allocation period to only those agencies that have allotted a substantial portion of their committed funds and have demonstrated an unforeseeable delay in further disbursement of funds.

Based on current patterns, we estimate that the recapture of funds not utilized within six months from the date of the commitment increase by $4 million the amount available to the Housing Rehabilitation Loan Fund for new commitment by the last quarter of 1982. These funds could be made available for recommitment to alternate rehabilitation activities.

Lack of Adequate Controls Over Rehabilitation Projects

We recommend adoption of supplemental report language directing the department to re-evaluate its policy of financing projects that include general property improvements and report to the Legislature by October 1982 on its conclusions. The report should include, but not be limited to, a discussion of implemented program changes regarding funding commitments to local agencies and the status and amount of any disencumbered funds resulting from amendments to program requirements.

According to program regulations, "rehabilitation standards" include provisions of state and local building standards adopted by local governments pursuant to the State Housing Law (Section 17910 of the Health and Safety Code *et seq.*). Local agencies receiving funding commitments must agree to lend DPRLP funds solely to finance repairs and improvements to substandard structures in order to comply with rehabilitation standards. These standards primarily consist of the Uniform Building Code (UBC) and the Uniform Housing Code (UHC). No general property improvements (GPI) may be financed with DPRLP loans. However, some GPI items may be included in DPRLP assisted rehabilitation work for a particular housing unit as long as the non-code-related work is financed with the leveraged rehabilitation funds and not with the DPRLP loan.

The program staff relies on the local agencies to segregate GPI items from permissible rehabilitation activities in the preparation of individual loan applications submitted for HCD approval. There is no rehabilitation inspector on the staff to review the proposed rehabilitation work for compliance with the program's ban on GPI-related financing. Although staff members are able to identify some questionable rehabilitation work, there continues to be problems in insuring that DPRLP funds are used solely for eligible rehabilitation work. For example, one project receiving assistance from several programs including DPRLP involved the use of rehabilitation loan funds for a "hot tub."

One local official indicated that the scope of permissible rehabilitation activities using Farmers' Home Administration funds (which are often leveraged with DPRLP funds by localities in rural areas) varies from one FmHA loan officer to the next.

Based on our analysis, we conclude that:

1. The extent to which GPI items are included in local housing rehabilitation programs varies significantly. Housing rehabilitation work undertaken at the local level ranges from strict UBC and HBC-related enforcement to more liberal local rehabilitation standards that permit certain GPI items to be included as part of the rehabilitation work.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

2. The rehabilitation assistance provided by the program may not be going to those projects that are most in need of state aid to the extent a local rehabilitation program possesses sufficient non-DPRLP rehabilitation funds to include financing for items such as "hot tubs," it would seem that the agency has a less critical need for DPRLP funds, since the non-DPRLP funds might have otherwise been used to finance more basic UBC and HBC-related items.

Program staff respond that since the primary thrust of the DPRLP is to provide supplementary funds that local agencies may combine with alternate rehabilitation funds, the assisted rehabilitation projects will invariably differ in their scope, however, the program does not target its lending activity on the most critical areas in need of housing rehabilitation financing, we believe improvements should be made to focus assistance on the most needy households in the state.

Specifically, we believe that to the maximum extent feasible, the DPRLP staff should restrict the use of deferred payment loans made by local agencies to individual rehabilitation projects that are limited to code-related repairs or improvements and to the prevention of overcrowding, in accordance with legislative mandates. Funding commitments to local entities that include GPI-related items in their rehabilitation loans should be reduced in order to make funds available for repairs and improvements that are code-related or directed at preventing overcrowding.

We recommend adoption of supplemental report language directing the department to re-evaluate its policy of financing projects that include general property improvements and report to the Legislature by October 1982 on its conclusions.

The department's report should include, but not be limited to (1) a description of any changes in program operations or regulations initiated to eliminate DPRLP funding of local rehabilitation programs that provide financing for repairs and improvements not directly related to code enforcement or the prevention of overcrowding, and (2) the status and amount of any disencumbered funds resulting from the amendment of program requirements.

Business, Transportation and Housing Agency

CALIFORNIA HOUSING FINANCE AGENCY

Item 2260 from the California Housing Finance Fund — Budget p. BTH 45

Requested 1982–83	($6,150,000)
Estimated 1981–82	(5,895,000) [a]
Actual 1980–81	(4,900,000)
Requested increase (excluding amount for salary increases) $255,000 (+4.3 percent)	
Total recommended reduction	$153,000

[a] Excludes one-time loan repayment of $650,000.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Support Budget. Recommend that Item 2260-001-501 be added to the Budget Bill to appropriate the annual support budget for the agency from the Housing Finance Fund.	324
2. ***Electronic Data Processing—Reduce Item 2260-001-501 by $100,000.*** Recommend deletion of funds for implementation of new system, pending review and approval of plans and feasibility study.	326
3. ***Personal Services—Reduce Item 2260-001-501 by $39,000.*** Recommend deletion of funds for additional staff that have not been justified.	327
4. ***Consulting and Professional Services—Interdepartmental—Reduce Item 2260-001-501 by $14,000.*** Recommend reduction in funding for legal services to eliminate overbudgeting.	327
5. Annual Report. Recommend that Executive Director comment on delay in issuance of 1980–81 report and on measures taken to insure timely preparation of future reports.	328

GENERAL PROGRAM STATEMENT

The California Housing Finance Agency (CHFA) provides financing for the development and rehabilitation of housing for the state's low and moderate income residents. Funding for this purpose is derived from the sale of tax-exempt revenue bonds and notes, proceeds from which are used to (1) make direct loans to developers of multiple-unit housing or (2) provide loans and insurance through private lenders to low and moderate income households for the purchase and/or rehabilitation of homes in designated areas. Bond proceeds are deposited in the California Housing Finance Fund, which is continuously appropriated to the agency by Section 51000 of the Health and Safety Code.

The agency's direct operating expenses are covered by a combination of service fees and a portion of the interest charges on loans. The support budget is not subject to Budget Act appropriation. The agency is governed by an 11-member board of directors which oversees the support budget, bond sales, and lending activity.

Because the agency's budget has not been included in the Budget Bill, the Legislature has not had an opportunity to review and approve expenditures made in support of agency operations, as part of the annual budget process.

The agency has 98 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

Section 50913 of the Health and Safety Code requires CHFA to submit a preliminary budget on or before December 1 for the ensuing fiscal year to the Business and Transportation Agency, the Director of Finance, and the Joint Legislative Budget Committee. The preliminary budget for 1982–83 proposes an expenditure of $6,150,000 from the California Housing Finance Fund. This is $395,000 less than estimated current-year expenditures. The apparent decline in expenditures, however, is misleading. Current-year expenditures reflect the repayment of an interest-free $650,000 General Fund loan. After adjusting for the one-time loan repayment, the 1982–83 budget calls for an increase in ongoing operating costs of $255,000,

CALIFORNIA HOUSING FINANCE AGENCY—Continued

or 4 percent, over estimated current-year expenditures. This will increase by the amount of any salary or staff benefit increases which may be approved for 1982–83.

The increase reflects, in part: (1) the addition of two accounting technicians (approximately $39,000); and (2) the implementation of an agency-wide management information system ($100,000). Table 1 summarizes the agency's operating budget.

Table 1
California Housing Finance Agency
Support Budget
(in thousands)

Expenditure	*Actual 1980–81*	*Estimated 1981–82*	*Proposed 1982–83*
Personal Services			
Personnel Salaries	$2,169	$2,564	$2,656
Benefits	594	769	796
Subtotals	$2,763	$3,333	$3,452
Authorized Personnel	85.3	98	100
Operating Expenses and Equipment			
State Administrative Charges	322	229	219
Inter-Agency Contract Services	—	48	42
Consulting Services			
General and Audit	58	100	93
Financial and Legal	92	140	193
Cost of Bond and Note Issuance	254	300	264
General Supplies and Expenses	143	153	163
Electronic Data Processing	81	275	262
Travel	249	245	270
Communications	143	157	173
Facilities Operations	252	280	277
Equipment	26	55	57
Repayment of General Fund Advance	—	650	—
Earthquake Insurance	461	500	600
Housing Bond Credit Committee	56	80	85
Subtotals	$2,137	$3,212	$2,698
Totals	$4,900	$6,545	$6,150

History of Inadequate Fiscal Control

We recommend that funds needed to support the California Housing Finance Agency be appropriated annually from the California Housing Finance Fund, by adding Item 2260-001-501 to the Budget Bill. We further recommend the adoption of Budget Bill language requiring expenditures associated with issuing bonds and notes to be made in accordance with provisions of the Health and Safety Code, beginning with Section 51000.

Section 51000 of the Health and Safety Code exempts the Housing Finance Agency from the normal budgetary review and approval process administered by the Department of Finance and the Legislature. This arrangement was originally intended to insulate financing and loan decisions made by the staff from political pressures.

In order to provide some state review of CHFA's revenues and expenditures, the agency is required to submit annually by December 1, a preliminary budget for the ensuing fiscal year to the Business, Transportation and

Housing Agency, the Department of Finance, and the Joint Legislative Budget Committee. Our analysis indicates that this procedure fails to provide adequate review of the agency's activities.

1. Statutory Provisions Disregarded

Notwithstanding current statutes, the agency's 1981–82 budget was not submitted to the Joint Legislative Budget Committee for review prior to its approval by the CHFA Board of Directors.

The budget was not approved by the board until *October 1981*—four months into the fiscal year—and it was 20 percent larger than the 1980–81 budget. Moreover, as noted in the Analyst's June 1981 report on CHFA activities, the agency has a history of submitting preliminary budgets that lack sufficient detail for in-depth analysis by the oversight agencies.

2. Managerial Staff and Salaries Exceed the Norm

As stated in the Analyst's June 1981 report, CHFA has almost twice as many positions for which the maximum salary range exceeds $3,000 per month as the average for comparable agencies. In addition, the agency has over 50 percent more management personnel than the average of other agencies with comparable functions and responsibilities. Our analysis suggests that the higher salaries and larger complement of management personnel enjoyed by CHFA relative to other state agencies are probably due to the greater fiscal autonomy enjoyed by CHFA, rather than to any workload or related factors unique to the agency.

3. Support Budget Balloons

Table 2 depicts the growth in the agency's support budget, which covers personal services and ongoing operations, since 1977–78. It shows that in five years the agency's budget has doubled.

Table 2
California Housing Finance Agency
Support Budget 1977–1982 [a]
(in thousands)

	Approved Budget	Change: Amount	Change: Percent
1977–78	$3,132	—	—
1978–79	2,523	−$609	−19%
1979–80	3,773	1,210	50
1980–81	4,900	1,127	30
1981–82 estimated	5,895 [b]	995	20
1982–83 proposed	6,150	255	4

[a] Based on reports included in the Governor's Budgets.
[b] Adjusted to delete one-time General Fund loan repayment.

Our analysis indicates that the current CHFA budgetary review process provides inadequate control over the agency's ongoing support expenditures. Therefore, we recommend that funds for the support budget of the California Housing Finance Agency be appropriated annually from the California Housing Finance Fund. For the budget year, this can be done by adding Item 2260-001-501 to the Budget Bill. For 1982–83, we recommend that $5,961,000 be appropriated for support of CHFA by Item 2260-001-501, for a reduction of $153,000 from the amount shown in the Governor's Budget. (The specific reductions we recommend are discussed later

CALIFORNIA HOUSING FINANCE AGENCY—Continued

in this analysis.) We further recommend that the following language be added to the Budget Bill requiring expenditures for issuing bonds and notes to be made in accordance with the provisions of the Health and Safety Code, beginning with Section 51000.

"Provided that all expenditures for issuing bonds and notes under authority of the California Housing Finance Agency be made in accordance with the provisions of Section 51000 of the Health and Safety Code."

The purpose of this language is to exempt the agency's periodic costs related to bond and note issuance from inclusion in the annual appropriation for support expenditures. Such cost of issuance items such as interest payments, service and broker fees would continue to be funded out of the continuously appropriated proceeds of the negotiated bonds and notes.

EDP Implementation Is Premature

Contingent on inclusion of the California Housing Finance Agency in the Budget Bill, we recommend the deletion of $100,000 from the California Housing Finance Fund (Item 2260-001-501) for implementation of an Agency Management Information System, pending review and approval of the project by the State Office of Information Technology.

In the current fiscal year, CHFA budgeted $100,000 for a feasibility study of an Agency Management Information System. The agency's preliminary budget for 1982–83 includes $100,000 to implement the system.

We believe it is premature to budget $100,000 for implementation of the management system, for two reasons. First, as of January 1982, the feasibility study had not even been started. Hence, there is no basis to judge the appropriateness of the amount proposed. Second, departments that are inexperienced with larger electronic data processing (EDP) systems historically have had difficulties in planning program requirements and determining which EDP system would meet their needs in the most cost-effective manner. To assist departments in planning their needs for automated systems, the State Administrative Manual requires the preparation of an Information Systems Plan (ISP). In addition, an approved Feasibility Study Report (FSR) is required prior to the expenditure of funds for data processing systems.

Section 4901 of the State Administrative Manual requires an ISP for every state agency that anticipates expending funds *from any source*—regardless of amount—for EDP equipment, personal services, or supplies. The detailed format of the ISP and the FSR as specified in the state administrative manual, provides an orderly and logical structure to enable state agencies to identify the most efficient, effective, and economical EDP system suitable.

The State Office of Information Technology (SOIT) of the Department of Finance is available to review agency ISPs and to provide technical assistance on EDP system-planning upon request.

The CHFA staff indicates it is experiencing difficulties in identifying the necessary steps to begin the feasibility study for the Management Information System. We believe that the agency's EDP needs may be best served by utilizing the framework provided by the ISP/FSR formats, and by consulting with the SOIT staff before actually budgeting for implementation of the system. Therefore, we recommend the deletion of $100,000 from the California Housing Finance Fund for the implementation of an

Agency Management Information System, pending review and approval by the State Office of Information Technology of an Information Systems Plan and Feasibility Study Report for CHFA.

Insufficiently Justified Staffing Increase

Contingent on budgetary action previously recommended, we recommend a reduction of $39,000 in Item 2260-001-501 to eliminate funding for two new accounting positions.

The CHFA proposes two additional accounting positions in the budget year. The positions were initially proposed by CHFA in December 1981 in conjunction with its plan to undertake a $100 million bond sale in late December for the Home Ownership and Home Improvement Program (HOHI). The staff augmentation was granted by the Board of Directors subject to the condition that positions were not to be filled unless the sale was successfully completed.

For a variety of reasons, the bond sale was not made. Another attempt to sell the bonds is now being considered, but no definite plans exist.

Currently, the agency has 16 authorized positions in its Fiscal Services (Accounting) section. No justification has been submitted by the agency which demonstrates that existing staff could not manage the additional workload associated with a possible HOHI bond sale.

Until specific plans are made for the HOHI issue, and workload justification is submitted, we are unable to recommend approval of the two additional staff positions. Accordingly, we recommend a reduction of $39,000 in Item 2260-001-501 to eliminate funding for two additional accounting positions and their related operating expenses.

Legal Services Overbudgeted

Contingent on budgetary action previously recommended, we recommend a reduction of $14,000 in Item 2260-001-501 to eliminate overbudgeting of legal services.

The CHFA budget includes $35,000 for legal services provided by the Attorney General's office. The Attorney General bills the agency on a monthly basis for bond counsel, legal opinion, and litigation-related services.

The Attorney General's office advises that it expects to bill the agency for 370 hours of legal services in 1982–83. Based on a rate of $56.50 per hour, these charges will approximate $21,000 in 1982–83, or $14,000 less than budgeted by CHFA.

The CHFA advises us that its 1982–83 budget for legal services is consistent with current-year billings. Our review indicates, however, that the current-year billings from the Attorney General are higher than normal because two of CHFA's four staff counsel positions are presently unfilled. The CHFA staff are actively recruiting to fill the positions, and when this occurs the agency will be able to assign more of its legal-opinion workload to its own staff, rather than to the Attorney General.

Because (1) internal legal staff will reduce the agency's need for Attorney General services and (2) the Attorney General's best estimate of budget-year billings is less than the amount budgeted by CHFA, we recommend that legal services be reduced by $14,000 (Item 2260-001-501).

CALIFORNIA HOUSING FINANCE AGENCY—Continued

1980–81 Annual Report Not Submitted

We recommend that the CHFA Executive Director advise the two fiscal committees as to (1) why the 1980–81 annual report was not submitted on time, (2) what action will be taken to ensure that future annual reports are submitted on time, and (3) what steps will be taken to improve the quality of the agency's annual report.

Section 51005 of the Health and Safety Code provides that CHFA shall, within 90 days following the close of each fiscal year, submit an annual report of its activities during the concluded fiscal year to the Joint Legislative Budget Committee. The annual report must include a complete operating and fiscal statement, as well as specific data on the agency's housing production, a profile of assisted purchasers, and affirmative action accomplishments.

The 1980–81 annual report, due on October 1, 1981, had not been submitted as of January 1982.

Our June 1981 review of CHFA noted that the agency's 1979–80 annual report failed to include certain information necessary to evaluate its compliance with legislative mandates.

The annual report provides the principal framework for legislative review and evaluation of the agency's ongoing activities and goals. Failure to provide this document in a timely and comprehensive manner impedes and frustrates legislative oversight. Therefore, we recommend that the Executive Director of the California Housing Finance Agency be requested to explain to the fiscal committees why the 1980–81 report has not been submitted, the steps taken to insure future timely submissions, and steps which will be taken to improve the substance of the reports in accordance with Section 51005 of the Health and Safety Code.

Business, Transportation and Housing Agency

DEPARTMENT OF INSURANCE

Item 2290 from the General Fund — Budget p. BTH 48

Requested 1982–83	$11,164,000
Estimated 1981–82	10,856,000
Actual 1980–81	9,871,000
Requested increase (excluding amount for salary increases) $308,000 (+2.8 percent)	
Total recommended reduction	$283,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2290-001-001—Support		General	$10,630,000
2290-001-218—Support		Insurance Commissioners Regulatory Trust	534,000
Total			$11,164,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Five Percent Reduction in Baseline. Recommend the department advise the Legislature during budget hearings as to the impact deletion of five positions will have on the Consumer Affairs program. 330
2. Bureau of Fraudulent Claims Fees. Recommend that the Insurance Fraud Advisory Commission consider increasing fees for support of the Bureau of Fraudulent Claims, to fund additional positions. 331
3. ***Additional Field Examiner Positions. Reduce by $283,000.*** Recommend deletion of proposed positions because department has not identified significant workload increase, and does not allocate existing examination resources in a cost-effective manner. Further recommend adoption of supplemental report language requiring the department to evaluate its method of assigning examiners. 335

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 $22 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. There currently are 1,100 insurers licensed to do business in California.

To perform its mission, the department administers a Regulation program with two elements. The Regulation of Insurance Companies element includes: (1) the company consumer services component, which processes general public inquiries and complaints regarding the actions of insurance companies; and (2) the general regulation component which conducts field examinations and rating examinations of insurers at least once every five years.

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

The department investigates insurance fraud under the Fraud Control program. It also administers the Tax Collection program which collects premium, retaliatory, and surplus line broker taxes from insurance companies.

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 currently has 404.5 authorized positions.

ANALYSIS AND RECOMMENDATIONS

The budget requests appropriations from the General Fund and the Regulatory Trust fund totaling $11,164,000 for support of the Department of Insurance in 1982-83. Of this amount, $10,630,000 is requested from the General Fund and $534,000 is requested from the trust fund. The proposed appropriations represent an increase of $308,000, or 2.8 percent, over es-

DEPARTMENT OF INSURANCE—Continued

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

The department also anticipates expenditures of $4,823,000 from reimbursements, primarily in the form of fees for examining insurance companies.

Cost and staffing data for the department's programs in the prior, current and budget years are displayed in Table 1.

Table 1
Expenditure and Staffing Data
Department of Insurance Programs
(dollars in thousands)

		Actual 1980-81		Estimated 1981-82		Proposed 1982-83	
Program	*Element*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*
Regulation	Regulation of insurance companies	191.2	$10,121	201.0	$10,996	193.1	$11,681
	Regulation of insurance producers	119.6	3,524	130.1	3,720	125.2	3,682
Fraud Control		12.0	472	13.0	509	13.0	534
Tax Collection		3.0	89	3.0	93	3.0	90
Administration (prorated to other programs)		(57.4)	(2,570)	(56.0)	(2,714)	(55.0)	(2,404)
Totals		383.3	$14,206	403.1[a]	$15,318	389.3	$15,987
Reimbursements			−4,335		−4,462		−4,823
Net Totals			$9,871		$10,856		$11,164

[a] The department is currently authorized 404.5 positions.

Five Percent Reduction in Baseline Budget

We recommend the department advise the Legislature during budget hearings the impact that deletion of five positions will have on the Consumer Affairs program.

In accordance with the Governor's directive that most General Fund agencies reduce their baseline budget by 5 percent, the Department of Insurance has reduced its operating expenses by $548,000. Of this amount, $17,000 has been reduced in operating expenses and 8.4 positions have been deleted for a cost savings of $551,000.

The reduction in operating expenses occurred in the Rate Complaint program. The department's surveillance and analysis division, administrative services, and legal division were reduced one position each. The licensing division and the Consumer Affairs division were reduced by 0.4 and five positions, respectively.

The department projects it will investigate and close 14,719 consumer complaints in 1982–83, an increase of 10 percent over current-year levels. Our analysis indicates that the budget as proposed does not provide sufficient staffing to accomplish this goal. As a result, we recommend that the department be prepared to discuss during budget hearings what effect the deletion of five positions in its Consumer Affairs division will have on its ability to successfully investigate consumer complaints. Specifically, we recommend that the department explain how it will successfully investigate 14,719 complaints, as projected for 1982–83, given the staffing reduction.

Bureau of Fraudulent Claims

We recommend that the Insurance Fraud Advisory Commission consider increasing fees for support of the Bureau of Fraudulent Claims, to fund additional positions.

The budget proposes $534,000 for support of the Bureau of Fraudulent Claims in 1982–83, an increase of 5 percent over current-year estimated expenditures.

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 payments 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 to support any such claim." The provisions of Chapter 1070 will expire on January 1, 1984.

Funding for the bureau is through annual assessments imposed on all insurance companies licensed to do business in California. Assessments are statutorily limited to a maximum of $500. The assessment fee has been set at $485 for the current year.

Bureau Activities. The Bureau of Fraudulent Claims began operation in April 1979. It conducts investigations involving insurance fraud, provides the public with information concerning insurance fraud, and cooperates with local law enforcement agencies in the prosecution of insurance fraud cases. Currently, the bureau is staffed with 13 positions, including nine investigators, one key data operator, and three clerical positions. The bureau operates offices in Sacramento, San Francisco and Los Angeles. One senior investigator position is vacant in the bureau's Sacramento office.

Table 2 shows the workload of the bureau from 1979–80 to 1982–83.

Table 2
Bureau of Fraudulent Claims
Workload

	Actual		*Estimated*	*Proposed*
	1979–80	*1980–81*	*1981–82*	*1982–83*
Fraudulent claims received	1,400	1,748	2,200	3,000
Investigations initiated	100	199	200	200
Prosecutions initiated	48	80	100	100

The bureau informs us that for the three years it has been in operation, it has:

- Made 187 arrests (23 arrests in 1979, 84 arrests in 1980, and 80 arrests in 1981).
- Successfully convicted 90 of the 187 persons arrested, for a 48 percent conviction rate.
- Identified $58.3 million in total dollar losses or claim reserves.
- Received requests from 358 insurance companies to conduct fraud investigations.

The bureau uses information from four sources to monitor the level of

DEPARTMENT OF INSURANCE—Continued

fraudulent claim activity in the state. It prepares a monthly printout identifying each claim received by the bureau, by company, county of origin, dollar loss, total dollar loss per month, and total dollar cost by county. The Department of Insurance is now able to identify the most common type of fraudulent claim filed with insurance companies (automobile injury) and the most common point of origin for suspect claims (Los Angeles County).

In addition, the bureau provides local law enforcement agencies with summaries of litigation involving fraudulent claims filed in local jurisdictions. A name index is used to match names, addresses, vehicle license numbers, and property with each new claim the bureau receives. Finally, the department maintains arrest reports (updates of cases pending). The bureau is the only centralized source for data on fraudulent claims activities in the state.

Our analysis indicates the Bureau of Fraudulent Claims is performing efficiently. As indicated above, the bureau has identified $58.3 million in dollar losses or claim reserves with a budget in the current year of $509,000. It appears, therefore that expansion of this program would provide significant benefits to the insurance industry. Consequently, we recommend that the Insurance Fraud Advisory Commission consider increasing fees to fund an appropriate number of additional positions.

Ineffective Examination Policy

The principal goals of the Department of Insurance in its examination of insurance companies is to (1) prevent losses to policyholders due to the insolvency of insurers, (2) prevent unlawful or unfair practices by insurers as defined by the Insurance Code, (3) monitor and prevent discriminatory, unlawful, fraudulent and incompetent business practices relating to the sale of insurance, and (4) audit for gross insurance premiums taxes.

Currently, the department uses two different methods to examine those insurers licensed to do business in California. First, the department may dispatch its own examiners to examine either (1) "domestic" firms (those companies domiciled in California), or (2) "foreign" insurers (those firms domiciled outside of California.

Second, the department participates in "association examinations" organized by the National Association of Insurance Commissioners (NAIC). Any insurance commissioner may request the association to undertake an examination of any insurer doing business within his or her state. When it receives such a request, the NAIC invites representatives of those NAIC zones where the company has premium writings of at least $1 million (or 20 percent of the company's total writings if less than $1 million) to participate in the examination. When an association examination is completed, the department receives a summary report of findings.

During association examinations, non-California examiners assess the solvency of the firm and audit for California taxes using the California Revenue and Taxation and Insurance Code as a guide. In addition, the department may forward "exam call" questions to the site of the examination to which the department must receive a reply. A department representative need not be present at an association examination of a firm licensed in California.

Department performance measures may not indicate effectiveness. There are three measures used by the department to measure the performance of its examination program.

First, the number of examinations the department conducts annually is a basic performance indicator describing the efforts of the department to oversee the operation of insurers writing policies in California. There is no indication in this measure of the *effectiveness* of the examination or the *appropriateness* of the firm chosen to be examined relative to the costs incurred. The department conducted 152 examinations in 1979–80, 128 in 1980–81, estimates it will conduct 121 in 1981–82, and projects it will conduct 138 examinations in 1982–83.

A second measure of performance in the examination program is the incidence of department involvement in financial condition examinations. Table 3 shows the number of financial condition examinations performed directly by the department and through the association examination process.

Table 3
Department of Insurance
Involvement in Financial Condition Examinations
All Lines of Insurers

Examinations	*1978–79*	*1979–80*	*1980–81*
By Department			
Domestic Insurers	43	57	27
Foreign Insurers	—	2	—
By Association			
Domestic Insurers	13	17	25
Foreign Insurers	20	50	20

Table 3 indicates that the department relies heavily on *department* examinations for domestic firms, and *association* examinations for foreign firms. In the last three fiscal years, the department has only twice found a situation which called for the use of in-house staff for the examination of a foreign insurer.

A third measure that is useful in gauging the performance of the department's examination program is "examination coverage." "Examination coverage" refers to the premiums examined by department examiners as a percentage of the total premiums collected by insurers.

Table 4 shows that from 1978 to 1980, the department did not conduct any examinations of foreign insurers writing life and disability insurance using only California examiners. During this same period, the premiums collected in California by foreign insurers were over five times the amount collected by domestic insurers ($18.8 billion versus $3.7 billion). Thus, the department's allocation of examination resources would appear to show little relationship to the importance of different classes of insurers to California insurance buyers. In fact, although 83 percent of all premiums collected between 1978 and 1980 were collected by foreign firms, less than 2 percent of these premiums were examined either by California examiners or through the association examination process. In contrast, the department examined 30 percent of domestic firm premiums which account for 17 percent of all premiums collected.

We believe the direct involvement of California examiners in financial condition examinations of insurance companies is important in determining the solvency of an insurer and in the insurers tax liability to the state.

Table 4
Annual Examination Coverage of Life and Disability Insurers by California Examiners
1978–1980
(in millions)

	Premiums Collected in California: Domestic Insurers			*Premiums Collected in California: Foreign Insurers*			*Total Life and Disability Premiums Collected in California*		
	1978	*1979*	*1980*	*1978*	*1979*	*1980*	*1978*	*1979*	*1980*
Examinations of Insurers Conducted by California Examiners	$677,185	$129,248	$273,200	—	—	—	$677,185	$129,248	$273,200
Association Examinations Where California Examiners Participated	—	—	—	$62,519	$184,194	$109,633	62,519	184,194	100,633
Total Examined	$677,185	$129,248	$273,200	$62,519	$184,194	$109,633	$739,704	$313,442	$373,833
Total Premiums	$1,125,368	$1,230,506	$1,355,404	$5,751,735	$6,298,065	$6,721,952	$6,877,103	$7,528,571	$8,077,356
Percent Examined	60.17%	10.50%	20.15%	1.08%	2.90%	1.63%	10.75%	4.2%	4.62%

Source: Tax Bureau, Department of Insurance.

This presence verifies that (1) California receives all the gross premiums taxes due it, (2) that firms licensed in California abide by California insurance laws, and (3) that the policies of California residents are fully backed by sufficient loss reserves.

Alternative criterion to allocate examiners. In short, our analysis indicates that the department does not allocate its examination resources in a manner that enables it to maximize the effectiveness of its audit program. The performance indicators used by the department do not enable it to assign staff so as to examine the greatest dollar volume of premiums written in the most cost-effective manner possible.

Our review of the department's examination policy indicates that the department selects insurers for solvency examinations on the basis of where the firm is domiciled, rather than on the basis of examination potential. The department does not appear to give adequate weight in the selection process to the total dollar amount of the premiums written that the department could examine, relative to the cost of conducting these examinations. That is, the department does not appear to use any cost-benefit data to guide its determination of assigning examiners on the basis of maximizing the productivity of its examinations with each additional examination it will conduct.

Delete Examiner Positions

We recommend deletion of seven proposed field examiner positions because existing examination resources are not being used as effectively as they should be, for a savings of $283,000. We further recommend adoption of supplemental report language requiring the Department of Insurance to evaluate its method of allocating examination resources with regard to domestic and foreign insurers, and report its findings and conclusions to the fiscal committees and the Joint Legislative Budget Committee by November 1, 1982.

The budget proposes seven new field examiner positions to augment the department's current staffing level of 54 examiners, at a cost of $283,000. In 1982–83, the department has indicated that it intends to examine 138 insurance companies, a 14 percent increase over the number of examinations expected in 1981–82. Of these 138 firms, the department projects it will conduct ten examinations of foreign insurers (through the association process), a decrease of 50 percent from the 20 examinations planned in the current year.

Our analysis indicates that the current financial examination policy of the department is not an optimal method for allocating existing departmental resources. As noted above, the department allocates its personnel resources on the basis of geographic location of insurers, rather than the likelihood of increasing the dollar volume of premiums it will examine with each additional examination. By choosing to devote most of its examination resources to a relatively small percentage of the premiums written, the department is not allocating its resources as efficiently as possible.

Until a more cost-effective method of allocating *existing* examination resources is adopted, we do not believe additional resources should be added to the department. Accordingly, we recommend deletion of the requested seven field examination positions for a savings of $283,000 in Item 2290-001-001. We further recommend that supplemental report language be adopted as follows:

DEPARTMENT OF INSURANCE—Continued

"The Department of Insurance shall evaluate its method of selecting for examination foreign and domestic insurers, and report to the fiscal committees and the Joint Legislative Budget Committee by November 1, 1982."

Business, Transportation and Housing Agency

DEPARTMENT OF REAL ESTATE

Item 2320 from the Real Estate Fund — Budget p. BTH 53

Requested 1982–83	$17,553,000
Estimated 1981–82	16,007,000
Actual 1980–81	14,473,000
Requested increase (excluding amount for salary increases) $1,546,000 (+9.7 percent)	
Total recommended reduction	$86,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Operating Expenses Overbudgeted. Reduce by $36,000.*** Recommend a reduction because amount budgeted for communications expenses exceeds what can be justified under Department of Finance guidelines. 338
2. Department Revenues Overestimated. Recommend that department comment on condition of the Real Estate Fund during budget hearings. 338
3. ***Additional Training Funds Unnecessary. Reduce by $50,000.*** Recommend reduction because department lacks a comprehensive training plan which the Legislature can use to assess its request. 340
4. ***Temporary Help Blanket.*** Recommend that 25 percent ($384,000) be appropriated in support item. Further recommend a special point item in the Budget Bill which appropriates $1,152,000, with language requiring legislative notification before funds for temporary help are expended. 341

GENERAL PROGRAM STATEMENT

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

To carry out its responsibilities, the department administers four programs: (1) transaction activities, (2) offerings and securities, (3) policy and planning, and (4) administration.

The department is administered by the Real Estate Commissioner, who is appointed by the Governor. Department headquarters is in Sacramento, and district offices are located in San Francisco, Los Angeles, San Diego, Sacramento, Fresno, and Santa Ana. For the current year, the department has 470 authorized positions.

Table 1
Expenditure and Staffing Data
Department of Real Estate
(dollars in thousands)

		Actual 1980–81		Estimated 1981–82		Projected 1982–83	
Program	*Element*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*
Transaction Activities	Licensing	99.8	$2,459	103.5	$3,008	101.5	$3,372
	Regulatory and recovery	150.4	6,290	166.7	7,074	169.0	7,711
Offerings and Securities	Subdivision	179.7	5,363	115.7	4,975	129.2	5,474
	Real property securities	0.9	24	2.0	40	3.0	65
Policy and Planning	Education and research	3.1	391	3.3	819	3.4	824
	Legislative liaison	3.1	122	3.3	140	3.3	147
	Continuing education	3.8	204	5.5	191	5.6	200
Administration (prorated to other programs)		(40.6)	(1,377)	(43.0)	(1,680)	(42.0)	(1,693)
Totals		440.8	$14,853	400.0	$16,247	415.0	$17,793
Reimbursement			−380		−240		−240
Net Totals			$14,473		$16,007		$17,553

DEPARTMENT OF REAL ESTATE—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $17,553,000 from the Real Estate Fund for support of the department in 1982–83. The department also proposes expenditures of $240,000 to be financed by reimbursements. Thus, the total expenditure program is budgeted at $17,793,000 in 1982–83. This is an increase of $1,546,000 or 9.6 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.

Table 1 shows the expenditures and staffing data for the programs administered by the department. The total expenditures of $17,793,000 include $537,000 for recovery act claims, $672,000 for funding real estate education and research projects, and $16,584,000 for department support.

Operating Expenses Overbudgeted

We recommend a reduction of $36,000 proposed for communications expenses because funds for that purpose are overbudgeted.

The department is requesting $264,000 for communications-related costs in the budget year. This is an increase of $83,000, or 45.8 percent, above actual 1980–81 costs. The Department of Finance's guidelines for budgeting phone-related expenses provide for a 26 percent increase above actual 1980–81 costs. The department has provided no justification for exceeding these guidelines that apply to all state agencies.

Using these guidelines, we estimate that the department's communications expenses will be $228,000 in 1982–83. On this basis, we recommend a reduction of $36,000 in the amount budgeted. The amount we recommend be approved ($228,000) is $28,899 greater than what the department is likely to spend in the current year, given that actual expenditures through the first six months of 1981–82 total $99,553.

Projected Increase in Departmental Receipts is Unrealistic

We recommend that during budget hearings, the department be directed to (1) justify its revenue forecast, (2) indicate the increase in revenues needed to fund all proposed expenditures, and (3) list the programs for which the department intends to reduce expenditures if needed revenues fail to materialize.

The department projects that revenues from examination, license, subdivision filing and inspections fees, as well as income from surplus money investments and the sale of documents, will total $17 million in 1982–83. This is $5,354,000, or 46 percent, more than the amount of revenues received in 1981–82.

Chapter 849, Statutes of 1981 (AB 1500), mandates an increase in license and examination fees, effective January 1, 1982. Increased revenues to the Real Estate Fund resulting from this act are expected to total $1.7 million in 1982–83. Department staff have told us, however, that this revenue increase is not expected to materialize because of depressed conditions in the real estate industry.

Table 2 shows the actual amounts received by the department from various license and filing fees during the last five fiscal years, as well as the amounts projected for 1982–83. Table 3 shows the actual number of licenses issued, subdivision filings received, and reports issued for the past five fiscal years, as well as those projected for 1982–83.

Our analysis of Tables 2 and 3 reveals that in 1982–83, the department expects:

—Subdivision filings fees to increase 49 percent over 1980–81, and 29 percent over 1981–82.
—Other subdivision fees to increase 145 percent over 1981–82, and 125 percent over 1980–81.
—A reversal of the two-year decline in the total number of licenses issued.
—An increase in the number of subdivision filings of 39 percent over 1981–82.
—Standard reports for single family dwelling units to drop in 1982–83 by 30 percent compared to 1981–82, while filings for multi-unit dwellings increase by 58 percent over 1981–82 and 35 percent over 1980–81.
—Broker license renewals to decrease 5.7 percent below current-year estimates.
—Salesman license renewals to decrease by 15 percent, to the lowest total in five years.
—A halt in the four-year decline in the sale of department documents, bringing about a 100 percent increase in revenues over the 1981–82 level (for a revenue increase of $100,000).

Table 2
Total Receipts
Department of Real Estate
1977–78 to 1982–83
(in thousands)

	1977–78	*1978–79*	*1979–80*	*1980–81*	*1981–82*	*1982–83*[a]
Subdivision inspection fees	$1,627	$1,754	$1,663	$1,204	$1,540	$3,144
License fees	5,461	5,310	5,114	5,612	5,724	7,811
License service fees	496	287	78	51	50	60
Subdivision filing fees	1,079	1,340	1,700	2,714	3,141	4,052
Subdivision inspection fees	6	3	4	10	6	10
Other subdivision fees	346	412	493	620	570	1,397
Other regulatory license fees	39	100	136	163	129	150
Sale of documents	201	209	208	176	100	200
Miscellaneous service to the public	52	25	26	35	35	40
Income from surplus money	608	827	1,021	863	400	170
Miscellaneous revenue	8	23	35	34	15	30
Totals, Revenue	$9,923	$10,300	$10,500	$11,500	$11,700	$17,100

[a] Projected.

The department projects that a "pent-up" demand for new multi-unit developments will materialize in 1982–83, resulting in the largest dollar increase and percentage increase of the past six years.

Our review of the department's revenue projections and workload measures indicates that these projections are unrealistic. If the department is unable to meet its revenue projections, the result could be a deficit in the department's 1982–83 budget plan. We recommend, therefore, that during budget hearings the department be asked (1) to justify the assumptions it used in projecting revenues for the budget year, (2) how much sustained growth in revenues would be needed to fund all proposed expenditures, (3) to list the programs for which the department intends to decrease expenditures if increased revenues fail to materialize, and (4)

DEPARTMENT OF REAL ESTATE—Continued

Table 3
Performance Measures
Department of Real Estate
1977–78 to 1982–83

	1977–78	1978–79	1979–80	1980–81	1981–82	1982–83[a]
Total licenses	338,162	380,405	424,932	393,754	389,816	397,612
Original broker licenses issued	10,322	9,605	11,437	10,758	11,395	12,306
Original salesman licenses issued	48,246	40,453	37,583	25,666	24,383	26,436
Renewal broker licences issued	19,899	18,883	16,996	15,448	17,630	16,625
Renewal salesman licenses issued	35,842	30,400	31,524	33,132	37,044	31,427
Subdivision filings	4,967	5,332	5,623	6,964	5,464	7,618
Standard reports issued	2,584	2,153	1,975	1,109	700	486
Reports issued for subdivisions with common facilities	1,306	1,791	2,506	2,905	2,452	3,876
Amended reports issued	2,352	2,383	2,231	2,433	2,082	2,555
Renewal reports issued	288	329	273	219	230	253
Preliminary reports issued	1,721	1,839	2,253	3,100	2,344	2,946

[a] Projected.

provide the fiscal committees with the data it used to complete the itemized "fund condition statement" required by the State Administrative Manual.

Training Budget Significantly Increased

We recommend that funding for an expanded department training budget be denied, because the department lacks a comprehensive training plan which the Legislature can use to assess its funding requirements, for a savings of $50,000.

The department's proposed training budget for 1982–83 is $71,465, or an increase of $50,000 over a 1981–82 training budget of $21,465.

The department currently offers its employees training in clerical duties, data processing, supervisory skills, and management skills, as well as specialized training in issues related to the real estate industry.

In the budget year, the department proposes to expand its training program. Specifically, it proposes to offer training in the following nine areas: clerical, data processing, supervisory skills, management skills, safety, real estate law, specialized courses related to the real estate industry, upward mobility/career development, and orientation sessions.

The department bases its request for increased training funds on a "training needs assessment" completed in September 1980. Our review of this document indicates that the method used to identify the training needs of the department is not described, and it fails to explain the nature of the training problem which currently exists.

The department does not have a comprehensive and operational training plan indicating the number of employees it plans to train. The department fails to identify the specific objectives of its training plan or how the training will improve operations in the department. By failing to target the use of training funds, it is not possible for us to determine the appropriateness of the $50,000 request.

For these reasons, we recommend that funding for an expanded training program be denied, for a savings of $50,000.

Temporary Help Blanket Overbudgeted

We recommend that $384,000 of the department's request for additional temporary help be appropriated in the support item in the Budget Bill. We further recommend a special point item which would appropriate $1,152,-000 for temporary help subject to authorization by the Director of Finance.

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 processing time is longer.

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

Public report filings have increased since 1977–78. There has also been a shift in workload from standard filings to common-interest filings, which require a longer time to process. According to the department, there were 4,082 pending files as of October 1981, compared to 5,669 pending in November of 1980, and 6,031 in June of 1980.

Because of the backlog in subdivision filings, the Legislature enacted several statutes in 1980 which simplify the subdivision report process and ensure that public reports are issued by the department in a timely manner. Among these, Chapter 1152 imposed statutory time limits on the department for various phases of the public report issuance process. Specificially, Chapter 1152 requires the department to issue a "substantially complete" notice for both common interest and standard subdivisions within 15 days of when all appropriate documentation is received from the subdivider. A "qualitative deficiency notice" must be issued within 90 days for common interest subdivisions, and within 30 days for standard subdivisions. The department must issue its final public report 30 days after issuing a deficiency notice for common interest subdivisions, and 15 days after issuing a notice for standard subdivisions.

To meet these requirements, the department attempted to develop new staffing standards for its subdivision program. In June 1981, the department's Subdivision Systems Project Team released its initial findings regarding staffing standards for the program. The conclusions reached by the project team, however, were unacceptable to the department for four reasons. First, the study recommended doubling the subdivision's program staff. Second, during the study period, processing methods were radically different from those the department normally uses. Third, the new staffing standards, if adopted, would have caused the department's budget to be in deficit. Finally, the results of the "time ladder" method

DEPARTMENT OF REAL ESTATE—Continued

used by the project team to tabulate the hourly, daily, and monthly processing activities of the staff were found to contain inaccuracies.

The department has launched a new project to develop staffing standards for the subdivision program. This project is scheduled to be completed in June 1982. It will use techniques similar to those used in the original study. The department anticipates that the revised study will not produce results that are significantly different from those produced by the first study, in terms of staffing requirements.

Pending the development of permanent staffing standards, the department requested and the Legislature approved $641,030 to fund 31 additional personnel-years in 1980–81 and $1,954,040 to fund 60 additional personnel-years in 1981–82 for temporary help in the subdivision program. In the budget year, the department is requesting $1,536,000 to fund 45 personnel-years within the subdivision temporary help blanket.

The department's request for 45 personnel-years in the budget year is contingent on (1) a "catch-up reaction" in the housing market that the department contends will materialize in 1982–83 and result in significantly increased workload, and (2) the development of appropriate standards to determine the size of a permanent staff. Our analysis indicates that the June 1982 staffing standards report may prove as inconclusive as the first study because it uses methods similar to the original study and probably will conclude that a doubling of permanent subdivision program staff is needed. Further, the department's assumptions on the projected rebound of housing starts may not provide a sound basis upon which to project its staffing requirements.

Accordingly, we recommend appropriating 25 percent of the requested temporary help blanket ($384,000) in the department's support item. The remaining funds ($1,152,000) should be placed in a special point item for temporary help with an appropriation of $1,152,000. Budget Bill language prohibiting expenditures for temporary help unless authorized by the Director of Finance should also be adopted. Specifically, this language should read:

> "Provided, that none of the $1,152,000 appropriated for temporary help shall be spent unless and until authorized in writing by the Director of Finance. The Director of Finance shall authorize such payments not sooner than 30 days after notifying the Chairman of the Joint Legislative Budget Committee and the fiscal committees of his or her intention to authorize the expenditure of these funds."

Business, Transportation and Housing Agency

DEPARTMENT OF SAVINGS AND LOAN

Item 2340 from the Savings and Loan Inspection Fund — Budget p. BTH 59

Requested 1982–83	$4,666,000
Estimated 1981–82	7,358,000
Actual 1980–81	6,397,000
Requested decrease (excluding amount for salary increases) $2,692,000 (−37 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Department of Financial Institutions. Recommend enactment of legislation establishing a Department of Financial Institutions with one division for Banking and another for Savings and Loan, due to changes in the savings and loan industry and the potential for cost savings in regulatory activities. 345
2. Savings and Loan Fund in Deficit Condition. Recommend that department report prior to budget hearings on (a) assumptions it used to project budget-year revenues, and (b) contingency plans if projected revenues fail to materialize. 347

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. Savings and loan associations have the option of state or federal regulation. As of September 30, 1981, there were 123 state-chartered savings and loan associations.

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 is administered by the Savings and Loan Commissioner, who is appointed by the Governor. Its headquarters is in Los Angeles, and it has a branch office in San Francisco. The department currently has 158 authorized positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $4,666,000 from the Savings and Loan Inspection Fund for support of the department in 1982–83. This is a decrease of $2,692,000, or 37 percent, below estimated current year expenditures. This, however, makes no allowance for the cost of any salary or staff benefit increase that may be approved for the budget year.

The department also anticipates receiving $2,000 in reimbursements for travel expenses incurred for appraising out-of-state loans. Thus, the de-

DEPARTMENT OF SAVINGS AND LOAN—Continued

partment is requesting a total expenditure program of $4,668,000 for 1982–83.

Cost and staffing data for the department's programs in the prior, current, and budget years are presented in Table 1.

Table 1
Department of Savings and Loan Programs
Expenditure and Staffing Data
(dollars in thousands)

Program and Elements	*Actual 1980–81* Personnel-Years	*Actual 1980–81* Expenditures	*Estimated 1981–82* Personnel-Years	*Estimated 1981–82* Expenditures	*Proposed 1982–83* Personnel-Years	*Proposed 1982–83* Expenditures
Supervision and Regulation						
Examination	59.4	$2,502	60	$2,722	36	$1,939
Appraisal	31.7	1,475	33	1,601	16	831
Facilities licensing and legal assistance	5.2	318	7	327	3	205
Economic and financial information	4.0	181	6	332	2	113
Management information system	8.4	528	9	683	3	219
Administration	41.8	1,400	41	1,712	31	1,361
Totals	150.5	$6,404	156[a]	$7,377	91	$4,668
Reimbursements		−7		−19		−2
Net Totals		$6,397		$7,358		$4,666

[a] The department is currently authorized 158 positions.

Workload Decreasing

The conversion of many state-chartered savings and loan associations to federal charter has decreased dramatically the workload of the department. In 1981–82, 12 state-chartered savings and loan associations converted to federal charter. These 12 associations accounted for $36.1 billion, or 53 percent of the department's total examinable asset base. Another 26 state-chartered savings and loan associations have applied for conversion to federal charter, and their applications are pending at the present time. Table 2 shows the effect of conversions approved to date on the workload of the department.

Table 2
Department of Savings and Loan
Workload as a Result of Charter Conversions
(dollars in billions)

	Actual 1978–79	*Actual 1979–80*	*Actual 1980–81*	*Estimated 1981–82*	*Projected 1982–83*	*Percent Change From 1980–81*
Association assets	$68.5	$72.9	$80.9	$37.4	$40.6	−50%
Number of associations	106	112	126	121	137	9
Assets examined	$49.7	$63.7	$68	$31.9	$24.1	−65
Examinations	93	98	111	100	116	5
Branch licensing hearings	125	24	22	9	9	−50
New associations and other hearings	41	31	31	18	18	−50

Table 2 indicates that:

- The number of state-chartered associations in 1982–83 is expected to be 9 percent above the number in 1980–81.
- Association assets under state regulation in 1982–83 are projected to be at only one-half the 1980–81 level.
- Association assets examined by the department in 1982–83 are expected to be 65 percent less than in 1980–81.
- Branch licensing hearings in 1982–83 are projected to be only one-half the number in 1980–81.
- New association hearings in 1982–83 are also projected to be only 50 percent of the number conducted in 1980–81.

The department projects that the number of state-chartered associations will increase in 1982–83 by 13.2 percent over the current year. In addition, it projects it will conduct 16 percent more examinations in 1982–83 as a result of this increase in the number of state-chartered licensees. Although the *number* of state-chartered associations is projected to increase in 1982–83, the size of the *asset base* the department will examine is expected to diminish further because the assets of new savings loans and associations will not offset the reductions caused by the conversion of additional associations to federal charter.

Conversions to Federal Charter Reduces Department Revenues

The conversion of state-chartered savings and loan associations to federal charter will reduce gross assets under state regulation.

In order to finance its programs, the department currently assesses each state-chartered association an amount equal to 7½ cents for every $1,000 of association assets once a year. These assessments are expected to fund 88 percent of the department's current-year expenditures, and 77 percent of the department's proposed expenditures in 1982–83.

As a result of the recent conversions, revenues to the Savings and Loan Inspection Fund in the budget year are expected to be 40 percent below the 1980–81 level, and 43 percent below the current-year level.

In response to its diminishing revenue base, the budget proposes the deletion of 67 positions, or 42 percent of its currently-authorized positions. These reductions will result in a savings of $1,628,000 in personal services in 1982–83. The reductions include 17 examiners, 9 auditors, 18 appraisers, 3 staff lawyers, 3 research analysts, 6 data processing technicians, and 11 office assistant II positions.

Combine Departments of Banking and Savings and Loan

We recommend that legislation be enacted to establish a Department of Financial Institutions, with one division for Banking, and another for Savings and Loan.

The Department of Savings and Loan and the State Banking Department currently regulate a total of 369 state-chartered financial institutions. The primary objective of both departments is to protect the public from economic loss resulting from the failure of either a state-chartered bank or a state-chartered savings and loan.

Our analysis indicates that the Department of Savings and Loan no longer warrants separate department status. There are three reasons for this.

1. ***The reduction in workload has led to a significant contraction in the size of the department.*** The budget proposes a staff level of 91 positions for 1982–83. This is less than the number of positions proposed for nearly

DEPARTMENT OF SAVINGS AND LOAN—Continued

all other departments of state government, and would make the department smaller than many offices that do not have department status.

2. ***Conversions limit the department's ability to finance regulatory programs.*** The erosion of the department's asset base has reduced the resources available to fund the department's regulatory activities. While the department has been able to reduce its *line* staffing and operating costs as revenues have decreased, it is not able to reduce overhead at the same rate. Hence, departmental overhead must be spread over a smaller and smaller asset base, putting additional pressure on assessment fees. The department does not have alternative sources of revenue, and we question whether the savings and loan industry would be willing to pay higher assessment fees to fund this department.

3. ***Consolidating the financial regulatory agencies support operations could result in savings, thereby making resources available for more effective regulatory programs.***

Table 3 highlights the similarity in functions performed by the State Banking Department and the Department of Savings and Loan.

Table 3

Departments of Banking and Savings and Loan Similarities in Program Functions

State Banking Department	*Department of Savings and Loan*
Licensing and Supervision	Supervision and Regulation
Research and Information Services	Management Information Systems
	Economic and Financial Information
Legal and Legislative Services	Facilities Licensing and Legal Assistance
Administration	Administration

Our review of the operations of the two departments indicates that potential cost savings would result if the similar programs that are currently operated independently of one another were carried out in a single department. For example, in the current year, the examination and licensing function accounts for 63 percent of the expenditures by the Department of Savings and Loan, and 99 percent of the expenditures by the State Banking Department. Our analysis suggests that cost savings would accrue to both the State Banking Fund and Savings and Loan Inspection Fund through the joint use of examiner and associated administrative staff. In addition, centralization of the two departments' data processing systems, which perform early warning analyses of insolvency, compile statistical analysis of lending and banking trends, and prepare reports on the condition of financial institutions, could produce cost savings to both funds.

Accordingly, we recommend that legislation be enacted establishing a Department of Financial Institutions, with separate divisions for Banking and Savings and Loans. This would result in a more effective approach to regulating state-chartered financial institutions. The operating expenses of each division would continue to be funded separately from the appropriate fund, and overhead expenditures would be allocated among the funds in a manner that reflects the demands of each division.

This same recommendation appears in our analysis of the State Banking Department (Item 2140-001-136).

Deficit in Savings and Loan Inspection Fund

We recommend that the department report to the Legislature prior to budget hearings on the assumptions it used to project revenues for 1982–83, and on its plans to reduce expenditures during the budget-year in order to accommodate salary increases for state employees and possible revenue shortfalls.

The proposed budget is not balanced. For the budget year, the department projects total revenues of $3,803,000 to the Savings and Loan Inspection Fund. This is a decrease of 40 percent from 1980–81, and 43 percent from estimated revenues for 1981–82. The department projects that these revenues, together with $863,000 available in its reserve for economic uncertainty, will provide resources totaling $4,666,000, the exact amount needed to support the department's planned expenditures. No allowance has been made to provide for salary increases proposed in the Governor's Budget. Consequently, the proposed budget for the Department of Savings and Loan has a built-in deficit. Put another way, the department will not be able to carry out the budget program unless revenues are higher than anticipated or state employees are denied salary or benefit increases.

No allowance for revenue shortfall. Furthermore, the revenue projections of the department are contingent on a number of assumptions that may not hold. First, the department assumes that it will have an assessment base of $40 billion from which to draw revenue in support of its programs. Second, the department assumes that the existing assessment rate of 7½ cents per $1,000 of association assets will be continued in the budget year.

Our analysis indicates that these assumptions may not prove to be valid for reasons beyond the department's control. Depending on the number and asset size of savings and loan associations which convert to federal charter, the department may not realize the revenue it projects for the budget year. Moreover, the department's assessment level is set yearly, through negotiations between the commissioner and the savings and loan industry. These negotiations could result in an assessment level lower than the 7½ cents per $1,000 currently in place.

The budget makes no allowances for any shortfall in revenues that may occur. The department has not indicated what program changes it would make in the event the assumptions it used to develop its budget do not materialize.

We recommend, therefore, that the department report to the Legislature prior to budget hearings on (1) what reductions it will make in its proposed expenditure program to accommodate any salary increase approved by the Legislature, (2) the assumptions used to project revenues in 1982–83, and (3) its plans to further reduce program activities, should revenues fall short of the projected level.

CALIFORNIA TRANSPORTATION COMMISSION

Item 2600 from the Transportation Planning and Development Account, State Transportation Fund — Budget p. BTH 65

Requested 1982–83	$1,123,000
Estimated 1981–82	1,076,000 [a]
Actual 1980–81	1,481,000
Requested increase (excluding amount for salary increases) $47,000 (+4.4 percent)	
Total recommended reduction	$71,000

[a] Excludes $4,260,000 in estimated allocations for local assistance displayed in the Governor's Budget.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. ***Overbudgeted Operating Expenses. Reduce by $41,000.*** Recommend reductions of (1) $15,000 for in-state travel, (2) $10,000 for telephone expenses, and (3) $16,000 for general expenses because of overbudgeting.	349
2. ***Washington Advocate. Reduce by $30,000.*** Recommend reduction of $30,000 budgeted for advocacy work in Washington, D.C. to avoid duplication with ongoing advocacy and liaison activities in the transportation area.	350

GENERAL PROGRAM STATEMENT

The California Transportation Commission, which consists of nine appointed commissioners, was created to replace the California Highway Commission, California Toll Bridge Authority, Aeronautics Board and State Transportation Board.

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 planning agencies in developing 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. The commission has 12 authorized positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $1,123,000 from the Transportation Planning and Development (TP and D) Account, State Transportatin Fund, for support of the commission in 1982–83. This is an increase of $47,000, or 4.4 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.

The budget proposes 12 positions to support commission activities in 1982–83, the same number as in the current year. This includes an executive secretary appointed by the commission, six professional staff and five clerical positions.

Local Assistance

The budget indicates that the commission will spend $5,336,000 in 1981–82. Of this amount, $1,076,000 will be spent for support of the commission's operations. The remaining $4,260,000 will be allocated for local assistance.

Chapter 161, Statutes of 1979 (SB 620), appropriated $5 million to the commission for allocation to public agencies to purchase and improve intermodal transfer facilities. Subsequent Budget Act appropriations for this purpose have been made to the Department of Transportation, rather than to the commission, although the commission continues to be responsible for allocating the funds. The commission estimates that the full $5 million appropriated by Chapter 161 will be allocated (although not necessarily encumbered) by the end of the current year.

Overbudgeted Operating Expenses

We recommend reduction of $41,000 from the Transportation Planning and Development Account, State Transportation Fund, because operating expenses are overbudgeted.

Our analysis indicates that the commission has overbudgeted funds for the following operating expenses in 1982–83.

In-State Travel. The budget proposes the expenditure of $80,000 for in-state travel. According to the commission, this amount would enable an average of seven commissioners and five staff members to travel for 24 meetings a year, at an average travel cost of $275 per person. The expenses for travel are primarily composed of air fare, automobile rental and per diem expenses.

The Supplemental Report to the 1980 Budget Act directed the commission to hold at least half of its meetings in Sacramento. In 1982–83, the commission will continue to comply with this legislative directive. As a result, commission staff will not need to travel in order to attend 50 percent of the commission's meetings. Accordingly, in-state travel expenses are overstated by $15,000.

Communications. The Department of Finance's budget instructions direct all agencies to budget for telephone expenses at a level that is 26 percent above actual expenditures in 1980–81. Since actual 1980–81 expenditures were $10,000, the department's instructions allow $13,000 to be budgeted for telephone expenses in 1982–83. The budget, however, requests $28,000 for communications—$15,000 more than the guidelines allow and $15,300 more than projected expenses in the current year. Our analysis indicates, however, that because the commission's responsibilities have increased recently, a higher allowance for telephone expenses may be warranted. On this basis, we recommend that $18,000—rather than $28,000—be approved for this purpose for a savings of $10,000.

General Expenses. The budget requests $49,000 for general expenses, including office supplies, library expenses, advertising expenses, and conference room rentals, etc. The average actual expenses for 1979–80 and 1980–81, including late billings of $11,000 in 1980–81, were approximately $17,500. For the current year, the commission estimates that general expenses will be $23,000. Based on actual expenditures in 1980–81 and current-year estimates, we project that general expenses will be $25,000 in 1982–83. When allowance is made for additional conference room rental expenses of $7,700, the amount needed for general expenses in 1982–83 rises to approximately $32,700. Accordingly, we recommend that the budget request be reduced by $16,000.

CALIFORNIA TRANSPORTATION COMMISSION—Continued

Washington Advocate

We recommend a reduction of $30,000 from the Transportation Planning and Development Account, State Transportation Fund (Item 2600-001-046), requested to support advocacy activities in Washington, D.C., because such activities would duplicate the efforts of both the Department of Transportation and commission members.

Federal funding for highway and public transportation projects is authorized by the Surface Transportation Assistance Act of 1978, which will expire at the end of federal fiscal year 1982. The Congress will be considering reauthorization of the act during this calendar year. The commission is requesting $30,000 to contract for consulting services involving advocacy and liaison work in Washington directed at the reauthorization.

Our analysis indicates that:

1. ***The Department of Transporatation already has an office in Washington which is staffed with 1.5 positions at an estimated cost of $50,600 during 1981–82.*** The duties of the office include representing the state on transportation issues before the Congress and the executive branch of the federal government. Consequently, were the commission to hire a consultant for advocacy and liaison activities in Washington, it would duplicate—and possibly detract from—the activities to be undertaken by the Department of Transportation.
2. ***Individual commission members will be able to provide input directly to the Congress and the executive branch regarding the state's interest in transportation funding.*** The budget for 1982–83 includes $20,000 for out-of-state travel by commissioners and staff to attend various national conferences and to testify at Congressional hearings on the transportation act reauthorization.

For these reasons, our analysis indicates that the state's interests will be adequately represented in Washington during the budget year. Accordingly, we recommend a reduction of $30,000 requested from the Transportation Planning and Development Account for Washington representation so as to prevent duplication of effort.

CALIFORNIA TRANSPORTATION COMMISSION—REAPPROPRIATION

Item 2600-490 from the State Transportation Fund

ANALYSIS AND RECOMMENDATIONS

We recommend denial of the proposed reappropriation because projects which are not ready to proceed after three years should undergo additional California Transportation Commission review.

The budget proposes reappropriating the unencumbered balance of funds made available in Section 71(c)(1), Chapter 161, Statutes of 1979, for intermodal transfer facilities.

Chapter 161 appropriated $5 million to the California Transportation Commission (CTC) for allocation to local agencies for construction of intermodal transfer facilities. The CTC anticipates that by the end of the current year, approximately $400,000 will be unencumbered. These funds were allocated to two projects which have not proceeded as planned.

Our analysis indicates that these funds should not be reappropriated in the Budget Bill, for two reasons:

1. ***Reappropriation is premature.*** Encumbrances from the $5 million appropriation are available until 1983–84. Consequently, reappropriation in 1982–83 is not necessary to extend the availability of these funds.

2. ***Funds are being tied-up that could be used by other high-priority projects.*** Three years have elapsed since these funds were made available for encumbrance. If, within this period, projects have not been able to proceed, we believe they should undergo further CTC review and compete with other projects for funding through the intermodal program.

For these reasons, we recommend denial of the proposed reappropriation.

Business, Transportation and Housing Agency
SPECIAL TRANSPORTATION PROGRAMS

Item 2640 from the State Transportation Fund — Budget p. BTH 67

Requested 1982–83	$74,488,000
Estimated 1981–82	67,014,000
Actual 1980–81	82,516,000
Requested increase $7,474,000 (+11.2 percent)	
Total recommended reduction	$74,488,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Budget Bill Error. Recommend Department of Finance submit amendments to the Budget Bill to properly reflect the administration's proposals, as displayed in the budget document.	352

SPECIAL TRANSPORTATION PROGRAMS—Continued

2. ***State Transit Assistance. Reduce Item 2640-101-046 by $74,488,000.*** Recommend reduction because the program does not address an existing problem. Also recommend that, if a need for additional transit assistance is established, legislation restructuring program be enacted to reflect current problems and specific objectives. 353

GENERAL PROGRAM STATEMENT

Chapter 161, Statutes of 1979 (SB 620), made major changes in state rail and transit programs, and in how funds deposited in the Transportation Planning and Development (TP and D) Account are utilized. It appropriated $10 million in discretionary funds to the Secretary of Business, Transportation and Housing to be allocated for special public transportation needs which would not otherwise be met.

In addition, Chapter 161 appropriated $10 million to the Secretary for a program to investigate the practicality and cost-effectiveness of alternative motor vehicle fuels. The act also provided an annual appropriation to the Secretary for allocation under the State Transit Assistance program. Approximately $66.8 million in TP and D Account funds are expected to be allocated for this program in 1981–82. Finally, Chapter 161 appropriated other funds for transit purposes, and assigned responsibilities for various programs to the Department of Transportation and the California Transportation Commission.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes an appropriation of $74,688,000 from the Transportation Planning and Development Account in the State Transportation Fund to the Secretary for special transportation programs. This is an increase of $7,674,000, or 11 percent, above estimated current-year expenditures.

The budget proposes $74,488,000 for the State Transit Assistance program. The remaining $200,000 is proposed to support research in public transportation systems engineering, management and coordination. Table 1 displays expenditures for special transportation programs in the prior, current and budget years, as shown in the budget document.

Table 1
Proposed Expenditures for Special Transportation Programs (As shown in Budget Document) (in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Percent Change*	*Proposed 1982–83*	*Percent Change*
Training and research	—	$200	NA	$200	—
State transit assistance	$75,865	66,756	−12%	74,488	12%
Alternative motor vehicle fuels research	207	58	−72	—	−100
Special public transportation needs	6,444	—	−100	—	—
Totals	$82,516	$67,014	−19%	$74,688	11%

Budget Bill Error

We recommend that the Department of Finance submit amendments to the Budget Bill to reflect the proposals included in the budget.

The Budget Bill does not correctly reflect the Governor's requests for special transportation programs, as set forth in the budget document. Item 2640-001-046 requests $74,488,000 for training and research, rather than $200,000 as proposed in the budget document. The Budget Bill includes no appropriation for State Transit Assistance.

We recommend that the Department of Finance submit amendments to the Budget Bill to reflect properly the administration's proposals. (Our analysis of this item is based on the proposals contained in the budget document.)

Training and Research

We recommend approval.

The budget document proposes $200,000 for two transportation research projects. These projects would be implemented by the Institute of Transportation Studies at the University of California. The first project, which began in the current year using funds appropriated by the 1981 Budget Act, involves development of a planning model that will permit evaluation of alternative transportation strategies in a specific corridor. The second project seeks to determine the social benefits of demand-responsive transit services (such as dial-a-ride services). A determination of these benefits would permit transit providers to evaluate the implications of expanding or discontinuing such services.

Our analysis indicates that both projects should provide information which would be useful to the state in developing transportation policy.

State Transit Assistance

We recommend a reduction of $74,488,000 in the Transportation Planning and Development Account for State Transit Assistance because the problems which justified the establishment of the program outside of the normal transit financing mechanism no longer exist on a statewide basis. We further recommend that if a need for additional transit assistance is established, legislation restructuring the program be enacted to identify specific program objectives related to current problems.

The budget proposes an appropriation of $74,488,000 for the State Transit Assistance (STA) program. This represents an increase of $7,732,000 (12 percent) over the appropriation for 1981–82. This would be the first Budget Act appropriation for the STA program. The program was originally funded for three years with an appropriation made by Ch 161/79.

Funds for the STA program are appropriated to the Secretary for allocation to regional transportation planning agencies. One-half of the funds are allocated on a per capita basis and one-half are allocated on an urban population basis. The regional agencies reallocate the funds to eligible transit operators for capital purposes and, if specified conditions are met, operating assistance. Under Chapter 161, regional agencies must give priority consideration in the allocation of funds to (1) paying transit operators' unanticipated fuel costs, (2) enhancing transit service, and (3) meeting other high-priority transit needs.

Program Evaluation. In Chapter 161, the Legislature directed the Legislative Analyst to conduct an evaluation of the STA program. The results of this evaluation are contained in a report entitled *The Allocation and Expenditure of State Transit Assistance Funds,* which was released in February 1982.

Our review indicates that the program was established in 1979 in response to two factors: (1) rapidly rising fuel prices that were having a

SPECIAL TRANSPORTATION PROGRAMS—Continued

significant impact on transit operators' operating costs, and (2) a dramatic increase in transit demand resulting from higher fuel prices and inadequate fuel supplies. Additional state funds were provided to transit operators outside of the normal transit financing system established by the Transportation Development Act (TDA) to help them meet (1) the increased demand for transit services, and (2) the higher cost of diesel fuel.

Our analysis of the program's impact to date indicates that the funds did not have a significant immediate impact on the supply of transit service. A review of eight regional planning agencies shows that approximately one-half of the funds were spent to support *existing* levels of transit service. While the remaining balance was directed to expanding transit service, these funds have had relatively little impact on service levels to date. This is because 95 percent of the money earmarked for expanded service was spent on capital projects. In many of these cases, it will take years before the capital projects result in increased service.

Our review indicates that the reason why such a high percentage of the funds could be used for existing, rather than expanded, service is the lack of any meaningful guidelines in Chapter 161. Although the act established three funding priorities, these priorities were so general that it would be difficult for an allocation of STA funds to be inconsistent with them.

1982–83 Funding Needs. Our analysis indicates that the problems which existed when STA was established—rapidly increasing fuel costs and a significantly higher-than-normal demand on available transit resources—no longer appear to exist on a statewide basis. First, fuel prices have stabilized, allowing the allocation of funds under the TDA to "catch up". Furthermore, both governmental and industry projections do not show fuel costs rising more rapidly than prices generally during the next few years.

In addition, it appears that the dramatic increases in transit ridership which occurred after the 1979 fuel price increases were temporary. To determine what the *lasting* impact of the fuel price increases were, we projected ridership on the Southern California Rapid Transit District (SCRTD), Golden Gate Transit and Bay Area Rapid Transit (BART) in 1981–82, based on pre-1979 trends. We then compared these projections with actual ridership in 1981–82. Table 2 indicates the results of our analysis.

Table 2
Projected Versus Current Ridership
(in millions)

	Projected 1981–82 Ridership[a]	*1981–82 Ridership*[b]
SCRTD	395[c]	361
Golden Gate	13.9[d]	12.5
BART	51.5[e]	52.4

[a] Projections made based on actual ridership adjusted to account for the impact of labor disputes.
[b] Annualized ridership through November, 1981.
[c] Based on ridership between 1974–75 and 1977–78.
[d] Based on ridership between 1973–74 and 1977–78. 1981–82 ridership estimate by transit district.
[e] Based on ridership between 1975–76 and 1977–78.

As Table 2 indicates, only one of the three operators—BART—is carrying more passengers than we would have expected them to carry, based on pre-1979 ridership trends. The difference in BART ridership, moreover, is not statistically significant. Consequently, it does not appear that the increase in fuel prices has had a continuing impact on transit ridership. Nor does it appear that the addition of a new funding source in 1979—STA—has had a noticeable impact on ridership. (Although the table indicates that the other two operators are carrying fewer passengers than the level projected, these differences also are not statistically significant.)

Without these unique problems, it is not clear that funds outside the normal transit financing mechanism are needed at this time. Revenues available for transit from the usual sources—TDA allocations, fare box revenues, property tax revenues, etc.—should be adequate to support existing patronage levels because the existing revenue structure for transit has been designed to be responsive to increasing prices and population. Consequently, we are unable to establish a need for continuing the STA at this time.

Nonetheless, it is possible that a need for State Transit Assistance may arise in the budget year. First, some capital projects that were begun with STA funds may require additional funding outside the normal mechanism so that development may continue beyond the current year. Second, there is considerable uncertainty concerning the level of federal transit assistance that will be available in the budget year. The Reagan Administration has announced its intention to phase out operating assistance by federal fiscal year 1985. Although federal assistance for FFY82 did not decrease significantly in any single urbanized area (in fact, in some areas, apportionments have increased), a significant reduction in FFY83 could result in a need for additional transit funds in some areas.

Our analysis indicates, however, that even if a need for additional funds outside the normal transit mechanism should arise, the *existing* STA program could not address these needs effectively. This is because the program does not provide a mechanism for targeting the funds in a way that meets transit needs. For example, although the loss of federal funds in any single urbanized area would be related to population, the relative impact of the elimination of federal transit support would be much greater in some areas than in others. Operators in Los Angeles, for example, depend more heavily on federal support than those in the Bay Area, because many Bay Area operators have a greater local transit subsidy base.

In sum, major legislative changes in the State Transit Assistance program would be required in order to allocate the funds where they are most needed. This would involve establishing specific legislative objectives for the STA program, and providing for an allocation of these funds to achieve these objectives. For example, the Legislature could require that funds be used only for the purpose of providing expanded services or replacing lost federal funds.

Lacking an analytical basis for recommending that the STA program continue at this time, we recommend that the requested funds be deleted. We further recommend that if a need to continue the program is established, that legislation be enacted to restructure the STA program in order to reflect legislative objectives. An appropriation to continue the program at an appropriate funding level could be included in that legislation.

Business, Transportation and Housing Agency

DEPARTMENT OF TRANSPORTATION

Item 2660 from various funds Budget p. BTH 70

Requested 1982–83	$1,066,930,000
Estimated 1981–82	1,026,606,000 [a]
Actual 1980–81	854,338,000
Requested increase (excluding amount for salary increases) $40,324,000 (+3.9 percent)	
Total recommended reduction	$65,637,000
Recommendation pending	$345,918,000

[a] Includes $88,422,000 from the proposed deficiency bill.

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2660-001-041—Aeronautics—Support		Aeronautics Account	$1,837,000
2660-001-042—Highway—Support		State Highway Account	615,192,000
Mass Transportation—Support			265,000
2660-001-046—Mass Transportation—Support		Transportation Planning and Development Account	39,697,000
Transportation Planning—Support			4,890,000
2660-001-140—Highway—Support		Environmental License Plate	69,000
2660-101-041—Aeronautics—Local Assistance		Aeronautics Account	1,000,000
2660-101-042—Highway—Local Assistance		State Highway Account	25,900,000
Mass Transportation—Local Assistance			88,100,000
2660-101-046—Mass Transportation—Local Assistance		Transportation Planning and Development Account	34,800,000
Transportation Planning—Local Assistance			2,032,000
2660-301-042—Highway—Capital Outlay		State Highway Account	145,000,000
2660-301-046—Mass Transportation—Capital Outlay		Transportation Planning and Development Account	28,759,000
2660-301-140—Highway—Capital Outlay		Environmental License Plate	180,000
Total, Budget Act appropriations, State Funds			$987,721,000
—Chapter 1092, Statutes of 1972—Highway—Support		Bicycle Lane Account	$24,000
—Chapter 1364, Statutes of 1978—Highway—Capital Outlay		State Highway Account	6,256,000
—Budget Act of 1978—Highway—Local Assistance		State Highway Account	200,000
—Budget Act of 1979—Highway—Local Assistance		State Highway Account	200,000
—Budget Act of 1980—Highway—Local Assistance		State Highway Account	600,000
—Budget Act of 1981—Highway—Local Assistance		State Highway Account	300,000
—Budget Act of 1980—Highway—Capital Outlay		State Highway Account	13,085,000
—Budget Act of 1981—Highway—Capital Outlay		State Highway Account	48,530,000
—Toll Bridge Funds—Highway—Support		Toll Bridge Funds	33,254,000
—Toll Bridge Funds—Highway—Capital Outlay		Toll Bridge Funds	18,174,000
—Continuing Aeronautics Appropriations		Aeronautics Account	4,925,000

—Continuing Mass Transportation Appropriations	Abandoned Railroad Account	92,000
—Continuing Highway Appropriations	Bicycle Lane Account	405,000
Total, Continuing statutory appropriations, State Funds		$126,045,000
Minus, Balance available in subsequent years		−46,836,000
Total, All Expenditures, State Funds		$1,066,930,000

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

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Fund Transfer Notification. Recommend adoption of Budget Bill language directing the department to notify the Legislature prior to transferring funds among categories or program elements. 367
2. Capital Outlay Staffing. Withhold recommendation on the proposed staffing level of 5,345.2 personnel-years and $231.5 million in the three highway capital outlay elements (Item 2660-001-042), pending submission of an updated projection of staffing requirements based on the 1982 Proposed State Transportation Improvement Program. 368
3. *Court-Awarded Attorney's Fee. Reduce Item 2660-001-042 by $14,000.* If the Legislature chooses to pay a court-awarded attorney's fee of $200,000, plus interest, recommend reduction to limit interest to the legal rate of 7 percent, instead of 12 percent. Also recommend adoption of Budget Bill language specifying that the award payment is authorized, notwithstanding Budget Act Control Section 4.5. 373
4. *Recycling Program. Reduce Item 2660-001-042 by $364,000.* Recommend the proposed recycling program be approved as a pilot program until cost-effectiveness has been established. Further recommend operating cost associated with the program be reduced to reflect limited implementation. Further recommend that the department be required to evaluate and report to the Legislature on the cost-effectiveness of the project. 374
5. *New Rental Policy. Reduce Item 2660-001-042 by $345,000.* Recommend reduction because department's rental policy is inequitable and inconsistent with the department's mission and with the policies of other state agencies. 376
6. *Delinquent Rental Accounts. Reduce Item 2660-001-042 by $137,000.* Recommend reduction because experience to date indicates that the effort to collect delinquent, vacated rental accounts is not cost-effective. 377
7. *Housing Rehabilitation. Reduce Item 2660-001-042 by $624,000.* Recommend reduction because the department has not determined the level of housing rehabilitation to be performed in the budget year. 377
8. *Contracted Rental Rehabilitation. Reduce Item 2660-001-* 378

DEPARTMENT OF TRANSPORTATION—Continued

042 by $1,313,000. Recommend reduction because this amount will not be needed for rehabilitation of houses in Route 105 corridor.

9. *Public Information Office. Reduce Item 2660-001-042 by $37,000.* Recommend reduction because one of the department's public information offices duplicates services provided by two other state-funded information offices, and thus is unnecessary. 378
10. Highway Maintenance Staffing. Recommend that the department resolve inconsistencies in its position regarding level of staffing needed for highway maintenance. 380
11. *Low-Volume Roads. Reduce Item 2660-001-042 by $6,500,000.* Recommend reduction because requested increase in contracted low-volume road maintenance has not been adequately justified, and would result in a disproportionate amount being spent on the least-used roadways in the state. 382
12. *Pavement Maintenance. Reduce Item 2660-001-042 by $945,000.* Recommend reduction to eliminate unjustified additional staff. 383
13. *Landscape Maintenance and Litter Pickup. Reduce Item 2660-001-042 by $6,260,000.* Recommend reduction because need for increase in landscaping and litter pickup activities has not been documented, and these activities have been assigned a low priority by the Legislature. 384
14. *Maintenance-Related Material and Equipment. Reduce Item 2660-001-042 by $248,000.* Recommend, contingent on adoption of recommendation No. 13 above, reduction for material and equipment related to increased landscaping and litter pickup activities. 386
15. *Safety Lookouts. Reduce Item 2660-001-042 by $921,000.* Recommend reduction because the department's staffing level for safety lookouts is not appropriate, and alternatives for maintaining safe working conditions without an increase in positions should be explored. 386
16. *Guardrail and Barrier Repair. Reduce Item 2660-001-042 by $111,000.* Recommend reduction because the request for additional staff to repair guardrails is overestimated, based on actual experience. 387
17. *Rail Vehicle Accessibility. Reduce Item 2660-001-046 by $107,000.* Recommend reduction because lifts on rail vehicles would not improve transportation for handicapped travelers in a cost-effective manner. 390
18. *Technical Planning Assistance. Reduce Item 2660-001-046 by $120,000 and Item 2660-101-890 by $120,000.* Recommend deletion of funds because the program is not cost-effective, given that administrative costs of this local assistance program are equal to the amount subvened. 392
19. *Transit Management Assistance. Reduce Item 2660-001-046 and increase Item 2660-001-890 by $169,000.* Recommend shift in funding because federal funds are available to pay program costs. 392
20. *Transit Guideway Funding. Reduce Item 2660-101-042 by* 393

$10,600,000. Recommend reduction because department's proposal is overbudgeted. Withhold recommendation on $105.5 million (Items 2660-101-042 and 2660-101-046) for transit guideways, pending adoption of priority list by the California Transportation Commission.

21. Local Assistance. Recommend Budget Bill language to limit three-year funding availability to amounts appropriated for local assistance construction and right-of-way acquisition. 394
22. ***Intercity Bus Service. Reduce Item 2660-001-046 by $2,190,000.*** Recommend reduction because the specialized bus service proposed would not significantly increase mobility of the handicapped, and would be difficult to implement. 395
23. ***Commuter Rail Capital Outlay. Reduce Item 2660-001-046 by $708,000 and Item 2660-301-046 by $16,650,000.*** Recommend reduction because appropriating these funds directly to the department would be inconsistent with existing law which requires funds for capital improvements to commuter rail services to be allocated through the urban guideway program. 397
24. ***Peninsula Commute Service. Reduce Item 2660-001-046 by $851,000.*** Recommend reduction because the operating subsidy request is overbudgeted. Also recommend adoption of Budget Bill language to limit state subsidies of commuter rail services to 50 percent of the net operating cost. 398
25. ***New Commuter Services. Reduce Item 2660-001-046 by $4,841,000.*** Recommend reduction because department should not establish new commuter services until it has resources needed to manage existing services. 399
26. ***Rail Transportation Certification. Reduce Item 2660-001-046 by $356,000 and increase Item 2660-001-042 by $228,000.*** Recommend reduction because the department should not use state funds to train personnel to perform work for nonstate agencies. 401
27. ***Department Intermodal Facilities. Reduce Item 2660-001-046 by $795,000 and Item 2660-301-046 by $5,109,000.*** Recommend reduction because all intermodal facility projects should compete for funding with other such projects in the state. 402
28. Intermodal Facilities Program. Withhold recommendation on $8,223,000 (Items 2660-001-046 and 2660-101-046) for intermodal facility construction and operation, pending resolution of issues concerning proposed projects. 403
29. ***Southern Pacific Station Management. Reduce Item 2660-001-046 by $749,000.*** Recommend reduction because need for funds to manage station has not been substantiated. 404
30. ***Sacramento Light Rail. Reduce reimbursements in Item 2660-001-046 by $31,059,000.*** Recommend reduction because funds are not available to pay department for project work. 405
31. Ridesharing Funding. Recommend amendment to 409

DEPARTMENT OF TRANSPORTATION—Continued

Transportation Development Act to authorize use of funds to support ridesharing services.

32. Shared Vehicle Demonstration Project. Recommend adoption of Budget Bill language requiring submission of feasibility study report to the Joint Legislative Budget Committee and fiscal subcommittees 30 days before funds are spent on shared vehicle demonstration project. Also recommend supplemental report language requesting the Chairman of the Joint Legislative Budget Committee to make recommendation to the Director of Finance on continuing the project. 409
33. Subsidized Vanpool Program. Withhold recommendation on $300,000 (Item 2660-001-046) for vanpool program pending development of implementation plan. 411
34. Budget Operations. Recommend that fiscal subcommittees request Department of Finance and Department of Transportation to comment on future of budget development contract. 412
35. Financial Accounting System. Withhold recommendation on $395,000 (Item 2660-001-042) for consultant services to develop and implement a new financial management system, pending receipt of additional information and an amendment to the Governor's Budget. 413
36. ***Highway Research. Reduce Item 2660-001-042 by $231,000.*** Recommend reduction of $231,000 because highway research activities are overbudgeted. 414
37. ***Equipment Repair Services. Reduce Item 2660-001-042 by $378,000.*** Recommend reduction to eliminate double-budgeting for material and parts needed for equipment repairs. 415
38. ***Interagency Agreement. Reduce Item 2660-001-042 by $13,000.*** Recommend reduction to eliminate overbudgeting. 415
39. ***Utilities Cost. Reduce Item 2660-001-042 by $2,665,000.*** Recommend reduction to eliminate overbudgeting for highway energy costs and utilities costs. 415
40. ***System Planning Activities. Reduce Item 2660-001-042 by $177,000.*** Recommend reduction to eliminate double-budgeting. 416
41. ***Depreciation of Equipment. Reduce Item 2660-001-042 by $130,000.*** Recommend reduction because budgeting for depreciation is no longer necessary due to a change in budgeting procedures. 416
42. ***Maintenance Contracts. Reduce Item 2660-001-042 by $208,000.*** Recommend reduction to eliminate overbudgeting. 416
43. ***Conforming Adjustment. Reduce Item 2660-001-042 by $350,000.*** Recommend reduction if a recommendation to reduce consulting contracts in Item 2240-001-001 (Department of Housing and Community Development) is adopted. 417
44. ***Vehicles and Road Equipment. Reduce Item 2660-001-042 by $568,000.*** Recommend reduction because (a) the 417

need to defer current-year purchases is overstated, and (b) price estimates used to budget for equipment are too high.

45. ***Reimbursements. Reduce reimbursements in Item 2660-001-042 by $160,000.*** Recommend reduction in reimbursed expenditures to eliminate unnecessarily funding transfers for legal services. 418
46. ***Transit Demonstration Projects. Reduce Item 2660-001-046 by $81,000.*** Recommend reduction because evaluation of projects will be completed in the current year. 418
47. ***Ridesharing Funding Source. Increase Item 2660-001-046 by $141,000 and reduce Item 2660-001-042 by $141,-000.*** Recommend ridesharing funding shift to reflect previous legislative action on this issue. 418

GENERAL PROGRAM STATEMENT

The Department of Transportation (Caltrans) is responsible for planning, coordinating and implementing the development and operation of the transportation system in California.

The department's responsibilities are divided among five programs. Three programs—Highway Transportation, Mass Transportation and Aeronautics—concentrate on the improvement and operation of the three respective modes of transportation. Transportation Planning seeks to improve the planning for all modes in the state. The final program, Administration, is concerned with the management of the department. Expenditures for this program are prorated among the other four operating programs.

The department's headquarters is in Sacramento, and it maintains 11 district offices throughout the state. Currently, the department is authorized 15,324.6 personnel-years.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures totaling $1,066,930,000 in state funds for support of Department of Transportation activities in 1982–83. This is $40,324,000, or 3.9 percent, more than estimated expenditures in the current year. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

In addition to proposed expenditures of $1,066,930,000 from state funds, the department proposes to spend $911,168,000 in federal funds and $132,-067,000 in reimbursements, for a total proposed expenditure program of $2,110,165,000.

Estimated expenditures for 1981–82, as shown in the budget, include a supplemental appropriation of $88,422,000 for the Highway Transportation program. Since the budget was prepared, however, the department has reduced the amount it intends to request in the supplemental appropriation bill to $75.6 million. If expenditures from the proposed supplemental appropriation are excluded from 1981–82 expenditures, the proposed increase for the budget year would be $128,746,000 or 14 percent.

In 1982–83, staffing is proposed to increase from the current authorized level of 15,324.6 personnel-years to 15,598.2 personnel-years, an increase of 273.6 personnel-years, or 1.8 percent.

Table 1 compares the department's proposed budget for 1982–83 to expenditures authorized under current law.

Table 1
Proposed 1982–83 Department of Transportation Budget Changes
(in thousands)

	State Highway Account	*Aeronautics Account*	*TP and D Account*	*Federal Funds*	*Reimburse-ments*	*Other*	*Total*
1981–82 Authorized	$745,916	$7,256	$110,744	$822,270	$100,172	$82,743	$1,869,101
1. 1982–83 Cost Changes	27,715	506	507	66,550	1,545	2,846	99,669
2. Workload and Program Changes							
A. Aeronautics							
(1) State operations	—	—	—	—	—	—	—
(2) Local assistance	—	—	—	—	—	—	—
Subtotals	—	—	—	—	—	—	—
B. Highways							
(1) State operations	$35,313	—	—	$5,764	−$626	$3,147	$43,598
(2) Local assistance	−1,400	—	—	—	—	−96	−1,496
(3) Capital outlay	50,022	—	—	—	−10,309	−36,396	3,317
Subtotals	($83,935)	—	—	($5,764)	(−$10,935)	(−$33,345)	($45,419)
C. Mass Transportation							
(1) State operations	$26	—	$27,912	$16,644	$38,285	−$46	$82,821
(2) Local assistance	39,200	—	−57,744	−60	—	—	−18,604
(3) Capital outlay	—	—	28,759	—	3,000	—	31,759
Subtotals	($39,226)	—	(−$1,073)	($16,584)	($41,285)	(−$46)	($95,976)
D. Planning							
(1) State operations	—	—	—	—	—	—	—
(2) Local assistance	—	—	—	—	—	—	—
Subtotals	—	—	—	—	—	—	—
Total Proposed Changes	$123,161	—	−$1,073	$22,348	$30,350	−$33,391	$141,395
1982–83 Proposed Expenditures	$896,792	$7,762	$110,178	$911,168	$132,067	$52,198	$2,110,165 [a]

[a] This total, net of federal funds and reimbursements, equals total expenditure, state funds ($1,066,930).

Significant Program Changes

The 1982–83 budget reflects several significant changes in the highway and mass transportation programs. Although most of them are discussed in greater detail in later sections of this analysis, the following provides an overview of these proposed changes in program emphasis.

Highway Transportation. The most significant proposed changes in the Highway Transportation program are in expenditures for capital outlay project development and maintenance.

The department is proposing to increase capital outlay support in 1982–83 by 333.7 personnel-years, for a total program effort consisting of 5,345.2 personnel-years and $231.5 million. Capital outlay support personnel are concentrated in three program elements—rehabilitation, operational improvements and new facilities. The department is authorized 5,011.5 personnel-years for capital outlay support in the current year—243.8 personnel-years below the level authorized in 1980–81. The increase in personnel-years proposed for the budget year primarily reflects a revised project delivery schedule developed through the department's automated personnel and capital outlay scheduling system (PYPSCAN).

The department is authorized 6,036.1 personnel-years and $289.7 million for maintenance activities in the current year—75.2 personnel-years below the 1980–81 level. This reduction was proposed by the department in the 1981–82 budget to reflect anticipated operational efficiencies and reorganization of field operations. For 1982–83, the department is requesting an increase of 344.1 personnel-years over the current-year level, for a total maintenance effort of 6,380.2 personnel-years and a funding level of $345.6 million.

Mass Transportation. The most significant changes in the Mass Transportation program are in the areas of inter-regional transportation, intermodal transfer facilities and reimbursed work for others.

The department proposes to spend $2.5 million to contract for intercity bus services, an increase of $1,000,000 from the current-year level. Of the proposed $2.5 million, $2 million would be spent on a new activity to subsidize intercity bus service in major corridors, using coaches which are accessible to wheelchair users. The remaining $500,000 would allow continuation of existing subsidies—at a 50 percent funding level—for bus service between small- and medium-sized communities.

The department also is proposing to initiate two new commuter rail services in the Los Angeles area, and to add an eighth daily round trip to the existing service between Los Angeles and San Diego. In addition, the department proposes to purchase and operate Southern Pacific stations along the San Francisco–San Jose commuter rail route.

In the intermodal facilities element, the department is proposing to spend $7.0 million to rehabilitate and operate the San Diego Sante Fe Depot and Union Station in Los Angeles. The budget also includes funds to perform design work on the Transbay Terminal in San Francisco.

Finally, the department proposes an expenditure of $31.1 million in reimbursements to continue work on the proposed light rail project in Sacramento.

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

DEPARTMENT OF TRANSPORTATION—Continued

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 may be raised on the adopted STIP.

Fund Allocation

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

The Legislature appropriates, through the Budget Act, maximum expenditure levels for the various program components. The Budget Act also permits transfer of funds by the department between programs, upon CTC and Department of Finance approval, provided that any decrease in authorized expenditures within a program element (such as Rehabilitation or Maintenance) does not exceed 10 percent. Chapter 1106, however, prohibits the Legislature from identifying in the Budget Act specific capital outlay projects to be funded.

STIP Implementation

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 years in and beyond the five-year STIP.

Proposed 1982 STIP

As a result of a delay in estimating revenues, the proposed 1982 State Transportation Improvement Program was not submitted to the CTC in time to be evaluated in detail in this *Analysis.*

The CTC has adopted a revenue estimate, based on current revenue trends, the provisions of Chapter 541, Statutes of 1981 (SB 215), and the anticipated provisions of proposed federal legislation. This estimate is consistent with the commission's intent to fulfill past commitments made in the 1980 STIP and the general funding priorities contained in Chapter 541.

In addition, the adopted revenue estimate reflects the existing level of highway maintenance service, with costs adjusted for inflation over the STIP period. The commission's estimate also has tentatively included an additional five-year increase of $23 million for expanded maintenance services to accommodate a projected increase in workload.

AERONAUTICS

The Aeronautics program contains four elements which are designed to improve the safety and efficiency of the California aviation system: (1) safety and local assistance, (2) administration, (3) planning and noise, and (4) reimbursed work for others.

The department requests an appropriation of $7,762,000 from the Aeronautics Account in the State Transportation Fund to support the program's activities in the budget year. State operations are budgeted to increase by 4 percent (to $1,837,000), and local assistance is proposed to increase by 8 percent (to $5,925,000) over current-year levels. The department also proposes an expenditure of $29,000 in federal reimbursements for airport inspections, for a total proposed expenditure program of $7,791,000. This is an increase of 7 percent above current-year levels.

Program staff are budgeted at 42.1 personnel-years, the same level authorized in the current year. The budget does not propose any changes in the Aeronautics program for 1982–83.

HIGHWAY TRANSPORTATION

The Highway Transportation program is divided into eight elements: (1) rehabilitation, (2) operational improvements, (3) local assistance, (4) program development, (5) new facilities, (6) administration, (7) operations and (8) maintenance. Each element, in turn, is subdivided into several components.

The department proposes 1982–83 expenditures of $1,835,120,000 for the Highway Transportation program, which is $58,270,000, or 3.3 percent above the current-year expenditure estimate of $1,776,850,000 indicated in the Governor's Budget. The budget-year request, however, is $139,892,000, or 8.3 percent above the expenditure level approved by the Legislature for 1981–82.

Current-year Revised Expenditures. The budget includes increased expenditures of $81.6 million in 1981–82 over the amount originally budgeted. This increase includes (1) $45.6 million in additional capital outlay expenses, (2) approximately $13.4 million to maintain the existing level of capital outlay support, (3) approximately $14.0 million for additional technical services and increased housing rehabilitation activities, and (4) $8.7 million to increase current-year highway maintenance efforts. The department plans to request the additional funding needed through a supplemental appropriations bill in the current year.

Since the budget was submitted, the department has reduced the amount proposed for supplemental appropriation in the current year. The department now will request an appropriation of $75.6 million.

Proposed 1982–83 Expenditures. Table 2 shows the proposed changes and the funding sources for the 1982–83 Highway Transportation program. The department requests a staffing increase of 700.2 personnel-years (5 percent) above the currently-authorized level of 14,231.5 personnel-years.

Expenditures for state operations are proposed to increase by $85.3 million in 1982–83 over the currently-authorized level. This includes $40.7 million for cost increases and $44.6 million to expand program activities. The department also proposes an increase of $54.4 million for capital

DEPARTMENT OF TRANSPORTATION—Continued

Table 2
Proposed 1982–83 Highway Transportation Program Changes and Fund Sources (dollars in thousands)

	Personnel-Years	*State Operations*	*Capital Outlay and Local Assistance*	*Total Expenditures*
1981–82 Approved	14,231.5	$659,335	$1,035,893	$1,695,228
1. Technical adjustments	1.6	—	—	—
1982–83 Baseline	14,229.9	700,061	1,090,248	1,790,309
2. Program changes:				
Rehabilitation	359.3	13,238	—	13,238
Operational improvements	60.2	2,030	180	2,210
Local assistance	10.3	−644	—	−644
Program development	7.6	799	—	799
New facilities	−84.2	874	—	874
Administration	—11.6	1,266	—	1,266
Operations	14.5	−154	—	−154
Maintenance	344.1	27,222	—	27,222
Total program changes	700.2	$44,631	$180	$44,811
1982–83 Proposed	14,930.1	$744,692	$1,090,428	$1,835,120
1982–83 Fund Sources				
State Highway Account	—	$615,192	$193,235	$808,427
Bicycle Lane Account	—	24	405	429
California Environmental License Plate Fund	—	69	180	249
Toll Bridge Funds	—	33,254	18,174	51,428
Federal Funds	—	87,001	802,475	889,476
Reimbursements	—	9,152	75,959	85,111
Total Funds	—	$744,692	$1,090,428	$1,835,120

outlay and local assistance expenditures, primarily to accommodate cost increases.

The State Highway Account would provide approximately $808.4 million (44.1 percent) of the amount needed to fund the proposed level of activities. An additional $889.5 million (48.5 percent) would be funded from federal contributions. The remaining $137.2 million (7.4 percent) would be derived from other state funds and reimbursements.

New Revenues for Highway Financing

In our *Analysis of the 1981–82 Budget Bill,* we projected that the Highway program was faced with a deficit that, under existing law, could reach $2.4 billion by 1986. To avert such a deficit, the Legislature enacted Chapter 541, which increased motor vehicle fuel taxes and various fees, including vehicle registration fees, driver's license fees and commercial vehicle weight fees.

Fiscal Impact of Chapter 541. Table 3 shows the estimated revenue changes resulting in various state accounts, as well as anticipated changes in local transportation program revenues, for 1981–82, 1982–83 and 1983–84. As the table indicates, the State Highway Account will receive an additional $216 million in the budget year and $329 million in 1983–84 as a result of Chapter 541. Local transporation programs could receive an additional $100 million in 1982–83 and $181 million in 1983–84.

Table 3
Fiscal Impact of Chapter 541
(in millions)

	1981–82	1982–83	1983–84
General Fund	–$26	—	–$27
Motor Vehicle Account	185	$152	159
State Highway Account	13	216	329
Local Transportation Programs	13	100	181
Total Revenue Increase	$185	$468	$642

Spending Priorities. Chapter 541 also specifies the following priorities for programming, budgeting and spending State Highway Account funds:

1. Maintenance, rehabilitation and reconstruction of the existing system to protect the public's investment;
2. Safety improvements to reduce traffic accidents;
3. Operational improvements to maximize the efficiency of the system;
4. New construction; and
5. Other purposes, including landscape planting, litter pickup and compatibility improvement.

Fund Transfer Notification Needed

We recommend adoption of Budget Bill language directing the Department of Transportation to notify the Legislature prior to transferring funds among categories or program elements.

The department has the authority to transfer appropriated funds among the various program categories in two ways.

1. *Budget Act Authority.* The department is authorized by the Budget Act to reallocate up to 10 percent of its appropriation for capital outlay, state support and local assistance among these categories, upon approval by the California Transportation Commission (CTC) and the Department of Finance.

2. *Chapter 1106, Statutes of 1977.* The department is authorized by Chapter 1106 to transfer among elements up to 10 percent of its appropriation for any individual program element, such as rehabilitation and maintenance. Such transfers also must be approved by the CTC and the Department of Finance. In addition, the department is required to submit to the fiscal committees of the Legislature and the Joint Legislative Budget Committee a notification of intent to transfer funds *five days prior* to the transfer.

Our review indicates that, in prior years, the department has exercised these transfer authorities, and changed the staffing and expenditure levels in various program elements as well as expense categories. While the department's authority to transfer funds is clear, the Legislature has not always been notified promptly of such transfers, as required by law. Notices of transfers for 1979–80, for example, are being submitted to the Legislature at this time—18 months after the close of that fiscal year.

The department's position is that the notification requirement pertains to the actual transfer of funds and not to a change in the intended use of funds. The department advises that all expenses are paid from its revolving fund, into which appropriated funds are placed. Frequently, funds appropriated for one program element are actually expended on another element, but no accounting transfer of funds is necessary until a later date. In fact, the actual transfer of money from one element to another often occurs at the close of the fiscal year or later.

DEPARTMENT OF TRANSPORTATION—Continued

We recognize that the department requires some flexibility to adjust expenditures among program elements and expense categories. The Legislature, however, has no opportunity to monitor the implementation of the adopted budget if it is not notified of a transfer until 18 months after the transferred funds have been spent. In order to enhance legislative oversight of the department's use of funds, we recommend adoption of the following Budget Bill language in Item 2660-001-042:

"The department shall notify the Legislature at least five days before (1) spending funds within any single element of an item at a level which exceeds the amount appropriated by this act, or (2) transferring funds among expenditure categories pursuant to Section 168 of the Streets and Highways Code."

Need for Capital Outlay Support Staff Unknown

We withhold recommendation on the department's proposed staffing level of 5,345.2 personnel-years and $231.5 million in the three highway capital outlay elements (Item 2660-001-042), pending submission of an updated projection of staffing requirements based on the 1982 PSTIP.

The personnel used to develop highay capital outlay projects are distributed among three elements in the Highway Transportation program—rehabilitation, operational improvements and new facilities. The budget proposes a total capital outlay staffing level of 5,345.2 personnel-years, at a cost of $231.5 million. This is 333.7 personnel-years higher than the 5,011.5 personnel-years approved for the current year. Table 4 shows the capital outlay staffing changes as proposed by the department to (1) reflect workload reductions in the 1981 STIP, and (2) maintain staff for anticipated increases in the number of projects which the department expects to be included in the 1982 STIP because of the additional revenues to the State Highway Account.

Table 4
Proposed Capital Outlay Support Changes
(personnel-years)

	Authorized	*Workload*	*Additional Projects*	*Other*	*Total Change*	*1982–83 Proposed*
Rehabilitation	985.1	−95.2	473.3	−18.8	359.3	1,344.4
Operational improvement	1,837.0	−286.9	357.0	−11.5	58.6	1,895.6
New facilities	2,189.4	−285.8	262.7	−61.1	−84.2	2,105.2
Total	5,011.5	−667.9	1,093.0	−91.4	333.7	5,345.2

PYPSCAN. Capital outlay support needs are developed using an automated personnel-year, project scheduling and cost-analysis system (PYPSCAN). An extensive data base containing actual personnel and cost data for thousands of projects completed by the department in recent years was used to generate workload factors for different projects types, sizes and costs. These factors and project scheduling data are used to estimate the number of personnel-years needed annually to meet the construction timetables for projects in the STIP. The result, according to the department, is a capital scheduling plan which identifies for each project all of the key target dates in the development of a project and the staffing required to meet those dates.

Proposed staffing level exceeds workload requirements. Based on all projects programmed in the 1981 STIP, (including identified projects which were not funded in the STIP), PYPSCAN estimates that 1982–83 capital outlay personnel needs would be 667.9 personnel-years *lower* than current-year authorized staffing, with a corresponding cost reduction of $23.6 million. This will result in a staffing level which is less than the number of capital outlay staff currently on board.

In order to (1) prevent a lay-off of existing staff and (2) maintain adequate staff in anticipation of an increase in the number of capital outlay projects resulting from the enactment of Chapter 541, the department proposes to increase staff above workload projections by 1,093 personnel-years.

Staffing Needs Uncertain. The department's request to maintain a staff level higher than warranted by existing workload may be reasonable if there will, in fact, be an increase in staffing needs associated with additional capital outlay projects. We are unable, however, to analyze the department's total capital outlay support needs in 1982–83 because the proposed 1982 STIP (PSTIP) was not submitted to the CTC in time for us to evaluate, in this *Analysis*, the impact of the PSTIP on staff requirements. Because we cannot estimate the level of capital outlay activities over the next five years, we have no basis for estimating the amount of support staff which will be needed. Consequently, we have no basis on which to analyze whether the personnel level proposed in the budget is justified.

1982 PSTIP. An updated PYPSCAN projection of capital outlay staff needs based on the 1982 PSTIP should provide a more accurate basis to determine the department's 1982–83 capital outlay staffing needs. We therefore withhold recommendation on the department's proposed staffing of 5,345.2 personnel-years and $231.5 million for capital outlay support in the rehabilitation, operational improvement and new facilities elements, pending analysis of the PYPSCAN projections based on the 1982 PSTIP.

REHABILITATION

The rehabilitation element includes those activities which extend the service life of the highway system 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 department proposes total expenditures of $218.2 million for this element in 1982–83, of which $159 million is for capital outlay. The total amount requested is $41.8 million, or 23.6 percent, above currently authorized expenditures of $176.5 million. Total staffing is proposed to increase by 359.3 personnel-years. This increase is the net result of (1) a decrease of 95.2 personnel-years due to workload decline in the 1981 STIP, (2) a reduction of approximately 20 personnel-years reflecting internal reorganization and savings, and (3) a 473.3 personnel-year increase for *anticipated* workload increases for projects which the department expects to be included in the 1982 STIP because of funds to be made available from the enactment of Chapter 541.

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: (1) safety improvements—signals, median barriers, warning signs and

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crash barriers; (2) compatibility improvements—sound walls, roadside rests, vista points, highway planting and fish and wildlife preservation, and (3) system operation improvements—high-occupancy vehicle lanes, passing and climbing lanes, and lane delineation and channelization.

The budget for this element proposes an expenditure of $264.8 million in 1982–83, including $189.1 million for capital outlay purposes. The total amount requested is $46.9 million, or 21.5 percent, above currently authorized expenditures of $217.9 million. The budget also requests a net increase of 58.6 personnel-years for this element, which is the result of: (1) a reduction of 286.9 personnel-years and $10.1 million, to reflect a decline in project-related workload in the 1981 STIP, and (2) an increase of 357 personnel-years (and $12.2 million), to expand staff in anticipation of workload increase expected to be included in the 1982 STIP due to the increase in available revenues, and (3) a reduction of 11.5 personnel-years associated with various cost savings and staff redirection.

LOCAL ASSISTANCE

The department's local assistance activities 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.

Proposed expenditures in this element total $245.9 million in 1982–83, including $230.4 million for capital outlay and subventions. This represents a decrease of $72.6 million (23 percent) from total expenditures approved for the current year. The decrease primarily reflects an anticipated reduction of (1) $44.1 million in federal subventions, (2) $800,000 in state subventions to local agencies, and (3) $27 million in capital outlay work performed on a reimbursement basis for other agencies.

The budget proposes an increase of 10.3 personnel-years, for a total of 325.9 in 1982–83. This consists of an 11.4 personnel-year increase in reimbursed work for others, and a 1.1 personnel-year decrease for technical adjustments and savings.

Report on Railroad Grade Separation and Protection

During hearings on the department's 1981–82 budget, the Legislature requested that we report on the railroad grade crossing separation program in the 1982–83 *Analysis.* This activity is one component of the railroad crossing separation and protection program administered by the department's local assistance division. The other two components of the program are (1) installation of railroad crossing protection devices, and (2) the maintenance of railroad crossing protection devices.

Grade Separation. Funds from the State Highway Account support projects designed to separate vehicular roadways from railroad tracks. Funding of individual projects is limited by statute to a maximum of $5 million, or one-third of the year's total appropriation for grade separation purposes, whichever is greater.

Beginning in 1957 with an appropriation of $5 million, the Legislature has provided funds annually for grade separation projects. Periodically, this annual appropriation has been increased. Between 1978–79 and 1980–81, the appropriation was $25 million annually. For the current year, the appropriation was reduced to $15 million. For 1982–83, the department is proposing a funding level of $15 million.

The Public Utilities Commission (PUC) is responsible for allocating funds according to "need", while the department is responsible for reviewing fund applications and disbursing funds. The PUC establishes a priority list each year which ranks projects according to an index. This index considers (1) train and vehicular traffic volume, (2) the cost of projects, and (3) "special condition factors", including speed of traffic, accident history and probability and other factors such as the readiness of a project.

Eligible projects can receive state funding for up to 80 percent of their cost. Local governments are responsible for at least 10 percent of the cost, and the remaining 10 percent is contributed by railroad corporations. The PUC reports that, as of May 1981, 192 grade separation projects had been completed or were under construction, and the total allocation from 1957–58 through 1980–81 was $221.0 million.

Installation of Crossing Protection Devices. Both the federal government and the state provide funds for the installation of railroad crossing protection devices.

1. ***State Program.*** Existing law requires the PUC to allocate appropriated funds from the State Highway Account to pay local governments up to 50 percent of the local share of the cost of installing automatic protection devices at railroad crossings. Railroads are required to contribute 50 percent of the total project cost. According to the PUC, state allocations for warning device installation projects totaled $12.0 million at the end of 1980.

2. ***Federal Program.*** Federal funds for the installation of protection devices are available under the Federal Highway Act. The department estimates that $9.6 million will be made available to California for this purpose in both the current and budget years. The federal government pays 90 percent of total project costs, with local agencies contributing the remaining 10 percent. No contribution is required from railroad corporations. Because local agencies pay less and railroads pay nothing for such projects under the federal program, agencies generally apply for federal funding instead of state funding. According to the department, the current level of federal funds available is sufficient to fund all projects, including those which are relatively low in priority. Accordingly, the budget requests no state funds for this program because the department anticipates that no state funds will be needed.

Maintenance of Protection Devices. Assistance for the maintenance of protection devices was authorized in 1965. Public Utilities Code Section 1231.1 requires the department to allocate "no more than $1 million" annually to the PUC to pay the local governments' share of the cost to maintain automatic grade crossing protection devices. For existing crossings, the local share is, in general, 50 percent of total maintenance costs. Payments are made by the PUC on the basis of verified claims filed by railroad corporations. A PUC report indicates that between 1967 and 1980, a total of $8.3 million was authorized for payments, at an average payment of $641,000 annually.

Section 1231.1 also continuously appropriates funds for maintaining protection devices. The Budget Act, however, appropriates these funds for one year. Funds not expended at the end of the year are reverted to the State Highway Account, except for amounts which are reappropriated for subsequent-year payments. In our judgment, this practice, although inconsistent with Section 1231.1, provides the Legislature with greater flexi-

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bility and control over the use of funds.

For 1981–82, the Legislature appropriated $1.6 million for grade protection maintenance purposes. Based on claims received to date, the PUC estimates that costs will approximate $1.2 million in 1981 and $1.3 million in 1982. To ensure that adequate funds are available to pay the local share of the maintenance cost, the department is requesting that (1) $1 million in new funding be appropriated, and (2) $300,000 from the current-year appropriation be reappropriated for crossing maintenance payments.

PROGRAM DEVELOPMENT

The program development element encompasses three component 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 the 55 miles per hour speed limit, and preparation of the STIP and other reports and (3) highway programming—scheduling of capital investments and determination of the distribution of resources.

Expenditures for this element are budgeted at $14.8 million in 1982–83, which is $1.1 million (8 percent) above the amount authorized for the current year. Staffing is proposed to increase from the authorized current-year level of 328.4 personnel-years to 336.0 personnel-years in the budget year. The net increase of 7.6 personnel-years is the result of (1) a 10.3 personnel-year increase for additional research, and (2) a 2.7 personnel-year decrease associated with various cost reductions.

NEW FACILITIES

The new facilities element is the largest—in dollar terms—of the eight Highway Transportation 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 $608.5 million for this element, an increase of $60.6 million, or 11.1 percent, over the level approved for the current year. Of the $608.5 million budgeted for 1982–83, approximately $511.9 million would be spent on capital outlay activities, with the remaining $96.6 million to be spent on state operations. New highway construction would receive the largest percentage of funds proposed for this element—a total of $595.2 million (98 percent). Of the remaining amount, $7.4 million is budgeted for toll bridge expenditures and $5.7 million is proposed for development of new bicycle facilities.

The $595.2 million proposed for new highway construction consists of $88.3 million for support activities and $506.9 million for capital outlay. Support expenditures account for $5.4 million of the $7.4 million in toll bridge expenditures, and $2.7 million of the $5.7 million in bicycle facilities expenditures.

The budget proposes to decrease the staffing level for this element from the 2,189.4 personnel-years authorized in 1981–82 to 2,105.2 personnel-years in 1982–83. This is a decrease of 84.2 personnel-years, or 3.8 percent, and is the net result of (1) a 285.8 personnel-year reduction for workload changes, based on PYPSCAN projections for the 1981 STIP, (2) a 262.7 increase to accommodate anticipated workload increases resulting from additional projects expected to be included in the 1982 STIP, (3) a redirection of 41.1 personnel-years to the operations program element to perform real property management services, and (4) a reduction of 20.0 personnel-years associated with various staff redirections and program savings.

ADMINISTRATION

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, program 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.

The budget proposes to increase expenditures for this element from the $84.4 million level approved for the current year to $89.1 million in the budget year, an increase of 5.6 percent. This increase reflects (1) an increase of approximately $1 million in state administrative pro-rata charges, (2) a redistribution to the Highway program of administrative and technical service expenses currently charged to other programs in the department, and (3) cost increases related to the existing program level.

Staffing is proposed to decline from the currently authorized level of 1,535.5 personnel-years to 1,523.9 personnel-years in the budget year, a reduction of 11.6 personnel-years, or 1 percent.

Court-Awarded Attorney's Fee Has Excessive Interest Cost

We recommend that if the Legislature chooses to pay a court-awarded attorney's fee of $200,000 plus interest (La Raza Unida v. Volpe), that (1) Budget Bill language be adopted to specify that the payment of the award is authorized, notwithstanding Budget Act Control Section 4.5; and (2) the amount be reduced by $14,000 from the State Highway Account (Item 2660-001-042) to allow interest at the rate of 7 percent instead of 12 percent.

In the case of *La Raza Unida of Southern Alameda County et al. v. Volpe,* a federal court found that the State Department of Transportation (1) failed to perform adequate relocation studies for potential displacees from a proposed freeway project, and (2) violated provisions of the Federal Transportation Act which generally disallows the use of parklands for federal highway projects.

In September 1977, the federal court held that plaintiffs in the case were entitled to an award of reasonable attorney fees under the Civil Rights Attorneys Fee Award Act of 1976. The court did not establish a "reasonable" amount, but in March 1981 it approved an amount of $200,000 jointly stipulated to by the department and the attorneys of the plaintiffs. The court subsequently directed the department to pay the stipulated amount plus interest accrued at the legal rate from February 21, 1981.

The department has not paid the fee award because of the prohibition imposed by Budget Act Control Section 4.5. This section prohibits the use of any funds appropriated by the Budget Act to pay any court-awarded attorney's fee unless the fee is (1) specifically authorized and set forth in an item or section of the act, or (2) expressly authorized by a statutory provision other than Section 1021.5 of the Code of Civil Procedure.

In the meantime, plaintiff's counsel has obtained a writ of execution from the court to recover the judgment.

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Reasonableness of the Fee. The plaintiff's attorneys were able to document that they devoted $151,712.50 to this case, in terms of hours spent, with hourly fees (depending on the nature of the legal activity) ranging from $50 to $125 per hour. The plaintiff's attorneys maintained that a contingency ratio factor of 1.5 should be applied to the amount, and claimed a fee of $227,568.75. (The contingency ratio factor is commonly used in determining a court-awarded attorney's fee. It represents a compensation for the risk taken by the attorneys and is used as an incentive for attorneys to accept public interest cases.) Further negotiations between the plantiff's attorneys and the department resulted in an agreement that the amount should be set at $200,000.

Payment of Fee. Whether funds should be appropriated for the fee payment is a policy decision which only the Legislature can make. The court cannot compel the Legislature to appropriate funds to pay the fees. However, in the case of *Mandel v. Myers,* the State Supreme Court ruled that "once the Legislature has appropriated funds, the constitutional doctrine does not preclude a court from ordering state officials to disregard invalid restrictions upon the expenditures of such funds." The court further held that the operating expense appropriation to the Department of Health Services was available to pay the court-awarded attorney's fee in that case. Thus, the failure to appropriate funds may result in the court's ordering that funds appropriated for other purposes be used to pay the award.

Department's Proposal. The department is requesting that $236,000 be appropriated from the State Highway Account in the State Transportation Fund, to pay the award. This amount includes $36,000 for interest. According to the department, state courts generally have used 7 percent as the legal rate of interest to be paid on awards such as this one. The department's request, however, appears to provide for an annual rate of approximately 12 percent.

If the Legislature decides to appropriate funds to pay this claim, we believe that interest should be provided at the 7 percent rate. Assuming a 7 percent rate, the amount needed to cover interest for the period from February 1981 to July 1982 would be $22,000, instead of $36,000.

Specific Authorization Needed. The requested amount is included in the department's 1982–83 support budget, and is not specifically identified as an appropriation to pay the court-awarded attorney's fee. If the Legislature chooses to pay this award, we would recommend that (1) Budget Bill language be adopted in Item 2660-001-042 specifying that the payment of the award is authorized, notwithstanding Control Section 4.5; and (2) the amount be reduced by $14,000 to allow payment of interest at the legal rate of 7 percent.

Test Recycling Program Before Statewide Implementation

We recommend (1) approval of a proposed recycling program as a pilot project, to be implemented in four districts instead of statewide, and (2) adoption of supplemental report language directing the department to evaluate and report to the Legislature on the cost-effectiveness of the program by December 15, 1983. We further recommend a reduction of $364,000 from the State Highway Account (Item 2660-001-042) to adjust for lower operating costs associated with the reduced program scope.

The budget requests $474,000 to operate a new materials recycling program on a statewide basis in 1982–83.

Feasibility Study. The department recently conducted a study on the feasibility of recycling highway items. Each year, large quantities of material from existing highway facilities are either removed or damaged in the process of constructing or rehabilitating highways. This material includes items such as sign structures, sign posts, metal beam guard rails and culvert pipes. The study concluded that the department could save $2 million annually if these surplus items were recycled or salvaged.

Program Proposal. The department proposes to begin implementation of the recycling program in the current year. The implementation plan would include establishing recycling policies and procedures, modifying the existing automated material inventory management system, developing and constructing 11 storage sites for salvaged items (one for each district), and coordinating and managing the program. The cost of implementation is estimated to total $2.2 million, including construction costs of $1.6 million, and ongoing operating costs of approximately $327,000 annually.

Program Cost-effectiveness. Clearly, recycling materials makes sense where it is feasible and cost-effective. It is not certain, however, that the program proposed by the department would be cost-effective. The feasibility study makes certain assumptions regarding contractors' construction bid prices, the validity of which have not been documented at this time. Not clear, for example, are (1) the extent to which contractors, in computing bid prices, discount for the salvage and reusable value of those items which the department is proposing to recycle, and (2) how such discounting affects bid prices. Moreover, the study does not demonstrate that a recycling program would be cost-effective in all districts and thereby warrant statewide implementation.

In order to test more accurately the cost-effectiveness of this program before statewide implementation, we recommend that it be approved as a pilot project in four districts. This would provide a basis for evaluating the feasibility of extending the concept statewide. It also would reduce the initial implementation and storage site construction costs of the program, as well as its operating expenses. We further recommend that supplemental report language be adopted requiring the department to evaluate the pilot program and report to the Legislature on its cost-effectiveness by December 15, 1983.

Cost of Pilot Project. The department is requesting $474,000 and ten personnel-years to operate the program statewide in 1982–83. Based on estimates contained in the feasibility study, the cost of operating the program in four districts would require approximately four personnel-years, at a cost of $110,000. We therefore recommend that six personnel-years be deleted together with associated operating costs, for a savings of $364,000.

OPERATIONS

Activities within the operations element are designed to maintain roads, bridges, tunnels and associated facilities, and to improve the manner in which they 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 three components of this element are: (1) traffic operations—message signs, ramp metering, road surveillance and emergency road service; (2) toll collection—collection of tolls on state bridges, and (3) real property services—airspace and property leases, sale

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of surplus property and management of state-owned housing units.

Expenditures in this element are proposed to increase from $46.6 million in the current year to $48.2 million in the budget year. The $1.6 million increase is the result of (1) higher expenses for toll collection equipment contracts, (2) a proposed increase in real property management, (3) a reduction in rehabilitation of rental houses by private contractors, and (4) various cost reductions to be implemented in 1982–83.

Staffing is proposed to increase from 1,004.4 personnel-years in 1981–82 to 1,018.9 in 1982–83, an increase of 14.5 personnel-years, or 1.4 percent. The additional staff is needed to perform various real property management services.

Real Property Management

The department owns 3,554 residential rental units acquired through direct purchase and condemnation actions under the right-of-way acquisition program. The real property service component is responsible for maintaining and managing these units. In the current year, 152.9 authorized personnel-years and $15.2 million will be devoted to real property service activities.

New Rental Policy Lacks Equity

We recommend a reduction of 9.4 personnel-years and $345,000 from the State Highway Account (Item 2660-001-042) because the department's rental policy is inequitable and inconsistent with the department's mission and the policies of other state agencies.

Prior to 1981, the department charged rents based on the fair market value of rental units. Rents, however, were subject to various ceilings and other administratively-imposed limitations designed to prevent large rent increases which would cause undue financial hardship for low-income tenants.

The department has recently announced that it intends to implement a new policy under which rental rates are set according to tenants' income. According to the department, this policy will increase rental income and avoid subjecting all units to the same rent ceilings or limitations. It will, however, require the department to determine the tenants' ability to pay by reviewing, annually, their income statements. The department is requesting 9.4 personnel-years and $345,000 for this purpose.

We have the following concerns regarding this policy:

1. ***It is inconsistent with policies followed by other state agencies.*** The Department of General Services (DGS) also rents state-owned property to tenants having different incomes. DGS, however, does not base rent charges on the level of the tenants' income.

2. ***It puts the department in the business of administering a subsidized housing policy, which is more appropriately left to other departments.*** The department has no expertise that permits it to establish subsidized housing programs. This should be done under the auspices of the Department of Housing and Community Development.

3. ***The policy results in favored treatment for a select group of renters.*** While most families who rent from private landlords must pay market rates for their housing, those fortunate enough to rent from the department receive a state subsidy. Those receiving the subsidy, moreover, are not selected based on objective factors showing relative need.

4. ***The policy is difficult to administer because of the incentive it creates to understate income.*** As a tenant's income increases, the rental rate on his or her dwelling increases. This creates an incentive for tenants to report their income inaccurately, requiring the department to incur the costs of validating income statements.

5. ***The policy would provide greater subsidy than federally subsidized housing.*** The department proposes to limit rental charges to 25 percent of a tenant's income, whereas the recently adopted federal policy limits rental charges to 30 percent of a tenant's income.

6. ***The Legislature has not expressly authorized the department to establish this kind of rental policy.***

For these reasons, we recommend that the department not implement a policy under which rents are based on each tenant's income, for a savings of 9.4 personnel-years and $345,000 in Item 2660-001-042. If the department wishes to adopt such a policy, it should seek legislative authority to do so. Any needed funds to implement this policy could be provided in the legislation.

Pursuit of Delinquent Rental Accounts Not Warranted

We recommend a reduction of $137,000 and 3.8 personnel-years from the State Highway Account (Item 2660-001-042) to eliminate efforts to collect on delinquent rental accounts because the effort is not cost-effective.

The department estimates that some 514 vacated rental accounts totaling $437,000, are currently delinquent in the Los Angeles District. Three personnel-years are currently assigned the task of collecting these accounts, at a cost of $108,000 in 1981–82. An additional 0.8 personnel-years is requested to increase collection efforts in 1982–83.

Because these renters have already vacated the premises, collection often requires the department to trace debtors and institute legal action against them. According to the department, 2.5 personnel-years and $80,457 were utilized in 1980–81 to collect a total of $66,500. Of this amount, the collection of $14,300 was facilitated by the Franchise Tax Board. Accordingly, each personnel-year allocated by the department to this effort collected approximately $21,000 in delinquent amounts from nongovernmental sources, at a cost of $32,183.

We conclude that the effort to collect these delinquent accounts is not cost-effective, based on program accomplishments to date. Moreover, we do not think that the presence of 3.8 personnel-years within the department to collect these delinquent accounts would deter people from vacating the premises without paying the appropriate rent. Therefore, we recommend termination of the program, for a savings of $137,000 and 3.8 personnel-years.

Housing Rehabilitation Level Undetermined

We recommend deletion of 17 personnel-years and $624,000 from the State Highway Account (Item 2660-001-042) because the department has not determined the level of housing rehabilitation to be performed in the budget year.

The department owns over 600 houses in the corridor in which it will construct Route 105 (the Century Freeway). A court injunction against the project has delayed the construction schedule. Accordingly, the department had to rehabilitate and make habitable various residential properties which would otherwise have been demolished. At the time the 1982–83 budget was prepared, the department proposed to rehabilitate

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300 units in 1982–83. To achieve this goal, the budget requests 17 personnel-years and $624,000 for 1982–83.

Since this request was made, circumstances have changed. The court injunction was lifted in September 1981, and the freeway project will now proceed under certain stipulated conditions. Consequently, the department no longer anticipates a need to rehabilitate the proposed number of houses in 1982–83. Accordingly, we recommend that the request for 17 personnel-years be denied, for a savings of $624,000.

Contracted Rental Rehabilitation Funds Not Needed

We recommend a reduction of $1,313,000 from the State Highway Account (Item 2660-001-042) because the department has indicated that this amount will not be needed to rehabilitate houses in the Route 105 corridor in 1982–83.

In cases where highway projects have been rescinded or delayed, the department finds it necessary to rehabilitate rental units which otherwise would have been scheduled for demolition. The department pays private contractors to do the rehabilitation work.

When the 1982–83 budget was first prepared, the department anticipated that $1,313,000 would be needed in the budget year to pay contractors to rehabilitate houses in the Route 105 corridor. However, because of the recent changes in the project's schedule, the department has indicated that the amount originally requested for rehabilitation work will not be needed. Accordingly, we recommend that the $1,313,000 be deleted.

Public Information Office Not Needed

We recommend the elimination of one public information field office, for a savings of $37,000 and 1.5 personnel-years to the State Highway Account (Item 2660-001-042), because the office duplicates services provided by an independent information office which is also funded by the State Highway Account.

The department currently operates two public information field offices —one in Inglewood and one in Downey—to receive public inquiries and provide information pertaining to the Route 105 project. Each office is authorized 1.5 personnel-years at an estimated annual cost of $37,000. Between July 1980 and November 1981, these offices received a total of 1,966 in-person office visits and 2,690 telephone inquiries.

In addition, pursuant to a consent decree in the case of *Keith v. Volpe* (regarding the Route 105 project), an independent office—the "Office of the Advocate for Corridor Residents"—has been established to address the concerns of the people affected by construction of the project. This office, located in Inglewood, is allocated six personnel-years. The advocate's office is funded by the the State Highway Account, and the 1982–83 budget requests $258,000 to support its operations.

According to the department, citizens may inquire at either of the department's field offices or the Office of the Advocate and receive essentially the same information. In addition, our review indicates that the Depatment of Housing and Community Development (HCD), which is designated by the consent decree as the lead agency to implement housing replenishment and relocation along the corridor, also has an office in Inglewood which provides information to citizens upon request. Thus, there are four state-funded offices in the Route 105 corridor providing essentially the same service, with three of them located in Inglewood.

The department is statutorily required to provide relocation assistance to citizens affected by any highway project. Our review indicates, however, that the department is not required to establish field offices.

Because citizens will continue to be served by the Office of the Advocate and HCD in the budget year, the department's office in Inglewood is unnecessary, and merely duplicates the efforts of other agencies. For these reasons, we recommend that the Ingelwood public information field offices be closed for a savings of $37,000 and 1.5 personnel-years in Item 2660-001-042.

MAINTENANCE

The maintenance element, which the department has designated as its first priority for expenditures, includes five components: (1) roadbed—resurfacing and repair of flexible and rigid pavements; (2) roadside—litter removal, and landscaping, 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.

The budget proposes maintenance expenditures of $345.6 million in 1982–83, which is an increase of $55.9 million, or 19.3 percent, over the currently authorized expenditure level of $289.7 million. This increase accounts for 66 percent of the total increase in state operations expenditures proposed for the entire Highway Transportation program in the budget year.

Table 5 shows the expenditure and staffing level for the five maintenance components, and the proposed activity change in each component for the budget year. The maintenance element is currently authorized 6,036.1 personnel-years. The budget proposes a net increase of 344.1 personnel-years, bringing the total to 6,380.2. The increase is the result of significant changes within all five components, particularly the roadside maintenance component in which net staffing increases of 291.3 personnel-years are requested to perform various activities, including pruning, weed control and litter removal.

Table 5

Expenditures and Staffing for Highway Maintenance (dollars in millions)

	1982–83 Baseline[a]		*Proposed Changes*		*1982–83 Proposed*	
Component	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*
Roadbed	$47.2	641.7	$16.0	73.5	$63.1	715.2
Roadside	109.8	2,581.1	10.2	291.3	120.0	2,872.4
Structures	18.7	336.3	−0.9	2.3	17.8	338.6
Traffic control and service facilities	87.6	1,337.7	3.2	47.1	90.8	1,384.8
Maintenance auxiliary	55.1	1,139.3	−1.2	−70.1	53.9	1,069.2
Total	$318.4	6,036.1	$27.3	344.1	$345.6	6,380.2

[a] 1982–83 baseline figures are 1981–82 authorized amounts, adjusted for cost and salary increases.

Table 6 highlights the major activity changes proposed by the department. For the roadbed maintenance component, the budget requests an

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increase of $7.6 million to augment maintenance of low-volume roads, and $5 million to increase maintenance contracts.

Table 6
Proposed Major Activity Changes in Highway Maintenance
(dollars in thousands)

	Personnel-Years	Expenditures
Roadbed		
Low volume roads maintenance	32.0	$7,622
Pavement maintenance	43.0	1,506
Maintenance contracts	—	4,937
Roadside		
Pruning	50.0	1,396
Weed control (manual and mechanical)	39.0	1,089
Litter removal	100.0	2,792
Irrigation	31.3	874
Safety lookout	33.0	921
Traffice Control		
Reflective markers maintenance	18.0	499
Guardrail repair	16.0	444
Auxiliary Service		
Regionalization	−44.6	−1,274

Current-Year Reductions and Budget-Year Expansions

We recommend that the department be asked during the budget hearings to reconcile its current position on the adequacy of highway maintenance staffing levels with the position it took in defending proposed reductions last year.

The highway maintenance element accounts for 42.4 percent of all personnel-years authorized for the Highway Transportation program in the current year. The 1982–83 budget proposes a significant increase in maintenance activities. According to the department, this increase is needed because the highway system is aging, it has been inadequately maintained in recent years, and a backlog of maintenance work exists.

The department's position regarding maintenance requirements contradicts the position it took last year when the department maintained that the highway system was in good repair and that planned efficiency improvements would permit staff reduction.

Last-year's Position on Maintenance Staffing. For 1981–82, the department originally requested a level of 6,121.9 personnel-years, which included (1) an additional 478.3 personnel-years for (a) increased maintenance service levels (242.5 personnel-years), (b) inventory (85.8 personnel-years), and (c) safety (150 personnel-years); and (2) a reduction of 534.8 personnel-years to reflect (a) increased efficiency in maintenance services (221.7 personnel-years), (b) reorganization (108.5 personnel-years), and (c) streamlined activities resulting from an analysis of the program (204.6 personnel-years). The Legislature reduced this request to 6,036.1 personnel-years to reflect reductions for safety lookouts and inventory increases which were inadequately justified.

In our *Analysis of the 1981–82 Budget Bill,* we concluded that, although efficiency gains and savings were possible, the level of savings projected from the department's proposed actions might not be realistic. The department insisted, however, that the level of maintenance on the highways was adequate and would not be adversely affected by the reductions it proposed for 1981–82.

To ensure that maintenance activities would not be decreased, the Legislature adopted language in the *Supplemental Report to the 1981 Budget Act* stating the department's "personnel reduction shall not result in a reduced level of critical state highway maintenance."

This Year's Position on Maintenance Staffing. For the budget year, the department proposes a significant increase in maintenance activities because of a backlog which it now claims exists in various activities, including pavement maintenance, and guardrail and median barrier repairs.

This request is in sharp contrast to the position taken by the department last year. We recommend that the Legislature ask the department to reconcile this inconsistency during budget hearings.

Review of Maintenance Staffing Ratios

In its evaluation of the department's 1981–82 budget, the California Transportation Commission (CTC) recommended that the Legislature review the ratio of indirect (overhead) work to direct work in the highway maintenance element, and determine whether the department's staffing standards are appropriate. The Legislature adopted this recommendation, and requested our office to review in the 1982–83 *Analysis* the personnel ratio in the highway maintenance element.

Background. The CTC recommendation was made because a consultant to the commission estimated that the ratio of indirect work to direct work in the maintenance element was one-to-two—that is, for every two personnel-years of direct highway maintenance work, such as litter pickup, there was one personnel-year of supervision and related administrative activities. This ratio is high compared to the ratio of indirect work positions to direct work positions of a local private construction firm, which is estimated at one to eight. The consultant's study suggested that major effciencies could be realized by improving this ratio.

It is difficult to make a direct comparison of the department's staffing to that of the private company's because the department's ratio was based on personnel-years and the company's was based on positions. However, in an effort to do so, we considered the number of department positions allocated to maintenance. Table 7 shows the number of full-time positions for the maintenance elements during 1981–82 in all districts, excluding headquarters. Positions are categorized as: (1) supervisory—including crew supervisors and superintendents, (2) administrative staff—including district maintenance office and regional office managers, and clerical support, and (3) field workers—including leadworkers, operators and maintenance workers. Although leadworkers are categorized as worker positions, leadworkers actually spend from 10 to 20 percent of their time performing supervisory and administrative duties.

Table 7

1981–82 District Maintenance Positions (excluding headquarters)

	Positions (full-time)
Supervisory	753
Administrative staff	451
Field workers	4,172
Ratio of supervisors to workers	1:5.5
Ratio of staff and supervisors to workers	1:3.5

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As Table 7 shows, we estimated that in 1981–82, there is one administrative/supervisory position for every 3.5 worker positions in the maintenance element. This would be a more appropriate ratio to use in comparing the department's indirect: direct staffing complements to the 1:8 ratio estimated for the local construction firm.

Regionalization. The department, beginning in 1980–81, has implemented a five-year maintenance regionalization program. One objective of regionalization is to reduce the maintenance element's administrative overhead. As part of this program, 81 maintenance territories have been restructured into 41 areas. The number of maintenance stations, however, has remained relatively constant. Crew sizes are also being standardized to range from 6 to 13 members per crew. Previously, crews ranged in size from two to more than 13. As a partial result of the regionalization program, the budget reflects a reduction of 44 personnel-years and $1,274,000 in its auxiliary service component for 1982–83. This by itself would not appear to significantly improve the department's indirect: direct staffing ratio, but over a five-year period the cumulative reductions planned (200 personnel-years) will indeed improve the ratio.

Is the department's standard appropriate? As noted above, our analysis indicates that the department has more supervisors and administrators per worker than the private construction company used for comparative purposes by the CTC consultant. It would therefore appear that the department could improve its productivity, and thereby lower production costs. As suggested by the CTC consultant, one possible way to increase direct work relative to indirect work is to restructure work positions so that leadworkers perform fewer supervisory functions and, therefore, contribute more productivity without increasing total cost. It is possible however, that adding more direct workers per supervisor, thus lowering the ratio of the indirect-to-direct-work, could result in a *higher* cost per unit of output if the reduced level of supervision hinders productivity.

Possible Efficiencies. There are other avenues available to the department to increase efficiency. These include:

- Planning and coordination of activities to allow larger crews to perform various tasks under a fewer number of supervisors.
- Exploring alternatives to reduce "support" time. Currently, crews spend from 10 to 50 percent of their work time on "support" activities, such as traveling back and forth from work sites or setting up work sites by closing a lane. Reducing this unproductive time would reduce the department's maintenance expenditures.
- Adopting low-cost and low-effort maintenance alternatives, such as use of natural and drought resistant vegetation for landscaping.

Costs Too High for Low-Volume Roads

We recommend a reduction of $6,500,000 in the State Highway Account (Item 2660-001-042) because the increase in the use of private contractors for low-volume road maintenance is not justified.

There are an estimated 5,100 lane miles of low-volume traffic roads within the state highway system. These are roads with an average daily traffic volume (ADT) of below 1,000 vehicles. They represent approximately 10 percent of all lane miles maintained in the system. Most of the low-volume roads are located in rural and mountainous regions.

Currently, an estimated $3.9 million is spent on the maintenance of low-volume roads, at an average of $765 per lane mile. This maintenance typically involves the sealing of cracks and minor patching. Based on a recent survey, the department is requesting an augmentation of $7,622,000 over current expenditures for low-volume road maintenance for 1982–83, including (1) $1.1 million for support of an additional 32 personnel-years for department maintenance, and (2) $6.5 million to contract with private firms for maintenance.

Our analysis of the department's request indicates the following:

1. ***The basis for the request is questionable.*** The department estimates that it will cost an average of $1,735 per lane mile to maintain low-volume roads. This estimate is based on a sample of 220 lane miles, or 4 percent of total low-volume lane miles. According to the department, the sample was taken from the northeastern region of the state. The sample, however, includes one stretch of road which the department has not identified as a low-volume road. Consequently, there is some question regarding how representative the sample is.

The department is now conducting a more detailed survey of low-volume roads in four counties. Until the results of the survey are available, the proposed augmentation should be deferred.

2. ***The request does not relate maintenance priorities to traffic volume.*** The importance of maintaining any given stretch of road depends in part on traffic volume. The department's request, however, does not take into account the different traffic volumes on these roads, and instead proposes to maintain all low-volume roads at the same level.

3. ***A disproportionate amount would be spent on low-volume roads.*** The department's request would result in expenditures for roadbed-maintenance of approximately $11.5 million on low-volume roads, compared to $51.6 million for all other roads in the state. This appears to be a disproportionately large amount to be expended on the maintenance of that 10 percent of the highway system which has the lowest traffic volume.

For these reasons, we recommend that the requested $6.5 million augmentation for contracted low-volume road maintenance be deleted. In order to allow for an increase in overall roadbed maintenance, however, we recommend that the request for 32 personnel-years and $1.1 million be approved.

Need for Pavement Maintenance Increases Not Shown

We recommend a reduction of 27.0 personnel-years and $945,000 from the State Highway Account (Item 2660-001-042) because the need for additional personnel-years to perform pavement maintenance is not justified.

The department surveys its pavement inventory once every two years. The Pavement Management System indicates that the amount of Portland Concrete Cement (PCC) pavement requiring patching and sealing has increased by 984 centerline miles from 1977–78 to 1979–80. The department further contends that the level of staffing in both 1980–81 and the current year has been inadequate to handle the workload, resulting in an accumulated backlog. The department is requesting an augmentation of 43 personnel-years and $1,506,000 for 1982–83 in order to (1) improve the pavement quality and eliminate the accumulated backlog, (2) increase maintenance level for an aging highway system, (3) accommodate the increased inventory, and (4) raise the staffing level to 1977–78 level.

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Our analysis of the department's request indicates the following:

1. ***An increase in pavement maintenance is warranted.*** The Pavement Management System has identified an increase in pavement deterioration. Also, a higher maintenance effort for the aging highway system is reasonable.

2. ***The department computed the backlog based on staffing considerations, rather than pavement quality.*** The backlog is represented by the difference between the 1977–78 staffing level (135 personnel-years), and the 1980–81 and 1981–82 levels (108 and 119 personnel-years, respectively). Department data indicate, however, that the current-year allocation for this activity is 123.3 personnel-years and 118 personnel-years were authorized in 1980–81. The fact that the department used ten personnel-years less staff for this activity in 1980–81 than was authorized suggests that the department believed that 108 personnel-years was indeed adequate in that year.

3. ***Personnel-years for inventory are not justified.*** The request includes two additional personnel-years for inventory accumulation over past years. We can find no substantiation for staffing for inventory accumulation beyond what the Legislature has provided for in prior years.

4. ***Efficiencies are not reflected in the staffing request.*** As discussed earlier, the department has in the past two years proposed various reductions in staff to reflect efficiencies and organizational restructuring that the department maintained would increase service levels. The current request to raise staffing to the 1977–78 level does not take into account the efficiencies that the department has promised in recent years.

We recommend that an additional 16 personnel-years requested for pavement maintenance be approved, at a cost of $561,000. Our analysis indicates, however, that the existence and size of a maintenance backlog above normal levels has not been documented. Hence, we can find no justification for increasing staffing to the 1977–78 level. Accordingly, we recommend a reduction of 27 personnel-years and $945,000 from the department's request.

Landscape Maintenance and Litter Pickup—Unsubstantiated Increase

We recommend a reduction of 224.2 personnel-years and $6,260,000 in the State Highway Account (Item 2660-001-042) requested for landscaping maintenance and litter pickup, because the need for an increase in these activities has not been documented, and these costly activities have been assigned a low-priority by the Legislature.

The department has allocated 845.8 personnel-years in the current year for landscape activities, including watering, pruning, planting, weeding, and removing trees and shrubs. In addition, 436 personnel-years are allocated for litter and debris pickup. For 1982–83, the department is requesting to augment this existing level of service by 224.2 personnel-years (an increase of 17 percent) at a cost of $6,260,000, to increase its level of activity in landscaping and litter pickup. Table 8 shows the actual 1980–81 level of output and the proposed level for 1982–83.

Landscape maintenance and litter pickup are designated as low-priority activities. The department's requested augmentation for landscape maintenance and litter pickup appears to be inconsistent with the spending priorities specified in Chapter 541. The statute designates expendi-

Table 8

Actual and Proposed Output
Of Landscape Maintenance and Litter Pickup

	1980–81 Actual	*1982–83 Proposed*	*Output Per Personnel-Year*
Pruning trees and shrubs	244,000	366,000	2,440
Landscape weeding (acres)	12,570	15,770	2.6 (heavy) 315.4 (light)
Shrubs and trees removal	37,500	64,500	3,000
Shrubs and trees replacement	17,400	29,900	4,603
Litter pickup (cubic yards)	77,000	97,000	359

tures for such activities as the lowest priority for all highway expenditures. The $6.2 million augmentation, however, accounts for 14 percent of the total increases requested for the entire Highway program.

Maintenance activities are expensive. Landscape and litter pickup activities are costly. Two examples of the high cost of the proposed landscaping activities are pruning and landscape weed control.

1. ***Pruning.*** The department is requesting $1,396,000 for an additional 50 personnel-years to prune trees and shrubs. This would allow the total output level to be increased to 366,000 items. According to the department, 100 personnel-years were expended in 1980–81 to prune approximately 244,000 items, at an average output of 2,440 items per personnel-year, or 1.4 item per hour. The average output cost (including clipping and compacting of pruned matters) was $12.70 per tree or shrub in 1980–81, and is estimated to be $14.00 in 1982–83.

This cost does not include the cost of associated supervisory and administrative overhead which, when accounted for, would increase the cost per pruned item significantly.

2. ***Landscape Weed Control.*** The department performs weed control in both landscaped and unlandscaped areas. Weeding in landscaped areas is done by chemical spraying or by hand. For 1982–83, the department is requesting an additional $838,000 and 30 personnel-years to do hand weeding.

Actual 1980–81 data indicate that 120 personnel-years were expended on this activity, at an average output rate of 2.6 acres per personnel-year for handhoeing in densely weeded areas, and 315.4 acres per personnel-year for areas of light-to-medium weed density. Assuming the estimated 1982–83 average operating and personal service cost of $28,000 per personnel-year, the cost to eliminate dense weeds would be $10,769 per acre and $88.78 per acre for less dense areas.

The determination of need is arbitrary. Funding these expensive activities might be warranted if the need for additional maintenance services were established. Our review indicates, however, that the determination of "need" for landscaping and litter pickup is often arbitrary and always subjective because departmentwide standards do not exist. Field supervisors survey areas and estimate what ought to be done. The department, in general, does not validate these estimates. The department also has not provided any objective factors which would permit us to evaluate whether one level of effort is preferable to another. The department, for example, is requesting 100 personnel-years and $2,792,000 to increase the level of litter pickup from the current 77,000 cubic yards to 97,000 cubic yards.

While additional resources may be needed, the department has not

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provided (1) any substantiation of the need for a 20,000 cubic yard increase in litter pickup, or (2) the quantifiable benefits of this increased level. Moreover, using the current-year rate of output per personnel-year, which has declined because of various factors (such as changes in the department's safety requirements), the targeted level of output would require an additional 55.5 personnel-years instead of the requested 100 personnel-years.

Improvements in productivity are possible. Our analysis also indicates that the department could improve its productivity in roadside maintenance by reallocating its resources. The budget, for example, requests an additional 31.3 personnel-years and $874,000 to increase maintenance of its irrigation system used to water landscaped areas. Our analysis indicates that this request is not justified. In 1980–81, 22.5 personnel-years and $704,000 were expended for manual operation of inoperative automatic watering systems. The department estimates that 80 percent of this activity (18 personnel-years) could be eliminated if automatic systems were maintained in proper working order. The department should redirect these personnel efforts to perform the necessary maintenance in order to achieve this increased efficiency.

In summary, because there is no substantiation of the need to increase the output level for these activities, and in view of the low priority and high cost of the activities, we recommend that the department's request for 224.2 personnel-years to increase landscape maintenance and litter pickup be denied, for a savings of $6,260,000.

Maintenance-Related Material and Equipment

We recommend, contingent on adoption of the previous recommendation, deletion of $248,000 from the State Highway Account (Item 2660-001-042) for material and equipment related to increased landscaping and litter pickup activites.

The department is also requesting an augmentation of $248,000 to purchase material and equipment needed to support the additional landscaping and litter pickup activities discusses in the previous section. Consistent with our recommendation to delete funds requested to expand those activities, we also recommend deletion of the corresponding amount requested for material and equipment, for a savings of $248,000.

Other Alternatives Can Reduce Need for Additional Safety Lookouts

We recommend a reduction of $921,000 for 33 personnel-years in the State Highway Account (Item 2660-001-042) which the department requests for road crew safety lookouts because the department has not determined an appropriate staffing level for this activity.

The department requested 150 personnel-years in 1981–82 to implement a departmental safety policy which requires the use of lookouts for maintenance crews working under certain circumstances. The department was subsequently authorized 113 personnel-years, primarily because it had administratively augmented its staff in 1980–81 by this amount. The Legislature, however, denied the remaining 37 personnel-years because the department had not yet (1) completed the development of standards for additional lookout personnel, or (2) collected and evaluated the results of its revised policy. The department, therefore, could not determine (1) the circumstances under which safety lookouts were required, and (2) the effectiveness of using lookouts in reducing accidents.

Standards for Lookouts. For 1982–83, the department is requesting an additional 33 personnel-years for lookout purposes. It has identified 33 activity categories (out of approximately 200 categories in the maintenance element) which need safety lookouts. For these activities, the department applies a ratio of one lookout for ever three crew members (which, according to the department, is the average size of an activity crew).

It would appear that the number of lookouts per crew members could be reduced if (1) activity crew sizes were increased, or (2) two or more activity crews worked in the same area simultaneously and shared a lookout. In fact, our analysis indicates that if activities were scheduled such that four crew members were working at the same time, the additional safety lookouts requested by the department would not be needed.

According to the department's standard, the largest number of lookouts would be assigned to employees engaged in litter pickup. This is an activity where an increase in crew size is feasible. The frequency and timing of activities such as landscaping and litter pickup could be coordinated to bring about a lower staffing level for safety lookouts.

Clearly, the department must assure safe working conditions for its employees. The standard of three crew members to one lookout, however, results in a significant decrease in productivity—approximately 32 percent—and accordingly, an increase in cost. We believe that by pursuing other alternatives, including better activity coordination and scheduling, the department could provide safe working conditions without the need to increase lookouts by 33 personnel-years in 1982–83. Accordingly, we recommend a reduction of 33 personnel-years for safety lookouts for a savings of $921,000 to the State Highway Account.

Guardrail and Barrier Repair Costs Overestimated

We recommend a reduction of four personnel-years and $111,000 in the State Highway Account (Item 2660-001-042) because the request for additional staff to repair guardrails is overestimated.

The department expended 47.5 personnel-years in 1980–81 to repair and replace 16,087 sections of damaged guardrail and median barriers, at an average output of 338 sections per personnel-year. The department maintains that an additional 3,750 sections need to be replaced because of an accumulation of dents and guardrail alignment problems, and requests an increase of 16 personnel-years and $444,000 for this purpose.

Our analysis, using the department's actual 1980–81 output data, indicates that the additional workload would require 11 personnel-years. Allowing for one personnel-year for safety lookout purposes, 12 personnel-years would be needed at a cost of $333,000. Accordingly, we recommend a reduction of four personnel-years and $111,000 from Item 2660-001-042.

MASS TRANSPORTATION

The Mass Transportation program contains eight elements: (1) full mobility transportation, (2) local assistance, (3) interregional public transportation (bus and rail transportation), (4) transfer facilities and services, (5) transportation demonstration projects, (6) administration, (7) work for others, and (8) ridesharing.

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Significant Program Changes

As Table 9 indicates, the budget proposes program expenditures totaling $252,180,000 in 1982–83, an increase of $96,438,000, or 62 percent, over current-year expenditures of $155,742,000. Personnel levels are proposed to increase by 163.5 personnel-years (63 percent), to 423 personnel-years.

Table 9
Mass Transportation Budget Changes
(in thousands)

	TP and D Account	*State Highway Account*	*Federal Funds*	*Reimbursement*	*Abandoned Railroad Account*	*Total*[a]
1981–82 Expenditures						
As Approved by the Legislature	$103,965	$49,131	$1,024	$1,488	$134	$155,742
Changes Proposed for 1982–83:						
1. Price Increases	364	8	11	31	4	418
2. Workload and Program Changes						
Full Mobility						
Specialized Transit Service	73	-	-	-	-	73
Specialized Equipment Research and Development	176	-	−127	−16	-	31
Operator Assistance						
Technical Assistance	140	-	−289	−78	-	−227
Financial Assistance	−26,894	39,200	-	-	−46	12,260
Interregional Transportation						
Bus Transportation	1,956	-	-	-	-	1,956
Rail Transportation	13,733	-	17,002	10,316	-	41,051
Intermodal Transportation Facilities	8,616	27	-	-	-	8,643
Administration	−10	-	-	4	-	−6
Ridesharing	1,137	-	44	-	-	1,181
Reimbursed Work	-	-	31,059	-	-	31,059
Total Proposed Workload and Program Changes[a]	−$1,073	$39,226	$16,628	$41,285	−$46	$96,020
1982–83 Proposed Expenditures	$103,256	$88,365	$17,663	$42,804	$92	$252,180

[a] Figures may not sum to total due to rounding

State Operations. The budget requests $97,401,000 for mass transportation support activities, an increase of $83,283,000, or 590 percent, above the current-year level. Of this amount, $40.1 million will be paid from state funds, $17.5 million from federal funds and $39.8 million from reimbursements.

A comparison of current-year and budget-year support activities is somewhat distorted because expenditures for commuter and intercity rail passenger services are considered local assistance expenditures in the current year, but a support expense in the budget year. Even adjusting for this change in accounting, however, the increase in support expenditures is still substantial—$70,325,000, or 498 percent above expenditures in the current year.

Major changes proposed in the budget include: (1) the establishment of two new commuter rail passenger services in the Los Angeles area, at an increased cost of $4.4 million and 1.0 personnel year, (2) the initiation of an eighth daily passenger train between Los Angeles and San Diego, (3)

$28.1 million and 83 personnel-years in reimbursed support costs for the Sacramento light rail project, and (4) $2.2 million and 32 personnel-years to manage and operate Union Station, the San Diego Santa Fe Depot and passenger stations on the San Francisco-San Jose commuter rail service.

Local Assistance. The department proposes to subvene $123,020,000 in local assistance funds during 1982–83, a decrease of $3,732,000, or 3 percent, from current-year expenditures. This decrease reflects (1) a transfer of $12,958,000 in bus and rail expenditures from the local assistance category to state operations in the budget year, (2) the completion during the current year of intermodal facility and rail projects financed from previous appropriations, and (3) a reduction of $27 million (49 percent) in the Transportation Planning and Development (TP and D) Account guideway program. These reductions are partially offset by (1) an increase of $39.2 million (80 percent) in the State Highway Account mass transit guideway program (for a net increase of $12.2 million, or 12 percent, in guideway expenditures), and (2) an increase of $1.8 million (36 percent) for the intermodal facilities program.

Capital Outlay. The department proposes to spend $31,759,000 for mass transit capital outlay projects. This represents an increase of $16,887,-000, or 114 percent, over current-year expenditures.

The capital outlay expenditures are composed of (1) $23,650,000 for intercity and commuter rail station acquisitions and improvements, (2) $5,109,000 to rehabilitate Union Station and the San Diego Santa Fe Depot and (3) $3 million in reimbursed expenditures to purchase right-of-way for the Sacramento light rail project.

Budget-Year Funding Shortfall

The budget proposes total appropriations from the TP and D Account of $191,122,000, excluding expenditures for any salary and benefit increase approved for the budget year. Account resources, however, total only $190,375,000, resulting in a net deficiency of $747,000 (plus the cost of salary and benefit increases). The budget also proposes to maintain a reserve of $13 million for potential appropriation and allocation to local unified transportation funds established pursuant to Chapter 541. Reserving these funds increases the budgeted deficiency to a minimum of $13,-747,000. The budget indicates that $13,747,000 in savings will be made in proposed account expenditures in 1982–83 to offset the funding shortfall. These savings, however, are not identified in the budget. The Department of Finance will propose specific amendments to the Budget Bill to eliminate the deficiency.

According to the Department of Transportation, the shortfall arose because, in preparing the budget, its staff assumed that a portion of the funds appropriated in previous legislation would revert to the account after the current year. The reverted resources would, therefore, be available to pay for budget-year appropriations. The department now anticipates spending all of the earlier appropriations in the current year.

Summary of Mass Transportation Activities

The budget distributes proposed expenditures for individual projects among different elements (such as interregional transportation and intermodal facilities) and expenditure categories (state operations, local assistance and capital outlay). Consequently, it is difficult to determine the total expenditures proposed for major projects by reading the Governor's Budget. Table 10 combines proposed expenditures for individual projects

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to provide a complete picture of what the department would like to spend on each project.

Table 10

Total Proposed Expenditures for Individual Projects (in thousands)

	State Operations	*Local Assistance*	*Capital Outlay*	*Total*
I. Rail Services				
New commuter services	$4,441	—	$8,000	$12,441
Southern Pacific Peninsula commute				
Service operations[a]	7,150	—	5,750	12,900
Station improvements	458	—	2,900	3,358
Station management	749	—	—	749
Subtotal	$8,357	—	$8,650	$17,007
Intercity rail services	8,720	—	7,000	15,720
Total, Rail Services	$21,518	—	$23,650	$45,168
II. Intermodal Facilities				
Union Station				
Rehabilitation	—	—	$1,149	$1,149
Station management	$876	—	—	876
Subtotal	$876	—	$1,149	$2,025
Santa Fe Depot				
Rehabilitation	$428	—	$3,960	$4,388
Station management	547	—	—	547
Subtotal	$975	—	$3,960	$4,935
Transbay Terminal	$367	—	—	$367
Other intermodal facilities	—	$6,800	—	6,800
Total, Intermodal Facilities	$2,218	$6,800	$5,109	$14,127

[a] Includes expenditures for station acquisition and track rehabilitation.

FULL MOBILITY TRANSPORTATION

Activities in this element are intended to improve the accessibility and service levels of transportation systems used by the low mobility population (the elderly and the disabled). The budget proposes expenditures of $951,000 for this purpose in 1982–83. This is an increase of $125,000, or 15 percent, above estimated expenditures in 1981–82.

Rail Vehicle Wheelchair Lifts Not Cost Effective

We recommend a reduction of $107,000 and one personnel-year in the Transportation Planning and Development Account (Item 2660-001-046) for rail vehicle wheelchair lift research and development, because it would not be a cost-effective method to improve transportation for handicapped travelers.

The budget proposes to spend $216,000 and 3.1 personnel-years to continue research and development on wheelchair lift and securement devices for transit buses, and to begin a new program to develop similar devices for passenger rail vehicles. According to the department, one personnel-year and $107,000 would be spent on the rail effort.

The department states that this activity is necessary because state law requires that rapid transit vehicles be accessible to the handicapped. Passenger rail vehicles, however, are not accessible because wheelchair lifts for rail cars are not manufactured.

Our analysis indicates that existing law does not apply to the department's rail vehicles. Although Section 4500 of the Government Code requires the purchase of accessible rapid transit equipment, it applies only to new vehicles, and only when the lift equipment is made available by at least two manufacturers. It does not require retrofitting of existing vehicles. Consequently, there is no legal requirement for the department to develop the equipment.

Our analysis also provides four indications that wheelchair lifts may not be a cost-effective way to improve transit service for the handicapped.

1. ***Relatively few handicapped people use wheelchairs.*** In a survey of people considered to be transportation handicapped, the U.S. Department of Transportation found that only 5.5 percent of these individuals use wheelchairs at any time. Consequently, wheelchair lifts would not improve accessibility for almost 95 percent of the people considered to be handicapped.

2. ***The lack of wheelchair lifts is not the only obstacle to using rail services.*** Wheelchair users face other obstacles in using rail services which would not be eliminated by installing lifts on trains. For example, there may not be any transportation available to get the wheelchair user to the station. Natural obstacles, such as hills and inclement weather, also would limit the ability of wheelchair users to get to a transit system.

3. ***The proposed service would be relatively expensive to provide.*** The experience of urban bus systems indicates that, because of the low rate of utilization by handicapped people, it is more cost-effective to provide alternative modes of transportation than to install lifts on buses used on traditional routes. A May 1981 U.S. Department of Transportation report indicated, for example, that the cost per trip on three transit systems ranged from $16 in Seattle to $372 in St. Louis. Assuming similar costs of equipment in other systems, the report estimated an average cost of $277 per trip in 14 cities. Taxi companies could provide alternative service to the handicapped at a much lower cost.

The cost per trip on a lift-equipped rail system would be directly related to the number of users of the service. Based on the number of wheelchair users who use BART, we estimate that the wheelchair lift would be used less than once per train run. Such a low level of use would likely result in very high costs per trip. In fact, the Regional Transportation Authority in Chicago rejected the installation of lifts on its commuter railcars as a means of providing service to wheelchair users because of the high cost of the service relative to its demand.

4. ***Current vehicle designs could make the cost of installing lifts prohibitive.*** According to a report prepared for the U.S. Department of Transportation, a lift could not be installed on currently designed bi-level rail cars (the cars used by the department for commuter rail service) without jeopardizing the strength of the vehicle. To fit a lift to a railcar, therefore, there would have to be significant structural modifications made to the vehicle. These modifications would make it even more expensive to increase the accessibility of the service through the use of lifts.

The department has not provided us with alternative information to indicate that equipping railcars with wheelchair lifts is the most cost-effective means to improve the availability of transportation to the handicapped. Until such a determination has been made, it would appear premature to develop such lifts. Consequently, we recommend a reduc-

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tion of $107,000 and one personnel year in Item 2660-001-046.

TRANSIT OPERATOR ASSISTANCE

Both financial and technical assistance to operators are contained within this element. Major asistance programs include (1) the abandoned railroad rights-of-way program, and (2) 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 of $118,381,000 for this element in 1982–83. This represents a decrease of $41,000 (2 percent) for state operations and an increase of $12,125,000 (12 percent) for local assistance over current-year expenditure levels.

Technical Planning Assistance Too Costly to Administer

We recommend a reduction of $120,000 and 3.3 personnel-years in the Transportation Planning and Development Account (Item 2660-001-046) and $120,000 in federal funds (Item 2660-101-890) because the department is not administering the local planning assistance program in a cost-effective manner.

The budget proposes to spend $120,000 and 3.3 personnel-years in state funds to administer a planning assistance program. Under the program, the department would allocate to regional planning agencies $120,000 in federal funds to help defray the cost of preparing transit development plans. Federal rules require that local agencies prepare such plans in order to receive federal transit assistance.

In the current-year, the department will spend $119,008 and use 3.3 personnel-years ($76,774 and 2.2 personnel years in state funds, and $42,-234 and 1.1 personnel years in federal funds) to allocate $180,000 to the regional agencies. The department anticipates receiving only $120,000 from the federal government in the budget year. To ensure that the regional agencies get the maximum amount of available funding, the department proposes to pay all of the administrative cost with state funds.

The department's proposal would result in the state's spending as much money to administer a subvention program as would be subvened. This does not appear to be a cost-effective use of available funds.

Until the department develops a less costly procedure to allocate the funds, we recommend a reduction of $120,000 and 3.3 personnel-years from Item 2660-001-046 and $120,000 from Item 2660-101-890. Our discussions with department staff indicate that the loss of the federal funds should not prevent planning agencies from preparing the required plans.

Use Federal Funds for Transit Management Assistance

We recommend a reduction of $169,000 and five personnel-years in the Transportation Planning and Development Account (Item 2660-001-046) and a corresponding increase in federal funds (Item 2660-001-890) for transit management assistance, because state funds should not be used to provide this assistance and federal funds are available for this purpose.

The budget proposes to spend $169,000 and five personnel-years in state funds to continue the transit management assistance program. In the current year, seven personnel-years are assigned to this effort, but 5.5 of these personnel-years are paid from federal funds. The department does not anticipate that these federal funds will be available in the budget year. Consequently, the department proposes to reduce the total effort to five personnel-years in the budget year, to be supported entirely by state funds.

The management program provides technical assistance in fiscal management, vehicle scheduling and routing to small transit systems which generally operate in rural areas. The department indicates that the amount of effort for any one project is too small for a private consulting firm to become involved.

It is not clear why the state should provide this technical assistance free of charge. Because the operators are the beneficiaries of this assistance, they should be expected to pay for it.

Department staff indicate that a reimbursement process would be too cumbersome to administer because the amount of time required to prepare agreements would exceed the time needed to provide the assistance.

An alternative to direct reimbursement, however, would be to support the program with funds which would otherwise be allocated to rural transit operators. Section 18 of the federal Urban Mass Transportation Act provides financial assistance to operators in nonurbanized areas. Under the act, up to 15 percent of the funds could be spent by the state to administer the Section 18 program and provide technical assistance to recipients. Approximately $3 million will be apportioned to California, of which $450,000 could be spent for state services. The department has budgeted $243,354 to administer the Section 18 program, leaving over $200,000 available for technical assistance.

Using the federal funds to pay for the technical assistance would have nearly the same effect as charging the operators for the services because these funds would otherwise be allocated to those operators which primarily benefit from the technical assistance. Consequently, we recommend that $169,000 and five personnel-years be reduced from Item 2660-001-046 and that Item 2660-001-890 be increased by the same amount.

Mass Transit Guideway Funding Needs Clarification

We recommend a reduction of $10,600,000 in the State Highway Account (Item 2660-101-042) for overbudgeted mass transit guideway expenditures. We withhold recommendation on $28 million from the Transportation Planning and Development Account (Item 2660-101-046) and $77,500,000 from the State Highway Account (Item 2660-101-042) for mass transit guideways, pending adoption of a project priority list by the California Transportation Commission.

The budget proposes expenditures of $116.1 million from the State Highway Account and the TP and D Account to develop mass transit guideways. This is a net increase of $12.2 million, or 12 percent, over the current-year appropriation, and reflects: (1) a decrease in the appropriation from the TP and D Account from $55 million in the current year to $28 million in the budget year (49 percent), and (2) an increase in the State Highway Account appropriation from $48.9 million to $88.1 million (80 percent).

Chapter 899, Statutes of 1980, directed the transfer of $25 million per year through 1983–84 from tideland oil revenues to the account for guideway purposes. No transfers to the TP and D Account are proposed in the budget year, however, because the administration placed a higher priority on projects funded from the Special Account for Capital Outlay (SAFCO).

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Although the Legislature, in Chapter 899, placed a higher priority on the TP and D Account transfer than it did on the SAFCO transfer, the administration proposed a revised distribution of tideland oil revenues because the TP and D Account has other available sources of revenues, while SAFCO does not.

TP and D Account Program. Chapter 161, Statutes of 1979, authorized expenditures from the TP and D Account to finance the development of mass transit guideways. These guideways are to be selected according to the following process: (1) the California Transportation Commission selects criteria for evaluation of projects, (2) the department submits its evaluation of projects to the commission, (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 the commission will not adopt a priority list for budget-year projects until March, we have no basis upon which to assess the funding level recommended in the budget. Consequently, we withhold our recommendation on the budget request, pending receipt of the priority list.

State Highway Account Program. The budget requests $88.1 million from the State Highway Account for the guideway program. Under current law, Los Angeles and San Diego are allocated the maximum amount of funds for which the counties are eligible. In the budget year, Los Angeles would receive $38.8 million and San Diego would be allocated $13.9 million. Seven other counties would receive a total of $35.4 million.

The department's proposed State Transportation Improvement Program indicates, however, that only $77.5 million is needed for State Highway Account guideway projects in 1982–83. Consequently, the program is overbudgeted by at least $10.6 million, and we recommend a reduction of this amount.

We are withholding our recommendation on the balance of this request at this time because information provided by the department and the commission indicate that some local entities may be applying for funding from both the TP and D Account and the State Highway Account for the same guideway project. Until the commission adopts its priority list for the TP and D Account projects, therefore, we cannot determine the size of the appropriation warranted from the State Highway Account.

Tighten Local Assistance Control Language

We recommend that language proposed in the 1982 Budget Bill concerning local assistance appropriations for transportation facilities be amended to restrict the three-year appropriation provision to right-of-way acquisition and construction activities.

The budget proposes to spend $116.1 million on mass transit guideway projects and $6.8 million for intermodal transfer facilities. Although these funds are used for capital outlay-related purposes, traditionally they have been available for encumbrance only for one year because they were characterized as local assistance monies. Funds for state capital outlay activities, such as highway and building construction, however, are appropriated for three years because of the length of time required to implement a capital outlay project.

The budget proposes to make the local assistance funds available for three years. This would (1) make the availability of funding consistent with the state's policy toward capital outlay projects generally, and (2) permit local agencies to reserve funds for up to three years to pay for a relatively expensive project. We believe that, for these reasons, extending the availability of funds is desirable. Our analysis indicates, however, that the proposed Budget Bill language is too broad. Local assistance funds are allocated to pay for vehicle purchases and planning, engineering and design work, in addition to direct capital outlay activities such as right-of-way acquisition and construction. The Legislature appropriates vehicle procurement and design funds to state agencies only for one year. It would appear inconsistent, therefore, to appropriate funds to local agencies for such purposes for three years.

Consequently, to treat these local assistance funds the same as capital outlay funds, we recommend that the proposed Budget Bill language in the local assistance item be amended to read:

"The amount allocated in 1982–83 by the California Transportation Commission for the construction of transportation facilities or the acquisition of related right-of-way shall be available for expenditure during the 1982–83, 1983–84 and 1984–85 fiscal years."

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 $74,168,000, an increase of $42,771,000, or 136 percent, over estimated expenditures in 1981–82. Major proposed changes include: (1) the establishment of two new commuter rail services, at a total cost of $12.4 million, (2) the purchase of commuter rail stations in the Bay Area, at a cost of $5 million, and (3) a $1.5 million increase in subsidies for intercity bus service.

Intercity Bus Services—New Program Not Cost Effective

We recommend a reduction of $2,190,000 and 3.6 personnel-years in the Transportation Planning and Development Account (Item 2660-001-046) because the proposed specialized bus service would not have a significant impact and would be difficult to implement.

The department is proposing to spend a total of $2,946,000 and 8.6 personnel-years to subsidize intercity bus service provided by private common carriers. This represents an increase of $1,746,000 (146 percent) over current-year expenditures.

This proposal has two parts. First, the department would reduce the existing program which subsidizes bus service between small- and medium-sized communities from $1 million in subsidies in the current year to $500,000. The department also desires to initiate a new program to provide $2 million in subsidies for intercity bus service which is accessible to the handicapped.

Under this new program, private operators would purchase buses equipped with wheelchair lifts. The department would enter into a service agreement under which it would pay the operating deficit and amortize the cost of the bus over the term of the contract. The company would provide the service in major corridors, such as between Los Angeles and San Diego. Under current Public Utilities Commission regulations, major

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bus companies, such as Greyhound and Trailways, would be the most likely providers of the service.

Our analysis indicates that this service would not have a significant impact on transportation problems facing the handicapped. First, as discussed above, a federal report indicates that only 5.5 percent of the people classified as transportation handicapped use wheelchairs. In addition, discussions with staff of one of the major bus operators reveal that many wheelchair-bound passengers already use intercity buses on a regular basis. Department staff provided no data to indicate that a lack of wheelchair lifts on intercity buses was a significant barrier to transportation of the handicapped.

Staff also indicate that the proposed service would pose several operating problems to the bus companies. These problems might preclude the companies from participating in the program. Such difficulties include:

- ***The need to provide three buses for every run.*** In addition to the bus actually being driven, one bus would be needed for passenger overflow and one would be needed for backup.
- ***Driver assignment and training problems.*** Drivers are permitted to select their routes each week on a seniority basis. The driver of a lift-equipped bus, therefore, may vary from week to week. To accommodate this variety, all potential drivers would have to be trained in the use of the equipment. Permanently assigning drivers to the specific routes would conflict with collective bargaining agreements.
- ***Limited flexibility of the equipment.*** To maximize equipment utilization, buses are normally subject to assignment to different routes on a periodic basis. Under the proposed service, the lift-equipped buses would have to be limited to a few corridors.

In summary, our analysis indicates that the department's proposal would (1) not significantly increase the mobility of the handicapped, and (2) be difficult to implement. Consequently, we recommend a reduction of $2,190,000 and 3.6 personnel-years from Item 2660-001-046.

State Rail Program

The department now subsidizes the operation of three intercity rail passenger services and one commuter rail service. In the budget year, the department proposes to begin two new commuter rail services in the Los Angeles area, and to increase the number of daily trains on the intercity service between Los Angeles and San Diego.

Table 11 indicates state expenditures for existing and proposed rail services in 1980–81, 1981–82 and 1983, as displayed in a draft of the department's Rail Passenger Development Plan. These expenditures do not include the cost of staff support or marketing.

As Table 11 indicates, state expenditures have increased significantly in recent years as the state has established new services and embarked on an ambitious capital improvement program. Total expenditures proposed in the budget year are nearly 50 percent greater than current-year expenditures, and nearly six times greater than 1980–81 expenditures.

Table 11
Expenditures of State Funds
For Intercity and Commuter Rail
(dollars in millions)

Operating Expenditures	*1980–81 Actual*	*1981–82 Estimated*	*1982–83 Proposed*	*Total*
Intercity				
Los Angeles-San Diego	$1.27	$1.25	$1.55	$4.07
Oakland-Bakersfield	1.47	2.58	2.57	6.62
Los Angeles-Sacramento	—	1.40	2.85	4.25
Commuter				
San Francisco-San Jose	4.56	5.59	6.05	16.20
Los Angeles-Oxnard	—	—	2.40	2.40
Los Angeles-San Bernardino	—	—	1.36	1.36
Total Operations	$7.30	$10.82	$16.78	$34.90
Capital Expenditures				
Intercity				
Los Angeles-San Diego	$.35	$2.92	$6.00	$9.27
Oakland-Bakersfield	—	1.50	—	1.50
Los Angeles-Sacramento	—	.30 [a]	1.00	1.30
Commuter				
San Francisco-San Jose	.38	13.61	14.19	28.18
Los Angeles-Oxnard	—	1.81	4.00	5.81
Los Angeles-San Bernardino	—	—	4.00	4.00
Total Capital	$.73	$20.14	$29.19	$50.06

[a] For realigning the Coast Starlight Amtrak route, not associated with service subsidized by the department.

New Allocation Process

Chapter 1183, Statutes of 1981 (AB 1010), established a new process for allocating resources in the rail program. Under this measure, funds to operate the commuter rail services and operate and make capital improvements to intercity rail facilities are appropriated in the Budget Act. The California Transportation Commission allocates the funds to specific routes. Capital improvement projects for commuter services, however, are required to compete for funding with other guideway projects in the TP and D Account urban guideway program administered by the CTC. Funds for this program also are appropriated in the Budget Act.

Chapter 1183 also imposes financial requirements on the rail services. Intercity services must maintain a ratio of operating revenues to avoidable costs (costs which are incurred only because the service is provided) of 55 percent in the fourth and subsequent years of service or 1984–85 (whichever comes last). Commuter rail services must maintain a ratio of 40 percent within the same time frame. The commission can waive this requirement for a maximum of three years.

Commuter Rail Capital Outlay Proposal Violates Law

We recommend a reduction of $708,000 and 19.5 personnel-years in the Transportation Planning and Development Account (Item 2660-001-046) and $16,650,000 in the Transportation Planning and Development Account (Item 2660-301-046) because the budget proposes to appropriate commuter rail capital outlay funds to the department, in violation of existing law.

The department proposes to spend $17,358,000 and 19.5 personnel-years in 1982–83 to acquire and improve stations and make track improvements

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to one existing and two proposed commuter rail passenger services. The funds are distributed in the budget between this element and the intermodal facilities element.

Chapter 1183, Statutes of 1981, requires the department to request funding for capital improvements to subsidized commuter routes through the urban guideway program. Under this program, the California Transportation Commission allocates TP and D Account funds to guideway projects in particular counties.

Appropriating the funds directly to the department, as the budget requests, would be inconsistent with Chapter 1183. Accordingly, we recommend a reduction of $17,358,000 and 19.5 personnel-years. If the department obtains funding for commuter rail projects under the guideway program, needed personnel could be authorized at that time.

Peninsula Commute Service Overbudgeted

We recommend a reduction of $851,000 in the Transportation Planning and Development Account (Item 2660-001-046) to eliminate overbudgeting of operating subsidies for the San Francisco-San Jose commute service. We further recommend adoption of Budget Bill language limiting the state subsidy for commuter services to 50 percent of the net operating cost.

The department currently subsidizes a commuter rail service between San Francisco and San Jose. Under the contract with the Southern Pacific (SP) Transportation Company and a cooperative agreement with transit operators in the three affected counties, the department pays one-half of the service's net operating deficit which remains after deducting contributions from the federal government and SP.

The department requests $6.9 million to pay the state's share of an anticipated total deficit (before federal and SP contributions are deducted) of $16.2 million in 1982–83. The detailed budget for the SP service, however, indicates a total deficit of $14,497,237, with a state cost of $6,048,-619, a difference of $851,381. Department staff explain that this difference represents a 10 percent contingency to pay costs which exceed the budgeted amount.

Under the contract, SP and the department can negotiate a budget amendment to reflect the costs of service changes or costs which exceed the budgeted amounts. If it appears that costs are underbudgeted or revenues are overestimated resulting, therefore, in a higher-than-anticipated deficit, a preferable alternative would be for the department to make the necessary adjustments in the service or revenues to stay within the budgeted amount. Budgeting a contingency amount, as the department proposes, provides little incentive to control costs. Consequently, we recommend a reduction of $851,000 to eliminate this overbudgeting.

Equipment and Station Payments. The budget includes $487,600 to maintain an option to purchase locomotives and stations in the future. These option payments are in lieu of payments to lease the equipment on the commute service. The budget also includes $194,341 to pay property taxes on tracks and stations.

The department intends to purchase locomotives and stations during the current and budget years. Doing so would eliminate the need to make option payments. Moreover, public ownership of the stations would exempt the properties from property taxation.

Under Chapter 1183, however, the final decision to purchase the locomotives and stations would be made by the California Transportation Commission. Consequently, the savings in the service costs attributable to purchasing the stations and locomotives would not be determined until the CTC allocates the funds in the budget year. Thus, we have no basis on which to recommend an appropriate level to budget for option payments and taxes. We would anticipate that the commission, in determining an allocation amount for these acquisitions, would consider the availability of the funds budgeted to pay for such expenditures.

Limiting State Subsidy. As noted above, under the cooperative agreement with the three local operators, the department pays 50 percent of the net deficit after federal and SP contributions are made. This agreement is subject to amendment by the four parties. If an operator terminates its involvement in the service, the remaining parties must assume the responsibility for the unfunded deficit. Thus, the state's share of the net deficit could be increased in the future if one of the three operators drops out of the program.

We believe that state support for this service should be limited to a specific share of the deficit. The service is entirely regional in nature; it provides no statewide benefits. If the service is more cost-effective than other possible transportation services in the corridor, we see no reason why the region should not be willing to pay at least one-half of the deficit. Correspondingly, we see no reason why the state's share of this regional service should exceed 50 percent of the net deficit.

A minimum regional financing responsibility also would ensure that the San Francisco-San Jose service is coordinated with other regional transportation systems. The Legislature appears to have adopted this policy in enacting 1981 Budget Act language allowing the department to operate only one commuter service for which local agencies contribute less than 50 percent of the operating subsidy. We recommend adoption of similar language in the budget year. We further recommend that *all* commuter services which are subsidized by the state be limited to a 50 percent subsidy. Accordingly, we recommend adoption of the following Budget Bill language:

> "Provided, the department shall not subsidize a commuter rail passenger service at a rate which exceeds 50 percent of the difference between the operating revenues of the service, including any contributions made by the federal government and the railroad, and the operating cost of the service and related facilities."

New Commuter Services Pose Management Problems

We recommend denial of two new commuter rail services and a reduction of $4,841,000 and 8.3 personnel-years in the Transportation Planning and Development Account (Item 2660-001-046) because the department has had difficulty securing the resources needed to manage existing rail services and is not prepared to assume responsibility for new ones at this time.

The budget proposes $4,840,933 and 8.3 personnel-years to establish two new commuter rail routes. The department plans to recommend to the California Transportation Commission that commuter rail service be established between Los Angeles and Oxnard, and between Los Angeles and San Bernardino.

Our review of commuter rail services provided in California and Illinois indicates that it is difficult to manage rail services which are provided under a contract. The railroad companies do not enter into a contract

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voluntarily. In the case of both the current San Francisco-San Jose and the proposed Los Angeles-Oxnard commute services, the California Public Utilities Commission ordered the Southern Pacific (SP) Transportation Company to negotiate contracts with the department to provide the services. SP has appealed the order covering the Los Angeles-Oxnard service.

Proper management of a contractual agreement with an unwilling railroad requires railroad experience which exceeds the level generally found in the department. Requests for service changes or improvements might require months to implement because of a railroad's unwillingness to change procedures. The department, for example, has been requesting SP to improve the cleanliness of rail cars since August 1981. As of mid-January 1982, no improvement in this area is apparent. In addition, the railroad has resisted procedural changes which would get the trains in and out of the terminals more efficiently. Consequently, the department, which is ultimately responsible for the execution of the rail service contract, needs personnel who have had extensive experience dealing with railroads.

Our analysis of the department's existing commuter service indicates that the department has not yet achieved the level of expertise needed to properly manage its contract with the railroad company. Of the 10 people working on the SP commute service in the department's San Francisco district office, only one has had previous railroad experience. Discussions with staff of the Regional Transportation Authority in Chicago, which subsidizes similar service, indicate that it is necessary to employ staff with prior railroad experience to monitor properly the railroads' performance.

Required Personnel Authorized. The department has been authorized to hire personnel with railroad experience in the recently-established Railroad Consultant civil service classification. Department staff indicate, however, that recruitment for such positions has been hampered by (1) an unwillingness of prospective employees to move to California, given the current housing market, and (2) the salaries offered to prospective employees are not competitive with those for similar positions elsewhere.

Moreover, our analysis indicates that even if the department were successful in filling these positions, the person hired in the classification might not have a high degree of needed experience. The job specifications for the positions indicate that personnel with three years of transportation planning experience, including one year of rail systems planning experience, would be sufficient to qualify for these positions. Consequently, it is possible that a person hired as a railroad consultant would not have had any practical railroad experience.

Because the CTC, and not the Legislature, decides which specific commuter rail routes are to be established once total funding for rail services is provided, we have not evaluated whether the routes proposed by the department are warranted. We do believe, however, that establishing new services at this time would be premature. Additional contracts with railroad companies should be deferred until the department has obtained the personnel needed to manage the existing contract, and can reasonably expect to have personnel on board capable of managing the proposed contracts.

Accordingly, we recommend that the department delay implementation of additional commuter rail services for at least one year, until it has obtained the needed expertise. Consequently, we recommend a reduction of 8.3 personnel-years and $4,841,000 from Item 2660-001-046.

Rail Transportation Certification Costs Not Justified

We recommend a reduction of 6.7 personnel-years and $356,000 in the Transportation Planning and Development Account (Item 2660-001-046), and an increase of 6.7 personnel-years and $228,000 in the State Highway Account (Item 2660-001-042), for rail transportation certification because the department should not use state funds to train personnel to perform work for local agencies.

The department requests $496,000 and nine personnel-years to train additional staff in rail transportation, and to certify personnel in rail planning, design, construction and operation. This would continue an activity which was begun in the current year with funds provided by the Federal Railroad Administration.

The department subsidizes commuter and intercity rail services throughout the state and intends to expand these services during the budget year. In addition, the department has assisted in the construction of the light rail system in San Diego, and it will serve as project manager on the proposed system in Sacramento.

Budget documentation submitted by the department, however, indicates that the department has increased its involvement in these activities even though "it has become readily apparent that a major problem facing the department is a lack of trained staff." To solve this problem, the department proposes to provide 90 employees with 200 hours of training in eight areas of rail operations and construction. (The equivalent of nine personnel-years of training effort would be provided to employees currently in the Highway Transportation program. Consequently, the department would reduce staffing levels in the Highway Transportation program by nine personnel-years in 1982–83 to reflect the participation of these personnel in mass transportation activities.)

Our analysis indicates that the department currently has two different roles in rail service. First, it manages its own subsidized rail service. As we have indicated, it is crucial that the department develop a higher level of expertise to manage the contract providing for this service. Thirty of the 90 people scheduled to receive training in the budget year would be trained to help the department manage its own rail program. Although our review indicates that management of the existing services requires personnel with actual rail experience, the lack of such personnel can be partially compensated for by training inexperienced staff in railroad operations.

The second role of the department is to assist local agencies which are developing guideway projects. Under current law, the department may assist a requesting agency in almost any aspect of the development of such a project. It is under this authority that the department has participated in the San Diego and Sacramento projects. Sixty of the 90 people scheduled to receive training in the budget year would be trained to provide this assistance to local agencies.

We do not believe it is appropriate for the department to spend state funds in order to train department personnel to provide this assistance to local agencies, for two reasons:

1. ***Assistance can be provided without training state employees.*** The apparent reason why the Legislature authorized the department to provide this assistance was to allow local agencies to take advantage of whatever experience and expertise the department already has in place. The department also is authorized to hire consultants to perform work for which it does not have the necessary expertise. Consequently, it is neither

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necessary nor appropriate for the department to develop expertise for the purpose of providing this assistance.

2. *Costs should be reimbursed by agencies benefiting from this service.* The technical assistance provided by the department to local agencies are provided on a fully reimbursable basis. Consequently, spending state funds to train people to provide these services would be inconsistent with this policy.

In summary, it appears that, if the department does not have the ability to provide the requested services, it should either (1) decline to participate in the project, (2) contract for the necessary expertise, with the cost to be reimbursed by the local agencies, or (3) bill the local agencies for the cost of training state employees. Consequently, we recommend that the training program be reduced to train only the 30 people the department indicates are needed to manage the state's rail program. This would result in a reduction in Item 2660-001-046 of 6.7 personnel-years and $356,000, and an increase of 6.7 personnel-years and $228,000 in Item 2660-001-042 to return personnel from the Mass Transportation program to the Highway Transportation program.

TRANSFER FACILITIES AND SERVICES

The department is authorized by law to (1) enter into agreements to plan and design mass transit guideways and their related fixed facilities and (2) construct, purchase or lease, improve and operate rail passenger facilities which provide intermodal passenger facilities. In addition, the department is required to evaluate proposed transfer facilities, and to prepare a report which lists these facilities by priority.

The budget proposes expenditures of $19,106,000 for transfer facilities and services, which is $8,664,000, or 83 percent, greater than estimated current-year expenditures. Major proposals for the budget year include (1) $8 million to improve and rehabilitate acquired commuter rail stations and intermodal facilities, and (2) $2.2 million to operate these stations and facilities.

Department Intermodal Facilities Should Compete for Funding

We recommend a reduction of $795,000 and 22.5 personnel-years in the Transportation Planning and Development Account (Item 2660-001-046) and $5,109,000 in the Transportation Planning and Development Account (Item 2660-301-046) because department intermodal facility projects should compete for funding with other such projects in the state.

The department is proposing to spend $367,000 and 10 personnel-years to complete preliminary design work and begin final design work for improvements to the Transbay Terminal in San Francisco. This terminal provides bus berths for (1) several transit operators in the Bay Area, (2) an intercity carrier and (3) Amtrak shuttle buses. In addition, the department proposes to spend $5,537,000 and 12.5 personnel-years to rehabilitate Union Station in Los Angeles and the Santa Fe Depot in San Diego, two facilities which the department expects to acquire in the current year.

These projects are identical in nature to local projects which are funded by the California Transportation Commission (CTC) through the intermodal facilities program. To ensure that the funding process for intermodal projects is not fragmented and is coordinated with local and regional transportation systems, we recommend that these projects compete for funding with similar projects in the intermodal facilities program, rather than be funded directly by the Legislature. This would be consistent with legislative policy regarding the financing of highway and mass transportation projects. Consequently, we recommend a reduction of $795,000 and 22.5 personnel-years in Item 2660-001-046 and $5,109,000 in Item 2660-301-046. If the department obtains funding for these projects from the CTC, needed positions can be authorized at that time.

Information Needed on Intermodal Facilities Program

We withhold recommendation on $6,800,000 from the Transportation Planning and Development Account (Item 2660-101-046) and $1,423,000 and 19 personnel-years from the Transportation Planning and Development Account (Item 2660-001-046) for intermodal facilities construction and operation, pending resolution of issues concerning projects.

The budget requests $6.8 million to fund the construction and rehabilitation of intermodal transfer facilities in 1982–83. This represents an increase of $1.8 million, or 36 percent, over current-year levels. These funds would be allocated by the California Transportation Commission (CTC) to projects on a priority list developed by the department.

The three intermodal projects discussed in our previous recommendations—Transbay Terminal, Santa Fe Depot and Union Station—would be eligible for funding under this program in the budget year. These three projects would cost $5,904,000 in 1982–83. If the Legislature were to appropriate sufficient funds to finance the three department projects and provide $6.8 million to other intermodal projects, the total appropriation for the construction and rehabilitation program would be $12,704,000, a 154 percent increase over the current-year appropriation.

Uncertainty Over Projects. The current status of the Santa Fe Depot and Union Station projects is uncertain. It is not clear, for example, whether the Santa Fe Railroad, which owns the depot in San Diego, wishes to sell the property. If the railroad refuses to negotiate the sale of the property, the department would consider acquiring the property through a condemnation proceeding if local agencies agree to participate. Department staff indicate that a local agreement to condemn the property would depend on the railroad's alternative plan to develop the site. If a condemnation proceeding is begun or if the local agencies decide not to pursue acquisition, rehabilitation funds probably would not be needed in the budget year.

A similar situation exists with Union Station. It is not known at this time whether the current owners of Union Station would accept a department offer to buy the station. In addition, the CTC is pursuing a joint public/private development of the site with the station owners. Such an agreement would affect the need for state financing of rehabilitation.

We will have better information on the status of the two projects before legislative hearings are held on the department's budget. When the status of and outlook for these projects are clarified and the funding needs of all of the proposed intermodal projects are established, we will recommend appropriate funding levels.

Operations and Management. The budget also is requesting $1,423,000 and 19 personnel-years to manage and operate the Santa Fe Depot and Union Station. The need for such funding also will be known when the future of the acquisition is determined. Although we also are withholding recommendation on this request, we offer the following comments on the department's request.

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1. *Santa Fe Depot.* The department is requesting three personnel-years and $547,000 to manage and operate the depot. This request is based on the assumption that the facility would be owned by the department for a full year. Given the current status of the acquisition, it does not appear that the department will own the facility on the first day of the budget year. Consequently, it appears that the budget overstates the level of funding needed in 1982–83.

In addition, the department apparently did not consider alternative means of managing and operating the facility, such as hiring a contractor to manage it. Accordingly, we have no basis to determine whether the department's proposal represents the most cost-effective management approach.

2. *Union Station.* The department is requesting 16 personnel-years and $876,000 to operate and manage Union Station. The department proposes to hire personnel to maintain the electrical and plumbing systems, and perform janitorial and landscape maintenance services.

Currently, space at the station is leased to private firms and Amtrak, which operates intercity rail service to and from the station. The department estimates that the station will generate $970,000 in revenue in 1982–83. The budget, however, does not reflect this amount of lease payments either as a revenue to the TP and D Account or as a reimbursement to the department.

In addition, the present lease, which would remain in effect even if the station is under department ownership, assigns to Amtrak the responsibility to make routine repairs, clean, paint, and provide janitorial services in its leased area. The department intends to assume responsibility for these services in the Amtrak space in the budget year. The lease, however, does not provide for a corresponding increase in Amtrak rent. As a result, Amtrak will be paying the same amount of rent for a higher level of service and the state will, in effect, be subsidizing Amtrak. This does not appear to be an appropriate policy. If the department does acquire the station, we would recommend that the department not be provided funding to assume operating responsibilities in the Amtrak area under the existing agreement.

Peninsula Commute Service Station Management

We recommend a reduction of 13 personnel-years and $749,000 requested in the Transportation Planning and Development Account (Item 2660-001-046) to manage and operate stations on the Southern Pacific commute service, because no basis to determine resource needs has been developed.

The budget requests 13 personnel-years and $749,000 to manage and operate stations which the department intends to purchase along the Southern Pacific (SP) commute service during the current and budget years.

Our review indicates that this proposal should be denied for three reasons:

1. ***The amount requested exceeds the funds needed to operate the stations in 1982–83.*** The budget includes sufficient funds to operate all the stations for one-half of the fiscal year. The department, however, has not decided at this time how many stations it will purchase. That will be determined after a consultant completes a study in the spring. In addition, the department would have to delay purchasing most of the stations until

the budget year (or beyond) because of funding shortages during the current year. The funds would be allocated by the California Transportation Commission (CTC) through the urban guideway program, and acquisition would not be completed by the end of 1982. Consequently, there would be no need for half-year funding for station management, even if CTC allocated the acquisition funds to the department.

2. ***The department should not pay the full cost for managing these facilities.*** Under the current cooperative agreement with three transit operators in San Mateo, Santa Clara and San Francisco, the state pays 50 percent of the service's operating deficit after deducting federal and SP contributions. This deficit includes SP's current costs to manage the stations. The department proposes to assume *all* of the costs for operating the stations, including those costs that currently are paid by the local operators. We can determine no basis for reducing the local share of the service costs and increasing the state's share simply because of a change in ownership.

3. ***The department has not evaluated alternative methods of station management.*** Other options available for operating the facilities include contracting with SP. These options, however, have not been explored adequately. Accordingly, we have no basis to determine whether the department's proposal is the most cost-effective.

Consequently, we recommend that the requested funds be deleted until the department has (1) more complete information on its station acquisition schedule, and (2) evaluated alternative management strategies. In addition, if funds to acquire one or more stations are provided, the department should be appropriated sufficient funds only to pay for one-half of the cost of managing and operating the stations, with the balance to be paid from local reimbursements.

WORK FOR OTHERS

This element includes work the department performs upon request of local public agencies. The cost of this activity, which is totally reimbursable, will amount to an estimated $31,560,000 in 1982–83. This is an increase of $31,070,000 (6,341 percent) over estimated expenditures for reimbursed work in the current year. The increase largely reflects department design and procurement activities on behalf of the Sacramento light rail project.

Sacramento Light Rail

We recommend a reduction of $31,059,000 in reimbursements and 83 personnel-years in Item 2660-001-046 for work associated with the Sacramento light rail project because no funds are available for reimbursement.

The department has been requested by the Sacramento Transit Development Agency (STDA) to perform nearly all of the work related to the design and construction of a light rail system in Sacramento. According to department staff, the department would (1) purchase the equipment and right-of-way, and (2) perform design work in the budget year. The department will be reimbursed for all of its expenses.

The budget proposes 83 personnel-years and an expenditure authorization of $31,059,000, which would be reimbursed by STDA. The reimbursements would be financed primarily from federal funds allocated by the Urban Mass Transportation Administration (UMTA) and state funds allocated by the California Transportation Commission (CTC). According to department staff, the proposed level of reimbursement would not be sufficient to pay the department's overhead charges. The State Adminis-

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trative Manual requires the department to recoup such costs.

Although STDA has applied for funding for budget-year activities, no commitment has been made by UMTA or CTC at this time. Consequently, it is premature to authorize personnel and expenditures. Such authorization should be obtained by the department when funding is received by STDA, as permitted by Control Section 28 of the Budget Act. In addition, the amount requested for authorization should cover the department's overhead expenses.

Consequently, we recommend a reduction of $31,059,000 in reimbursed expenditures and 83 personnel-years.

RIDESHARING

Chapter 686, Statutes of 1975, declared the Legislature's intent to conserve energy, reduce highway congestion and provide incentives for the expanded use of carpools in metropolitan areas. Accordingly, the department was authorized to (1) establish computer or manual ride-matching systems, (2) promote efforts to encourage carpooling and flexible work hours, and (3) develop preferential treatment strategies for pool vehicles on highways.

The department's ridesharing program has expanded significantly since 1975, as higher gasoline prices and temporary gasoline shortages have resulted in increased interest in ridesharing. The budget proposes expenditures of $6.2 million and 57.4 personnel-years in 1982–83, an increase in expenditures of 28 percent from the current year. The TP and D Account would fund 97 percent of these expenditures, with the balance to be financed from the State Highway Account and federal funds.

Ridesharing services are provided in California through three types of agencies. First, the department provides services directly out of its offices in Sacramento, San Diego and many rural areas. Second, the department contracts with county agencies and private nonprofit agencies in the Los Angeles area, the San Francisco Bay Area and coastal and valley counties. Some of these outside agencies also receive local and federal funds to support their activities. Finally, the Orange County Transit District and the Golden Gate Bridge, Highway and Transportation District (GGBHTD) provide ridesharing services without state financial assistance.

Ridesharing Services

Several different modes of transportation are used for ridesharing services. The three most prevalent modes are (1) carpool, (2) vanpool and (3) buspool.

The average carpool consists of three people and uses an automobile owned by one of the carpool members. Ridesharing agencies estimate that they place approximately 70,000 people in carpools each year. The duration of a carpool varies from area to area. In the Bay Area, the average carpool lasts for 13 months. In San Luis Obispo, carpools last an average of six months.

The next most prevalent mode of ridesharing is the vanpool. Vanpools usually carry 10 to 15 people. The driver of the vehicle is responsible for maintaining the van and scheduling the trips. For these services, the driver generally is not required to pay a share of the vehicle's cost. The remaining passengers, however, typically pay the entire cost of purchasing and operating the van. Approximately 6,600 people are placed in vanpools each year.

Vans are obtained by three means. First, vans can be secured through the ridesharing agency. The department has entered into a contract with a vehicle lease firm to provide vans for vanpools. The department pays the interest costs of financing the vehicle until it is leased. These costs total approximately $50,000 per year. The GGBHTD owns a fleet of vans which it leases to vanpools for a six-month period. In either case, vanpool members pay the capital and operating cost of the van after it is leased. In May 1981, there were 472 vanpools operating in this manner.

In addition, many employers, including state agencies, own vans which are made available to employees for commuting purposes. Under existing law, state agencies must be fully reimbursed for all the costs of leasing a state-owned vehicle. In most cases, private companies operate on the same basis. In May 1981, 165 vans owned by six state agencies and institutions were used in this program. An additional 32 companies provided 645 vans to employees for vanpool uses.

Finally, individuals can purchase their own vans and operate a nonprofit vanpool. If the owner of the van registers with the department and meets certain conditions, the department will reimburse the owner of a van for 90 percent of the net capital cost of a vehicle, up to $2,000, and assume ownership of the vehicle if an owner-operated vanpool is terminated in the first year. Department staff indicate that only one van has been purchased by the department under this provision.

A third mode of ridesharing is the buspool. Buspools are subscription bus services which generally are provided by privately-owned bus companies. In some instances, public agencies will underwrite the cost of the service. The GGBHTD, for example, pays 45 percent of the cost of operating the buspool.

Ridesharing services are marketed in two primary ways. First, signs are posted along freeways which indicate an easily-remembered phone number to call. Phone-in applicants provide work-related information and home addresses to agency staff who match applicants with similar origins and destinations. In the Bay Area, 27 percent of the match list applicants learned about the ridesharing services from the freeway signs. Most of the marketing effort, however, is directed to employers. Agencies directly contact major employers to encourage employees to apply for pool matchlists. RIDES for Bay Area Commuters, Inc., a nonprofit ridesharing agency in the Bay Area, spends over 20 percent of its budget on such outreach activities. Employer and school contacts account for 41 percent of match-list applicants in the Bay Area. Approximately 600,000 applications for carpools and vanpools are processed each year in the state.

Other Activities to Encourage Ridesharing

Ridesharing agencies also attempt other approaches to reduce highway congestion and encourge ridesharing. The department is working with major employers in Sacramento and San Francisco to increase the use of flexible work schedules and staggered work hours. Although these efforts probably would have a greater effect on highway congestion than they do on ridesharing, workhour adjustments appear to increase the use of carpools, vanpools and public transit services.

The department also encourages ridesharing by providing incentives for its use. Carpools are allowed toll-free passage on state-owned toll bridges (as well as the Golden Gate Bridge owned by the GGBHTD). In addition, carpools are permitted to use high-occupancy vehicle lanes on

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urban freeways which allow a faster commute trip. Finally, the department encourages the development of preferential parking privileges for carpools and vanpools.

New Incentives

In 1981, the Legislature enacted Chapter 844 (SB 321) to permit personal and corporate income tax credits of 20 percent against the cost of purchasing, leasing or contracting company shuttle buses and carpooling vehicles. (The federal government authorizes an additional 10 percent credit against federal tax liabilities.) Chapter 844 also permits employers to deduct, as a business expense, operating costs associated with ridesharing activities.

Analysis of Ridesharing Services

One way in which ridesharing differs from most mass transportation services is that it requires a relatively modest expenditure of public funds. Generally, public subsidies for ridesharing have been limited to (1) promoting ridesharing activities, (2) matching prospective participants in carpools and vanpools, and (3) paying relatively minor interest costs for unused vans. Chapter 844 will increase the subsidy for corporate ridesharing programs. In addition, the budget proposes to establish a new program which would subsidize vanpool services transporting workers traveling between areas of high unemployment and employment centers. Generally, however, the users of the vehicles will continue to pay most of the costs of purchasing and operating the vehicles.

This contrasts with the experience of most public transit agencies. On the average, user charges cover only one-third of the operating cost of California transit agencies and none of the capital costs. The remaining costs are financed from local sales and property taxes, fees imposed on motorists and federal tax revenues.

The combined public and private cost of ridesharing also appears to be less than that of public transit on a per passenger-mile basis. We estimated the cost of the ridesharing services provided by the County of San Luis Obispo and RIDES for Bay Area Commuters and compared them to the cost of commuter bus and rail services provided in those areas. Table 12 displays the results.

Table 12
Comparison of Bus, Rail and Ridesharing Services
1981–82
Estimated Cents Per Passenger-Mile

	Bus [a]		*Rail* [b]		*Ridesharing*	
	Total Cost	*Subsidy*	*Total Cost*	*Subsidy*	*Total Cost* [c]	*Subsidy* [d]
Bay Area	13	6.9	16.3	7.7	3.4 to 9.1	0.8
San Luis Obispo	16.5	9.0	N/A	N/A	4.3 to 12.1	1.1

[a] Golden Gate Transit in Bay Area, North Coastal Transit in San Luis Obispo County (based on 1981 data).
[b] BART costs and revenues through November 1981, excluding depreciation.
[c] Cost depends on whether a vehicle is purchased strictly for commuting purposes.
[d] Excludes unknown tax subsidies established by Chapter 844.

As Table 12 indicates, the cost of traveling by ridesharing is significantly less than the cost of conventional transit. There are two significant reasons why this is the case. First, carpool and vanpool users do not have to pay drivers, as must transit operators. Driver salaries and benefits constitute up to one-half of a bus system's operating cost. Second, the administrative costs of ridesharing are significantly less than those incurred by transit operators because the ridesharing agency generally does not have an ongoing responsibility after the pool is formed.

The relative cost-effectiveness of ridesharing is, in fact, even greater when peak hour transit costs are considered. The cost of providing transit service during commute hours is greater than during nonpeak hours because additional equipment must be purchased and personnel hired to provide service for a limited period of time. A recent study by the University of California indicated that the subsidy per passenger needed to provide bus service in Los Angeles during peak hours was 70 percent greater than was needed during the offpeak hours.

Ridesharing and Transit Should Compete for Funds

We recommend legislation amending the Transportation Development Act (TDA) to authorize the use of TDA funds to support ridesharing services.

Our analysis indicates that the development of ridesharing can reduce the public and private cost of transportation. An expanded use of ridesharing during commute hours could lower transit deficits by reducing the need for expensive peak hour transit services.

In order to make the most effective use of ridesharing and conventional transit, however, regional agencies which allocate funds for transit should have the flexibility to allocate transportation funds where they can best be used. The Transportation Development Act (TDA), which authorizes counties to levy a ¼ percent sales tax for transportation purposes, is the largest single source of public money for transit in the state. It generally is allocated by regional planning agencies to transit operators and to street and road programs. TDA funds also can be spent to contract for peak hour bus service. Under existing law, however, the funds cannot be spent to encourage the development of carpools and vanpools.

To encourage a more cost-effective use of public transportation funds, we recommend that legislation be enacted amending the TDA to permit transportation planning agencies to allocate funds to public and nonprofit agencies for ridesharing purposes. This would permit planning agencies to develop ridesharing services when such services are the most cost-effective mode of transportation.

Shared Vehicle Demonstration Project

We recommend adoption of Budget Bill language in Item 2660-001-046 prohibiting the expenditure of funds for a shared vehicle demonstration project until 30 days after submission of the project feasibility study report to the Joint Legislative Budget Committee (JLBC) and the fiscal subcommittees. We further recommend adoption of supplemental report language requesting that the Chairman of the JLBC make a recommendation to the Director of Finance concerning the continuation of the demonstration project.

The budget proposes to spend $20,000 to continue a shared vehicle demonstration project in 1982–83. The department will retain a consultant to prepare a feasibility study report on the project in early 1982.

This project seeks to demonstrate the practicality of sharing the use of

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vehicles in large, high-density residential complexes. Private vehicle rental firms would make a fleet of vehicles available to residents for rental on a mileage basis. According to department staff, the availability of these vehicles should reduce the need for residents to own their own vehicles.

The proposal indicates that the rental charge may be subsidized by the state, using tax revenue. Even with the subsidy, however, the rate charged per mile to users would be higher than the actual additional cost to the user of driving a vehicle an extra mile, because the mileage charge would be set at a level sufficient to cover fixed costs, such as insurance and depreciation, which generally do not increase with the number of miles driven. Department staff believe that this higher out-of-pocket expense will encourage users to drive less and share rides more often. In addition, vehicle dispatchers may be able to match users who are traveling to the same destination and, therefore, reduce total vehicle usage.

Our analysis indicates that, in the case where more than the average number of miles is driven, the total cost of driving would be greater if the vehicle were leased under this arrangement than if it were owned by the user. Consequently, it appears that the proposed service would be attractive only to potential owners of vehicles which are driven less than the average. Department data indicate that the total mileage accounted for by cars which are driven less than the average number of miles per year represent only 29 percent of the total annual vehicle miles traveled in the state. In addition, the potential decrease in travel would be reduced further because this program would affect only travel which is (1) undertaken by residents of large residential complexes and (2) relatively unnecessary.

In summary, it appears that this program would not have a significant impact on the amount of vehicular travel in the state. The feasibiliy study now being prepared by consultants for the department may indicate, however, that the project is worthwhile.

To permit further legislative review of this project when the study is completed, we recommend adoption of the following Budget Bill language in Item 2660-001-046:

> "Provided, that at least 30 days before funds are spent on a shared vehicle demonstration project, the department shall submit the feasibility study report on the project to the Joint Legislative Budget Committee and fiscal subcommittees with a recommendation whether to continue the project."

We also recommend adoption of the following supplemental report language:

> "It is the intent of the Legislature that the Chairman of the Joint Legislative Budget Committee make a recommendation to the Director of Finance concerning the continuation of the shared vehicle demonstration project within 30 days after the committee has received the feasibility study report submitted to it pursuant to Item 2660-001-046. It is the further intent of the Legislature that the Chairman shall recommend to the Director that the project not continue if the feasibility study indicates that the project will not have a significant impact on vehicular travel in the state."

Subsidized Vanpool Program

We withhold recommendation on $300,000 and two personnel-years from the Transportation Planning and Development Account (Item 2660-001-046) for a subsidized vanpool program, pending development of an implementation plan.

The budget proposes $300,000 and two personnel-years to implement a new program to improve transportation for workers traveling between areas of declining employment and areas with greater employment opportunities. The program would combine traditional ridesharing program efforts which encourage people to sign up for vanpools with a new approach of subsidizing a portion of a trip for a three-month period. The department proposes to spend $52,000 on subsidies and the balance on program administration and outreach activities.

The department has not developed a specific implementation program at this time. Discussions with staff, however, indicate that the program would concentrate on encouraging the formation of vanpools. Only 15 percent of the funds would be spent on trip subsidies. SB 1116, which currently is before the Legislature, would require a different fund distribution. As amended on January 25, 1982, SB 1116 would require that at least 85 percent of the funds be spent on subsidies. This bill is an urgency measure, and therefore could affect the department's proposal for the budget year. Because the subsidy provisions of SB 1116 were added in mid-January, the department has not developed a plan to implement this bill.

We withhold a recommendation on the $300,000 request until (1) we have a better understanding of any statutory restrictions on the program that may be enacted by the Legislature, and (2) the department has developed a more detailed plan to implement a program.

TRANSPORTATION PLANNING

The Transportation Planning program contains four elements which are designed to improve the quality of transportation planning in the state: (1) statewide planning, (2) regional planning, (3) administration and (4) reimbursed services.

The budget proposes an appropriation of $6,922,000 from the Transportation Planning and Development Account in the State Transportation Fund. The budget also proposes to subvene $4 million in federal funds to regional planning agencies, and will spend $4,152,000 from reimbursements, for a total expenditure of $15,074,000, an increase of 1 percent from the approved current-year levels.

Program staff are budgeted at 203 personnel-years, a reduction of 2.5 personnel-years from the current year level. The department proposes this reduction because the current-year budget included 2.5 personnel-years to prepare a progress and needs report on city streets and county roads, as required by law. Chapter 291, Statutes of 1981, repealed that requirement. Consequently, the personnel are no longer needed. No other changes in the Transportation Planning program are proposed in the budget year.

ADMINISTRATION

The department's administrative activites include accounting and financial systems, as well as professional and technical services, such as data processing, legal and laboratory services. The budget proposes expendi-

DEPARTMENT OF TRANSPORTATION—Continued

tures totaling $90,829,000, an increase of $1,941,000, or 2 percent, over current-year expenditures, and 1,558.3 personnel-years.

These expenditures are distributed among the department's other four operating programs.

Budget Operations

We recommend that, during the budget hearings, the fiscal subcommittees request the Department of Finance and the Department of Transportation to comment on the future of their budget development contract which was required by control language in the 1981 Budget Act.

In our last three *Analyses,* we have been critical of the department's budgeting procedure. In our 1981 *Analysis,* we discussed in detail the specific problems we encountered in evaluating the proposed 1981–82 budget. These problems included the department's:

- Lack of timeliness in preparing the budget.
- Lack of responsiveness in providing supporting documents to the legislative staff.
- Unsubstantiated budget requests.

In response to our concerns about the department's procedures, the Legislature enacted control language in the 1981 Budget Act requiring the department to contract with the Department of Finance for the services of a person who would supervise the preparation of the budget and would report directly to the Business, Transportation and Housing Agency. Pursuant to this directive, a budget analyst from the Department of Finance assumed supervisory responsibilities in the department, beginning August 15, 1981. The contract between the two departments expires June 30, 1982.

Improvements have been made. Our review of the department's budget requests and supporting documentation indicate that significant improvements have occurred in the department's budgeting procedures. First, we received copies of the budget change proposals on December 1, almost three weeks earlier than last year. This year's early submission increased the time our office had to review the budget on behalf of the Legislature by 60 percent. In addition, the department arranged preliminary budget briefings with program and budget staff in mid-December to permit early discussions on the budget. Finally, agency and Department of Finance staff indicate that there were fewer difficulties this year in putting together the technical details of the department's budget.

Difficulties still remain. Although we are encourged by the significant improvements which the department has made in developing the budget, problems still exist. The remaining problem areas include:

1. ***Lack of Timliness in Providing Information.*** In our mid-December budget meetings, we requested an explanation and the rationale for the rail marketing budget which the 1981 Budget Act required the department to include in its supporting documentation. The department submitted the information to us one month later. The initial response consisted of a single page of information. The response listed for each service (a) current-year and budget-year ridership, (b) whether the service is existing, new, or expanded, (c) how many people live in the area, (d) whether the marketing target is vacation, recreation, business or commute travel, (e) whether the cost of the media is moderate, high or extreme, and (f) the budget-year cost for advertising. The department subsequently provided a more detailed analysis. In our judgement, this response (a) was

not an adequate response to the Legislature's requirement and (b) should not have required a month to provide.

We also requested additional information on the types of vehicles the department proposed to purchase. This is the same request we made in the two previous years. The department provided the information three weeks later. This type of information should have been prepared when the budget was developed and made readily available to legislative staff.

2. ***Inadequate Information in Budget Change Proposals.*** Although the supporting documentation for the budget requests generally is better than was provided two years ago, there continue to be problems with the adequacy of some proposals. The ridesharing proposal, for example, listed six different actions and did not indicate the implications of each action separately. Accordingly, it was difficult to evaluate individual proposals. In addition, the description of the problems and the proposed responses were too general to evaluate. For example, a problem of not knowing "the specific past success and future potential of the program" would be overcome by developing "specific estimates of program potential and progress to date." The documentation did not indicate (a) why it was important to know the future potential of the program, and (b) how the estimates would be determined. This had to be determined in subsequent meetings.

The highway maintenance proposals also were deficient. Workload measures were not consistent from page to page and the expected results of the proposals were not changed to reflect the changes in the proposals as the budget was developed.

3. ***Budgeted Deficit Unnecessary.*** As we mentioned in our analysis of the Mass Transportation program, the Governor's Budget indicates a $13.7 million deficit in the Transportation Planning and Development Account. Department staff indicate that this resulted from a lack of coordination of resource estimates and proposed expenditures while the budget was being developed. Budget staff assumed a lower level of expenditures in the current year and, accordingly, greater availability of resources in the budget year than the department now anticipates.

Some of these deficiencies resulted from actions which occurred before the Department of Finance consultant assumed his position. Consequently, if the consultant were to remain with the department, we believe further improvements in the budget procedures could be realized in the budget year. We recommend, therefore, that the fiscal subcommittees request the Departments of Finance and Transportation to provide information concerning the future of the budget development contract between the two agencies.

Financial and Accounting System Underfunded

We withhold recommendation on $395,000 from the State Highway Account (Item 2660-001-042) requested for consultant services to develop and implement a new financial management and accounting system, pending receipt of additional information and an amendment to the Governor's Budget.

The department, in order to correct deficiencies in its financial management and accounting system, contracted in December 1980 with the consulting firm of Deloitte, Haskins and Sells (DH & S) to determine the financial information requirements of the department, and to monitor and coordinate the implementation of a new financial management and accounting system.

After evaluating alternative systems based on department require-

DEPARTMENT OF TRANSPORTATION—Continued

ments, costs and the time needed for implementation, the consultant recommended the adoption of CALSTARS. This system, provided by Peat, Marwick, Mitchell and Co., has been adopted as the standard accounting system for most state agencies, and is being implemented statewide. The cost of adopting CALSTARS to meet the department's needs was initially estimated at $1.4 million, including approximately $460,000 for vendor support cost, $650,000 for departmental support and computer processing, and $225,000 for DH & S support to coordinate the system's implementation.

The Governor's Budget proposes $395,000 in 1982–83 to continue the DH & S contract. More recent estimates, however, indicate that the vendor costs to provide the new system will be significantly higher, and the implementation period probably will be longer. At this time, the department is not certain as to what the total implementation costs will be. It anticipates that it will request an amendment to the Governor's Budget to fund the system's implementation when a better cost estimate is available.

We withhold recommendation on this request, pending receipt of further information on the total cost of implementing the system.

TECHNICAL ISSUES

In the course of reviewing the department's budget, we identified proposed expenditures which our analysis indicates should be reduced for technical reasons. These recommendations relate to issues such as funding sources, salary computations and reimbursement expenditures, which do not involve policy considerations. These recommedations have been combined under the general heading of *Technical Issues.*

Highway Research Overbudgeted

We recommend a reduction of $231,000 in the State Highway Account (Item 2660-001-042) for highway research activities to correct for overbudgeting.

The department conducts research activities concerning a wide range of projects. The Legislature has authorized $4,139,000 and 61.7 personnel-years for highway research activities in the current year. This authorized level of activity is the result of the Legislature's decision to defer funding for 16 projects totaling $612,500, out of 32 projects proposed in the 1981–82 budget. The department is requesting an increase to the current research level amounting to 10.3 personnel-years and $730,000 for 1982–83 so that it can proceed with the deferred projects.

Our review indicates that the request is overbudgeted in two ways.

1. The additional 10.3 personnel-years are budgeted at an average personal service cost of $63,010 per personnel-year, which is $18,760 higher than the average cost budgeted for existing research personnel-years. We do not find any justification for budgeting incremental personnel-years at a level higher than average cost. We believe, therefore, that the request is overbudgeted by $193,228.

2. Of the 16 research projects funded in the current year, our review indicates that two, with total 1981–82 funding of $35,000, are one-year projects which are scheduled to be completed in the current year. Consequently, funding for these projects included in the 1982–83 budget should be deleted. Adjusting for cost increases (at 7 percent), we estimate $37,450

should be reduced from the department's total research funding request.

Acordingly, we recommend that the highway research funding be reduced by $231,000 from Item 2660-001-042.

Equipment Repair Services Overbudgeted

We recommend a reduction of $378,000 in the State Highway Account (Item 2660-001-042) because funds for materials and parts needed for equipment repairs have already been budgeted.

In 1980–81, the department was authorized an increase of 13 personnel-years to perform equipment repairs. These positions, according to the department, were requested so as to reduce the number of repairs performed by commercial repair services, and therefore produce cost savings of $1.3 million in 1980–81 and annually thereafter. For the current year, the Legislature reduced the department's repair services allocation by $1 million to reflect these cost savings. However, the department's expenditure allotment still includes $300,000 (in 1980–81 dollars) previously authorized for commercial repair.

The department is requesting $378,000 for 1982–83 to purchase repair materials and parts. Because (1) the department's base budget for 1982–83 already includes an estimated $343,000 (adjusted for two years' cost increases) for those commercial repairs which the department is now performing, and (2) there is an estimated $320,000 in the current year's authorized expenditure level which the department could use to purchase material in the current year, we recommend that the department's request for an additional $378,000 be denied.

Interagency Agreement Overbudgeted

We recommend a reduction of $13,000 in the State Highway Account (Item 2660-001-042) to correct overbudgeting for an interagency agreement.

The department contracts for professional services with other agencies, as well as with the private sector. For 1982–83, it is requesting $368,000 for an interagency agreement with the Department of Housing and Community Development (HCD) to do housing rehabilitation and replacement work along Route 2. HCD's 1982–83 budget, however, reflects reimbursements from this agreement of $355,000 which is $13,000 less than the department's request. Accordingly, we recommend a reduction of $13,000.

Utilities Cost Overbudgeted

We recommend a reduction of $2,665,000 in the State Highway Account (Item 2660-001-042) to correct for overbudgeted highway energy costs and utilities costs.

Energy Costs for Highway Lighting. The department pays for lighting the various components of the highway system. These energy costs (primarily for electricity) are a significant percentage of highway maintenance operating expenses. Actual 1980–81 highway energy costs were $17,225,000. For the current year, this expense is budgeted at $17,843,000.

For 1982–83, the department is requesting $26,586,000 for highway lighting. According to guidelines issued by the Department of Finance to assist departments in preparing the budget, 1982–83 electricity cost should be budgeted at 49 percent above 1980–81 actual expenditures, which in the Department of Transportation's case would be $25,665,000. The department has provided no justification for any increase above this amount.

DEPARTMENT OF TRANSPORTATION—Continued

Accordingly, we recommend a reduction of $921,000 to correct for overbudgeting of highway energy costs.

Utilities Costs for Buildings. The budget is requesting $4,533,000 for utility costs associated with building operations in 1982–83. In computing this amount, the department erroneously applied the 49 percent guideline to the *1981–82* budgeted amount, instead of the 1980–81 actual expenditures as directed by the Department of Finance. The actual expenditure in 1980–81 was $1,872,000. Adjusting for cost increases using the Department of Finance guidelines would result in the need for $2,789,000, which is $1,744,000 less than the department's request. Accordingly, we recommend a reduction of $1,744,000.

System Planning Activities Overbudgeted

We recommend a reduction of $177,000 in the State Highway Account (Item 2660-001-042) to correct for overbudgeting.

The department has ongoing system planning activities in its program development element. These activities require equipment and professional services, including the purchase and installation of traffic census control stations and hourly traffic count records. In the current year, $166,000 was appropriated for these activities. The amount required in 1982–83 is $156,000. The department, however, erroneously requested an *augmentation* of $156,000 over the current-year appropriation for a total of $333,000 (after adjusting for a 7 percent cost increase). To budget for the amount actually needed, we recommend a reduction of $177,000.

Depreciation

We recommend a reduction of $130,000 in the State Highway Account (Item 2600-001-042) because budgeting for depreciation is no longer department policy.

The department, in past years, has amortized its equipment cost over the expected life of the equipment. As a result, the equipment expense budget per year was only a portion of the total equipment cost and included the cost of depreciation. The department has since changed this practice and currently budgets for the full cost of the equipment in the year of acquisition. Budgeting for depreciation is therefore no longer necessary. Our review, however, indicates that the department's budget includes $130,000 for depreciation in 1982–83. Accordingly, we recommend reduction of this amount.

Maintenance Contracts Overbudgeted

We recommend a reduction of $208,000 in the State Highway Account (Item 2660-001-042) because this amount is in excess of the amount needed for highway maintenance contracts.

The department contracts for some of its highway maintenance work with the private sector. These expenditures are shown in the maintenance element of the program. Department data indicate that maintenance contract expenses in this element will total $20,508,000 in 1982–83, including a proposed augmentation of $10,743,000 to the existing amount. The budget, however, also includes $208,000 to contract for highway maintenance work in other elements of the Highway Transportation program. According to the department, there should *not* be any such contract expenses in program elements other than maintenance. Therefore, we recommend reducing Item 2660-001-042 by $208,000, to correct for overbudgeting.

Conforming Adjustment

We recommend a reduction of $350,000 in the State Highway Account (Item 2660-001-042) if a recommendation to reduce consulting contracts in Item 2240-001-001 (Department of Housing and Community Development) is adopted by the Legislature.

In our analysis of the Department of Housing and Community Development's 1982–83 budget (Item 2240-001-001), we recommend deleting $350,000 for unjustified consulting contracts relating to the Century Freeway Housing Replacement program. Because these funds are paid from the State Highway Account and are included in the Department of Trasnportation's support budget for interagency agreements, we recommend that, if the recommendation concerning Item 2240-001-001 is adopted, Item 2666-001-042 be reduced by $350,000.

Vehicles and Road Equipment Overbudgeted

We recommend a reduction of $568,000 in the State Highway Account (Item 2660-001-042) for the purchase of vehicles and road equipment to correct for overbudgeting.

The department has a total road equipment inventory of approximately 10,000 vehicles, a portion of which is replaced annually. The current-year budget includes $21 million for equipment purchase. Because of an underestimation of fuel and telecommunication operating costs, as well as an error in budgeting for equipment parts and materials, the department projects that current-year operating expenses will be underbudgeted by an estimated $9.5 million. To make up for this expected shortfall, the department is canceling certain equipment purchases for the current year and deferring $4.3 million in purchases until 1982–83.

For the budget year, the department is requesting a total of $25,063,000 for road equipment and vehicles, including an amount equal to the amount of the purchases deferred in the current year.

Our analysis indicates that the request is overbudgeted in two ways.

1. *The current-year shortfall is overstated.* Our review indicates that the projected shortfall includes $200,000 for equipment services from vendors. Funds to procure these services, however, have been appropriated in the current year. The department agrees that the projected shortfall is overstated by this amount. Consequently, the equivalent amount of $200,000 in equipment purchases does not need to be deferred, and the 1982–83 request is overbudgeted by that amount.

2. *Passenger vehicles are overbudgeted.* The budget proposes to replace 343 and acquire 53 additional passenger vehicles in 1982–83. Using 1982 prices provided by the Department of General Services, which procures all of the department's vehicles, and allowing for a 12 percent price increase (which is consistent with the adjustment factor applied by the department for all of its equipment), we estimate the cost of these vehicles to be $368,000 lower than the department requested.

For these two reasons, we recommend that the equipment request be reduced by $568,000 from the State Highway Account.

DEPARTMENT OF TRANSPORTATION—Continued

Unnecessary Reimbursed Expenditures

We recommend a reduction of $160,000 in reimbursed expenditures from Item 2660-001-042 because the department is unnecessarily reimbursed for legal services.

State agencies which operate motor vehicles participate in a motor vehicle liability insurance pool administered by the Department of General Services (DGS). DGS estimates the average annual insurance liability and related legal expenses attributable to each participating agency. This estimate is divided by the number of vehicles owned by an agency in the prior year to determine a rate per vehicle. This rate is multiplied by the number of vehicles owned in the current year to determine the total budget-year contribution of an agency to the pool.

Unlike other state agencies, which receive legal services from the Attorney General, the department provides its own legal services for its liability cases. DGS, however, will assess the department an estimated $160,000 for legal services in 1982–83. Department staff explain that when the department uses its own legal staff in vehicle liability cases, it bills DGS for the services, and DGS repays the department.

This practice generates an unnecessary transfer of funds between the two state agencies. It would be administratively simpler if DGS charged the department only for the liability payments attributable to the department and excluded legal costs entirely from the calculation. In addition, this payment system artificially increases the department's total expenditures because it pays once for the work of its lawyers and again for the repayment to DGS.

To simplify this process, we recommend a reduction of $160,000 in reimbursed expenditures in Item 2660-001-042. This will not reduce the appropriation from this item, but it will reduce the expenditure authorization for the department. In addition, the department probably will realize some net savings due to a reduction in paperwork.

Transit Demonstration Projects Overbudgeted

We recommend a reduction of 1.5 personnel-years and $81,000 in the Transportation Planning and Development Account (Item 2660-001-046) for evaluating transit demonstration projects because the evaluations will be completed in the current year.

The budget proposes to spend $81,000 and 1.5 personnel years to evaluate demonstration projects funded from an appropriation in Ch 1180/75. These projects involve the testing of bus passenger counters, fringe parking lots and specialized transportation services. A report on these demonstration projects indicates that the evaluations will be completed in the current year, and this is confirmed by department staff. Funding in the budget year, therefore, would not be required. Consequently, we recommend a reduction of $81,000 and 1.5 personnel-years to eliminate this overbudgeting.

Ridesharing Funding Source

We recommend a reduction of $141,000 in the State Highway Account (Item 2660-001-042) for ridesharing services and an increase of this amount in the Transportation Planning and Development (TP and D) Account (Item 2660-001-046) because the TP and D Account should be the sole

source of state funds for ridesharing services.

The budget proposes expenditures of $6,035,000 from the Transportation Planning and Development (TP and D) Account and $141,000 from the State Highway Account to support the department's ridesharing activities in 1982–83.

In two separate actions in the current session, the Legislature appropriated TP and D Account funds to support ridesharing programs. First, the Legislature shifted the source of funding for all except $134,000 of the appropriation for ridesharing in the 1981 Budget Act from the State Highway Account to the TP and D Account. A small amount of funds was appropriated from the State Highway Account for ridesharing because a technical rule of the Budget Bill Conference Committee prohibited the committee from funding the entire program with TP and D Account funds. The Legislature restated its policy of supporting ridesharing with TP and D Account funds in Ch 844/81. This measure requires a transfer from the TP and D Account to the General Fund to reimburse the General Fund for revenue losses resulting from certain tax credits and deductions related to ridesharing.

We recommend that the State Highway Account appropriation for ridesharing be replaced by an appropriation of an equal amount from the TP and D Account, to be consistent with these legislative actions. Accordingly, we recommend a reduction of $141,000 from Item 2660-001-042 and an equal increase in Item 2660-001-046.

Business, Transportation and Housing Agency

DEPARTMENT OF TRANSPORTATION—REAPPROPRIATION

Item 2660-491 from various funds

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
	—Chapter 1364, Statutes of 1978—Capital Outlay	State Highway Account	—
		Federal Trust	
	—Budget Act of 1975—Local Assistance	State Highway Account	—
		Federal Trust	
	—Budget Act of 1976—Local Assistance	State Highway Account	—
		Federal Trust	
	—Budget Act of 1978—Local Assistance	State Highway Account	—
		Federal Trust	
	—Budget Act of 1978—Local Assistance	State Highway Account	$200,000
		Federal Trust	2,000,000
	—Budget Act of 1979—Local Assistance	State Highway Account	—
		Federal Trust	
	—Budget Act of 1977—Capital Outlay	State Highway Account	200,000
		Federal Trust	1,000,000
	—Budget Act of 1978—Capital Outlay	State Highway Account	200,000
		Federal Trust	1,000,000
	—Budget Act of 1979—Capital Outlay	State Highway Account	$200,000
		Federal Trust	1,000,000
	—Budget Act of 1979—Local Assistance	State Highway Account	200,000
		Federal Trust	2,000,000

DEPARTMENT OF TRANSPORTATION—REAPPROPRIATION—Continued

—Budget Act of 1980—Local Assistance	State Highway Account	600,000
	Federal Trust	2,000,000
—Budget Act of 1981—Local Assistance	State Highway Account	300,000
	Federal Trust	3,000,000
—Chapter 460, Statutes of 1979—Intermodal Projects	Transportation Planning and Development Account	—
—Chapter 161, Statutes of 1979—Intercity Bus Service Intermodal Projects	Transportation Planning and Development Account	—
—Budget Act of 1980—Local Assistance	Transportation Planning and Development Account	—
—Budget Act of 1981—Local Assistance	Transportation Planning and Development Account	—

[a] All accounts are within State Transportation Fund

ANALYSIS AND RECOMMENDATIONS

We withhold recommendations on proposed reappropriations, pending further review.

The budget proposes reappropriating funds made available in (1) previous Budget Acts, (2) Ch 364/78, (3) Ch 460/79, and (4) Ch 161/79.

The proposed reappropriations can be divided among three categories. One category of reappropriations would extend the availability of unencumbered funds until June 30, 1985. This would include funds for intermodal projects, intercity bus service and highway capital outlay. A second category would reappropriate, without regard to fiscal year, the unliquidated encumbrances of local assistance funds appropriated in previous Budget Acts. The third category would make encumbered balances of various local assistance and capital outlay appropriations available through 1984–85, but revert the unencumbered balances.

In addition, this item would permit the California Transportation Commission to allocate any savings realized from one project to enlarge any other project for which funding has been provided.

We have requested additional information on the various reappropriations. We withhold recommendation, pending receipt and review of this information.

Business, Transportation and Housing Agency

OFFICE OF TRAFFIC SAFETY

Item 2700 from the Motor Vehicle Account, State Transportation Fund and Federal Funds — Budget p. BTH 123

Requested 1982–83	$225,000
Estimated 1981–82	368,000
Actual 1980–81	196,000
Requested decrease (excluding amount for salary increases) $143,000 (−38.8 percent)	
Total recommended reduction	$28,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Overbudgeting for Administration. Reduce amount budgeted for program administration by $207,000 and reallocate savings to grant program. Reduce Motor Vehicle Account appropriation in Item 2700-001-044 by $28,000.*** Recommend reductions to correct for decreased staffing requirements and overbudgeted expenses. 422
2. Grant Evaluation. Recommend supplemental report language to ensure appropriate consideration of funding requests made by state agencies. 423

GENERAL PROGRAM STATEMENT

The Office of Traffic Safety (OTS) is responsible for allocating federal highway safety grants to state and local agencies. The principal responsibilities of OTS are to (1) develop and update the California Comprehensive Traffic Safety Plan, (2) coordinate ongoing traffic safety programs, (3) provide technical assistance and information to state and local agencies, (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. OTS is authorized 32 postions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $9,672,000 for support of the activities of the Office of Traffic Safety in 1982–83. This amount consists of $225,000 from the Motor Vehicle Account of the State Transportation Fund, $9,400,000 in federal funds and $47,000 in reimbursements. The amount proposed from the Motor Vehicle Account is $143,000, or 38.8 percent, less than the state's contribution for this program during the current year. Proposed expenditures 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 86 percent of the funds needed to cover OTS' program administration costs. The remaining 14 percent is 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
Office of Traffic Safety
Funding Summary
(in thousands)

Item	*Funding Source*	*Purpose*	*1980–81* [a]	*1981–82*	*1982–83*
2700-001-890	Federal	Grants to state agencies and program administration	$6,217	$7,151 [b]	$3,760
2700-101-890	Federal	Grants to local agencies	9,000	9,566 [b]	5,640
2700-001-044	Motor Vehicle Account	Program administration	196	218	225
		Child Passenger Protection Act (Ch 170/80)	-	150	—
	Totals		$15,413	$17,085	$9,625

[a] Expenditures and encumbrances.
[b] Total amount of federal funds available for expenditure. Includes carryovers from previous year.

OFFICE OF TRAFFIC SAFETY—Continued

Office Support and Grants to State Agencies

The office assists state and local agencies in solving traffic safety problems by (1) identifying deficiencies, (2) evaluating the needs of potential grant recipients, and (3) monitoring the implementation of grant proposals. Pursuant to federal regulation, the state must provide 13.5 percent of the funds used for administrative purposes.

In the budget year, OTS proposes expenditures of $1,666,000 for program administration. As shown in Table 1, $225,000 of this amount would come from state sources. The remainder—$1,441,000—would be allocated from the $3,760,000 in federal funds available for grants to state agencies and program administration. This would leave approximately $2.3 million in new federal funds available for traffic safety grants to state agencies in 1982–83, 60 percent less than the amount provided in 1981–82.

Local Assistance

Federal law requires that at least 40 percent of the grant funds provided to California be allocated to local agencies. As a matter of practice, however, OTS generally allocates more than 50 percent of the funds to local agencies. For the budget year, OTS proposes to allocate $5,640,000 in new federal funds to implement local traffic safety projects. This amounts to 60 percent of available federal funds. The amount of federal traffic safety grants proposed for allocation to local agencies in 1982–83 also represents a major reduction from past-year levels. For example, it is 41 percent less than the $9.6 million available in the current year.

Overbudgeting for Program Administration

We recommend that the amount budgeted for program administration be reduced by $207,000, and that the funds be transferred to the grants program. We further recommend that the amount budgeted in Item 2700-001-044 as the state's share of administrative costs be reduced by $28,000, for a corresponding savings to the Motor Vehicle Account.

Our analysis of the office's proposed budget indicates that the amount budgeted for administration of the grants program should be reduced by $207,000, as shown in Table 2.

Table 2
Office of Traffic Safety
Recommended Reductions to Administrative Cost

1. Delete funds budgeted for auditing expense	$100,000
2. Delete data center funds	50,000
3. Delete staff services manager II position and management services technician position	57,000
Total	$207,000

These reductions are warranted for the following reasons:

a. *Auditing expense.* In past years, OTS has contracted with other state agencies for auditing services required for administration of the grants program. Funds for these services have been included in the budget under the category of interdepartmental consulting and professional services. The proposed budget includes $100,000 to cover the cost of such services in 1982–83. OTS, however, has taken over the audit function in the current year, using funds already budgeted for personal services. Therefore, the amount budgeted for interdepartmental consulting and professional services can be reduced by $100,000.

b. ***Data center funds.*** In the current and past fiscal years, OTS has contracted with the Stephen P. Teale Consolidated Data Center for computer processing of vehicle accident-related data. According to OTS, $50,000 has been included in the 1982–83 budget for this purpose. Our analysis reveals that reduced federal reporting requirements make it possible for OTS to eliminate data center support and instead rely on information provided by the California Highway Patrol through its Statewide Integrated Traffic Records System. Accordingly, the amount budgeted for data processing services can be reduced by an additional $50,000.

c. ***Position reduction.*** The reduction in federal funds available to OTS for grant awards will reduce the office's workload. Our review of OTS' staffing needs indicates that this reduction and classification adjustments made by OTS in the current year make it possible to eliminate a staff services manager II position and a management services technician position. Elimination of these positions and associated costs will result in savings of $57,000.

Approval of the recommended reductions would reduce OTS' administrative costs by $207,000, and permit a $28,000 reduction in the required state match. This would leave $179,000 in federal funds that could be used to increase support for the grant program. It would also result in a $28,000 savings to the Motor Vehicle Account.

Grant Award Procedures Need Review

We recommend adoption of supplemental report language requiring the Office of Traffic Safety to adopt procedures which, to the extent federal funds are available, ensure the approval of grants requested by state agencies for projects which conform to the state's traffic safety plan and which would otherwise be funded using state money.

As noted above, the percentage of federal traffic safety funds awarded by OTS to local agencies is far in excess of what federal regulations require. Our analysis indicates that the funds allocated for grants to state agencies are oversubscribed, and in some cases, the denial of a grant to a state agency has resulted in an increase in the expenditure of state funds.

We believe that OTS should use available federal support to fund all state projects which conform to the state's traffic safety plan and which would otherwise be funded using state money. This would increase the Legislature's ability to support high priority programs and activities within the available funds. Such a policy might require (1) increasing the amount of federal funds allocated for state grants, and (2) modifying evaluation policies and procedures so that consideration is given to the likely effect on the state budget if a request for funds is denied.

We recommend, therefore, adoption of supplemental report language as follows:

"The Office of Traffic Safety shall adopt procedures which, to the extent federal funds are available, ensure the approval of grants request-

OFFICE OF TRAFFIC SAFETY—Continued

ed by state agencies for projects which conform to the state's traffic safety plan and which would otherwise be funded using state money."

EDP Grants Require Special Review

Grants administered by OTS reflect the increasing use of electronic data processing (EDP) technology by both state and local agencies in managing traffic safety programs. Our review of one grant to a local police agency involving a minicomputer system revealed that OTS had previously awarded grants to two other local agencies for essentially similar systems. The three systems, however, were not compatible. Such incompatibility needlessly increases system development costs. (Compatible systems are more cost-effective because improvements to one system can be shared with the other users.)

The OTS should modify its grant evaluation and award procedures to ensure compatibility among EDP systems whenever possible. OTS will require some technical assistance to establish appropriate procedures ensuring compatibility. Such assistance could be obtained at little or no cost from sources such as the California Association of County Data Processors or the California Information Technology Advisory Board, a state board which reports to the Director of Finance.

Business, Transportation and Housing Agency

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 2720 from the State Transportation Fund — Budget p. BTH 125

Requested 1982–83	$341,413,000
Estimated 1981–82	312,280,000
Actual 1980–81	295,087,000
Requested increase (excluding amount for salary increases) $29,133,000 (+9.3 percent)	
Total recommended reduction	$7,862,000
Recommendation pending	$442,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2720-001-044—Support		Motor Vehicle Account, State Transportation	$329,266,000
2720-001-050—Support		CHP Law Enforcement Account, State Transportation	12,147,000
Total			$341,413,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Salary Savings for New Officers. Reduce Item 2720-001-050 by $421,000.*** Recommend reduction because the department did not budget for salary savings associated with new officers. 428
2. Regional Helicopter Service Reimbursements. Recommend legislation which would allow the department to charge for helicopter services not related to traffic management. 429
3. ***Helicopter Purchase Costs. Reduce by $30,000.*** Recommend a reduction to reflect overbudgeting for helicopters. 430
4. ***Fixed-Wing Aircraft Purchase. Reduce by $106,000.*** Recommend reduction because the department has sufficient enforcement capability along Highway 99 without additional aircraft. 430
5. ***Workers' Compensation Increase. Reduce by $370,000.*** Recommend reduction because current-year data indicate that the incidence of injuries is growing at a slower rate. 431
6. ***Enforcement Vehicle Purchase. Reduce by $1,433,000.*** Recommend reduction in amount budgeted for vehicle purchases to correct overbudgeting. Further recommend that the department discuss plans to purchase high-speed enforcement vehicles. 431
7. ***Vehicle Light Bars. Increase reimbursements by $47,000 and reduce appropriation by the same amount.*** Recommend reduction because department has not budgeted reimbursements for sale of existing light bars. Withhold recommendation on proposal to purchase new light bars, pending review of experiment with flashing headlights. (Pending: $150,000.) 432
8. Motorcycle Training. Recommend that the Legislature direct the department to require a one-year commitment from motorcycle officers before they are granted a transfer to regular duty. 433
9. ***1984 Olympics Planning. Reduce by $146,000.*** Recommend deletion of 3.0 personnel-years because department already has adequate personnel to perform functions envisioned for these positions. 434
10. Abandoned Vehicle Abatement. Recommend that the unencumbered balance in the Abandoned Vehicle Trust Fund be transferred to the unappropriated surplus of the Motor Vehicle Account, State Transportation Fund. 435
11. ***Hazardous Materials Program. Increase reimbursements by $180,000 and reduce appropriation by same amount.*** Recommend reduction because the department has not budgeted the full amount of reimbursements for hazardous waste inspections. Also withhold recommendation on training request, pending determination of appropriate reimbursement level. (Pending: $292,000.) 435
12. ***24-Hour Inspection Facilities. Reduce by $999,000.*** Recommend deletion of 31.0 personnel-years because 24-hour operation of inspection facilities will not result in significant enforcement. 437

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

13. ***Sedan Vehicle Purchase. Reduce by $101,000.*** Recommend reduction to correct overbudgeting and because less expensive vehicles can be used to achieve program objectives. 438
14. ***SPB Delegated Testing. Reduce by $24,000.*** Recommend reduction of amount budgeted for overtime and temporary help that is not justified on a workload basis. 439
15. ***Clerical and Janitorial Staffing. Reduce by $118,000.*** Recommend deletion of 7.0 nonuniform personnel-years to reflect declining workload and new positions provided in the current year. 440
16. ***Underestimated Department Salary Savings. Reduce by $1,431,000.*** Recommend reduction because past experience indicates that the department has underestimated its vacancy rate. 440
17. ***Leased Patrol Facilities. Reduce by $477,000.*** Recommend reductions for overbudgeting of lease amounts. Also recommend the establishment of a reserve for rental funds and adoption of Budget Bill language which reverts unused portion of rent for six facilities the department plans to purchase. 441
18. ***Communications and Fuel Reserves. Reduce by $1,778,000.*** Recommend reduction because two reserves are no longer needed. 444
19. ***Miscellaneous Reductions. Reduce by $201,000.*** Recommend reductions to correct for overbudgeting in various categories. 444

GENERAL PROGRAM STATEMENT

The Department of the California Highway Patrol (CHP) is responsible for ensuring the safe, lawful and efficient movement of persons and goods along the state's highway system. To meet this responsibility, the department administers three programs designed to assist the motoring public. These programs are: (1) Traffic Management, (2) Regulation and Inspection, and (3) Vehicle Ownership Security. A fourth program, Administrative Support, provides administrative services to the first three programs.

Department activities are coordinated from CHP headquarters in Sacramento, which oversees eight division commands, 95 area offices, several inspection and scale facilities, and two communication centers. These facilities are linked to headquarters by an extensive communications network. The department has 7,201.6 authorized positions in the current year, of which 5,062.7 are uniformed and 2,138.9 are nonuniformed.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $345,606,000 from various funds for support of the Department of the California Highway Patrol in 1982–83. These expenditures are funded from three sources. First, the budget proposes an appropriation of $329,266,000 from the Motor Vehicle Account, State Transportation Fund. Second, the department proposes to spend $12,147,000 from the California Highway Patrol Law Enforcement Account, State Transportation Fund to train, equip and deploy the additional officers authorized by Ch 933/81. Third, reimbursements and federal funds are expected to provide $4,193,000 in the budget year.

Chapter 933, Statutes of 1981 (AB 202), established the California Highway Patrol Law Enforcement Account in order to fund an additional 670 state traffic officer positions. The department now estimates that 550 positions can be supported with the available funds. These funds will come from an additional $1 registration fee for motor vehicles which is authorized annually, beginning January 1, 1982 and continuing through December 31, 1985. The department proposes to increase state traffic officer strength by 250 positions in 1982–83.

Proposed expenditures are $29,165,000, or 9.2 percent, greater than estimated expenditures in the current year. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The most significant program change proposed in the budget is the addition of 250 new state traffic officers. In addition, the department is requesting (1) 21 new positions for hazardous materials inspections, at a cost of $853,000, (2) the purchase of three replacement helicopters and two replacement fixed-wing aircraft, at a total net cost of $1,728,000, and (3) 31 new state traffic officer positions for the 24-hour operation of selected inspection facilities, at a cost of $999,000.

TRAFFIC MANAGEMENT

Traffic management is the largest department program, accounting for $315,617,000, or 96 percent, of the proposed Motor Vehicle Account appropriation. Approximately 85 percent of the department's uniformed personnel and nearly half of its nonuniformed personnel are employed in this program. According to the department, 90 percent of the uniformed personnel in the program are used regularly on patrol duty. Officers spend about 88 percent of their time in "on-sight" patrol, with the balance consumed by activities such as report writing.

Two elements make up the traffic management program. They are (1) ground operations, which carries out most of the department's responsibilities on the highway, and (2) flight operations, which assists CHP ground units and allied agencies in traffic, law enforcement, and rescue activities.

Table 1 presents program staffing and expenditure levels for the traffic management program.

Table 1
Traffic Management Program
Staffing and Expenditure Data
(dollars in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Percent Change*	*Proposed 1982–83*	*Percent Change*
Program Expenditures	$274,751	$289,128	5.2%	$315,617	9.2%
Personnel-years					
Uniformed	4,203.4	4,215.5	0.3	4,474.3	6.1
Nonuniformed	1,061.1	1,105.1	4.1	1,122.9	1.6
Total	5,264.5	5,320.6	1.1%	5,597.2	5.2%

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Additional State Traffic Officers Overbudgeted

We recommend a reduction of $421,000 from the CHP Law Enforcement Account appropriation (Item 2720-001-050) because salary savings have not been budgeted in accordance with the State Administrative Manual (SAM).

Chapter 933 was enacted to increase the officer field strength of the CHP to the level maintained in 1975. According to the department, the funds made available by the act will amount to approximately $83,507,000 over a four-year period, and will allow the patrol to hire an estimated 550 officers.

The CHP has indicated that the first priority in deploying the 550 new officers will be to permit 24-hour coverage of interstate highways in California. Once this 24-hour coverage has been achieved, the department will have to determine a basis for deploying any remaining authorized officers because this coverage will not utilize all of the new officers. Unfortunately, the CHP has not devised a staffing formula which adequately assesses where additional field strength could be deployed most effectively. We have discussed this issue in past analyses and reports.

The department plans to add 250 officers in 1982–83, at a cost of $12,147,000. These costs include the additional salaries, operating expenses and equipment necessary to support the new officers. The department also proposes to spend $3,005,000 in the current year to train these officers.

The department has budgeted all expenses directly related to Chapter 933 separately from ongoing traffic management costs. This should allow the department to determine the direct fiscal effect of the additional officers. Salary savings attributable to the new positions, however, are not provided for in the proposed budget. According to the State Administrative Manual (SAM), "5 percent is generally acceptable as a minimum dollar value for salary savings on new positions if the position is expected to be filled on July 1." Accordingly, we recommend a reduction of $421,000 from the CHP Law Enforcement Account to correct for underbudgeted salary savings.

FLIGHT OPERATIONS

The CHP has conducted air operations since 1969, when helicopters were purchased to assist traffic management in Los Angeles and San Francisco. Since then, the department has expanded its air support to include (1) four single-engine fixed-wing aircraft, which are used in patrol activities and based in Coalinga, Barstow and El Centro, (2) three fixed-wing planes purchased with federal funds, which are used in conjunction

Table 2
Flight Operations Element
Staffing and Expenditure Data
(dollars in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Percent Change*	*Proposed 1982–83*	*Percent Change*
Expenditures	$4,926	$4,995	1.4%	$7,211	44.4%
Personnel-years					
Uniform	65.5	65.7	0.3	65.4	−0.5
Nonuniform	6.2	6.2	0.0	6.1	−1.6
Totals	71.7	71.9	0.3%	71.5	−0.6%

with ground units to increase compliance with the 55 miles-per-hour speed limit, and (3) six helicopters, which are used for traffic management, regional law enforcement activities and search-and-rescue efforts.

Table 2 shows the staffing and expenditure levels for the flight operations element of the traffic management program. The personnel-years include 24 helicopter pilots, 13 fixed-wing pilots, and 24 observers who assist pilots during flight operations.

Helicopter Services

We recommend enactment of legislation which would authorize the department to bill agencies for helicopter services not related to traffic management. (Potential annual savings of approximately $717,000.)

The CHP maintains six helicopters to assist its ground operations as well as allied agencies in various activities. Four helicopters, which are located in Redding, Sacramento, Fresno and Barstow, operate on a regional service concept, and provide support for various activities such as crime control, emergency medical services and traffic management. The other two helicopters, located in Van Nuys and Napa, concentrate mostly on traffic management in the Los Angeles and Bay Areas, respectively.

Pursuant to a directive in the *Supplemental Report of the 1980 Budget Act*, the department has reviewed its regional services in terms of helicopter utilization, duplication of services provided by others, and opportunities for securing reimbursement for services performed. In a report issued in December 1981, the department concluded that:

1. The helicopters are being utilized by the department in the manner approved by the Legislature.
2. The effect of CHP operations on other helicopter services has been negligible.
3. The benefits of the programs include life-saving activities and more efficient delivery of services.
4. Enactment of legislation would be needed before the department could attempt to secure reimbursement for services (based on an informal opinion from the Attorney General).

Data supplied by the CHP indicate that services provided by the four regional helicopters to local agencies account for approximately 58 percent of the costs incurred in operating and maintaining these aircraft. The remaining 42 percent is attributable to traffic management and other patrol activities of the department.

Costs, including the salaries of pilots and observers who operate the regional helicopters, totaled $866,000 in 1980–81. When these costs are prorated between the CHP and other agencies, the expense of providing nontraffic services to outside agencies in 1980–81 was approximately $502,000. Because the cost to operate the helicopters is expected to be 43 percent higher in 1982–83 than in 1980–81, we estimate that $717,000 will be expended on services for other agencies in the budget year.

Because these services are specialized and fall outside the CHP's historic mission of ensuring safe and efficient movement along the highway, the costs associated with these services should, in our judgment, be reimbursed by those agencies which receive services. Moreover, use of Motor Vehicle Account funds for helicopter services totally unrelated to traffic or motorist services may not be constitutional. We therefore recommend legislation which would allow the department to bill agencies for services rendered.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Helicopter Equipment Costs Overbudgeted

We recommend a reduction of $30,000 requested for helicopter equipment to correct overbudgeting.

The department is proposing to purchase three replacement helicopters in 1982–83. On the basis of aircraft industry projections, the department estimates that the three helicopters will cost $1,763,307. The department, however, has budgeted $1,793,520 for these helicopters, a difference of $30,213. We recommend a reduction of $30,000 to correct for this overbudgeting.

Fixed-Wing Aircraft Operations

We recommend deletion of $106,000 for the purchase of a fixed-wing aircraft because patrol duties can be assumed by other CHP aircraft and additional traffic officers.

The department currently operates four fixed-wing airplanes which perform a variety of enforcement activities, ranging from border patrol to motorist assistance. Two fixed-wing aircraft are located in Coalinga and one each is stationed at Barstow and El Centro. In addition, the department is participating in a 55 miles-per-hour compliance project using funds provided by the federal government for the support of three additional fixed-wing aircraft and 18 ground units. The federal compliance project, which also provides federal funds for the salaries and operating expenses of the officers involved, operates out of Sacramento, Redding and King City.

The CHP is proposing to replace two of the state-owned planes in 1982–83, at a net cost of $106,000 per plane, including radio and other equipment. The new planes would replace one of the airplanes based at Coalinga and the plane located in Barstow. (The other fixed-wing airplane based at Coalinga crashed in May 1981, and will be replaced using insurance funds. This new plane should be operational by February 1982.)

Our analysis suggests that the purchase of an additional airplane for the Coalinga area is unnecessary for the following reasons:

1. *Air coverage along Highway 99 does not appear to be needed.* The department's justification for air coverage is the difficulty it faces in patrolling long stretches of highway with limited ground units. This is certainly apparent with respect to Interstate 5 and 15, which require lengthy patrols in areas where there are relatively few ground units. The need for air coverage along that portion of Highway 99 patrolled by Coalinga-based aircraft is not apparent, however. Between Bakersfield and Modesto, the patrol maintains 10 area offices either on or near Highway 99. These offices currently employ 372 traffic officers. The number will increase in the future as additional officers are deployed pursuant to Chapter 933. Thus, a shortage of ground-based personnel would not seem to exist along Highway 99.

2. *Additional aircraft may become available for redeployment to Coalinga during the next year.* The 55 miles-per-hour compliance project is scheduled to conclude in March 1983. At that time, the CHP will assume ownership of the three airplanes now used on this project, and it will have to decide what to do with these aircraft. The department could assign one of these planes to Coalinga.

For these reasons, we recommend that the $106,000 requested for acquisition of a new plane for Coalinga be deleted.

Excessive Workers' Compensation

We recommend that the amount budgeted for workers' compensation benefits be reduced by $370,000, because there has been a lower-than-anticipated rise in the number of injury case.

The budget requests $8,687,325 to pay the costs of workers' compensation benefits in 1982–83. This is an increase of $2,002,000, or 30 percent, over current-year costs. The department attributes this dramatic increase to higher hospital costs, adjustments to the fee schedule, and 10 percent annual growth in the number of compensation cases involving CHP personnel.

Since the budget was prepared, the department's personnel bureau has had an opportunity to review the number of injury cases during the first six months of 1981–82. According to personnel bureau staff, half-year data indicate that the number of injuries will increase by only 5 percent in the budget year. Accordingly, we recommend a reduction of $370,000 to reflect the smaller-than-anticipated increase in injury cases.

Enforcement Vehicles

We recommend that funds budgeted for the purchase of enforcement vehicles be reduced by $1,433,000 because the department has overestimated the price for sedans and motorcycles.

We further recommend that during budget hearings, the department discuss the basis for its decision to purchase high-speed specialty vehicles for enforcement purposes.

Enforcement vehicles used by the California Highway Patrol are removed from service when they reach approximately 85,000 miles of service. This requires the department to purchase new vehicles each year to replenish its fleet. In the budget year, the CHP proposes to buy 1,010 vehicles, at a cost of $8,964,780. In addition, the department requests $654,472 to purchase 124 replacement motorcycles.

The department estimates that the net cost per vehicle in 1982–83 will be $8,876. This includes the actual cost of the car and sales tax, less the average abatement for the vehicle to be replaced. The purchase of vehicles with 1982–83 funds will involve three separate procurements: (1) the December 1981 procurement which the department expects to yield 54 enforcement vehicles at a net cost of $7,114, including tax and less abatement, (2) a procurement to be completed in early 1982 for 208 high-speed enforcement vehicles at an average net cost of $8,737, and (3) a January 1983 procurement of the remaining vehicles at a price not yet determined. Allowing for a 10 percent increase in net cost per vehicle in 1982, we estimate that the cost for the remaining vehicles to be purchased in January 1983 would be $7,825. A 10 percent inflation factor should be sufficient since (1) the net cost dropped 5.3 percent during 1981, and (2) negotiations on a new contract between the United Auto Workers and the Big Three automakers are likely to produce some price reductions in exchange for a reduction in worker benefits.

A $7,825 price for the cars purchased in January 1983 would put the average for all vehicles to be purchased at $7,933. This is $943 less per vehicle than what the department has budgeted. In addition, lower-than-anticipated vehicle prices in the current year will allow the department to purchase 42 more vehicles in the current year than the number budget-

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

ed in 1981–82. This should reduce the number of cars that need to be purchased in the budget year by 42. Together, these factors reduce the amount required for the purchase of vehicles in 1982–83 by $1,285,616.

Motorcycle purchase costs have been budgeted at $5,278 per vehicle, including deductions for abatement. This is $1,800, or 51 percent, more than the department currently pays for motorcycles. The department recently received a single bid of $4,843 per vehicle, not including abatement, making the net purchase price per motorcycle $4,093. This is $1,185 less per motorcycle than the department budgeted, allowing a reduction of $146,940.

Table 3 shows our recommended reductions for enforcement sedan and motorcycle purchases.

Table 3
Analyst's Recommendations for Purchase of Enforcement Sedans and Motorcycle Purchases

Proposed CHP vehicle expenditures		$9,619,252
Less recommended reductions:		
Overpricing of sedans ($943 × 968)	$912,824	
Unnecessary sedan purchases ($8,876 × 42)	372,792	
Overpricing of motorcycles ($1,185 × 124)	146,940	
Total	$1,432,556	
Adjusted Expenditures Recommended by Analyst		$8,186,696

As we have noted above, the CHP plans to purchase 208 high-speed enforcement vehicles with funds appropriated in the budget year. In addition, the department plans to buy 192 of these vehicles with current-year funds. The average net cost per high-speed enforcement vehicle will be approximately $1,600 more than the average net cost per regular sedan in 1982.

Clearly, the CHP needs enforcement vehicles which respond to emergency situations and can effectively pursue other vehicles when necessary. It is not evident, however, that the purchase of high-speed specialty vehicles will provide a cost-effective means of aiding in this type of traffic enforcement. We are unaware of any evaluations that have been conducted on the use of high speed vehicles for enforcement purposes. The CHP, however, has tested such vehicles in the past. Any plan to purchase more costly vehicles would appear premature until it can be proven that such vehicles enhance traffic enforcement to a degree that is commensurate with the higher cost. We therefore recommend that during budget hearings, the department discuss the basis for its decision to purchase high-speed specialty vehicles for enforcement purposes.

Vehicle Light Bars

We recommend that the amount requested to purchase new light bars be reduced by $46,500 to reflect the reimbursements that the CHP will receive from the proposed sale of existing light bars. We withhold recommendation on the CHP request of $150,000 for new light bars, pending an evaluation of the patrol's experiment with flashing headlights.

The ability of the CHP to operate in emergency situations, maneuver in congested traffic, and signal traffic violators is enhanced when equipment, such as light bars, is attached to patrol vehicles. Eight years ago, the department purchased TwinSonic (square-shaped) style light bars to fit the larger sedans they were driving at that time. Since then, the patrol has moved to smaller vehicles, with rooftops that are too small to accommodate these light bars. In 1980, the patrol began replacing the existing light bars with Aerodynic (round-shaped) style light bars. The new light bars will improve gas mileage considerably because they provide less wind resistance.

The department is proposing to spend $150,000 in 1982–83 to complete the purchase of the smaller, more fuel-efficient light bars. This request, however, does not take into account the results of a six-month experiment using flashing headlights. The results, which should be available in March 1982, may warrant modification in the light bar request. Furthermore, the department has not budgeted any reimbursements from the anticipated sale of its existing light bars. These bars, if sold to local enforcement agencies, would result in additional reimbursements of at least $46,500, assuming a $100 resale value per light bar. Accordingly, we recommend that the amount requested for purchase of light bars be reduced by $46,500, to reflect reimbursements the CHP will receive from the sale of existing light bars.

In addition, we recommend that the department provide the fiscal committees with information on the results of its six-month experiment with flashing headlights prior to budget hearings, so that the committees may have a better basis for evaluating the light bar request.

Overuse of Motorcyle Training

We recommend that the Legislature direct the CHP to require a one-year commitment from officers choosing to ride motorcycles for the department, thereby reducing the need for continuous motorcycle training of CHP officers.

Currently, the department is training 255 persons annually in initial and advanced motorcycle operation at the CHP academy. About 50 percent of the trainees are CHP traffic officers. The remainder are officers from law enforcement agencies throughout the country who are trained on a reimbursable basis. The department is proposing to establish two motorcycle trainer positions in 1982–83 in order to reduce the backlog of allied law enforcement personnel currently on a waiting list to be trained. Our analysis indicates that the requested positions are warranted and we recommended that they be approved.

Our analysis also indicates, however, that the number of CHP officers receiving motorcycle training is too large, considering the number of motorcycle officer positions in the department. While it is true that the department needs a large pool of potential motorcycle officers because of the high attrition rate during training, the department's policy on transfers appears to be partly responsible for the large number of officers trained annually. The department allows motorcycle patrolmen to transfer to regular duty after only a short time riding a motorcycle. This has contributed to the high turnover rate, and is thus a reason why so many officers must be given motorcycle training.

A more controlled policy on transfers would result in both a more experienced complement of motorcycle officers and a reduced need for costly training. For this reason, we recommend that the Legislature direct the CHP to require officers to spend at least one year on motorcycle duty after training before they are granted a transfer to regular duty. Such a policy would be similar to the one-year transfer restriction currently imposed on new officers when they are assigned to their first locations.

1984 Olympics Planning

We recommend a reduction of $146,000 and the deletion of 3.0 personnel-years requested for planning activities associated with the 1984 Olympics, because the department has adequate existing resources available to accomplish this work.

The 1984 Summer Olympic Games will be held in Los Angeles from July 28 through August 12, 1984. During these two weeks, the transportation network in southern California will be heavily burdened by spectators, competing athletes and the normal resident traffic in the area. The CHP is expected to have a major role in facilitating safe and efficient travel between event sites, spectator lodging, and other locations that are likely to draw large crowds. According to the department, long-range planning is necessary so that the department's responses to disruptions of traffic flow are immediate, coordinated and effective.

Our analysis supports the need for this advanced planning. It does not, however, support the need for all of the additional staff requested for planning.

The department is spending $115,000 in federal funds made available by the Office of Traffic Safety (OTS) during the current year to begin the initial phase of Olympic planning. These funds support the salaries of a captain and lieutenant, as well as necessary equipment and operating expenses. In the budget year, the department proposes to continue funding the captain and lieutenant positions, and to add two sergeants and a clerical position for a total cost of $265,552 in 1982–83. Our analysis indicates that three of the staff positions proposed are not required because adequate resources already exist within the department to do this planning.

Many of the activities described in the department's request for the positions can be completed using existing staff in the Southern Division, with assistance from the Planning and Analysis Unit at headquarters in Sacramento. Our review suggests that tasks such as gathering traffic management data, conducting impact assessment critiques, developing plans for dignitary transportation and determining CHP training needs can be completed with existing resources. Activities requiring on-site coordination and planning can be carried out by the captain already assigned to the project. Our review also indicates that the addition of one sergeant will provide adequate staff for this activity in the budget.

Therefore, we recommend a reduction of $146,000 and 3.0 positions, because the department has adequate existing resources available to accomplish necessary planning activities associated with the Olympics.

REGULATIONS AND INSPECTION

The regulation and inspection program is composed of seven activities in the current year. The budget, however, does not continue funding for the Abandoned Vehicle Abatement program in 1982–83.

The budget is proposing total expenditures of $23,437,000 for regulation and inspection in 1982–83, an increase of $2,462,000, or 11.7 percent, above current-year expenditures. The increase is spread among all program activities (other than Abandoned Vehicle Abatement). Table 4 shows staffing and expenditures for the regulation and inspection program for the three years ending June 30, 1983.

Table 4
Regulation and Inspection Program
Staffing and Expenditure Data
(dollars in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Percent Change*	*Proposed 1982–83*	*Percent Change*
Program Expenditures	$20,695	$20,975	1.4%	$23,437	11.7%
Personnel-Years					
Uniformed	215.8	218.1	1.1%	248.4	13.9%
Nonuniformed	149.5	162.6	8.8	183.9	13.1
Totals	365.3	380.7	4.2%	432.3	13.6%

Abandoned Vehicle Abatement

We recommend that the unencumbered balance in the Abandoned Vehicle Trust Fund be transferred to the unappropriated surplus of the Motor Vehicle Account, State Transportation Fund.

As noted above, the budget does not include funds for the Abandoned Vehicle Abatement Program. The 1981–82 budget did not propose funding for this activity either, but Chapter 843, Statutes of 1981 appropriated $500,000 from the Abandoned Vehicle Trust Fund to continue the program for the current year only.

Chapter 477, Statutes of 1978, directed our office to study the Vehicle Abatement program. In a report to the Legislature summarizing our findings (*A Review of the California Abandoned Vehicle Abatement Program*, October 1980), we recommended that the program be terminated because program benefits accrue primarily to the local community and not to residents of the state as a whole. In addition, we reported that shifting the financial responsibility to cities and counties would not impose a significant burden on local governments. This was supported by the fact that over 70 percent of the agencies involved received less than $5,000 in reimbursements in 1978–79.

The unencumbered balance in the Abandoned Vehicle Trust Fund is estimated to be $1,798,000 in 1982–83. The conditions which necessitated creation of the Abandoned Vehicle Trust Fund in 1971 no longer appear to exist. We therefore recommend that the unencumbered balance of $1,798,000 in the Abandoned Vehicle Trust Fund be transferred to the unappropriated surplus of the Motor Vehicle Account, State Transportation Fund.

Hazardous Materials Program

We withhold recommendation on the department's request to expend $292,000 for hazardous materials training pending determination by the Department of Health Services of the level of reimbursement designated for this activity from the Hazardous Substances Account in the General Fund.

We further recommend an increase in reimbursements of $180,000 and an equivalent decrease in appropriations for understated reimbursements associated with the Hazardous Waste Inspection Program.

The budget proposes expenditures of $1,960,000 to cover activities associated with the transportation of hazardous materials in 1982–83. This is an increase of $1,045,000, or 114 percent above the current-year level.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

The CHP is responsible for regulating the transport of all vehicles involved in the transportation of hazardous materials on the state's roadways. Hazardous materials includes explosives, hazardous wastes, and other specified combustibles. In the current year, the department will utilize 19.8 personnel-years to inspect and regulate transporters of hazardous materials at terminal facilities. The department proposes to augment the staff for hazardous materials by 21.8 personnel-years, to 41.6, or 110 percent over the current-year staffing level. Most of the increased staff level results from Ch 860/81, which authorizes increased fees to the Motor Vehicle Account to support additional inspections. In addition, 2.5 positions are requested for hazardous materials training of state and local response personnel.

Hazardous Materials Inspections. The 1980 Budget Act authorized nine motor carrier specialists to begin identifying and inspecting carriers of hazardous materials. These inspections take place at terminals where carriers load and unload shipments.

The number of carriers involved in hazardous materials transport is considerably greater than what the patrol can cover adequately. In response, the Legislature enacted Chapter 860, which authorized the CHP to license transporters of hazardous materials, and provided increased fees to support licensing and inspection activities. The budget proposes that $852,553 of the fee revenues be used to fund 21 of the additional positions. First-year license fee revenue is expected to be $996,875, based on the assumption that 9,875 new licenses will be issued at $100 each and 125 renewal licenses for explosive carriers will be issued at $75 each.

Chapter 860 requires the department to submit a report to the Legislature on or before January 1983, regarding the implementation of the licensing and inspection program. We will analyze the contents of this report as well as the program's performance in our *Analysis of the 1983–84 Budget Bill.*

Hazardous Waste Inspections. Chapter 1097, Statutes of 1979, was enacted to address special problems related to the storage and disposal of hazardous waste. Chapter 1097 authorized the department to inspect trucks, trailers, tanks and containers used to transport hazardous waste. It also established a maximum fee of $50 to cover the department's costs in conducting these inspections.

Although the CHP received statutory authorization to begin hazardous waste inspections in 1979, it was not until the current year that four motor carrier specialists were hired to begin identifying haulers of hazardous waste. The delay in implementing the program was caused by the Department of Health Services' delay in issuing regulations. The regulations were not issued until November 1981.

A full-scale inspection program is now underway. Pursuant to Chapter 912, Statutes of 1981, the Department of Health Services (DHS) is now required to collect the inspection fee at the time of registration of hazardous waste haulers. This amount is then transferred to the Motor Vehicle Account for use by the CHP.

Neither the Highway Patrol nor DHS has scheduled reimbursements sufficient to fully cover the cost of the program, as required by Section 2560 of the Vehicle Code. DHS cannot begin to transfer collected *inspection* fees to the Motor Vehicle Account until problems with the collection of hazardous waste *registration* fees have been resolved. (These problems are discussed in our analysis of the proposed DHS Budget). The CHP, in turn, has budgeted only $20,000 in reimbursements from the Department of Health Services, even though the cost of the inspection program will be approximately $200,000. As soon as the problems associated with the collection of registration fees are resolved, reimbursements from DHS to the Motor Vehicle Account are anticipated to total $200,000. Accordingly, we recommend an increase in reimbursements of $180,000 and a decrease of the same amount in the appropriation to the CHP.

Hazardous Materials Training. The budget proposes the addition of 2.5 positions and $292,362 to continue a hazardous materials training program that was begun by the State Fire Marshal in 1980. The Fire Marshal's program, which provided for CHP participation on a contract basis, ended in November 1981, when it was suspended in order to achieve the 2 percent reduction in 1981–82 expenditures required of many General Fund agencies by the Governor. We understand that the CHP plans to resume the training program in the current year by requesting authorization under Section 28 of the 1981 Budget Act.

Funding for the program in 1982–83 is proposed to come from the Hazardous Substance Account in the General Fund, established by Ch 756/81. Money in the account, which must maintain an average balance of $10 million, can be appropriated for "hazardous substance response equipment and *other preparations for response.*" The Department of Health Services (DHS), which administers the account, has tentatively scheduled $292,362 for the training of state and local response personnel, and designated the CHP as the lead agency. The patrol has budgeted for this level of reimbursement.

It appears, however, that DHS has overbudgeted the funds available from the Hazardous Substance Account, and it is not known at this time which activities funded from the account will be impacted. Pending determination of the appropriate reimbursement level from the account, we withhold recommendation on the department's request. This issue is also discussed in our analysis of the proposed budget for the Department of Health Services.

Twenty-four Inspection Facilities

We recommend a reduction of $999,000 and 31 personnel-years because there is no evidence that the proposed operation of 24-hour inspection and scale facilities will result in significant added protection to the highway from overweight vehicles.

The department is requesting one sergeant and 30 state traffic officer positions and $999,091 to operate selected inspection and scale facilities on a 24-hour basis for the purpose of detecting overweight vehicles. This request is made pursuant to Ch 1170/81, which provided that "an amount not to exceed $1,000,000 shall be available annually from the Motor Vehicle Account" for expanded operation of scale facilities. The statute, however, did not make an appropriation.

Under current law, CHP officers can request that a vehicle be driven to the nearest scale facility within five miles. If no facility is open, then the vehicle must be released. On the surface, this policy might indicate a need for the 24-hour operation of facilities. Our analysis, however, has not found evidence that 24-hour operation of scale facilities would be cost-effective. We note that the department has previously indicated that opening inspection and scale facilities for 24 hours will not add greatly to the detection of overweight vehicles. This is because the CHP already operates

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

scale facilities during those hours when overweight commercial vehicles are most likely to be on the road. Hence, the added detection provided by a 24-hour operation would be insignificant.

Further, the CHP has other less-costly means of providing enforcement of vehicle weight provisions. For example, CHP ground units assigned to inspection facilities are equipped with mobile scales, which allows the department much of the same flexibility that would be provided by expanded operating hours.

The department's current policy regarding the operation of inspection and scale facilities, combined with the use of existing portable scales, appears to provide for the most efficient use of CHP personnel. Consequently, we conclude that operating these facilities during expanded hours will not generate significant detection of overweight commercial vehicles or result in substantial fine revenue. We therefore recommend the deletion of 31 positions for a reduction of $999,091.

VEHICLE OWNERSHIP SECURITY

This program includes the vehicle theft control element, which is aimed at recovering stolen vehicles, and the vehicle identification number element, which identifies and renumbers vehicles when identification plates have been removed or are missing. Proposed expenditures from the account are $6,522,000, an increase of $184,000, or 2.9 percent over estimated current year expenditures.

Table 5 displays proposed staffing and expenditure levels for the Vehicle Ownership Security program.

Table 5
Vehicle Ownership Security Program
Staffing and Expenditure Data
(dollars in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Percent Change*	*Proposed 1982–83*	*Percent Change*
Program Expenditures	$6,043	$6,338	4.9%	$6,522	2.9%
Personnel-Years					
Uniformed	100.1	100.5	0.4%	100.2	−0.3%
Nonuniformed	22.2	22.2	—	22.0	−0.9
Totals	122.3	122.7	0.3%	122.2	−0.4%

Reduced Vehicle Costs

We recommend a reduction of $101,000 because (1) the program's objectives can be accomplished using less-costly vehicles and (2) the price of vans has been overestimated.

Sedans. The department requests 22 mid-sized sedans for the Vehicle Theft Control Unit for use in investigating vehicle thefts. The department has budgeted funds to purchase these cars at an average of $7,020 per vehicle.

Our analysis indicates that this activity can be readily accomplished using compact cars rather than the more expensive mid-sized sedans. The Department of General Services (DGS) has indicated that compacts will cost $6,280 in the budget year, or 13 percent less than the sedans. Since it is unnecessary to purchase the more expensive vehicles to achieve the program's objectives, we recommend a reduction of $16,280.

Vans. The Highway Patrol also plans to purchase 30 three-quarter ton vans, at an average price of $12,140. The DGS staff report, however, that a three-quarter ton van should cost $9,330, including tax, in 1982–83. This is $2,810 less than the CHP has estimated in its equipment schedule. We recommend, therefore, a reduction of $84,300 to correct this overbudgeting.

ADMINISTRATIVE SUPPORT

Proposed expenditures for administrative support are budgeted at $65,-269,000, an increase of 6.4 percent over estimated current year expenditures. The six elements of this program include administrative services, management and command, budget and fiscal management, 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 6.

Table 6
Administrative Support Program
Staffing and Expenditure Data
(dollars in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Percent Change*	*Proposed 1982–83*	*Percent Change*
Program Expenditures	$56,013	$61,339	9.5%	$65,269	6.4%
Personnel-Years					
Uniformed	439.2	445.3	1.4%	443.9	−0.3%
Nonuniformed	792.2	787.3	−0.6	795.3	1.0
Totals	1,231.4	1,232.6	0.1%	1,239.2	0.5%

SPB Delegated Testing

We recommend that the department's request for additional overtime and temporary staff to assist in testing activities be reduced by $24,000 because the workload data does not justify these expenditures.

The State Personnel Board (SPB) began delegating a portion of its testing responsibility to the CHP in 1980. As a result, the CHP is now responsible for monitoring test sites, processing exams, and interviewing and appraising applicants. The Highway Patrol estimates that in 1982–83 this new responsibility will require three full-time positions, funding for the per diem of public members who sit on appraisal boards, and funds for overtime and temporary help. The cost of overtime and temporary help is estimated at $23,722.

In its request for additional positions, the department indicates that 2,787 hours were expended for SPB testing activities in 1980–81. By 1982–83, the department states that anticipated workload will increase 80 percent. This would bring the total number of hours necessary to complete the designated work to 5,016 hours.

The three positions requested in the budget will account for nearly 5,400 hours. Our analysis indicates that this should be sufficient to carry out the duties associated with delegated testing, making additional funds for overtime and temporary help unnecessary. Accordingly, we recommend that the department's request for overtime and temporary help be denied, for a savings of $24,000.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Nonuniformed Staffing Formulas

We recommend a reduction of $118,000 and 7.0 non-uniformed personnel-years because the positions are not justified by workload.

The use of staffing formulas for nonuniformed personnel allows the department to systematically assess staffing needs and assign personnel accordingly. The department is proposing an additional 14.5 clerical positions and 7.5 additional janitor positions in the 1982–83 budget, at a cost of $250,322 and $118,549, respectively. The CHP has indicated that these increased levels represent adjustments called for by its approved formulas.

We have no basis to question the validity of the formulas used by the department. Our review of personnel assignments indicates, however, that the CHP does not request or assign non-uniformed personnel solely on formula based needs. This has resulted in several imbalances between workload and staffing.

Clerical. In four area offices (Fresno, West Valley, Santa Maria and Ventura), workload has actually *decreased,* yet the department has requested additional positions for these offices. For four other offices, the Legislature authorized new part-time positions in 1981–82, based upon information which indicated that an unmet need existed at these locations. The department, however, chose to assign the new positions elsewhere, and has again requested new positions for these offices.

Janitorial. Four part-time janitorial positions were approved last year, but the department reassigned them to offices other than those for which the positions were requested. The department once again has requested these positions in the 1982–83 budget.

Based on our analysis, we recommend that the Legislature:

- Delete three new clerical positions requested for area offices where workload has decreased, for a savings of $51,790.
- Delete two clerical personnel-years and two janitor personnel-years because these positions were authorized in last year's budget, for a savings of $66,140.

Together, our recommendations would result in a savings of $118,000.

Underestimated Salary Savings

We recommend a reduction of $1,431,000 because the proposed budget has underestimated the department's position vacancy rate, based on recent experience.

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.

The department's proposed budget assumes a vacancy rate of 2.5 percent, based on actual experience from previous years. On this basis, the CHP estimates that vacancies will total 180.5 personnel-years in 1982–83. This is 10 personnel-years less than was estimated in the current year, even though the department is proposing to increase the total number of positions (exlcuding Chapter 933 officers and cadets) from 7201.6 to 7321.6, an augmentation of 120 positions. Our analysis indicates that this vacancy rate is below the department's *average* vacancy rate for the past four years. It is also less than the vacancy rate during the first half of the current year. Table 7 displays the CHP's vacancy rate from 1977–78 through the current year.

Table 7
Department Vacancy Rate
(Percent of Authorized Positions)

	1977–78	*1978–79*	*1979–80*	*1980–81*	*1981–82* [a]	*Five-Year Average*
Uniformed personnel	2.2%	3.7%	2.6%	1.0%	2.7%	2.4%
Nonuniformed personnel	3.0	7.1	6.8	4.3	3.7	5.1
Totals	2.4%	4.6%	3.7%	1.9%	3.0%	3.1%

[a] Through December 1981.

As Table 7 indicates, the average vacancy rate in recent years has been 3.1 percent. A 3.1 percent vacancy rate would result in $1,431,000 more in salary savings than the department proposed in the budget. We therefore recommend a reduction of $1,431,000 for underestimated salary savings.

Overbudgeted Expenditures for Leased Patrol Facilities

We recommend a reduction of $477,000 to correct for overbudgeted leasing expenditures. We further recommend the establishment of a reserve for rental funds and the adoption of Budget Bill language which would revert the unused portion of rental funds held in reserve for six facilities that the department is planning to purchase in the budget year.

The patrol will lease land, offices and other facilities at 56 locations in 1982–83. In addition, the department is proposing to purchase six facilities which are currently leased. 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 the budget-year cost of facility leases have been overbudgeted in both the current and budget years.

During the past six years, the department has had difficulty determining the actual lease terms for many of its facilities. In addition, projections of future lease terms made by the department have often been in excess of a reasonable rental level. While the CHP has made some improvements in its estimating process, discrepancies between proposed and actual expenditures continue to exist.

We recommend that the amounts overbudgeted in the current year be reappropriated for the budget year, thereby reducing appropriations in the budget year. We further recommend reductions to correct for overbudgeted lease costs in 1982–83. Our specific recommendations follow.

Alturas. The CHP is planning a build-to-suit project in Alturas which will not be occupied during the budget year. The department has budgeted $17,600, however, for two-month rental of the facility during 1982–83. In addition, the budget includes funding for rental of the existing facility at $2,400 per month in 1982–83, double the amount estimated by the Division of Space Management. We, therefore, recommend a reduction of

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

$32,000 in the budget rental schedule for this office.

Arrowhead. The department scheduled $53,298 in 1981–82 to pay the half-year cost of renting a build-to-suit facility in Running Springs. Due to legal complications associated with the bidding process, the CHP will not move into the new facility until November 1, 1982. This has resulted in overbudgeting of $46,098 in the current year, and $14,732 in the budget year. Accordingly, we recommend a reduction of these amounts.

Golden Gate. Last year, the Legislature deleted funds proposed for leasing an office for the Golden Gate Division on the basis that the division would eventually be moving into a newly constructed facility in the Bay Area. Although capital outlay plans for this new building were disapproved by the Legislature in 1981, the department has submitted new preliminary construction plans for consideration in its 1982–83 budget request. Proposed construction of this facility would require that the Golden Gate Division remain in its present location for at least two more years. Despite somewhat overcrowded conditions at the present location, division operations are not significantly impaired. We therefore recommend the deletion of $120,000 for rental funds for Golden Gate Division because its existing facility should be adequate until new space can be constructed.

Hollister-Gilroy. The department has renegotiated the lease for the Hollister-Gilroy facility at $1,600 per month less than the budget indicates. Because the lease begins in March 1982, the department has overstated 1981–82 costs by $6,400 and 1982–83 costs by $19,200. We therefore recommend a reduction of these amounts to correct for overbudgeting.

Lakeport. The budget proposes a build-to-suit facility in Lakeport, with construction beginning in the budget year. The CHP has included $32,000 for rental of this building even though occupancy will not take place in 1982–83. These funds should be deleted to correct for the overbudgeting.

Mariposa. Additional rental funds ($8,200) for a new Mariposa area office have been included in the 1982–83 budget. The department, however, will not be able to occupy this facility until after the budget year. This results in an overbudgeted amount of $8,200, which should be deleted.

San Andreas. The lease schedule indicates that the CHP will pay $9,000 per month in the budget year for a new facility at this location. Since the department will not move into this building until October 1, 1982, the net amount is overbudgeted by $24,450. In addition, the monthly lease amount assumed in the budget is $2,180 more than is needed because leasing costs will be shared with the Department of Motor Vehicles. This warrants a total reduction of $44,070.

Santa Maria. The budget states that the rent on the Santa Maria facility will increase from $700 to $2,470 on January 1, 1982. According to DSM records, no improvements are scheduled, and DSM staff knows of no other reason why this increase should occur. Accordingly, we recommend that $10,620 appropriated in 1981–82 be reappropriated to the budget year, and that $21,240 be deleted to correct overbudgeting in 1982–83.

Santa Rosa. The department anticipates that leasing costs for its Santa Rosa office will increase from $1,196 to $10,137 per month on June 1, 1982. The DSM staff has indicated that changes to the original plans for this office will reduce costs to $5,000 per month. We therefore recommend a reduction of $5,137 in the current year, and $61,664 in the budget year to correct for this overbudgeting.

Stockton. The rental schedule indicates that costs associated with the leasing of the Stockton area office will increase by $3,927 per month, beginning in February of 1982. Estimates by DSM staff place the increase at $2,027. Based on this estimate, we recommend that the current-year appropriation be reduced by $9,500, and the budget-year amount by $22,-800.

Twentynine Palms. The CHP proposes to have construction begin on a build-to-suit facility at Twentynine Palms during the budget year. The DSM staff have stated that the completion of this facility will not occur in the budget year. Therefore, we recommend that $23,400 requested for rental payments on the new facility in 1982–83 be deleted.

Purchase of Leased Facilities. The department proposes to purchase currently leased facilities in Lake Valley, Madera, Oceanside, Riverside, Santa Cruz, and Susanville. If these purchases are approved, most of the rental funds budgeted will not be needed. The amount of rental funds that will be needed depends on the length of time it takes to negotiate the purchase of each facility. To ensure that only necessary rental funds are expended, we recommend a rental fund reserve of $365,146 be established. By establishing a reserve, the Legislature makes rental funds available, but limits the appropriation to actual expenses that are incurred. We further recommend the adoption of the following Budget Bill language requiring reversion of unnecessary funds.

> "Provided, that if actual costs for leasing are lower than reserves provided in this item, any unencumbered balance shall not be encumbered for any other purpose and shall revert to the Motor Vehicle Account in the State Transportation Fund."

Table 8

Adjustments to CHP Rental Schedule For Buildings

Facility	*Overbudgeted Amounts 1981–82*	*Overbudgeted Amounts 1982–83*	*Reserve for Purchased Facilities*
Alturas	—	$32,000	—
Arrowhead	$46,098	14,732	—
Golden Gate	—	120,000	—
Hollister-Gilroy	6,400	19,200	—
Lake Valley	—	—	$15,600
Lakeport	—	32,000	—
Madera	—	—	23,500
Mariposa	—	8,200	—
Oceanside	—	—	72,000
Riverside	—	—	142,596
San Andreas	—	44,070	—
Santa Cruz	—	—	90,000
Santa Maria	10,620	21,240	—
Santa Rosa	5,137	61,664	—
Stockton	9,500	22,800	—
Susanville	—	—	21,450
Twentynine Palms	—	23,400	—
Totals	$77,755	$399,306	$365,146

Proposed CHP leasing expenditures	$2,128,733
Less recommended reductions:	
Reappropriations for overbudgeted amounts, 1981–82	$77,755
Overbudgeted amounts, 1982–83	399,306
Subtotal, Recommended Reductions	$477,061
Adjusted Line-Item Total	$1,651,672
Recommended amount held in reserve	($365,146)

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

In summary, we recommend that the amounts overbudgeted for leased facilities in the current year be reappropriated to cover budgeted expenses in 1982–83. This would reduce proposed leasing costs by $77,755. When added to the reductions of $399,306 that we recommend to correct for overbudgeting in 1982–83, this brings total recommended reductions to $477,061.

Table 8 summarizes our recommended adjustment to the CHP leasing schedule to (1) correct for overbudgeting and (2) establish a reserve for leasing costs associated with purchased facilities.

Reserves for Communications and Fuel

We recommend the deletion of reserves for communications costs ($778,000) and fuel increases ($1,000,000), because the factors which led to this authorization in the past no longer exist.

Communications Reserve. During the current year, the department was allocated $700,684 in a reserve account to pay for additional communications expenses which might occur in the current year. This reserve was established on the basis of pending Public Utilities Commission (PUC) decisions which have since been resolved. Nevertheless, the department proposes to continue the reserve at a level that is 11 percent more than the current-year level. We therefore recommend deletion of $778,000 because the communications reserve is no longer necessary.

Fuel Reserve. The CHP was also allowed to maintain a reserve of $1,000,000 to cover increased fuel costs which might be incurred in 1981–82. Rapidly increasing fuel prices during 1979 and 1980 was the reason given to justify the creation of such a reserve. The department found it necessary to use 50 percent of the reserve in 1980–81.

Current projections indicate that fuel price increases have eased considerably and, according to the U.S. Department of Energy, a 4 percent increase in the price of fuel can be expected in calendar year 1982. This is within the department's proposed budgeted request for fuel costs and eliminates the need for appropriating funds into a reserve account. Moreover, if fuel prices do increase faster than expected, the department has the authority to request a deficiency appropriation to cover unanticipated increases. Accordingly, we recommend the deletion of the fuel increase reserve for a savings of $1,000,000.

Together, these two recommendations would result in a reduction of $1,778,000.

Miscellaneous Reductions

We recommend a reduction of $201,000 and 1.75 personnel-years to correct for overbudgeted and unnecessary expenditures in various categories.

Our analysis of the department's budget revealed that certain expenditures were either overbudgeted or unnecessary because adequate resources are already available to accomplish the purpose for which additional funds are sought.

Commercial Vehicle Inspection Specialists. The department is proposing to add three commercial vehicle inspection specialist (CVIS) positions to the facility in Cordelia to coincide with the opening of a second platform scale. It has budgeted sufficient funds to support the three CVIS positions for the entire year. The Highway Patrol has indicated, however, that the second platform will not open before October 1, 1982. Accordingly, these positions should be budgeted for nine months, resulting in a savings of $16,000 and .75 personnel-years.

Recruitment Printing Costs. The CHP is requesting $9,000 for printing expenses related to the recruitment of women and minorities. The department currently spends $12,500 on equal opportunity recruitment printing. In addition to the requested increase of $9,000, the department is proposing an increase in its overall printing allotment to cover, among other things, additional recruitment-related printing. It appears, therefore, that the $9,000 is requested for the same purpose that an increase in the overall printing budget is requested. To eliminate this double-funding, we recommend a reduction of $9,000.

Rehabilitation Coordinator. The budget requests a staff services analyst position to serve as a rehabilitation coordinator. This person would counsel disabled CHP personnel on available rehabilitation opportunities, and encourage employees to begin rehabilitation while they are receiving Industrial Disability leave benefits. The department estimates that this will reduce costs associated with Workers Compensation. Our analysis indicates that this position is unnecessary because the department has a contract through the budget year which provides employee counseling. The position requested in the budget would duplicate these efforts and should be deleted, for a savings of $21,893.

Copiers. The department is requesting $423,099 to purchase (1) replacement copiers for machines acquired in 1977, and (2) copiers that are currently leased. This represents 50 percent of the copiers the department now uses. Based on the volume of copying the CHP is required to do and the amount of downtime the department has experienced with the brand of copiers purchased in 1977, the request for these copiers appears to be justified. The department, however, has failed to consider the resale value of the copiers being replaced or the reduced leasing costs associated with purchase of the rented copiers. For these reasons, the department's request should be reduced by $57,000 for resale of existing copiers and $22,000 for decreased rental costs, for a total savings of $79,000.

Auto Salvage Program. The department currently salvages automotive parts from damaged vehicles at the CHP Motor Transport Facility in Sacramento. Until last year, the department sold these damaged vehicles to local dismantlers at an average price of $300. The rising cost of automotive parts and increasing delays in acquiring new parts prompted the CHP to reevaluate the department's policy of selling damaged vehicles. Consequently, an automotive technician position was established in Sacramento to work on salvage activities.

The budget proposes to establish a similar position at CHP Motor Transport in Torrance. This position appears to be warranted and we recommend approval. The department, however, has failed to budget for the savings cited in its supporting documentation. According to the department, the Torrance auto salvage program will result in savings of $75,000 annually. Accordingly, we recommend a reduction of $75,000 to reflect decreased costs of automotive parts purchases.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

DEFICIENCY PAYMENT

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.

The budget proposes $2,000,000 for that purpose in 1982–83, an increase of $1,000,000 over the current amount. The CHP requests the increase because the deficiency amount has not been adjusted for the growth in the department's support budget. No expenditures have ever been authorized from this item, but the department indicates that a deficiency may be necessary in 1981–82 because of higher-than-anticipated operating expenses.

ADVANCE PURCHASE AUTHORIZATION

We recommend approval.

Because the automotive model year and the state's fiscal year do not coincide, the California Highway Patrol must on occasion order cars in one fiscal year for delivery in the next. This item provides the department with the authority to incur automotive purchase obligations up to $5,000,000 in 1982–83 for vehicles to be delivered in 1983–84. 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.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY

Item 2720-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 141

Requested 1982–83	$8,083,000
Recommended approval	4,008,000
Recommended reduction	3,132,000
Recommendation pending	943,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. ***Hollister/Gilroy Area Facility. Reduce Item 2720-301-044(a) by $1,027,000.*** Recommend deletion of proposed construction funds because request is premature given status of project. 448
2. ***Santa Rosa Area Facility. Reduce Item 2720-301-044(b) by $1,597,000.*** Recommend deletion of proposed con- 449

struction funds because request is premature given status of project. Further recommend that building cost be reduced to reflect appropriate funding level.

3. Golden Gate Division Office and Communications Center. Withhold recommendation on Item 2720-301-044(i), pending receipt of additional information. 450
4. *Riverside—Purchase Leased Facility. Reduce Item 2720-301-044(c) by $10,000.* Recommend reduction in overbudgeted administrative costs. 451
5. *Santa Cruz—Purchase Leased Facility. Reduce Item 2720-301-044(d) by $11,000.* Recommend reduction in overbudgeted administrative costs. 451
6. *Oceanside—Purchase Leased Facility. Reduce Item 2720-301-044(e) by $36,000.* Recommend reduction to reflect appraised value of property. 452
7. *Susanville—Purchase Leased Facility. Reduce Item 2720-301-044(f) by $78,000.* Recommend reduction to reflect appraised value of property. Further, withhold recommendation on remaining funds pending receipt of additional information. 452
8. *Lake Valley—Purchase Leased Facility. Reduce Item 2720-301-044(g) by $19,000.* Recommend reduction to reflect appraised value of property. 453
9. *Madera—Purchase Leased Facility. Reduce Item 2720-301-044(h) by $18,000.* Recommend reduction to reflect appraised value of the property. 453
10. *Stores and Equipment Warehouse. Reduce Item 2720-301-044(j) by $54,000.* Recommend reduction because project is too costly. 454
11. *Motorcycle Roadway—Academy. Reduce Item 2720-301-044(k) by $181,000.* Recommend deletion of proposed funds because project is not justified. 454
12. Property Options—Various Areas. Recommend that Budget Bill language be adopted to limit the use of funds appropriated by Item 2720-301-044(*l*) to secure property options for major capital outlay projects anticipated to be included in the 1983–84 Governor's Budget. 455
13. *Minor Projects. Reduce Item 2720-301-044(m) by $101,000.* Recommend deletion of five unjustified projects. 456

ANALYSIS AND RECOMMENDATIONS

The budget proposes $8,083,000 for the Department of the California Highway Patrol (CHP) under Item 2720-301-044 for capital outlay projects. Included in this total is $7,368,000 for 11 major capital outlay projects, $700,000 for seven minor projects and $15,000 to secure purchase options for future construction sites. Table 1 summarizes the department's proposal and our recommendations.

A. Field Office Construction Program

The department is requesting $3,330,000 for the acquisition, planning, and/or construction of field office facilities. Two of the projects, Hollister/Gilroy and Santa Rosa, are continuations of previously funded projects. In addition to these projects, the department is proposing site acquisition and

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

Table 1
Department of the California Highway Patrol
1982–83 Capital Outlay Projects
Item 2720-301-044
(in thousands)

Project Title	*Budget Bill Amount* [a]	*Analyst's Proposal*	*Estimated Future Cost* [b]
(a) Hollister/Gilroy	$1,027 c	—	—
(b) Santa Rosa	1,597 c	—	—
(c) Riverside—purchase leased facility	910 a	$900	—
(d) Santa Cruz—purchase leased facility	795 a	784	—
(e) Oceanside—purchase leased facility	820 a	784	—
(f) Susanville—purchase leased facility	315 a	pending	—
(g) Lake Valley—purchase leased facility	295 a	276	—
(h) Madera—purchase leased facility	261 a	243	—
(i) Golden Gate Division Office and Communications Center	706 ap	pending	$4,509
(j) Stores and equipment warehouse	461 pwc	407	—
(k) Motorcycle roadway—academy	181 c	—	—
(*l*) Property options	15	15	—
(m) Minor projects	700	599	—
Totals	$8,083	pending	$4,509

[a] Phase Symbols Indicate: a–acquisition, c–construction, p–preliminary plans, and w–working drawings.
[b] Department estimate.

preliminary planning funds for a new Golden Gate Division Communications Center and Division Office.

Hollister/Gilroy Area Facility

We recommend that Item 2720-301-044 (a), construction, Hollister/Gilroy area facility, be deleted because the construction fund request is premature given the status of the project.

The department is requesting $1,027,000 for construction of a 40-traffic officer facility for the Hollister/Gilroy area.

Funds were appropriated in the 1979 Budget Act for working drawings and in the 1980 Budget Act for construction of a 25-traffic officer facility. A site for the proposed facility was acquired in June 1980. The project was delayed, however, while the department reevaluated the needs of the area. The department subsequently determined that a 40-traffic officer facility would be appropriate. The 1981 Budget Act appropriated $75,930 for preliminary plans and working drawings for the larger 40-traffic officer facility and reverted the unexpended balances of the previously appropriated amounts. The project is being administered by the Office of State Architect (OSA) through a private architectural firm.

The project schedule indicates that preliminary plans will not be completed until July 1982, and working drawings will not be completed until November 1982. It is not clear why a project of this size—with a design based on standardized floor plans—should require one year to develop preliminary plans. Under the circumstances, however, we have no basis for judging whether the amount requested by the department is warranted and therefore recommend that construction funds be deleted. We urge the department to direct the OSA to accelerate the planning schedule so that planning documents are available for legislative consideration for construction funds for 1982–83.

Moreover, our review of the budget package prepared by OSA for the Hollister/Gilroy facility indicates that the project is expected to cost $1,033,000. The department's request of $1,027,000 accounts for planning funds ($4,000) that have already been provided, but does not account for funds appropriated by the 1981 Budget Act. Any subsequent proposal submitted by the department should account fully for all available funds.

Santa Rosa Area Facility

We recommend that Item 2720-301-036(b), construction, Santa Rosa area facility, be deleted due to lack of information and premature funding request.

The budget proposes $1,597,000 under Item 2720-301-044(b) to construct a new 100-traffic officer facility in Santa Rosa.

The lease on the existing facility expires on May 31, 1982, and the lessor has indicated that he will not make needed improvements or extend the lease unless the rent is increased substantially. The department is currently renegotiating a short-term lease for this facility to provide space until the new office is completed. The facility was constructed in 1967 to accommodate 50 traffic officers and supporting staff.

The proposed 10,800 gross square foot facility will be adequate to meet area needs for at least 15 years. The CHP anticipates that 95 traffic officers will be assigned to this facility in 1993.

The department has requested the release of site acquisition funds at the February 1, 1982 meeting of the Public Works Board. Funds for preliminary plans and working drawings were included in the 1981 Budget Act. Work on preliminary plans and working drawings, however, has been delayed, pending acquisition of the property. Further, the OSA has not developed a schedule for starting these documents.

Adequate Information Not Available. Based on past experience, it is unlikely that adequate information, to substantiate the request for construction funds will be available for review prior to subcommittee hearings on this project. We suggest, however, that the OSA accelerate the planning schedule—the site has been selected—to allow completion of the planning documents in time for legislative consideration of the construction proposal for 1982–83.

Excessive Cost Estimate. Our analysis indicates that the proposed building is too expensive. The estimated total project cost of $1,598,000 includes a building cost of $897,000 ($83 per gross square foot). Previous experience with CHP building projects indicates that $65 to $66 per gross square foot is generally adequate for these facilities. Any subsequent request for construction of this project should take these costs into account.

Further, the department's request for $1,597,000 accounts for planning funds ($1,000) that have already been provided, but does not account for the funds appropriated by the 1981 Budget Act. Any subsequent proposal should account fully for all available funds.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

Golden Gate Division—Communications Center and Division Office

We withhold recommendation on Item 2720-301-044(i) pending receipt of additional information.

The budget requests $706,000 in acquisition and planning funds under Item 2720-301-044(i) for a building to consolidate the Golden Gate Division Communications Center and Division Office. The department indicates that the building will be located in the East Bay area on property which affords maximum security.

Consolidated Communications Center. The Golden Gate Division is currently served by four 24-hour dispatch centers located in Oakland, San Jose, San Francisco, and Santa Rosa. The existing facilities are inadequate and do not allow for needed alterations. The department studied four alternative configurations for providing the needed services. Of the four alternatives, the one providing for total consolidation was selected by the department because it:

1. requires the least operational staff,
2. allows flexibility in dealing with growth and/or shifts in population and changes in travel patterns,
3. offers the greatest flexibility in staffing, scheduling and workload distribution,
4. enhances the development of standardized management and operational procedures, and
5. provides optimum results for a one-time capital investment.

Division Offices. The Golden Gate Division and the San Francisco area office currently occupy a two-story building in San Francisco. Overcrowding of this facility has hampered operational efficiency to the extent that relocation of the division office is a priority consideration of the department. The San Francisco area office will remain in the existing building.

Project Status. The department is currently evaluating alternative sites, and the Office of State Architect is preparing a budget package for this project. This information should be available for review prior to budget hearings. Consequently, pending receipt and review of this information, we withhold recommendation on this request.

B. Acquisition of Leased Facilities

The department is requesting $3,396,000 to purchase six area facilities which it currently occupies. The lease agreements on two of these facilities —Riverside and Santa Cruz—include specific purchase option prices. The owners of the other four offices have offered to sell the facilities to the CHP. Table 2 shows the department's budget request, present annual rental, and lease expiration date for each location.

Riverside—Purchase Leased Facility

We recommend that Item 2720-301-044(c), purchase leased facility, Riverside, be reduced by $10,000 because of overbudgeting of administrative costs.

Item 2720-301-044(c) requests $910,000 to exercise the purchase option on the second anniversary of the Riverside lease (July 1, 1983). This office serves a major portion of Riverside County and is in an excellent geo-

Table 2
Department of the California Highway Patrol
Proposed Purchases of Leased Facilities

Location	*Budget Request*	*Present Annual Rental*	*Lease Expiration Date*
Riverside [a]	$910,000	$142,596	6/30/96
Santa Cruz [a]	795,000	90,000	5/31/96
Oceanside	820,000	102,000	1/31/83
Susanville	315,000	13,800	9/30/82
Lake Valley	295,000	15,600	8/31/83
Madera	261,000	6,000	11/30/82

[a] Location has lease with purchase option.

graphical location. The department indicates that the facility is of adequate size and construction to meet its needs, and expects to occupy the facility for at least 15 years after purchase. The facility also houses the southern region maintenance crew which provides support services for radio communications facilities. The department's request includes $890,000 for exercising the option and $20,000 to cover associated administrative charges. A present worth analysis of the lease terms indicates that the department will save $632,000 over the 13 remaining years of the lease if it exercises the option next year. We recommend that the project be approved.

The department's request includes $20,000 to cover administrative charges associated with this acquisition. The Division of Real Estate Services (RES), Department of General Services, indicates that $10,000 should be sufficient to cover these costs. Therefore, we recommend that the extra $10,000 included in the department's proposal be deleted.

Santa Cruz—Purchase of Leased Facility

We recommend that Item 2720-301-044(d), purchase leased facility, Santa Cruz, be reduced by $11,000 because of overbudgeting of administrative costs.

The department's proposal includes $795,000 under Item 2720-301-044(d) to exercise the purchase option on the currently leased facility in Santa Cruz. This facility was built to CHP specifications and was first occupied in May 1981. The department indicates that this facility will be suitable for the operational needs of the department for a minimum of 18 more years. Under the terms of the lease, annual rentals range from $101,000 per year in 1983 to $167,000 per year in 1995.

Based on a present worth analysis of the lease terms, we recommend approval of this project. Our analysis indicates that the state will save $150,000 (present value) over the remaining 13 years of the lease. These savings would be increased by any residual value of the property at the end of that 13-year period.

The department's request for $795,000 includes $20,000 to cover administrative costs. RES indicates that $9,000 should be sufficient to cover these costs. Consequently, we recommend that the proposed amount be reduced by $11,000 to reflect RES's estimated costs.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

Oceanside—Purchase Leased Facility

We recommend that Item 2720-301-044(e), purchase leased facility, Oceanside, be reduced by $36,000 to reflect the appraised value of the property.

Item 2720-301-044(e) would provide $820,000 to purchase the currently occupied leased facility in Oceanside. The lease expires January 31, 1982, and the Department of General Services, Space Management Division is in the process of renegotiating the lease. Construction of the building was completed in late 1966, and the department first occupied the facility in early 1967. Traffic officers assigned to this facility patrol a major portion of San Diego County. The department indicates that this facility should be adequate to meet the department's needs for at least 15 years after purchase.

The present worth of projected lease payments for this facility over the next 10 years is essentially equal to Real Estate Services' appraised value of the property. The department indicates it will occupy this facility for at least 15 years after purchase. Thus, the state would save five years' rental costs and still have the residual value of the property at the end of the 15-year period.

We recommend that this project be approved. However, the department's request of $820,000 is in excess of the $784,000 which Real Estate Services indicates is needed for the project. This includes $23,000 to cover administrative costs and $761,000 for property acquisition. Therefore, we recommend that the requested amount be reduced by $36,000 to reflect RES's appraisal of the property.

Susanville—Purchase of Leased Facility

We recommend that Item 2720-301-044(f), purchase leased facility, Susanville, Lassen County, be reduced by $78,000 to reflect the appraised value of the property. Further, we withhold recommendation on the remaining funds pending receipt of additional information.

The budget proposes $315,000 under Item 2720-301-044(f) to purchase the currently occupied facility in Susanville, Lassen County. This building was constructed and first occupied by the department in 1965. Under the terms of the current lease, which expires on September 30, 1982, the department pays $13,800 a year in rent. The owner of the property has offered to sell it to the state. The department indicates that this facility is in an excellent geographical location and that it is adequate to serve the department's needs for at least 15 more years.

The present value of projected rental costs over the next 15 years exceeds Real Estate Services' appraisal of the property by $50,000. Given these savings in rent and the expected residual value of this property, the acquisition seems to be in the best interest of the state.

The 1974 Budget Act, however, appropriated $74,315 to purchase the Susanville facility. The budgeted amount was based on the owner's offer to sell the property. The department has not indicated why it failed to purchase the facility at that time. Consequently, we withhold recommendation on this proposal until the department explains why the facility was not purchased for $74,315 in 1974.

Real Estate Services indicates that $237,000 should be sufficient to purchase this property and cover the administrative costs associated with the purchase. The budget requests $315,000 for this purpose. We recommend that the proposed funds be reduced by $78,000 to reflect RES's appraisal of the property.

Lake Valley—Purchase Leased Facility

We recommend that Item 2720-301-044(g), purchase leased facility, Lake Valley, be reduced by $19,000 to reflect the appraised value of the property.

The department's proposal includes $295,000 (Item 2720-301-044(g)) for the purchase of the currently leased Lake Valley (South Lake Tahoe) facility. The lease covering this property expires on August 31, 1983, but the owner has indicated a desire to sell the property to the state. The facility was constructed in 1966, at which time the department occupied the building.

The department estimates that it would cost $1.3 million to replace the facility, if a site and the necessary development permits could be secured. The department has indicated that it will occupy the present facility for a minimum of 15 years if the facility is purchased.

The present worth of projected lease payments over the next 15 years is $228,000. When compared to the purchase price of the property and considering the property's residual value at the end of the 15-year period, the state should realize a net savings of approximately $100,000.

Based on the department's evaluation of this building and the financial benefits to the state from purchasing this facility, we recommend that the project be approved. Our analysis indicates, however, that funds for this project have been overbudgeted. RES advises that $276,000 should be sufficient to cover both acquisition costs and the administrative costs associated with the purchase. The budget requests $295,000 for this purpose. Accordingly, we recommend that the project be reduced by $19,000 to reflect RES's appraisal of the property.

Madera—Purchase Leased Facility

We recommend that Item 2720-301-044(h), purchase leased facility, Madera, be reduced by $18,000 to reflect the appraised value of the property.

Item 2720-301-044(h) proposes $261,000 to purchase the Madera area field office. This facility was constructed in the early 1960s to house 15 traffic officers and supporting staff. Under the present lease, which expires on November 30, 1982, the department pays $6,000 per year in rent. The department states that the size and construction of this facility will be adequate to serve the area's needs for at least 15 years. In addition, the building is in an excellent geographical location.

Upon renegotiation of the lease, the department estimates that annual rental costs would run $42,000. Under this assumption, the present worth of lease payments over the 15-year occupancy period would be $319,000. Our analysis indicates, however, that the department's projected rent is too high. Nevertheless, even when an annual rent of $24,000 is assumed, purchase of this facility is still in the state's interest. This is because the present worth cost of lease payments—$183,000—is more than the estimated cost of acquisition less the anticipated residual value of the property.

On this basis, we recommend that the project be approved. Funds budgeted for this project ($261,000), however, are in excess of what RES indicates is needed for the acquisition. According to RES, a total of $243,000 should be sufficient to cover both the purchase and the associated administrative costs. We recommend that the requested amount be reduced by $18,000 to reflect RES's appraisal of the property.

C. Miscellaneous Projects

Stores and Equipment Warehouse—Sacramento

We recommend that Item 2720-301-044(j), preliminary plans, working drawings, and construction, stores and equipment warehouse, be reduced by $54,000 to reflect an appropriate funding level for a project of this type.

The budget proposes $461,000 under Item 2720-301-044(j) for preliminary plans, working drawings and construction of a 6,300 gross square foot equipment warehouse. The stores and equipment section currently leases warehouse space 2½ miles from the Meadowview warehouse and motor transport facility. Under the lease, which expires in November 1983, the department pays $12,950 annually in rent. The lessor has indicated that he is unwilling to renew the lease. The department estimates that the annual rental for replacement space will run from $15,000 to $20,000 per year.

The stores and equipment section provides central warehousing for the department. The department states that the present facility lacks adequate space and those items with high-turnover rates are often in short supply. In addition, the warehouse does not have a loading dock. This situation limits truck access and precludes the efficient utilization of forklifts and other power equipment.

This project would provide a 70-foot by 90-foot warehouse with a 30-foot wide loading dock. The new structure would be placed immediately adjacent to the existing stores and equipment warehouse. Estimates provided by the Office of State Architect show a total estimated project cost of $465,400. The building cost of $325,200 represents a cost of $52 per gross square foot.

Based on recent experience with warehouse projects, we estimate that a building cost of $45 per gross square foot should be adequate, for a total project cost of $411,000. Of this amount, $4,000 has previously been transferred to OSA for preparation of the budget package. Consequently, we recommend that Item 2720-301-044(j) be reduced by $54,000 to reflect a more appropriate funding level for a project of this type.

Motorcycle Roadway—Academy

We recommend that Item 2720-301-044(k), construct motorcycle roadway, be deleted because other facilities are available and the project is not adequately justified, for a savings of $181,000.

The budget proposes $181,000 under Item 2720-301-044(k) to construct a roadway for motorcycle skills training at the academy. The department states that the existing emergency vehicle operations course is almost constantly used for cadet training in emergency vehicle operations, accident investigation, and enforcement tactics. According to the department, schedule coordination has been difficult and the motorcycle training program has suffered.

The construction of the academy was partially funded with a grant from the federal Office of Traffic Safety (OTS). A condition for the receipt of the grant was that the Highway Patrol make training available to allied agencies. The department states that to keep pace with current and future training demands, the facilities at the academy must be expanded. The demand by allied agencies for motorcycle training has increased as a result of Peace Officer Standards and Training certification requirements. It is expected that the demand will further increase because OTS has recently funded the purchase of motorcycles for municipal police departments.

Our analysis indicates that the proposed project is not justified for two reasons:

1. Other facilities are available that can be used for conducting this training.
2. The CHP officers should receive first priority in motorcycle skills training. Training should be provided to allied agencies on an "as-available" basis.

Availability of Other Facilities. In its support budget (Item 2720) the CHP has requested funds for two additional officers to conduct motorcycle training. In justifying its proposal, the department states that the existing Department of Transportation dynamic test area is available for motorcycle training. Any motorcycle skills training classes which cannot be accommodated on the emergency vehicles operations course should be conducted in this area.

Academy Priorities. The purpose of the Highway Patrol Academy is to train officers for the California Highway Patrol. Training is provided for members of allied agencies as space is available. The academy is meeting its primary goal of training cadets and officers for the Highway Patrol. The backlog of allied agencies' requests for motorcycle training is not sufficient justification to spend state funds to expand facilities at the academy.

For these reasons, we recommend that the funds under Item 2720-301-044(k) be deleted, for a savings of $181,000.

Property Options—Various Areas

We recommend approval of Item 2720-301-044(l), property options. We further recommend that Budget Bill language be adopted limiting the use of the funds to proposed major capital outlay projects which are anticipated to be included in the 1983–84 budget.

Item 2720-301-044(*l*) proposes $15,000 for the Highway Patrol to secure options on property for proposed major capital outlay projects. We recommend that these funds be approved.

The land acquisition phase of capital outlay projects is often delayed because of the extended time needed for site evaluation, site selection, negotiations, appraisals and settlements. The time needed for this process can be reduced if the department can secure an option to purchase a site being considered for a project.

When the department has identified a need for a facility and funds have been included in the budget, the department should acquire a purchase option for a viable site. The optioned property would establish a firm funding level for acquisition of the needed site. Then, if funds are approved by the Legislature, the acquisition could proceed immediately upon enactment of the budget.

While some additional cost could result because of staff time expended on the projects that are subsequently denied by the Legislature, these costs would be more than offset by the savings made possible due to reduced acquisition time for approved projects. Accelerating site acquisition by even a few months would avoid inflationary cost increases. The benefits of this process are discussed in detail in our *1980 Analysis of the Budget Bill* under Item 516.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

The use of these funds should be limited to those projects which the Department of Finance plans to include in the 1983–84 Governor's Budget. This will assure that monies will not be spent on projects that may not be approved by the administration and presented to the Legislature. Therefore, we recommend that the following language be adopted in the Budget Bill to limit the use of these funds to secure property options for major capital outlay projects which are anticipated to be included in the 1983–84 budget:

"Provided, that the funds appropriated in Item 2720-301-044 (*l*) shall be approved by the Department of Finance for expenditure only for those major capital outlay projects which are anticipated to be included in the 1983–84 Governor's Budget.

Minor Capital Outlay

We recommend deletion of five minor capital outlay projects from Item 2720-301-044(m), for a savings of $101,000.

The budget contains $700,000 under Item 2720-301-044(m) for 28 minor capital outlay projects for the California Highway Patrol. These projects are summarized by category in Table 3.

Table 3
Department of the California Highway Patrol
Minor Capital Outlay Projects by Category

Category	*Budget Bill Amount*
Projects to meet code requirements	$177,000
Building alterations	123,000
Gasoline service projects	183,000
Radio dispatch projects	57,000
Miscellaneous improvements	160,000
Total	$700,000

We have reviewed the proposed program and agree with the need for and the cost of most of the projects. However, our analysis indicates that five of the projects totaling $101,000 should be deleted.

Gasoline Service Projects. The budget includes $20,000 to construct attendant booths at various area facilities, and $11,000 to install overhead retractors for gasoline hoses. The department proposes to install attendant booths at 10 area offices where fuel storage tanks and dispensing facilities have been previously constructed. These installations do not include any type of enclosure or booth where fuel and service records can be kept. This project would provide an aluminum and glass structure at each of these facilities for the storage of these records.

Our analysis indicates that this project is not justified. These records can be kept either in the carport or office areas, and we recommend that the proposed funds ($20,000) be deleted.

The department is also proposing to install overhead retractors for gasoline hoses at the department's gasoline dispensing facility. The department states that the installation of retractors will prevent hoses from being crushed, run over or pulled away from their connections. We recommend that the $11,000 proposed for this project be deleted. Instruction in the proper use of the gasoline dispensing equipment, as well as careful use of this equipment, should prevent damage to the hoses.

Enclosed Carport Space—Woodland. The budget includes $7,000 to enclose the carport space at the Woodland area facility. The department states that the extreme cold weather conditions experienced in the carport area are not conducive to a productive work environment.

Our analysis indicates that these funds are not justified and should be deleted. While in extreme cases weather conditions may make working in the carport area infeasible, the general weather conditions in Woodland are quite bearable. Consequently, we recommend this project be deleted.

Recarpet Conference Room. The department's request includes $3,000 to recarpet the headquarter's main conference room. The department states that the existing carpeting in the conference room is 15 years old and is in generally poor condition. Replacement of existing carpeting, however, is a maintenance item, and should be funded from the department's support budget. Consequently, we recommend deletion of this project.

Sprinkler System—Los Angeles Communications Central (LACC). The budget includes $60,000 to install a ceiling sprinkler system in the administrative portion of the LACC. Construction of this facility was completed in mid-1979 and the facility was occupied by the CHP on October 1, 1979. The facility was designed by the Office of State Architect to meet all applicable codes. The need for this project is not clear, and we recommend that the funds be deleted.

Approved Projects. We recommend approval of the remaining 22 projects at a total funding level of $599,000. These projects range in cost from $500 to install a booster water heater in the headquarters cafeteria to $81,000 for handicapped accessibility modifications at six field offices.

Business, Transportation and Housing Agency

DEPARTMENT OF MOTOR VEHICLES

Item 2740 from the Motor Vehicle Account, State Transportation Fund and various funds — Budget p. BTH 143

Requested 1982–83	$218,649,000
Estimated 1981–82	192,010,000
Actual 1980–81	178,115,000
Requested increase (excluding amount for salary increases) $26,639,000 (+13.9 percent)	
Total recommended reduction	$899,124
Recommendation pending	$11,790,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2740-001-001	Anatomical donor designation and petit jury selection	General	$64,000
2740-001-044	Departmental operations	State Transportation Fund, Motor Vehicle Account	178,090,000
2740-001-064	Collection of vehicle use taxes	Transportation Tax Fund, Motor Vehicle License Fee Account	38,211,000

DEPARTMENT OF MOTOR VEHICLES —Continued

2740-001-378—Bicycle registration	State Bicycle License and Registration	60,000
2740-001-516—Undocumented vessel registration	Harbors and Watercraft Revolving	2,181,000
2740-001-890—Miscellaneous projects	Federal Trust	43,000
2740-011-044—Reserve for deficiencies	State Transportation Fund, Motor Vehicle Account	(1,000,000)
Total		$218,649,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. ***Investigative Activities. Reduce Item 2740-001-044 by $510,173 and 12.5 personnel-years.*** Recommend reduction because increased investigative activities have not been justified.	460
2. Permit Reform Act. Withhold recommendation on $240,000 and 7.6 personnel-years, pending receipt of information substantiating number of additional staff needed to comply with the Permit Reform Act of 1981.	461
3. Reflectorized License Plates. Withhold recommendation on $9,211,000 and 114.6 personnel-years, pending receipt of information verifying license plate production schedule and describing a specific implementation plan for this new program.	461
4. Field Office Automation. Withhold recommendation on $2,339,000 and 22.3 personnel-years, pending award of a contract for computer equipment and services, and receipt of information as to more precise funding requirements.	462
5. New Motor Vehicle Board. Recommend adoption of legislation requiring that fees fully support the board's activities.	463
6. Bad Checks. Recommend adoption of supplemental report language requiring department to address the increasing number of dishonored (bad) checks which the department is unable to collect on.	464
7. ***Miscellaneous Reductions. Reduce Item 2740-001-044 by $388,951.*** Recommend reductions to correct for overbudgeting in various expenditure categories and understatement of reimbursements.	465

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV) 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 programs: (1) Vehicle and Vessel Registration and Titling, (2) Driver Licensing and Control, and Personal Identification, (3) Occupational Licensing and Regulation, and (4) Administration.

In the budget year, the department will operate 154 field offices in 15 districts throughout California, as well as a central headquarters facility in

Sacramento. The department has 7,068 authorized positions in 1981–82.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $218,649,000 from various funds for support of the Department of Motor Vehicles in 1982–83. This is an increase of $26,639,000, or 13.9 percent, over estimated expenditures in the current year. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget also proposes expenditures of $15,735,000 from reimbursements for services the department will provide to other agencies and the public. This results in a total proposed expenditure program of $234,384,000, which is an increase of $26,582,000, or 12.8 percent, over estimated current year expenditures.

Department's Work Force Request

Personnel-years for the Department of Motor Vehicles in 1982–83 are budgeted at 7,338.7, compared to 6,924.6 in 1981–82. This is a net increase of 414.1 personnel-years, or 6 percent.

The department estimates that in 1982–83, it will process a total of 20,260,300 vehicle registrations and issue 5,859,500 driver licenses and 989,200 identification cards. These major workload indicators reflect a growth of 2.8 percent in vehicle registrations, 3.5 percent in driver license issuance, and 12.5 percent in identification card issuance.

Significant Program Changes

The budget proposes nine significant program changes, most of which will produce savings and/or revenue. These changes are listed in Table 1. The table indicates that five of the proposed changes were initiated by statute.

Table 1
Significant Program Changes
(dollars in thousands)

Program Changes	*Personnel-Years*	*1982–83 Fiscal Effect*	*Subsequent Year Savings*	*Revenue Producing*	*Cause of Change*
1. Reflectorized license plates	114.6	$9,211	no	yes	Ch 696/79
2. Workload adjustments	254.2	7,795	no	no	Department
3. Field office automation, Phase II	9.8	1,901	yes	no	Department
4. Vehicle registration micrographics	–12.0	465	yes	no	Department
5. Field office automation, Phase III	12.5	438	yes	no	Department
6. Transportation financing	20.3	415	no	yes	Ch 541/81
7. Traffic violations	19.1	350	no	yes	Ch 584/81
8. Permit Reform Act	7.6	240	no	yes	Ch 1087/81
9. Thumbprint requirement	3.7	67	no	no	Ch 1102/81
Totals	429.8	$20,882			

Solvency of Motor Vehicle Account

The Motor Vehicle Account in the State Transportation Fund is DMV's primary source of funds. The account will finance $178 million, or 76 percent, of total expenditures by the department in 1982–83.

DEPARTMENT OF MOTOR VEHICLES —Continued

In last year's *Analysis,* we pointed out that the Motor Vehicle Account faced serious financial problems in the years ahead. In that *Analysis,* we recommended the enactment of legislation to raise various fees in order to assure that the account remained solvent and could continue to support the activities of the DMV, the CHP, and other agencies at a level sufficient to protect the public.

Chapter 541, Statutes of 1981 (SB 215) provided for fee increases which will generate sufficient revenue to the Motor Vehicle Account to assure its solvency for several years. Chapter 541 doubled the vehicle registration fee from $11 to $22, and increased driver license fees from $3.25 to $10. These increases became effective on January 1, 1982. It is estimated that the total additional revenue accruing to the Motor Vehicle Account as the result of Chapter 541 will amount to $496 million during the period 1981–82 through 1983–84.

Workload Cannot be Assessed

We recommend that Item 2740-001-044 be reduced by $510,173 and 12.5 personnel-years because sufficient information to support the requested increase in staffing for investigatory activities has not been provided.

The budget proposes an increase of 12.5 personnel-years in the Investigation Section in the Division of Compliance, for a total staffing level of 294.2 personnel-years in 1982–83. The Investigation Section conducts investigatory activities on behalf of the department, as part of the Occupational Licensing and Regulation program. These activities include investigations of (1) false driver licenses, vehicle registrations and identification cards, (2) vehicle salespersons and dealers, and (3) consumer complaints.

Our review of the information provided by DMV indicates that the department has not justified this increase. Unlike most of the department's workload, estimates for the Investigation Section are not determined primarily by factors outside of the department (such as the number of residents seeking to be licensed). For example, the number of administrative actions taken against licensees by the Investigation Section is, according to budget support documents, ". . . determined by administrative policy." Further, some workload components, such as the number of consumer complaints referred to the section, are not based on historical data but instead are estimated by management. In this regard, we note that, while management projects a 10 percent increase in the number of complaints for both 1981–82 and 1982–83, there was a 20 percent *decrease* in workload during 1979–80, and an *additional decrease* of 8 percent in 1980–81 (based on nine months of actual data). In addition, the increases which have been estimated by management contrast with budget support narrative which states that "The downturn of the economy is reflected in the lower volumes for consumer complaints. As the number of firms and licensees declines, so does the number of complaints."

We conclude that the Investigation Section workload reflects at best a discretionary level of effort. Lacking any objective basis for determining what level of effort is appropriate, we have no analytical basis upon which to recommend approval of the increase in staffing. Consequently, we recommend that the additional resources requested for investigatory activities be reduced $510,173 and 12.5 personnel-years. This amount includes $372,685 for personal services, $80,990 for new vehicles, and $56,498 in other operating expenses and equipment.

Cost to Comply with Permit Reform Act

We withhold recommendation on $240,000 and 7.6 personnel-years requested to comply with the Permit Reform Act of 1981, pending the receipt of information substantiating the proposed staff increase.

Chapter 1087, Statutes of 1981, requires that all state agencies which issue permits must adopt regulations regarding procedures for considering and issuing permits. These regulations must satisfy specific criteria contained in the act. The act requires that all agencies within the Business, Transportation and Housing Agency adopt the mandated regulations no later than September 1, 1983.

The department estimates that it will need $240,000 and 7.6 personnel-years to comply with the Permit Reform Act, and these resources are included in the budget for 1982–83. The requested positions would be limited-term.

Information provided by DMV in support of its estimate indicates that in order to adopt the necessary regulations, the department will have to obtain information on approximately 100 to 125 different permits now issued by the department. DMV indicates that the number of additional staff requested is based on the need for one representative from each of the department's six operating divisions, a project leader and one clerical position.

Other than this statement of need, the department has provided no information which would validate the requirement for this number of additional staff. For this reason, we withhold recommendation on the requested $240,000 and 7.6 personnel-years, pending the receipt of information from DMV which will enable us to substantiate the number of positions required to obtain compliance with the Permit Reform Act. DMV should provide this information prior to the time its budget is heard.

Reflectorized License Plates

We withhold recommendation of $9,211,000 and 114.6 personnel-years proposed for the issuance of reflectorized license plates pending receipt of information verifying the license plate production schedule and describing a specific implementation plan.

Chapter 696, Statutes of 1979, required DMV to issue reflectorized license plates to motorists who request such plates. The statute requires that DMV issue the special plates "as soon as practicable", and that a fee sufficient to cover the department's cost be charged for the plates.

In accordance with Chapter 696, the budget includes $9,211,000 and 114.6 personnel-years to begin issuing reflectorized plates on September 1, 1982, at a proposed fee of $5 for each set of plates. The 114.6 positions represent *only one-half* of what DMV believes it needs to administer this new program on an annual basis. Because of the uncertainty surrounding the workload estimates for this program, funds to establish the additional 114.6 positions have been included in a special item of expense in DMV's budget. According to DMV, a budget revision will be processed to authorize an additional 114.6 positions, for a total of 229.2, if these positions turn out to be needed.

We believe it is appropriate to delay the establishment of the additional positions until a need for the positions has been established. Our analysis indicated that (1) the workload which is the basis of the $9.2 million

DEPARTMENT OF MOTOR VEHICLES —Continued

request was derived from a statistical analysis of 1,014 interviews of California adults conducted on a statewide basis, (2) the personnel-year estimates are based in part on obsolete DMV workload standards, (3) the Department of Corrections, which will manufacture the reflectorized plates, has indicated that it may be unable to provide a sufficient inventory as scheduled, and (4) DMV has not completed specific plans as to how plates will be issued. Each of these factors represents a potential significant impact on the actual cost of this program in 1982–83.

Initial staffing, therefore, should be held to a *minimum* level and increased as the workload develops. This method of implementation will compensate for any variations from the statistical projections or obsolescence of DMV workload standards.

According to DMV staff, the specific implementation plan under development will have as its primary objective the maintenance of an appropriate staffing level to comply with Chapter 696. This level *will* be affected by any slipping of the Department of Corrections' production schedule, and *may* be affected by DMV's plan of implementation. Consequently we are unable to advise the Legislature at this time as to the funding requirements for the reflectorized license plate program. For these reasons, we withhold recommendation pending receipt of information from DMV which verifies the production schedule for issuing the new plates and describes the department's specific plan for implementing this new program.

Field Office Automation

We withhold recommendation on $2,339,000 and 22.3 personnel-years budgeted for further automation of field office operations, pending the award of a contract for computer equipment and services, and receipt of information identifying more precisely the department's funding requirements for 1982–83.

In 1978, DMV began developing plans to improve the cost-effectiveness of its field office operations. It determined that modern computer technology offered the best method available for achieving the cost reductions envisioned by the department. As a result, the plan developed by DMV provides for extensive use of automation in the field offices.

The plan, which has been approved by the Department of Finance, recommends automating the following primary functions: (1) revenue accounting, (2) registration, and (3) driver licenses and identification cards. The plan calls for automation to take place in three phases.

Phase I, revenue accounting, is operational, and is projected to result in net savings of $670,387 and 170.2 personnel-years in the current year. The proposed budget for 1982–83 includes $2,339,000 and 22.3 personnel-years to proceed with implementation of phases II and III. It is estimated that phase II, automation of registration activities, will have a total development cost of $2.7 million, and will begin to produce savings of about $6 million annually beginning in 1984–85. Phase II is projected to reduce DMV's staff by 740 personnel-years. Phase III, if implemented according to schedule, will result in net savings of $1.2 million in 1984–85 and $2 million in each subsequent fiscal year and will reduce staff by 272 personnel-years.

The success of phase I and other high-payoff projects undertaken by DMV, such as the use of micrographic processes in lieu of paper-oriented filing and retrieval systems, has demonstrated the department's ability to improve the cost-effectiveness of its operations. Consequently, we support continuation of the department's field office automation plan. Our analysis indicates, however, that additional information is needed to substantiate the amount requested in the budget year for this project.

The amount requested for 1982–83—$2,339,000—is based in part on assumptions regarding the costs for computing equipment necessary to continue field office automation. In December 1981, the department received bids from several equipment vendors for the necessary computers, terminals and support services. The bids ranged from $33 million to $59 million over a five-year period. In accordance with state bidding procedures, the bids were evaluated to determine whether they were responsive to the DMV's stated requirements. The evaluation resulted in a determination that the two lowest bidders were not responsive. On these grounds, the two bidders were disqualified. The third lowest bidder was deemed responsive, and will be allowed to demonstrate the ability of its equipment through a comprehensive "benchmark" test designed by DMV. A contract will be awarded to this vendor if the benchmark is successful. Only then will it be possible to determine accurately the department's costs in 1982–83 for phases II and III. For this reason, we withhold recommendation on the $2,339,000 and 22.3 personnel-years requested, pending the selection of a successful vendor and receipt of information from DMV which identifies more precisely funding requirements for 1982–83.

Full Cost of New Motor Vehicle Board Should Be Fee Supported

We recommend that the companion bills to the Budget Bill, AB 2361 and SB 1326, be amended to require that fees charged new vehicle dealers and other licensees under the jurisdiction of the New Motor Vehicle Board be sufficient to fully offset the board's cost.

Section 3000 of the Vehicle Code provides for the New Motor Vehicle Board in the Department of Motor Vehicles. The board's primary functions are (1) hearing and considering appeals of decisions made by DMV regarding new motor vehicle dealers and other licensees under the jurisdiction of DMV and the board, (2) arbitrating differences of opinion between members of the public and these licensees, and (3) hearing and considering protests presented by new vehicle franchisees regarding actions of franchisors or the relocation of dealerships. The Vehicle Code authorizes the board to charge licensing fees which are sufficient to recover licensing costs, and requires DMV to provide the board necessary support services.

The budget requests $508,678 from the Motor Vehicle Account to support the board in 1982–83. This is an increase of $96,052, or 23 percent, over the estimated expenditure in the current year. The increase is intended to provide the board with sufficient staff to process the board's growing workload in a timely manner.

Recently, the board increased license fees from $60 to $100, in order to offset the board's cost. The board's action, however, has been challenged by the Office of Administrative Law (OAL) on the grounds that the board has not demonstrated the need for an increase.

The department estimates that there will be 4,670 license fee transactions in 1982–83. This would indicate the need for a fee of $109 to fully offset estimated expenses in 1982–83. If OAL's challenge results in the fee being lowered to $60, license fee revenue in 1982–83 will be $186,000 less than the amount shown in the budget.

DEPARTMENT OF MOTOR VEHICLES —Continued

According to legislative intent expressed in Ch 996/73, the New Motor Vehicle Board exists to (1) regulate its licensees to protect them from undue control by vehicle manufacturers and distributors, and (2) ensure that dealers fulfill their obligations under their franchises and provide adquate service to consumers. Consequently, the board is not unlike the numerous boards and bureaus in the Department of Consumer Affairs which serve defined groups of individuals and are fully supported through license fee revenue. For this reason, we recommend that AB 2361 and SB 1326 be amended to require that fees established by the New Motor Vehicle Board be sufficient to offset fully the board's annual cost.

Bad Checks Top $2.8 Million

We recommend that the Legislature adopt supplemental report language requiring the department to (1) review its procedures for handling dishonored checks to identify improvements which can be made to reduce both the number of dishonored checks and the number of outstanding dishonored checks, and (2) report to the Legislature by December 31, 1982, on the results of this review.

According to information provided by DMV, the number of checks received by the department, which are subsequently dishonored, has increased approximately *61 percent* since 1979. As of October 31, 1981, there were 33,875 dishonored checks outstanding. These checks represented uncollected fees totaling $2.8 million.

The department attempts to clear dishonored checks by (1) flagging the appropriate automated DMV file to disclose that a bad check was tendered, (2) sending letters requesting payment, and (3) referring matters to the Division of Compliance for followup collection efforts if the letters have not resulted in payment of the amount owed. These efforts are successful in collecting about $2 million annually. The department, however, is taking in more bad checks than it is clearing, as Table 2 illustrates.

Table 2
Department of Motor Vehicles
Dishonored Checks

12-Month Period Ending	*Volume*	*Total Amount Due*	*Average Check Amount*
May 31, 1979			
Checks received	34,657	$2,401,473.92	$69.29
Checks cleared	36,057	2,441,722.73	67.72
Checks outstanding	18,451	1,278,102.34	69.27
May 31, 1980			
Checks received	44,498	$3,201,820.97	$71.95
Checks cleared	27,416	1,876,938.79	68.46
Checks outstanding	24,659	1,887,547.08	76.55
May 31, 1981			
Checks received	45,730	$3,517,729.86	$76.92
Checks cleared	28,363	2,026,555.39	71.45
Checks outstanding	29,704	2,435,842.68	82.00

Table 2 reveals a *91 percent increase* in the total value of outstanding dishonored checks over a two-year period. We assume that this amount will increase even more dramatically because of the substantial increase in various DMV fees mandated by Chapter 541.

We believe the department should determine what improvements can be made which will deter the writing of bad checks and improve the rate at which they are cleared. It may wish to consider, for example, posting appropriate notices in field offices or mailing them with renewals so as to better inform the public as to the penalties which will be assessed for writing bad checks. It may also wish to consider modifications to existing state policies and procedures related to recovering uncollected fees through an offset that might result in a higher recovery rate, such as intercepting income tax refunds due to those individuals passing bad checks to the department. The department should investigate these and other possible methods for resolving the growing problem of dishonored checks. We recommend adoption of the following supplemental report language to initiate this review:

"The department shall (1) review its procedures for handling dishonored checks to determine what improvements can be made to reduce both the number of dishonored checks and the number of outstanding dishonored checks, and (2) report to the fiscal committees and the Joint Legislative Budget Committee by December 31, 1982, on the results of its review."

Miscellaneous Reductions

We recommend that Item 2740-001-044 be reduced $388,951 to correct for overbudgeting in various categories.

Our analysis of DMV's budget revealed that resource requirements were overstated or without justification in several expenditure categories. A review of budget detail conducted with DMV staff has resulted in a joint determination that Motor Vehicle Account funding can be reduced by $388,951. The components of the total recommended reduction are shown in Table 3.

Table 3

Recommended Miscellaneous Reductions

Item or Category	*Recommended Reduction*
1. Printing	$166,587
2. Increased reimbursement for EDP services	84,379
3. Increased reimbursement for sale of information	67,315
4. Special repairs	54,500
5. New vehicles	16,170
Total	$388,951

Printing. The amount budgeted for printing various forms, envelopes and other materials can be reduced by $166,587 because projected printing volumes for several items are excessive.

Reimbursements. Our analysis indicates that reimbursements received from the Department of Housing and Community Development for computer services are understated by $84,379. Similarly, reimbursements derived from the sale of vehicle registration information are understated by $67,315. Therefore, reimbursements should be increased by $151,694, and Motor Vehicle Account support should be reduced by the same amount.

Special Repairs. The special repairs budget can be reduced by $54,500 because the proposed repair—repainting the headquarters office building

DEPARTMENT OF MOTOR VEHICLES —Continued

—has been scheduled prematurely.

Purchasing of Vehicles. Our analysis of detail relating to the purchase of vehicles revealed that 21 passenger vehicles were budgeted at $7,000 each, while 17 passenger vehicles were budgeted at $6,230 each. Based on our discussions with DMV staff, we have concluded that the lower amount conforms to budgeting instructions developed by the department. Therefore, the amount budgeted for vehicles can be reduced by $16,170.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY

Item 2740-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 166

Requested 1982–83	$6,009,000
Recommended approval	1,225,000
Recommended reduction	4,784,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Los Angeles—Working Drawings. Reduce Item 2740-301-044(d) by $91,000.* Recommend reduction to reflect legislatively approved program and an appropriate funding level for a project of this type. 467
2. *El Cajon—Preliminary Plans and Working Drawings. Reduce Item 2740-301-044(f) by $81,000.* Recommend reduction to reflect an appropriate funding level for a project of this type. 468
3. *Santa Barbara—Working Drawings and Construction. Reduce Items 2740-301-044(c) and (g) by $30,000 and $769,000, respectively.* Recommend deletion of proposed funds because project is too costly and preliminary planning has not begun. 469
4. *San Clemente—Working Drawings and Construction. Reduce Items 2740-301-044(e) and (i) by $64,000 and $1,829,000, respectively.* Recommend deletion of proposed funds because of department's inability to acquire a site with available funds. 470
5. *San Jose (Southeast)—Construction. Reduce Item 2740-301-044(h) by $1,600,000.* Recommend deletion of proposed construction funds because request is premature given the status of the project. 470
6. *Minor Capital Outlay. Reduce Item 2740-301-044(j) by $320,000.* Recommend deletion of all proposed projects due to backlog of previously approved projects. 471

ANALYSIS AND RECOMMENDATIONS

Field Office Construction Program

The budget requests $5,689,000 for five projects to provide state-owned field offices for the Department of Motor Vehicles (DMV). Four of the projects have received previous funding from the Legislature; the other project is being considered for the first time. Table 1 shows previously appropriated funds, the department's proposal for the budget year, and our recommendation for each project.

Table 1
Department of Motor Vehicles
Major Capital Outlay Projects
Item 2740-301-044
(in thousands)

Project Location	*Previously Appropriated Funds*[a]	*Budget Bill Amount*[a]	*Analyst's Proposal*	*Future Cost*[b]
Los Angeles (Hope Street)	$106 p	$189 aw	$98 aw	$3,380
El Cajon	—	1,208 aw	1,127 aw	2,262
Santa Barbara	21 p	799 wc	—	—
San Clemente	563 aw	1,893 wc	—	—
San Jose (Southeast)	891 aw	1,600 c	—	—
	$1,581	$5,689	$1,225	$5,642

[a] Phase Symbols Indicate: a–acquisition; c–construction; p–preliminary plans; and w–working drawings.
[b] Future costs provided by department.

Los Angeles—Land Acquisition and Working Drawings

We recommend approval of Item 2740-301-044(a), site acquisition, Los Angeles. We further recommend that Item 2740-301-044(d), working drawings, Los Angeles, be reduced by $91,000 to reflect the legislatively approved program and an appropriate funding level for a project of this type.

The budget includes $50,000 for site acquisition and $139,000 for working drawings under Items 2740-301-044(a) and (d), respectively, for a new DMV field office on Hope Street in Los Angeles. The ground floor of the proposed two-story building will house a typical DMV field office. The second floor will provide space for the regional manager, legal staff, central registration center, and the Los Angeles information unit. The 1981 Budget Act appropriated $106,000 for the preparation of preliminary plans for this project. The OSA estimates the total cost of the project at $3,676,000.

The Hope Street facility, currently occupied by DMV, was built in the early 1930s as a tire warehouse. The existing building has sufficient space but the department considers its condition deplorable and unsafe. Further, there are no suitable buildings available for lease on a permanent basis. In view of these problems, the Legislature appropriated planning funds in the 1981 Budget Act for a new building.

Site Acquisition Funds. The proposed facility would be constructed on part of the parking lot at the south end of the existing state-owned site. The proposed site acquisition money would be used to purchase an adjacent narrow strip of land from the City of Los Angeles. This land is needed to provide sufficient parking for the new facility, and we recommend the funds be approved.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY —Continued

Project Scope Increased. The project, as approved by the Legislature last year, consisted of the construction of a 29,000 gross square foot two-story office building with 208 parking spaces. Documents submitted by the Office of State Architect indicate that the building size is now 34,160 gross square feet, or 18 percent larger than what was approved. There has been no justification provided for this increase. Consequently, we recommend that funding for the project be adjusted to reflect the approved size.

Project Too Costly. The Office of State Architect estimates a total project cost of $3,676,000 for the Hope Street facility. This estimate includes a building cost of $2,850,000, or $83 per gross square foot. The proposed building design includes such items as sonar-activated sliding doors, a 16-foot deep steel truss which spans 100 feet over the main lobby supporting a large sloped skylight, masonry veneer on concrete walls, and metal roofing. Based on recent experience in constructing DMV field offices, the proposed project is too costly. A building cost of $70 per gross square foot should be adequate for a facility of this type. The project design should be modified to meet this funding level.

Allowing for a 29,000 gross square foot facility and an appropriate funding level per gross square foot, we estimate that the total project cost should not exceed $2,708,000. This includes $155,000 for preliminary plans and working drawings and $2,553,000 for construction. A total of $107,000 has already been transferred to the Office of State Architect for work on preliminary plans. Consequently, only $48,000 should be needed to complete the construction documents. We recommend approval of this reduced amount.

El Cajon—Land Acquisition and Working Drawings

We recommend approval of Item 2740-301-044(b), site acquisition, El Cajon. We further recommend that Item 2740-301-044(f) be reduced by $81,000 to reflect an appropriate funding level for a project of this type.

The budget proposes $990,000 for site acquisition and $218,000 for working drawings for a DMV field office in El Cajon, San Diego County. The proposed 12,000 square foot office would contain 5,700 square feet of public service area, as well as space for driver improvement analysis and an automobile dealer room. The project would also include 150 parking spaces and a motorcycle testing area.

The El Cajon area is presently served by a leased facility in La Mesa. The department indicates that the La Mesa facility is overcrowded and the lessor will not renew the lease. Further, the workload from the La Mesa-El Cajon service area exceeds the capability of DMV's maximum size field office. Consequently, the department is proposing to split the service area and provide offices in both El Cajon and La Mesa. The El Cajon office will be designed so that the office can be expanded in the future to handle population growth. The lease for the La Mesa office terminates in November 1987. The Department plans to request future funding to replace this building.

Site Acquisition. The department's proposal includes $990,000 under Item 2740-301-044(b) to purchase a 2.6 acre site in El Cajon. The Department of General Services, Division of Real Estate Services indicates that this should be sufficient to cover both the purchase of the property and administrative costs associated with the acquisition. Accordingly, we recommend approval of this request.

The department however should, prior to legislative hearings, make every effort to identify potential sites for this field office, and indicate both acquisition costs and the estimated development costs associated with each site. This will enable the Legislature to better judge the adequacy of the proposed funding.

Planning Funds. The budget also includes $218,000 under Item 2740-301-044(f) for preliminary plans and working drawings for the El Cajon facility. The department indicates that approximately 12,000 square feet of office space will be needed for this facility, at a cost (excluding site acquisition costs) of $2,480,000. The department's proposal is based on a building cost of $108 per gross square foot.

As previously indicated, DMV field offices should not cost more than $70 per gross square foot. Based on this funding level, the total project cost (excluding site acquisition costs) should be about $1,558,000, which includes $137,000 for preparation of preliminary plans and working drawings, and $1,421,000 for construction. We recommend approval of this reduced amount ($137,000) for the preparation of plans, for a savings of $81,000.

Santa Barbara—Working Drawings and Construction

We recommend that Items 2740-301-044(c) and (g), working drawings and construction, Santa Barbara, be deleted because the proposed project is too costly, a reduction of $799,000.

The budget proposes $30,000 for working drawings (Item 2740-301-044(c)) and $769,000 for construction (Item 2740-301-044(g)) for an addition to the existing Santa Barbara DMV field office. The existing building has 4,284 net square feet, whereas DMV workload calculations show a need for 4,120 square feet of public service area alone. To relieve the overcrowded conditions, drivers license activities have been moved to a trailer which is situated in the parking lot.

The DMV originally proposed to build a new field office for the Santa Barbara area. Funds for site acquisition and working drawings were appropriated by the 1975 Budget Act. The department, however, was not successful in its attempt to purchase a new site in Santa Barbara, and therefore decided to construct an addition to the existing building. The 1981 Budget Act appropriated $20,800 for the preparation of preliminary plans for the building addition.

Our analysis indicates that additional space is needed for DMV activities in Santa Barbara. Nevertheless, we recommend that the proposed funds be deleted, for two reasons.

1. The project, as proposed, is too costly.
2. The project is not proceeding on a timely basis.

Proposed Addition is Too Expensive. Documents submitted by the Office of State Architect indicate that the new addition has a building cost of $541,900—in excess of $110 per gross square foot. As discussed previously, a building construction cost of $70 per gross square foot should be sufficient for a facility of this type. We recommend that the department reevaluate this project and modify the design in order to meet its space needs in a more economical manner.

Project Schedule Problems. Preliminary planning funds were appropriated by the Legislature last year with the understanding that plans would be completed in time for review prior to hearings on the 1982–83 budget. The OSA project schedule, however, indicates that preliminary plans are not scheduled to begin until March 1982, and will take at least

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY —Continued

3½ months to complete. There is no apparent reason for this delay. While many DMV projects are delayed due to site acquisition problems, this project involves an addition to an existing building on land which the state already owns. Work on preliminary plans should have begun shortly after the funds were made available by the 1981 Budget Act.

Under the circumstances, the Legislature has no more information on the project now than was available last year, and consequently it has no basis for determining how much is needed for construction. For this reason, we recommend that the requested funds be deleted. In addition, we urge the department to direct OSA to modify the current expensive design and to expedite the project schedule so that the preliminary plans can be completed in time for legislative consideration of a reduced construction proposal for 1982–83.

San Clemente—Working Drawings and Construction

We recommend that Item 2740-301-044(e), working drawings and Item 2740-301-044(i), construction, San Clemente, be deleted, because a site for the project has not been acquired and preliminary plans have not been started, for reductions of $64,000 and $1,829,000, respectively.

The budget contains $64,000 for partial working drawings and $1,829,000 for construction for a new DMV field office in San Clemente. The 10,400 square foot building would contain 4,600 square feet of public service area. The proposed facility would serve the communities of San Clemente, Capistrano Beach, San Juan Capistrano and Laguna Beach.

The department currently operates out of leased space which has a total of 1,200 square feet of public service area. Based on 1980 workload information, this office should have almost three times this amount of public service area.

The 1978 Budget Act appropriated $563,000 for site acquisition, preliminary plans and working drawing for this office. The funds were reappropriated by the 1981 Budget Act. The department has not been able to acquire a site in the San Clemente area. Moreover, the Department of General Services, Real Estate Services Division, indicates that the available funds would not be sufficient to purchase even one-half the amount of land DMV needs. Since no site has been acquired, OSA has not begun work on a preliminary design for this facility. Consequently, there is no basis for requesting additional working drawing funds or construction funds for this project, and we recommend that the proposed amount be deleted, for a reduction of $1,893,000.

San Jose (Southeast)—Construction

We recommend that Item 2740-301-044(h), construction, San Jose (Southeast), be deleted because the request is premature given the status of the project, for a reduction of $1,600,000.

The department is requesting $1,600,000 under Item 2740-301-044(h) to construct a DMV field office in San Jose.

The Central San Jose DMV facility is overcrowded and new quarters in the southeast portion of San Jose would both better serve this community and relieve pressure on the existing facilities in San Jose. The proposed 9,000 square foot office would contain 4,100 square feet of public service area. The 1980 Budget Act appropriated $981,000 for site acquisition, preliminary plans, and working drawings for the project. These funds were reappropriated by the 1981 Budget Act.

Site Acquisition Status. The department has located a two-acre site which it desires to purchase for this facility, and a site suitability report and *Environmental Impact Report* have been completed. The state is appraising the property value, and the department expects to request release of acquisition funds at the March meeting of the Public Works Board. Because the OSA will not start work on the plans for this project until the site has been acquired, the office indicates that preliminary plans and cost estimates will not be available for the Legislature's review prior to budget hearings. This information is necessary in order to assess the need for construction funds. Lacking this information, we recommend that the proposed funds be deleted.

Given that a site has been selected and the owner is willing to sell, we suggest that the OSA accelerate the planning schedule so that the necessary planning documents can be made available to the Legislature in time for consideration during the hearings on the 1982-83 budget.

Minor Capital Outlay Projects

We recommend that Item 2740-301-044 (j), minor capital outlay projects, be deleted because the department should reduce the backlog of active projects from previous years before initiating new ones, for a reduction of $320,000.

Item 2740-301-044(j) contains $320,000 for 10 minor capital outlay projects ($150,000 and less per project) for the Department of Motor Vehicles. These projects are summarized in Table 2.

Table 2
Department of Motor Vehicles
Proposed Minor Capital Outlay Projects
(in thousands)

Project	*Requested Amount*
Office facility—Tulelake	$99
Communications network upgrade—headquarters	13
Groundfault interruption device—headquarters	26
One-hour fire wall—headquarters	93
Mini-processor for lighting system—headquarters	39
Widen driveways—Capitola	8
Modify parking lot—San Diego	19
Floor drains—Oakland Coliseum	7
Floor drains—Bellflower	8
Ceramic tile in restroom—Van Nuys	8
Total	$320

Table 3 shows that 11 minor capital outlay projects totaling $547,000 from the years 1979-80 to 1981-82 had not been completed as of January 1982. In view of this backlog, we do not believe it would be appropriate to provide additional funds for minor capital outlay. Accordingly, we recommend deletion of funds for the proposed minor projects.

Two minor capital outlay projects were funded in 1981-82. At that time the department indicated that these projects—a cooling tower and enlargement of the chilled water systems at the Sacramento headquarters—were critical projects that had to proceed in the current year in order to accommodate the increased cooling load from computer installations. At the time this analysis was prepared, neither of these projects had been

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY —Continued

designed or were under construction.

Table 3
Department of Motor Vehicles
Prior Years Incomplete Minor Capital Outlay Projects
1982–83
(in thousands)

Year Appropriated	*Location*	*Description*	*Amount*
1979–80	Sacramento	Handicapped compliance	$87
1979–80	Yuba City	Handicapped compliance—storage	16
1979–80	Fresno	Handicapped barriers	29
1979–80	Oakland	Handicapped compliance	20
1979–80	El Cerrito	Handicapped compliance	20
1979–80	San Diego	Handicapped compliance	45
1979–80	Mountain View	Handicapped compliance	23
1980–81	El Centro	Expand building	100
1980–81	Sacramento	Parking lot lighting	57
1981–82	Sacramento	Cooling tower	65
1981–82	Sacramento	Enlarge chilled water system	85
Total			$547

DEPARTMENT OF MOTOR VEHICLES—REAPPROPRIATIONS

Item 2740-490 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 166

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. San Clemente—Site Acquisition and Working Drawings. Recommend that reappropriation proposed by Item 2740-490(1) be denied. Recommend further, that this project be added to Item 2740-495, so that the unencumbered amounts are reverted to the Motor Vehicle Account, State Transportation Fund. This project cannot be accomplished with available funds. 473

ANALYSIS AND RECOMMENDATIONS

The Budget Bill proposed reappropriation until June 30, 1982, of the following two projects approved for the Department of Motor Vehicles (DMV) and funded from the Motor Vehicle Account, State Transportation Fund:

1. Item 450(f), Budget Act of 1978, as reappropriated by Item 274-490(5), Budget Act of 1981—site acquisition and working drawings—San Clemente.

2. Item 517(k), Budget Act of 1980, as reappropriated by Item 274-490(8), Budget Act of 1981—site acquisition and working drawings—San Jose.

San Clemente—Site Acquisition and Working Drawings

We recommend that the reappropriation requested by Item 2740-490(1) be denied because the project cannot be accomplished with the available funds. Recommend further, that the project be added to Item 2740-495 so that the unencumbered funds will be reverted.

The 1978 Budget Act appropriated $563,000 for site acquisition and working drawings for a new San Clemente office. These funds were reappropriated by the 1981 Budget Act. The department has not been able to locate a site which can be acquired with the available funds and the Department of General Services, Real Estate Services Division (RES) indicates that the available funds are not sufficient to purchase even one-half the amount of land which DMV requires. The RES indicates that the 2.5 acres, which DMV indicates are required for this facility, will cost about $1.7 million.

It is our understanding that the department has approached the Department of Parks and Recreation concerning possible development on the edge of San Onofre State Beach. The Department of Parks and Recreation has a long-term lease with the federal government for the use of this park. However, upon 30-days notification the federal government can take back complete control of this property. Under these conditions, it is inappropriate for the DMV to build a permanent structure on this site. We recommend that the DMV reevaluate the costs associated with this project and develop a new proposal for providing the needed office space in San Clemente.

Under the circumstances, the unencumbered funds should be reverted rather than reappropriated. To accomplish this reversion, the item should be added to Item 2740-495.

San Jose—Site Acquisition and Working Drawings

We recommend approval of the reappropriation proposed by Item 2740-490(2), site acquisition and working drawings, San Jose.

The 1980 Budget Act appropriated $891,000 for site acquisition and working drawings for a new field office facility in southeast San Jose. These funds were reappropriated by the 1981 Budget Act. The department has located a two-acre site which it desires to purchase for this facility. Work is proceeding on this acquisition and the department anticipates requesting release of site acquisition funds at the March meeting of the Public Works Board. In order to assure that the working drawings for this new facility can proceed once the site is acquired, these funds should be reappropriated. Consequently, we recommend that the proposed reappropriation be approved.

DEPARTMENT OF MOTOR VEHICLES—REVERSION

Item 2740-495 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 166

ANALYSIS AND RECOMMENDATIONS

We recommend that the reversions proposed under Item 2740-495 be approved.

The Budget Bill proposes to revert the unencumbered balance of funds previously appropriated to the Department of Motor Vehicles by two items of the 1980 Budget Act. Funds for the following projects are proposed for reversion:

1. Item 517(g), Budget Act of 1980—site acquisition—Mission Viejo.
2. Item 517(j), Budget Act of 1980 as reappropriated by Item 274-490(7), Budget Act of 1981—working drawings—Mission Viejo.

The Budget Act of 1980 appropriated $1,125,000 for site acquisition and $150,000 for working drawings for a new DMV field office in Mission Viejo. The site acquisition funds are available for a period of three years. The 1981 Budget Act reappropriated the working drawing funds.

The department indicates that these funds are no longer needed. The department plans on leasing office space and parking from the federal General Services Administration in Mission Viejo for $48,000 per year. The terms of this lease are very favorable to the state. Since the site acquisition and working drawing funds are no longer needed, we recommend that the proposed reversion be approved.

Business, Transportation and Housing Agency
TRAFFIC ADJUDICATION BOARD

Item 2760 from the Driver Training Penalty Assessment Fund — Budget p. BTH 168

Requested 1982–83	$1,710,000
Estimated 1981–82	1,550,000
Actual 1980–81	1,278,000
Requested increase (excluding amount for salary increases) $160,000 (+10.3 percent)	
Total recommended reduction	$11,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Placer County Office. Recommend Legislature authorize part-time office operation.	477
2. *Contingency Funds. Reduce by $11,000.* Recommend reduction to delete funds that have not been justified on a workload basis.	477

GENERAL PROGRAM STATEMENT

The Traffic Adjudication Board was established by Ch. 722/78. This act 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.

The board is authorized 44 positions in 1981–82.

Program Scope

The demonstration program provides for adjudication of traffic safety violations occurring within the municipal court districts of participating counties. The program may be expanded to additional counties at the request of their boards of supervisors and with the approval of the Traffic Adjudication Board, provided that sufficient funds are available to accommodate the 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 must address areas specified in Chapter 722, including 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 must also include an analysis of the impact of administrative adjudication on traffic safety as compared to the court system.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $1,710,000 from the Driver Training Penalty Assessment Fund to support the board's activities in 1982–83. This is $160,000, or 10.3 percent, more than estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The total amount of funding proposed to support the board is $1,982,000. This is $138,000, or 7.5 percent, more than estimated current-year expenditure. About 14 percent of the board's funding ($272,000) would be derived from federal reimbursements. The budget proposes a total authorized staff of 46.2 positions.

Demonstration Program Initiated

The board started operation on January 1, 1979. Field office operation began during October 1980 in the Cities of Sacramento and Woodland (one office per city). Although Chapter 722 also authorizes the pilot project in Placer County, it has not been initiated there because the county does not have a municipal court district (a requirement for participation in the program). The board, however, is proposing to establish a Placer County office when the county creates a municipal court district on January 1, 1983.

Consultant Reports

As required by Chapter 722, the board has contracted for consulting services to perform the required cost-benefit and traffic safety evaluations. These services were acquired on a competitive basis, and two contracts were awarded in January 1980. Science Applications, Inc. (SAI), was

TRAFFIC ADJUDICATION BOARD—Continued

awarded a contract for $798,896 to perform the cost-benefit evaluation. A traffic safety evaluation contract in the amount of $216,513 was awarded to Dunlap and Associates, Inc.

Cost-Benefit Evaluation Report

The second annual report from SAI states that administrative adjudication is less expensive than adjudication through the courts "on a total combined system basis in the pilot counties." The report notes, however, that administrative adjudication in Yolo County would be *more* costly than adjudication through the judicial system because the workload in that county is not large enough to justify a full-time office.

One of the more significant findings included in the SAI report is that the reductions in court workload brought about by administrative adjudication have *not* been reflected by a proportionate reduction in the personnel and support costs of those agencies that normally process traffic infractions.

The SAI report also contains recommendations for improving the pilot program. Some of these recommendations have significant fiscal implications. The recommendations will be considered by the board at future meetings.

According to the SAI report, the next annual report will present more refined cost-benefit data, with special emphasis on issues such as alternative methods of processing appeals, funding requirements and possible funding sources. We have recommended that the board ask SAI to address in its next report alternatives for using the savings which are projected to accrue to local agencies to cover the cost of a statewide traffic adjudication program. This information would be useful to the Legislature when it considers whether to expand the program when the demonstration is completed in 1984.

Traffic Safety Evaluation Report

The initial traffic safety evaluation report issued by Dunlap and Associates provided a brief summary of activities performed in developing a work plan. According to the board, the second report has been delayed and should be available in draft form in February 1982.

Proposed Budget May Not Be Sufficient to Cover the Cost of More Extended Hearings

The proposed budget is based on hearing procedures that are now in effect. Currently, under the adjudication program, a person who has been cited for a traffic violation has the option to argue for dismissal of the citation before a traffic hearing officer *without* the citing officer being present. This option, known as a "summary denial hearing," is less expensive to administer than a hearing at which an officer must appear.

Law enforcement agencies have expressed concern that the summary denial hearing may not result in a balanced hearing. Board members are also concerned that the "summary denial" option may cause motorists cited for a violation to become overconfident because they know that the citing officer will not be present at the hearing. In response to these concerns, the board sponsored AB 1595, which became Ch. 984/81. This statute authorizes the board to restrict the use of the summary denial hearing.

In December 1981, the board announced its intention to adopt regulations which would greatly restrict use of the summary denial hearing. Hearing costs are expected to increase significantly in 1982–83 if the regulations currently under consideration are promulgated.

The proposed budget does not contain funds to cover this added expense.

Placer County Office

We recommend that the companion bills to the Budget Bill, AB 2361 and SB 1326, be amended to authorize the Traffic Adjudication Board to operate its offices on a part-time basis.

The budget includes $79,039 and 2.65 personnel-years to establish a field office in Placer County. According to the board, this amount assumes that the offices in both Yolo and Placer Counties are operated on a reduced schedule. Savings from a reduced operating schedule in Woodland would be used to offset some of the added cost of the Placer County office. A less-than-full-time schedule is warranted in these counties because workload does not justify full-time operations.

It is not clear whether the board has the authority to operate field offices on a reduced schedule. Government Code Section 11020 specifies that, unless otherwise provided by law, state offices must be open for business from 8 a.m. to 5 p.m., Monday through Friday. The board has not been exempted from this requirement.

As a result, the board would not have sufficient funds to operate the Placer County office because the budget is based in part on savings from a reduced schedule at the Woodland office. Therefore, we recommend that AB 2361 and SB 1326 be amended to authorize the board to operate its offices on a part-time basis.

Delete Contingency Funds

We recommend that $11,000 budgeted for Attorney General services be deleted because the funds are not justified on a workload basis.

The board's proposed budget includes $875,000 for operating expenses and equipment. Our review indicates that $11,000 has been included for Attorney General services under the interdepartmental consultant and professional services category. According to board staff, this is a contingency amount and is not based on any historical need or anticipation of expenditures in the budget year. Lacking justification for this amount, we recommend that it be deleted, for a savings to the Driver Training Penalty Assessment Fund of $11,000.

Business, Transportation and Housing Agency
STEPHEN P. TEALE DATA CENTER

Item 2780 from the Stephen P. Teale Data Center Revolving Fund — Budget p. BTH 170

Requested 1982–83	$36,570,000
Estimated 1981–82	32,405,000
Actual 1980–81	23,454,000
Requested increase (excluding amount for salary increases) ($4,165,000 +12.8 percent)	
Total recommended reduction	$1,585,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Computer Replacement. Reduce by $1,466,000.*** Recommend reduction because expanded computing capacity can be obtained at less cost by deferring replacement of and enhancing currently installed computers. 479
2. Loan Repayment. Recommend early repayment of General Fund loan balance with surplus funds in the data center's revolving fund (fiscal effect: increase General Fund resources by approximately $3 million). 479
3. Data Center Security Cost. Withhold recommendation, pending receipt from the data center and the Department of Finance of additional information on the cost of using state police guard services for data center security rather than establishing security guard positions. 481
4. ***Miscellaneous Reductions. Reduce by $119,000.*** Recommend reduction to correct for overbudgeting of certain operating expenses and personal services. 481

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Data Center is one of three consolidated data centers authorized by the Legislature. The center, which provides computer services to 96 state governmental 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 costs of operating the center are fully reimbursed by the center's customers, and annual increases in its budget for the most part reflect increased user workload.

The data center is authorized 354 positions in 1981–82.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of $36,570,000 for the data center in 1982–83. This is an increase of $4,165,000, or 12.8 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 56 percent more than actual 1980–81 expenditures. This large increase in expenditures reflects major enhancements to the center's capacity in response to workload increases. It is also indicative of the rapid growth in the information processing requirements of the various state agencies served by the center.

Proposed staffing for 1982–83 totals 339.5 personnel-years, which is an increase of 20 personnel-years, or 6.2 percent, over the number estimated for 1981–82.

Significant Increase in Equipment Costs

The proposed budget includes $2,643,000 to replace central computing equipment in order to meet the continued growth in the workload of customer departments. This amount accounts for 63 percent of the proposed $4,165,000 increase in total data center spending.

The second largest increase—$1,039,000—is for personal services, and primarily reflects the full-year cost of positions authorized in 1981–82 to staff a second computing facility which was opened in May 1981.

The proposed budget also includes $483,000 to fund price increases, the acquisition of new software, and requests from departments for decentralized equipment such as remote computers and video terminals.

Significant Computer Upgrades Planned

We recommend a reduction of $1,466,000 in the amount budgeted for computer replacement because it is possible to expand computing capacity at less cost by deferring replacement, and instead enhancing currently installed computers.

In December 1981, the data center submitted to the Department of Finance for its approval, a feasibility study report which recommended a significant upgrading of the data center's numerous computers. According to the report, computer equipment must be upgraded to meet the increasing processing requirements of the customer departments (particularly the State Controller). The report addresses several alternative methods of meeting this increased demand for service, and also contains a cost-benefit analysis of each alternative. These alternatives offer various equipment configurations and schedules for installation.

The proposed budget includes $2,643,000 to implement the alternative selected. Subsequent to release of the feasibility study report and submission of its budget request, the data center evaluated other alternatives which would make it possible to defer some of the planned equipment upgrades. These alternatives involve retaining and enhancing currently installed equipment. As a result of its evaluation, the data center now proposes a modification to its plan which would result in a *reduction* in the amount of funding needed for 1982–83. According to data center staff, the alternative which will meet the data center's needs and is most likely to be approved by the Department of Finance, will cost $1,177,000 instead of the $2,643,000 which was requested in the budget. Accordingly, we recommend that the spending authorization of the data center be reduced by $1,466,000.

Loan Should Be Repaid

We recommend the adoption of Budget Bill language requiring that (1) the data center repay the balance owed on a General Fund loan of $2,923,000, including interest, from surplus funds available in the Stephen P. Teale Data Center Revolving Fund, and (2) the Department of Finance advance funds from the approved budgets of the data center's customer departments in order to meet any data center cash flow requirements.

The Budget Act of 1980 provided a loan of $2,923,000 from the General

STEPHEN P. TEALE DATA CENTER—Continued

Fund to the data center to pay costs associated with establishing a second computing facility. Under the terms of the loan, the funds must be repaid by July 1, 1986. On November 16, 1981, the data center made an initial payment to the General Fund of $350,760. Consequently, the amount owed is $2,572,240, plus interest, for a total of approximately $3 million.

According to the budget, the year end reserve in the Stephen P. Teale Data Center Revolving Fund will be approximately $4.6 million. Consequently, we believe the account has sufficient funds to repay the balance of the General Fund loan ahead of schedule, and thereby help relieve pressures on the General Fund.

It is possible that early repayment could result in temporary cash flow problems for the data center. This is because the center relies on a portion of the reserve amount to meet cash flow requirements which occur at the beginning of each new fiscal year. This is necessary because the data center must pay operating expenses and meet payroll obligations soon after the fiscal year begins, but must wait for customer departments to reimburse the data center for services. This problem is aggravated whenever departments do not pay promptly. For example, data center staff have indicated that because of a billing dispute, the Department of Finance withheld payment to the data center for services which had been provided in the first six months of 1981–82 to support the California Fiscal Information System (CFIS), including the operation of the new accounting system, CALSTARS. As of November 30, 1981, the amount owed by the Department of Finance was $2.3 million. A partial payment of $1.2 million was received in January 1982.

Nevertheless, our analysis indicates that it is possible to repay the General Fund loan balance in 1982–83 *and* meet the data center's cash flow requirements. This can be accomplished by transferring to the data center revolving fund at the beginning of the fiscal year a portion of the amount each department has budgeted to pay for services rendered by the data center. Once initial funds have been advanced, timely customer payments will provide sufficient funds for ongoing operating requirements. This method was used to meet the center's cash flow needs prior to establishing the revolving fund.

For these reasons, we recommend that the following language be included in the 1981 Budget Bill:

> "Provided, that an amount sufficient to repay the balance owed, including interest, on the General Fund loan provided in Item 197.1, Ch 510/80, shall be transferred from the reserve balance of the Stephen P. Teale Data Center Revolving Fund to the General Fund; and provided further, that the Department of Finance shall transfer from the budgets of agencies which have contracted for services with the data center amounts which in the aggregate shall be sufficient to meet the data center's cash flow requirements."

To resolve the problem resulting from departments not paying bills in a timely manner, the data center has submitted a proposal to the Department of Finance for authority to have the State Controller transfer funds directly from customer department budgets to the data center's revolving fund. This method is used by the Department of General Services to meet its annual operating costs, and it would represent a permanent solution to current cash flow and billing problems.

At What Price—Security?

We withhold recommendation, pending receipt from the data center and the Department of Finance of additional information on the cost of using state police guard services for data center security rather than establishing security guard positions.

Our analysis of the $752,000 budgeted for interdepartmental consultant and professional services indicates that $595,128 of this amount is requested to provide 24-hour security for the two computing facilities. Security services would be provided by the State Police Division in the Department of General Services.

The Health and Welfare Agency Data Center, which has similar security needs, employs its own security guards. According to staff of that center, the decision to establish data center security guard positions was based on a cost analysis which demonstrated that the required level of security could be provided at significantly less cost through the direct employment of guards. Further, the Department of Justice's Law Enforcement Data Center employs its own security personnel at the department's new computer facility. According to information developed by the Department of Justice, this results in an annual savings of approximately $58,000 when compared to the cost of acquiring security from the Department of General Services.

The Teale Data Center, however, maintains that its analysis supports the use of State Police general services. Thus, the information developed by the three data centers appears to be contradictory.

For this reason, we withhold recommendation on the $595,128 requested for security services, pending receipt from the Teale Data Center and the Department of Finance of a more detailed analysis of data center security costs. This analysis should also address (1) information developed by the Health and Welfare Agency Data Center and the Department of Justice, and (2) the fiscal impact on total state costs, as well as on the data center's costs, of each alternative for providing needed security services.

Miscellaneous Reductions

We recommend a reduction of $119,000 to correct for overbudgeting of operating expenses and personal services.

Our analysis of the data center's proposed budget indicates that certain expenditure items have been overbudgeted. Table 1 displays the components of this overbudgeting.

Table 1

Stephen P. Teale Data Center

Overbudgeting for Operating Expenses and Personal Services

1. Vendor-supplied computer programs	$47,000
2. Fire suppression contingency	40,000
3. Personal services	32,000
Total	$119,000

a. *Computer Programs.* The data center maintains an extensive library of computer programs acquired from private vendors. Our analysis of funds budgeted to rent or purchase these programs disclosed a budgeting error of $47,000. Consequently, the amount budgeted for EDP operations expense can be reduced by this amount.

b. *Fire Suppression Contingency.* The budget contains $40,000 to cov-

STEPHEN P. TEALE DATA CENTER—Continued

er the cost of recharging fire suppression cylinders in the event of an emergency or accidental triggering of the fire suppression system. Use of this "contingency" fund has been minimal. For example, it has been used only once, (at a cost of $5,000) to recharge a portion of the system which had been activated accidentally. On this basis, it can be eliminated from the amount budgeted for EDP operations expense.

c. ***Personal Services.*** The amount budgeted for personal services is the sum of salaries and wages and staff benefits, less estimated salary savings. The proposed budget reflects salary savings of $209,000, or 2.53 percent of the amount budgeted for salaries and wages. This compares to estimated salary savings in the current year of $411,000, or 5.34 percent.

Our review indicates that salary savings in the current year is unusually high, due to the establishment of the second computing facility which resulted in a significant increase in personnel. The budget anticipated that there would be delays in hiring the additional staff for the new facility, and consequently, salary savings for 1981–82 were established at a higher rate than otherwise.

The data center has advised us of its understanding that salary savings in 1982–83 would be determined by the Department of Finance based on the percentage amount budgeted prior to 1981–82. Our analysis of annual salary savings estimates for the years 1974–75 through 1980–81 reveals that the average for these years was 2.92 percent. We conclude that this percentage factor should also be applied to the 1982–83 budget. This would result in estimated salary savings of $240,870, an amount which is $31,870 *more* than the amount budgeted. Accordingly, salary savings can be increased by $32,000, thereby making it possible to reduce funds budgeted for personal services by the same amount.

Resources Agency

SEA GRANT PROGRAM

Item 3110-001 from the General Fund — Budget p. R 1

Requested 1982–83	$475,000
Estimated 1981–82	245,000
Actual 1980–81	500,000
Requested increase $230,000 (+93.8 percent)	
Total recommended reduction	230,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. ***Sea Grant Program. Reduce Item 3110-001-001 by $230,000 because the current year funding level of $245,000 appears to be adequate.*** 483

GENERAL PROGRAM STATEMENT

The National Sea Grant College Program Act of 1966 (PL 89-688) authorizes federal grants to institutions of higher education and other agencies engaged in marine resources research programs. Federal funds