GOVERNOR'S OFFICE

Item 0500 from the General Fund — Budget p. LJE 28

Requested 1983–84	$4,929,000
Estimated 1982–83	4,929,000
Actual 1981–82	4,842,000
Requested increase (excluding amount for salary increases) None	
Total recommended reduction	None
Recommendation pending	$30,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Cost of Governor's Residence. Withhold recommendation on $30,000 proposed for rental of Governor's residence, because issue of a permanent residence for the Governor has not been resolved. 31

GENERAL PROGRAM STATEMENT

The Governor is elected every four years. His salary is set at $49,100 per year and may not be increased during his term of office.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $4,929,000 from the General Fund for support of the Governor's office in 1983–84. This amount is equal to estimated current-year expenditures. However, because Control Section 13.50 of the 1983–84 Budget Bill requires the Director of Finance to reduce budgets of agencies within the "Governor's Office" by a total of 10 percent, the appropriation for the Governor's office is subject to further reduction. On the other hand, the amount remaining in the proposed budget for the Governor's office will increase by the amount of any salary or staff benefit increase approved for the budget year.

The Governor's office has 87.6 authorized personnel-years in the current year. No change in staffing levels is proposed for 1983–84.

Table 1
Governor's Office
Budget Summary
(dollars in thousands)

	Actual 1981–82	*Estimated[a] 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Personal services	$2,796	$2,760	$2,960	$200	7.2%
Operating expenses and equipment	1,226	1,287	1,377	90	7.0
Special items of expense	820	882	592	−290	−32.9
Totals	$4,842	$4,929	$4,929	—	—

[a] The total estimated expenditure for 1982–83 does not reflect the 2 percent unallotment directed by Executive Order D-1-83.

As indicated in Table 1, personal services are budgeted at $2,960,000, an increase of $200,000, or 7.2 percent, above estimated current-year expenditures. This increase is mainly due to increased state contributions to the Public Employees' Retirement System (PERS). These contributions will be larger because a greater percentage of employees serving in the Governor's office belong to PERS, relative to the percentage during the former administration.

The table also indicates that (1) operating expenses are budgeted at $1,377,000, or $90,000 (7 percent) above estimated current-year expenditures and (2) special items of expense are budgeted at $592,000, or $290,000 (33 percent) below estimated current-year expenditures. The $290,000 reduction in special items of expense is the net result of:

- A $335,000 reduction (from $400,000 to $65,000) for contract legal services. The 1980, 1981, and 1982 budget acts each appropriated $400,000 for contract legal services, to be available for expenditure only in cases where the Attorney General declined to represent the Governor or any state agency in legal proceedings.
- A $30,000 increase for rental of a Governor's residence.
- An increase of $15,000 (from $450,000 to $465,000) for printing the Governor's Budget.

Governor's Residence

We withhold recommendation on $30,000 proposed for rental of the Governor's residence, pending further action by the Legislature to determine what permanent arrangements should be made to provide housing for the Governor.

The budget includes $30,000 which will be used to pay the cost of renting quarters for the Governor and his family. The budget also includes $488,000 in the Department of General Services' (DGS) item to provide police protection ($423,000) and maintenance and janitorial services ($65,000) for the Governor's residence.

Existing law requires the DGS to sell the Governor's residence which is located in Carmichael. Proceeds from the sale, less administrative costs, are to be deposited in a special account in the General Fund, and are to be used to provide a suitable residence for the Governor. Existing law also requires that the residence remain unoccupied until sold, except for maintenance personnel. The DGS advertised the sale of the residence and received bids on December 3, 1982. On December 31, 1982, the Director of General Services rejected all bids because they were significantly less than the appraised value of the property. The new Director of General Services has not indicated what action he intends to take with regard to the Carmichael residence.

At the time this analysis was prepared, sufficient information was not available on the need for $30,000 requested to pay the rental on quarters for the Governor. Specifically, (1) the availability during the budget year of any funds from the sale of the Carmichael residence was not known and (2) the Legislature had not determined what permanent arrangements for housing the Governor are to be made. Consequently, we withhold recommendation on these funds, pending resolution of these issues.

Governor's Office

SECRETARY OF STATE AND CONSUMER SERVICES

Item 0510 from the General Fund — Budget p. LJE 29

Requested 1983–84	$606,000
Estimated 1982–83	570,000
Actual 1981–82	798,000
Requested increase (excluding amount for salary increases) $36,000 (+6.3 percent)	
Total recommended reduction	$3,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Career Opportunities Development (COD) Coordinator. Reduce reimbursements by $60,000. Recommend that reimbursements from COD be reduced by $60,000 because COD coordinators duplicate other state staff. 34
2. ***Salaries. Reduce Item 0510-001-001 by $3,000.*** Recommend reduction to correct for overbudgeting. 34
3. Technical Adjustments. Recommend changes be made in budgets of contributing agencies to reflect cost of supporting disabled compliance program. 35

GENERAL PROGRAM STATEMENT

The Secretary of State and Consumer Services provides administrative and policy direction to the following state entities:

Department of Consumer Affairs
Department of Veterans Affairs
Department of General Services
Office of State Fire Marshal
Franchise Tax Board
State Personnel Board (by Executive Order)
Public Employees' Retirement System
State Teachers' Retirement System
California Museum of Science and Industry
Public Broadcasting Commission
Department of Fair Employment and Housing

The Secretary also administers the Statewide Disabled Compliance Program. The agency has 25.9 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $606,000 from the General Fund for support of the State and Consumer Services Agency in 1983–84. This is $36,000, or 6 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. Total agency expenditures, including expenditures from reimbursements, are budgeted at $1,057,000, which is a decrease of $62,000, or 5.5 percent, from current-year expenditures.

Table 1 presents a summary of the agency's expenditures and personnel-years for the past, current, and budget years. As the table shows:

- The State Building Standards Commission is included in the agency's budget for 1981–82 only. The Legislature transferred the commission to the Department of General Services, effective July 1, 1982.
- The Intergovernmental Personnel Act Advisory Council (IPAAC) is included in the agency's budget for 1981–82 and 1982–83 only, because the council was terminated on December 31, 1982.

Table 1
Secretary of State and Consumer Services
(in thousands)

Programs	*Actual 1981–82*	*Estimated 1982–83*[a]	*Proposed 1983–84*	*Changes Amount*	*Changes Percent*
Administration of State and Consumer Services Agency	$842	$698	$712	$14	2.0%
State Building Standards	329	—	—	—	N/A
Statewide Disabled Compliance Coordination	353	333	345	12	3.6
Intergovernmental Personnel Act Advisory Council	224	88	—	−88	N/A
Totals	$1,748	$1,119	$1,057	−$62	−5.5%
Funding Sources					
General Fund	$798	$570	$606	$36	6.3%
Federal Trust Fund	198	70	—	−70	N/A
Reimbursements	746	479	451	−28	5.8
Distribution of Intrafund Services	6	—	—	—	N/A
Personnel-years	32.6	26.1	21.9	−4.2	−16.1%

[a] The estimated expenditure for 1982–83 does not reflect the 2 percent unallotment directed by Executive Order D-1-83.

Table 2
Secretary of State and Consumer Services
Proposed Budget Changes
(in thousands)

	General Fund	*Federal Funds*	*Reimbursements*	*Totals*
1982–83 Revised Budget[a]	$570	$70	$479	$1,119
1. Cost Changes				
a. Personal services	30	—	−3	27
b. Operating expenses	6	—	5	11
2. Other Changes				
a. Termination of Intergovernmental Personnel Act Advisory Council	—	−70	—	−70
b. Termination of second WIN/COD coordinator	—	—	−42	−42
c. Expiration of other one-time contracts	—	—	−26	−26
d. Overhead charges to OSCC and the State Building Standards Commission	—	—	38	38
Total Proposed Changes	$36	−$70	−$28	−$62
1983–84 Proposed Budget	$606	—	$451	$1,057

[a] The estimated expenditures for 1982–83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

SECRETARY OF STATE AND CONSUMER SERVICES—Continued

The funding changes proposed for the budget year are displayed in Table 2. These changes include elimination of all federal support for the agency and three positions, due to the termination of the Intergovernmental Personnel Act Advisory Council. In addition, termination of the council will also result in the loss of $18,000 in reimbursements received from other state agencies for use of IPAAC staff.

Table 2 also reflects termination of a contract with the State Personnel Board (SPB) providing funds for one of two civil rights/career opportunities development (COD) coordinators. In the past, the SPB has reimbursed the agency for the cost of a coordinator to work with executive departments that are not located within an agency, although the position has not been shown in the agency's budget. During the current year, the position is reflected in the agency's budget, but agency staff indicate that funding will not be continued in 1983–84. Funding for the other COD position is included in the proposed budget for 1983–84.

Career Opportunities Development (COD) Coordinator

We recommend that $60,000 in reimbursements from the State Personnel Board for Career Opportunities Development agency coordinators be deleted, because the coordinator's duties duplicate those of other state staff.

The agency COD coordinator works with departments within the agency to promote COD training opportunities and monitor the progress of COD participants. In our analysis of the budget for the State Personnel Board (Item 1880-001-001), we recommend the elimination of the agency coordinators because (1) they perform few COD-related activities and (2) COD services performed by the coordinators duplicate the activities of other state staff. Accordingly, we recommend that $60,000 in reimbursements from the State Personnel Board for the agency's COD coordinator be deleted.

Savings in Salaries and Wages

We recommend a reduction of $3,000 from the General Fund (reduce Item 0510-001-001) to correct for overbudgeting.

The Department of General Services is authorized one planning officer who is exempt from civil service. This position has been borrowed by the State and Consumer Services Agency, and is funded in the agency budget at a salary of $50,784. The exempt pay schedule, however, authorizes an annual salary of only $48,384 for this position, or $2,400 less than the amount budgeted. Staff benefits for the position are also calculated on the basis of the higher salary, which means that the agency's total personal services are overbudgeted by $3,000. We recommend deletion of this amount.

Statewide Disabled Compliance Program

The Federal Rehabilitation Act of 1973 (Sections 503–5) requires recipients of federal assistance to ensure that their personnel practices, programs and facilities are accessible to persons with disabilities, in accordance with specified guidelines. Although state agencies receiving federal financial assistance were supposed to have been in compliance with the act by June 2, 1980, it is our understanding that compliance with federal requirements has not been achieved by many agencies.

On June 12, 1980, the Governor issued Executive Order B-65-80, creating a central unit within the State and Consumer Services Agency to (1) direct, facilitate and monitor compliance by all state agencies with the requirements set forth in Federal Rehabilitation Act of 1973 and (2) coordinate with the Health and Welfare Agency statewide efforts involving disabled program recipients.

Subsequently, the Agency Secretary administratively established 6.5 positions (5.5 professional and 1 clerical) to staff the new unit, which was named the Office of Statewide Compliance Coordination (OSCC). The 1982 Budget Act authorized continuation of (1) the 6.5 positions and (2) a funding arrangement which provides for OSCC's costs to be reimbursed fully by other state agencies having program responsibilities in this area. Because of uncertainty as to how long the program would be needed, the Legislature limited the terms of the 6.5 positions to June 30, 1983.

The budget proposes to continue the 6.5 positions and the existing funding arrangement in 1983–84. As a result, the office's costs, which are estimated at $345,000 in the budget year, will be reimbursed entirely by other state agencies.

Compliance Program Costs Should be Reflected in Budgets of Contributing Agencies

We recommend that, prior to budget hearings, the DOF (1) identify which state agencies will provide funds to support the statewide compliance unit and (2) make technical adjustments reflecting the cost of such support in the budgets of each contributing state agency.

At the time this analysis was prepared, the agency could not identify the source of the $345,000 in reimbursements budgeted to support the compliance unit's operations in the budget year. Further, the budgets of potential contributing state agencies do not reflect this cost. So that the Legislature will have a complete picture of how funds requested in the budget will be used, we recommend that the Department of Finance make the technical adjustments necessary to properly reflect this cost in the budgets of the appropriate state agencies.

Governor's Office

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING

Item 0520 from various funds Budget p. LJE 31

Requested 1983–84	$823,000
Estimated 1982–83	796,000
Actual 1981–82	937,000 [a]
Requested increase (excluding amount for salary increases) $27,000 (+3.4 percent)	
Total recommended reduction	None

[a] Excludes funding for SolarCal Office.

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0520-001-001—Support		General	$344,000
0520-001-044—Support		Motor Vehicle Account, State Transportation	479,000
Total			$823,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Career Opportunities Development (COD) Coordinator. Reduce reimbursements by $50,000.* Recommend that reimbursements from COD be reduced by $50,000 because COD coordinator duplicates other state staff. 37

GENERAL PROGRAM STATEMENT

The Secretary of Business, Transportation and Housing, one of five agency secretaries in the Governor's Cabinet, supervises the activities of 17 departments and administrative bodies. These entities can be divided into four general groupings: (1) business and regulatory agencies, (2) transportation agencies, (3) housing agencies, and (4) solar energy agencies. The 17 entities are as follows:

Business and Regulatory
- Department of Alcoholic Beverage Control
- Alcoholic Beverage Control Appeals Board
- Department of Banking
- Department of Corporations
- Department of Economic and Business Development
- Department of Insurance
- Department of Real Estate
- Department of Savings and Loan
- Stephen P. Teale Consolidated Data Center

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

Housing
- Department of Housing and Community Development
- California Housing Finance Agency

Solar
- SolarCal Council

The agency is authorized 23 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes two appropriations from the General Fund and the State Transportation Fund totaling $823,000 to support the office in 1983–84. This is an increase of $27,000, or 3.4 percent, above estimated 1982–83 expenditures of $796,000. However, because Control Section 13.50 requires the Director of Finance to reduce the budgets of agencies within the "Governor's Office" by a total of 10 percent, the appropriation for the agency is subject to further reduction. On the other hand, the proposed agency budget will increase by the amount of any salary or staff benefit increase approved for the budget year.

The agency also expects to receive $444,000 in reimbursements during 1983–84, resulting in a total expenditure program of $1,267,000. This amount is $59,000, or 4.9 percent above estimated total expenditures in 1982–83.

Sunny Mac Expenditure Report Forthcoming

The $796,000 estimate of expenditures from state funds during the current year does not reflect the expenditure of $240,000 appropriated to the Secretary from the General Fund by the 1982 Budget Act. These funds were lent by the Secretary to the Solar Energy Conservation Mortgage Corporation (Sunny Mac), a corporation created by the Legislature to establish a secondary financial market for energy conservation loans. These funds are to be repaid, with interest, during the current year. Expenditure of the $240,000 is displayed in a separate section of the Governor's Budget.

The *Supplemental Report of the 1982 Budget Act* directed the Legislative Analyst to report to the fiscal committees and the Joint Legislative Budget Committee on the use of state funds lent to the corporation and the activities of corporation employees. We will submit our findings to the committees in March 1983.

COD Coordinator Unneeded

We recommended that $50,000 in reimbursements from the State Personnel Board for the Career Opportunities Development agency coordinator be deleted, because the coordinator's duties duplicate those of other state staff.

The agency COD coordinator works with departments within the agency to promote COD training opportunities and monitor the progress of COD participants. In our analysis of the budget for the State Personnel Board (Item 1884-001-001), we recommend the elimination of the agency coordinators because (1) they perform few COD-related activities and (2) COD services performed by the coordinators duplicate the activities of other state staff. Accordingly, we recommend that $50,000 in reimbursements from the State Personnel Board for the agency's COD coordinator be deleted.

Governor's Office

SECRETARY OF HEALTH AND WELFARE

Item 0530 from the General Fund — Budget p. LJE 33

Requested 1983–84	$1,283,000
Estimated 1982–83	2,414,000
Actual 1981–82	2,018,000
Requested decrease (excluding amount for salary increases) $1,131,000 (−46.9 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Office of the Secretary—Salary Savings. Recommend: (a) The agency abolish the positions which it proposes to leave vacant in order to generate $238,000 in salary savings during 1983–84 because this proposal does not comply with legislative intent in enacting the 1982 Budget Act to permanently reduce agency expenditures, and (b) The agency advise the fiscal committees prior to budget hearings regarding specific positions to be abolished. 40
2. WIN/COD Coordinator. Reduce reimbursements by $57,414. Recommend reimbursements from COD be reduced by $57,414 because COD coordinators duplicate other state staff. 42

GENERAL PROGRAM STATEMENT

The Secretary for the Health and Welfare Agency (HWA) is directly responsible to the Governor for general policy formulation in the health and human services area, and for the operations and sound fiscal management of each department and office within the agency. These departments and offices are as follows:

Aging Commission and Department, Alcohol and Drug Programs, Developmental Services, Health Services, Mental Health, Rehabilitation, Social Services, Emergency Medical Services Authority and Commission, Health and Welfare Agency Data Center, Office of Statewide Health Planning and Development, and State Council on Developmental Disabilities.

In addition to staff that assist the Secretary in performing his policy formulation and oversight responsibilities, the Secretary's office contains five program units: (1) administration of the developmental disabilities state plan, (2) Medi-Cal reprocurement project, (3) Multipurpose Senior Services Project (MSSP), (4) migration and refugee affairs, and (5) coordination of the Work Incentive Career Opportunities Development (WIN/COD) program.

The 1982 Budget Act authorized 87.6 positions for the Health and Welfare Agency. During the current year, the agency transferred 4 positions to the Office of Long-Term Care within the Governor's office and deleted a total of 11 positions in order to achieve a $700,000 General Fund reduction. As a result, the total number of positions in the agency in the current year is 72.6.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $1,283,000 from the General Fund for support of the Secretary's office in 1983–84. This is $1,131,000, or 47 percent, less than estimated current-year expenditures. However, because Control Section 13.50 requires the Director of the Department of Finance to reduce the budgets of agencies within the "Governor's Office" by a total of 10 percent, the appropriation for the agency is subject to further reduction. On the other hand, the proposed budget for the agency will increase by the amount of any salary or staff benefit increase approved for the budget year.

Total program expenditures by the agency, including those financed from reimbursements, are projected at $3,322,000 in 1983–84. This is $2,368,000, or 42 percent, less than estimated current-year expenditures. This may be misleading because this reduction reflects the termination of the MSSP in the budget year. The administration advises that it will request continuation of the project if the federal government approves a Title XIX waiver request.

Table 1
Secretary of Health and Welfare
Proposed 1983–84 Budget Changes
All Funds
(in thousands)

	Total	*General Fund*	*Reimbursements*
Secretary's Office (Excludes MSSP)	$2,427	$1,350	$1,077
1982–83 Current Year Revised			
1. Baseline Adjustments			
A. Increase in Existing Personnel Costs	95	55	40
B. OE&E Price Increase	33	21	12
C. Deduct Limited Term, One Time Program Additions			
1. Long-Term Care	−106	−159	53
2. Medi-Cal Reprocurement	−483	−111	−372
2. Program Change Proposal			
A. Medi-Cal Reprocurement	506	127	379
Total Changes	$45	−$67	$112
Total 1983–84 Support Budget (Secretary's Office)	$2,472	$1,283	$1,189
Multipurpose Senior Services Project (MSSP)	$3,263	$1,064	$2,199
1982–83 Current Year Revised			
1. Baseline Adjustments			
A. Increase in Personnel Costs	4	-	4
B. Price Increase	119	25	94
2. Program Change Proposal			
A. Discontinue MSSP 9/30/83	−2,536	−1,089	−1,447
Total Changes	−$2,413	−$1,064	−$1,349
Total 1983–84 Support Budget (MSSP)	$850	-	$850
Total 1983–84 Support Budget Secretary's Office and MSSP	$3,322	$1,283	$2,039
Total Decrease from Estimated Current Year:			
Amount	−2,368	−1,131	−1,237
Percent	−41.6	−46.9	−37.8

SECRETARY OF HEALTH AND WELFARE—Continued

Table 1 shows the changes from the current year proposed for 1983–84. The major adjustments proposed in the Secretary's budget include: (1) the transfer of funds for the long-term care unit to the Office of Long-Term Care within the Governor's office (–$106,000), (2) the proposed extension of 25 positions through the budget year for the Medi-Cal Reprocurement Project ($506,000) and (3) the termination of MSSP after September 30, 1983 (–$2,536,000).

Long-Term Care Legislation

In 1982, the Legislature enacted Ch 1453/82 (AB 2860) which provided for major changes in the delivery of long-term health care and social services to elderly and functionally impaired persons. Specifically, the act:

1. Established an aging and long-term care services delivery system. The act created a new Department of Aging and Long-Term Care by consolidating specified programs and funds in the Departments of Aging, Health Services, and Social Services. It also created a network of local long-term care agencies responsible for purchasing services and managing cases for long-term care clients.
2. Established eligibility criteria for long-term care services.
3. Established a mechanism for determining per capita reimbursement rates to local long-term care agencies and to providers of long-term care services.
4. Specified the range of services to be provided under the new system.
5. Consolidated funding for various social and health programs into the Long-Term Care Consolidated Fund.
6. Established an Office of Long-Term Care in the Governor's office and a state-level task force to develop, by December 31, 1983, a plan to provide for the orderly implementation of the new system.

Chapter 1453 prohibited the transfer of any funds or programs prior to: (1) approval by the federal government of all necessary waivers, (2) approval by the Legislature of the Governor's implementation plan, and (3) submission of a timetable and proposal for appropriations in the 1984–85 budget.

OFFICE OF THE SECRETARY

Salary Savings Estimate

We recommend that the agency abolish the positions which it proposes to leave vacant in order to generate salary savings during 1983–84 because this proposal does not comply with legislative intent in enacting the 1982 Budget Act to permanently reduce agency expenditures. We further recommend that the agency advise the fiscal committees prior to budget hearings on the number, classification, and function of positions to be abolished.

Background. The Legislature reduced General Fund support for each of the agency secretaries in 1982–83. In the case of the Health and Welfare Agency, the Legislature reduced the agency's budget by $700,000, and provided that the Multipurpose Senior Services Project and the Medi-Cal Reprocurement Project were exempt from the reduction.

The Department of Finance advises that in the current year, the Agency proposes to achieve the unallocated reduction by reducing operating expenses, eliminating three program units and 11 positions, and increasing salary savings. Table 2 shows the proposed plan.

Table 2

Proposed Plan for Distributing the Unallocated Reduction in 1982–83

	Reduction	
Program	*Positions*	*Amount*
Systems Review Unit	7	$306,000
Rural and Migrant Affairs	3	99,000
Secretary for Children and Youth	1	46,000
General Operating Expenses	—	11,000
Salary Savings	—	238,000
Totals	11	$700,000

Table 2 shows that $238,000, or approximately 34 percent, of the unallocated reduction will be achieved by increasing salary savings. As a result, the agency's salary savings for 1982–83 are estimated to be $358,000, or 24 percent of total salaries and wages. This includes the normal amount budgeted for salary savings ($120,000) and the additional amount ($238,000) resulting from the distribution of the unallocated reduction.

For 1983–84, the budget reflects salary savings of $363,000, or 27 percent, of total salary and wages. We have no basis for determining what the impact of the salary savings proposal will be on agency operations.

Noncompliance with Legislative Directive. Our analysis indicates that the intent of the Legislature was to achieve a permanent reduction in the agency's expenditures. The agency proposes to absorb $238,000 of the reduction through salary savings in the current and budget years. We do not believe this is appropriate because it does not result in a permanent reduction in agency expenditures as intended by the Legislature. This is because positions left temporarily vacant to achieve the salary savings level can later be filled.

In order to achieve a permanent reduction in the expenditures of the agency as authorized by the 1982 Budget Act, we recommend that the agency abolish the positions which it proposes to leave vacant during 1983–84 in order to generate $238,000 in savings. We further recommend that the agency advise the fiscal committees prior to budget hearings on the number, classification and function of positions to be abolished.

Medi-Cal Reprocurement Project

We recommend approval.

The budget proposes to extend through June 30, 1984, authorization for 25 positions needed to reprocure the Medi-Cal fiscal intermediary contract. The budget proposes $1,093,000 from the Health Care Deposit Fund ($273,250 from the General Fund and $819,750 in federal funds) to fund the positions in the budget year. The 1982 Budget Act limited the term of these positions to January 1984—when the first phase of the project is scheduled to end.

Background. The Computer Sciences Corporation (CSC) was selected in 1978 as the fiscal intermediary responsible for the design, development, and implementation of a statewide Medi-Cal claims processing system. The contract, which covered five and one-half years and provides for payments to the intermediary totaling approximately $130 million, will expire in February 1984. The Medi-Cal reprocurement unit within the

SECRETARY OF HEALTH AND WELFARE—Continued

Health and Welfare Agency is responsible for rebidding the contract.

Consultant Report on Staffing Level. In March 1982, an independent consultant (Compass Consulting Group of Seattle, Washington) submitted a report which evaluated the staffing needs of the reprocurement unit within the agency. The report divided the projected workload into two phases. It indicated that the first phase, reprocurement of the contract, would require 25 staff and 21 months. The second phase—transition to a new contractor—would require up to 25 staff and 13 months. The consultant's report did not indicate how workload in the transition phase would be affected if the existing contractor (CSC), rather than a new contractor, won the bid. The agency acknowledges that the transition phase may require fewer staff if CSC rather than a new contractor is selected.

Duration of Positions. The 1982 Budget Act authorized the continuation of the 25 positions through the reprocurement phase, which is scheduled to end in January 1984. The budget for 1983–84 proposes to extend the positions through June 30, 1984, which includes the first five months of the transition phase. In its workload justification, the agency indicated that its best estimate of staffing needs in the budget year is 25 positions. Staffing needs beyond the budget year will not be known until after a new contractor has been selected in September 1983.

The agency advises that it is proceeding according to schedule. The transition phase should begin as of January 1984, and the new contractor should begin to process claims under the new agreement in early July 1984. Based on our analysis of the projected schedule and workload of the reprocurement project, we recommend that authorization for the 25 positions be extended through the budget year.

Work Incentive/Career Opportunities Development (WIN/COD) Program

We recommend deletion of $57,414 in reimbursements from the State Personnel Board for the Career Opportunities Development agency coordinator because the coordinator's duties duplicate those of other state staff.

The agency COD coordinator works with departments within the agency to promote COD training opportunities and monitor the progress of COD participants. In our analysis of the budget for the State Personnel Board (Item 1880-001-001), we recommend the elimination of the agency coordinators because (1) they perform few COD activities and (2) COD services performed by the coordinators duplicate activities of other state staff. Accordingly, we recommend that $57,414 in reimbursements from the State Personnel Board for the agency's COD coordinator be deleted.

MULTIPURPOSE SENIOR SERVICES PROJECT

Chapter 1199, Statutes of 1977 (AB 998), required the Health and Welfare Agency to administer a demonstration project to develop information about effective methods to:

- Prevent the premature institutionalization of older persons;
- Assist older persons to live independently by assuring optimum accessibility to social and health resources available in the community; and
- Assure the most efficient and effective use of public funds to provide such services.

The Multipurpose Senior Services Project (MSSP) was designed to achieve the goals of this statute. It is testing the effectiveness of the case management approach to delivering services to the elderly. Through MSSP, case management is integrated into the community's network of existing programs serving older persons in each of the eight MSSP sites.

Chapter 1199 was effective through December 31, 1980. Chapter 665, Statutes of 1980 (AB 565), extended the MSSP through June 30, 1983. The budget proposes eight positions and $1,850,000 from the Health Care Deposit Fund to support the phase-out of the demonstration portion of MSSP through September 30, 1983. The final three months of the project will be used to close out client and administrative records, and to prepare the final evaluation report.

Proposed Expenditures for MSSP

The agency estimates that a total of $44.1 million will have been budgeted for MSSP by the time it is completed in September 1983. The state MSSP unit advises that it has not spent all funds originally budgeted for the project because of delays in starting site operations, acquiring clients and developing data systems. The MSSP unit has not yet identified all unspent prior year funds.

Table 3 shows the amounts budgeted for MSSP over the life of the project. It shows that:

- The purchase of client services represents the major expenditure of MSSP funds. A total of $24 million, or 54 percent of total funds has been budgeted for this purpose.

Table 3
Funds Budgeted for MSSP
1979–80 to 1983–84
(in thousands)

	Project				*Phase-Out*	*Totals*
	1979–80	*1980–81*	*1981–82*	*1982–83*	*1983–84*	*1983–84*
State Operations						
Computer System	$10	$84	$238	$381	$150	$863
Evaluation	2	454	1,578	1,400	500	3,934
Administration	263	317	443	422	200	1,645
Site Operations						
Administration	897	3,306	4,045	4,400	1,000	13,648
Purchase of Services	23	2,687	9,733	11,558	—	24,001
Totals	$1,195	$6,848	$16,037	$18,161	$1,850	$44,091
Source						
General Fund [a]	$267	$105	$1,458	$1,069	-	$2,899
Title III-A [b]	675	1,146	—	—	—	1,821
Title XIX [c]	230	3,747	11,684	9,841	$1,850	27,352
Existing Title XIX, XX [d]	23	1,850	2,895	7,251	—	12,019
Totals	$1,195	$6,848	$16,037	$18,161	$1,850	$44,091

[a] General Fund from the Budget Acts of 1979, 1980, 1981, and 1982.
[b] Title III funds are budgeted within the Department of Aging.
[c] Title XIX funds are budgeted within the Health Care Deposit Fund, Department of Health Services (50 percent General Fund, 50 percent federal funds).
[d] Existing Medi-Cal and In-Home Supportive Services provided by the county welfare departments.

SECRETARY OF HEALTH AND WELFARE—Continued

- Other major proposed expenditures in connection with the project are (1) site administration ($13.6 million, or 31 percent of the total), (2) project evaluation ($3.9 million, or 9 percent), and (3) state administration and computer systems operation ($2.5 million, or 6 percent).
- A total of $34.2 million, or 78 percent of the total, has been scheduled for expenditure in 1981–82 and 1982–83, due to start-up delays.
- Title XIX (Medicaid) funds represent the largest funding source for MSSP. Title XIX funds account for $39.4, or 89 percent, of the proposed expenditures under the MSSP. This amount consists of approximately $27.4 million of Title XIX funds earmarked for the MSSP project. In addition, $12.0 million in "existing" Title XIX services were used by county welfare departments to provide services to clients. The General Fund appropriations accounted for 7 percent of total MSSP expenditures.

Project Continuation Authorized

Chapter 1453, Statutes of 1982 (AB 2860), authorized continuation of the MSSP as a permanent program after September 30, 1983, contingent upon three factors:

1. Waiver by the federal Health Care Financing Administration of certain Title XIX regulations.
2. Inclusion in the caseload of only the most frail individuals.
3. Continuation of only those sites found to be administering the project "cost effectively."

Chapter 1453 did not specify what factors would be used to determine the cost-effectiveness of individual sites. The MSSP state administrative office advises that it is developing criteria to evaluate the cost-effectiveness of the MSSP sites.

The budget contains no funds for continuing MSSP beyond September 30, 1983. The administration advises that a proposal to fund a permanent program will be submitted as part of the May revision to the budget, subject to approval of the federal waiver and review by the Legislature of a preliminary evaluation report which is scheduled to be submitted in April, 1983.

Governor's Office

SECRETARY OF RESOURCES

Item 0540 from the General Fund — Budget p. LJE 36

Requested 1983–84	$1,330,000
Estimated 1982–83	1,043,000
Actual 1981–82	1,150,000
Requested increase (excluding amount for salary increases) $287,000 (+27.2 percent)	
Total recommended increase	None
Recommendation pending	$251,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Coordinated Maintenance. Recommend adoption of supplemental report language providing for the continuation of the coordinated maintenance project through 1983–84. 46
2. CTRPA Deactivation. Withhold recommendation on $251,000 requested to administer the affairs of the deactivated California Tahoe Regional Planning Agency (CTRPA), pending (a) receipt and analysis of detailed information on potential workload and (b) clarification of how the Resources Secretary intends to administer this workload. 47
3. Tahoe Land Purchases. Recommend Secretary report to the fiscal subcommittees, prior to budget hearings, on progress in making appointments to and providing staff support for the Tahoe Area Land Acquisition Commission, pursuant to Ch 833/80. 49
4. Marijuana Cultivation. Recommend that the Legislature direct the Resources Secretary to form interdepartmental task forces to halt the illegal cultivation of marijuana on state property. 51

GENERAL PROGRAM STATEMENT

The Secretary of Resources is the administrative head of the Resources Agency. In this capacity, he is responsible directly to the Governor for the state's activities relating to (1) the management, preservation, and enhancement of California's air, water, and land, (2) the state's natural, wildlife, and recreational resources, and (3) the general coordination of environmental programs. The Secretary is a member of the Governor's Cabinet.

The Resources Agency is composed of the following units: the Departments of Conservation, Fish and Game, Forestry, Boating and Waterways, and Water Resources, the Air Resources Board, California Coastal Commission, California Conservation Corps, Colorado River Board, Energy Resources Conservation and Development Commission, Santa Monica Mountains Conservancy, State Coastal Conservancy, State Lands Division, State Water Resources Control Board, and the California Waste Management Board. Several miscellaneous programs, including those providing for certain activities in the Lake Tahoe Basin, are also budgeted in the Secretary's office.

In addition, the Secretary's office (1) is the administration's liaison with the San Francisco Bay Conservation and Development Commission, (2) allocates open-space subventions among cities and counties, (3) allocates money in the Environmental License Plate Fund, (4) issues the state's guidelines for preparation of environmental impact reports (EIRs), and (5) designates the classes of activities exempted from the preparation of EIRs.

The Office of the Secretary of Resources has 21 personnel-years authorized for the current and budget years.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $1,330,000 from the General Fund to support the Secretary's office in 1983–84. This is an increase of $287,000, or 27 percent, above estimated current-year General Fund ex-

SECRETARY OF RESOURCES—Continued

penditures. The size of this increase, however, is misleading. All but $36,000 of the increase reflects the addition to the Resources Agency's budget of $251,000 to cover the cost of administering the affairs of the California Tahoe Regional Planning Agency (CTRPA), which has been deactivated pursuant to Ch 1612/82. Excluding the CTRPA-related increase, the increase in the General Fund support amounts to 3.5 percent, and will be used to offset the effects of inflation and restore funding for the agency's retirement contribution to the Public Employees Retirement System. General Fund support will increase further to the extent of any salary or staff benefits increases approved for the budget year. On the other hand, because Control Section 13.50 requires the Director of Finance to reduce the budgets of agencies within the "Governor's Office" by a total of 10 percent, the appropriation for the Resources Agency is subject to a reduction of an undetermined amount.

Total expenditures by the agency, including expenditures financed by reimbursements, are expected to increase by $287,000, or 24 percent, to $1,468,000. The increase is due entirely to the General Fund increase discussed above.

Coordinated Maintenance

We recommend the adoption of supplemental report language providing for the continuation of the coordinated maintenance pilot project through 1983–84.

The *Supplemental Report of the 1982 Budget Act* provided for a one-year pilot project designed to encourage the Departments of Forestry, Parks and Recreation, Water Resources, and Transportation to coordinate the use of their facilities, equipment, and staff. Specifically, the Director of General Services was requested by the Legislature to exempt the four departments from the requirement that all departments charge for indirect costs on the exchange of goods, services, and equipment. This exemption was to cover exchanges between *each* department of up to $50,000 during 1982–83. The language also directed the Resources Agency and Caltrans to submit a progress report to the Joint Legislative Budget Committee by January 1, 1983, and a final report by September 1, 1983, describing the nature and extent of the goods and services exchanged between the participating departments.

The information set forth in the progress report was inconclusive. For the period July 1, 1982, through November 30, 1982, there were 50 transactions involving the four departments, amounting to $66,275. The amount of services provided by each of the four agencies is as follows:

Department	*Dollar Amount of Services Provided*
Caltrans	$26,734
Forestry	28,351
Parks and Recreation	1,250
Water Resources	9,940
Total	$66,275

The agencies attribute the relatively small amount of goods and services exchanged during the first five months to the time required to initiate the project, establish revised administrative procedures, develop a reporting system, and inform and encourage field staff to participate. Staff of the agencies are optimistic, however, that cooperative work and services will increase through the balance of 1982–83.

In the event the final report on the pilot project, which is due September 1, 1983, indicates that the project was successful, the project's termination date (June 30, 1983) will have passed. We believe the project has the potential to increase coordination and reduce costs for the participating agencies, and should not be terminated inadvertently before a final evaluation is available. Consequently, we recommend that the Legislature adopt the same supplemental report language as it adopted last year, in order to continue the coordinated maintenance pilot project through 1983–84. This language is as follows:

> "It is the intent of the Legislature to encourage the cross-utilization of maintenance equipment, staff, and facilities between the Departments of Transportation, Forestry, Water Resources, and Parks and Recreation. In order to facilitiate and further encourage the exchange of goods and services, it is requested that the Director of General Services exempt these departments from any requirement to charge for indirect costs on the exchange of goods, services, and equipment of up to $50,000 in total value between each department during 1983–84."

Resources Agency Scheduled to Succeed CTRPA After Deactivation

We withhold recommendation on the $251,000 requested for the purpose of administering the affairs of the California Tahoe Regional Planning Agency (CTRPA) after it is deactivated, pending:

1. ***Receipt and analysis of information summarizing (a) the workload associated with administering conditional use permits issued for residential, commercial, and public works projects, (b) the number and amount of surety deposits currently being held for the permits, (c) enforcement actions currently pending for CTRPA ordinance or permit violations, and (d) all active lawsuits in which CTRPA is a party; and***
2. ***Clarification of how the Secretary of Resources proposes to adminster this workload.***

Background. The CTRPA was established under California law to administer land use and environmental controls in the California portion of the Tahoe Basin. Amendments to the bi-state Tahoe Regional Planning Compact approved by California (Ch 872/80), Nevada, and the U.S. Congress during 1980, provided for the deactivation of the CTRPA after the bi-state Tahoe Regional Planning Agency (TRPA) adopts a revised land-use plan and ordinances for the Tahoe Basin. The budget anticipates that the new plan will be adopted by the TRPA governing board in June or July 1983, with the implementing ordinances to become effective 60 days later. Technically, the CTRPA is neither a state nor local government agency. Thus, the normal procedures for terminating a state agency do not apply in this case. Furthermore, there probably will be regulatory enforcement problems and complex inverse condemnation suits remaining to be resolved after deactivation of CTRPA, for which continuity must be provided.

Chapter 1612, Statutes of 1982. In recognition of the problems associated with the agency's deactivation, the Legislature last year enacted Ch 1612/82. This measure authorizes the Resources Secretary to serve as the successor to the CTRPA to conclude any matters which may still be pending or unresolved at the time of the agency's deactivation. On the effective

SECRETARY OF RESOURCES—Continued

date of deactivation, Ch 1612/82 transfers to the Secretary the powers and duties of the CTRPA to (1) exchange, sell, or otherwise dispose of all CTRPA property; (2) compromise and settle claims of every nature; (3) sue and be sued in the same manner and to the same extent as CTRPA; and (4) to have custody of, and responsibility for, the disposition of CTRPA records, assets, and surety deposits, including authority to transfer them to the bi-state TRPA.

For the convenience of persons needing to contact the Resources Agency concerning pending or unresolved CTRPA matters, the Resources Secretary may designate as an agent or administrative representative either the bi-state Tahoe Regional Planning Agency or one or more of the cities or counties within the Tahoe Region. This provision does not, however, authorize any independent exercise of discretion by the agent or representative with respect to unresolved CTRPA matters.

Budget Proposal. For purposes of implementing the provisions of Ch 1612/82 during 1983–84, the budget for the Secretary's office contains $251,000. This amount is intended to (1) finance Attorney General expenses for continuing CTRPA litigation ($237,000) and (2) support Resources Agency administrative costs ($14,000). The portion budgeted for Attorney General services is the same amount as budgeted for the current year. The remaining $14,000 would finance 0.25 of an associate planner, plus $3,000 in travel expenses.

Potential Workload Unknown. At the time this analysis was prepared, CTRPA staff had not provided information requested by this office on the amount of potential workload that would be transferred from CTRPA to the Resources Secretary. CTRPA has advised us that currently there are 1,800 to 2,000 active permits for residential, commercial, and public works projects which either have not yet commenced or are in varying stages of completion. In addition, CTRPA currently is holding 1,197 active surety deposits of $424,000 in cash and $1.5 million in letters of credit for purposes of ensuring compliance with permit conditions such as construction of erosion control structures. No information is available on the number of enforcement actions and lawsuits underway. In addition, it is not known whether there will be more or less Attorney General workload to represent CTRPA in legal matters in 1983–84.

Some of this work may be completed *prior* to deactivation of the agency. Nevertheless, the Resources Secretary could inherit a significant amount of workload associated with monitoring permit compliance, administering surety deposits, and enforcing CTRPA regulations.

Work Plan Not Detailed. We believe the Resources Agency may be underestimating its workload in requesting only $14,000 for administrative costs. Resources Agency staff indicate that the request assumes that most of the potential workload related to CTRPA can be delegated to the bi-state TRPA. However, it is not clear (1) whether TRPA is willing to assume this responsibility or (2) whether the new Secretary of Resources would choose to handle deactivation of CTRPA in this manner. Furthermore, depending on the priority assigned by TRPA to this workload, it may not be possible to delegate responsibility for (1) monitoring compliance of up to 2,000 conditional use permits and (2) administration of $1.9 million in surety deposits, without providing special state funding to TRPA.

Before the Legislature acts on the $251,000 funding request, we believe that (1) CTRPA should report on the potential workload (including Attorney General services) that may be transferred to the Resources Agency in 1983–84 and (2) the Secretary of Resources should develop a plan which identifies how any transferred responsibilities will be administered. In order to develop a plan and to facilitate the transfer of this responsibility, the Resources Agency should initiate discussions with CTRPA and TRPA to clarify and agree on the most efficient and effective actions for each to undertake.

Tahoe Land Purchase Program Not Included in Budget Bill

We recommend that the Secretary of Resources report, prior to budget hearings, on the administration's progress in making appointments to and providing staff support for the Lake Tahoe Area Land Commission.

Lake Tahoe Acquisition Bond Act. At the November 1982 general election, the voters approved Proposition 4 (Ch 305/82), which authorizes the state to sell $85 million of general obligation bonds for the purpose of financing acquisition of undeveloped property at Lake Tahoe. This includes (1) lands threatened with development which are located within stream environment zones and (2) lands providing lakeshore access to the public, preservation of wildlife habitat, or a combination of these benefits. Preliminary estimates indicate that about 7,000 environmentally sensitive lots on the California side of Lake Tahoe may be eligible for purchase under Proposition 4. There is, however, no provision in the budget to appropriate the proceeds from any bond sales in order to initiate the program in 1983–84.

Land Purchase Study. Proposition 4 requires, as a first step prior to buying lands, that a 15-member Lake Tahoe Area Land Acquisition Commission be appointed (Ch 833/80, as amended by Ch 519/82) to determine (1) which land will be purchased, (2) the value of the property, (3) which agency is most appropriate to carry out the land acquisitions, and (4) how the acquired property should be managed.

This study commission is required to report its partial recommendations concerning these and other designated matters to the Governor and Legislature by March 1, 1983. A final report is due on June 30, 1983. Staff support for the commission is to be provided by the Resources Agency, in conjunction with the Office of Planning and Research. To finance the study and commission expenses, Ch 833/80 appropriated $50,000 from the Environmental License Plate Fund to the Resources Agency. This money is still available.

At the time this analysis was prepared, none of the 15 commission members had been appointed, and no support staff had been hired. Furthermore, little information was available concerning the administration's plans for this program. Decisions on the organization of the commission must still be made, and it is not known what role the Office of Planning and Research will perform in the study.

Appropriation of Bond Proceeds Not In Budget Bill. The delays in activating the Tahoe Area Land Acquisition Commission will make it difficult for the commission to complete its study on schedule. This may mean that the information needed to support an appropriation from the proceeds of bond sales will not be available prior to legislative action on the 1983 Budget Bill. This might also make it difficult for the Legislature to appropriate support funds for the agency designated by the commission to administer the acquisition work. The end result could be a postponement of the implementation of Proposition 4.

The Resource Secretary should address these matters and report to the

SECRETARY OF RESOURCES—Continued

Legislature, prior to budget hearings, on the progress being made in implementing the Proposition 4 program.

Impact of Marijuana Cultivation on Resource Agency Field Activities

On October 15, 1982, the United States Forest Service published a fact sheet entitled, "Cultivation and Eradication of Marijuana on Public Land." This document, and the problems it addresses, have considerable relevance to the field activities carried out by constituent departments of the Resources Agency.

The fact sheet indicates that California has become the leading producer of illegal domestic (sinsemilla) marijuana in the United States. The growers have selected publicly owned lands, such as the Forest Service, National Park Service, and Bureau of Land Management properties located in remote areas, because there are no risks associated with the ownership of land put to illegal use, and because it is difficult for law enforcement officials to determine ownership of the marijuana plants.

The Forest Service quotes an estimate by the California Department of Justice that in 1981, marijuana valued at $1 billion was harvested on national forest lands in California. While marijuana is grown in virtually every county of the state, the primary commercial areas are located along the coast from Mendocino to Del Norte Counties and in Monterey County. (An article published in the Sacramento *Bee*, dated November 11 and 12, cites similar conditions in the Sierra Nevada foothills.)

Large organizations have moved into the commercial financing, growing, and marketing of marijuana. Some growers on public lands are armed. They intimidate federal employees and their families, as well as assault the public. The number of robberies and murders has "greatly increased" in counties where marijuana is a major source of income. Gun battles between growers and thieves, extortion, arson, electronic surveillance to guard against intruders, trained attack dogs, booby traps, shooting at low-flying aircraft, sabotage of federal vehicles, and vandalism of visitor vehicles occur. Water systems are constructed to illegally divert water, arsenic poisons are used to kill rodents and deer, and the high concentration of nitrogen fertilizer applied to the plants has an adverse effect on downstream fish life.

The Forest Service indicates that the California Bureau of Narcotics Enforcement and the county sheriffs assist it and other federal agencies in suppressing the illegal cultivation. The fact sheet concludes by encouraging the public to report to the appropriate authorities information regarding marijuana on federal lands. The fact sheet did not mention any coordination between the constituent departments of the Resources Agency and the federal agencies, even though these state agencies have significant acreages and field personnel in the areas where marijuana cultivation is occurring.

During our visits to field installations maintained by departments such as Parks and Recreation, Forestry and Fish and Game, we were advised that state personnel are encountering increasing problems in performing their duties. Because of the threats these problems pose to their personal safety, these state employees are understandably concerned.

Specifically, our field visits have revealed that marijuana cultivation is increasingly compromising the performance of official state field duties, and that state employees (as well as the general public) face hazards along the lines described by the Forest Service. Under these circumstances, state employees tend to limit the performance of their required duties in order to avoid personal dangers and hazardous conditions. Consequently, the state's interests are not being protected, and its field investments are not fully serving the public.

The Department of Parks and Recreation appears to be the entity that is most severely affected by illegal marijuana cultivation. This is due to the fact that extensive parcels of land in the state park system are located in areas where this cultivation occurs. One park manager described current conditions as "frightening" and "a threat to the innocent public going into state park lands."

At the Sinkyone Wilderness Area, below the Mendocino Headlands, only minimal efforts are being made to enforce the law. The growers dominate thousands of acres in this area, and warning shots have been fired at park rangers who patrol beyond well-traveled roads. Conflicts between growers and raiders has resulted in several killings.

Within Humboldt Redwoods State Park, and specifically the Bull Creek Area, attempts have been made to control marijuana cultivation and to enforce state laws in coordination with the county sheriff. Several arrests have been made, and stockpiles of irrigation equipment and fertilizer have been seized. Despite these enforcement efforts, park personnel believe that the activities of growers are increasing. Other park units with identified problems are Julia Pfeiffer Burns, Andrew Molera, the Forest of Nisene Marks, Big Basin, Russian Gulch, and Mount Tamalpais State Parks.

The extent of marijuana cultivation in state parks is not known, because no complete survey has been made. State field personnel indicate, however, that out-of-area or suspicious-appearing vehicles, which presumably belong to intermediaries who purchase harvested marijuana, are frequently seen on remote roads. It is clear that the public use of significant park areas which cost the taxpayers millions of dollars is being impeded by illegal marijuana cultivation.

Forest Practice Act inspectors and other field personnel of the Department of Forestry, as well as Fish and Game wardens, also have become reluctant to enter some areas.

The State Water Resources Control Board staff have some knowledge of illegal diversions of unappropriated water to irrigate marijuana, but no formal complaints claiming illegal diversions have been filed with the board. Normally, board staff do not search for illegal diversions and, therefore, the staff does not know the extent to which such diversions may exist.

The staff of the State Lands Commission is not aware of marijuana cultivation on lands under its jurisdiction. It is aware of some cultivation on adjacent lands, and indicates that reforestation efforts on its lands may have been impeded.

We have recently learned that money was included in the 1982–83 budget request of the Department of Parks and Recreation to organize a team with the objective of suppressing marijuana cultivation in the state park system. Because the purpose of the request was not revealed at the time the budget was introduced, our analysis found the request to be unsupported and the funds were not approved by the Legislature.

Resources Agency Task Force

We recommend that the Legislature adopt supplemental report language directing the Resources Secretary, with the guidance of the Bureau of Narcotics Enforcement in the Department of Justice, to form inter-

SECRETARY OF RESOURCES—Continued

departmental task forces for the purpose of eliminating the illegal cultivation of marijuana on state property, and to assist local governments and federal agencies in similar endeavors to the extent that such assistance is appropriate.

It is not clear that additional funds and special personnel are needed to prevent marijuana cultivation on state property. Existing field personnel should be able to handle the problems if they are given adequate direction, and if the capabilities of field staffs are integrated and fully coordinated into task forces. This conclusion is based on the following considerations:

1. State park rangers are armed peace officers, and possess adequate authority to enforce the law on state park lands which are the major state properties in problem areas.
2. Department of Forestry personnel and Fish and Game wardens can be used to staff the task forces. Personnel from these departments are in a position to report situations which hinder the performance of their duties or constitute a hazardous condition for any persons, whether public employees or private citizens. Both departments also have small aircraft that can be used for aerial surveillance to locate marijuana patches.
3. The Department of Forestry has a fleet of seven operational helicopters which can be used to transport task force personnel. These helicopters are also equipped with helitorches which, in their present operational configuration or with modifications, could be used to burn marijuana plants without the necessity of having to cut and pile the plants for burning or to transport the plants for incineration. (Experiments should be undertaken to determine whether young plants can be destroyed in the spring by the helitorches.)
4. Appropriate herbicides can be applied in the spring to kill the young plants before they reach maturity. This technique will be effective primarily in the more limited land areas, such as state park units, where ground surveys are more successful in locating the plants during the growing period.
5. The current workload associated with marijuana destruction is concentrated in September and October, when the plants are mature. This makes the effort somewhat inefficient, because the plants are larger and more difficult to destroy. It occurs, however, after the peak summertime workload, when more field personnel are available. Attempting to destroy the plants in mid and late spring would allow state personnel to be used before peak summertime workloads, at a time when herbicides may be most effectively used.
6. The Water Resources Control Board has an interest in preventing the illegal diversion of water for the illegal purposes of marijuana cultivation.
7. The State Lands Commission should survey the use of its lands for marijuana cultivation.

The cultivation of marijuana presents safety problems and hazards for state employees—particularly those employees who live in housing located in remote areas. The state has an obligation to assure that its employees and their families are not subjected to harm or placed under significant stress because of illegal activity in the vicinity of their work stations. Accordingly, we believe it is essential for all state agencies to facilitate law enforcement activities undertaken by local and federal officials. These efforts should coordinate closely with the activities of the Bureau of Narcotics Enforcement in the state's Department of Justice.

To promote this goal, we recommend adoption of the following supplemental language:

> "The Resources Secretary, with the guidance of the Bureau of Narcotics Enforcement in the Department of Justice, shall form interdepartmental task forces to eliminate the illegal cultivation of marijuana on state property, and to assist local governments and federal agencies in similar endeavors to the extent that such assistance is appropriate."

In addition, we also recommend under Item 0820 that one existing special investigator position in the Bureau of Narcotics Enforcement be redirected to assist the Resources Agency.

Governor's Office

SECRETARY OF THE YOUTH AND ADULT CORRECTIONAL AGENCY

Item 0550 from the General Fund — Budget p. LJE 38

Requested 1983–84	$630,000
Estimated 1982–83	619,000
Actual 1981–82	602,000
Requested increase (excluding amount for salary increases) $11,000 (+1.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Secretary of the Youth and Adult Correctional Agency provides coordination and policy direction for the Department of Corrections, Department of the Youth Authority, Board of Prison Terms, Youthful Offender Parole Board, Board of Corrections, and the Narcotic Addict Evaluation Authority. Current-year staffing consists of 10 full-time positions and 0.3 personnel-years of temporary help.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $630,000 from the General Fund for support of the Secretary of the Youth and Adult Correctional Agency in 1983–84. This is an increase of $11,000, or 1.8 percent, over estimated current-year expenditures. The increase results from staff benefit and price increases. However, because Control Section 13.50 requires the Director of Finance to reduce budgets of agencies within the "Governor's Office" by a total of 10 percent, the appropriation for the Youth and Adult Correctional Agency is subject to further reduction. On the other hand, the proposed budget for the agency will increase by the amount of any salary or staff benefit increase approved for the budget year.

Total staffing for the agency is proposed at 9.3 positions in 1983–84, which is a reduction of one position from the current-year level. Our analysis indicates that the reduction is justified on a workload basis.

OFFICE OF CALIFORNIA-MEXICO AFFAIRS

Item 0580 from the General Fund — Budget p. LJE 42

Requested 1983–84	$200,000
Estimated 1982–83	(82,000)
Actual 1981–82	—
Requested increase (excluding amount for salary increases) $118,000 (+144 percent)	
Recommendation pending	$200,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Support Budget. Withhold recommendation, pending receipt and analysis of detailed expenditure plan (Item 0580-001-001). 55

GENERAL PROGRAM STATEMENT

The Office of California-Mexico Affairs was created by Ch 1197/1982 (AB 2716), which combined the Commission of the Californias and the California Office of the Southwest Border Regional Conference (SWBRC) under one administrative body, effective January 1, 1983.

The Commission of the Californias will continue as an organizational unit within the new office. The 18-member commission includes members of the Legislature and representatives of the public. Its primary function is to promote economic, cultural and educational relations with the States of Baja California and Baja California Sur of the Republic of Mexico. It seeks to accomplish this purpose through periodic meetings with designated Mexican officials. The commission is chaired by the Governor, who appoints the members. The Lieutenant Governor serves as vice chairman of the commission. Prior to the enactment of Chapter 1197, the commission was chaired by the Lieutenant Governor.

During 1983–84, California will continue to participate in the Southwest Border Regional Conference. The conference is composed of the Governors of the four American and six Mexican border states. Its function is to promote binational cooperation in economic, cultural and environmental relations on both sides of the U.S.-Mexican border. The Office of California-Mexico Affairs will provide staff support to the Governor (or his designee), as the California member of the conference.

Chapter 1197 expressed legislative intent that the office be limited to four staff positions. The predecessor entities were authorized a total of seven positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund appropriation of $200,000 for the Office of California-Mexico Affairs in 1983–84. This amount is $118,000, or 144 percent, more than estimated current-year expenditures. The size of this increase will be even larger if the Legislature approves staff salary or benefit increases for 1983–84.

The increase in expenditures reflected in the budget tends to overstate the increase in program activity proposed for 1983–84. This is because the level of expenditures shown for the current year—$82,000—covers only the six months following establishment of the new office on January 1, 1983. On a full year basis, the level of expenditures proposed for 1983–84 ($200,000) represents a funding increase of $36,000, or 22 percent.

Expenditure Plan Has Not Been Prepared

We withhold recommendation on the $200,000 requested from the General Fund for the Office of California-Mexico Affairs, pending receipt and analysis of a detailed expenditure plan (Item 0580-001-001).

The budget proposes a lump-sum General Fund appropriation for the new office. It fails to provide the detailed expenditure plan required by the State Administrative Manual. The budget document states, however, that such a plan will be developed and submitted to the appropriate committees of the Legislature prior to the budget hearings.

Pending receipt and analysis of a detailed expenditure plan, we withhold recommendation on this item.

CALIFORNIA STATE WORLD TRADE COMMISSION

Item 0585 from the General Fund — Budget p. LJE 43

Requested 1983–84	$463,000
Estimated 1982–83	293,000
Actual 1981–82	—
Requested increase (excluding amount for salary increases) $170,000 (+58.0 percent)	
Recommendation pending	$463,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Support Budget. Withhold recommendation, pending submission of detailed expenditure plan (Item 0585).	56

GENERAL PROGRAM STATEMENT

The California State World Trade Commission was created by Chapter 1526, Statutes of 1982 (AB 3757), to promote international trade, tourism and investments. Located in the Governor's office, the commission replaced and became the successor to the Office of International Trade in the Department of Economic and Business Development, effective January 1, 1983.

The 15-member commission is composed of executive, legislative and private sector representatives and is chaired by the Secretary of State. It serves as the official representative of the state on all international trade and tourism matters. The Commission's responsibilities include (1) promoting and coordinating export trade, tourism and foreign investments in California through research and administrative programs, trade missions, overseas offices (if feasible) and other appropriate methods and (2) soliciting funds for the commission's activities from federal, state and private sources. The commission also is authorized to charge for its services and publications.

The commission is authorized to have its own staff and an advisory council composed of 20–40 members, representing the diverse nature of the state's economy.

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $463,000 from the General Fund for support of the commission in 1983–84. This amount is $170,000, or 58 percent, higher than estimated current-year expenditures. The increase above 1982–83 expenditures may be greater to the extent that the Legislature approves increases in staff salaries or benefits for 1983–84.

The 58 percent increase in commission expenditures does not indicate growth in the commission's programs. This is because expenditures in the current year, which amount to $293,000, represent half-year funding, since the commission did not become operative until January 1, 1983. If this amount is converted to a full-year funding level, the $463,000 requested for 1983–84 represents a reduction of $123,000, or 21 percent, in program activity.

Budget Detail Pending

We withhold recommendation on the $463,000 General Fund appropriation proposed for the commission, pending receipt and analysis of a detailed expenditure plan (Item 0585-001-001).

The budget proposes a lump-sum General Fund appropriation of $463,000 for support of the new commission in 1983–84, but fails to provide the detailed expenditure plan required by the State Administrative Manual. The proposed budget document states that a line-item expenditure plan will be developed and submitted to the appropriate committees of the Legislature after the commission members have been appointed.

Pending receipt and analysis of a detailed expenditure plan, we withhold recommendation on this item.

Governor's Office

OFFICE OF PLANNING AND RESEARCH

Item 0650 from the General Fund and special funds — Budget p. LJE 47

Requested 1983–84	$3,327,000
Estimated 1982–83	3,475,000
Actual 1981–82	3,827,000
Requested decrease (excluding amount for salary increases) $148,000 (−4.3 percent)	
Recommendation Pending	$3,327,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0650-001-001—Support		General	$3,314,000
0650-001-140—Support		Environmental License Plate	13,000
0650-001-890—Support		Federal Trust	(600,000)
Total			$3,327,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Budget Clarification. Recommend that OPR submit a detailed spending plan, defining the priorities of the office, projects to be undertaken, and the allocation of funds and positions among those projects. 57

GENERAL PROGRAM STATEMENT

The Governor's Office of Planning and Research (OPR) is responsible for conducting research and making policy recommendations to the Governor on a wide range of issues. Specific OPR responsibilities include: (1) developing state land use policies, (2) providing planning assistance to local governments on land use matters, (3) coordinating the planning and permit processes of all state agencies, and (4) acting as a clearinghouse for environmental impact reports.

A total of 111 personnel-years is authorized for OPR in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $3,314,000 from the General Fund for support of the Office of Planning and Research (OPR) in 1983–84. This is an increase of $151,000, or 4.8 percent, over estimated current year expenditures. However, because Control Section 13.50 requires the Director of Finance to reduce the budgets of agencies within the "Governor's Office" by a total of 10 percent, the appropriation for OPR is subject to further reduction. On the other hand, the proposed budget for OPR will increase by the amount of any salary or staff benefit increase approved for the budget year.

Total expenditures are proposed at $4,064,000, a decrease of $2,043,000, or 33 percent, below estimated current year expenditures. Virtually all of the reduction consists of $1,313,000 in reimbursements and $582,000 in federal funds.

The budget proposes a total of 88 personnel-years for OPR in the budget year, a reduction of 23 from the current year.

Budget for OPR Does Not Include a Detailed Spending Plan

We defer recommendation on the proposed budget for OPR, pending the receipt of a detailed spending plan defining the priorities of the office, projects to be undertaken, and the allocation of funds and positions among those projects.

At the time this analysis was written, no details were available on the programs to be funded from the appropriation for OPR. Lacking information regarding the projects, priorities, and workload of OPR, we are unable to assess the reasonableness of the appropriations requested for OPR.

We recommend that, prior to budget hearings, OPR present a detailed spending plan to the Legislature, defining its priorities, the projects to be undertaken in the budget year, and how the requested funds and positions are to be allocated among those projects. The budget states that this information will be provided prior to legislative budget hearings.

OPR Coastal Planning Activity Undefined

We recommend that, prior to budget hearings, OPR delineate the nature and scope of the coastal energy and policy planning activities it plans to undertake in 1983–84.

OFFICE OF PLANNING AND RESEARCH—Continued

The budget indicates that the coastal energy and policy planning activities which currently are performed by the California Coastal Commission may be assumed by OPR. The proposed budget for the Coastal Commission identifies reductions of $426,000 (11.7 personnel years) in the Statewide Planning and Support Studies element, and $150,000 (7 personnel years) in the Coastal Energy Planning and Regulation element to reflect the transfer of responsibilities to OPR.

It is not clear whether the administration intends to continue these coastal planning activities at current funding and personnel levels. No information on the proposed transfer is included in OPR's budget, nor are any funds proposed for transfer from the commission to OPR for these activities. For these reasons we recommend that OPR clarify its proposed role in coastal energy and policy planning activities prior to budget hearings.

Analysis of the Energy Action in Schools Program

Background. The 1981 Budget Act appropriated $250,000 to the State Department of Education's Environmental Education (EE) program for transfer to the Energy Extension Service in the Office of Appropriate Technology (within OPR) in order to establish the Energy Action in Schools (EAIS) program. The objective of this program was to reduce school energy costs by combining energy education classes for the students with energy management by the schools. Three positions were established for the EAIS program in 1981–82 to award grants, conduct workshops, and disseminate information to elementary and secondary school districts.

The 1982 Budget Act appropriated $500,000 to the State Department of Education for its EE program. In addition, the act appropriated $250,000 directly to the Office of Appropriate Technology (OAT) to continue the EAIS program. Both appropriations were from the California Environmental License Plate Fund.

The budget does not propose any funding for the EAIS program in 1983–84.

During hearings on the 1982–83 budget, our office identified several potential problems with the proposal to provide funding for energy education programs directly to OAT. Specifically, our analysis indicated that, based on the information that was available, (1) EAIS's proposed activities appeared to be duplicative of those carried out as part of the EE program and (2) providing funding for two separate staffs to administer energy conservation education programs would not be cost effective.

The *Supplemental Report to the 1982 Budget Act* instructed our office to evaluate the EAIS program, and to determine the extent to which it duplicated either the EE program or the $20 million Energy Conservation Assistance Loan (ECAL) program administered by the California Energy Commission. The following analysis is submitted in response to the Legislature's directive.

Differing Program Objectives. The EE program is an educational program, providing seed money for projects which stress the importance of resource conservation and preservation. Energy conservation is only one component of the program, which has a broader environmental emphasis that may include such other topics as water quality, ocean resources, endangered plant and animal species, and outdoor community education.

The Energy Commission's ECAL program seeks to improve the energy efficiency of institutional and public buildings through the allocation of low-interest loan funds. Loans are granted on a competitive basis to those projects which show the shortest payback period for the energy improvements proposed. There is no educational element in ECAL loan projects.

The EAIS program was predicated on the twin assertions that meaningful reductions in school site energy use must involve teachers and students, as well as staff, and that students' and teachers' understanding of and attitudes toward energy conservation could be improved most effectively through programs combining energy education with practical school-site energy management. Therefore, EAIS has simultaneously pursued two objectives: (1) to immediately reduce school-site energy costs by at least 10 percent and (2) to increase student and staff understanding of how energy is used in the school.

The EAIS provides funding to districts or individual schools at the elementary, junior high, and high school levels willing to serve as energy conservation/energy management demonstration sites. This funding is supplemented by a series of regional workshops intended to provide staff development in energy management and education techniques, and a three-week summer institute for teachers and school administrators. In 1981–82, seven school districts received grant awards totaling $87,000. In the current year, $89,000 in grants were awarded to 16 districts.

EAIS Evaluation. An evaluation of EAIS, performed for OAT by a private contractor, concluded that the model programs funded in 1981–82 successfully achieved both the energy use reduction and student and teacher energy understanding objectives of EAIS. Data generated by this evaluation showed that some of the sites achieved a 10 percent reduction in energy use compared with the same period in the previous year. In fact, one small district showed a 31 percent reduction in propane use. Taking all sites together, however, electricity usage was reduced only 7 percent, and natural gas consumption was reduced only 6.8 percent. Because data showing trends in energy consumption is not available for schools that did not participate in EAIS, it is not possible for us to determine the amount of the reported reductions in energy usage that should be attributed to EAIS, as opposed to other factors such as rising utility rates.

The results of pre- and post-program student attitude surveys presented in the OAT-funded evaluation show significant improvement in student attitudes toward energy conservation in only two districts. In both, special subgroups of students had been selected for intensive energy education on a daily basis. The remainder of the students in these districts that participated in EAIS (that is, those not targeted for intensive instruction) exhibited no improvement in their attitudes toward energy conservation. In the case of the remaining five districts, one showed very modest improvement in their attitudes toward energy conservation, one demonstrated improvement at the elementary, but not the junior high level, and three registered no change in student attitudes.

The change in teachers' energy understanding was measured by a pre- to post-program energy knowledge and conservation behavior survey. The evaluation found improvement in five of the seven districts, but could not determine what portion of the gain was a result of EAIS and what portion resulted from other factors, such as utility rate increases.

Our evaluation of the findings presented above does not lead us to agree with the conclusions reached by the evaluator hired by OAT. To the extent energy use was reduced and teacher and student energy awareness was increased, it is not clear that EAIS was responsible. It is not clear, for

OFFICE OF PLANNING AND RESEARCH—Continued

example, that EAIS was more successful than ongoing environmental education and facilities management activities of the State Department of Education. Furthermore, the objection raised by our office in the 1982–83 *Analysis* to direct OAT involvement in environmental education and school energy management remains.

Regarding the issues raised in last year's *Analysis,* we conclude that the EAIS is not broadly duplicative of either the EE or the ECAL program, but the possibility for unnecessary duplication of administrative costs remains.

Finally, we note that OAT, as a staff arm of the Governor, has no statutory basis for involvement in the educational and facilities maintenance areas for which the Department of Education is given line authority.

Governor's Office

OFFICE OF ECONOMIC OPPORTUNITY

Item 0660 from the General
Fund and Federal Trust Fund — Budget p. LJE 49

Requested 1983–84	$1,017,000
Estimated 1982–83	975,000
Actual 1981–82	756,000
Requested increase (excluding amount for salary increases) $42,000 (4.3 percent)	
Total recommended reduction	$466,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0660-001-001	—Support	General	$1,017,000
0660-001-890	—Support	Federal	(3,054,000)
0660-101-890	—Local Assistance	Federal	(47,924,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Administration of the Department of Energy Weatherization Program. Recommend that the Legislature give responsibility for administering the Department of Energy Weatherization Program to whichever department it charges with the responsibility of administering the Low Income Home Energy Assistance block grant. 63
2. Community Services Block Grant Allocations. Recommend that Office of Economic Opportunity (OEO) advise the Legislature prior to the budget hearings on the amount of funds it proposes to allocate to various types of local agencies and discretionary activities. 65
3. ***General Fund Positions. Reduce by $466,000.*** Recommend that unbudgeted Community Services Block Grant (CSBG) funds be used to replace General Fund support for various positions in OEO, in order to increase the Legislature's fiscal flexibility. 66

GENERAL PROGRAM STATEMENT

The Office of Economic Opportunity (OEO), which is located within the Governor's office, (1) administers the Low-Income Home Energy Assistance (LIHEA) block grant program, (2) administers the Community Services Block Grant (CSBG), (3) plans, coordinates, and evaluates programs that provide services to the poor, and (4) advises the Governor on the needs of the poor. The LIHEA block grant assists low-income persons in meeting the cost of energy. The CSBG provides funds to community action agencies for programs to assist low-income people.

The 1982 Budget Act authorized 175.5 positions for the office. During the current year, however, 68 positions have been established administratively to allow OEO to more adequately review home energy assistance grant applications. As a result, OEO has a total of 243.5 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $52,040,000 from all funds, including reimbursements, by the office in 1983–84 as shown in Table 1. This is a net decrease of $63,036,000, or 55 percent, below estimated current-year expenditures. This reduction, however, does not reflect a corresponding reduction in the program activity funded by this item in 1982–83. The net decrease reflects a reduction of $77,646,000 resulting from the proposed transfer of the LIHEA block grant from OEO to the Department of Social Services, and an increase of $14,573,000 in community services block grant funds.

The proposed expenditures of $52.0 million include $4.1 million for administration and $47.9 million for program expenditures. However, because Control Section 13.50 requires the Director of Finance to reduce the budgets of agencies within the "Governor's Office" by a total of 10 percent, the appropriation for OEO is subject to further reduction. On the other hand, the $4.1 million for administration will increase by the amount of salary or staff benefit increases approved for the budget year.

Table 1
Total Program Expenditures and Revenues
Office of Economic Opportunity
1981–82 to 1983–84
(in thousands)

				Change from 1982–83 to 1983–84	
Expenditures	*1981–82* [a]	*1982–83*	*1983–84*	*Amount*	*Percent*
Economic and Policy Development	$182	$363	$379	$16	4.4%
Energy Programs	73,114	100,053	22,407	−77,646	−77.6
Administration	(3,207)	(5,150)	(1,600)	(−3,550)	(−68.9)
Program	(69,907)	(94,903)	(20,807)	(−74,096)	(−78.1)
Special Programs	237	230	234	4	1.7
Community Services	—	13,998	28,571	14,573	104.1
Administration	—	(1,090)	(1,454)	(364)	(33.4)
Block grant programs	—	(12,908)	(27,117)	(14,209)	(110.1)
Executive and Administrative	749	236	245	9	3.8
Local Services	—	196	204	8	4.1
Total Expenditures	$74,282	$115,076	$52,040	−$63,036	−54.8%
OEO administration	$4,375	$7,265	$4,116	−$3,149	−43.3

OFFICE OF ECONOMIC OPPORTUNITY—Continued

Programs	69,907	107,811	47,924	−59,887	−55.6
Revenue					
General Fund	756	975 [b]	1,017	42	4.3
Low-Income Home Energy Assistance	67,868	95,711	18,049	−77,662	−81.1
Community Services Block Grant	—	13,998	28,571	14,573	104.1
Other federal funds	5,500	4,342	4,358	16	0.4
Reimbursements	158	50	45	−5	−10.0
Total Expenditures	$74,282	$115,076	$52,040	−$63,036	−54.8%

[a] OEO was transferred from the Employment Development Department to the Governor's office on January 1, 1982. Amounts shown in this table reflect expenditures made in both entities in 1981–82.
[b] The total estimated expenditures for 1982–83 does not reflect the 2 percent unallotment directed by Executive Order D-1-83.

The budget proposes an appropriation of $1,017,000 from the General fund for support of various OEO functions in 1983–84. This is $42,000, or 4.3 percent, above estimated current-year expenditures for this purpose. This increase is primarily due to increased costs for personnel and operating expenses and equipment, as shown in Table 2.

Table 2
Analysis of Changes in General Fund Support
Office of Economic Opportunity
(in thousands)

	Adjustment	*Total*
1982–83 Revised Expenditures		$975 [a]
1. Baseline adjustments in existing program		
A. Increases in personnel costs	$14	
B. Increases in operating expenses and equipment	$28	
Total, Baseline Adjustments		$42
2. Total, 1983–84 General Fund Expenditures		$1,017

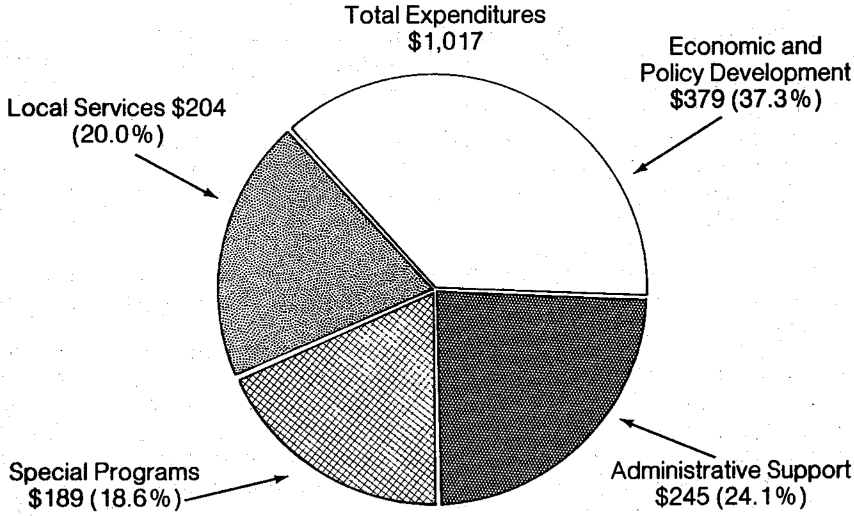
[a] The total estimated expenditures for 1982–83 does not reflect the 2 percent unallotment directed by Executive Order D-1-83

OEO has four basic programs that are supported by the General Fund:

1. ***The Economic and Policy Development program*** supports 9.6 staff positions that (a) provide technical assistance and training in economic development to low-income communities and (b) examine state and federal programs to determine the most efficient use of funds available under these programs in meeting the needs of the poor.
2. ***The Local Services program*** supports 4.7 staff positions that provide information and management assistance to community organizations involved in helping the poor.
3. ***Special Programs*** support six community services representatives which were transferred from the Employment Development Department (EDD) to OEO by the 1982 Budget Act.
4. ***The Executive and Administrative program*** provides executive and administrative support for OEO activities. Four of the 19.2 positions assigned to this function are directly supported by the General Fund.

Chart 1 shows the distribution of General Fund expenditures by program.

Chart 1
Office of Economic Opportunity Proposed General Fund Expenditures 1983–84 (in thousands)



Low-Income Home Energy Assistance Block Grant (LIHEA)

OEO's 1983–84 budget assumes enactment of legislation transferring the LIHEA block grant from OEO to the Department of Social Services (DSS), effective October 1, 1983. If this legislation is enacted, OEO will adminster the program for the first quarter of 1983–84, and DSS will assume responsibility for administering the program beginning with federal fiscal year (FFY) 84. The budget appropriates $18,049,000 to OEO for LIHEA block grant expenditures during the first quarter of 1983–84 when OEO will still be administering the LIHEA Program. The budget also proposes 33.4 limited term positions to administer the block grant during this period. Our analysis indicates that only $11.2 million will be available to OEO in the budget year.

Administration of the Department of Energy Weatherization Progam

We recommend that the Legislature give responsibility for administering the Department of Energy (DOE) Weatherization Program to whichever department it charges with the responsibility of administering the LIHEA block grant.

The OEO currently administers the Low-Income Home Energy Assistance block grant (LIHEA) and the DOE Weatherization program. The LIHEA block grant has three program components: (1) the Home Energy Assistance Program, (2) the Energy Crisis Intervention Program, and (3) the weatherization program.

In administering these programs, OEO combines the LIHEA and DOE weatherization funds to create a unified weatherization component. The purpose of the weatherization program is to improve the heating efficiency of low-income dwellings through insulation and retrofitting. The OEO will receive $4.3 million in DOE weatherization funds during 1982–

OFFICE OF ECONOMIC OPPORTUNITY—Continued

83. While there is some uncertainty over future funding levels for the DOE program, OEO indicates that it expects funding to continue into FFY 84. The budget reflects this expectation, proposing expenditures of $4,358,000 under the DOE program for 1983–84, an increase of $16,000 over the 1982–83 level.

The budget assumes enactment of legislation transferring the LIHEA block grant, including its weatherization component, to the Department of Social Services (DSS), effective October 1, 1983. However, it leaves the DOE weatherization program in OEO.

Our analysis indicates that dividing responsibility for the LIHEA and DOE weatherization programs between two state departments would require duplicate staff to adminster the grants and monitor the provision of services. This duplication of staff would reduce the amount of funds available for weatherization, and thus reduce the benefits provided under the program to low-income persons. On the other hand, using a single administrative structure for both programs enables the programs to share staff, and thereby avoids unnecessary administrative costs.

Elsewhere in this analysis, we withhold recommendation on the proposed transfer of the LIHEA block grant from OEO to DSS, pending receipt of further information supporting the transfer. Once the Legislature has determined which department will adminster the LIHEA block grant in 1983–84, we recommend that the same department be given the responsibility to adminster the DOE weatherization program, in order to reduce duplication of administrative staff and thereby increase the amount of funds available to recipients.

COMMUNITY SERVICES BLOCK GRANT

The OEO assumed responsibility for the new Community Services block grant (CSBG), effective October 1, 1982. The CSBG, which replaces the federally administered Community Services Administration program, provides a range of services to low-income people through local Community Action Agencies (CAAs).

Chapter 4x, Statutes of 1983 (AB 3x), provides statutory authorization for OEO to administer the CSBG program. The bill defines the responsibilities and duties of the state, community action agencies, and various other local entities. Chapter 4x also allows CSBG program allocations to be determined as part of the budget process, beginning with the 1983–84 budget.

The budget proposes the expenditure of $28,571,000 in CSBG funds by OEO during 1983–84. This is an increase of $14,573,000, or 104 percent, from OEO's current-year expenditure level under the program—$13,998,000. Funding to CAAs, however, will remain constant between the current and budget year because the federal government, not OEO, allocated funds to CAAs during the first half of 1982–83. As a result, OEO expenditures in 1982–83 contain only one-half of the year's CAA funding and two-thirds of the year's administrative funding.

Federal CSBG Guidelines

Under federal law, the CSBG funds may be used to assist low-income people to:

- Secure and retain meaningful employment;
- Attain an adequate education;

- Make better use of available income; or
- Fulfill urgent family health, food, housing, or employment-related needs.

Federal rules require that: (1) at least 90 percent of a state's CSBG grant be distributed to local public or private nonprofit agencies and (2) state administrative expenses not exceed five percent of the state's total allocation.

In 1983–84, OEO plans to allocate 90 percent of the state's grant to the following types of agencies:

1. *Community Action Agencies (CAAs),* which provide services to low-income people and receive the bulk of CSBG funds. The OEO estimates that $22 million, or 76 percent, of the total CSBG grant was allocated to CAAs in 1982–83.

2. *Districts Without CAAs,* which are still eligible to maintain community action programs. Community Services programs in these areas are operated by private nonprofit organizations or other public agencies. These agencies, which may span more than one county, are estimated to receive $494,000, or 1.7 percent, of available CSBG funds in 1982–83.

3. *The Migrant and Seasonal Farmworker program,* which ensures that these special groups receive CSBG services. Three migrant and seasonal farmworker districts have been established in California to directly, or through other agencies, provide services to these populations. This program is expected to receive $2.6 million, or 9.0 percent, of CSBG funds in 1982–83.

4. *An American Indian program,* which distributes funds to American Indians who are on or off the reservation. This program has been allocated $1.02 million, or 3.5 percent, of CSBG funds in 1982–83.

The remaining 10 percent of the funds are allocated for administration and discretionary purposes. Under federal law, up to 5 percent of the state's CSBG grant may be set aside for "discretionary" purposes such as special projects and support programs, and to provide technical assistance to CAAs. In 1982–83, OEO allocated $1,454,000, or 5 percent of the total amount available, for discretionary purposes.

Proposed CSBG Funding Allocations

We recommend that OEO advise the fiscal committees prior to the budget hearings, on the amount of CSBG funds it proposes to allocate in 1983–84 to CAAs, districts without CAAs, migrant and seasonal farm worker and American Indian organizations, and discretionary activities.

The 1983–84 budget does not identify how the administration proposes to allocate CSBG funds among CAAs, districts without CAAs, migrant and seasonal farm worker and American Indian organizations, and discretionary activities. Instead, the budget merely proposes an allocation of $1,454,000, or 5 percent, for OEO administrative expenses; it does not identify how the remaining 95 percent, or $27,117,000, of the CSBG funds will be allocated.

So that the Legislature will have an opportunity to review during the budget process the proposed allocation of CSBG funds, we recommend that OEO advise the fiscal committees prior to the budget hearings on the amount of funds it proposes to allocate to CAAs, districts without CAAs, migrant and seasonal farm worker and American Indian organizations, and discretionary activities in 1983–84.

OFFICE OF ECONOMIC OPPORTUNITY—Continued

General Fund Positions

We recommend that unbudgeted CSBG funds be used in lieu of General Fund money to support positions within OEO for the Local Services, Economic and Policy Development, and Special Programs components, in order to increase the Legislature's fiscal flexibility, for a General Fund savings of $466,000.

The budget proposes the expenditure of $762,000 from the General Fund in 1983–84 to support the Local Services program, the Economic and Policy Development program, and Special Programs within OEO. Through these programs, state staff provide information and technical assistance to low-income communities and Community Action Agencies (CAAs).

Discretionary CSBG Funds. Federal law allows a state to set aside up to five percent of its CSBG grant to support "discretionary" activities. Federal regulations, however, provide little guidance as to how states can spend the discretionary funds. Rather, the policy of the Department of Health and Human Services (DHHS) is to allow a state to interpret federal law and regulations regarding the proper use of block grant funds. In the current year, the office is using $1,454,000, or 5 percent, of the state grant for discretionary purposes to support limited purpose agencies that provide services to low-income individuals.

Unbudgeted Discretionary Funds. Although OEO has not identified a specific amount for discretionary purposes in 1983–84, it has provided us with a quarterly spending plan. In our review of OEO's 1983–84 spending proposal, we have identified $466,000 in unbudgeted discretionary CSBG funds. Specifically, our review found that OEO expects to receive $29,073,000 in CSBG funds in both FFY 83 and FFY 84. Because these federal fiscal years overlap the state's 1983–84 fiscal year, federal support in the budget year will be $29,073,000. OEO's budget, however, proposes expenditures of only $28,571,000, or $502,000 less than the amount available. The office indicates that these funds are to be used in 1984–85. However, we could only identify $36,000 in funds which have been earmarked for expenditure. The remaining $466,000 represents unbudgeted CSBG discretionary funds.

Our analysis indicates that federal statutes would permit OEO to use CSBG funds to support the types of activities which currently are funded by the General Fund. The Local Services program provides information and management assistance to community agencies involved in helping the poor. The Economic and Policy Development program provides technical assistance in economic development, and examines other social service programs to insure the most efficient use of funds. Special programs provide funding for six community services representatives. All of these activities are eligible for funding under CSBG.

If these unbudgeted federal funds were used to replace General Fund support proposed for the OEO positions, instead of being carried over into 1984–85 or used for unidentified purposes during the budget year, the Legislature would have an additional $466,000 in General Fund resources to draw on, and therefore more flexibility in funding its priorities in this or other program areas.

On this basis, we recommend that the $466,000 in unbudgeted CSBG funds be added to Item 0660-101-890, and the same amount be deleted from Item 0660-001-001, for a General Fund savings of $466,000.

Legislatively Mandated Publications

State law requires OEO to issue two annual publications: (1) a status of poverty report and (2) the performance of community action agencies report. The office recommends that both publications continue to be issued in the budget year. We concur with OEO's recommendation.

Governor's Office

OFFICE OF LONG-TERM CARE

Item 0670 from the General Fund — Budget p. LJE 56

Requested 1983–84	$150,000
Estimated 1982–83	—
Requested increase (excluding amount for salary increases) $150,000	
Total recommended reduction	$57,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. ***Proposed New Positions. Reduce by $49,000.*** Recommend that the proposed staffing level for the Office of Long-Term Care be reduced by two positions because the office lacks the statutory authority needed to perform proposed functions, for a savings of $95,000 ($49,000 General Fund and $46,000 reimbursements). 68
2. ***Long-Term Care Advisory Task Force. Reduce by $8,000.*** Recommend that the membership of the Long-Term Care Advisory Task Force be reduced by 35 members because the proposed size has not been justified and it is larger than that of similar advisory groups in the long-term care field, for a savings of $15,000 ($8,000 General Fund and $7,000 reimbursements). 69

GENERAL PROGRAM STATEMENT

The Office of Long-Term Care (OLTC) was established in the Governor's office by Ch 1453/82 (AB 2860). The OLTC is responsible for preparing a plan and timetable for the transfer of various health care and social services programs from the Departments of Aging, Health Services, and Social Services, to a new Department of Aging and Long-Term Care. Chapter 1453 requires the Governor to submit the plan to the Legislature by December 31, 1983.

In the current year, the office has a staff of seven positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $150,000 from the General Fund for support of the OLTC in 1983–84. Total program expenditures are projected at $288,000, including $138,000 in reimbursements from the Health Care Deposit Fund. This is an increase of $175,000, or 155 percent, over estimated current-year expenditures. The increase reflects the fact

OFFICE OF LONG-TERM CARE—Continued

that during the current year, the office is funded for only three months. Because Control Section 13.50 requires the Director of Finance to reduce the budgets of agencies within the "Governor's Office" by a total of 10 percent, the appropriation for the OLTC is subject to further reduction. Support for the office during the current year comes from $113,000 in reimbursements received from the Health Care Deposit Fund.

The amount proposed for support of the OLTC will increase by the amount of any salary or staff benefit increases approved for the budget year.

Proposed New Positions for the Office of Long-Term Care (OLTC)

We recommend that the staffing level proposed for the OLTC be reduced by two positions because the office lacks the statutory authority needed to perform specified functions, for a savings of $95,000 ($49,000 General Fund and $46,000 reimbursements.) We further recommend that authorization for the remaining five positions be limited to June 30, 1984.

Background. Chapter 1453, Statutes of 1982 (AB 2860), made significant changes in the funding and delivery of long-term health care and social services to elderly and functionally impaired persons. Specifically, it established a new Department of Aging and Long-Term Care, a network of local service delivery agencies, and the Long-Term Care Consolidated Fund. In addition, the statute requires the Governor to submit, by December 31, 1983, a plan and timetable for the transfer of programs and funds from existing departments to the Department of Aging and Long-Term Care.

Chapter 1453 established within the Governor's Office an Office of Long-Term Care (OLTC) to prepare the plan and timetable. The legislation also established an advisory task force, to be appointed by the Governor, to advise the staff of the OLTC.

Budget Proposal. The 1983–84 budget proposes seven positions to staff the OLTC and a task force of 50 members to advise the office. The budget assumes the seven positions will be administratively established by March 1, 1983. Of these, four positions will be transferred from the Health and Welfare Agency, and one position each will come from the Departments of Aging, Health Services, and Social Services.

Workload Estimates. The workload justification accompanying the request for the positions indicates that (1) one position equivalent is required to coordinate the advisory task force, (2) two position equivalents are necessary to develop fiscal data and cost estimates, (3) two position equivalents are required to prepare the multi-year phase-in plan, and (4) two position equivalents are needed to establish procedures for implementing the new system.

Our analysis indicates that Chapter 1453 requires the OLTC to (1) coordinate the advisory task force, (2) develop fiscal data and cost estimates, and (3) prepare a phase-in plan. Chapter 1453, however, does not require or authorize OLTC to establish procedures for implementing the new long-term care system, for which two positions are budgeted. Instead, Chapter 1453 states that the Department of Aging and Long-Term Care is responsible for establishing procedures for implementing the long-term care system. This includes the development of (1) an application process for local long-term care agencies, (2) a process to allocate funds to local agencies, (3) a system to certify providers, (4) data systems development,

(5) standards for quality of care and agency performance, (6) technical assistance to local agencies, and (7) reporting requirements.

Because Chapter 1453 requires the department, and not OLTC, to perform these functions, we recommend deletion of two positions. In order to maintain a staffing level which will permit the OLTC to perform its mandated duties, we recommend deletion of one analyst position and one manager position, along with associated operating expenses and equipment costs, for a savings of $95,000 ($49,000 General Fund and $46,000 reimbursements).

We further recommend that the remaining five positions be approved on a limited-term basis, through June 30, 1984, because OLTC is an interim office and staff may not be necessary beyond that date if the plan submitted by the Governor is approved by the Legislature prior to the 1984–85 fiscal year.

Long-Term Care Advisory Task Force

We recommend that the membership of the Long-Term Care Advisory Task Force be reduced by 35 members and that travel and per diem costs be reduced accordingly, because the proposed size of the task force is not justified and is larger than that of similar advisory bodies in the long-term care field, for a savings of $15,000 ($8,000 from the General Fund and $7,000 in reimbursements).

Chapter 1453, Statutes of 1982, requires the Governor to appoint an advisory task force to assist the OLTC. The statute requires that the task force membership include representatives from state and county government, area agencies on aging, and specified consumer groups and nonprofit service providers. The legislation does not specify the size of the task force.

The administration proposes a task force of 50 members. The budget requests $30,000 in travel and per diem funds for the 50 members on the assumption that the task force will hold 12 meetings.

Our analysis indicates that while the task force's size is not limited by statute, advisory boards in the aging and long-term care field typically range from 10 to 25 members. Table 1 below shows the size of other advisory bodies in the long-term care field.

Table 1

Aging and Long-Term Care Advisory Groups

Advisory Group	*Size*	*Authority*
California Commission on Aging	25	Ch 1055/76
State Council on Developmental Disabilities	17	Ch 563/81
Adult Day Health Care Planning Council	15	Ch 1490/82
Adult Day Health Care State-Level Review Panel	10	Ch 1490/82

As indicated by Table 1, the average size of these task forces is 17 members, and the largest of the four—the California Commission on Aging—has 25 members.

The administration has provided no justification for establishing a task force of 50 members, and we can find no analytical basis for a membership that is substantially larger than that of similar groups. Accordingly, we recommend that the size of the Long-Term Care Advisory Task Force be reduced by 35 members, to a total of 15. This would permit the administration to meet the minimum task force composition requirements of Ch 1453/82, and would bring its size in line with similar advisory groups. We

OFFICE OF LONG-TERM CARE—Continued

further recommend that the amount budgeted for travel and per diem costs associated with task force meetings be reduced to reflect the reduced size of the task force, for a savings of $15,000 ($8,000 in General Fund and $7,000 in reimbursements).

Governor's Office

OFFICE OF EMERGENCY SERVICES

Item 0690 from the General Fund — Budget p. LJE 57

Requested 1983–84	$13,403,000
Estimated 1982–83	12,785,000
Actual 1981–82	14,533,000
Requested increase (excluding amount for salary increases) $618,000 (+4.8 percent)	
Total recommended reduction	$58,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0690-001-001—Support		General	$4,526,000
0690-001-029—Support		Nuclear Planning Assessment, Special Account	277,000
0690-101-029—Local Assistance		Nuclear Planning Assessment, Special Account	600,000
Continuous Appropriation—Local Assistance		Public Facilities Account	4,500,000
Continuous Appropriation—Local Assistance		Street and Highway Account	3,500,000
Federal Trust Fund			(40,779,000)
Reimbursements			(55,000)
Total			$13,403,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. ***Salary Savings. Reduce Item 0690-001-001 by $58,000.*** Recommend salary savings be increased to eliminate overbudgeting. 73

GENERAL PROGRAM STATEMENT

The Office of Emergency Services (OES) coordinates emergency activities necessary to save lives and reduce losses from natural or other disasters. The office carries out its mission through two programs—emergency mutual aid services, and fixed nuclear power plant planning. It also provides aid to local governments through the Natural Disaster Assistance Fund. The office has 121.5 authorized personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $54,237,000 from the General Fund, federal funds, special funds, and reimbursements, for support of the office in 1983–84. This amount is $395,000, or 0.7 percent, more than estimated current-year expenditures. However, because control section 13.50 requires the Director of Finance to reduce budgets of agencies within the "Governor's Office" by a total of 10 percent, the General Fund appropriation ($4,526,000) for OES is subject to further reduction. On the other hand, the proposed budget for the office will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget anticipates that $43 million in disaster assistance will be distributed to local governments in both 1982–83 and 1983–84. These amounts are merely estimates. The actual amount of state and federal assistance depends on the cost of repairing damage caused by natural disasters. Approximately $36.3 million was distributed for this purpose in 1981–82.

Expenditures, by program element, for the three-year period ending June 30, 1984, are shown in Table 1.

Table 1
Office of Emergency Services
Source of Funding Summary
(dollars in thousands)

Category	*Actual*	*Estimated*	*Proposed*	*Change*	
Support: Source of Funds	*1981–82*	*1982–83*[a]	*1983–84*	*Amount*	*Percent*
General Fund	$3,931	$3,936	$4,526	$590	15.0%
Federal funds	2,433	3,031	2,766	−265	−8.7
Reimbursements	3	55	55	—	—
Nuclear planning assessment	458	428	277	−151	−35.3
Energy and Resources Fund	385	—	—	—	—
Subtotals	$7,210	$7,450	$7,624	$174	2.3%
Local Assistance					
General Fund	$6	$21	($21)[b]	−$21	−100.0%
Federal Disaster Relief	27,173	35,000	35,000	—	—
Federal match	2,715	2,971	3,013	42	1.4
Nuclear planning assessment	602	400	600	200	50.0
Public Facilities Account	7,798	4,500	4,500	—	—
Street and Highway Account	1,353	3,500	3,500	—	—
Subtotals	$39,647	$46,392	$46,613	$221	0.5%
Totals	$46,857	$53,842	$54,237	$395	0.7%
Use of Funds					
Program					
Administration	($1,085)	($1,088)	($1,110)	($22)	(2.0%)
Personnel-years	26.9	27.7	27.7	—	—
Mutual aid	31,489	39,710	39,823	113	0.3
Personnel-years	27.7	32.0	33.5	1.5	4.7
Emergency communications system	1,466	1,605	1,500	−105	−6.5
Personnel-years	11.2	11.4	11.9	0.5	4.4
Emergency plans	2,016	2,119	2,106	−13	−0.6
Personnel-years	27.3	31.3	29.1	−2.2	−7.0
State mutual aid resources	1,390	1,580	1,931	351	22.2
Personnel-years	12.9	14.6	14.6	—	—
Nuclear planning assessment	1,060	828	877	49	5.9
Personnel-years	3.8	4.5	5.0	0.5	11.1
Earthquake preparedness and response	285	—	—	—	—
Personnel-years	2.3	—	—	—	—
Subtotals	$37,706	$45,842	$46,237	$395	0.9%
Personnel-years	112.1	121.5	121.8	0.3	0.2

OFFICE OF EMERGENCY SERVICES—Continued

Natural Disaster Assistance					
Public facilities	$7,798	$4,500	$4,500	—	—
Streets and highways	1,353	3,500	3,500	—	—
Subtotals	$9,151	$8,000	$8,000	—	—
Totals	$46,857	$53,842	$54,237	$395	0.7%

[a] The total estimated expenditure for 1982–83 does not reflect the 2 percent unallotment directed by Executive Order D-1-83.
[b] Funding for 1983–84 is provided in the budget for "State-Mandated Local Programs", Item 9680.

Funding for OES Operations

The budget requests appropriations from the General Fund, federal funds, and the Nuclear Planning Assessment Special Account totaling $7,569,000 for support of the office in 1983–84. This is $174,000, or 2.4 percent, more than estimated current-year expenditures. As mentioned earlier, this amount may be adjusted to reflect Control Section 13.50 and any salary or benefit increase approved for the budget year.

The $174,000 increase reflects:

- An increase of $590,000, or 15 percent, in General Fund support.
- A decrease of $151,000, or 35 percent, in Nuclear Planning Assessment Special Account funds.
- A decrease of $265,000, or 8.7 percent, in federal funds.

The major portion of the $590,000 increase in proposed General Fund expenditures ($467,000, or 79 percent) is for the replacement of five fire trucks. The OES, under its mutual aid services program, maintains a fleet of 100 fire trucks which have been assigned to local agencies in strategic locations within California. During the 1982 budget hearings, the Legislature (1) deleted $425,000 from the OES support budget to defer funding for replacement of fire trucks for one year and (2) added language to the *Supplemental Report of the 1982 Budget Act* stating that the Legislature supports the concept of an ongoing fire truck replacement program and that this program deserves consideration as a high priority in future years. The budget proposal would reinstate the 20-year replacement cycle that previously had been followed.

Requested Staffing Changes

The budget proposes the following five staffing changes:

1. Reestablishment of a senior coordinator position to provide first-line supervision of the State Warning Center. The OES operates the center to provide information by telephone, teletype, and radio to state government and to local jurisdictions in the event of war or other emergency situations. In the past, the senior office coordinator position has been funded in the annual Budget Act. Pursuant to Section 20 of the Budget Act of 1982, however, the position was abolished on July 1, 1982 because it had been vacant for nine months. Support for this position ($46,000) is split 50:50 between the General Fund and federal funds.

2. Continuation of one federally-funded coordinator position that was established administratively during the current year to augment OES's planning efforts with respect to the state's radiological defense program. Funding for the position and related expenses is budgeted at $48,000.

3. Continuation of three federally-funded positions (two technical and one clerical) through September 30, 1983, at a cost of $38,000. The positions

were established administratively on October 1, 1982, in order to expand OES's emergency management training program.

4. Continuation of four positions (two technical and two clerical) which assist local authorities in preparing or upgrading emergency plans for responding to nuclear power plant accidents in accordance with Ch 864/82 (SB 1473). Chapter 864 extended from December 31, 1982, to January 1, 1988, the termination date for OES's responsibilities in this area. The cost of the positions and related expenses, which total $218,000, are funded from assessments paid into the Nuclear Planning Assessment Special Account by utilities which operate certain nuclear power plants.

5. Continuation of a health physicist position established administratively in the current year to perform planning and related technical duties under the Nuclear Power Planning program. Funding for the position and related expenses is budgeted at $43,000 from the Nuclear Planning Assessment Special Account.

Our analysis indicates that these positions are justified on a workload basis.

Salary Savings Understated

We recommend a reduction of $58,000 because salary savings is understated in the budget (Item 0690-001-001).

All state agencies have some vacancies in authorized positions during the year because of staff turnover, delays in filling new positions, or filling positions at the beginning of the salary range. Consequently, agencies do not receive funding for the full cost of all authorized positions. "Salary savings" are estimated and deducted from the appropriation to account for the difference between the cost of authorized positions and expected expenditures for salaries and wages.

The budget indicates that OES will have the equivalent of 3.2 positions (2.6 percent of its budgeted positions) vacant during the budget year. Salary savings, however, are estimated at $25,000—an average of $7,813 per position. This amount is substantially less than the average annual General Fund salary cost per OES position of about $22,000. On this basis, salary savings for the 3.2 positions and associated staff benefit costs should be $58,000 more than the amount budgeted. We, therefore, recommend that the OES budget be reduced by $58,000 (Item 0690-001-001).

OFFICE OF THE LIEUTENANT GOVERNOR

Item 0750 from the General Fund — Budget p. LJE 66

Requested 1983–84	$995,000
Estimated 1982–83	953,000
Actual 1981–82	913,000
Requested increase (excluding amount for salary increases) $42,000 (+4.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Lieutenant Governor is elected pursuant to the California Constitution and serves concurrently with the Governor. He assumes the responsibilities of chief executive in the absence of the Governor, and serves as the presiding officer of the Senate, voting only in the case of a tie vote. The Lieutenant Governor also serves on numerous commissions and boards. His other duties include such special tasks as may be assigned to him by the Governor.

In addition to the Lieutenant Governor himself, the Lieutenant Governor's office is authorized 22 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $995,000 from the General Fund for support of the Lieutenant Governor's Office in 1983–84. This is $42,000, or 4.4 percent, more than the estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The past, current and budget-year requirements of the office are summarized in Table 1.

Table 1
Office of the Lieutenant Governor
Budget Requirements
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change from 1982–83 Amount*	*Percent*
Personal Services					
Salaries and Wages	$530	$582	$602	$20	3.4%
Staff Benefits	99	106	125	19	17.9
Totals, Personal Services	$629	$688	$727	$39	5.7%
Operating Expenses and Equipment	326	309	314	5	1.6
Total Expenditures	$955	$997	$1,041	$44	4.4%
Reimbursements	−42	−44	−46	−2	4.5
Total Expenditures	$913	$953[a]	$995	$42	4.4%
Authorized Positions (Staff-years)	21.4	23.0	23.0	—	—

[a] This amount does not reflect the 2 percent unallotment directed by Executive Order D-1-83.

Budget-Year Changes

As shown in Table 1, the proposed $42,000 increase in expenditures is the net result of (1) an additional $39,000 budgeted for personal services, (2) an additional $5,000 requested for operating expenses and equipment and (3) a $2,000 increase in reimbursements.

The $39,000 increase in the personal services budget is the result of (1) merit salary adjustments, (2) restoration of a onetime reduction in the office's PERS contributions during 1982–83, and (3) increased costs for health and dental insurance. The budgetary effects of these increases are summarized in Table 2.

Table 2
Budget-Year Changes
General Fund
(in thousands)

	Change	*Total*
1982–83 Revised Budget		$953
1. Cost Changes		
a. Merit salary adjustments	$20	
b. Restoration of retirement contributions	18	
c. Health and dental insurance premiums	1	
d. Operating expenses	5	
2. Increased Reimbursements	−2	
Net Total Changes	$42	
1983–84 Proposed Net Budget		$995

DEPARTMENT OF JUSTICE

Item 0820 from the General Fund and various funds — Budget p. LJE 67

Requested 1983–84	$104,353,000
Estimated 1982–83	98,144,000
Actual 1981–82	94,218,000
Requested increase (excluding amount for salary increases) $6,209,000 (+6.3 percent)	
Total recommended reduction	$1,250,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0820-001-001	Support	General	$88,222,000
0820-001-012	Antitrust	Attorney General's Antitrust Account, General	923,000
0820-001-017	Fingerprint Fees	Fingerprint Fees, General	4,500,000
0820-001-044	Data Center Support	Motor Vehicle Account, State Transportation	10,035,000
0820-001-460	Dealers' Record of Sale	Dealers' Record of Sale Special Account, General	673,000
0820-001-890	Support	Federal	(4,925,000)
Total			$104,353,000

DEPARTMENT OF JUSTICE—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

		Analysis page
1.	*Moving Expenses. Reduce Item 0820-001-001 by $79,000.* Recommend deletion of moving expenses because the department is likely to move in the current year.	80
2.	*Administrative Staff. Reduce Item 0820-001-001 by $54,000.* Recommend reduction of one administrative position because it is no longer needed.	80
3.	*Savings from Expansion of Paralegal Program. Reduce Item 0820-001-001 by $258,000.* Recommend reduction of 6 clerical positions and $162,000 in operating expenses to reflect full savings from expansion of paralegal program.	82
4.	*Medfly Litigation. Reduce Item 0820-001-001 by $148,000.* Recommend deletion of 1 paralegal, 0.5 clerical and consulting expenses because the costs of litigation have been less than anticipated.	83
5.	Budgeting for Legal Services. Recommend technical modification to Budget Bill language in Item 0820-001-001 to insure that excess reimbursements from legal services revert to the General Fund.	84
6.	*Agent Overtime. Reduce Item 0820-001-001 by $125,000.* Recommend deletion of $125,000 because the department consistently overbudgets for agent overtime.	84
7.	*State Participation in Narcotic Task Force. Reduce Item 0820-001-001 by $58,000.* Recommend discontinuing participation in narcotic task force because there is little benefit from state involvment. Recommend deletion of one special agent position and redirection of one special agent position to coordinate efforts to suppress illegal marijuana cultivation on public lands.	85
8.	*Marijuana Records Purge. Reduce Item 0820-001-001 by $413,000.* Recommend redirection of ongoing purge program staff to the marijuana records purge effort, and deletion of 23 proposed new positions.	89
9.	Consolidate Purge Programs. Recommend the department develop a plan to consolidate the marijuana records purge project and the criminal and applicant purge program.	91
10.	*General Fund Subsidy of Applicant Program. Reduce Item 0820-001-001 by $114,000.* Recommend reduction to eliminate a General Fund subsidy of the applicant identification program.	92
11.	*Unneeded Publication. Reduce Item 0820-001-001 by $1,000 (General Fund) and Item 0820-001-890 by $3,000 (federal funds).* Recommend department discontinue unneeded publication. Further recommend modification to Budget Bill language to insure that a more comprehensive report is submitted to the Legislature.	93

GENERAL PROGRAM STATEMENT

The Department of Justice, under the direction of the Attorney General, enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies. Its functions are carried out through six programs—Executive, Special Programs, Civil Law, Criminal Law, Law Enforcement, and Administration. The department is authorized a total of 2,985.1 personnel-years in the current year.

The department's legal programs are staffed with approximately 625 attorneys, paralegals, auditors and related support positions. The Civil Law Division provides legal representation for most state agencies, boards, and commissions. The Criminal Law Division represents the state in all criminal matters before the appellate and supreme courts.

The law enforcement support program has an authorized staff of approximately 1,780 positions and is the largest of the department's divisions. It (1) provides investigative assistance to local law enforcement agencies, (2) operates a system of criminalistics laboratories throughout the state, (3) maintains centralized criminal history records and fingerprint files, and (4) operates a 24-hour-a-day communications center which provides criminal record information to law enforcement agencies thoroughout the state.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $104,353,000 from the General Fund and various special funds for the support of the Department of Justice in 1983–84. This is an increase of $6,209,000 or 6.3 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The proposed increase in expenditures is primarily attributable to merit salary adjustments and general price increases. In addition, the budget will increase over current-year levels in order to adjust for a one-time reduction in retirement contribution rates which occurred in 1982–83. Finally, the department requests additional support from the General Fund in order to comply with the terms of an injunction granted by the Alameda County Superior Court. This injunction requires certain marijuana arrest and conviction data to be purged from criminal records disseminated by the department. These and other proposed 1983–84 budget changes are detailed in Table 1.

Table 1
Department of Justice
Proposed 1983–84 Budget Changes
(in thousands)

	General Fund	*Special Funds*	*Federal Funds*	*Reimbursements*[a]	*Total*
1982–83 Current-Year Revised	$82,581	$15,563	$4,921	$18,576	$121,641
1. Workload Changes					
a. Medfly	348	—	—	−354	−6
b. Licensing	—	—	—	−356	−356
c. Legislative Mandate	−35	—	—	—	−35
d. Grant Changes	—	—	−169	−209	−378
e. Escheated Property	103	—	—	−103	—
f. Reduced Collections	—	−100	—	—	−100

DEPARTMENT OF JUSTICE—Continued

g. One-time Expenses	−372	−301	—	−15	−688
h. Reimbursement Contracts	—	−1	—	−580	−581
i. Prison Crimes	−455	—	—	—	−455
j. Financial Legislation	−20	—	—	—	−20
2. Cost Changes					
a. Price Increases	1,315	426	45	293	2,079
b. Merit Salary	998	143	40	207	1,388
c. Pro Rata Adjustment	—	38	—	—	38
d. Restore Retirement Reduction	2,371	308	88	446	3,213
3. Program Change Proposals					
a. Licensing	—	—	—	714	714
b. Appeals, Writs, Trials	363	—	—	—	363
c. Tort Investigations	92	—	—	—	92
d. Reclassification of Legal Staff	−455	—	—	—	−455
e. Marijuana/Toxicology	—	—	—	74	74
f. Medi-Cal Lien	—	—	—	130	130
g. Tear Gas and POST	—	—	—	97	97
h. Administrative Services	—	55	—	(141)[b]	55
i. Court Injunction	1,388	—	—	—	1,388
1983–84 Proposed Expenditures	$88,222	$16,131	$4,925	$18,920	$128,198

[a] Reimbursements include amounts payable from the Political Reform Act.
[b] Amounts in parentheses are distributed among other items.

Total program expenditures, including expenditures of federal funds and from reimbursements, are budgeted at $128,198,000. This is $6,557,000, or 5.4 percent, more than estimated total expenditures in the current year. Table 2 summarizes the department's expenditures by program.

Table 2
Department of Justice
Budget Summary
(dollars in thousands)

	Actual 1981–82	*Estimated[a] 1982–83*	*Proposed 1983–84*	*Change from 1982–83 to 1983–84* *Amount*	*Percent*
1. Executive[b]	($2,679)	($2,491)	($2,593)	($102)	(4.1%)
Personnel-years	62.9	56.6	56.6	—	—
2. Special Programs	4,620	3,806	3,925	119	3.1
Personnel-years	56	45.6	44.9	−0.7	−1.5
3. Civil Law	26,936	25,857	27,243	1,386	5.4
Personnel-years	301.2	291	302.8	11.8	4.0
4. Criminal Law	21,588	21,882	22,890	1,008	4.6
Personnel-years	308.1	314.3	312.5	−1.8	−0.6
5. Law Enforcement	67,796	70,061	74,140	4,079	5.8
Personnel-years	1,709.8	1,743.9	1,809.5	65.6	3.8
6. Administration	(22,853)	(24,103)	(24,995)	(892)	(3.7)
Personnel-years	579.2	533.7	527.4	−6.3	−1.2
7. Legislative Mandate[c]	32	35	[35]	−35	−100.0
Program Totals	$120,972	$121,641	$128,198	$6,557	5.4%
Personnel-years	3,017.2	2,985.1	3,053.7	68.6	2.3

[a] Estimated expenditures for 1982–83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.
[b] Amounts in parentheses are distributed among other items.
[c] Reimburses cities and counties for mandated costs incurred in (1) destroying possession-of-marijuana files and (2) submitting dental records of missing persons. Funding for these mandates in 1983–84 is provided in the budget for State-Mandated Local Programs, Item 9680. The amount in brackets is shown here for information purposes only.

Table 3 presents a summary of the department's proposed funding sources.

Table 3
Department of Justice
Funding Source Summary
(dollars in thousands)

	Actual 1981–82	*Estimated[a] 1982–83*	*Proposed 1983–84*	*Change from 1982–83 to 1983–84 Amount*	*Percent*
1. General Fund	$81,741	$82,581	$88,222	$5,641	6.8%
2. Attorney General's Antitrust Account (General Fund)	269	949	923	−26	−2.7
3. Fingerprint Fees (General Fund)	3,267	4,159	4,500	341	8.2
4. Motor Vehicle Account (State Transportation Fund)	8,937	9,806	10,035	229	2.3
5. Off-Highway Vehicle Fund	4	1	—	−1	−100.0
6. Dealers' Records of Sale (General Fund)	—	648	673	25	3.9
Total, Direct Appropriations	$94,218	$98,144	$104,353	$6,209	6.3%
7. Reimbursements	21,742	18,343	18,674	331	1.8
8. Federal Trust Funds	4,772	4,921	4,925	4	0.1
9. Political Reform Act	240	233	246	13	5.6
Total Funding	$120,972	$121,641	$128,198	$6,557	5.4%

[a] Estimated expenditures for 1982–83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

Evaluation of Investigative Assistant Program

In the *Supplemental Report of the 1982 Budget Act,* the Legislature directed the department to submit by September 1, 1982 an evaluation of its investigative assistant pilot program. The report was to include workload and performance data, address the impact of the investigative assistants on special agent activity, and discuss the potential for increased utilization of investigative assistants in the Investigation and Enforcement program.

The program was initiated in 1981–82 when the department was authorized to redirect three positions from a program that was being discontinued, for use as investigative assistants in a one-year pilot program, at a General Fund cost of about $95,000. The department's plan was to utilize the positions to perform routine non-investigative tasks that were being performed by special agents. These tasks would include searching public records, serving legal documents, collecting data for statistical reports, and assisting in background investigations. The investigative assistants also would transport and inventory criminal evidence, inventory and schedule maintenance of equipment, and act as assistant rangemasters to transport ammunition, schedule marksmanship training and order supplies.

According to the department, the success of the pilot program should be measured by the increase in special agent time devoted to investigative or enforcement activity, rather than to more routine noninvestigatory tasks. Our analysis indicates that if the program is successful, it should also

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result in cost savings by relieving special agents of routine noninvestigative duties and thus freeing the more expensive agent personnel to concentrate on more demanding investigative tasks.

In September, 1982 the department notified the Legislature that because of initial implementation problems, it has not been able to thoroughly evaluate the program or assess the impact of the investigative assistants on the agents' workload. Staff indicates that one more year is needed to complete the study, and advises that a final report on the pilot program will be submitted by September 1, 1983.

Moving Expenses Overbudgeted

We recommend deletion of funds requested for moving expenses because it is likely that the department will move in the current year, for a General Fund savings of $79,000 (Item 0820-001-001).

The department advises that it is planning to relocate its executive, administrative, and legal programs to a new leased facility at 1515 K Street. These programs currently are housed at various locations in Sacramento. The department has entered into a lease agreement to move into the building on May 1, 1983, assuming that the construction of the building is complete and that it is ready for occupancy. The building contractor indicates that construction currently is on schedule.

The Governor's Budget, however, requests $79,000 in moving expenses for the budget year. The request is based on a plan that calls for the department to begin relocating programs in the new building during July 1983.

We question the need for funds to cover moving expenses in 1983–84 for two reasons. First, the department has not budgeted any funds to pay rent at the existing facilities occupied by the executive, administrative and legal programs in Sacramento during 1983–84. This would suggest that the programs will be located in the new facilities by the end of the current year.

Second, if the building is available for occupancy on May 1, 1983, as it is expected to be, and if the department has estimated correctly that the move will take four weekends to complete, the department should have more than enough time during the current year to relocate its staff.

Thus, funds for moving expenses would not seem to be needed in the budget year. Accordingly, we recommend deletion of the funds requested for moving expenses, for a General Fund savings of $79,000.

Unneeded Administrative Position

We recommend deletion of one building manager position because it is no longer needed, for a General Fund savings of $54,000 (Item 0820-001-001).

Construction of a new state office building for the Division of Law Enforcement was completed during the fall of 1982. The division recently completed the relocation of its staff to the new facility which is located at 4949 Broadway, in Sacramento.

During the last 22 months, the department has utilized one of its administrative personnel as a building manager. The responsibilities of the building manager have included (a) acting as liaison between the department and the Office of State Architect during the construction period, (b) ensuring that program managers were aware of the building plan so that if any problems were identified, the changes could be made prior to completion of the facility, and (c) coordinating complaints and resolving problems with the building that became apparent after the staff relocated to the site.

Our analysis indicates that the building manager position will not be needed in the budget year, for several reasons. First, problems associated with the design, construction, and modification of the new building to meet the division's program needs should be largely resolved by the end of the current year. Second, the division can look to the Department of General Services for ongoing building management services. The department is responsible for providing these services to occupants of all state buildings, and the Department of Justice pays for these services through its building rental payments. Third, the department could address any minor building-related problems that arise in the future by organizing a facilities committee, composed of program managers and existing program support staff. A similar committee was established at the leased building previously occupied by the division.

Because the building manager will not be needed in the budget year, we recommend elimination of the position, for a General Fund savings of $54,000.

Administration Expands Civil Law Paralegal Program

The budget proposes to expand the department's paralegal program in the Civil Law Division by reclassifying 20 deputy attorney general II positions as paralegal positions. The budget indicates that the reclassification will result in a General Fund savings of $455,000. The budget proposes to redirect these savings to new positions which would be added to meet increased workload in the criminal law and tort investigation programs.

Table 4 identifies the sections of the Civil Law Division which according to the Department of Finance would be affected by the reclassifications.

Table 4
Department of Justice
Civil Law Division Legal Staff

	1982–83 Authorized Legal Staff		*1983–84 Proposed Legal Staff*	
Civil Law Division	*Attorneys*	*Paralegals*	*Attorneys*	*Paralegal*
Executive	2	—	2	—
State Government	39	1	34	6
Business and Tax	30	2	26	6
Environment	28	2	26	4
Land	30	1	25	6
Tort and Condemnation	39	3	35	7
Licensing	50	4	54	4
Health, Education and Welfare	33	7	33	7
Totals	251	20	235	40

In order to avoid staff layoffs, the Budget Bill contains language allowing the department to institute the position reclassifications as attorney vacancies occur during the budget year.

We recommend approval of the proposed expansion of the paralegal program, for two reasons. First, a 1979 Auditor General study concluded that a significant portion of the department's legal duties could be delegated to paralegals in order to relieve attorneys of routine legal work and

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allow them to devote a greater portion of their time to more complex legal matters. Second, significant cost savings can be achieved if paralegals, rather than attorneys, perform routine legal work. A paralegal position costs approximately one-half as much as an attorney.

We are not able to evaluate whether the new paralegal positions can be best utilized in the sections to which they are assigned by the budget. The Department of Finance, however, advises us that the Department of Justice will be given the flexibility to shift the new positions to other sections within the legal divisions if, in the department's judgement, the type of workload within each section warrants such adjustments.

Budget Fails to Reflect Full Savings Resulting from Expansion of Paralegal Program

We recommend deletion of 6 clerical positions and $162,000 requested for operating expenses, for a total General Fund savings of $258,000 (Item 0820-001-001), to ensure that the budget reflects the full savings resulting from expansion of the paralegal program.

The budget proposes to expand the department's paralegal program in the Civil Law Division by reclassifying 20 deputy attorney general positions as paralegal positions, for a General Fund savings of $455,000. The Department of Finance advises that the estimate of savings is based on the difference between the salary and staff benefit amounts needed to finance the deputy attorney general II positions and the corresponding amounts that will be needed to finance the paralegal positions.

A review of Department of Justice budget support documents indicates that further savings should result from the increased use of paralegals in place of attorneys to perform routine legal work. This is because less clerical staff and a lesser amount for operating expenses are needed to support paralegals, relative to what attorneys require. Table 5 shows the full costs associated with each type of legal staff.

Table 5
Department of Justice
Legal Staff Costs: Attorneys and Paralegals

Cost of One Position [a]	*Attorney*	*Paralegal*
Salary and staff benefits	$44,070	$21,759
Related clerical staff	14,607	9,379
Operating expenses	9,850	1,750
Totals	$68,527	$32,888

[a] The staff proposed for reclassification include deputy attorney general II and legal assistant positions. The dollar amounts are based on standard complement formulas used by the Department of Justice for budgeting purposes.

The Department of Justice's own data indicates that the projected costs associated with one attorney position are $35,639 more than the projected costs of one paralegal position in 1983–84. Thus, the savings that should result from utilizing 20 paralegals, rather than an equal number of attorneys, in the Civil Law Division is $713,000 rather than the $455,000 reflected in the Governor's Budget. Therefore, we recommend deletion of 6 clerical positions and a reduction of $162,000 in the amount budgeted for operating expenses, for an additional savings to the General Fund of $258,000. These reductions will ensure that the budget reflects the full savings anticipated from the expansion of the paralegal program.

Medfly Litigation Expenses Less than Anticipated

We recommend deletion of one paralegal position, 0.5 clerical position and consulting expenses, because the costs of litigation related to the State's Mediterranean Fruit Fly eradication effort have been less than anticipated, for a General Fund savings of $148,000 (Item 0820-001-001).

In response to major infestations of the Mediterranean Fruit Fly, primarily in the Santa Clara Valley, the Department of Food and Agriculture implemented a program to eradicate the pest in 1980. Eradication efforts included removing and destroying fruit from the infested area, releasing billions of sterile flies, and making aerial applications of pesticides.

The State Board of Control has received over 20,000 claims for reimbursement for damages which the claimants believe resulted from the eradication efforts.

The Department of Justice has incurred significant costs during the last three years in preparing the State's legal defense against claims related to the Medfly eradication program. In 1980–81, the department provided 1500 hours of attorney services to the Medfly program. In September 1981, the department received authorization from the Department of Finance, pursuant to Section 28 of the Budget Act, to spend $359,556 and establish 7.6 legal and support staff positions so that it could organize a claims processing system and begin preparing for litigation. From the $359,556, $150,000 was allocated for contracts with expert witnesses in fields such as pharmacology, toxicology, neurology, entomology, and agrarian economics, to assist with the state's defense.

The 1982 Budget Act appropriated $354,000 to continue these positions and expenditures in the current year. The 1983–84 Governor's Budget requests an appropriation of $348,000 to continue the same staffing level and contract expenses in the budget year.

In our review of the department's budget, we found that the actual costs of Medfly claims processing and litigation have been less than anticipated. For example, the costs of contracting with expert witnesses totalled only $35,000 in 1981–82, and reached only $10,000 during the first six months of 1982–83. Thus, the amounts actually expended for expert witnesses have been far less than the $150,000 appropriated for this purpose in each of these years.

The utilization of paralegal staff also has been less than the budgeted level. Although the department established two paralegal positions to work on activities related to Medfly claims in 1981–82, it utilized only one position for this purpose. Projections of workload based on paralegal hours worked during the first half of the current year indicate that again only one position will be utilized in 1982–83.

Department of Justice staff indicate that it will be difficult to assess the amount of staff and consulting funds needed in the budget year until the Board of Control takes action to approve or disapprove a larger number of Medfly claims. Staff advise that they will be able to estimate 1983–84 budget needs with more certainty once they can assess the number and type of lawsuits filed in response to decisions by the board to disapprove claims.

Based on utilization rates of staff and funds budgeted for Medfly-related workload to date, we recommend a reduction of one paralegal position, 0.5 related clerical staff and $115,000 in consulting expenses, for total General Fund savings of $148,000 (Item 0820-001-001). We will continue

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to monitor trends in this workload, and advise the fiscal committees if a change in these trends warrants a change in our recommendation.

Budgeting for Legal Services

We recommend a technical modification to proposed Budget Bill language in Item 0820-001-001 to insure that any reimbursements received by the Civil Law Division in excess of the amount budgeted revert to the General Fund.

In the 1981 and 1982 Budget Acts, the Legislature adopted language to insure that if the Department of Justice received reimbursements for legal services performed by the Civil Law Division exceeding the amount budgeted for division support, the additional funds would revert to the General Fund. The language allows expenditure of the excess reimbursements only upon authorization by the Director of the Department of Finance and prior notification to the Legislature.

The Legislature adopted this language because the budgets for many agencies that receive legal services from the Civil Law Division contained an amount for legal services that exceeded the amount reflected in the department's budget. This same disparity shows up in the budget for 1983–84.

The 1983–84 Budget Bill contains language that is similar to that adopted in 1981 and 1982. Our review indicates, however, that the dollar amount specified in the language is not based on the amount budgeted for the Civil Law Division, as it has been in past years. We therefore recommend that the Budget Bill language be modified as follows:

> "Any funds received by the Department of Justice as reimbursements for legal services provided by the Civil Law Division in excess of $13,229,000, as adjusted by any changes in employee compensation, shall revert to the unappropriated surplus of the General Fund unless the Director of Finance authorizes the expenditure of the reimbursements and notification is provided to the Legislature pursuant to Section 28."

Agent Overtime Overbudgeted

We recommend deletion of $125,000 (Item 0820-001-001) requested for agent overtime because the department consistently overbudgets for this purpose.

For many years, the department has utilized special agents in its Advanced Training Center, and Bureaus of Narcotic Enforcement, Investigations, and Organized Crime and Criminal Intelligence. The agents are expected to work a substantial amount of overtime, for which they are compensated. The department proposes expenditures for agent overtime totaling $875,000 in the budget year.

Our analysis of the department's budgets for the years 1974–75 through 1981–82 reveals a consistent pattern of overbudgeting for agent overtime. Table 6 demonstrates that the amount actually expended from the appropriation for overtime ranges from 67 percent of the total amount available (1977–78) to 90 percent (1980–81). The data shows that, on average, the department utilized 77.5 percent of the funds budgeted for agent overtime.

Table 6
Department of Justice
Agent Overtime

	Budgeted	*Change to Budget*[a]	*Total Available*	*Expended*	*Percent Spent of Total Available*
1974–75	$623,232	$31,152	$654,384	$491,309	75%
1975–76	654,384	52,094	706,478	537,035	76
1976–77	683,410	41,910	725,320	564,522	78
1977–78	745,715	32,014	777,729	522,804	67
1978–79	777,729	−100,682	677,047	483,282	71
1979–80	770,891	−21,000	749,891	634,793	85
1980–81	749,891	73,115	823,006	737,053	90
1981–82	823,006	69,256	892,262	695,803	78
1982–83	892,262	−17,000	875,262	N/A	N/A
1983–84	875,262	N/A	N/A	N/A	N/A

[a] These changes result mainly from salary increases, however, in some years amounts were reduced to achieve cuts required by the Budget Acts.

Based on the department's experience during the past eight years, we believe overtime requirements are overstated by at least $125,000. Accordingly, we recommend that this amount be deleted from Item 0820-001-001. This will leave $750,000 available for overtime, which is 85.7 percent of the $875,000 requested, and more than the largest amount actually expended for overtime in any previous year.

State Participation in Local Narcotic Task Force Has Little Impact

We recommend that the state discontinue its participation in one local narcotic task force because there is little additional benefit gained from state involvement. We further recommend that one of the two positions assigned to this task force be redirected to coordinate efforts designed to suppress illegal marijuana cultivation on public lands and one position be deleted, for a General Fund savings of $58,000 (Item 0820-001-001).

The Bureau of Narcotic Enforcement operates three narcotic programs. The budget requests $8.7 million for these programs in 1983–84 and proposes that 113 special agents and 37 management and support positions be used to staff them. The three programs include narcotic task forces, special operations units, and drug diversion units. Although the narcotic enforcement activities are authorized by general constitutional and statutory provisions, the programs are largely discretionary.

The task force program differs from the other two programs because its purpose is to enhance narcotic enforcement at the local government level, rather than to address major, multijurisdictional or statewide narcotic problems. According to the department, the task forces attempt to foster cooperation between local law enforcement agencies, standardize and improve narcotic enforcement techniques and training, and encourage the exchange of intelligence information, informants and equipment.

Under the task force program, the state enters into formal agreements for long-term cooperation with law enforcement agencies, which typically are located in nonmetropolitan areas. The state usually agrees to contribute a state special agent to act as task force commander, and generally provides additional resources such as rented office space, equipment, and narcotic "buy money." Typically, each local agency participating in the task force contributes the equivalent of one position or less to a task force.

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Local governing boards provide direction to the task forces and help define and target local drug-related problems. Table 7 displays the location and staffing mix of each of the existing task forces.

Table 7
Department of Justice
Narcotic Task Forces with State Participation

Task Force Location	*Population Served*	*Personnel Contributed by Local Agencies*	*Personnel Contributed by the State*
Kings County	74,175	5 positions	1 task force commander
Imperial County	95,390	9 positions	1 task force commander, and 1 secretary
Placer County	121,290	7 positions	1 task force commander
Yuba-Sutter Counties	102,800	5 positions	1 task force commander
Yolo County	113,940	5 positions	1 task force commander
San Luis Obispo County	158,825	5 positions	1 task force commander
Sacramento County	780,200	22 positions	1 team leader, and 1 special agent

In July 1982, the department's management analysis section completed a study which indicates that the Sacramento task force differs from the other task forces in the following ways:

1. Typically, the task forces are located in rural areas where each participating agency can afford to contribute the equivalent of one officer or less to the cooperative narcotics effort. The Sacramento unit, which is located in a major metropolitan area, is staffed by 22 officers, including 14 contributed by the police department and eight officers from the sheriff's office.
2. The Sacramento task force is composed of and supervised by experienced local narcotic officers. Therefore, there is little need for additional state investigative or administrative expertise.
3. The participating local agencies have a long history of cooperation, so there is no need for the politically neutral supervision which the state often provides to task forces. State agents do not command the Sacramento task force.

The department's study indicates that the state's involvement in the Sacramento task force is incompatible with the task force program's goal of maximizing local resources against locally-defined drug enforcement problems. The department's report indicates that this objective already is being accomplished by participating local agencies on their own. The report concludes that the benefits of local agency cooperation would continue without state participation in the task force.

Despite the conclusions of its own management analysis team that there is little additional benefit gained from the state's participation in the Sacramento task force, the department continues to contribute two special agents to this task force. It would seem that this contribution is not necessary or productive, and on this basis we recommend that it be discontinued. Specifically, we recommend that one of the two positions be deleted, for a General Fund savings of $58,000 (Item 0820-001-001), and that the other position be redirected to coordinate the efforts of local, state, and federal agencies aimed at the problem of illegal marijuana cultivation on public lands—a problem which we discuss in greater detail as part of our analysis of the Resources Agency's budget (Item 0540).

In our review of the Resources Agency, we found that increasingly the problem of illegal cultivation of marijuana on public lands is compromising the ability of state employees in the Department of Parks and Recreation, Forestry and Fish and Game to perform their field duties. In addition, the cultivation activities and related crime that goes with them represents a threat to citizens using public parks. In our analysis of the Resources Agency, we recommend that the Resources Secretary form interdepartmental task forces to coordinate efforts designed to eliminate illegal cultivation activities and to assist local and federal agencies in similar endeavors.

Our analysis indicates that the Bureau of Narcotic Enforcement has taken a leadership role in many of the major marijuana eradication efforts carried out within the state in recent years. Because of the bureau's narcotic enforcement experience, law enforcement orientation, and established working relationships with affected local and federal agencies, it is appropriate that one of the special agent positions be redirected to assist the Resources Agency in developing a comprehensive response to the serious problem of marijuana cultivation on public lands.

Identification Program

Program Description

The identification program was established to (1) verify the identity of individuals through the use of fingerprint comparisons, (2) identify those individuals who have criminal histories, and (3) disseminate up-to-date criminal history records to state and local government entities. The program primarily serves law enforcement agencies, but also provides information to authorized agencies for employment, licensing, or certification purposes.

Table 8 displays estimates of the type of information currently maintained in department files for use in the identification program.

Table 8
Department of Justice
Identification Files

	File Size	*Number of Criminal Records*	*Number of Applicants Records*	*Percent Applicant*
Name file (Soundex)	11,000,000 cards	5,390,000	5,610,000	51%
Fingerprint file	7,100,000 cards	3,270,000	3,830,000	54%
Folder file	4,300,000 folders	3,100,000	1,200,000	28%

Applicant Purge Needed

In our *Analysis of the 1982 Budget Bill,* we found that the department's identification files should be purged of unnecessary applicant records. We reached this conclusion based on the following:

1. A 1979 Auditor General's report found that by storing unnecessary applicant records in its files, the department increases the costs of operating the identification program and increases the time it takes to identify criminals for law enforcement agencies and applicants for licensing and employment agencies.
2. A Legislative Counsel opinion, dated May 31, 1979, indicates that the department violates privacy laws whenever (a) the department notifies an agency that one of its applicants has been arrested for a crime and (b)

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that person is no longer an applicant for licensure or a licensee of the agency. An audit of this notification service found that in one sample, 72 percent of the notifications were made to agencies that no longer had a right or need to know about the subject of the criminal record.

3. Storing outdated applicant records in the identification files causes the department to incur unnecessary costs when it automates its record systems. Because one major cost of automation is entering data from manual records into computer data bases, the state incurs unnecessary costs when personnel are used to enter unneeded applicant records into the automated files.

4. Based on current purge criteria, the department routinely retains records on many licensing applicants longer than it retains records on convicted felons. Generally, current criteria call for removal of records covering employment and licensing applicants when the subject of the record reaches age 67 and 80, respectively. One department study estimated that applicant records are retained for an average of 30 years.

Legislature Requests Plan for Purging Applicant Records

In the *Supplemental Report of the 1982 Budget Act,* the Legislature directed the Department of Justice (DOJ) and the Department of Finance Program Evaluation Unit to submit by December 1, 1982, a report on the following issues:

1. New Applicant Purge Criteria. The departments were requested to work with licensing and employment agencies to develop alternative purge criteria designed to reduce the number of applicant records stored in DOJ files which are no longer of interest to the client agencies.

2. Applicant Purge Plan. The departments were directed to develop an applicant purge implementation plan identifying how DOJ would utilize the new applicant purge criteria to purge files of unneeded records. As part of the study, the departments were asked to consider the costs and benefits of such a plan and alternatives for funding the purge.

At the time this analysis was written, the Departments of Finance and Justice had not developed new applicant purge criteria or a plan for implementing the new criteria. They indicate that in the five months available for developing the criteria and plan, they were able to gather only preliminary data. The departments suggest that they will need an additional nine months to resolve the issues identified to date, and indicate that they will submit the required report to the Legislature on September 1, 1983.

During their preliminary review, the departments found that current applicant purge criteria result in the retention of applicant records for longer than is necessary to meet the needs of licensing and employment agencies. The departments concur that the applicant purge criteria should be revised.

Court Imposes State Costs

Background. In Ch. 248/75, the Legislature reduced the criminal penalties for violation of various marijuana-related offenses. In addition, the Legislature established a system for destroying criminal records covering specified marijuana arrests and convictions. For arrests and convictions which occurred *prior* to January 1, 1976, the law allows persons to apply for record destruction and to pay a fee to cover related administrative costs. For arrests and convictions which occur *after* January 1, 1976, the law provides that the records will be kept for two years and then destroyed.

To further provide protection to persons who had been arrested or convicted of the marijuana crimes, the law provides that no public agency may deny, limit, or revoke any opportunity, privilege, license, or permit because an individual had been arrested or convicted of the marijuana offenses. In subsequent amendments to the statute, the Legislature added that any marijuana record which is eligible for destruction would not be considered accurate or complete for any purposes by any agency or person. The measure specifies that these provisions are applicable, regardless of whether the record actually has been destroyed.

Hooper v Deukmejian. On August 24, 1982, the Superior Court of Alameda County granted an injunction which prohibits the Department of Justice from disseminating criminal records containing entries of marijuana arrests or convictions which are *eligible* for records destruction under Ch. 248/75. The court identified a problem with current law which arises because the department may disseminate pre-1976 marijuana conviction data on individuals who have not applied to have their records purged, while another statute provides that such records should not be considered accurate or complete, and may not be used by any agency for any purpose. Thus, the courts are concerned that the department is violating individuals' privacy by disseminating inaccurate criminal records. The department indicates that it will not appeal the decision.

Fiscal Implications. The court decision essentially voids the self-financing system established by the Legislature for destroying pre-1976 marijuana records. Instead of being able to destroy records only when requested to do so and only after a processing fee has been paid by the requestor, the Department of Justice will have to incur the costs of reviewing many of its records before they are disseminated, and destroying, at its own expense, any references to specified marijuana arrests and convictions. The department estimates that it disseminates approximately 5,000 criminal history records per day to various law enforcement, licensing, and employment agencies.

The 1983–84 budget proposes a General Fund appropriation of $1,388,-000 to finance 77 new positions so that the department can begin to comply with the court injunction. The department estimates that it will need a similar level of funding and staff for three additional years to complete the task. Therefore, the estimated cost of complying with the court injunction could total $5.6 million from the General Fund over a four-year period.

Redirect Existing Staff to Work on Marijuana Purge

We recommend that the department redirect the staff of the ongoing purge program to work on the marijuana records purge project in the budget year, allowing the deletion of 23 proposed new positions for an estimated General Fund savings of $413,000 (Item 0820-001-001).

In 1974, the Department of Justice began a major effort to purge its identification files of unneeded and outdated criminal records. During the five-year purge effort, the department received almost $4 million of federal Law Enforcement Assistance Administration funds to finance the project. Upon completion of this purge effort, the department requested and received authorization to establish an ongoing purge program in order to review those records that were identified each year as potentially purgeable, and to destroy those file folders that were found to contain criminal and applicant records that met the purge criteria. The purpose

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of the ongoing purge effort was to keep the department's files at a manageable size, thus keeping operating costs down and maintaining a turnaround time that is responsive to the needs of law enforcement, licensing, and employment agencies.

Our review of the department's ongoing purge program has identified several management problems. First, although the Legislature appropriated significant General Fund amounts to the department each year to fully staff the purge program, the department has never filled more than 74 percent of the authorized positions. Table 9 shows the department's utilization of the positions authorized by the Legislature for the purge effort.

Table 9
Department of Justice
Utilization of Purge Program Staff

	Authorized Positions	*Filled Positions*	*Percent of Authorized Positions Filled*
1978–79	32	15.5	48%
1979–80	26	16.7	64
1980–81	26	19.3	74
1981–82	25	18.4	74
1982–83	25	18 (est.)	72
1983–84	23	N/A	N/A

Second, the number of folders actually purged by the purge program consistently has fallen far below the output projected by the department in the annual budget documents. For example, in 1981–82, the department purged only 29.4 percent of the number of folders which it projected it would purge. Table 10 show a comparison of projected and actual workload under the purge program.

Table 10
Department of Justice
Purge Program Workload

	Projection of Number of Folders that Would be Purged	*Actual Number of Folders Purged*	*Percent of Projected Workload Actually Accomplished*
1978–79	149,400 (est.)	54,118	36.2
1979–80	167,300	90,157	53.8
1980–81	149,200	44,433	29.7
1981–82	149,200	43,900	29.4
1982–83	172,000	N/A	N/A
1983–84	170,000	N/A	N/A

Third, the purge program has fallen seriously behind in its attempt to review all records that are potentially purgeable each year, and to purge those that meet specified criteria. Department staff advise that, currently, there is a five- to six-year backlog in the purge program. They indicate that over one million records identified as potentially purgeable have not yet been reviewed or, where appropriate, purged.

Department staff indicate that these problems have developed because the purge program is considered a low priority activity relative to the other activities of the identification program. Thus, positions in the purge program frequently are left vacant and purge staff often are redirected to work on other projects.

Based on the results of our analysis, we do not believe that the Legislature should continue to appropriate $413,000 from the General Fund annually to support the purge program, when (a) it is unlikely that the department will utilize all of the funds for that purpose and (b) it is clear that given the department's current priorities, its efforts to address the purge backlog problem have been inadequate. Instead, we recommend that in the budget year the existing purge staff be redirected to address the court-mandated marijuana purge workload. This should eliminate the need for 23 additional positions to work on the marijuana records purge, resulting in an estimated General Fund savings of $413,000.

Consolidate Purge Programs

We recommend adoption of supplemental report language directing the Department of Justice to submit a plan to coordinate and consolidate its one-time marijuana records purge and its ongoing criminal and applicant purge program. Further, because of the potential for cost savings resulting from the consolidation of purge activities, the department should base any request for funds for record purge activities in 1984–85 on a consolidated purge plan.

The Department of Justice proposes three separate efforts to purge its identification files in the budget year. First, it proposes to continue an ongoing purge program which primarily is designed to remove outdated criminal records from department files. Second, it proposes to complete a study of its applicant record program. The department advises that by September 1, 1983, it will have developed stricter applicant record purge criteria, and designed a plan to purge the applicant records based on the new criteria. Finally, the department proposes to begin a major project to purge specified marijuana records from its files at an estimated cost of $5.6 million to the General Fund over the next four years.

Our analysis indicates that there is a potential for the state to realize substantial savings if the various purge efforts are coordinated and consolidated. The primary savings would occur because the department could review records once to determine whether they meet marijuana, criminal, or applicant purge criteria. Without consolidation of purge efforts, the department would be operating parallel programs which would review many of the same records twice or more for different purposes at different times. The process involved in purging files typically involves many steps such as locating folders, pulling them from a shelf, carrying them to the purge review staff, scanning the summary criminal history records, reviewing them to determine if they meet purge criteria, modifying some of the records to delete purgeable entries or in some cases retyping entire records, sorting folders and refiling the records. Savings would occur to the extent that duplicate handling of the records could be avoided.

A second important benefit of a consolidated purge program would be that the department could take advantage of the major purge efforts mandated by the courts to accomplish other objectives that will result in long-term cost reduction and cost avoidance in the identification program. For example, the department indicates that by September 1, 1983, it in-

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tends to develop new stricter applicant purge criteria and develop a plan to purge its files of unneeded applicant records based on the new criteria. The department should be able to accomplish a more ambitious applicant purge in conjunction with the marijuana purge, and do it at a lower cost than if a separate applicant purge were implemented. Eliminating such unneeded applicant records should reduce the size of the identification files, thus decreasing costs of operating the identification program. In addition, with a reduced file size, the costs of automating identification files in the future should be reduced.

Because the consolidation of the department's purge programs should result in cost savings, we recommend the following supplemental language:

"The Department of Justice shall submit to the fiscal committees of the Legislature by November 1, 1983, a plan to coordinate and consolidate its one-time marijuana records purge and its ongoing criminal and applicant purge program.

Further, because of the potential for cost savings resulting from the consolidation of purge activities, it is the intent of the Legislature that any request for funds for criminal, applicant, or marijuana record purge activities in the 1984–85 Governor's Budget be based on this consolidated purge plan."

Eliminate General Fund Subsidy of Applicant Identification Program

We recommend a General Fund reduction of $114,000 (Item 0820-001-001) in order to eliminate a General Fund subsidy of the applicant identification program.

In the *Supplemental Report of the 1982 Budget Act,* the Legislature directed the Departments of Justice and Finance to evaluate the financing of the identification program in order to identify any General Fund subsidy of the program. The potential for a General Fund subsidy arises because the identification program is financed from two sources. Amounts are appropriated from the General Fund to finance the primary activity, which is to provide criminal history information to law enforcement agencies. The applicant portion of the program, however, is designed to be supported by fees to licensing and employment agencies sufficient to offset any department costs related to the program. In 1982, the Legislature eliminated a General Fund subsidy of the applicant program which totaled $448,000.

In response to the Legislature's directive, the department recently reviewed all of the work processes involved in the applicant program. Staff developed cost data which indicate that the full cost of processing one applicant fingerprint card in the current year is $8.74. The department, however, is charging a fee of only $8.50 per applicant. Thus our analysis indicates that there is a General Fund subsidy of $0.24 per applicant. Because the department estimates that it will process 475,000 applicant fingerprints in the current year the General Fund subsidy totals an estimated $114,000.

The department indicates that it will revise the fee charged to licensing and employment agencies to cover the full costs of processing applicant fingerprints in 1983–84. The department, however, has not proposed a reduction in its General Fund appropriation to reflect the additional reimbursements to be received and eliminate the subsidy. Accordingly, we recommend a General Fund reduction of $114,000 in order to eliminate the General Fund subsidy of the applicant portion of the identification program and prevent overbudgeting.

Eliminate Unneeded Publication

We recommend that the department discontinue the preparation of quarterly reports on the Medi-Cal Fraud Unit which are submitted to the Legislature and Governor pursuant to budget act language, for a reduction of $4,000 ($1,000 from the General Fund in Item 0820-001-001 and $3,000 in federal funds in Item 0820-001-890).

We further recommend modification of the Budget Bill Language in Item 0820-001-001 to require that the department instead submit other, more comprehensive, reports on the activities of the Medi-Cal Fraud Unit to the Legislature and the Governor.

Chapter 1632, Statutes of 1982, requires state agencies to identify publications that are mandated by the Legislature and that take 100 or more employee hours to produce. The agencies are requested to make recommendations as to whether each of these publications should be continued.

Since 1980, the annual budget act has required the submission of quarterly reports to the Legislature and the Governor regarding the productivity of the Medi-Cal Fraud Unit which investigates and prosecutes cases of fraud committed by the providers of Medi-Cal services and supplies. Its proposed budget for 1983–84 totals $3,659,000, of which $861,000 is from the state General Fund and $2,798,000 is from federal funds.

In compliance with Ch. 1632/82, the Department of Justice recommends that the quarterly report on the activities of this unit be discontinued. The department advises that the mandated reports do not provide sufficient information to permit an accurate evaluation of the unit's performance, and therefore may mislead the reader. The department estimates that the cost of producing the report totals $4,000 annually.

Our review indicates that there are other reports published periodically by the department which provide a more comprehensive description of the unit's activities. For example, the department submits both annual and quarterly reports to the federal government on these activities. Such reports include information on staffing levels, type of caseload, and problems facing the unit, in addition to the data required by the budget act on prosecutions, convictions, and dollars recovered.

We recommend that the department discontinue publication of the quarterly reports because other more comprehensive reports on the Medi-Cal Fraud Unit are published periodically by the department. This would permit a savings of $4,000, consisting of $1,000 to the General Fund in Item 0820-001-001 and $3,000 in federal funds in Item 0820-001-890.

However, in order to ensure that the Legislature receives a comprehensive description of the activities of the Medi-Cal Fraud Unit, we recommend that the Budget Bill language be modified as follows:

> "The Attorney General shall submit to the Legislature and the Governor the quarterly and annual reports which it submits to the federal government on the activities of the Medi-Cal Fraud Unit."

STATE CONTROLLER

Item 0840 from the General
Fund and various funds — Budget p. LJE 87

Requested 1983–84	$40,828,000
Estimated 1982–83	42,868,000
Actual 1981–82	45,118,000
Requested decrease (excluding amount for salary increases) $2,040,000 (−5.0 percent)	
Total recommended reduction	$1,365,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0840-001-001—	State Controller, Support	General	$37,776,000
0840-001-041—	State Controller, Support	Aeronautics Account, State Transportation	219,000
0840-001-061—	State Controller, Support	Motor Vehicle Fuel Account, Transportation Tax	1,883,000
0840-001-988—	State Controller, Support	Retail Sales Tax	123,000
0840-001-739—	State Controller, Support	State School Building Aid	287,000
0840-001-890—	State Controller, Support	Federal Trust	540,000
0840-001-970—	State Controller, Support	Unclaimed Property	—
Total			$40,828,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Technical Issues. Reduce Item 0840-001-001 by $9,000 and reimbursements by $369,000.*** 97
   (a) Withhold recommendation on funds requested for operating expenses and equipment, pending the receipt of an accurate expense schedule.
   (b) Recommend that reimbursements be reduced by $35,000 to correct overbudgeting for new positions.
   (c) Recommend General Fund reduction of $9,000 to correct overbudgeting for new positions.
   (d) Recommend reimbursements be reduced by $226,000 to reflect lower volume in the Medi-Cal check-write program.
   (e) Recommend that reimbursements be reduced by $108,000 to reflect decreased check volume in the In-Home Supportive Services program.
2. ***Block Grant Auditors. Reduce Reimbursements by $31,000.*** Recommend funding for one position be deleted because need for the position has not been adequately documented. 101
3. ***Crimes Committed by Prison Inmates. Reduce Item 0840-001-001 by $21,000.*** Recommend funding for one position be deleted because workload data supporting the need for the position has not been provided. 103
4. ***Howard Hughes Estate. Reduce Item 0840-001-001 by $424,500.*** Recommend deletion of six positions, because adequate workload justification to continue these positions 104

has not been submitted.

5. Consolidation of Tax Administration Offices. Recommend adoption of supplemental report language directing the Controller to prepare a report detailing the cost of consolidating the Los Angeles office with the Sacramento office. 105
6. County Cost Allocation Plan Task Force. Recommend adoption of supplemental report language directing the Controller and other state agencies administering federal grants to develop procedure for reconciling the allowable amount of indirect and central support service costs contained in county cost allocation plans with the amounts charged to state programs. 108
7. Unclaimed Property Program. Recommend enactment of legislation to eliminate advertising requirements and the locator unit. 110
8. ***Unclaimed Property Advertising. Reduce Item 0840-001-001 by $390,000.*** Recommend elimination of advertising program because this is not a cost effective means for returning unclaimed property. 110
10. ***Locator Unit. Reduce Item 0840-001-001 by $120,000.*** Recommend elimination of locator unit because holder is responsible for returning unclaimed property. 111

GENERAL PROGRAM STATEMENT

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

The State Controller has 1,393.4 authorized positions in the current year. In addition, he has administratively established 9.0 positions, bringing the total number of positions to 1,402.4.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $40,828,000 from the General Fund and various other funds to support the State Controller's office in 1983–84. This is a decrease of $2,040,000, or 5 percent, from current year expenditures as estimated in the budget. The budget, however, does not reflect expenditures of $1,125,000 during the current year that were incurred in connection with the sale of registered warrants. If included in the total for 1982–83, the level of funding proposed in the budget represents a reduction of $3,165,000, or 7.2 percent.

The Controller also expects to receive $9,143,000 in reimbursements during 1983–84, resulting in total budget year expenditures of $49,971,000. This is $1,026,000, or 2.0 percent, less than estimated 1982–83 expenditures from all funding sources. The decrease, however, makes no allowance for the cost of any salary or staff benefit increases approved by the Legislature

STATE CONTROLLER—Continued

for the budget year.

The Controller requests funding for 1,240.3 authorized positions in the budget year, which is 162.1 less than the number authorized for the current year (1,402.4).

Table 1 identifies three major categories of changes proposed in the 1983–84 budget: (1) baseline adjustments, (2) workload changes, and (3) program changes. The most significant baseline adjustment is the abolishment of the Inheritance and Gift Tax programs. This reflects the voters' action to eliminate the inheritance and gift taxes at the June 1982 statewide elections.

Table 1
State Controller's Office
Proposed 1983–84 Budget Changes
(in thousands)

	Adjustment	*Total*
1982–83 Current Year Revised		$50,997
1. Baseline adjustments:		
A. Changes in cost of existing personnel:		
(1) Merit salary adjustment	$547	
(2) Staff benefits	626	
(3) Retirement rate adjustment	606	
(4) Shift differential	9	
Total, Changes in Cost of Existing Personnel	$1,788	
B. Price increase	$446	
C. OE&E adjustment	−333	
Total, Baseline Adjustments	$1,901	
2. Limited-Term Positions/Expiring Programs:		
A. Fiscal control	−$645	
B. Tax administration	−274	
C. Local government fiscal affairs	−43	
D. Administration	−45	
Total, Limited-Term Positions/Expiring Programs	−$1,007	
3. Program Change Proposals:		
A. Fiscal control	$1,415	
B. Tax administration:		
Abolition of inheritance and gift tax	−$6,553	
Establishment of estate tax	796	
Inheritance and gift tax carry-over	2,085	
Other adjustments (postage)	−106	
Total, Tax Administration	−3,566	
C. Unclaimed property	231	
Total, Program Changes	−$1,920	
Total, Support Budget Changes		−1,026
Total, 1983–84 Support Budget		$49,971

The budget proposes 83.2 new positions for the Controller's office in 1983–84. Of these 28 were previously filled (that is, expiring limited term positions or positions that were administratively established during the current year), 21 are requested to administer the new California estate tax, 20 are requested to administer the inheritance and gift tax cases which were in the pipeline before these taxes were repealed, and 10 are requested for the Howard Hughes inheritance Tax Court case.

Reimbursements are expected to increase significantly in the budget year because the Controller will be conducting audits of certain Employment Development Department (EDD) programs for which he will be reimbursed by EDD using funds received from the U.S. Department of Labor.

Finally, the budget proposes to shift funding for the unclaimed property advertising program and the locator unit from the Unclaimed Property Fund to the General Fund.

Department Overview

Table 2 identifies the proposed level of expenditures and personnel-years for each of the major programs administered by the Controller's office.

Table 2
State Controller's Office
Program Summary
(dollars in thousands)

	Personnel-Years			*Expenditures*		
Program	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
Fiscal control	798.2	776.8	770.9	$30,593	$29,716	$31,805
Tax administration	238.8	178.1	81.1	8,184	7,192	4,106
Local government fiscal affairs	103.8	110.7	108.6	4,050	4,276	4,393
Systems development	111.9	103.5	104.4	4,811	4,806	5,000
Unclaimed property	88.2	87.1	87.1	3,599	3,305	3,534
Refunds of taxes, licenses and other fees	—	—	—	18	30	30
Administration:						
Distributed to other programs	(53.7)	(58.6)	(56.8)	(2,097)	(2,097)	(2,097)
Undistributed	31.5	16.0	11.4	1,748	1,672	1,103
Totals	1,372.4	1,272.2	1,163.5	$53,003	$50,997	$49,971
Reimbursements	—	—	—	−7,885	−8,129	−9,143
Net program Totals	1,372.4	1,272.2	1,163.5	$45,118	$42,868	$40,828

Operating Expenses and Equipment Schedule Is Not Accurate

We withhold recommendation requested for operating expenses and equipment (OE&E) pending the receipt of an accurate schedule of these expense items.

The Department of Finance indicates that the schedule of OE&E appearing in the budget for the Controller's office that they prepared is not correct. At the time this analysis was prepared, an accurate schedule of expenses was not available. On this basis, we withhold recommendation on the amount requested for OE&E pending the receipt of an accurate OE&E schedule.

Additional Funding for Facilities Operations Is Not Needed

We recommend that Item 0840-001-001 be reduced by $9,000 and that reimbursements be reduced by $35,000 to correct overbudgeting for recommended new positions.

The Department of Finance indicates that the request for new positions in the Fiscal Control program includes $44,000 for facilities operation.

STATE CONTROLLER—Continued

Facilities operations refers primarily to expenses incurred for space rental and associated utility cost.

Our analysis indicates that no additional rental space is required in 1983–84 to accommodate the proposed new positions. Consequently, the requested funds are not needed and we recommend that the (1) General Fund appropriation be reduced by $9,000 and (2) reimbursements be reduced by $35,000, in order to correct overbudgeting.

Funding for Medi-Cal Check Write Agreement Overbudgeted

We recommend that reimbursements be reduced by $226,000 to reflect the lower check volume anticipated under the Medi-Cal program.

The budget for the Controller's office reflects a reimbursement from the Department of Health Services (DHS) to cover the Controller's cost for writing and mailing checks to Medi-Cal providers. This is the same amount to be expended for this activity during the current year.

The DHS estimates that the number of claims submitted for payments under Medi-Cal in the budget year will be 12.4 percent lower than the number in the current year, due primarily to the transfer of responsibility for the care of medically indigent adults from the state to the counties. DHS advises that the number of checks written in a year generally corresponds to the number of claims submitted. Thus, the number of checks written should also decline by 12.4 percent.

According to the DHS the Controller has indicated that check writing costs are fixed and do not vary with changes in the volume of checks to be written. Documentation provided by the Controller's office in support of its budget request for the *current* year, however, indicates that the Controller requested and obtained a 6.81 percent increase in reimbursements on the basis of an estimated 6.81 percent increase in anticipated claims volume.

Our analysis indicates that check writing costs do, in fact, vary with the volume of checks written. About 82 percent of expenses associated with the check writing is for items which fluctuate directly with the number of claims to be paid—printing, postage, computer costs, and data center costs. Assuming that costs for personal services and other operating expenses are fixed, we estimate that $1,818,000 of the proposed $2,218,000 can be classified as a variable cost. We recommend this amount be reduced by 12.4 percent, to reflect reductions in claims volume anticipated by the DHS, for a reduction in reimbursements of $226,000. The DHS budget, Item 4260-101-001, will experience a corresponding $226,000 General Fund reduction to reflect this action.

Workload Under the In-Home Supportive Services (IHSS) Program Will Be Less Than Anticipated

We recommend that reimbursements be reduced by $108,000 to reflect a decrease in the volume of warrants to be processed in connection with the IHSS program.

The budget requests $648,000 and eight new positions in the budget year to prepare warrants under the In-Home Supportive Services program (IHSS).

The IHSS program, which is administered by the Department of Social Services (DSS), provides certain services to eligible, aged, blind, and disabled persons so that these persons can remain in their own homes, rather than being institutionalized in boarding or nursing facilities. The program is funded by the General Fund, federal Title XX funds, and county matching funds.

On June 30, 1982, the DSS's contract with Electronic Data Systems Federal (EDSF) providing for In-Home Supportive Services Payrolling Systems expired. Prior to this date, DSS had prepared a Feasibility Study Report (FSR), which was intended to help them decide what course of action they should take upon termination of the contract. Based on results of the FSR, DSS decided to extend the EDSF's contract through June 30, 1983 and solicit bids for a new contract which would go into effect on July 1, 1983.

Before the bids were sought, however, the Controller informed the DSS that he had the constitutional responsibility to prepare warrants for payment of the state's obligations. Following negotiations, DSS and the Controller agreed that the Controller would perform the payrolling function after June 30, 1983.

The Controller's office projected its cost for this program based on the estimated volume of warrants to be processed during the budget year. The budget request indicates that 1.8 million warrants will be processed during 1983–84, at a cost of 36 cents per warrant, resulting in a funding requirement of $648,000. However, EDSF indicates that in the current year it is processing an average of 122,500 warrants per month, which is only $1,470,000 on an annual basis.

Based on a projected volume of approximately 1.5 million warrants, our analysis indicates that the cost to process warrants in the budget year will be $540,000. On this basis, we recommend that reimbursements be reduced by $108,000. The DSS budget, Item 5180-151-001, will experience a corresponding $108,000 General Fund reduction to reflect this action.

Table 3
Fiscal Control Program
Summary by Element
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
1. Accounting Division:						
a. Control accounting	51.0	50.7	52.6	$1,836	$2,128	$2,241
b. Financial analysis	22.3	23.9	25.8	870	674	765
2. Audits Division:						
a. Claim audits	57.1	56.8	62.1	1,553	1,758	2,192
b. Field audits	150.1	167.2	147.2	6,191	6,438	6,153
3. Disbursements Division:						
a. Disbursement services	138.8	132.4	141.4	8,681	7,976	9,291
b. Technical services	43.9	33.8	32.4	−237	17	30
c. Less amounts distributed to other programs	—	—	—	(1,523)	(1,164)	(1,250)
4. Payroll and Personnel Services Division:						
a. Personnel services	124.3	155.2	153.4	4,541	5,335	5,564
b. Payroll services	210.7	156.8	156.0	7,158	5,390	5,569
Totals	798.2	776.8	770.9	$30,593	$29,716	$31,805

STATE CONTROLLER—Continued

FISCAL CONTROL

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

Eighteen positions which were authorized to perform CETA audits expired during September 1982. The positions were administratively reestablished until September 30, 1983 to perform Employment Development Department audits. The expiration of these positions is primarily responsible for the 20-position reduction in staffing for field audits during the budget year.

Cash Flow Management Analyst

We recommend approval of one senior accounting officer, specialist on a workload basis.

During the current year, one senior accounting officer, specialist, is authorized to monitor and manage the cash flow operations of the state. This position was authorized in the 1981–82 budget for a two-year period. The 1983–84 budget proposes to continue this position on a one-year limited term basis, at a cost of $31,000.

The "cash flow" specialist (1) projects and monitors the cash flow of the General Fund, (2) works with the Department of Finance to determine the cash deficit and borrowing needs of the General Fund, (3) alerts department heads of potential cash shortages and recommends alternatives, (4) projects weekly pooled money receipts and disbursements of all funds in the state treasury for designation of available cash for investment by the Pooled Money Investment Board, and (5) performs several other functions.

Due to the current and projected condition of the General Fund, we believe there is a critical need for this type of information. On this basis, we conclude that the continuation of this position is justified.

Stockton Unified School District Audits

We recommend approval of one auditor on a workload basis. We further recommend that the position be limited to five years because the workload will cease on June 30, 1988.

Chapter 318, Statutes of 1982 (SB 1385), authorizes a loan of $6.725 million from the state to the Stockton Unified School District, pursuant to the emergency apportionment provisions of the Education Code. The act requires the loan to be repaid in five years. The law also requires the Controller to perform a financial and compliance audit of the district each fiscal year until the loan is repaid. The district will reimburse the Controller for the cost of each year's audit.

The budget proposes to permanently establish one staff management auditor position to conduct these audits. Our analysis indicates that the request for an additional position is justified because of the requirements contained in Chapter 318. We believe, however, that this position should be limited to the duration of the statutorily required activities for which the position is sought. Therefore, we recommend that this position be approved on a five-year limited term basis, and that it be scheduled to expire on June 30, 1988.

Low Income Home Energy Assistance Program (LIHEAP)

We recommend the continuation of six authorized positions and approval of one new position for one-year on a workload basis.

Public Law 97-35 authorized the Office of Economic Opportunity (OEO) to distribute federal funds to low-income families, to assist them in paying their energy bills. In 1981–82, OEO entered into an agreement with the State Controller's office calling for the Controller to issue warrants to participants. The Controller's office mails the warrants to the recipients and provides any necessary follow-up.

In the current year, six positions were continued for this function, at a cost of $350,000. These costs are fully reimbursed from the federal Department of Health and Human Services (DHHS). The budget is proposing to continue these six positions in 1983–84, and to add one new position on a one-year limited term basis. The 1983–84 expenditures will also be funded by reimbursements from the DHHS.

We believe that the current workload required by LIHEAP (1.0 million warrants annually) is sufficient to justify the continuation of six positions and the addition of one new position.

California Fiscal Information System (CFIS) Development

We recommend approval of 4.2 new positions for the CFIS program on a workload basis.

The budget proposes 4.2 new positions in the budget year at a cost of $73,000, to accommodate current workload and anticipated new workload requirements associated with the CFIS program. Beginning in July 1981, 22 pilot agencies and 5 pilot institutions went "on-line" and began using the California Standard Accounting and Reporting System (CALSTARS) software package to implement a program accounting system. Twenty-one agencies were added to the system in the current year, and the Department of Finance estimates that 15 will be added in the budget year.

In our analysis of the budget for the current year, we concluded that the level of funding requested for the Controller's office was not sufficient to handle the projected workload under the CFIS program. The Legislature ultimately added 25 positions to the Controller's 1982–83 budget to provide for this workload.

During the current year, however, even the augmented clerical staff has been unable to provide the support needed for the CFIS program. This has caused the Controller's office to use an inordinate amount of temporary services and overtime. The addition of 15 new agencies to the program in the budget year will exacerbate the problem unless additional staff are approved. Based on our review of the workload projections, we believe that the 4.2 additional clerical positions are justified.

Block Grant Audits

We recommend the continuation of two associate management auditor positions for a one year limited term. We further recommend that reimbursements be reduced by $31,000 and that one associate management auditor be deleted.

The federal Omnibus Budget Reconciliation Act (Public Law 97-35) consolidated 56 existing categorical federal grant programs into nine block grants. The law also requires financial and compliance audits of any block grant funds which the state receives.

As of July 1982, California had accepted eight of nine block grants.

STATE CONTROLLER—Continued

Chapter 1343, Statutes of 1982 (AB 3295), requires the Controller to (1) review the audit plans prepared by state agencies, (2) provide local agencies federal financial and compliance audit guidelines, (3) annually report to the Legislature and Governor on the status of such audits, (4) assure that audits meet federal requirements, and (5) monitor and review audit findings to determine that both state and local entities have taken appropriate corrective action. These costs are fully reimbursed from the block grant funds.

Two positions were authorized in January 1983 to begin work on this new program. The budget is proposing to continue these two auditors, and add one additional auditor. However, the Controller is unable to document workload for these positions because the program is new.

Until workload criteria can be established for the program, we believe staffing should be limited to the two positions established in January. Additional positions should not be added until workload data is established showing the need for such positions. On this basis, we recommend that reimbursements be reduced by $31,000 and that the requested new auditor position not be approved.

Dental Care Deduction Program for State Employees

We recommend the continuation of six authorized positions for the dental deduction program, on a workload basis.

Chapter 1039, Statutes of 1980 (AB 1484), created the State Employees Dental Care Act. The law authorizes the state, through the Governor's Office, to contract with private carriers for dental care plans for state employees and annuitants. The new law also authorizes the Trustees of the California State University and the Regents of the University of California to negotiate directly with providers, or through the Governor's Office, for dental care plans for their employees. These contracts, however, must be approved by the employee bargaining units before they are implemented.

Currently, five reimbursable positions are authorized to process the dental care deductions of state emplyees, and to perform the associated disbursement and accounting functions. One position is authorized to analyze the ongoing needs of the program, and to implement necessary changes.

Existing contracts with dental providers include a 2 percent allowance to cover the state's costs in administering the program. Therefore, the Controller's costs are effectively paid for by the providers.

The Controller estimates that 1.74 million deduction transactions will occur during the budget year, based on the average number of employees expected to participate in the program. Actual participation during the first 10 months of calendar year 1982 was approximately 143,000 persons per month. Participation has increased steadily, however, and the Controller estimates that approximately 145,000 employees per month will participate during the budget year. Our analysis indicates that this estimate is reasonable.

We believe that the additional workload required by the dental care deduction program is sufficient to justify the continuation of these reimbursed positions.

Crimes Committed by Prison Inmates

We recommend deletion of funds for one of two requested accounting officer specialist positions, because workload justification for the position has not been submitted, for a General Fund savings of $21,000.

Chapter 147, Statutes of 1982 (AB 485), transferred to the Controller the responsibility for reimbursing local governments for the costs they incur in connection with prison crime trials. This program previously was administered by the Department of Corrections. The Controller used funds received from Corrections during the current year to support one position to process these claims.

The new law also returned the responsibility for the prosecution of prison crimes committed by inmates from the Attorney General to county district attorneys. The new law allows counties to receive reimbursement for cost incurred for hearings, trials, and related activities, and transfers $200,000 from funds appropriated for the Department of Justice support in the 1981 Budget Act to the State Controller, to be used for payment of the reimbursements.

Our analysis indicates that the Controller will experience a workload increase in administering this program. The office has not, however, provided adequate workload justification to add a second position for this purpose. Therefore, we recommend that funds for one additional position be deleted, for a savings of $21,000.

TAX ADMINISTRATION

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

This program will be altered significantly due to the elimination of the inheritance and gift taxes. The Controller, however, will continue to face workload in connection with the inheritance and gift taxes until all estates subject to prior law have been settled.

Table 4
Tax Administration
Summary by Element
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
1. Inheritance tax	180.6	127.1	24.0	$6,193	$5,357	$1,960
2. Gift tax	27.9	18.9	5.0	863	560	125
3. Tax collection	8.2	8.7	8.7	239	284	286
4. Gas tax refund	22.1	23.4	23.4	889	991	939
5. Estate tax	—	—	20.0	—	—	796
Totals	238.8	178.1	81.1	$8,184	$7,192	$4,106

Changes in the Inheritance and gift Tax Programs

By approving Proposition 6 on the June 1982 ballot, the voters abolished the Inheritance and Gift Tax Laws. The initiative, however, allows the state to levy a "pickup" tax equal to the state death tax credits provided by federal Estate Tax Law. The effect of the "pickup" tax is to provide the

STATE CONTROLLER—Continued

state with a portion of the federal estate taxes. Without the "pickup" tax this money would go to the federal government.

The budget proposes to restructure the tax administration program to reflect the abolishment of the inheritance and gift taxes. This restructuring consists of the following components:

(1) Deletion of 195.3 positions associated with the administration of the "old" Inheritance and Gift Tax program,
(2) Addition of 20 limited-term positions to administer tax cases which still must be processed under the terms of the old law,
(3) Addition of 21 positions to administer the new California estate tax, and
(4) Addition of three positions, and reauthorization of seven positions, to continue the administration of the Howard Hughes case.

According to the Department of Finance, the requested new positions are on a one-year limited term basis despite the fact that this proposal is not reflected in the budget document.

Inheritance and Gift Tax Carry-Over

We recommend approval of 20 positions on a one-year limited term basis to administer those tax cases which must be processed under the terms of the old Inheritance and Gift Tax Laws.

The budget proposes 20 positions to process the workload for inheritance and gift tax cases which were filed under the old Inheritance and Gift Tax Laws, but have not been settled. The budget estimates that the state will receive over $110 million in 1983–84 for cases processed under the old law. The Controller is unable to predict when the carry-over of workload from the old laws will be eliminated. For this reason, the Department of Finance proposes that these positions be established on a one-year limited term basis.

Our analysis indicates that the carry-over workload justifies the continuation of these positions, and that the limited-term designation is appropriate. Therefore, we recommend approval of these 20 positions on a one-year limited term basis.

Howard Hughes Case

We recommend approval of four positions on a one-year limited term basis to administer the Howard Hughes case. We further recommend that Item 0840-001-001 be reduced by $424,500 and six positions, because these positions have not been adequately justified on the basis of workload.

The budget proposes to continue seven authorized positions and add three new positions—all on a one-year limited term basis—to administer the Howard Hughes case. Seven three-year limited term positions were established in 1977–78 to handle the case, and they were reauthorized for an additional three-year period beginning in 1980–81. They are now due to expire on June 30, 1983. The three new positions are requested to perform the valuation of the Hughes estate. Originally, the Controller intended to use a law firm to perform this service, but the cost of its services has escalated to the point where use of state staff is warranted.

The United States Supreme Court has agreed to hear the domicile issue associated with the Hughes estate. According to the Controller, court proceedings will take one to two years, and final valuation will extend one year beyond the adjudication of the domicile issue.

Our analysis indicates that the proposed level of staffing is not necessary to administer the Hughes Estate. We recommend approval of one CEA II position to oversee the case and to work with the legal consultant. We also recommend approval of two staff counsels and one senior legal stenographer to perform the valuation function, as requested by the Controller.

Our analysis indicates, however, that the need for the six remaining positions has not been adequately documented. These positions were established in 1977–78 to begin the groundwork for the case. We believe that after six years, the major research and information-gathering functions for this case have been completed. The remaining duties revolve around the legal issues associated with the case and the valuation effort.

The Controller states that the continuation of all 10 positions is necessary to perform *monitoring and control functions.* However, the Controller fails to provide adequate workload justification to continue six of the positions. Accordingly, we recommend that six positions and related expenses be deleted, for a General fund savings of $424,500.

Estate Tax

We recommend approval of 21 positions on a one-year limited term basis to administer the new California estate tax.

The budget is proposing 21 positions to administer the new California estate tax.

Under the federal Estate Tax Law, a taxpayer can reduce his or her *federal* tax liability, up to certain limits, by the amount of the taxpayer's *state* death tax liability. Thus, the state's estate tax is primarily a federal tax with the state "picking-up" a portion of the tax revenues.

The staffing level proposed in the budget is based on a zero-based review by the Department of Finance of functions involved in administering the estate tax. The majority of staff requested for this program will perform collection and clerical functions. Six positions are requested for legal, review, and consumer functions. Some state audit and legal staff will be necessary to perform enforcement functions related to the domicile of certain estates, but enforcement of the law is primarily an Internal Revenue Service (IRS) function. A large administrative staff is unnecessary because the tax is self-assessed and overseen primarily by the IRS.

In preparing this analysis, we contacted several other states utilizing the "pickup" tax. These states all indicated that it was not necessary to employ a large legal and audit staff to enforce the "pickup" portion of the estate tax. They also believed the enforcement effort by the IRS would ensure that significant revenue losses would not occur.

Based on our analysis of other state estate tax programs and the available data from the Controller, we believe the minimal staffing level proposed by the Department of Finance is sufficient to administer the estate tax. In addition, because there is no historical workload data to analyze, we believe that the one-year limited term nature of these positions is justified. In the next fiscal year, we will be able to analyze the need for these positions because actual workload data will be available. Therefore, we recommend approval of 21 positions on a one-year limited term basis to administer the estate tax.

Consolidation of Offices

We recommend that the Legislature adopt supplemental report language requesting the Controller to conduct a study and report back to the Legislature no later than December 31, 1983, concerning the feasibility of

STATE CONTROLLER—Continued

closing the Los Angeles office and consolidating the carry-over and estate tax functions in the Sacramento office.

The Controller currently utilizes two offices to administer the new estate tax, the inheritance and gift tax carry-over workload, and the Hughes case. A third office in San Francisco, recently was closed to reflect decreasing workload.

As the carry-over workload is eliminated and the Hughes case resolved, the need for two offices and the 21 positions they house will be reduced significantly. The Controller's office has indicated that it is beginning to explore the possibility of consolidating the remaining tax operations in Sacramento. Our analysis indicates that although consolidation during the budget year is not feasible, it may be desirable in 1984–85. Accordingly, we recommend that the Legislature adopt supplemental report language directing the Controller to conduct a feasibility study to ascertain the cost of closing the Los Angeles office and moving it to Sacramento. The report should also compare the estimated moving costs and the potential long-term savings from consolidation. The Controller should present the report to the Legislature no later than December 30, 1983.

LOCAL GOVERNMENT FISCAL AFFAIRS

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

Table 5
Local Government Fiscal Affairs
Summary by Element
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
1. Financial information	29.1	30.8	30.4	$1,166	$1,326	$1,289
2. Streets and roads	41.4	44.8	44.8	1,634	1,690	1,822
3. County cost plans	9.7	9.5	9.4	425	378	355
4. Tax deeded land	8.5	10.6	10.4	287	393	405
5. Senior citizens' property tax postponement	15.1	15.0	13.6	538	489	522
Totals	103.8	110.7	108.6	$4,050	$4,276	$4,393

Local Government Financial Accounting and Reporting

As a result of Proposition 13 and Proposition 4 (the so-called "Gann Initiative"), interest in the general area of local government finance, and in specific categories of local financial transactions, has risen sharply in recent years. The State Controller's reports on the financial transactions of local entities have been the primary source for this type of information. For this reason, it is imperative that the data collected and reported by the Controller be consistent and comparable.

Uniform Reporting for Cities. Assembly Concurrent Resolution No. 51 (1979 Resolution Chapter 78) created the Task Force on City Government Fiscal Information. The task force issued a final report in March 1980 which discussed 10 specific recommendations for improving the reporting of financial data for cities. In response to the task force's recommendations, the Controller and the League of Cities developed a new report format and instructions explaining the new format.

The Controller next conducted a study to determine the most effective method to implement the logistical procedures created by the new reporting format. The Feasibility Study Report, released May 13, 1982, recommended that the Controller redesign the current cities reporting system to meet the recommendations of the task force. The report further stated that the cost of the redesigned cities reporting system could be paid for by redirecting existing resources. The Controller estimated that total development costs would amount to $546,000 during fiscal years 1982–83 and 1983–84. Operations and maintenance cost for this project are estimated to be $531,000 for 1983–84 and 1984–85.

To facilitate the transition from the old cities reporting system to the revised one, the Controller conducted 14 workshops around the state to discuss the history of the revised system and the new reporting instructions and forms. These workshops were conducted during June and July of 1982, before the new reporting requirements went into effect for 1981–82 data.

The initial annual report of cities' financial transactions based on the new data requirements will be available during May of 1983. Ad hoc report capabilities and special reports will become available on a phased-in basis. According to the Controller, the total system will be fully operational by June 30, 1984.

The Controller will attempt to minimize errors in the 1981–82 data by conducting field reviews during April, before the publication is released. However, the office acknowledges that the initial data may be unreliable. Depending on the availability of travel funds, it hopes to conduct several statewide workshops to discuss the new data requirements and eliminate any remaining problems. The Controller expects 1982–83 data to be more reliable than the 1981–82 data.

Our analysis indicates that no significant problems have resulted because of the changeover to the new reporting format. All parties involved in the project have acknowledged that quality fiscal information is a necessity. Cities have made more inquiries than anticipated concerning the new reporting requirements, but this is to be expected in the first year of any new system.

In conclusion, we believe the Controller has developed a revised cities' financial transaction reporting system that (1) carries out the recommendations of the task force, (2) accomplishes the task within existing resources, and (3) is proceeding in a timely fashion. The project should be completely operational by June 30, 1984.

Uniform Reporting for All Local Governments. The Controller has begun to investigate the utilization of uniform reporting by counties. The creation of an informal working task force to develop uniform reporting requirements for counties is currently being discussed. However, no timetable for this project has been established. The Controller hopes to begin preliminary work on the project during the spring of 1983.

The Controller has not begun serious discussion of changes in the uniform reporting requirements for special districts. The uniform reporting

STATE CONTROLLER—Continued

project for special districts will probably not be discussed until the uniform reporting for cities and counties projects are completed.

Based on current staffing and budget constraints, we believe that the Controller is approaching the next two projects in a realistic fashion. Any acceleration of the projects would require additional funding.

County Cost Allocation Plans

Under Office of Management and Budget Circular A-87 (OMB A-87), each county must prepare a countywide cost allocation plan (CAP) each fiscal year in order to receive federal reimbursement for indirect and central support service costs related to federally supported programs. These plans are also used in the determination of costs chargeable to many state-supported programs. The federal Department of Health and Human Services (DHHS) has delegated to the Controller the authority to issue supplemental instructions and procedures to counties, review the plans, negotiate changes, and approve such plans. The Controller is the recognized cognizant state agency in these matters.

It should be noted that the states are not required to perform this function for the federal government. California, in fact, is the only state in the nation which is authorized to do so. Fifty percent of the cost of the program is reimbursable by the federal government because the Bureau of County Cost Plans (BCCP) is included in the state cost allocation plan.

The BCCP has developed and issued a *Handbook* of cost principles to be utilized by county governments in the development of their CAPs. In essence, a cost allocation plan identifies the amount of general county overhead which qualifies under the federal guidelines, and allocates this cost to all of the county's programs. The cost allocated to a specific program represents that program's share of the cost of maintaining county support services. In cases where the county administers state or federal programs, it also represents a cost which can, at least partially, be charged to the state and federal governments.

The BCCP is not concerned, however, with how the cost allocation plans are used, nor does it attempt to ensure that costs charged against state and federal programs can be traced back to the CAP. Its primary goal is to ensure that allowable indirect cost and central support services are identified, accumulated, and allocated correctly. In essence, the BCCP review concentrates on adherence to the established guidelines and the mathematical correctness of the CAP.

The BCCP conducts a desk review of all 58 CAPs, and may also conduct a field review of a CAP to examine working papers or supporting documents. The reviews ensure that: (1) the development of each allowable cost is fully explained, (2) the CAP reconciles with the financial statements presented in the budget, and (3) the allocation methodology and statistics adhere to the guidelines.

Coordination of County Cost Allocation Plans

We recommend that the Legislature adopt supplemental report language requesting that the Controller and other state agencies involved in the distribution of state and federal grants form a task force to develop a procedure for reconciling the allowable amount of indirect and central support service costs contained in county cost allocation plans with the amounts charged to state programs.

Despite a structured review and approval process, there are significant problems with the overall state review of indirect and central support service costs. In addition, problems have developed between state agencies and the BCCP. Many program agencies rely on their own guidelines, and not the CAP guidelines established by the BCCP. For example, the Department of Mental Health has generated audit exceptions on several county claims, based on the disapproval of certain indirect costs which had been allowed by the BCCP. Because the BCCP has no state legislative authority to force other agencies to comply with its guidelines, counties must follow two sets of guidelines in order to receive funds for certain indirect costs.

The most significant problem within the current system, however, may be the inability of the state to monitor the indirect cost charges it must pay, and to ensure that the state pays only its fair share of the allowable local government costs. Without this type of information or review, it may be possible for counties to charge the state amounts in excess of its proper share, resulting in increased cost to the state. An analysis of indirect costs budgeted for disbursement in prior years to the counties indicates that there is little consistency between amounts charged from one year to the next, or between programs of similar size.

We believe that these issues need to be resolved by the Controller and other state agencies responsible for grant programs that involve the payment of indirect and central support service costs to the counties. Therefore, we recommend that the Legislature adopt supplemental report language directing the Controller, in association with representatives of other affected state agencies, to form a task force to reconcile the differences in their approach to the payment of those costs. We further recommend that this task force develop a procedure for reconciling the amount of allowable indirect and support services costs contained in county cost plans with the amounts charged to state programs. The task force should report to the Legislature with recommendations no later than December 31, 1983.

SYSTEMS DEVELOPMENT

We recommend approval.

The Systems Development program is responsible for (1) the development and maintenance of computer programs utilized by the employment history and payroll systems, (2) all other programming functions of the State Controller's office, and (3) other Systems Development users. Table 6 provides a summary of the personnel-years and expenditures for the two elements of this program.

Table 6
Systems Development
Summary by Element
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
1. Systems maintenance support	72.7	88.3	86.2	$3,187	$4,065	$4,131
2. Systems development support	39.2	15.2	18.2	1,624	741	869
Totals	111.9	103.5	104.4	$4,811	$4,806	$5,000

STATE CONTROLLER—Continued

UNCLAIMED PROPERTY

Through the Unclaimed Property program, the Controller (1) collects unclaimed property from holders of such property (financial institutions, corporations, and others) and (2) attempts to return the property to owners or heirs. If the owners cannot be found, the property escheats to the state. Table 7 summarizes expenditures of the Unclaimed Property Division for the two program elements, abandoned property and estates with unknown heirs.

Table 7
Unclaimed Property
Program Summary
(dollars in thousands)

	Personnel-Years			Expenditures		
	Actual 1981–82	Estimated 1982–83	Proposed 1983–84	Actual 1981–82	Estimated 1982–83	Proposed 1983–84
1. Abandoned property	82.9	82.0	82.0	$3,400	$3,096	$3,364
2. Estates of deceased persons	5.3	5.1	5.1	199	209	170
Totals	88.2	87.1	87.1	$3,599	$3,305	$3,534

Advertising Costs

We recommend that legislation be enacted to eliminate the advertising requirements associated with the Unclaimed Property program because this is not a cost effective means for returning unclaimed property. We further recommend that Item 0840-001-001 be reduced by $390,000 for advertising costs.

Section 1531 of the Code of Civil Procedure requires that the State Controller publish the name and address of the owner, along with the dollar amount, of unclaimed property which has escheated to the state. This section specifies that the publication must occur *twice.* The first notice must appear 150 days after receipt of the property, and the second notice is published 90 days later. These notices are published in newspapers in all 58 counties of California. The initial publication occurs *after* the Controller has attempted to notify the individual at least two times by mail of the existence of the unclaimed property.

The budget is proposing $390,000 from the General Fund to reinstate the advertising program for those accounts valued at more than $100. Funds to support the program were deleted from the current-year budget by the Legislature. The budget (1) reinstates funds for the advertising program, (2) shifts funding support for this program from the Unclaimed Property Fund to the General Fund, and (3) requests legislation to increase the value from $50 to $100 that unclaimed property must have before it is subject to the advertising requirement.

Our analysis indicates that there is no compelling reason to continue the advertising program. The legal responsibility for returning unclaimed property rests with the holders of such property. We can find no analytical basis for reestablishing this program, which is supported by all taxpayers but benefits relatively few individuals. We recommend, therefore, that $390,000 requested for advertising be deleted from the Controller's budget.

Locator Unit

We recommend that legislation be enacted to eliminate the Locator Unit, and that Item 0840-001-001 be reduced by $120,000 to reflect this action.

Section 1531.1 of the Code of Civil Procedures requires that the State Controller establish a procedure for locating the owners of unclaimed property. The Locator Unit was established in August 1979 to carry out this mandate. The unit consists of three special investigators who attempt to locate owners or heirs of unclaimed property. Unlike the normal advertising or letter notification procedure utilized by the Unclaimed Property program, this unit devotes its time to a more in-depth research of specific unclaimed property accounts.

During the current year this unit is being supported by funds from the Unclaimed Property Fund. The budget is proposing $120,000 from the General Fund to support the unit in 1983–84. The Department of Finance indicates that shifting the funding source will permit a more accurate accounting of expenditures and ensure that the Unclaimed Property Fund is utilized only for the payment of proven abandoned property claims.

As noted earlier, the responsibility for returning unclaimed property to its rightful owner rests with the holders of such property, such as banks and corporations. This service provided by the locator unit benefits relatively few taxpayers, and does so without reference to need. The costs of providing these benefits, however, will be funded by all taxpayers from the General Fund. On this basis, we recommend that funds in the amount of $120,000, to support this unit, be deleted from the Controller's budget.

REFUNDS OF TAXES, LICENSES, AND OTHER FEES

We recommend approval.

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

ADMINISTRATION

We recommend approval.

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

Table 8
Administration
Program Summary
(dollars in thousands)

	Personnel-Years			Expenditures		
	Actual 1981–82	Estimated 1982–83	Proposed 1983–84	Actual 1981–82	Estimated 1982–83	Proposed 1983–84
1. Executive office	23.7	19.0	19.0	$1,382	$980	$953
2. Administrative services	61.5	55.6	49.2	2,463	2,789	2,247
3. Less amounts distributed to other divisions	−53.7	−58.6	−56.8	−2,097	−2,097	−2,097
Totals	31.5	16.0	11.4	$1,748	$1,672	$1,103

STATE BOARD OF EQUALIZATION

Item 0860 from the General
Fund and various funds — Budget p. LJE 101

Requested 1983–84	$77,298,000
Estimated 1982–83	72,883,000
Actual 1981–82	72,867,000
Requested increase (excluding amount for salary increases) $4,415,000 (+6.1 percent)	
Total recommended reduction	$94,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0860-001-001	Support	General	$70,805,000
0860-001-022	Emergency Telephone Users' Surcharge	Emergency Telephone Number Special Account, General	76,000
0860-001-061	Motor Vehicle Fuel License and Use Fuel Taxes	Motor Vehicle Fuel Account, Transportation Tax	3,656,000
0860-001-064	County Assessment Standards	Motor Vehicle License Fee Account, Transportation Tax	1,010,000
0860-001-465	Energy Resources Surcharge	Energy Resources Programs Account, General	72,000
0860-001-965	Timber Yield Tax	Timber Tax	1,679,000
Total			$77,298,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Sales Tax Audits. Reduce Item 0860-001-001 by $514,000.*** Recommend deletion of 38 proposed new audit positions, because they have not been justified on the basis of marginal net assessments. 116
2. ***Sales Tax Compliance. Augment Item 0860-001-001 by $420,000.*** Recommend addition of 24 positions to collect delinquent sales and use taxes, because they will produce additional state revenues in excess of their cost. (Potential increase in General Fund revenues: $1 million in 1983–84; potential cash-flow increase to the General Fund: $20 million in 1983–84.) 119
3. *Income Tax Appeals.* Recommend enactment of legislation to broaden board's powers to impose penalties in "tax protester" appeals, thereby reducing appeals workload. 127

GENERAL PROGRAM STATEMENT

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

Responsibilities of the Board

About 93 percent of the board's staff is devoted to the administration of the state and local sales tax and several other taxes. Administration of these taxes includes registering taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. The board also has constitutional and statutory responsibilities regarding the administration of local property taxes, and about 7 percent of its staff is engaged in those activities. The board's various responsibilities are described below.

Administration of State and Local Taxes. The board administers and collects the state's 4.75 percent sales and use tax, the local 1.25 percent sales and use tax, and a 0.5 percent sales and use tax for five local transit districts. The board either has or shares responsibility for the administration of five state excise taxes: (1) the alcoholic beverage tax, (2) the cigarette tax, (3) the motor vehicle fuel license tax (gasoline tax), (4) the use fuel tax (diesel tax), and (5) the insurance tax. The board also administers (1) the private car tax, which is imposed on privately-owned railroad cars, (2) the surcharge on the consumption of electricity, (3) a telephone surcharge, which is used to fund the 911 emergency telephone systems, (4) the timber yield tax, and (5) a pair of taxes on the disposal of hazardous substances.

Local Property Taxes. The board surveys the operation of county assessors' offices, issues rules governing assessment practices, trains property appraisers, and provides technical assistance and handbooks to county assessors' staffs. The board also determines the value of public utility property and allocates assessed value to each local taxing jurisdiction in which such property is located.

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

The board has 2,872 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $77,298,000 from various funds to support the State Board of Equalization in 1983–84. This is an increase of $4,415,000, or 6.1 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefits increase approved for the budget year. The board's expenditure program for the prior, current, and budget years is set forth in Table 1.

The budget requests a total of 2,875 authorized *positions* in 1983–84, an increase of three positions over the number authorized in the current year. The number of *personnel-years* associated with each program is shown in Table 1. (Personnel-years are equal to authorized positions minus salary savings.) As the table indicates, the budget requests a total of 2,773.7 personnel-years in 1983–84, an increase of 17.9 personnel-years over the number authorized in the current year.

STATE BOARD OF EQUALIZATION—Continued

Table 1
Board of Equalization Budget Summary
(dollars in thousands)

	Personnel-Years			Expenditures		
	Actual 1981–82	*Estimated 1982–83*	*Requested 1983–84*	*Actual 1981–82*	*Estimated 1982–83*	*Requested 1983–84*
1. County assessment standards	103.1	99.4	95.7	$4,447	$4,340	$4,466
2. State assessed property	91.1	90.7	90.7	3,517	3,583	3,798
3. Timber tax	35.8	37.5	37.5	1,445	1,578	1,679
4. Sales and use tax	2,205.8	2,337.8	2,369.0	75,580	79,667	84,869
5. Hazardous substances tax	5.4	12.4	12.4	201	352	352
6. Alcoholic beverage tax	29.7	28.9	28.9	866	841	891
7. Cigarette tax	13.4	10.3	10.3	1,517	1,556	1,616
8. Motor vehicle fuel license tax	12.5	17.6	13.4	483	548	541
9. Use fuel tax	87.2	94.5	89.1	2,854	3,011	3,115
10. Energy resources surcharge	1.8	1.6	1.6	60	54	72
11. Emergency telephone users surcharge	2.3	2.2	2.2	75	69	76
12. Insurance tax	1.9	1.9	1.9	84	80	85
13. Motor vehicle fuel conservation	6.1	—	—	252	—	—
14. Appeals from other governmental programs	15.3	21.0	21.0	709	983	1,043
15. Administration (undistributed)	5.9	—	—	272	180	180
Totals	2,617.3	2,755.8	2,773.7	$92,362	$96,842	$102,783
Reimbursements	—	—	—	−19,495	−23,959	−25,485
Net totals	2,617.3	2,755.8	2,773.7	$72,867	$72,883	$77,298

The greater increase in personnel-years, relative to the increase in positions, is primarily due to additional legislatively-mandated duties imposed on the board in 1982–83. Specifically, Ch 5x/82 (AB 8x) and Ch 115/82 (AB 1253) required the board (1) to calculate interest due on delinquent taxes on a daily, rather than a monthly basis, and (2) to accelerate the collection of certain sales and use tax payments. This additional workload was accommodated by administratively establishing positions, which were funded through forced increases in salary savings (for example, by delaying the filling of vacant positions and diverting the resources saved to fund the new positions). As a result, the board's salary savings rate (and, therefore, the ratio of authorized positions to personnel-years) in the current year is abnormally high. To compensate for this in the budget year, the number of personnel-years increases to a somewhat greater extent than the number of authorized positions.

Table 2 displays the major changes in the board's program budget between the current year and the budget year. Included in the total baseline adjustments of $5.6 million are (1) $3 million associated with the partial restoration of a one-time reduction in retirement funding during

1982–83 and (2) $1.3 million to compensate for price increases. The table also identifies $471,000 in savings associated with the expiration of programs and limited-term positions approved for 1982–83 only. The board's budget includes funding for one program change proposal, totalling $2.6 million, for the administration of taxes imposed by transit districts and redevelopment agencies. Budgeted reimbursements are expected to increase in 1983–84 by $3.4 million, primarily due to increased payments by local governments for the board's costs of administering local sales and use taxes. The Department of Finance approved no program maintenance proposals (workload changes in existing programs) submitted by the board. The consequences of unfunded workload increases in the board's sales tax compliance program are discussed in detail in our analysis of the board's budget.

Table 2
Board of Equalization
Proposed 1983–84 Budget Changes
(dollars in thousands)

	Cost	*Total*
1982–83 Current Year, Revised		$72,883
1. Baseline adjustments:		
A. Changes in cost of existing personnel:		
(1) Merit salary adjustments	$996	
(2) Staff benefits	245	
(3) Retirement rate adjustment	3,046	
Total, Increases in Cost of Existing Personnel	$4,287	
B. Price increase	$1,334	
Total, Baseline Adjustments		5,621
2. Limited-Term Positions/Expiring Programs:		
A. Business taxes:		
(1) Mobilehome refund (SB 492)	−$199	
(2) Gasoline tax rate increase (SB 215)	−72	
(3) Diesel fuel tax rate increase (SB 215)	−64	
(4) Office of Administrative Law	−42	
B. Property taxes:		
(1) Change of ownership activity (AB 152)	−81	
(2) Timber tax microcomputer	−12	
(3) Office of Administrative Law	−1	
Total, Limited-Term Positions/Expiring Programs		−471
3. Program Change Proposal: Administration of Transit and Redevelopment Area Taxes		$2,641
4. Increased Reimbursements		−3,376
Total, Support Budget Changes		$4,415
Total, 1983–84 Support Budget		$77,298

Revenues Administered by the Board

Table 3 shows estimated state and local revenue collections from programs administered by the board. Total revenues from these programs in the budget year are estimated at $13.4 billion, which is an increase of 9.6 percent over the estimated 1982–83 level.

STATE BOARD OF EQUALIZATION—Continued

Table 3
State and Local Revenues
Collected by the Board of Equalization
(in millions)

	Actual 1981–82	Estimated 1982–83	Projected 1983–84	Percent Change from Previous Year 1982–83	1983–84
State sales and use tax	$7,689.1	$7,730.0	$8,616.0	0.5%	11.5%
Local sales and use tax	2,149.6	2,361.0	2,664.9	9.8	12.9
Alcoholic beverage tax	139.5	138.0	141.0	−1.1	2.2
State cigarette tax	194.3	190.5	188.0	−2.0	−1.3
Local cigarette tax	82.5	80.5	79.5	−2.4	−1.2
Motor vehicle fuel tax (gasoline)	752.1	809.9	1,016.9	7.7	25.6
Use fuel tax (diesel)	81.3	90.4	119.0	11.2	31.6
Energy resources surcharge	31.0	30.9	31.9	−0.3	3.2
Emergency telephone users surcharge	20.1	21.5	23.0	7.0	7.0
Hazardous substances taxes	3.5	12.4	16.3	254.3	31.5
Insurance tax	484.2	703.0	450.0	45.2	−36.0
Timber yield tax	23.4	23.5	12.6	0.4	−46.4
Private railroad car tax	4.9	3.0	5.5	−38.8	83.3
Totals	$11,655.5	$12,194.6	$13,364.3	4.6%	9.6%

SALES AND USE TAX PROGRAM

Sales Tax Auditing

We recommend that funding for 36 proposed new tax auditor positions and 2 account clerk positions be deleted, because they have not been justified on the basis of their expected marginal net assessments, for a General Fund savings of $514,000.

The budget proposes expenditures of $84.9 million for administration of the sales tax program in 1983–84. This is $5.2 million, or 6.5 percent, more than estimated current-year expenditures for this program. Of the $84.9 million, $39.8 million (47 percent) is proposed for auditing accounts of firms subject to the sales and use tax.

The Board's Request. Thirty-nine field auditor positions, one headquarters auditor, and two account clerk positions are proposed for 1983–84 to process additional workload associated with administering the 0.5 cent sales tax, imposed in July 1982, for transit purposes in Los Angeles and San Mateo Counties. Of these 42 positions, four auditors are proposed for enforcement functions directly attributable to the new transit taxes. These positions will be used to prepare "audit memos" on large sales by out-of-district retailers to district residents, so that the additional use tax may be billed. (Under existing law, if a transit district resident purchases an automobile outside of the district, for example, he is still liable for the additional 0.5 cent tax.)

The remaining 38 positions represent resources requested to perform "regular" sales and use tax audits. This request is not based on an anticipated increase in the total number of accounts to be audited; rather, it assumes that the amount of time required *per audit* will increase. Based on the board's past experience in administering the additional sales tax for other transit districts, the board estimates that the new taxes will, on average, result in a 10 percent increase in the amount of time required per regular account audited in Los Angeles and San Mateo Counties. The board also estimates an *additional* workload increase associated with accounts audited from adjacent counties, equal to one-half of the increase for Los Angeles and San Mateo accounts. Thus, the board's request assumes that the additional audit workload generated by these two counties' transit taxes will equal *15 percent* of the time currently spent on all audits of accounts within Los Angeles and San Mateo Counties.

Staffing Reductions Would Result in General Fund Savings. The board's budget request identifies the costs of the audit positions as fully funded by reimbursements from the transit districts. Our analysis, however, indicates that this is misleading. Under existing law (Revenue and Taxation Code Section 7273), a transit district is charged for administrative costs an amount equal to 1.64 percent of the taxes collected on the district's behalf. Thus, the amount of administrative cost reimbursements received from a transit district is essentially fixed, and bears no necessary relationship to actual administrative costs incurred by the board. Consequently, any reduction in the board's administrative costs would result in a savings to the General Fund, with no concomitant reduction in reimbursements.

If the 38 positions were not approved, therefore, the total amount of administrative cost reimbursements received from transit districts would remain essentially unchanged, while the General Fund would realize a savings of $514,000. This does not mean, however, that by refusing to approve the 38 additional positions requested, the Legislature would be charging Los Angeles and San Mateo counties' transit districts more than they receive in the form of benefits from the state. These two districts would continue to reap benefits from the remaining audits conducted by the board, as they would receive their appropriate shares of any sales tax deficiencies identified by the audit program.

Marginal Net Assessment Criterion Not Met. As noted above, the additional audit resources are requested by the board so that it can audit the same number of accounts in 1983–84 as it did before the new transit taxes were imposed. That is, the board's request is once again based on its desire to *maintain a given level of audit coverage of accounts,* rather than on an analysis of the expected marginal benefits and costs associated with the proposed positions. As such, it fails to meet the criterion for approving additional audit resources which was endorsed by the Legislature and has appeared in both the 1981 and 1982 Budget Acts.

In our two most recent budget analyses, we pointed out that, in order to maximize the productivity of its audit program (as measured by the excess of net assessments over audit costs), the board should allocate its audit resources on the basis of the expected *marginal benefits* associated with additional audits. This would require the board to rank all eligible accounts in groups according to the amount of net assessments in excess of costs which an audit of the accounts in each group might be expected to produce. Once the eligible accounts are so ranked, the board should place the highest priority on auditing those accounts for which the expected net assessments exceed by the greatest amount the cost of performing the audits. This criterion also implies that any additional audit resources requested by the board should be justified on the basis that (1) existing resources are allocated optimally and (2) the cost of additional resources is exceeded by the additional net assessments which they may be expected to produce.

The Legislature has endorsed use of the marginal net assessment criterion by including the following language in each of the last two Budget Acts:

"Provided, that the State Board of Equalization shall use the effective-

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ness criterion of net assessments per dollar of cost for the purpose of audit selection and resource allocation processes and in reporting accomplishments to the Legislature. The board may use other criteria in evaluating the effectiveness of other aspects of the audit program. *The board shall select audits and allocate audit resources solely on the basis of incremental or marginal net assessments expected to be produced.* Nothing in this proviso shall require the board to individually rank each audit eligible account against all other eligible accounts or preclude the board from selecting audits for training purposes, or from allocating audit staff to verify claims for refund or to meet necessary management information needs" (emphasis added).

The board has not been able to estimate the expected marginal productivity of accounts within each "cell," or account group, assigned by its headquarters auditors. Instead, the board has allocated its audit resources based on equalizing across cells the percentage of productive audits within each, where a "productive" audit is defined as one which returns net assessments in excess of its cost. (This method was recently modified to emphasize the percentages of *marginal* audits within each cell which are productive; while this is an improvement, it is not the same as allocating resources based on expected marginal productivity.) An obvious defect of this approach is that it fails to distinguish between audits with vastly differing productivity; according to the board's method, an audit which produces $1.01 in net assessments per dollar of cost is of equal importance to one which produces $500 per dollar of cost.

Marginal Productivity Study Results Inconclusive. In last year's *Analysis of the Budget Bill,* we noted that the board had taken steps toward the implementation of the marginal net assessment criterion described above. One of the most promising of these was a study undertaken by the board to determine the ability of district auditors to rank eligible accounts according to their expected marginal productivity. It was hoped that the results of the study would enable the board to estimate expected marginal net assessments associated with auditing accounts within each cell. The information so obtained could then be used to reallocate existing resources in a more productive manner and to justify, on a rational basis, any requests for additional audit resources.

Unfortunately, the results of the marginal productivity study were mixed. On the positive side, the study appears to demonstrate that district auditors generally are able to identify the most productive accounts within each cell. Among less productive accounts, however, the auditors' predictive abilities were more difficult to evaluate. In several instances, accounts which the auditors had predicted would be relatively unproductive turned out instead to be extremely productive. This, in turn, created a problem in using the actual productivity of accounts in this group (which the auditors had predicted would be least productive) as a measure of expected marginal productivity for the cell: should the occasional, extremely productive accounts be included on the assumption that they represent a predictably recurring, though random, phenomenon, or should they be discarded as completely unpredictable flukes? The risk in the first approach is that too much emphasis would be placed on auditing accounts from this cell; the risk in the second is that these accounts would not be audited enough.

Our analysis indicates that the extreme variability of the marginal productivity study's results was largely due to its relatively small sample size. In addition, auditors in three of the four districts studied failed to follow instructions for conducting the study, which had been provided by the board's statistical research division. As a result, the study was unable to provide reliable estimates of the marginal net assessments per dollar of cost for the various audit cells. At the same time, however, we believe that the methodology employed by the marginal productivity study was fundamentally sound, and that an expanded study, encompassing a larger number of districts, would probably produce the desired estimates. For this reason, we continue to believe that the board's audit selection system could be significantly improved by incorporating marginal productivity data—and that these data *are obtainable.*

Additional Audit Positions Not Justified. In sum, while the board has made improvements in its system of allocating audit resources which are *consistent* with the Budget Act requirements, we do not believe that the board has fully *complied* with these requirements. As a result, we conclude that the board has not justified the 38 additional audit-related postions requested for the budget year on the basis that (1) existing resources are allocated optimally and (2) the cost of the additional resources requested is exceeded by the additional net assessments which these resources may be expected to produce. That is, the board's request ignores the issue of whether the additional workload could be accommodated, and additional revenues generated, without an increase in the number of audit positions, simply by reallocating existing resources away from less productive audits to those audits (including transit tax-related audits) which are expected to be more productive. Any request for *additional* audit positions should be justified by the foregone net assessments associated with those less-productive audits displaced by the reallocation. The board, however, has failed to provide such justification. For these reasons, we recommend that the 38 positions requested for sales tax audits be denied, for a General Fund savings of $514,000.

Sales Tax Compliance Program

We recommend an augmentation of $420,000 and 24 positions for the collection of delinquent sales and use taxes, because these positions will produce additional state revenues in excess of their cost.

The sales tax compliance program involves registering taxpayers, processing tax returns, and collecting delinquent taxes. Table 4 presents the total staff and expenditures proposed for this program in the budget year.

Table 4

Board of Equalization

Sales Tax Compliance Program

	Personnel-Years			*Proposed*
	1981–82	*1982–83*	*1983–84*	*Expenditures*
Registration	480.2	505.2	505.3	$15,410,000
Return processing	447.3	522.8	524.3	20,849,000
Delinquent tax collections	262.8	285.3	285.3	8,915,000
Totals	1,190.3	1,313.3	1,314.9	$45,174,000

The Governor's Budget provides no additional positions in 1983–84 to accommodate workload increases projected for the registration of new sales and use tax accounts, the processing of tax returns, and the collection of delinquent taxes due the state. Registration of new accounts is a manda-

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tory activity of the board and must be performed before the potential taxpayer may lawfully engage in business. Similarly, tax returns must be processed if the state is to receive in a timely fashion the full amount of sales tax revenues due. Because of the high priority of these two activities, any workload increases for which sufficient resources are not budgeted will be accommodated by diverting resources away from the collection of delinquent sales and use tax accounts.

We have examined the board's projections of additional workload in 1983–84 for the three activities comprising the sales tax compliance program. Assuming reasonable increases in productivity that are consistent with recent trends, we believe that the board will be able to accommodate additional workload associated with two of these activities—registration of new taxpayers and processing tax returns—within the resources provided by the Governor's Budget.

Delinquent Tax Collections Underbudgeted. Our examination of the resources budgeted for the collection of delinquent sales and use tax accounts, however, indicates that the amount of these resources is not adequate to enable the board to process additional workload associated with this activity in 1983–84, as shown in Table 5.

Table 5
Sales Tax Compliance Program
Delinquent Tax Collections
Revenues and Accounts
(dollars in thousands)

	Actual 1979–80	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
Beginning inventory					
revenues	$56,864	$69,060	$77,211	$97,198	$108,422
(accounts)	(30,230)	(32,588)	(34,401)	(41,612)	(47,774)
Additions:					
Accruals and adjustments	$4,176	$4,382	$6,153	$7,108	$8,222
New billings					
revenues	$98,786	$112,678	$166,901	$192,877	$222,759
(accounts)	(91,675)	(92,786)	(114,736)	(120,473)	(126,496)
Deletions:					
Accounts paid					
revenues	−$84,077	−$100,194	−$143,973	−$178,776	−$196,686
(accounts)	(−87,129)	(−88,323)	(−104,109)	(−110,560)	(−110,560)
Accounts written off					
revenues	−$6,689	−$8,716	−$9,094	−$9,985	−$9,985
(accounts)	(−2,188)	(−2,650)	(−3,416)	(−3,751)	(−3,751)
Ending inventory					
revenues	$69,060	$77,211	$97,198	$108,422	$132,732
(accounts)	(32,588)	(34,401)	(41,612)	(47,774)	(59,959)

As Table 5 shows, the board has been unable to keep up with increases in the number of delinquent accounts which become subject to collection each year, despite increases in productivity achieved by the board. This has occurred because the actual number of delinquent accounts received has exceeded the number estimated in the budget projections. As a result, the backlog of accounts to be collected (each year's beginning inventory) has grown from 30,230 in 1979–80 to an estimated 41,612 in the current year. If no additional positions are provided for delinquent tax collections, we estimate that the backlog will grow even further—to almost 60,000 accounts and over $130 million in delinquent taxes by the end of 1983–84.

This growth in the inventory of backlogged accounts has two fiscal consequences for the state. First, it causes the state to lose tax revenues which it otherwise would have collected, as more accounts fail to receive attention, become uncollectible, and have to be written off. Second, it delays the receipt of those delinquent tax revenues which are collected. Because delinquent tax liabilities are charged interest at current market rates, this results in little or no measurable dollar loss to the state. The state must, however, forego use of these revenues during the budget year—revenues which, from a cash-flow perspective, clearly are needed so that the state can pay its bills without having to borrow.

Our analysis indicates that an investment in additional collections personnel would be in the state's financial interest, in that the cost of the additional personnel would be more than offset by the benefits they produce. It would *not* be appropriate, however, to attempt to fully dispose of the entire backlog of accounts during the budget year. This is because, as more of the lower-priority accounts are subjected to collection efforts, the marginal benefits to the state (in terms of reduced write-offs) may be expected to decline.

Our analysis indicates that a modest investment, one sufficient to maintain the inventory of accounts at the same level as at the beginning of the current year (41,612 accounts), is warranted. To accomplish this objective, we estimate that the board would require 24 additional positions (12 business taxes representatives and 12 clerical positions), at a cost of $420,000. By providing these additional resources, we estimate that the General Fund would realize a gain in *cash flow* of over $20 million in 1983–84. We also estimate that the state would realize additional, direct benefits of $1 million in revenues, collected during the budget year, which would otherwise be written off as uncollectible. For these reasons, therefore, we recommend that the Legislature augment the Board of Equalization's budget by $420,000 and 24 positions.

Transit District and Redevelopment Area Taxes

We recommend approval.

The budget proposes the addition of 54 positions and $2,075,000 to handle tax return processing workload associated with sales taxes imposed by transit districts and redevelopment agencies. Of these 54 positions, 31 are to accommodate workload increases directly attributable to the administration of the 0.5 cent sales tax imposed in Los Angeles and San Mateo Counties since July 1982, for transit purposes. This additional workload consists of such activities as reviewing returns to verify that the correct amount of tax (including the additional transit tax) has been paid, billing taxpayers for deficiencies identified, accounting separately for sales tax revenues due the transit districts, and preparing statistical reports on the amount of sales taxes collected. The remaining 23 positions (10 limited-term) are proposed to continue improvements to the board's data processing capabilities, begun in the current year, which will be necessary to accommodate future workloads associated with sales taxes imposed by other transit districts and redevelopment agencies.

The board's current data processing system is capable of handling six separate taxing jurisdictions; with the addition of the Los Angeles and San Mateo County transit districts, this capability is fully utilized. Because of the California Supreme Court's decision in *LACTC* v. *Richmond*, which holds that additional transit-related sales taxes require only a majority vote under Proposition 13, the board anticipates that more transit districts will

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take advantage of this revenue source in the future. In addition, Ch 951/81 (SB 152) provides that redevelopment agencies may receive a share of the 1 cent local sales tax. While no redevelopment agency currently exercises this authority, some may do so in the future. As a result, the board's current data processing capabilities need to be expanded and improved.

Our analysis indicates that the additional 52 positions proposed for processing sales tax returns are justified. Unlike sales tax auditing, for which the appropriate commitment of resources depends solely on a comparison of expected benefits (marginal net assessments) and costs, sales tax return processing is a mandatory function of the board. As such, requests for additional resources are more appropriately justified on the basis of projected increases in workload. We have reviewed the board's workload projections and find them to be reasonable. Accordingly, we recommend approval of this request as budgeted.

Unfunded Legislation

Ch 1274/82 (AB 2932) exempts from taxation the sale or lease of custom computer programs, except basic operational programs. This exemption does not apply to "canned," or prewritten, computer programs, but does apply to custom modifications to canned programs. The act states that its provisions are declaratory of existing law.

Based on the Board of Equalization's interpretation that this act constitutes a *change* in existing law, we estimate that it will result in a major General Fund revenue loss in 1982–83 and annually thereafter. This revenue loss to the state has been estimated at between $5 million (Department of Finance) and $35 million (Board of Equalization) in 1982–83, and increasing amounts annually thereafter. In addition, local governments will lose between $1 million (Department of Finance) and $10 million (Board of Equalization) in sales tax revenues in 1982–83, and increasing amounts annually thereafter. The Department of Finance's estimates of the revenue loss resulting from this tax expenditure have been implicitly assumed in constructing the Governor's Budget—and, hence, are "funded."

The statute also provides that claims may be filed, through December 15, 1982, for refunds of sales and use taxes previously paid in connection with custom computer programs. Under the terms of the act, the total amount of such refunds cannot exceed $1.2 million; if the total amount of refunds claimed exceeds this figure, the Board of Equalization must determine a pro rata share due each claimant. The legislation contained no appropriation but provided instead that, upon appropriation by the Budget Act of 1983, the $1.2 million in refunds would be paid by the board prior to September 15, 1983. The Governor's Budget, however, provides no appropriation for refunds claimed pursuant to this statute.

Our analysis indicates that, as a matter of law, the extent to which the Legislature may limit the payment of refund claims in the manner contemplated by the statute is unclear. At the time this analysis was written, the board had received 343 refund claims, totaling $19.6 million. With a ceiling of $1.2 million on the total amount of refund payments, each claimant may receive as little as 6 percent of the amount which he has claimed. It may be argued, however, that if Ch 1274/82 is declaratory of existing law (as it states), then any taxes previously collected by the board on the sale or lease of custom computer programs were collected illegally and must be refunded *in full*. If this argument were upheld in the courts, the $1.2

million limit imposed by the statute could be without force. There is a possibility, therefore, that the state may be forced to honor up to $19.2 million in claims for the refund of sales taxes during 1983–84, irrespective of whether the Legislature chooses to provide any appropriation (full or partial) for this purpose in the Budget Act.

COUNTY ASSESSMENT STANDARDS PROGRAM

In supplemental language to the 1982 Budget Act, the Legislature directed the Legislative Analyst to examine the costs and benefits to the state and local governments of the local property tax monitoring element within the County Assessment Standards program. The language further directs the Legislative Analyst to identify, to the extent possible, the amount of increased property tax assessments and revenues resulting from this function.

Program Costs and Funding Sources

Prior to 1982–83, the local property tax monitoring function was identified as a separate program within the Board of Equalization's budget. Last year, however, we recommended that the program be subsumed within the board's County Assessment Standards program, to reflect the close relationship between it and the board's assessment practices surveys. This consolidation, which was approved by the Legislature, resulted in the elimination of one division chief position and a General Fund savings of $57,000.

The Department of Finance implemented this change by merging the local monitoring program and the assessment practices surveys into a new "county surveys" element. As a result, the local monitoring program is no longer separately identified in the Governor's Budget. Those components which constituted the program, however, may still be identified; for convenience, we shall continue to refer to these components collectively as the local monitoring program.

Table 6
Cost and Funding Sources of County Assessment Standards Program's County Surveys Element
1981–82 to 1983–84
(dollars in thousands)

	1981–82	*1982–83*	*1983–84*
Local Property Tax Monitoring:			
Assessment investigation	$1,622	$1,404	$1,489
Sample selection	180	217	231
Special topics surveys	168	167	177
Subtotals, Local Monitoring	$1,970	$1,788	$1,897
Assessment Practices Surveys	486	786	834
Totals	$2,456	$2,574	$2,731
State (General Fund)	*$2,456*	*$1,614*	*$1,721*
Local (VLF subventions)	—	*960*	*1,010*

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The Legislature, in acting on the 1982 budget, also provided that one-half of the variable (that is, nonoverhead-related) expenses of the county surveys element be funded by local government via a reduction in their vehicle license fee (VLF) subventions. Requiring local governments to share in the cost of the county surveys was justified on the basis that any benefits which these surveys produced were shared by the state (through reductions in the costs of school apportionments) and local government (through increased property tax revenues). Statewide, each additional dollar of property tax revenues resulting from the county surveys element results in a 63-cent net increase in local revenues and a 37-cent savings to the state, on average.

Table 6 shows the costs and funding sources of the county surveys element of the County Assessment Standards program for 1981–82 through 1983–84. Those components of the county surveys element which comprised the earlier local property tax monitoring program are also identified. As shown, the estimated cost of the county surveys in 1982–83 is $2.6 million, of which approximately $1 million is funded by local government through reductions in their VLF subventions.

Program Benefits Cannot Be Measured

Our analysis indicates that it is not possible, given data currently available, to measure the "benefits" of the local property tax monitoring program. Moreover, while the Board of Equalization has data on the amount of assessment errors *identified* by the program, it has no data on the amount of additional property tax revenues which ultimately result from the correction of these errors. This is not to suggest that the local property tax monitoring program does not generate significant benefits for the state and local governments. Rather, our analysis indicates that these benefits simply cannot be measured by data currently produced by the program, for reasons discussed below.

First, in measuring the benefits of the local property tax monitoring program, some value must be assigned to the program's output. Just because the program may identify, for example, assessment errors which could potentially yield $100,000 in additional property tax revenues does not necessarily imply that the benefit conferred by this information is worth $100,000. In practice, the benefit could be worth substantially less, because:

- The assessor may not be permitted to reassess some of the properties the assessments for which are in error. Under existing law, for example, assessors may not correct errors associated with the assessment of a property's 1975 base year value (as determined for purposes of Proposition 13).
- There may be significant costs involved in reassessing properties. These could result from redirecting existing staff away from other, productive assessment functions or from hiring new staff to reassess properties. In addition, attempts to reassess some properties could be met with costly legal challenges.
- The difference between the assessor's valuation of a property and the value assigned by the local monitoring program may be due to legitimate, "judgmental" factors, rather than clear-cut errors in assessment practices.

A second problem in assigning values to the local monitoring program's outputs involves the treatment of overassessments. Suppose that the program were to identify overassessments which, if corrected, would result in a property tax revenue loss of $100,000. Should this entire amount be counted as a negative benefit (cost) of the program? On the one hand, the state and local governments have lost $100,000 which they would have otherwise received. On the other hand, the property tax revenues never rightfully belonged to these governments in the first place. In fact, it might be argued that the identification of overassessments should be counted as a positive benefit.

A third problem involves the number of assessment years over which any benefits are assumed to accrue. The identification of an underassessment in the current year may result in additional property tax revenues attributable to inaccurate assessments of the property in prior years, if the assessor determines that an "escape assessment" for back taxes is justified. The local monitoring program may also result in benefits by leading to the correction of *future* years' assessments, if it may be assumed that the assessment errors otherwise would have gone undetected. As a practical matter, however, the determination of the number of years for which such future benefits should be assumed to accrue cannot be done with any degree of certainty.

Finally, the mere existence of the local monitoring program may result in improvements in assessment accuracy, both through a "deterrent" effect and through the dissemination of information on assessment problems common to several counties. An examination of the magnitude of assessment errors *discovered* by the program, however, can never provide any indication of the extent to which these "intangible" benefits exist.

Assessment Errors Identified by the Program

Recognizing, then, that assessment errors identified by the local property tax monitoring program cannot be used as a measure of the program's benefits, we have nevertheless reviewed data on the magnitude of such errors identified by the board's examination of the 1980–81 assessment roll in 15 counties.

Based on a sample of 237 properties in each county, the board estimates that the assessors underassessed 23.2 percent of all properties, by a total of $8,442 million—or 16.5 percent of the underassessed properties' correct assessed values. The board also estimates that the assessors *overassessed* 9.3 percent of all properties, by a total of $1,539 million—or 14.6 percent of their correct assessed values.

As noted earlier, county assessors are not permitted, under existing law, to correct assessment errors resulting from incorrect 1975 base year values. Subtracting out assessment errors of this type, the board's results show that, if the 15 county assessors were to reassess all properties with correctable assessment errors (as identified by the local monitoring program), their counties would gain approximately $50 million in additional property tax revenues. This estimate assumes a basic tax rate of $1.00 per $100 of assessed value. (Because a portion of these additional revenues would be allocated to schools, there would be equivalent reductions in state general aid apportionments, resulting in a savings to the General Fund.)

This $50 million figure reflects assessment errors for one assessment year only. Thus, to the extent that (1) assessors were to levy escape assessments or grant refunds for prior years' assessment errors and (2) the local property tax monitoring program were to prevent the recurrence of assessment errors in future years, the additional property tax revenue potentially recoverable as a result of the program would change accordingly. The $50 million figure also reflects the effect of subtracting revenue losses due to overassessments from revenue gains due to underassessments. It does not, however, reflect any costs which would be experienced by assessors in reassessing the properties.

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Property Tax Revenues Attributable to Program

The Legislature also directed the Legislative Analyst to identify, to the extent possible, the amount of increased property tax assessments and revenues resulting from the local property tax monitoring program. This information currently is not available, because the board's estimates of total underassessments and overassessments, noted above, are the first such estimates produced since 1978, when the old intercounty equalization program was in effect. As of January 1983, the assessment practices survey reports incorporating these results had not been released officially, although they had been discussed with most of the 15 county assessors involved. In many cases, therefore, assessors simply have not had sufficient time to review the board's findings or to correct assessment errors identified by the program.

In addition, no mechanism currently exists for determining the extent to which assessors actually implement the assessment practices surveys' recommendations, short of waiting five years for the next survey to be conducted. The Board of Equalization, therefore, has suggested that it might be useful to perform an abbreviated, "post-audit" survey one year after completing the original assessment practices survey, to determine the extent of changes made. If the post-audit survey were to concentrate solely on determining whether the 237 properties included in the original sample were properly reassessed, its cost could be minimized. The risk in such an approach, however, is that the assessor might correct only the sample properties, leaving other properties with similar problems untouched. An alternative post-audit design would test for compliance by drawing a completely new sample, but in this case the resurvey could be as costly as the initial one.

A different approach to determining the extent to which the local monitoring program resulted in additional property tax revenues would rely on self-reporting by county assessors. Under existing law (Government Code Section 15645), assessors are required, within one year of receiving the assessment practices survey results, to submit a report to their board of supervisors (with copies to the Governor, the Board of Equalization, and the Legislature) indicating the manner in which they have implemented the surveys' recommendations. One important indicator of the extent to which an assessor has implemented the board's recommendations is how the amount of potential, additional property tax assessments identified by the board compares with the amount of additional property tax assessments actually made (supplemented by an explanation for the discrepency, if any). The Legislature, therefore, may wish to specify that, as part of the information to be included in this report, each assessor shall provide (1) an estimate of the actual amount of additional property tax assessments (including escape assessments and, in the case of overassessments, refunds) which were directly attributable to the assessment practices survey, (2) an explanation of any discrepancies between this amount and the amount identified by the Board's survey, and (3) an estimate of the costs, if any, associated with correcting the assessment errors identified by the board.

Alternatives to Current Structure of County Surveys

In supplemental language to the 1982 Budget Act, the Legislature directed the Board of Equalization to report on two issues pertaining to the county surveys element, which consists of the local monitoring function plus the county assessment practices surveys (management audits):

- The relative advantages of the existing fixed, five-year monitoring cycle, compared with the alternative of reviewing counties every five years *on average*, but with individual counties examined more or less frequently depending on the quality of their assessment programs, and
- The advisability of continuing the board's evaluation of county assessors' mapping, recordkeeping, and personnel practices as part of the assessment practices surveys.

The board submitted a preliminary report on these issues in November 1982. This report concluded that the concept of a variable monitoring cycle has merit, in that: (1) counties with a proven record of good administration would be surveyed less frequently than those with poorer performance and (2) counties would not know in advance which year they were to be surveyed, thereby precluding any attempts by assessors to change their behavior accordingly. The board agreed to provide the Legislative Analyst with data on the costs involved in moving to a variable cycle approach.

In late December, the board submitted cost data on one alternative, which incorporated the following elements:

- A "screening sample," consisting of 400 properties, conducted in approximately 19 counties per year, plus
- An additional in-depth "appraisal sample," followed by a complete assessment practices survey, in 8 of these 19 counties.

The costs associated with this alternative greatly exceed those of the existing county surveys configuration, primarily because of the increase in the number of properties that would be sampled.

In our opinion, the board has not adequately explored the possibilities of (1) varying the length of the survey cycle (for example, by examining "worse" counties every three years and "better" ones every 5 years) and (2) directing resources away from the county assessment practices surveys (by focusing only on practices which have the greatest revenue-producing consequences) and to the local monitoring function. For these reasons, we requested that the board develop an alternative which would incorporate these features and which could be implemented within existing resources.

At the time this analysis was written, we had not received the details of this second alternative. The board has, however, agreed to provide them prior to budget hearings on this issue. Once the information has been provided, we shall review the board's proposal and make comments to the budget committees as appropriate.

APPEALS FROM OTHER GOVERNMENTAL PROGRAMS

Increase in "Tax Protest" Appeals Workload

We recommend that legislation be enacted to broaden the Board of Equalization's power to impose penalties in so-called "tax protest" appeals, thereby discouraging further increases in appeals of this type.

The board hears appeals of decisions made by the Franchise Tax Board. After a taxpayer files a notice of appeal, the board holds a hearing to

STATE BOARD OF EQUALIZATION—Continued

resolve the issue presented. The case is then referred to the board's legal staff for analysis and preparation of a written decision reflecting the views of the Board of Equalization. The budget proposes $1,021,000 to cover the board's cost of hearing franchise and income tax appeals in 1983–84. (The budget also proposes $1,334,000 cover the costs incurred by the Franchise Tax Board in handling these appeals during the budget year.)

As Table 7 shows, the number of franchise and income tax appeals filed with the board has increased dramatically over the past several years. In one year alone, 1981–82, the number of appeals grew by nearly 80 percent above the previous year's level. Accordingly to the board, as much as three-fourths of this increase is attributable to so-called "tax protest" activities. These activities take various forms and include (1) filing of irregular income tax returns, not in processible form, (2) references to spurious constitutional arguments instead of required completion of a tax form, (3) filing forms on which there is insufficient information to calculate a tax liability, and (4) presentation of information that is clearly inconsistent, such as the listing of only a few dependents by a person who claims 99 exemptions.

Table 7
Franchise and Income Tax Appeals Workload Growth
("Tax Protest" Appeals in Parentheses)

	Beginning Inventory	*New Appeals Filed*	*Appeals Cleared*
1979–80	—[a]	—[a]	444
1980–81	980	830	524
1981–82	1,283	1,483	1,127
1982–83 (est.)	1,639	2,012	2,232
	(345)	(1,024)	(1,224)
1983–84 (est.)	1,419	2,284	2,260
	(145)	(1,202)	(1,252)

[a] Data not available.

Under existing law (Revenue and Taxation Code Section 19414), if it appears to the Board of Equalization that a taxpayer has filed an appeal "merely for delay," the board may impose a penalty of up to $500. In practice, the board has exercised this power relatively infrequently, usually in cases involving the filing of a tax protest appeal by a taxpayer who has had a similar appeal denied previously. Our analysis suggests that, if the board were to be more zealous in its application of the penalty provisions to tax protesters (including first-time offenders)—and if potential appellants were advised of the penalties when their cases were first denied by the Franchise Tax Board—the board's appeals workload could be greatly reduced.

To encourage the board to impose penalties more frequently in cases involving tax protesters, we believe that the statutory conditions under which such penalties may be imposed should be expanded and the amount of the penalty increased. One alternative for accomplishing this would be to modify existing law to reflect provisions of federal law (Internal Revenue Code Section 6673), enacted in 1982, which provide that a penalty not to exceed *$5,000* shall be imposed if "... it appears to the Tax Court that proceedings before it have been instituted or maintained by the taxpayer primarily for delay or that the taxpayer's position in such proceedings is frivolous or groundless."

We believe there is a need to increase the penalties imposed in tax protest appeals. We have no analytical basis, however, for recommending a particular penalty level. Increasing the maximum penalty to $5,000 could be justified on the basis of conforming state law with federal law (the maximum federal penalty was formerly $500 prior to 1982, the same as California's current maximum). In addition, it may be argued that the costs of processing taxpayer appeals are substantially the same at the state and federal levels, thereby justifying equivalent penalties. On the other hand, it may be argued that the state penalty should be less than the federal, recognizing that state income tax liabilities usually are lower than those at the federal level. Based on this rationale, a more modest increase in the maximum penalty (for example, to $1,000) might be reasonable.

In sum, we recommend that legislation be enacted to amend Section 19414 of the Revenue and Taxation Code so as to provide that the board *shall* impose a penalty in cases where appeal proceedings have been instituted primarily for delay, *or* where the taxpayer's position in such proceedings is frivolous or groundless. We further recommend that the Legislature consider increasing the current penalty.

SECRETARY OF STATE

Item 0890 from the General Fund — Budget p. LJE 126

Requested 1983–84	$12,429,000
Estimated 1982–83	10,747,000
Actual 1981–82	10,501,000
Requested increase (excluding amount for salary increases) $1,682 (+15.7 percent)	
Total recommended reduction	$487,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Reimbursements. Reduce Item 0890-001-001 by $478,000.*** Recommend reduction in General Fund appropriation to correct for underbudgeting of reimbursements. 132
2. ***Training Costs. Reduce Item 0890-001-001 by $6,000.*** Recommend reduction to reflect more accurate cost estimate. 132
3. ***Salary Savings. Reduce Item 0890-001-001 by $3,000.*** Recommend budgeting salary savings for the Limited Partnership program at previous year's level. 133

GENERAL PROGRAM STATEMENT

The Secretary of State performs numerous duties prescribed in the Constitution. In addition, the Secretary has statutory responsibility for specified financial statements and corporate-related documents, statewide elections, campaign disclosure documents, notaries public and the state archival function. Activities necessary to carry out these responsibilities are conducted in six program units: (1) Corporate Filing, (2) Elec-

SECRETARY OF STATE—Continued

tions, (3) Political Reform, (4) Uniform Commercial Code, (5) Notary Public, and (6) Archives. Effective January 1, 1984, a seventh program element, Limited Partnerships, will be added to carry out the responsibilities mandated by Ch 807/81. Implementation of this program, originally scheduled to begin January 1, 1983, was postponed by Ch 997/82.

Chapter 1190, Statutes of 1982 transferred the duties of the Commission on Voting Machines and Vote Tabulating Devices to the Secretary of State, effective January 1, 1983.

The Secretary of State has 334.9 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $12,429,000 from the General Fund to support the office of the Secretary of State in 1983–84. This amount is $253,000, or 2.0 percent, less than estimated expenditures in 1982–83. As discussed in the following section, however, when the current- and budget-year expenditures are measured on a comparable basis, the request for 1983–84 actually is $1,682,000, or 15.7 percent, *above* estimated expenditures in 1982–83. The proposed level of expenditures will increase further by the amount of any salary or staff benefit increase approved for the budget year.

Most of the increase above the current-year level of expenditures—$1,226,000—is attributable to implementation of the Limited Partnership program. The balance of the increase consists of $53,000 to cover higher operating expenses, $179,000 for merit salary adjustments and staff benefit increases, and $211,000 for special items of expense.

The Secretary of State also anticipates receiving reimbursements consisting of $1,086,000 in special handling fees and $563,000 under the Political Reform Act, resulting in a total expenditure program of $14,078,000 in 1983–84. This amount is $1,757,000, or 14.3 percent, above the level of comparable expenditures estimated for 1982–83.

Funding for the following state-mandated local programs, which previously was included in the Secretary of State's budget, is now contained in a separate budget item:

- Signatures in lieu of filing fees.
- Voter registration file purge.
- Registration by mail.
- Legislative mandates.

By including the cost of these programs in the prior- and current-year totals for the Secretary of State's office, but excluding them from the 1983–84 request, the budget document tends to distort the trend in spending by this office.

Table 1 shows the level of expenditures by the Secretary of State's office for the past, current, and budget years on a comparable basis by excluding expenditures for state-mandated local programs in all three years.

State Voter Pamphlet

The budget proposes $2,575,000 for printing and mailing the state voter pamphlet for the June 1984 statewide primary election. This is $168,000, or 7.0 percent, above estimated current year expenditures to mail the November 1982 general election. The increase is due to rising printing costs and an anticipated increase in the weight of the pamphlet, which will result in a higher per-pamphlet postage rate.

Table 1
Secretary of State
Expenditures, Excluding Local Assistance
1981–82 through 1983–84
(dollars in thousands)

	1981–82 Actual	*1982–83 Estimated*	*Percent Change*	*1983–84 Proposed*	*Percent Change*
Expenditures, as shown in the budget:	$12,780	$14,256	11.6%	$14,078	−1.3%
Less:					
Filing Fees	24	369	1,437.5	—	−100.0
File Purge	—	912	n/a	—	−100.0
Mail Registration	600	630	5.0	—	−100.0
Legislative Mandates	57	24	−57.9	—	−100.0
Expenditures, restated	$12,099	$12,321	1.8%	$14,078	14.3%
Less:					
Reimbursements	1,098	1,048	−4.6	1,086	3.6
Political Reform Act	500	526	5.2	563	7.0
Net Expenditures, restated	$10,501	$10,747	2.3%	$12,429	15.7%

Registration by Mail

Chapter 704, Statutes of 1975, redesigned the voter registration program to provide for "self-registration" through the use of postage-paid registration cards. The budget provides a total of $909,000 (consisting of $318,000 for printing and $591,000 for postage) for the cards in 1983–84. This is an increase of $43,000, or 5.0 percent, above estimated expenditures for the current year and is attributable solely to rising printing costs.

Limited Partnership Program Postponed

The Limited Partnership program, established by Ch 807/81, was to have been operational January 1, 1983, but it was subsequently postponed by Ch 1190/82 pending resolution of certain tax issues by the Internal Revenue Service. The initial legislation repealed the Uniform Partnership Act and established in its place the California Limited Partnership Act. The act transfers to the Secretary of State from various county recorders the responsibility for receiving, filing, and making available to the public certificates and other documents containing information regarding limited partnerships.

The budget proposes $1,226,000, 32 authorized positions and 14 personnel-years of temporary help to implement the Limited Partnership program in 1983–84. Of the amount requested, $450,000 is related to program start-up costs and will not be needed in 1984–85. The request is $101,000, or 9 percent, above the amount originally budgeted to implement the program in the current year.

Commission Duties Added

Chapter 1190, Statutes of 1982, transferred, effective January 1, 1983, the duties of the Commission on Voting Machines and Vote Tabulating Devices to the Secretary of State. The commission was responsible for approving the use of new machines or devices, overseeing the operation of those currently in use, and investigating and reporting on any alleged malfunctions of voting machine equipment. The commission had no staff positions, but was authorized to contract for technical assistance as need-

SECRETARY OF STATE—Continued

ed. The Secretary of State's 1983–84 budget includes $12,000 to fulfill these recently acquired duties. Based on past expenditures of the Commission, this amount appears reasonable.

Reimbursements Underestimated

We recommend a reduction of $478,000 in the amount of the General Fund appropriation because reimbursements are underestimated.

The Secretary of State anticipates receiving $1,086,000 in reimbursements during the budget year. This is $38,000, or 3.6 percent, more than the amount estimated in the current year. Table 2 shows budgeted, estimated and actual reimbursements for the period 1979–80 through 1983–84.

Table 2
Secretary of State
Budgeted, Estimated and Actual Reimbursements
1979–80 through 1983–84
(dollars in thousands)

	Originally Budgeted	*Revised Estimated*	*Percent Change*	*Actual Reimbursement*	*Percent Change From Original Budget*
1979–80	$412	$471	14.3%	$609	47.8%
1980–81	444	611	37.6	721	62.4
1981–82	894	915	2.4	1,098	22.8
1982–83	993	1,048	5.5	—	—
1983–84	1,086	—	—	—	—

During the three-year period 1979–80 through 1981–82, actual reimbursements consistently exceeded the amount initially budgeted. The increase over the budget ranged from a low of 23 percent to a high of 62 percent. The principal consequence of the tendency to underestimate reimbursements has been that amount needed from the General Fund to support the office's work has been significantly less than the amount budgeted in these years.

Based on this pattern of underestimating reimbursements, we recommend a $478,000, or 44 percent, increase in budgeted reimbursements and a corresponding reduction in the General Fund appropriation. Our recommended increase in reimbursements is based on the average increase in the amount budgeted for reimbursements during the past three years.

Training Costs Overbudgeted

We recommend a reduction of $6,000 in staff training costs to eliminate overbudgeting.

The 1983–84 budget includes $12,000 for staff training costs anticipated by the Secretary of State. This is a $1,000, or 9.1 percent, increase over estimated current-year expenditures.

Table 3 shows budgeted and actual training costs for each year since 1980–81.

Table 3
Secretary of State Training Costs
Past, Current, and Estimated
1980–81 through 1983–84
(dollars in thousands)

	Budgeted	*Actual*	*Percent Change*
1980–81	$4,720	$2,247	–52.4%
1981–82	7,875	4,150	–47.3
1982–83	8,652	11,000 [a]	27.1
1983–84	12,000	—	—

[a] Estimated actual.

The Secretary of State estimates that expenditures for staff training in the current year will exceed the amount originally budgeted by $2,348, or 27 percent. The increase represents unanticipated programmer and supervisor training costs. The Secretary's office indicates that expenditures historically have been less than the amounts budgeted because workload factors have precluded the diversion of staff for training purposes. It is unclear why the Secretary's office believes that actual expenditures for staff training will exceed the average historical amount by 50 percent in either the current or budget years. On this basis, we recommend a $6,000 reduction in training costs.

Salary Savings Underbudgeted

We recommend that salary savings for the Limited Partnership program be increased by $3,000, for a corresponding savings to the General Fund.

Last year, we recommended that an appropriate level of salary savings be recognized in the Limited Partnership program. This recommendation was approved by the Legislature, for a savings of $15,000. The 1983–84 budget contains funding for 32 new positions, at an estimated cost of $300,000 for salaries. The positions and the associated salaries are identical to those contained in the previous estimate, yet the amount budgeted for salary savings is $3,000 less. We can find no basis for lowering the salary savings estimate for these new positions, and accordingly, we recommend that an additional $3,000 in salary savings be budgeted for the Limited Partnership program.

STATE TREASURER

Item 0950 from the General Fund — Budget p. LJE 133

Requested 1983–84	$3,274,000
Estimated 1982–83	3,128,000
Actual 1981–82	2,397,000
Requested increase (excluding amount for salary increases) $146,000 (+4.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Bond Registration. Recommend adoption of Budget Bill language requiring the Director of Finance to notify the Legislature prior to the expenditure of $169,000 requested for bond registration. 136
2. Bond Sales and Services Positions. Recommend proposed temporary positions be approved for limited term of three years. 137

GENERAL PROGRAM STATEMENT

The State Treasurer has the following responsibilities:

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

These responsibilities are carried out through six program elements, as displayed in Table 1. The State Treasurer has 134.2 authorized positions in the current year. In addition, 4.4 positions have been established administratively, bringing total staffing for the Treasurer's office to 138.6 positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total expenditure of $5,055,000 from the General Fund and reimbursements to support the State Treasurer's office in 1983–84. This is $338,000, or 7.2 percent, more than estimated expenditures during the current year. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget request consists of (1) $3,274,000 from the General Fund, which is a $146,000, or 4.7 percent, increase over estimated General Fund expenditures in the current year; and (2) $1,781,000 in reimbursements, which is $192,000, or 12.1 percent, more than anticipated reimbursements in the current year. Table 1 shows personnel-years and expenditures for the Treasurer's office, by program element, for the past, current, and budget years.

The budget requests that 8.2 new positions be authorized, including 6.2 positions for bond sales and service, one position for paying and receiving, and one position for administration. All of these positions are to be supported from increased reimbursements.

Table 1
State Treasurer
Budget Summary
(dollars in thousands)

	Personnel-Years			Expenditures		
Programs	*Actual 1981–82*	*Authorized 1982–83*	*Proposed 1983–84*	*Actual 1981–82*	*Estimated 1982–83*[a]	*Proposed 1983–84*
Bond sales and services	19.7	24.0	27.1	$712	$820	$983
Investment services	8.9	9.0	9.0	529	570	599
Paying and receiving	51.4	57.7	58.2	1,747	1,968	2,049
Trust services	18.7	19.9	19.9	807	837	878
District securities division	7.1	7.0	7.0	352	360	377
Administration (distributed to other programs)	19.1	21.0	21.2	(724)	(766)	(801)
Administration (undistributed)	—	—	—	139	162	169
Totals	124.9	138.6	142.4	$4,286	$4,717	$5,055
Reimbursements	—	—	—	−1,889	−1,589	−1,781
General Fund	—	—	—	$2,397	$3,128	$3,274

[a] Estimated expenditures for 1982–83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

BOND SALES AND SERVICES

The responsibilities of the Bond Sales and Services program element include issuing, selling, servicing, and redeeming the state's general obligation and revenue bonds. The budget proposes expenditures of $983,000 for these activities in 1983–84, of which an estimated $595,000 will be financed from individual bond funds through reimbursements. The balance of the funds —$388,000—is requested from the General Fund.

Table 2 summarizes the Treasurer's bond marketing activities during the three years covered by the budget document.

Table 2
Bond Marketing Activities

General Obligation Bonds	*1981–82*	*1982–83*	*1983–84*
Number of issues	12	14	15
Value of bonds sold (millions)	$390	$630[a]	$870[a]
Revenue Bonds			
Number of issues	54	55	55
Value of bonds sold (millions)	$1,225	$2,305	$2,180

[a] Estimate made prior to suspension of general obligation bond sales by State Treasurer.

Bond Sales Temporarily Suspended

In early December 1982, the State Treasurer temporarily suspended the sale of state general obligation bonds, pending improvements in the state's fiscal condition. He did so in response to concerns over the impact of the fiscal situation on the state's credit rating. Prior to the suspension of bond sales, $280 million in general obligation bonds had been sold during the current fiscal year.

STATE TREASURER—Continued

The immediate consequence of the Treasurer's action is that projects and programs to be financed with the proceeds from bond sales during the coming months will have to be delayed. Within the Treasurer's office, the suspension of bond sales means that staff resources assigned to issuing and selling bonds are likely to be underutilized for the forseeable future.

Bond Registration Requirement Added

We recommend adoption of Budget Bill language requiring the Director of Finance to notify the Legislature prior to the expenditure of funds budgeted for bond registration.

Bonds are typically issued in either nonregistered or registered form. If a bond is issued in *nonregistered* form, no record is kept of who owns the bond, and interest payments are made by the Treasurer to whoever presents the coupon clipped from the bond. If a bond is issued in *registered* form, the specific owner of the bond is identified and interest payments are made directly to that individual.

Recently, the U.S. Congress enacted legislation requiring all tax-exempt bonds to be issued in *registered* form. This was done as a means of preventing individuals from using coupon bonds to hide wealth or income and escape paying federal estate taxes. Originally, this requirement was intended to apply to bonds sold after January 1, 1983. The Congress, however, has since postponed the effective date until July 1, 1983.

Currently, approximately $323 million in outstanding state bonds are in registered form. These bonds require the maintenance of 5,400 separate accounts and the issuance of 10,800 checks per year.

The budget proposes $169,000 (to be derived from increased reimbursements) for support of three additional office assistant II positions to handle the anticipated increase in workload associated with the new bond registration requirements. In the current year, 1.5 positions have been established, at a cost of $67,000, to handle the initial workload associated with the new requirement. Approximately one-third of this amount ($22,500) has been used for computer hardware and software to automate a large portion of the registration activities.

The Treasurer's office estimates that $3.1 billion worth of bonds, all of which must be issued in registered form, will be sold in 1983–84. Because of the Treasurer's recent action to temporarily suspend general obligation bond sales, however, it is uncertain whether the estimated level of sales for 1983–84 will be achieved. If bond sales fall significantly below this level, the additional positions requested in connection with the bond registration requirement may not be necessary. Accordingly, we recommend that the following Budget Bill language be adopted requiring the Director of Finance to notify the Legislature of his intention to expend some or all of the $162,000 requested to meet the additional workload, using the procedure set forth in Section 28 of the Budget Bill:

> "None of the funds authorized for purposes of accommodating workload associated with bond registration requirements shall be expended sooner than 30 days after notification in writing of the necessity therefor to the Chairman of the Joint Legislative Budget Committee pursuant to Section 28 of this Act."

Limited Term for Proposed Temporary Positions

We recommend that temporary positions requested in order to reduce backlogs in bond payments and audits be limited to June 30, 1986.

The budget requests expenditures of $50,000 for 3.2 positions for the purpose of reducing backlogs in the payment and audit of matured bonds and coupons. The positions would be established on a temporary help basis, and would be funded from increased reimbursements. The Treasurer has established 1.6 of these positions administratively during the current year, to help reduce the backlog in this division.

The coupon and bond payment function currently has a four month backlog. This is because many more individuals are submitting their coupons and bonds directly to the Treasurer for payment, rather than through their banks. Payments made by the Treasurer for coupons and bonds have increased by 19 percent since 1980–81.

The Treasurer's office suggests that the increase in workload is due to two factors: (1) an increase in the number of bonds outstanding and (2) the fees now charged by banks for redeeming bonds and coupons. According to the Treasurer, many persons who would normally redeem bonds and coupons through a bank now utilize the Treasurer's office because the Treasurer charges no fee. Our survey of banks, however, suggests that this service generally is still provided free of charge for bank customers. In addition, the banks we surveyed indicated that their practices in redeeming bonds and coupons have not been changed in recent years. Thus, an increase in fees charged by banks would not seem to explain the increase.

The audit function, which includes the accounting and identification of all bonds and coupons paid on the state's behalf by fiscal agents in New York and Chicago, has a six-month backlog because of increases in both the number of all bonds outstanding and in the complexity of each bond issue (for example, more coupon interest rates for each issue).

Our analysis indicates that there should be no *permanent* need for the requested positions. Bond registration will help reduce the workload for bond payments and audits because separate accounts will be maintained for each bondholder, and payments will be made automatically. According to the Treasurer's staff, bond registration will reduce the payment and audit workload by approximately 6 percent per year. In addition, a key reason for the increase in the backlogs was the unusually high rate of absenteeism which occurred within the Treasurer's office during the first three months of 1982. Consequently, if absenteeism stays at "normal" levels, new positions should not be needed on a permanent basis.

Based on workload information provided by the Treasurer's office, we estimate that the requested positions will be needed for three years. Accordingly, we recommend that the Legislature approve them as three-year, limited-term positions.

INVESTMENT SERVICES

This program is responsible for investing temporary surplus cash in the General Fund, other state funds, and the Local Agency Indebtedness Fund. The program objective is to maximize the earnings of these funds within the statutory limitations and policy decisions of the Pooled Money Investment Board. Table 3 provides details on the composition of the portfolio managed under the pooled money program. Approximately half of the funds are invested time deposits, certificates of deposit, and banker's acceptances.

STATE TREASURER—Continued

Table 3
Pooled Money Investment Portfolio
(dollars in millions)

	As of June 30, 1981		*As of June 30, 1982*	
	Amount	*Portfolio Percent*	*Amount*	*Portfolio Percent*
Time deposits	$1,475.8	23.9%	$1,144.6	22.4%
Certificates of deposit	1,210.9	19.6	1,120.1	21.9
Banker's acceptances	1,106.7	17.9	216.6	4.2
U.S. government securities	821.3	13.3	691.3	13.5
Federal home loans and Government National Mortgage Association notes	737.4	11.9	713.0	13.9
Federal agency coupons	698.9	11.3	506.3	9.91
Repurchases	259.7	4.2	827.0	16.9
Commercial paper	500.3	8.1	975.6	19.1
Other	217.1	5.0	286.2	5.6
Reverse repurchases	−846.4	−13.7	−1,371.3	−26.84
Total	$6,181.7		$5,109.4	

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

Investment Earnings Declining

The earnings from investments managed by the State Treasurer are summarized in Table 4. In 1981–82, the interest earnings were $632 million, which is approximately $155 million, or 20 percent, less than interest earnings in the previous year. This reflects both the downward trend in interest rates and the decline in idle funds available for investment.

Table 4
Investment Earnings
Pooled Money Investment Account
(in millions)

	Average Daily Investment Balance	*Earnings*	*Percent Yield*
1973–74	$2,587.2	$231.2	8.94%
1974–75	2,740.1	236.3	8.62
1975–76	3,209.1	204.3	6.37
1976–77	4,460.5	261.7	5.87
1977–78	6,843.9	458.6	6.70
1978–79	8,123.0	692.4	8.52
1979–80	8,286.0	895.0	10.54
1980–81	7,298.7	786.9	10.78
1981–82	5,234.6	632.0	12.07
1982–83 (est.)	4,826.7	530.0	11.00

PAYING AND RECEIVING

The State Treasurer provides banking services for state agencies. These services include depositing state funds, redeeming warrants issued by the Controller and other state agencies, and providing information to the Investment Division on the state's daily cash position. Table 5 shows the activities of this division for the past, current, and budget years.

Table 5

Paying and Receiving

	Actual 1981–82	*Estimated 1982–83*	*Projected 1983–84*
Dollars received (in billions)	$125	$130	$136
Number of warrants paid (in millions)	52	55	58

Increase in Checks and Warrants Processed

We recommend approval.

The budget proposes one additional clerk position, funded through increased reimbursements, to meet a workload increase in this division. Our analysis indicates that the number of warrants processed has increased from 42 million in 1979–80 to 52 million in 1981–82, for an increase of 25 percent. Additional information provided by the Treasurer's office indicates that during the same period, remittance advices prepared by the Cash Management Division increased by 21 percent (from 10,246 in 1978–79 to 12,416 in 1981–82). According to the Treasurer's office, this division has not received an increase in clerical help in the past four years. Based on these increases in workload, we recommend approval of one additional position for processing checks and warrants.

TRUST SERVICES

The trust services element is responsible for the safekeeping of all securities or other property owned by or pledged to the state. These securities are held in the Treasurer's vault or in approved depositories. As of June 1982, the Treasurer was responsible for over $32 billion in securities.

The safekeeping of securities for other state agencies, such as the Insurance Commissioner, account for a significant portion of the trust services workload. These services are provided by the Treasurer on a reimbursement basis. Such reimbursements are estimated to amount to $623,000, or 71 percent, of total expenditures for this program.

DISTRICT SECURITIES DIVISION

This division provides technical and fiscal evaluation of construction projects proposed by water, irrigation, water storage, and other types of districts. These evaluations are conducted for the purpose of protecting the public from unsound securities, as well as to protect the credit standing of the state and its local jurisdictions.

The division is supported from the General Fund. However, the proceeds from fees charged by the division for its services pay for the cost of the services. These fees are based on the size of the bond proposals evaluated by the division.

For the past three fiscal years, actual revenues have not been sufficient to cover the division's expenditures. This is mainly because high interest rates have had a negative impact on the number and size of the bonds

STATE TREASURER—Continued

issued by water and other districts under the jurisdiction of the division. Because interest rates have begun to decline, the division has recently experienced an increase in workload, and it anticipates that revenues will exceed expenditures by approximately $145,000 in the current year. If, however, the volume of district securities evaluated falls below the level anticipated at this time, the division may again incur a deficit in its operating budget.

Table 6
District Securities Division
Summary of Revenues and Expenditures
(dollars in thousands)

	Revenue	*Expenditures*	*Annual Net Gain (Loss)*	*Dollar Amount of Securities Evaluated*[a]
1972–73	$122	$167	($45)	$36,264
1973–74	182	181	—	50,440
1974–75	241	209	32	59,715
1975–76	236	216	20	38,070
1976–77	287	237	49	57,772
1977–78	318	253	65	88,767
1978–79	361	261	100	97,695
1979–80	314	333	(18)	158,042
1980–81	305	346	(40)	625,005
1981–82	182	352	(169)	70,343
1982–83 (est.)	500	355	145	243,748

[a] Includes bonds and warrants.

ADMINISTRATION

This function consists of the Treasurer's executive office staff and the general services section, which provides budgeting, personnel, and accounting services for the Treasurer's office. These services are also provided for nine authorities and commissions on a reimbursable basis, including:

- California Health Facilities Authority,
- California Educational Facilities Authority,
- California Pollution Control Financing Authority,
- California Industrial Development Financing Advisory Commission,
- California Student Loan Authority,
- California Alternative Energy Source Financing Authority,
- California Rail Passenger Financing Commission,
- California Debt Advisory Commission, and
- Commission on State Finance.

New Responsibility Added

We recommend approval.

The budget proposes one additional accounting technician position for this division to accommodate a workload increase. The increase involves the workload associated with billing individual insurance companies directly for services provided by the Treasurer's office. Chapter 1131, Statutes of 1981, transfers the responsbility for billing insurance companies for the costs of holding securities in the state vault from the Insurance Commissioner to the State Treasurer. Previously, the Treasurer's office billed the Insurance Commissioner four times a year. The new law now requires insurance companies to be billed individually, resulting in approximately 2000 additional billings per year. This change is consistent with our recommendation in the 1982–83 *Analysis* that the Department of Insurance be permitted to charge insurance companies for the cost of safekeeping securities on deposit with the state Treasurer, instead of supporting this activity from the General Fund. Accordingly, the requested position will be totally funded from reimbursements of $21,000 for 1983–84. We recommend approval of this request as specified.

CALIFORNIA DEBT ADVISORY COMMISSION

Item 0970 from the California
Debt Advisory Commission
Fund — Budget p. LJE 137

Requested 1983–84	$634,000
Estimated 1982–83	549,000
Actual 1981–82	87,000
Requested increase (excluding amount for salary increases) $85,000 (+15.5 percent)	
Total recommended reduction	$134,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. ***Consultant Services. Recommend deletion of $65,000 for consultant studies that lack adequate justification.***	143
2. ***Financial Consulting Activities. Recommend deletion of $69,000 requested from the California Debt Advisory Commission Fund and a corresponding increase in reimbursements to support the financial consulting program.***	144

GENERAL PROGRAM STATEMENT

The California Debt Advisory Commission was established by Ch 1088/81 (AB 1192) to provide advisory assistance on bond issues to state agencies and local governments, and to offer other assistance to state and local governments in the general area of financial management. The commission has nine members, including the State Treasurer, the Governor or Director of Finance, the Controller, two local government finance officers appointed by the State Treasurer, two members of the Assembly, and two members of the Senate.

The commission is required to:

- Assist the housing bond credit committee and all state financing authorities and commissions involved with bonding activities;
- Upon request, assist any state or local government unit in the planning, preparation, marketing, and sale of new debt issues, with the goal of reducing debt costs and protecting the issuer's credit standing;
- Collect, maintain, and provide data on state and local debt authorizations;
- Improve the market for government debt issues by maintaining con-

CALIFORNIA DEBT ADVISORY COMMISSION—Continued

tact with state and local bond issuers, underwriters, credit rating agencies, and investors;
- Prepare studies on methods to reduce the costs and improve the credit ratings of state and local debt issues; and
- Recommend changes in state laws and local practices to improve the salability and servicing of state and local debt issues.

Chapter 1098, Statutes of 1981 (SB 121), gave the commission other responsibilities. It requires the commission to study how local governments finance capital improvements and how they are affected by general obligation and revenue bond financing laws, and to report to the Legislature by January 1, 1983, its findings and any recommendations for revising such laws. In lieu of a formal report, the commission intends to submit a staff report to the Legislature discussing its research to date in this general area.

The activities of the commission are supported by fees payable from the proceeds of debt issues, in amounts equal to $\frac{1}{40}$th of 1 percent of the principal amount of the issues, but not to exceed $5,000 per issue. During 1983–84, these fees are expected to generate approximately $620,000 in revenues. In addition, the commission may charge fees for financial consulting services provided to specific state and local government units.

The commission has seven authorized positions in the current year. In addition, it has administratively established 1.1 positions, bringing its total staffing to 8.1 positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $634,000 from the California Debt Advisory Commission Fund for support of the California Debt Advisory Commission (CDAC) in 1983–84. This is an increase of $85,000, or 15.5 percent, over estimated current year expenditures. This amount will increase further by the amount of any salary or staff benefit increase approved for the budget year.

The commission requests 10 positions for 1983–84, an increase of three positions over the level authorized for the current year.

Information and Research Activities

The CDAC collects data on the amount, types, and characteristics of debt issued by state agencies, local governments, school and special districts, and other public agencies authorized to issue tax-exempt bonds. These efforts are facilitated by a statutory requirement that the commission be notified of all proposed tax-exempt bond issues prior to the scheduled date of sale. The information collected by the CDAC is reported regularly in the CDAC's *Debt Line* and *Calendar*, which were first published in April 1982.

Additional Staffing Requested for Research and Information Functions

We recommend approval.

The budget proposes a statistical clerk and a graduate student assistant to provide additional support for the information, research, and publications activities of the CDAC in 1983–84. The statistical clerk position will provide assistance in checking incoming data, data sorting, preparing data for computer entry, and calculating statistics for the CDAC reports. These services previously have been provided by a consultant under contract to the CDAC. The contract will not be renewed for 1983–84. Our analysis indicates that this request is reasonable.

The graduate student assistant is needed to collect data on bond issues. Debt issuers are required by law to report proposed debt issues to the CDAC at least 10 days prior to sale. In many instances, however, the information needed by the CDAC is not determined until the time of sale. Consequently, commission staff must telephone issuers, underwriters, and bond counsel to obtain the needed information. The CDAC proposes to have a graduate student assistant, rather than its research staff, handle this task. Based on workload information provided by the CDAC we believe this request is justified.

Consultant Studies

We recommend deletion of $65,000 requested for consultant studies because the commission has not provided adequate justification for these funds.

The CDAC conducts research activities related to public debt outstanding in California. Studies undertaken or sponsored by the commission thus far include: (1) developing a system for classifying and analyzing public debt; (2) assessing the financial and technical assistance needs of local government; and (3) developing an inventory of California code sections that pertain to tax-exempt debt.

For 1983–84, the CDAC proposes expenditures of $65,000 for consultant studies, the same amount appropriated for this purpose in 1982–83. We cannot evaluate or recommend approval of these funds because the commission has not established the need to contract with outside parties for additional research. At the time this *Analysis* was written, the commission had not determined the topics of or the amounts to be spent on specific studies. More importantly, it would appear that some of the projects which the commission proposes to assign to outside consultants could more appropriately be assigned to existing in-house staff.

A description of *proposed* topics for consultant projects has been prepared by the commission's staff. These include studies of how market conditions affect public debt, debt-related legislation, the cost and benefits of alternative debt instruments, and other subjects related to debt finance. At the time this analysis was prepared, however, none of these proposals had been discussed or approved by the commission for the budget year. In addition, we are unable to evaluate the basis for the total amount proposed for these studies, because neither the budget nor information provided by the commission indicates the specific amounts to be spent on individual projects.

We also believe that the commission can and should rely more on in-house staff to undertake research projects of the type proposed. The research and information portion of the budget includes funds for three program specialist positions, which are supervised by a trained economist. These positions should be utilized to build an in-house capability to provide the commission with analyses of the issues before it. Funds requested for consultant studies should be used to help develop the commission's in-house capabilities in specific areas, not to support studies in lieu of using commission staff. As in-house capabilities increase, the need for consultant studies should decline correspondingly. Any studies which require the use of outside consultants should be looked upon as one time projects, and funding for all such studies should be justified in each year's budget.

For these reasons, we recommend a deletion of $65,000 for consultant studies.

CALIFORNIA DEBT ADVISORY COMMISSION—Continued

Financial Consulting Activities

We recommend deletion of $69,000 in CDAC funds, and a corresponding increase in reimbursements, to support these activities.

The purpose of the CDAC's financial consulting program is to provide technical assistance to local governments and other state agencies which issue or manage debt. Such assistance might involve financial feasibility studies, bond structuring and marketing, presentation of financing proposals to rating agencies and financial institutions, and assistance in the preparation of official statements, notices of sale, and proposals for bids.

To date, the commission's financial consulting activities have been very limited, mainly because the list of services to be provided has not been fully developed. The commission has contracted with a consultant to survey local governments and other government agencies to assess the kinds of financial consulting services that are needed. The results of the survey will provide the basis for developing a program for providing these services.

As we indicated in our report entitled *The Use of Tax-Exempt Bonds in California: Policy Issues and Recommendations,* there may be a need for the state to provide financial consulting services to local entities, especially small local government entities with limited expertise in issuing bonded debt. Such services, however, can and should be provided on a self-financing basis, with the costs being borne by those local governments who directly benefit from the commission's activities. Indeed, the legislation which created the CDAC authorizes the commission to charge fees up to an amount equal to the fees established by the Department of General Services for consultant services.

The budget proposes funding for a financial advisor and a secretary to support this function. We estimate that the costs of these positions (salaries, fringe benefits, and a pro rata share of operating expenses and equipment) would be approximately $88,000. The budget also shows reimbursements of $19,000, the same amount that was included in the 1982–83 budget, to offset the costs of providing financial consulting services to government clients. We therefore recommend a deletion of $69,000 from Item 0970-001-171 and a corresponding increase in reimbursements, so that these services will be provided on a self-supporting basis.