State and Consumer Services Agency

MUSEUM OF SCIENCE AND INDUSTRY

Item 1100 from the General Fund — Budget p. SCS 1

Requested 1983–84	$5,472,000
Estimated 1982–83	4,204,000
Actual 1981–82	3,944,000
Requested increase (excluding amount for salary increases) $1,268,000 (+30.2 percent)	
Total recommended reduction	$413,286

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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GENERAL PROGRAM STATEMENT

The Museum of Science and Industry (MSI) is an educational, civic and recreational center located in Exposition Park in Los Angeles. It is administered by a nine-member board of directors appointed by the Governor. The museum's programs and exhibits are designed to stimulate the public's interests in and knowledge of science, economics and industry. A portion of the program is financed by the Museum Foundation Fund, which is supported by private contributions. Several facilities of the museum are available to public and private groups for education, recreational and civic functions.

Associated with the Museum of Science and Industry is the Museum of

MUSEUM OF SCIENCE AND INDUSTRY—Continued

Afro-American History and Culture. Its exhibits, which first received state support in 1981–82, currently are displayed in MSI facilities.

The museum also owns and operates 26 acres of public parking which are made available for the use of its patrons as well as those of the adjacent coliseum, sports arena and swimming stadium. These facilities are all located in Exposition Park, which is owned and maintained by the state through the museum. In addition to providing security for its own facilities, the museum is responsible for security in Exposition Park.

The museum has approximately 134 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $5,472,000 from the General Fund to support operation of the Museum of Science and Industry and the Museum of Afro-American History and Culture in 1983–84. This is $1,268,000, or 30 percent, more than estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefits approved for the budget year.

Total 1983–84 expenditures in support of the museum will include $19,000 financed from reimbursements and $870,000 financed by the California Museum Foundation of Los Angeles. Table 1 shows the museum's proposed expenditures for the past, current and budget years.

Table 1
Museum of Science and Industry
Budget Summary
(in thousands)

Programs	*Actual 1981–82*	*Estimated 1982–83* [a]	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Education:					
Museum Operations	$2,673	$2,623	$3,395	$772	29.4%
Science Workshop	52	51	53	2	3.9
Aerospace Science Museum	45	50	100	50	100
Afro-American History and Culture Museum	209	366	491	125	34.1
Mark Taper Hall of Economics and Finance	—	—	249	249	N/A
Subtotals	$2,979	$3,090	$4,288	$1,198	38.8%
Administration	988	1,133	1,203	70	6.2%
Foundation	(851)	(851)	(870)	(19)	2.2%
Totals	$3,967	$4,223	$5,491	$1,268	30.0%
General Fund	*$3,944*	*$4,204*	*$5,472*	*$1,268*	*30.2%*
Reimbursement	*$23*	*$19*	*$19*	—	—
Personnel-years	114.3	129	133.1	+4.1	3.2%

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

The $1,268,000 increase in expenditures proposed for 1983–84 reflects several program increases, as well as increases needed to maintain the museum's current level of activity. Specifically, the budget proposes the following increases to the museum's programs all of which would be financed from the General Fund: (1) $249,000 and 8.8 positions for the Mark Taper Hall of Economics and Finance, (2) $47,000 and 3 positions for the Museum of Aerospace Sciences, (3) $104,000 and 2.5 positions for the California Museum of Afro-American History and Culture, (4) $679,000 plus a redirected amount of $735,000 for security services and (5) $27,000 and 1.6 positions for the museum's parking lot. These increases are included in the schedule of expenditure changes displayed in Table 2.

Table 2
Museum of Science and Industry
Schedule of Changes

	General Fund	*Reimbursement*	*Total*
1982–83 Current Year Revised	$4,204,000	$19,000	$4,223,000
1. Cost Changes			
Restore one-time retirement reduction	118,000	—	118,000
Merit salary adjustment	4,000	—	4,000
Operating Expenses	48,000	—	48,000
2. Program Changes			
Delete 1982–83 Special Repairs	−8,000	—	−8,000
Economics and Finance (8.8 positions)	249,000	—	249,000
Museum of Aerospace Science (3 positions)	47,000	—	47,000
Museum of Afro-American History and Culture (2.5 positions)	104,000	—	104,000
Redirect and Reduce Security Staff (−11.3 positions)	−735,000	—	−735,000
Museum Security (15.7 positions and Contract Services)	1,414,000	—	1,414,000
Parking Lots (1.6 positions)	27,000	—	27,000
1983–84 Proposed Expenditures	$5,472,000	$19,000	$5,491,000

Olympic Committee Agreement

We recommend that supplemental language be adopted directing the museum to provide the Legislature with 30-days prior notice before entering into any contractual agreements with the Olympic Committee. We further recommend the adoption of Budget Bill language requiring legislative review of proposals to lease real estate owned by the museum.

The museum's parking lot staff is responsible for collecting parking fees from patrons of the sports and concert facilities in Exposition Park as well as from visitors to the museum. Parking lot receipts are treated as General Fund revenues.

The museum reports that parking lot General Fund revenues collected by the museum are as follows:

1981–82 Actual	*1982–83 Estimated*	*1983–84 Estimated*
$500,000	$892,000	$987,000

The increased revenues in 1982–83 and in 1983–84 reflect the move by the Raiders' professional football team from Oakland to Los Angeles, and an increase in parking fees approved by the museum's board of directors. The parking revenue estimates do not, however, take into account the fact that the Olympics will be held in the Los Angeles Coliseum during the 1983–84 fiscal year. Consequently, the revenues projected for 1983–84 are significantly understated.

We estimate that General Fund revenues in 1983–84 could approach

MUSEUM OF SCIENCE AND INDUSTRY—Continued

$1.5 million during the actual Olympic competition. This estimate assumes that 4,700 parking lot spaces will be filled twice per day for 16 days, at a parking fee of $10 per car. In addition, Olympic operating and television crews will need access to the sports facilities for several weeks both before and after the games. The fees charged for granting this access will result in several thousand dollars in additional revenue.

The museum informs us that the additional revenue has not been included in its projections because, under current plans, the parking lots will be leased to the Olympic Committee. Under the terms of a proposed contract, the museum will receive $800,000 of services, in lieu of money, as consideration for making the lots available to the Olympic Committee. Specifically, the committee will spend $600,000 to improve the museum's park area and $200,000 to repair and restripe the parking lots. According to a draft of the agreement, the Olympic Committee will be entitled to all of the parking lot revenues received during the period June 26, 1984 to August 14, 1984.

Our analysis indicates that, if the museum agrees to enter into the proposed contract agreement with the Olympic Committee, the General Fund could incur a net loss of $700,000 or more. While the museum will presumably gain $800,000 in improvements, the General Fund will lose revenues approaching $1.5 million.

Our concerns with the proposed lease arrangements are twofold. First, it would reduce General Fund revenues by $1.5 million at a time when the General Fund is under severe pressure, and many ongoing programs have been proposed for reduction. Second, the barter-like arrangement between the museum and the committee would bypass the normal procedure for funding special repair and capital outlay projects. Usually, projects of this type are submitted to the Legislature for review and, where appropriate, funding in the Budget Act. The proposed agreement would permit the museum to "spend" $800,000 for items of special repair and capital outlay without first obtaining the Legislature's approval of either the prospects themselves or the "price" to be paid for them.

To assure that projects undertaken by or on behalf of the museum continue to receive legislative scrutiny, and to ensure that the museum does not commit the General Fund to a loss of revenues of up to $1.5 million without prior legislative approval, we recommend that the museum notify the Legislature of any contract agreement with the Olympic Committee at least 30 days prior to entering into such an agreement. Further, in order to assure that the Legislature has an opportunity to review all future proposals to lease state-owned real estate, we recommend that the Legislature adopt the following Budget Bill language:

> "The Secretary of the State and Consumer Services Agency may not approve an agreement for the leasing of any real property owned by the museum, unless not sooner than 30 days prior to giving her approval, the secretary submits in writing to the chairperson of the Joint Legislative Budget Committee notification of her intent to approve such lease, or not sooner than such lesser time as the chairperson of said committee may in each instance determine."

Hall of Economics and Finance

We recommend that support for operating the new Hall of Economics and Finance building come from private financing, for a General Fund savings of $319,548.

The budget proposes the addition of 8.8 positions, at a cost of $249,000 from the General Fund for the Hall of Economics and Finance. The new building, which is expected to be opened to the public on July 1, 1983, was constructed using private donations to the museum foundation. No state funding was provided for this project (although the state rearranged roads, and parking facilities in order to accommodate the new building).

In the 1980 Budget Act, the Legislature authorized two positions at a cost of $54,164 from the General Fund as the initial staffing for the Hall of Economics and Finance. These positions consist of an assistant director, who is responsible for developing exhibits and the educational and operational plans, and a stenographer.

The 8.8 new positions proposed for 1983–84 include 1.0 exhibit designer/installer, 1.0 programmer I, 1.0 editorial aide, 1.0 office assistant II, 0.5 plumber I, 1.0 painter, 2.0 janitor, and 1.3 temporary help positions.

Our analysis indicates that General Fund support for this program is not appropriate, for three reasons. First, the project was privately conceived and financed; it was not submitted to the Legislature for approval. Consequently, the Legislature did not have an opportunity to determine the need for such a Hall, its priority relative other state projects, or the size and scope of the proposed program.

Second, state funding would be used to operate a facility which is and will remain the property of the private foundation. In December 1981, the museum leased the land on which the Hall of Economics and Finance sits to the foundation for 40 years, in exchange for $40. According to the lease, the buildings, improvements and permanent exhibits remain the property of the foundation until December 2021. The lease term may *not* be shortened or terminated by mutual consent. If the foundation ceases to exist, the University of Southern California would assume all of the rights to the property under the lease.

Use of state staff to operate a privately owned facility would not be consistent with existing state policies. The Department of Parks and Recreation, which receives donated property, advises us that it provides staff to operate and maintain only those museums which are owned exclusively by the state. It does not staff non-state owned facilities.

Third, the foundation itself should be able to fund the additional costs of operating and maintaining the facility. In fact, during 1980, the Legislature was advised by the museum that the foundation anticipated raising $400,000 annually in private donations to underwrite programs on the premises of the new Hall.

For these reasons, we conclude that General fund support for the Hall is not appropriate, and may not be necessary. Accordingly, we recommend that the foundation use its own funds to maintain and operate its property, and that $319,548 ($249,000 to support the proposed 8.8 new positions and $70,548 to support the 2.0 existing positions) be deleted from Item 1100-001-001.

MUSEUM OF SCIENCE AND INDUSTRY—Continued

Museum of Aerospace Sciences

We recommend a deletion of two exhibit positions because these positions have not been justified on a workload basis, for a General Fund savings of $33,016.

In the 1981 Budget Act, the Legislature approved capital outlay funding for construction of a building to house a new Aerospace museum. The new building is schedule to be completed in June 1984. Currently, existing aerospace exhibits are housed in the Armory building.

The 1981 Budget Act also authorized funding for an assistant director and one clerical position to serve as the initial staff for the Aerospace Science Center. The assistant director helps plan the education facilities, exhibits, and programs of the proposed new building. He also develops various education projects, including summer science workshops, faculty training programs, symposia, and an institute traineeship program. The clerical position was later deleted, in response to Control Section 27.2 of the 1981 Budget Act.

The museum proposes to establish during the budget year an exhibit designer/installer, an exhibit technician and a stenographer position before the building is opened to the public.

The exhibit designer/installer and the exhibit technician positions are requested to install, dismantle and maintain the exhibits. The museum proposes to establish one position in January 1984 and the remaining position in April 1984.

Our analysis indicates that the museum has not provided adequate workload data to support its request for the new positions. For example, no data has been provided to the Legislature regarding (a) the complexity of the exhibits, (b) the expected turnover rate of the exhibits, and (c) the extent to which private contributors will participate in the design and intallation of exhibits. Thus, we do not believe there is sufficient information available to justify the positions.

Furthermore, we have been advised by museum staff that the foundation currently plans to raise funds to renovate the existing Aerospace Science building once the new building is completed. This would allow the museum to redirect exhibit positions currently used to staff the old Aerospace building to assist with exhibit preparation for the new building during the renovation period.

Accordingly, we recommend deletion of the 2.0 exhibit positions, for a General Fund savings of $33,016.

California Museum of Afro-American History and Culture

The budget proposes $599,000 from the General Fund for support of the Museum of Afro-American History and Culture in 1983–84. This is an increase of $136,000 or 29 percent, over estimated current year expenditures.

The California Museum of Afro-American History and Culture (CMAHC) was authorized within the Museum of Science and Industry, by Chapter 571, Statutes of 1977 (AB 420). The Legislature expressed its intent that CMAHC preserve, collect and display artifacts of Afro-American contributions to the arts, science, religion, education, literature, entertainment, politics, sports and history of the state and the nation. It created a CMAHC board, and gave the board power to appoint an executive director and staff to carry out this directive.

The legislature appropriated funds to support two positions for the museum in the 1978 Budget Act, but the positions were deleted as part of budget cutbacks required by Control Section 27.2. In the 1981 Budget Act, the Legislature again appropriated funds to support initial staff for the museum: an executive director, secretary, curator and exhibit supervisor. Since then, the museum has reclassifed two of the four positions. The existing staff, which consists of the executive director and secretary, an asssociate governmental program analyst, and a staff services manager I, is working to develop the implementation plan and coordinate existing activities of the museum.

The 1982 Budget Act appropriated funds to construct a building to house CMAHC's program activities. The museum indicates that construction will be completed and the building opened to the public in July 1984.

The budget proposes an additional 2.5 positions to carry out the museum's program objectives in 1983–84. One Registrar of Interpretive Collections position is requested to maintain control of the museum's collections, one exhibit designer/installer position is requested to prepare exhibits for installation, and one-half administrative assistant I position is requested to develop educational materials and to schedule and coordinate tours. The museum proposes to establish the latter two positions in January 1984. An additional $4,803 is also requested in the museum's equipment schedule for the construction and installation of exhibits.

Parking Lot Staff

We recommend that funds proposed for temporary help be deleted because the need for the additional funds has not been established, for a General Fund savings of $27,000.

The budget requests an augmentation of $27,000 for temporary help in the budget year to staff the parking lots at the Los Angeles Coliseum. The museum reports that a net increse in attendance will result in both the current and budget years due to the Raiders' professional football team moving from Oakland to Los Angeles. The budget states that this increase in attendance requires an additional 3,440 personnel hours to properly staff the parking lots.

Our analysis indicates that the museum should have sufficient temporary help funds in its base budget to absorb the projected increase in costs. The museum's budget for 1981–82 included $264,629 for temporary help. Actual expenditures, however, were only $224,624 or $40,005 less than the amount budgeted for temporary help during 1981–82. No information was submitted to indicate any temporary help workload changes in 1982–83. Consequently, the $253,000 for temporary help in the 1983–84 base (that is, prior to any budget augmentations) should be sufficient to absorb the projected increased parking lot costs. We also note that the museum is indeed absorbing these costs in the current year. No deficiency appropriation has been approved for this purpose in 1982–83.

Accordingly, we recommend that the proposed staffing augmentation for the museum's parking lot be deleted, for a General Fund savings of $27,000.

Additional Equipment Not Needed

We recommend a deletion of $33,722 proposed for the purchase of additional equipment the need for which has not been established.

Analysis of the department's baseline Equipment Schedule indicates

MUSEUM OF SCIENCE AND INDUSTRY—Continued

that 94 percent of the proposed expenditures are for additional, as opposed to replacement equipment. Further examination of these requests and equipment requests in the departmental budget change proposals reveal that the justification for some of them is inadequate.

Table 3 summarizes our recommended reductions to the department's equipment budget, by requesting unit. A discussion of each unit's request follows.

Table 3
Museum of Science and Industry
Equipment Reductions Recommended by Analyst

Program	*Amount*
1. Plant maintenance	
Floor maintenance	$7,752
Aerial lift	24,495
2. Museum of Afro-American History and Culture	1,475
Total	$33,722

Plant Maintenance. Plant maintenance proposes to purchase five additional floor buffer machines and six floor vacuums to maintain the new buildings presently under construction. These buildings are to house the Hall of Economics and Finance, the Museum of Afro-American History and Culture, and the Museum of Aerospace Sciences.

As indicated earlier in this analysis, we recommend that all funds needed to operate the Hall of Economics and Finance come from private sources. On this basis, we recommend that equipment for this building not be funded in the budget. In addition, proposed floor machines for the Museum of Afro-American History and Culture and the Museum of Aerospace Sciences are not justified in the budget year because (1) these buildings will not be staffed with additional maintenance personnel to operate the machines and (2) these machines for which operating personnel will be available can be borrowed from the other museum buildings. Accordingly, we recommend deletion of this proposed equipment, for a General Fund savings of $7,752.

Plant maintenance also proposes to purchase a sky skamp aerial lift, at a cost of $24,495. This equipment is an electro hydraulic aerial lift mounted on a three-quarter ton pickup truck. The electro hydraulic lift reaches a height of 32 feet. The museum indicates that this equipment is necessary to hang exhibits on high ceilings, change parking lot lights, wash windows, paint, and repair the flag pole. The museum currently contracts with private vendors to perform some of these activities.

Our analysis indicates that (1) legislative policy encourages interagency utilization of mobile equipment, rather than acquisition of new equipment and (2) the requested amount to purchase this equipment is overstated.

The State Administrative Manual Section 4102 states that the "Legislature has requested the Department of General Services to submit annual reports on savings achieved through interagency utilization of mobile equipment." In addition, the Director of General Services has established a State Equipment Council whose main objective is "to secure maximum possible utilization of equipment among state agencies."

The museum has successfully utilized hydraulic lift equipment on a temporary basis in the past. For example, the museum leased the requested type of equipment and related services for two months during 1981–82. Accordingly, interagency utilization of the needed equipment would appear to be feasible. The chief of plant operations, however, advises us that he has not explored this alternative with other state agencies.

Furthermore, the amount requested for this equipment is overstated. The Department of General Services informs us that this same equipment can be purchased for approximately one-half of the requested amount by purchasing a used pickup truck as opposed to a new one and by purchasing the aerial lift separately.

Until it can be established that the needed equipment cannot be obtained from another state agency, we recommend that the purchase of this equipment not be funded, for a savings of $24,495.

Museum of Afro-American History and Culture (CMAHC). The museum proposes to purchase two slide projectors for use by the curator in preparing exhibits. The CMAHC, however, will not be staffed with a curator position to operate these projectors during 1983–84. Accordingly, we recommend that funding for this slide projector equipment be deleted, for a savings of $1,475.

Security

We recommend that $1,152,000 budgeted for consultant and professional services—external be shifted to consultant and professional services —interdepartmental so as to accurately budget for services that are to be provided by the State Police.

Currently, safety and protective services for Exposition Park are provided by the museum's security department. The museum's security staff consists of 1 chief security officer, 23 security officers, and 3 security guards. The security department operates 24 hours a day, 7 days a week, and is responsible for exhibit surveillance, providing general information to the public, first aid, traffic and crowd control, citing of parking violations, and collection of money from parking facilities. The museum informs us that although security personnel are certified for firearm skills, they do not possess peace officer status and therefore are not equipped or trained to deal with criminal activity which occurs in Exposition Park.

In anticipation of the increased attendance that is expected after the new buildings in Exposition Park are open to the public, and to ensure adequate protection for the museum's visitors, the children who attend the museum's summer educational programs, and the exhibits on the museum's premises, the 1983–84 budget proposes a change in the museum's security arrangements. Specifically, the budget proposes to:

- eliminate existing security personnel
- contract for security services, at a cost of $1.1 million, and
- add 15.7 guides and student assistants to help monitor the museum halls and provide information to the public.

Funding for this proposal would be obtained from these sources: (1) the savings from the reclassification of 15.7 existing security positions, (2) the savings realized by the elimination of the remaining 11.3 security positions, and (3) a General Fund augmentation of $679,000.

The museum informs us that its current plan is to obtain security services by contracting with the Department of General Services for services from the State Police. The budget, however, reflects these costs as *external* consultant services (which would imply contracting with the city or county of Los Angeles), rather than *interdepartmental* consultant serv-

MUSEUM OF SCIENCE AND INDUSTRY—Continued

ices. Accordingly, we recommend that $1,152,000 budgeted for external consultant services be shifted to interdepartmental consultant services, to accurately reflect the proposed expenditures for State Police services.

MUSEUM OF SCIENCE AND INDUSTRY—CAPITAL OUTLAY

Item 1100-301 from the General Fund, Special Account for Capital Outlay — Budget p. SCS 4

Requested 1983–84	$15,000
Recommended reduction	15,000

ANALYSIS AND RECOMMENDATIONS

Minor Capital Outlay—Replacement of Parking Lot Equipment

We recommend Item 1100-301-036, minor capital outlay for the Museum of Science and Industry, be deleted because the proposed work is maintenance which should be funded from the support budget. We further recommend that the savings be transferred from the Special Account for Capital Outlay to the General Fund, in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

The budget includes $15,000 for minor capital outlay (projects costing $150,000 or less) for the Museum of Science and Industry. These funds would be used to replace parking lot access gate mechanisms and exit spikes. The museum indicates that the existing installations are worn and need frequent repair.

The proposed project constitutes a maintenance activity which should be funded—on a priority basis—from the support budget. On this basis, we recommend deletion of Item 1100-301-036, a reduction of $15,000.

Approval of this reduction would leave an unappropriated balance of tidelands oil revenues in the Special Account for Capital Outlay, which would be available only to finance programs and projects of a specific nature. Leaving unappropriated funds in special purpose accounts limits the Legislature's options in allocating funds to meet high-priority needs. So that the Legislature may have additional flexibility in meeting these needs, we recommend that any savings resulting from approval of our recommendation be transferred to the General Fund.

State and Consumer Services Agency
DEPARTMENT OF CONSUMER AFFAIRS

Items 1120–1655 from various funds — Budget p. SCS 5

Requested 1983–84	$81,193,000
Estimated 1982–83	66,861,000
Actual 1981–82	56,274,000
Requested increase (excluding amount for salary increases) $14,332,000 (+21.4 percent)	
Total recommended reduction	$902,000
Recommendation pending	$32,517,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1120-001-704	Board of Accountancy	Accountancy	2,083,000
1130-004-706	Board of Architectural Examiners	Architectural Examiners	1,209,000
1140-006-001	State Athletic Commission	General	573,000
1150-008-128	Bureau of Automotive Repair	Automotive Repair	4,410,000
1150-008-420	Bureau of Automotive Repair	Vehicle Inspection Fund	12,482,000
1160-010-713	Board of Barber Examiners	Barber Examiners	691,000
1170-012-773	Board of Behavioral Science Examiners	Behavioral Science Examiners	591,000
1180-014-717	Cemetery Board	Cemetery	220,000
1200-016-157	Bureau of Collection and Investigative Services	Collection Agency	580,000
1210-018-769	Bureau of Collection and Investigative Services	Private Investigator and Adjuster	2,479,000
1230-020-735	Contractors' State License Board	Contractors' License	16,131,000
1240-022-738	Board of Cosmetology	Cosmetology Contingent	2,357,000
1260-024-741	Board of Dental Examiners	State Dentistry	1,863,000
1270-026-380	Board of Dental Examiners	Dental Auxiliary	435,000
1280-028-325	Bureau of Electronic and Appliance Repair	Electronic and Appliance Repair	965,000
1300-030-180	Bureau of Employment Agencies	Employment Agencies	711,000
1310-032-258	Nurses' Registry	Nurses' Registry	18,000
1320-034-745	Board of Fabric Care	Fabric Care	824,000
1330-036-750	Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	491,000
1340-038-205	Board of Registration for Geologists and Geophysicists	Geology and Geophysics	153,000
1350-040-001	State Board of Guide Dogs for the Blind	General	25,000
1360-042-752	Bureau of Home Furnishings	Bureau of Home Furnishings	1,395,000
1370-044-757	Board of Landscape Architects	Board of Landscape Architects	223,000
1390-046-758	Board of Medical Quality Assurance	Contingent Fund of the Board of Medical Quality	10,925,000
1390-047-175	Board of Medical Quality Assurance	Dispensing Opticians	136,000
1400-048-108	Board of Medical Quality Assurance	Acupuncturists	426,000
1410-050-208	Board of Medical Quality Assurance	Hearing Aid Dispensers	115,000
1420-052-759	Board of Medical Quality Assurance	Physical Therapy	268,000

DEPARTMENT OF CONSUMER AFFAIRS—Continued

1430-054-280—Board of Medical Quality Assurance	Physicians Assistant	173,000
1440-056-295—Board of Medical Quality Assurance	Podiatry	297,000
1450-058-310—Board of Medical Quality Assurance	Psychology	649,000
1455-059-319—Board of Medical Quality Assurance	Respiratory Care	422,000
1460-060-376—Board of Medical Quality Assurance	Speech Pathology and Audiology Examining Committee	160,000
1470-062-260—Board of Examiners of Nursing Home Administrators	Nursing Home Administrator's State License Examining Board	249,000
1480-064-763—Board of Optometry	State Optometry	285,000
1490-066-767—Board of Pharmacy	Pharmacy Board Contingent	1,882,000
1500-068-770—Board of Registration for Professional Engineers	Professional Engineers	2,257,000
1510-070-761—Board of Registered Nursing	Board of Registered Nursing	3,853,000
1520-072-771—Certified Shorthand Reporters Board	Certified Shorthand Reporters	197,000
1530-074-775—Structural Pest Control Board	Structural Pest Control	1,902,000
1540-076-406—Tax Preparers Program	Tax Preparers	350,000
1560-078-777—Board of Examiners in Veterinary Medicine	Veterinary Examiners' Contingent	469,000
1570-080-118—Board of Examiners in Veterinary Medicine	Animal Health Technician Examining Committee	70,000
1570-073-410—Certified Shorthand Reporters	Transcript Reimbursement Fund	250,000
1590-082-779—Board of Vocational Nurse and Psychiatric Technician Examiners	Board of Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account	1,642,000
1600-084-780—Board of Vocational Nurse and Psychiatric Technician Examiners	Board of Vocational Nurse and Psychiatric Technician Examiners, Psychiatric Technicians Account	388,000
1640-086-001—Division of Consumer Services	General	1,228,000
1640-086-702—Division of Consumer Services	Consumer Affairs	(570,000)
1650-088-001—Consumer Advisory Council	General	79,000
1655-090-702—Building Maintenance and Operation	Consumer Affairs	1,612,000
1655-090-702—Division of Administration	Consumer Affairs	(6,166,000)
Total		$81,193,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Board of Medical Quality Assurance. Reduce Item 1390-046-758 by $150,000.*** Recommend deletion of funds requested for the Professional Performance Pilot Project because the project was terminated June 1982. 160

2. Bureau of Employment Agencies (Item 1300-030-180). Recommend bureau submit a revised fee schedule and adjusted fund condition statement prior to budget hearings. 160
3. Board of Funeral Directors and Embalmers (Item 1330-036-750). Recommend board report prior to budget hearings on its efforts to adjust fees. 161
4. Bureau of Automotive Repair—Motor Vehicle Inspection Program (Item 1150-008-420). Withhold recommendation, pending further analysis of the request. 161
5. Division of Investigation—Potential Overlap (Item 1655-090-702). Withhold recommendation, pending further analysis of the request. 162
6. ***Division of Investigation—Temporary Help. Reduce Item 1655-090-702 by $117,000.*** Recommend reduction due to pattern of overbudgeting for temporary help. 162
7. Contractor's State License Board (Item 1230-020-735). Withhold recommendation, pending further review of board operations and receipt of additional information. 163
8. ***Bureau of Collection and Investigative Services.*** 163
   a. ***Reduce Item 1200-016-157 by $120,000.*** Recommend elimination of audit program because it is ineffective. Further recommend license fees be reduced to reflect savings.
   b. ***Reduce Item 1210-018-769 by $49,000.*** Recommend reduction due to overbudgeting for enforcement.
9. Division of Consumer Services (Item 1640-086-001). Withhold recommendation on the $77,000 and 0.9 positions requested for the Cooperative Development program, pending receipt of the evaluation required by the Legislature. 165
10. State Athletic Commission (Item 1140-006-001). Withhold recommendation on the $573,000 and 15.3 positions requested for the commission, pending completion of the report required by the Legislature. 166
11. ***Salary Savings. Reduce specified items by a total of $227,000.*** Recommend reduction because salary savings are underbudgeted. 166
12. Cost of Attorney General Services. Recommend the Department of Finance and Department of Consumer Affairs reconcile the amounts budgeted for legal services to the boards and bureaus, prior to budget hearings. 167
13. Cost of Administrative Hearings. Recommend enactment of legislation to assess unsuccessful litigants for the cost of hearings held by the Office of Administrative Hearings. (Potential annual savings to various funds: up to $1,920,000). 168
14. ***Operating Expenses. Reduce specified items by a total of $239,000.*** Recommend reduction because various proposed operating expenses have been overbudgeted. 168

DEPARTMENT OF CONSUMER AFFAIRS—Continued

GENERAL PROGRAM STATEMENT

The Department of Consumer Affairs was established by the Consumer Affairs Act (Chapter 1394, Statutes of 1970) as the state agency responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices.

The department has four major components: (1) the 45 regulatory agencies which include boards, bureaus, programs and commissions; (2) the Division of Administration; (3) the Division of Investigation; and (4) the Division of Consumer Services.

Subject to the authority conferred upon the department director by specific statutes, each of the 45 agencies within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices. Each entity seeks to accomplish its objective through licensure and the enforcement of laws, rules and regulations. Licensing involves the issuance and renewal of licenses or certificates, and the registration of various occupational groups. It also includes the establishment of curricula, experience standards, and school accreditation. Enforcement activities include inspections, investigations, administrative hearings before an officer of the Office of Administrative Hearings and court proceedings.

The Division of Administration provides centralized services such as accounting, budgeting, personnel management, internal auditing, legal assistance and building operation and maintenance. Most of the costs incurred by the Division of Administration are distributed on a pro rata basis to each constituent agency.

The department's Division of Investigation provides investigative and inspection services to most constituent agencies. A few boards and bureaus, however, have their own inspectors and investigators. Boards and bureaus are charged $35.00 per hour for inspections and $42.00 per hour for investigations during the current year. These charges are projected to increase to $36.75 and $44.35, respectively, in the budget year.

The Division of Consumer Services was established by Chapter 139, Statutes of 1970. The division is responsible for the department's statewide consumer protection activities, which include research and advertising compliance, representation and intervention, consumer education and information, and consumer protection legislation. Support for the Division of Consumer Services is provided by the General Fund (68 percent) and various special funds (32 percent).

The department has 1,535.9 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $81,193,000 from various funds for support of the department and its constituent agencies in 1983–84. This is $14,332,000, or 21.4 percent, above estimated current-year expenditures. This increase will grow by the amount of any salary or benefit increase approved for the budget year.

The budget also proposes expenditures of $4,780,000 from reimbursements, raising total expenditures to $85,973,000. This is an increase of $14,273,000, or 19.9 percent above total current-year expenditures from all sources.

The major reason for the increase in the department's budget is the added cost to the Bureau of Automotive Repair of implementing a biennial vehicle inspection program, as mandated by Chapter 892, Statutes of 1982 (SB 33). This accounts for $12.5 million of the $14.3 million increase proposed for 1983–84.

The budget includes $1,612,000 for building and maintenance costs and $6,166,000 for departmental administrative costs. These costs will be paid from pro-rata charges, reimbursements, and budget appropriations.

I. IMPLEMENTATION OF RECENT LEGISLATION

Reestablishment of Tax Preparers Program

The Tax Preparers Act provides for the registration, licensure, and regulation of tax preparers through a Tax Preparers program in the Department of Consumer Affairs. The Budget Act of 1981 appropriated $1 for support of the Tax Preparers program in 1981–82. Chapter 327, Statutes of 1982 (SB 1326), the companion bill to the 1982–83 Budget Act, repealed the Tax Preparers Act.

Chapter 1635, Statutes of 1982 (SB 1453), reenacted the Tax Preparers Act and authorized a $250,000 loan from the General Fund to the Tax Preparers Fund so that the program could begin on January 1, 1983. This loan is to be repaid, with interest. The interest rate is set at the rate earned by the Pooled Money Investment Account. The Department of Finance informs us, however, that the loan authorized by Chapter 1635 will not be made in the current year. Instead, the department informs us it will seek legislation postponing the effective start-up date of the program to July 1, 1983. The budget proposes an appropriation of $350,000 from the Tax Preparers Fund for the program in 1983–84 to cover start-up costs.

Respiratory Care Examining Committee

We recommend approval.

Chapter 1344, Statutes of 1982 (AB 1287), establishes the Respiratory Care Practices Act for the purpose of certifying and regulating persons wishing to practice inhalation therapy or identify themselves as certified respiratory care practitioners. The act establishes a Respiratory Care Examining Committee under the jurisdiction of the Board of Medical Quality Assurance to enforce and administer the act. In addition, the act establishes a fee schedule and creates the Respiratory Care Fund from which funds necessary to carry out the provisions of the act can be appropriated.

The budget proposes an appropriation of $422,000 for the program in 1983–84. These funds are requested from the Contingent Fund of the Board of Medical Quality Assurance to support the program until the Respiratory Care Fund is able to generate its own fee support. The funds are scheduled to be repaid, with interest, within three years. The budget also proposes 10.5 positions to administer the program. The positions would be established on a limited-term basis, until June 30, 1985. At that time, actual workload will be available to indicate how many permanent positions are needed.

Registered Dispensing Optician Program

We recommend approval.

Chapter 418, Statutes of 1982 (AB 1280), establishes a registration program for contact lens dispensers, effective March 1, 1984. The act creates the Dispensing Opticians Fund, and provides that, beginning July 1, 1982,

DEPARTMENT OF CONSUMER AFFAIRS—Continued

all revenues generated by this program are to be deposited in the fund. In addition, the act provides for the transfer of the unencumbered balance of any funds in the Contingent Fund of the Board of Medical Quality Assurance which were derived from fee revenues received from opticians and contact lens dispensers.

The budget proposes one new position and expenditures of $136,000 in 1983–84 to implement the provisions of the act. The projected fund surplus at the end of the budget year is $216,000.

II. PROGRAM-SPECIFIC ISSUES

Board of Medical Quality Insurance Pilot Project Terminated

We recommend the deletion of $150,000 requested in Item 1390-046-758 requested for the Professional Performance Pilot Project because the project has been terminated.

Chapter 955, Statutes of 1978, directed the Division of Medical Quality of the Board of Medical Quality Assurance to establish a pilot project to develop a coordinated system for identifying and resolving medical quality-of-care issues at the local level.

The division has issued a report on the pilot project. In the report, the division concluded that the project was not successful in accomplishing its goals for a variety of reasons. Specifically, the report identifies (a) reluctance on the part of hospitals, medical societies, and third party payors to participate in the program (b) a lack of interest in the program among participants and (c) overwhelming logistical problems in implementing the projects. As a result of conclusions reflected in the report, the division terminated the project in June 1982.

The Board of Medical Quality Assurance's budget includes funding for this project for both the current and budget year. Since the project has been terminated, we recommend a reduction of $150,000 in Item 1390-046-758, which will result in a corresponding savings to the Contingent Fund of the Board of Medical Quality Assurance. (We anticipate approximately $145,000 will be reverted in the current year as a result of the project's termination.)

Bureau of Employment Agencies—Fund Deficit

We recommend the Bureau of Employment Agencies (Item 1300-030-180) submit to the fiscal committees prior to budget hearings (1) a revised fee schedule and (2) an adjusted fund condition statement identifying the fiscal effect of implementing the revised schedule.

The Governor's Budget indicates that the Bureau of Employment Agencies fund will be in a deficit condition by June 30, 1984 if no action is taken by the bureau to increase fees or reduce spending. This deficit is estimated at $202,000. The bureau has statutory authority to increase fees administratively.

We recommend that the bureau prepare (1) a revised fee schedule prior to budget hearings, and (2) an adjusted fund condition statement identifying the fiscal effect of implementating the revised schedule.

Board of Funeral Directors and Embalmers—Potential Fund Deficit

We recommend that the Board of Funeral Directors and Embalmers (Item 1330-134-745) report to the legislative fiscal committees prior to budget hearings on its current efforts to revise its fee schedule.

The Governor's Budget indicates that the Board of Funeral Directors and Embalmers will have little or no surplus in its fund at the end of 1983–84. Consequently, a fee increase or reduction in program expenditures will be necessary if this board is to avoid a deficit fund condition in the future.

In our *Analysis of the 1981–82 Budget Bill,* we found that annual fees from funeral directors account for approximately 43 percent of the revenues received by the Board of Funeral Directors and Embalmers. Yet, 83 percent of the board's annual expenditures are for activities relating to funeral directors. In contrast, embalmer fees account for 46 percent of the board's revenues, but only 17 percent of board expenditures are for embalmer-related activities. As a result, the Legislature adopted supplemental report language requiring the board to report annually to the department, identifying its revenues and expenditures, by each license categories. The board's most recent report, dated January 19, 1983, indicates that funeral directors account for 45 percent of the board's fees and 66 percent of its expenditures, while embalmers account for 55 pecent of its fees and 34 percent of its expenditures.

In July 1982 the department indicated that the bureau could expect a reserve of $19,000 on June 30, 1984, but would incur a deficit in the Funeral Directors and Embalmers Fund of $199,000 in 1984–85 if a revised fee schedule was not adopted in 1983–84. The major cause of this potential deficit is the increased cost of enforcement activity associated with pre-need funeral plans. Despite the increase, license fees have remained fixed. For example, in 1981–82, the board incurred costs relating to its pre-need audit program of $192,000, but generated revenue of only $17,000.

The Governor's Budget indicates that the board is now projecting a surplus of $63,000 in 1983–84. We have been unable to determine the basis for this estimate.

The board has not developed a revised fee schedule to either address inequities among the two licensing groups or eliminate a potential fund deficit in the near future. As a result, we recommend that the board report, prior to budget hearings, on any efforts it is making (1) to revise its fee schedule as to link more closely the proportion of revenues supplied by embalmers and funeral directors with the proportion of total costs related to the regulation of each occupational group and (2) avoid a deficit in 1984–85.

Bureau of Automotive Repair

We withhold recommendation on the $12,500,000 requested for the bureau's Motor Vehicle Inspection program (Item 1150-008-420), pending further analysis of the request.

The Bureau of Automotive Repair is responsible for (1) registration of automotive repair dealers, (2) licensing of official lamp, brake, and smog (device) inspection stations, and (3) protection of consumers through a program of inspection and complaint handling. The bureau also is responsible for supervising the change-of-ownership Vehicle Emission Inspection program in the South Coast Air Basin, in cooperation with the Air Resources Board. In addition, Chapter 892, Statutes of 1982 (SB 33), makes

DEPARTMENT OF CONSUMER AFFAIRS—Continued

the Department of Consumer Affairs responsible for administering and supervising a mandatory biennial Motor Vehicle Inspection Program (MVIP) in California. The department has assigned this responsibility to the bureau.

The bureau is requesting an appropriation of $12.5 million from the Vehicle Inspection Fund to implement the provisions of Chapter 892. We currently are preparing a comprehensive analysis of the bureau's proposal, and will submit a supplemental analysis of the request to the Legislature prior to hearings on the bureau's budget. Pending completion of our analysis, we withhold recommendation on the proposed amount.

Division of Investigation—Overlap of Duties

We withhold recommendation of the $3,371,000 requested for the Division of Investigation (Item 1655-090-702), pending further analysis of the request.

The *Supplemental Report to the 1982 Budget Act* requires our office to report to the Legislature on any potential overlap between investigation and inspection services provided by the Division of Investigation, and investigation and inspection services provided separately by the boards and bureaus in the Department of Consumer Affairs.

We currently are still in the process of reviewing this issue, and will submit a supplemental analysis containing our findings and recommendations to the Legislature, prior to budget hearings. Pending completion of that analysis, we withhold recommendation on the proposed budget for the division.

Division of Investigation—Temporary Help Funds Unjustified

We recommend a reduction of $117,000 from Item 1655-090-702 because funds allocated for temporary help in past years have consistently gone unspent.

The division has maintained a temporary help blanket authorization since 1977–78. Table 1 shows the amount appropriated, expended, and reverted from this temporary help blanket since 1977–78.

Table 1
Division of Investigation Expenditures:
Temporary Help
1977–78 through 1982–83

	Actual					*Estimated*
	1977–78	*1978–79*	*1979–80*	*1980–81*	*1981–82*	*1982–83*[a]
Amount Appropriated	$107,000	$107,000	$120,000	$131,000	$139,000	$139,000
Amount Expended............	28,000	8,000	6,000	14,000	6,000	22,000
Amount Reverted	79,000	99,000	114,000	117,000	133,000	117,000
Percent Reverted..............	74%	93%	95%	89%	96%	84%

[a] Based on $11,000 expended for temporary help from July through December, 1982.

Table 1 shows that from 1977–78 to 1981–82, the division spent an average of only 11 percent of the amount appropriated for its temporary help blanket. For the current year, the division estimates it will spend 16 percent of its appropriation for temporary help.

The budget proposes $139,000 for temporary help in 1983–84. The division, however, is unable to explain how it will use its temporary help blanket authorization in the budget year.

Based on the pattern of reversions since 1977–78 we believe it is highly unlikely that the division will spend the full amount requested for temporary help. Accordingly, we recommend reducing the blanket authorization to $22,000—the amount expected to be spent during the current year, for a savings of $117,000.

Contractor's State License Board

We withhold recommendation on the Contractor's State License Board's budget (Item 1230-020-735), pending further review of the board's operations and receipt of additional information.

The budget proposes $16,174,000 for the Contractor's State License Board in 1983–84. This is an increase of $593,000, or 3.8 percent, over estimated current-year expenditures.

In recent years, the board has experienced serious workload backlogs in the areas of license application and complaint handling. Our preliminary review of the quarterly reports submitted to our office by the board indicates that these backlogs still exist. In addition, the board has experienced delays in implementing its electronic data processing system. Given the nature of the problems experienced by the board during the past several years, we withhold recommendation on the proposed budget for the board, pending further review of the board's operations and information to be provided by the board. We will prepare and submit a supplemental analysis of the board's budget, prior to hearings.

Bureau of Collection and Investigative Services

1. Should the Legislature reenact the Collection Agency Act, we recommend that the bureau's auditing program be eliminated, for a reduction of 3.5 positions and $120,000, and that license fees be reduced to reflect these savings.

2. We recommend a reduction of $49,000 in the budget of the Private Investigator program (Item 1210-018-769) because enforcement funds are overbudgeted.

Provisions of Existing Law. The Bureau of Collection and Investigative Services administers two regulatory acts: (1) The Collection Agency Act, which regulates collection agencies in order to protect consumers from abusive collection practices or fraud, and (2) the Private Investigator Act, which registers alarm companies, private investigators, and security guards. All bureau programs are supported by license and registration fees which are deposited in the Collection Agency Fund and the Private Investigators Fund.

Chapter 772, Statutes of 1978 (SB 1420), contained a "sunset" provision which would have repealed both the Collection Agency Act and the Private Investigator Act on July 1, 1983. To assure that the Collection Agency Act and the Private Investigator Act were fully reviewed before the "sunset" provision took effect, Chapter 772 required the bureau to prepare a statement covering its purpose, organization, and performance. Chapter 772 also required our office to review the agency's statement, and to submit to the Legislature an evaluation of the agency's performance in carrying out the purposes of these two acts.

Chapter 1262, Statutes of 1982 (AB 3484), repealed the July 1, 1983 expiration date for the Private Investigators Act and established new provisions for the regulation of private investigators. In addition, Chapter 1210, Statutes of 1982 (SB 673), established the Alarm Company Act, effec-

DEPARTMENT OF CONSUMER AFFAIRS—Continued

tive July 1, 1983. The Legislature, however, has not reenacted the Collection Agency Act.

The budget document indicates that the administration will propose legislation to reauthorize the Collection Agency program, and that the program's proposed budget for 1983–84 is contingent on the enactment of such legislation.

Legislative Analyst's Report. In response to the requirement contained in Chapter 722, our office submitted a report to the Legislature entitled "A Review of the Bureau of Collection and Investigative Services" in August 1982.

In that report, we recommended that legislation be enacted to:

(1) extend the Collection Agency Act,

(2) replace the current multi-level registration system for collection agency owners, managers, and collectors with a system which registers agency owners only,

(3) authorize the bureau to impose fines on owners whose managers and employees are found to have committed infractions, and

(4) provide for a graduated agency fee schedule to generate sufficient revenue to operate the collection agency program.

Bureau's Audit Program is Ineffective. The Collection Agency Act requires that all funds collected by a collection agency be placed in a trust account. In addition, the act prohibits the use of these funds for operating expenses. The bureau conducts audits of collection agencies to determine compliance with this requirement.

Our review of the bureau's audit program indicates that:

1. ***The audit program is time-consuming and costly.*** The bureau currently is staffed with 3 auditors and 0.5 positions in support staff at a cost of $120,000 in 1982–83. This represents approximately one-half of the non-management professional staff of the bureau. The budget proposes to continue that level of support in 1983–84. This staff performs 125 audits per year—or approximately one audit every six working days.

2. ***The audit program fails to fulfill the objectives of the program.*** Given existing staffing levels, the bureau is able to visit the typical collection agency only once every four or five years. Our review of bureau workload statistics indicates, however, that many agencies have not been audited in five or six years, and some have not been audited for 10 years. In our judgement, site visits conducted on such an infrequent basis cannot effectively identify or protect against the misuse of trust funds.

3. ***Audit program produces poor results.*** Our review of bureau records indicates that in 1980–81, bureau auditors identified a total of 188 infractions. The majority of these infractions, however, involved administrative violations, such as maintaining incomplete records, employing unregistered employees, or failing to display a valid license. In addition, the bureau indicates that its cost to maintain the audit program has exceeded the total dollars identified out-of-trust by approximately six to one.

Based on these findings, we conclude that the benefits from the audit program fail to outweight the program's costs. On this basis, we recommend that the audit program be discontinued and that 3.5 positions be deleted for a savings of $120,000 to the Collection Agency Fund. This reduction would allow the bureau to reduce the annual license fee charged by approximately 50 percent, or $200 per year. As a result, we further recommend that the bureau administratively reduce license fees to reflect these savings.

Bureau's Enforcement Costs Are Overbudgeted. The budget proposes $437,000 in 1983–84 for enforcement-related expenses in the bureau's Private Investigator program (Item 1210-018-769). Of this amount, $94,000 is requested to purchase investigation services from the department's Division of Investigation, $190,000 is to purchase legal services from the Attorney General, and $153,000 is to purchase hearing time from the Office of Administrative Hearings (OAH) in the Department of General Services.

The bureau's back-up documentation for this budget proposal, however, indicates it will require $83,000 for investigation services from the division, $172,000 for Attorney General services, and $133,000 for OAH services, for a total of $388,000. This is $49,000 below the amount proposed in the Governor's Budget for enforcement. The bureau cannot justify this discrepancy. Accordingly, we recommend that the excess be deleted, for a savings of $49,000 to the Private Investigator Fund.

Board of Landscape Architects—Zero-Based Budget Completed (Item 1370-044-757)

The Legislature directed the Department of Finance to zero-base the 1983–84 budget for the Board of Landscape Architects. In complying with this requirement, the department required the board to identify program priorities and the funding requirements related to each. As a result of this exercise, significant savings are reflected in the board's budget for 1983–84.

The budget proposes an expenditure program of $223,000 in 1983–84. This is $59,000, or 21 percent, less than estimated current-year expenditures, and reflects a reduction in personal services, operating expenses and equipment.

Division of Consumer Services—Cooperative Development Program (Item 1640-086-001)

We withhold recommendation on $77,000 and 0.9 positions requested for the Cooperative Development program in the budget year, pending receipt of a report evaluating the program's effectiveness.

The budget proposes $77,000 for .9 positions in 1983–84 to support the Cooperative Development program in the Division of Consumer Services. The program currently is staffed with 3.9 positions, at a cost of $133,000. The program helps promote the formation and development of food buying clubs and cooperatives in communities throughout the state.

In our *Analysis of the 1981–82 Budget Bill,* we acknowledged that cooperative buying can help lower consumer costs. At the same time, we suggested that once consumers become aware of the probable benefits from cooperatives, the division's role in promoting cooperatives should decline. Subsequently, the Legislature adopted supplemental report language requiring the division to conduct an evaluation of the Cooperative Development program, and report to the Legislature by March 1, 1983 on the effectiveness of the program. Pending receipt of the division's report, we withhold recommendation on the $77,000 and 0.9 positions requested for the program.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

State Athletic Commission

We withhold recommendation on the $573,000 and 15.3 positions requested for the State Athletic Commission, pending completion of a report due to the Legislature on March 1, 1983.

The *Supplemental Report of the 1982 Budget Act* requires the State Athletic Commission, in cooperation with the Department of Finance, to "develop a proposal and initiate legislation for alternative sources of funding which will allow the commission to become self-supporting, and report their plan and status of progress for implementation, to the Joint Legislative Budget Committee and fiscal committees by October 1, 1982." In addition, the supplemental report requires our office to study possible "conflicts of interest which might result from establishing the commission as a self-support entity," and report our findings to the Legislature by March 1, 1983.

Our office received the commission's report on December 22, 1982. The Department of Finance informs us, however, that it did not play any role in preparing the report, and does not necessarily support all of the report's findings and recommendations.

We are in the process of reviewing the commission's report and preparing our own report, as required by the Legislature. We will present our analysis of and recommendations on the budget proposed for the commission as part of that report.

III. DEPARTMENTWIDE ISSUES

Errors In Budgeting for Salary Savings

We recommend a reduction of $227,000 in various items because of errors in budgeting for salary savings.

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

We reviewed the amounts of salary savings budgeted for several boards and commissions over a three-year period, and compared these amounts to the amounts of salary savings actually achieved during this same period. Our review indicates that actual salary savings, including savings on salaries, benefits and temporary help, were significantly greater than the amount historically budgeted by these boards and commissions, as discussed below.

1. *The Board of Pharmacy (Item 1490-066-767).* The board is requesting $955,000 for personal services in 1983–84. Allowing for contingencies anticipated by the board during 1983–84, our analysis indicates that a minimum of 3.0 percent, or $22,000, in salary savings should be budgeted, for a $16,000 savings to the Pharmacy Board Contingent Fund.

   The board's request reflects salary savings during the year of $6,000, or 0.6 percent, of its personal services budget.

For the period 1979–80 through 1981–82, the board underspent its personal services appropriation by an average 3.7 percent, which is significantly higher than the 0.6 percent projected for the budget year. In addition, during the first six months of the current year, the board realized salary savings of $31,000, which is $25,000 more than had been budgeted for the full year.

2. ***The Board of Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account (Item 1590-082-779).*** The board requests $655,000 for personal services in 1983–84, in connection with the vocational nurse component of its program. Salary savings, however, are not reflected in this amount. A review of the board's expenditures for the period 1979–80 through 1981–82 indicates that the board underspent its personal services funds by an average of 18.7 percent during these three years. Based on the board's actual experience, we recommend a reduction of $123,000 from Item 1590-082-779, for a corresponding savings to the Board of Vocational Nurse and Psychiatric Technican Examiners, Vocational Nurse Account.
3. ***State Athletic Commission (Item 1140-006-001), Bureau of Collection and Investigative Services, Collection Agency Fund (Item 1200-016-157), and the Bureau of Employment Agencies (Item 1300-030-180).*** Our review of the budgets for these three entities indicates that they have not budgeted for salary savings in 1983–84.

   Based on prior year actual levels of salary savings, we recommend various reductions in the appropriate items, for a total savings of $88,000.

Cost of Attorney General Legal Services

We recommend the Departments of Finance and Consumer Affairs reconcile, prior to budget hearings, the differences in the amounts budgeted for Attorney General legal services for the boards and bureaus.

In the *Supplemental Report of the 1981 Budget Act,* the Legislature directed the Department of Finance to prepare annually a schedule which reconciles the amounts that state departments propose to spend on Attorney General legal services, and the amount of legal services that the Attorney General proposes to provide. This requirement was prompted by numerous discrepancies in the Governor's Budget for 1981–82 and prior years.

The reconciliation schedule prepared by the Department of Finance indicates that the Department of Justice (DOJ) will provide legal services for the Department of Consumer Affairs estimated to cost $5,021,000 in 1983–84. This schedule also indicates that the Department of Consumer Affairs budget contains $5,086,000 to reimburse DOJ for legal services. This is $65,000 more than the amount reflected in the Justice budget. The Department of Finance explains that the difference is necessary because actual services provided by DOJ in prior years consistently exceed the level budgeted by DOJ.

In our review of the Department of Consumer Affairs' budget, we found that the amount requested for Attorney General legal services is $5,446,000. This is $360,000 *more* than the amount which the Department of Finance's reconciliation schedule indicates the department has budgeted for this purpose. The Department of Finance has not explained the discrepancy between its estimates, and the amount actually reflected in the budget for the department.

We recommend that the Departments of Finance and Consumer Affairs

DEPARTMENT OF CONSUMER AFFAIRS—Continued

reconcile the discrepancy and report the results to the Legislature, prior to budget hearings.

Cost of Administrative Hearings

We recommend that legislation be enacted to assess unsuccessful litigants for the cost of hearings held by the Office of Administrative Hearings, for a potential savings to various funds of up to $1,920,000 annually.

Under the Administrative Procedures Act, the Office of Administrative Hearings (OAH) in the Department of General Services conducts hearings, on a reimbursement basis, for the boards and bureaus of the department (as well as for numerous other state agencies) when requested to do so. The boards and bureaus of the department request that hearings be held whenever (1) a licensee seeks redress from an administrative decision of a board or bureau, or (2) a board or bureau seeks to take action against a licensee under the provisions of the various occupational licensing laws which they administer.

Existing law requires the boards and bureaus to pay the full cost of the hearings. The only portion of this cost which may be recovered is a portion of the transcript preparation expense, which may be passed through to parties who request transcripts. Although the exact percentage varies from agency to agency in the department, the boards and bureaus normally have their decisions upheld approximately 90 percent of the time.

In superior and municipal courts, civil litigants are required to pay a fee when they file an action. In most counties, a portion of that fee is used to partially offset the cost of providing court reporters. In addition, various courts charge for the actual costs of reporters, juries, transcripts, and other expenses.

Similar charges could be imposed by the boards and bureaus on those requesting a hearing. Imposition of such fees would transfer the cost of a hearing from the state to the party which initiates these costs. Additionally, charging litigants for the cost of their hearings could discourage frivolous appeals. However, in order to avoid penalizing persons for challenging erroneous decisions, and thereby discouraging them from doing so, assessments should only be levied in cases where the board's and bureau's decision is upheld. Additionally, the boards and bureaus could be authorized to waive all or a portion of the fees if the litigant can demonstrate a financial hardship.

For 1983–84, the boards and bureaus of the department have budgeted a total of $2,180,000 for OAH hearing costs. If the boards and bureaus charged litigants for hearing costs in 90 percent of these cases, they would collect approximately $1,962,000 annually to cover OAH charges.

For the reasons given above, we recommend the enactment of legislation requiring that unsuccessful litigants be assessed the actual costs of the administrative hearings held pursuant to their request, for a potential savings of up to $1,962,000 annually to various special funds.

Overbudgeted Operating Expenses

We recommend reductions in various items due to overbudgeting for operating expenditures for a total savings of $239,600.

Our analysis indicates that many of the agencies within the department have requested funds for operating expenses which either lack adequate justification or are overbudgeted. A brief description of our findings, by agency, follows.

1. ***Board of Accountancy (Item 1120-001-704).*** The board has budgeted for a word processor. The State Administrative Manual contains standards and guidelines relating to the purchase and use of office automation equipment, including word processing systems. These guidelines are designed to (1) minimize the proliferation of noncompatible equipment and software, (2) facilitate the integration of office automation equipment with central data processing systems, and (3) ensure that acquisitions for data processing equipment are based on a feasibility study report. The Department of Consumer Affairs indicates that the board's proposed purchase would not be compatible with its central data processing system. In addition, neither the board nor the Department of Consumer Affairs has prepared a feasibility study report before the board made its request. As a result, we recommend the deletion of the requested funds for a savings of $7,000.

2. ***State Athletic Commission (Item 1140-006-001).*** The commission is requesting $1,000 for one 35 mm camera for use during boxing events to develop instructional materials to be used in training referees. The commission indicates that it currently uses slides provided to it from the press. The commission is unable to document the benefits to be gained from taking its own photographs, rather than using those taken by professional photographers employed by newspapers. Accordingly, we recommend this request be deleted from the commission's budget.

3. ***Board of Barber Examiners (Item 1160-010-713).*** The board is requesting $7,600 to purchase an additional subcompact car in 1983–84 for its inspection program. The Department of General Services indicates, however, that the 1983–84 price for subcompact 4-door sedans is $5,800, not the $7,600 budgeted by the board. As a result, we recommend $1,800 be deleted from the board's budget.

4. ***Board of Cosmetology (Item 1240-022-738)*** (a) Chapter 965, Statutes of 1982 (SB 1975), revises requirements regarding recent training and practical experience as a prerequisite for board licensure. In addition, Chapter 965 extends the conditions under which the board may take disciplinary action to implement provisions of the Cosmetology Act.

The board is requesting $67,000 and 2.1 additional positions to implement this statute. When SB 1975 was heard by the fiscal committees, the department stated that the bill would result in increased costs of $33,000 to the Board of Cosmetology Contingent Fund in 1983–84 and each subsequent fiscal year. When the Legislature considered and passed SB 1975, it did so with the understanding that the bill would cost $33,000 annually, not the $67,000 the board has budgeted.

Our analysis indicates the original estimate of $33,000 is sufficient to fund the provisions of Chapter 965. As a result, we recommend a reduction of $34,000 from the board's appropriation.

(b) The budget proposes $47,000 for Attorney General legal services to the board in 1983–84. Table 2 shows the amounts appropriated to the board for these services, as well as the amounts reverted, since 1979–80.

Table 2 shows that the board has reverted an average of $37,000 annually, or 58 percent of the amounts appropriated, for legal services since 1979–80. We recommend a reduction of 50 percent, or $23,000, in the amount budgeted for Attorney General services to more accurately reflect actual spending levels for the prior years.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 2
Board of Cosmetology
Expenditures for Legal Services

	Actual			*Estimated*
	1979–80	*1980–81*	*1981–82*	*1982–83*
Amount Appropriated	$60,000	$64,000	$69,000	$45,000
Amount Expended	21,000	17,000	23,000	28,000 [a]
Amount Reverted	39,000	47,000	46,000	17,000

[a] Based on actual expenses incurred for July through December 1982.

(c) The board is requesting $1,800 in the budget year to purchase nine cameras which will be used by the department's Division of Investigation. The board indicates that these cameras would be used to identify code violations on the part of cosmetology establishments in the course of division inspections. The division's budget indicates, however, that the division is requesting eight cameras, at a total cost of $2,888. The board's request, therefore, is unnecessary and we recommend that the funds be deleted for a savings of $1,800.

5. ***Board of Medical Quality Assurance (Item 1390-046-758).*** (a) The Medical Board's proposed budget includes a request to replace 14 automobiles in its current fleet with subcompact vehicles. The total amount of the board's request is $105,000, or $7,500 per vehicle. The 1983–84 price guidelines developed by the Department of General Services indicate that the appropriate price for subcompact automobiles is $5,800. We, therefore, recommend a reduction of $24,000.

(b) Additionally, the board's budget includes $391,000 for rent. The department's Business Services Office indicates that the board's rent will be $357,000 during 1983–84. We, therefore, recommend a reduction of $34,000, for a savings to the Contingent Fund of the Board of Medical Quality Assurance.

6. ***Division of Administration (Item 1655-090-702).*** The division provides centralized services such as accounting, budgeting, and personnel to the various agencies within the department. Workload within the division is expected to increase when the Bureau of Automotive Repair begins reorganizing current staff and hires additional staff to implement Ch 892/82 (SB 33).

The division has proposed 16 limited-term and one permanent position to handle the anticipated workload increase. The division indicates that these positions will be located within its current allocated space.

A review of the division's budget indicates that rent for these positions has been double-budgeted. Accordingly, we recommend a reduction of $31,000 for a corresponding savings to the Consumer Affairs Fund.

7. ***Division of Consumer Services (Item 1640-086-001).*** (a) The division is requesting $322,000 for support of its research and special projects component for 1983–84. The division indicates that $294,000 of this amount will be spent as follows: $206,000 for personal services and operating expenses, and $88,000 for the Golden State Senior Discount Program. The division is unable to identify how the remaining $28,000 will be used. Therefore, we recommend the deletion of this amount, for a savings of $28,000 to the General Fund.

(b) The Golden State Senior Discount Program was established by Chapter 31, Statutes of 1980 (AB 1248), with a "sunset" clause for December 31, 1982. The program was extended by the Older Californians Act

(Chapter 912, Statutes of 1980). The program's objective is to provide technical assistance to communities to facilitate the development of local discount programs.

The division is requesting $88,000 from the General Fund to implement the program in the budget year. Of the amount requested, $14,000 would be used to contract with senior citizens to act as local program coordinators. Our review of the program and discussions with local officials indicate that the duties of the proposed "contract personnel" currently are being provided by volunteers. As a result, we recommend that these funds be deleted, for a savings of $14,000.

(c) The Division of Consumer Services and the Division of Administration jointly subscribe to a computerized legislative monitoring service to assist in tracking bills of interest to the department. The Division of Consumer Services' share of the cost for this contract in the budget year is $2,000. The division's budget, however, requests $5,000 for the contract. As a result, we recommend a reduction of $3,000.

8. *Various Agencies.* Our review indicates that six agencies within the department have requested funds to buy copiers in the budget year. These requests are displayed in Table 3. The table also shows each agency's projected workload in terms of the number of copies of materials to be made per month. Discussions with the Department of General Services (DGS) staff indicate that different-sized copiers are available to accommodate different volumes of work. Specifically, copiers which are capable of reproducing up to 8,000 and 12,000 copies per month are available at $2,000 and $3,000 each, respectively. Based on these price estimates, we project that costs will be lower than the amounts requested by the various agencies, as shown in Table 3. Accordingly, we recommend the six items be reduced by the corresponding amounts for a total reduction of $37,000.

Table 3
Amount and Number of Copiers Requested by Various Agencies (dollars in thousands)

Board	*Item*	*Number of Copiers*	*Estimated Number of Copies Per Month*	*Amount in Budget*	*Projected Costs based on DGS Price*	*Recommended Reduction*
1. Board of Architectural Examiners	1130-004-706	1	1,000	$6	$2	$4
2. Bureau of Employment Agencies	1300-030-180	1	8,000	6	2	4
3. Board of Fabric Care	1320-034-745	1	8,000	6	2	4
4. Structural Pest Control Board	1530-074-775	1	10,000	6	3	3
5. Division of Investigation	1655-090-702	2	12,000	12	6	6
6. Division of Administration	1655-090-702	5	9,000	31	15	16

Continuing Education Report

The *Supplemental Report of the 1982 Budget Act* required the Department of Consumer Affairs to evaluate and report to the Legislature by November 15, 1982, on the effectiveness, costs, and benefits of existing continuing education requirements. The department's report was not submitted to the Legislature until January 1, 1983. As a result we will present an evaluation of the report and comments on the subject of continuing education during subcommittee hearings.

State and Consumer Services Agency

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Item 1700 from the General Fund and Federal Trust Fund — Budget p. SCS 71

Requested 1983–84	$8,327,000
Estimated 1982–83	7,980,000
Actual 1981–82	8,813,000
Requested increase (excluding amount for salary increases) $347,000 (+4 percent)	
Total recommended reduction	$243,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1700-001-001—Support		General	$8,327,000
1700-001-890—Support		Federal Trust	(1,852,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Consulting Contracts. Reduce by $243,000 (Item 1700-001-001 General Fund).*** Recommend reduction in funding because department has provided no justification for proposed consulting contracts. 173
2. Recovering Administrative Costs. Recommend that legislation be enacted: (1) Requiring the department to recover its processing costs out of monetary settlements and damages awarded; (2) Depositing all such recoveries in the General Fund (Potential increase in General Fund revenues: $1.5 million). 174

GENERAL PROGRAM STATEMENT

The Department of Fair Employment and Housing enforces laws which promote equal opportunity in housing, employment, and public accommodations. These laws prohibit discrimination on the basis of race, religion, creed, national origin, ancestry, sex, marital status, physical handicaps, medical conditions, and age.

The department consists of two divisions:

1. ***Prevention and elimination of discrimination in employment and housing*** which seeks to promote equal opportunity and to improve social relationships by preventing and eliminating discrimination in employment, housing, public accommodations.

2. ***General administration*** which provides budget, accounting, personnel, and other administrative support services.

The department has 258.6 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $8,327,000 from the General Fund for support of the Department of Fair Employment and Housing (DFEH) in 1983–84. This is $347,000, or approximately 4 percent, over estimated current-year expenditures. This increase, however, does not take into account the added cost of any salary or staff benefits increase that may be approved for the budget year.

The budget proposes expenditures from all sources, including federal funds and reimbursements, of $10,203,000 in 1983–84. This is an increase of $273,000 or 2.7 percent over estimated current-year expenditures.

Table 1 presents a summary of department expenditures, by program and funding source, for the three-year period ending June 30, 1983. It shows that the General Fund appropriation finances approximately 82 percent of the department's expenditures, while the Federal Trust Fund appropriation supports about 18 percent.

Among the principal changes reflected in the department's proposed 1983–84 budget are (1) the termination of the Governor's Task Force on Civil Rights, (2) the abandonment of excess leased office space in San Francisco, (3) the deletion of two professional positions, and (4) establishment of four clerical positions to adjust for prior staffing reductions.

Table 1
Department of Fair Employment and Housing
Budget Summary
(dollars in thousands)

	Actual	*Estimated*	*Proposed*	*Change*	
Program Expenditures	*1981–82*	*1982–83*[a]	*1983–84*	*Amount*	*Percent*
Enforcement of Anti-discrimination Laws	$8,521	$8,563	$9,082	$519	6.0
Fair Employment and Housing Commission[b]	561	—	—	—	—
Administrative Services	1,793	1,281	1,121	−160	−12.5
Governor's Task Force on Civil Rights	215	86	—	−86	−100.0
Total Expenditures	$11,090	$9,930	$10,203	$273	(2.7)
Source of Funds					
General Fund	$8,813	$7,980	$8,327	$347	4.3
Federal Trust Fund	2,084	1,852	1,852	—	—
Reimbursements	193	98	24	−74	−75.5
Total Funds Available	$11,090	$9,930	$10,203	$273	(2.7)
Personnel-years	285	258.6	257.4	1.2	—

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

[b] Funding for the commission for 1982–83 and 1983–84 is shown in the budget display for the Fair Employment and Housing Commission (Item 1705) because, pursuant to Ch. 625/81, the commission was severed from DFEH and established as a separate independent entity.

Undocumented Consulting Expenses

We recommend a deletion of $243,000 in General Fund support (Item 1700-001-001) requested for consulting expenses because the need for these funds has not been established.

The department's budget includes $243,000 for consulting and professional services. This is the same amount budgeted for the current year.

At the time this *Analysis* was prepared, the department had not provided justification for the amount budgeted for consulting services in either the current year or the budget year. Without any clear documentation of the need for these funds, we have no basis for recommending that they be approved. Furthermore, including funds for unspecified purposes in the Budget Bill prevents legislative review and control of fund allocations in the budget. Accordingly, we recommend a $243,000 reduction in the amount requested for consulting contract expenses, for a General Fund savings of $243,000 in Item 1700-001-001.

Recovering Administrative Costs Out of Settlements and Damages Collected

We recommend that legislation be enacted (1) requiring DFEH to recover its actual investigative and administrative costs for each case that results in a monetary settlement or awarded damages for the complainant and (2) depositing all such recoveries in the General Fund (potential $1.5 million in additional revenues).

Under existing law the department receives and investigates complaints regarding violations of the state's antidiscrimination laws. If a complaint is found meritorious, DFEH will proceed, on behalf of the complainant, to rectify the violation by seeking appropriate corrective or compensatory action. If the case cannot be resolved informally, the department may file a formal "accusation" against the cited party. Formal accusations are heard by an administrative law judge (ALJ) who makes findings of fact, issues a decision on the complaint, and assesses damages if warranted. The ALJ decision on the case as well as the award of damages, are subsequently reviewed by the Fair Employment and Housing Commission for adoption, modification, or rejection.

Complainants represented by DFEH do not pay, nor does the department collect, any fees to cover the cost of DFEH services in processing cases.

Monetary Awards to Complainants. A DFEH case may be resolved by an offer and acceptance of a cash settlement, or by an award of damages by the Fair Employment and Housing Commission. According to DFEH records, approximately 16 percent of all cases closed each year since 1979–80 have been resolved in a manner that involves a monetary settlement or damages award.

Table 2 shows the total number of cases closed each year from 1979–80 through the first half of 1982–83. The table also indicates the total number of cases closed that involved monetary awards. For example, during 1980–81, the department reports that 1,253, or nearly 16 percent of its total case closures, were resolved by monetary settlement or the award of damages. In the current year, 647 (16 percent) of all cases closed through December 1982 involved some form of monetary compensation for the complainant.

Based on DFEH case management history, we estimate that approximately 1,250 (16 percent) of the 7,880 cases the department reports it will close in 1983–84 will involve a monetary settlement or damages award.

Table 2
Department of Fair Employment and Housing
Anti-discrimination Cases Closed

	1979–80	*1980–81*	*1981–82*	*1982–83 (Six Months)*	*1983–84 (Projected)*
Cases settled (monetary)	1,138	1,253	1,484	647	1,250 [a]
Cases settled (nonmonetary)	554	1,011	1,018	446	799 [a]
Cases closed by other means	5,554	5,773	6,721	2,889	5,831 [a]
Total cases closed	7,246	8,037	9,223	3,982	7,880

[a] Legislative Analyst projection, based on DFEH data.

Table 3 displays the total amounts of settlements and damages that have been awarded to complainants since 1979–80. The table also shows the average award per case during this period. We have estimated the total amount of awards and the average award per case in 1983–84, based on data provided by the DFEH. In the budget year, we estimate that awards will average $8,326 per case.

Table 3
Department of Fair Employment and Housing
Awards Obtained from Settled
Antidiscrimination Cases

	1979–80	*1980–81*	*1981–82*	*1982–83 (Six Months)*	*1983–84 (Projected)*
Total Cases Settled Involving Monetary Awards	1,138	1,253	1,484	647	1,250[a]
Amount Awarded	$6,917,396	$8,073,535	$8,296,566	$9,830,099	$10,407,500[a]
Average Award Per Case	$6,078	$6,443	$5,591	$15,193	$8,326[a]

[a] Legislative Analyst projection, based on DFEH data.

Case Processing Costs. In April 1982, the department reported to the Legislature that its processing costs averaged $1,190 per case. The department was unable to provide an estimate of average case processing costs for 1983–84. Based on the average for April 1982, we estimate that the department will require approximately $1.5 million to investigate the 1,250 cases that are likely to be resolved during 1983–84 in a manner that involves monetary compensation. The department's expenses—$1.5 million—are equivalent to approximately 14 percent of the total amount awarded to successful complainants.

Processing Costs Could Be Funded Without Reducing Compensatory Awards to Complainants. Our review of this budget indicates that the department's investigative and administrative costs could be recouped out of the amounts paid by the targets of discrimination complaints, without reducing the size of the awards to the complainants.

Currently, cost recovery is authorized in antitrust cases involving representation by the Attorney General (Section 16750 of the Business and Professions Code). If DFEH were authorized to seek reimbursement for its actual costs of processing cases, the department's reliance on annual General Fund support could be substantially reduced. To assure that these recoveries do not come at the expense of the complainants, the department could request that reimbursement for its processing costs be *added* to the awards made to those filing complaints.

Furthermore, in cases that are settled outside of adjudicatory proceedings the department could seek recovery of its own direct costs as part of the negotiated settlement amount, but exclusive of any amount directly compensating the complainant for injuries suffered.

Accordingly, we recommend the enactment of legislation requiring DFEH to recover its actual investigative and administrative costs for each case that results in a monetary settlement or the award of damages by requesting that these costs be assessed separately.

Further, we recommend that the department be required to account for, and transfer to the General Fund all monies recovered by DFEH pursuant to this requirement. We estimate that implementation of this

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

recommendation will result in approximately $1.5 million in additional General Fund revenues in 1983–84.

FAIR EMPLOYMENT AND HOUSING COMMISSION

Item 1705 from the General Fund — Budget p. SCS 74

Requested 1983–84	$613,000
Estimated 1982–83	582,000
Actual 1981–82	452,000 [a]
Requested increase (excluding amount for salary increases) $31,000 (+5 percent)	
Total recommended reduction	$82,000

[a] Funding included in the budget display for the Department of Fair Employment and Housing (Item 1700).

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Commission Staffing. Reduce Item 1705-001-001 by $39,000.* Recommend deletion of two positions because workload volume does not justify existing staffing level.	177
2. *Staff Support Services. Reduce Item 1705-001-001 by $43,000.* Recommend reduction of $43,000 because accounting, budgeting, business, and personnel services can be obtained for a lesser amount.	178

GENERAL PROGRAM STATEMENT

The Fair Employment and Housing Commission establishes overall policy pursuant to state law which prohibits discrimination in employment, housing, and public accommodations on the basis of race, religion, creed, color, national origin, sex, marital status, physical handicap, medical condition, and age.

The commission carries out its statutory mandate through five functions.

(1) *Adjudicatory Proceedings*
The commission hears formal accusations filed by the Department of Fair Employment and Housing, and issues decisions in these cases.

(2) *Judicial Reviews of Commission Decisions*
Commission staff assists the Attorney General when commission decisions are appealed to the superior and appellate courts.

(3) *Investigation Hearings*
The commission conducts fact-finding hearings on selected matters involving illegal discriminatory activity.

(4) *Regulatory Hearings*
Section 12935 of the Government Code authorizes the commission to promulgate regulations and standards to implement the state's antidiscrimination statutes.

(5) *Amicus Curiae Activity*
The commission prepares and submits legal briefs in cases involving issues related to the commission's jurisdiction.

The commission is composed of seven members appointed by the Governor to four-year terms.

Prior to January 1982, funding for the commission was provided through the Department of Fair Employment and Housing. Chapter 625, Statutes of 1981, established the commission as an independent entity. Consequently, funding for the commission is shown separately in the 1983–84 budget.

The commission has 13.5 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $613,000 from the General Fund to support the Fair Employment and Housing Commission in 1983–84. This represents an increase of $31,000, or 5 percent, over estimated current-year expenditures. This amount will increase further if any salary or staff benefits increases are approved for the budget year.

This 5 percent increase consists of budget year adjustments for staff benefits, standard price increases, and an increase in rent for office space due to the transfer of commission staff from Sacramento to San Francisco.

Commission Overstaffed

We recommend the deletion of two positions that are not justified by projected workload, for a General Fund savings of $39,000.

The commission staff currently is composed of 7 attorneys (one of which serves as Executive Legal Affairs Secretary), 4.5 legal secretary-stenographers, 1 business services officer and temporary staff (law clerks) equivalent to one personnel-year. The staff estimates that during the current year, it will produce 40 commission decisions, assist the Attorney General in 10 cases before superior and appellate courts, conduct one investigative hearing and hold one hearing on commission regulations. A similar volume of workload is expected in 1983–84.

Our review indicates that based on anticipated workload, this agency is overstaffed.

During legislative hearings on the 1981–82 Budget Bill, the commission justified its request for 3.5 additional positions (2.5 attorneys and 1 clerical assistant) on the basis that it anticipated a 50 percent-to-100 percent workload increase in 1981–82. Specifically, the commission expected to receive between 50 and 70 appeals from Department of Fair Employment and Housing (DFEH) administrative hearings. The commission's staff estimated that it would receive approximately 70 appeals in 1982–83. We supported this staff augmentation based on the commission's workload projections.

The additional workload, however, did not materialize. In fact, according to the performance measures reported in the 1983–84 budget, the number of appeals to the commission in 1982–83 is only 21 percent above the 1980–81 level. Table 1 summarizes the changes in workload and in staffing.

Prior to the increase in staff attorneys during 1981–82, we estimate that each commission attorney handled an average of 7.3 cases annually. Currently, each staff attorney handles an average of only 5.7 cases annually. This represents an average *reduction* in caseload per attorney of 20 percent. In order to bring the number of staff attorneys more into line with the number of appeals filed with the commission, we recommend ap-

FAIR EMPLOYMENT AND HOUSING COMMISSION—Continued

proval for 6 attorneys, or one less than currently authorized. Given the current attorney-to-secretary ratio, this would allow a reduction of one-half secretary-stenographer postion.

We, therefore, recommend the deletion of one staff attorney position and one-half secretary position that are not justified by existing or anticipated workload, for a General Fund savings of $39,000 (Item 1705-001-001).

Table 1
Fair Employment and Housing Commission
Workload and Staffing Summary

	1980–81	*1981–82*	*1982–83*	*1983–84*
Number of appeals to FEHC	33	40	40	40
Number of staff attorneys	4.5	7	7	7
Average appeals per attorney	7.3	5.7	5.7	5.7

Support Services Not Cost-Effective

We recommend a General Fund reduction of $43,000 (Item 1705-001-001), because accounting, budgeting, business, and personnel services can be obtained for less than the budgeted amount.

The budget proposes expenditures totaling $63,000 for accounting, budgeting, business, and personnel services in 1983–84. This amount consists of: (a) $45,000 for one proposed staff position (and related operating expenses) to provide business and personnel services, and (b) $18,000 to contract with the Department of Fair Employment and Housing for accounting and budgeting services.

Our analysis indicates this is not a cost-effective arrangement for obtaining these services in 1983–84.

The Contracted Fiscal Services Unit (CFS) in the Department of General Services currently provides accounting, budgeting, and business services to smaller state agencies. The CFS clients generally have budgets that are not large enough to warrant maintaining full-time staff position(s) to provide these fiscal services, making it more cost-effective for them to contract for these services.

The CFS estimates that it could provide the accounting, budgeting, and business services for the commission in 1983–84 at a cost of approximately $17,000. In addition, the Personnel Services Unit of the Department of General Services estimates that it could provide personnel services support to the commission at an annual cost of $3,000. Therefore, if the commission were to contract with these Department of General Services units for these support services, it would require approximately $20,000 in 1983–84. This amount is $43,000 less than the amount requested in the budget for 1983–84. On this basis, we recommend that the commission either contract with the Department of General Services for the needed support, or modify its contract with the Department of Fair Employment and Housing to obtain these support services in 1983–84 at a cost not to exceed $20,000.

In either case, the proposed staff position is not justified on a fiscal basis. At the time this *Analysis* was prepared, no formal justification had been presented to the Legislature for the permanent establishment of this position in 1983–84. No "Budget Change Proposal" (BCP) has been submitted by the commission or the Department of Finance, as is required by the

State Administrative Manual for all proposed new positions. Without a statement from the commission documenting either the need for, or the potential cost-effectiveness of, the new position, we have no basis for recommending that the position be approved. Accordingly, we recommend a General Fund reduction of $43,000 (Item 1705-001-001), and suggest that the commission obtain needed accounting, budgeting, business, and personnel services using the $20,000 remaining in the budget for this purpose.

State and Consumer Services Agency

OFFICE OF THE STATE FIRE MARSHAL

Item 1710 from the General Fund — Budget p. SCS 75

Requested 1983–84	$4,171,000
Estimated 1982–83 [a]	4,002,000
Actual 1981–82	3,974,000
Requested increase (excluding amount for salary increases) $169,000 (+4.2 percent)	
Total recommended reduction	$142,000

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

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Allocation of Cost Increases. Reduce Item 1710-001-001 by $25,000 and increase reimbursements by $25,000.*** Recommend reduction in General Fund support to properly allocate cost increases to reimbursement-related activities. Further recommend that the office and the Department of Finance develop a method to accurately allocate office overhead costs to all programs (potential General Fund savings in excess of $100,000). — 181
2. ***Hospital Safety Standards. Reduce Item 1710-001-001 by $47,000 and increase reimbursements by $47,000.*** Recommend shift in funding source because work previously funded from General Fund will be paid for under an interagency agreement. — 182
3. Pipeline Safety Program. Withhold recommendation on $235,000 of reimbursement-related activity pending (a) clarification of funding mechanism and (b) adoption of regulations defining agency responsibilities. — 183
4. ***Increased Listing Fees. Reduce Item 1710-001-001 by $70,000 and increase reimbursements by $70,000.*** Recommend reduction in General Fund support to reflect increased fees in building materials listing program. — 184
5. Inspection of State-Leased Facilities. Recommend that interagency agreement between Department of General Services and the office providing for inspection and plan review of state-leased space be continued. — 184

OFFICE OF THE STATE FIRE MARSHAL—Continued

GENERAL PROGRAM STATEMENT

The Office of the State Fire Marshal is responsible for protecting life and property from fire. It does this:

- By developing, maintaining, and enforcing fire safety standards for all state-owned/occupied structures, all educational and institutional facilities, public assembly facilities, organized camps, and buildings over 75 feet in height.
- By developing, maintaining, and enforcing controls for portable fire extinguishers, explosives, fireworks, decorative materials, fabrics and wearing apparel.

Office activities are carried out through two programs. The first program, Public Fire Safety, consists of (1) enforcement, and (2) analysis and development. The second program, Administration, provides policy guidance and administrative support to the Public Fire Safety program. The office was budgeted 113.9 positions in the current year to carry out these activities. In addition, 1.5 positions were established administratively to implement recent legislation, for a total of 115.4 positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $4,171,000 from the General Fund for support of the Office of the State Fire Marshal in 1983–84. This is an increase of $169,000, or 4.2 percent, over estimated current-year General Fund expenditures. Total proposed expenditures for 1983–84, including reimbursements are $5,487,000, as compared to $5,007,000 in the current year, an increase of 9.6 percent. This amount will increase by the amount of any salary or staff benefit increases approved for the budget year. In addition to continuing the office's 113.9 authorized positions, the budget proposes a net increase of 6 positions related to program changes.

Table 1
Office of the State Fire Marshal
Proposed 1983–84 Budget Changes
(in thousands)

	General Fund[a]	*Federal Funds*	*Reimbursements*	*Total*[a]
1982–83 Revised Expenditures	$4,002	$31	$974	$5,007
Baseline Adjustments:				
Merit salary adjustment	43	—	—	43
Price increase	95	—	—	95
Retirement adjustment	140	—	—	140
Shift cargo tank program to CHP	−92	—	−73	−165
Deduct one-time expenditures	−17	−31	—	−48
Deduct administrative program additions	—	—	−62	−62
Proposed Program Changes:				
Hospital safety standards	—	—	86	86
Automatic extinguishing systems	—	—	69	69
Pipeline safety	—	—	235	235
Fire safety products listing	—	—	87	87
Total Adjustments	$169	−$31	$342	$480
1983–84 Proposed Expenditures	$4,171	—	$1,316	$5,487

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

Table 1 summarizes the adjustments and proposed changes reflected in the budget. As shown in the table, the proposed budget changes include a $169,000 increase in General Fund support and a $342,000 increase in reimbursement-related activities.

The most significant changes proposed in the office's budget are (1) the transfer of the cargo tank inspection program from the Fire Marshal to the California Highway Patrol and (2) the addition of four new programs.

Cargo Tank Inspection

Chapter 1255, Statutes of 1982, shifted the responsibility for the enforcement of cargo tank regulations and the inspection and registration of cargo tanks to the Highway Patrol. Previously, the Fire Marshal had received a $92,000 General Fund appropriation to carry out this work in 1982–83. The act also authorizes the Air Resources Board (ARB) to contract with the patrol for inspecting and certifying vapor recovery systems on gasoline cargo tanks. In past years, the Fire Marshal had performed this service for the ARB on a reimbursement basis, at a cost of $73,000. Five positions related to this program will be eliminated.

New Programs

Additional funding of $404,000—all from reimbursements—is proposed for four new programs:

1. *Hospital Safety Standards*—The Hospital Seismic Safety Act of 1982 (Ch 303/82) requires the Office of Statewide Health Planning and Development to contract with the Fire Marshal to review plans and specifications for and conduct inspections of new hospital construction and alterations. The budget includes $86,000 in reimbursements and two positions for this work.
2. *Automatic Fire Extinguishing Systems*—The budget includes $69,000 in reimbursements and two positions for the implementation of the automatic fire extinguishing systems licensing program (Ch 699/82). The Fire Marshal is required to adopt and administer regulations for servicing, testing, and maintaining automatic systems, and for licensing individuals who perform the work.
3. *Pipeline Safety*—Chapter 861, Statutes of 1981, gave the State Fire Marshal regulatory authority over intrastate hazardous liquid pipelines. Two hundred thirty-five thousand dollars ($235,000) of reimbursement-related activity and five positions are proposed in the budget year for this program.
4. *Fire Safety Products Listing*—Under the provisions of Ch 1322/82, the Fire Marshal is authorized to evaluate, test, approve, disapprove and list fire safety products. He is further authorized to establish and collect fees to cover the cost of the program. Reimbursements in the amount of $87,000 and two positions are included in the office's 1983–84 budget for activities related to this program.

Cost Increases Not Properly Allocated

We recommend a reduction of $25,000 in General Fund support, and a corresponding increase in reimbursements, to properly allocate cost increases among programs. We further recommend the adoption of supplemental report language directing the office to develop a reasonable and accurate method for allocating overhead costs to all programs.

OFFICE OF THE STATE FIRE MARSHAL—Continued

The State Administrative Manual (SAM) directs state agencies which perform services for other agencies, individuals, and organizations to include all appropriate costs in the charges made for these services. The SAM indicates that the following specific costs should be included:

- Direct costs including identifiable salaries, wages and operating expenses and charges for other than incidental use of equipment.
- A proportionate share of overhead cost including salaries and wages, staff benefits and general operating expenses.

A portion of the activities conducted by the State Fire Marshal is funded through reimbursements for services (including reimbursements from departments supported by special funds), rather than by General Fund appropriation. Reimbursements account for approximately 18 percent of the office's 1983–84 baseline public fire safety program (before funding for new programs is added in). The budget, however, proposes to fund all merit salary adjustments and price increases for 1983–84 from the General Fund. These adjustments account for $138,000 of the $169,000 increase in General Fund support for the office in the budget year.

As required by SAM, charges for services should be adjusted to account for salary and price changes, so that reimbursements accurately reflect the costs of providing these services to client agencies. Accordingly, 18 percent of total merit salary and price increases, or $25,000, should be covered by increased reimbursements. We recommend that General Fund support be reduced by $25,000, and that reimbursements be increased by $25,000, to reflect the proper allocation of increased costs to the various programs.

Overhead Charges. Charges to recover overhead costs are not allocated among the programs operated by the State Fire Marshal on a consistent basis. Consequently, some reimbursement-related activities are charged for administrative and general expenses while others are not. Correct allocation of office overhead could result in General Fund savings in excess of $100,000, based on current-year expenditures. The exact level of savings that can be achieved depends on the extent to which overhead costs are already recovered through reimbursements. So that these savings can be realized, we recommend that supplemental language be adopted directing the office and the Department of Finance to develop a methodology for more accurately tracking expenditures by function and allocating overhead costs to all programs, and to incorporate this methodology in developing the office's 1984–85 budget. The specific language is as follows:

> "The Office of the State Fire Marshal and the Department of Finance shall develop a methodology for accurately tracking office expenditures by function and allocating overhead costs to all programs. The methodology shall be submitted to the Joint Legislative Budget Committee for review by October 1, 1983, and shall be incorporated in developing the office's budget for 1984–85."

Hospital Safety Standards—Shift in Funding Source Not Recognized

We recommend a reduction of $47,000 in General Fund support, and a corresponding increase in reimbursements, because work previously funded from the General Fund will be paid for under an interagency agreement.

The Hospital Seismic Safety Act of 1982 (Ch 303/82) transferred responsibility for enforcing building standards, checking plans, and inspecting construction for new hospitals and hospital alterations to the Office of Statewide Health Planning and Development (OSHPD). The act provides that OSHPD shall contract with the State Fire Marshal for review of plans and specifications, and for inspection of construction for compliance with fire safety standards. The cost of these activities is funded from application fees which are deposited in the Hospital Building Account in the Architecture Public Building Fund.

Prior to the enactment of Ch 303/82, the Fire Marshal was responsible for reviewing plans and specifications for *new* hospital construction. These activities were supported by the General Fund. The office estimates that $47,000 of its General Fund support is attributable to the new hospital plan review. The proposal to add $86,000 in reimbursements to the office's budget covers only inspection activities and plan review for alterations—those functions which are new to the office. Since the contract with OSHPD will cover plan review for new hospitals as well, there will be no need for the General Fund to continue supporting this function. Rather, the reimbursements will come from application fees based on the estimated construction cost of the project. We therefore recommend that General Fund support be reduced by $47,000, and that reimbursements be increased by a corresponding amount.

Pipeline Program Not Ready to Flow

We withhold recommendation on the pipeline safety program pending (1) the receipt of information detailing the reimbursement mechanism for the program, and (2) the adoption of regulations clarifying agency responsibilities.

The Pipeline Safety Act of 1981 (Ch 861/81) places certain requirements on the State Fire Marshal, pipeline operators and local agencies to ensure the safe operation of pipelines transporting hazardous liquids within the State of California. The budget proposes $235,000 and five positions in 1983–84 to fulfill the Fire Marshal's responsibilities under the act. Specifically, the Fire Marshal is required to (1) adopt regulations which are consistent with federal law and regulations so that the state may qualify for federal reimbursement, (2) establish a technical standards committee to inform local agencies and operators of changes in law and regulations, and (3) investigate explosions of fires involving pipelines. The Fire Marshal is further authorized to investigate pipeline breaks and to close pipelines in the interest of public safety. It is anticipated that the costs of the program will be recovered through reimbursements received from local agencies.

We withhold recommendation on funding for this program because sufficient information on the program is not available. Specifically:

(1) A clearly defined funding mechanism is needed to assure that the General Fund will not be responsible for program costs, and

(2) The federal, state, and local roles in the program need to be clarified.

Under the provisions of the act, local agencies *may* assess pipeline operators an annual fee to cover the costs of inspection, testing, and meeting the requirements of the act. Each local agency which assesses fees is required to transmit to the Fire Marshal its pro rata share of the Fire Marshal's administrative expenses which are not covered by federal reimbursements. The Fire Marshal has indicated that recovery of costs under the act is not certain. When the legislation was being considered, the Legislature assumed that the federal government would pay for up to 50

OFFICE OF THE STATE FIRE MARSHAL—Continued

percent of the cost of the program. Federal funds have not been forthcoming, however, and future support by the federal government is uncertain.

Without federal support, the office would have to recover 100 percent of its cost from local agencies. It is not clear that this is possible. To the extent that the Fire Marshal expends funds in anticipation of revenues that do not materialize, the result will be a deficiency in the office's 1983–84 budget. In this case, the state could be obligated to cover the costs of the pipeline safety program from the General Fund.

In addition, the Pipeline Safety Act required the Fire Marshal to adopt pipeline safety regulations by January 1, 1983. The regulation process has been delayed, however, due to the lack of any final federal action in this area. Although regulations have been drafted, the office indicates that the regulations probably will not be adopted until April 1983. With no regulations in place, it is not clear whether state or local agencies are responsible for ensuring compliance, assessing penalties, and conducting inspections. Hence, we have no basis for making workload projections under this program.

In view of these uncertainties, the Fire Marshal should report to the Legislature, prior to budget hearings, on (1) the program responsibilities assigned to state and local agencies, (2) workload projections for the office, and (3) how the costs of the program will be recovered.

Increased Fees for Listing Program Not Reflected

We recommend a General Fund reduction of $70,000, and a corresponding increase of $70,000 in reimbursements, to accurately reflect increased fees for the building materials listing program.

The State Fire Marshal is required to prepare and publish listings of construction materials/equipment and methods of construction/installation which conform with building standards relating to fire and panic safety. Individuals or organizations must pay an original and annual renewal fee to have their items listed. Chapter 1322, Statutes of 1982, doubled the fees associated with these activities to offset fully the costs associated with the program. The Governor's Budget does not reflect the increased level of reimbursements anticipated in the budget year under the new fee schedule.

Before the fee increase was enacted, the office received $70,000 annually in listing fees. Thus, revenues from the program should total $140,000 in the budget year, rather than the $70,000 assumed in the budget. Consequently reimbursements should be increased by $70,000 and the General Fund appropriation should be reduced accordingly.

Inspection of State-Leased Facilities Should Continue

We recommend that the interagency agreement between the Department of General Services and the Fire Marshal for inspection and plan review of state-leased space be continued, as anticipated by the budget for the Fire Marshal.

The State Fire Marshal currently conducts inspections and plan reviews of state-leased buildings relating to fire and panic safety requirements, under an interagency agreement with the Space Management Division (SMD), Department of General Services. The $107,000 in reimbursements attributable to this function is included in the office's budget for 1983–84. The Department of General Services' budget, however, proposes to delete the interagency agreement and have SMD perform the function directly.

We recommend that the interagency agreement be continued as displayed in the Fire Marshal's budget. Section 13108 of the Health and Safety Code explicitly assigns to the State Fire Marshal the responsibility for enforcing regulations and building standards related to emergency egress and fire and panic safety in all state-leased buildings to the State Fire Marshal. The Fire Marshal may transfer inspection responsibility to qualified local fire agencies upon the request of the local agency. No provision, however, is made for transferring this responsibility to other state agencies.

Further, in contrast to the Department of General Services, the Fire Marshal has individuals trained in fire prevention who conduct field inspections and evaluate fire risks.

State and Consumer Services Agency
FRANCHISE TAX BOARD

Item 1730 from the General Fund and the California Election Campaign Fund — Budget p. SCS 78

Requested 1983–84	$91,016,000
Estimated 1982–83	84,740,000
Actual 1981–82	82,539,000
Requested increase (excluding amount for salary increases) $6,276,000 (+7.4 percent)	
Total recommended reduction	$100,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1730-001-001—Support		General	$90,942,000
1730-001-905—Support		California Election Campaign	74,000
Total			$91,016,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Return Estimates. Reduce Item 1730-001-001 by $600,000.*** Recommend deletion of 25 personnel-years to reflect revised estimates of the number of returns to be processed. 189
2. ***Audit Positions. Augment Item 1730-001-001 by $500,000.*** Recommend addition of 23 personnel-years in order to perform cost-beneficial audits of income tax returns. (Potential increase in General Fund revenues: $1 million in 1983–84 and $2.5 million annually thereafter.) 191
3. Refund Notification. Recommend that the Legislature direct the Department of Finance to specify how it will comply with the new federal requirement regarding taxpayer notifications. 192

FRANCHISE TAX BOARD—Continued

4. Exempt Corporations. Recommend legislation increasing existing fees on exempt corporations in order to defray processing costs. (Potential increase in General Fund revenues: $440,000 annually.) 193

GENERAL PROGRAM STATEMENT

The Franchise Tax Board (FTB) is responsible for administering the Personal Income Tax (PIT) Law, the Bank and Corporation (B&C) Tax Law, the Senior Citizens' Property Tax Assistance Law, and the Political Reform Audit program. The board consists of the Director of Finance, the Chairman of the State Board of Equalization, and the State Controller. An executive officer is charged with administering the FTB's day-to-day operations, subject to supervision and direction from the board. The board has been authorized 2,924 personnel-years for the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $90,942,000 from the General Fund for support of the Franchise Tax Board in 1983–84. This is an increase of $6,276,000, or 7.4 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 department also expects to receive $3,889,000 in reimbursements during 1983–84, resulting in total budget-year expenditures of $94,831,000. This is a $6,464,000, or 7.3 percent, increase over 1982–83 expenditures.

Table 1
Franchise Tax Board
Proposed 1983–84 Budget Changes
(in thousands)

	General Fund	*Reimbursements*	*Total*
1982–83 Current Year Estimated [a]	$84,666	$3,701	$88,367
Baseline Adjustments			
Personnel Services:			
• Retirement	$2,488	$97	$2,585
• Merit salary adjustments	1,279	54	1,333
• Other	33	—	33
Operating Expenses and Equipment	811	37	848
Legislative Mandate	−5	—	−5
Subtotal, Baseline Adjustments	($4,606)	($188)	($4,794)
Workload Adjustments			
Processing and Tax Assistance	$1,223	—	$1,223
Program Changes			
Audits	447	—	447
1983–84 Budget Request	$90,942	$3,889	$94,831
Change, 1983–84 Over 1982–83:			
Amount	$6,276	$188	$6,464
Percent	7.4%	5.1%	7.3%

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

The FTB requests funding for 2,992.6 personnel-years in 1983–84, or 69.0 personnel-years more than the number expected to be used in the current year (2,923.6).

1983–84 Expenditures

As shown in Table 1, the factors responsible for the proposed $6,464,000 increase in budget-year expenditures by the FTB can be divided into the following three categories:

- *Baseline adjustments* ($4,794,000, or 74 percent of the total increase);
- *Workload changes* ($1,223,000, or 19 percent); and
- *Program changes* ($447,000, or 7 percent).

The major baseline adjustments are: (1) restoration of funding for retirement benefits following the one-time decrease in the employer's contribution rate during the current year, (2) increases for merit salary adjustments, and (3) increases to offset the higher prices that the board must pay for operating expenses and equipment. The workload and program changes are discussed further below.

Department Overview

Table 2 summarizes the department's personnel-years and expenditures, by program, for fiscal years 1981–82, 1982–83, and 1983–84. FTB receives direct General Fund support for the PIT, B&C, and Homeowners' and Renters' Assistance (HRA) programs. Expenditures on contract work and the Political Reform Act are reimbursed by other government agencies. Beginning in the current year, FTB also receives funds annually from the California Election Campaign Fund to cover its administrative costs in implementing the provisions of Ch 1188/82. This measure allows individuals to make political contributions through the income tax filing process.

Table 2
Franchise Tax Board
Program Summary: 1981–82 Through 1983–84
(in thousands)

	Personnel-Years			*Expenditures*		
Program	*Actual 1981–82*	*Estimated 1982–83* [a]	*Proposed 1983–84*	*Actual 1981–82*	*Estimated 1982–83* [a]	*Proposed 1983–84*
Personal Income Tax	1,928	1,957	1,984	$57,483	$57,183	$60,658
Bank and Corporation Tax	680	747	793	22,777	25,061	27,839
Homeowners' and Renters' Assistance	85	76	72	2,417	2,531	2,559
Contract Work	136	119	119	2,825	2,673	2,810
Political Reform Act	23	25	25	843	914	965
Administration—Distributed	(209)	(206)	(208)	(6,857)	(6,730)	(7,063)
Legislative Mandate	—	—	—	3	5	—
Totals	2,852	2,924	2,993	$86,348	$88,367	$94,831
General Fund	*2,693*	*2,776*	*2,845*	*82,539*	*84,666*	*90,942*
Reimbursements	*136*	*119*	*119*	*2,966*	*2,713*	*2,850*
Political Reform Act	*23*	*25*	*25*	*843*	*914*	*965*
California Election Campaign Fund	—	*4*	*4*	—	*74*	*74*

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

Table 3
Franchise Tax Board
Program Functions Supported by the General Fund
1983–84
(dollars in thousands)

Program Function	*PIT Program*		*B&C Tax Program*		*HRA Program*		*Total*	
	Budgeted Expenditures	*Percent of Total*	*Budgeted Expenditures*	*Percent of Total*	*Budgeted Expenditures*	*Percent of Total*	*Budgeted Expenditures*	*Percent of Total*
Processing/taxpayer assistance	$28,389	46.9%	$5,152	18.5%	$2,491	97.3%	$36,032	39.6%
Audit	15,095	24.9	16,695	60.0	68	2.7	31,858	35.0
Collections	12,889	21.3	3,975	14.3	–	–	16,864	18.5
Filing enforcement	4,211	7.0	944	3.4	–	–	5,155	5.7
Exempt corporations	–	–	1,073	3.9	–	–	1,073	1.2
Administration-distributed	(4,780)	–	(1,645)	–	(195)	–	(6,620)	–
Totals	$60,584	100.0%	$27,839	100.0%	$2,559	100.0%	$90,982 [a]	100.0%
Percent of FTB General Fund Totals	66.6%	–	30.6%	–	2.8%	–	100.0%	–

[a] This amount is $40,000 higher than FTB's General Fund total of $90,942,000, due to $40,000 in reimbursements from the department's Contract Work program for general administrative pro rata.

Table 3 summarizes proposed General Fund expenditures, by program function. It shows that 40 percent of FTB's budgeted General Fund expenditures are for return processing and taxpayer assistance, and that over one-third (35 percent) of total expenditures are for auditing. The table also shows the relative importance of the various functions, by program. For example, in the PIT program, one-quarter of proposed expenditures are for audits, whereas in the B&C Tax program, three-fifths of total expenditures are dedicated to the audit function.

PROCESSING AND TAXPAYER ASSISTANCE

Approximately 40 percent of the department's General Fund budget is expended on the actual processing of taxpayer returns and on taxpayer assistance. For the current year, the budget reflects a reduction of $795,000 from the amount originally authorized in the 1982 Budget Act for the processing and assistance function. The decrease is due to the following three factors: (1) increased productivity, (2) the use of federally provided taxpayer information, resulting in a savings in FTB transcription costs, and (3) a drop in the number of returns expected to be filed during 1982–83.

For 1983–84, the budget proposes an augmentation of $428,000 over the amount originally authorized for 1982–83, or $1,223,000 over the amount estimated to be expended in 1982–83 for processing and taxpayer assistance ($795,000 plus $428,000). The requested augmentation is based entirely on a projected increase in the number of returns to be filed with the department.

Revised Estimates of Returns

We recommend the deletion of 25 personnel-years and $600,000 requested for FTB's processing and taxpayer assistance, based on revised return estimates.

As shown in Table 4, the department estimates that it will process 12,710,000 returns (PIT, B&C and HRA) in the current year and 13,160,000 returns in the budget year, for an increase of 3.5 percent.

Table 4
Franchise Tax Board
Return Estimates
1982–83 and 1983–84
(in thousands)

	1982–83 Returns		*1983–84 Returns*		*Change, 1983–84 Over Current Year Revised*	
	Current Year Revised	*Legislative Analyst*	*Budget*	*Legislative Analyst*	*Budget*	*Legislative Analyst*
Personal Income Tax	11,815	11,700	12,265	12,100	3.8%	2.4%
Bank and Corporation	445	430	485	455	9.0	2.2
Homeowners and Renters	450	400	410	375	–8.9	–16.7
Total	12,710	12,530	13,160	12,930	3.5%	1.7%

These estimates in the budget were made in July 1982, and were based on the most-recent data available at that time. Using more recent informa-

FRANCHISE TAX BOARD—Continued

tion on 1982 return processing and revised projections of the economic indicators used in forecasting the number of returns to be filed, we conclude that returns filed under all three programs will be *below* FTB's estimates in both the current and budget years.

Specifically, we estimate that FTB will receive 12,930,000 returns in 1983–84, which is a 1.7 percent increase over the department's current-year workload level of 12,710,000 returns. This increase is just under one-half of the increase projected by FTB (3.5 percent). Consequently, the department's requested budget augmentation of $1,223,000 and 51 personnel-years can be reduced proportionately. We therefore recommend a reduction of $600,000 and 25 personnel-years.

AUDITS

Through the personal and bank and corporation tax programs, FTB collects over one-half of the state's General Fund revenue. In order to protect these important components of the state's revenue base, the department conducts an extensive audit program. FTB proposes to spend $31.8 million in 1983–84 in order to audit 1.1 million personal income tax and bank and corporation income tax returns.

Budget Year Request

For 1983–84, the budget proposes two basic changes to the department's audit program: (1) a redirection in existing resources and (2) an augmentation of 17.4 personnel-years and $447,000. The augmentation consists of 10.7 personnel-years in direct audit positions and 6.7 personnel-years in legal staff to process protests and appeals resulting from audits.

The redirection of existing audit resources is in keeping with past legislative directives to FTB that it continually modify its audit plan to reflect marginal changes in the productivity of individual audit groups. The department's budget-year adjustments require that, in general, resources be shifted from B&C field audits to PIT central office audits, and from professional audits to paraprofessional and clerical audits.

Based on the FTB's 1983–84 work plan, we estimate that the level of resources available in the current year would allow the board in 1983–84 to conduct audits in only those groups with benefit-cost ratios exceeding 5.5. The proposed augmentation of 10.7 personnel-years would allow the board to perform an additional 15,000 audits with benefit-cost ratios of just under 5.5. No rationale is given in the budget, however, as to why 10.7 personnel-years are being requested, as opposed to a smaller or larger number of positions.

Level of Audit Resources

The proposed augmentation for audit activities raises, but does not address, the crucial question regarding the board's budget: What is the appropriate level of resources that should be allocated to the audit function? In the past, we have noted that this is a policy decision which only the Legislature can make. At the same time, however, we have recommended that the Legislature use the benefit-cost ratio of net assessments per dollar of cost as a guide in evaluating audit requests.

The benefit-cost ratio compares the additional revenue expected from an audit with the cost of performing that audit. Use of the ratio suggests that, from a strictly fiscal perspective, the state should cover all of those audit groups where the ratio exceeds 1.0. There are, however, a number of reasons why the Legislature might choose to stop allocating resources to audits *before* reaching that point. Specifically, the Legislature might limit the audit effort in order to:

- ***Reduce Taxpayers' Compliance Costs.*** When FTB performs audits, taxpayers incur costs—primarily in terms of the time that it takes to comply with the informational requirements of auditors. These costs are incurred by taxpayers regardless of whether the audit results in an assessment of tax.
- ***Avoid Taxpayer Harassment.*** At some point, the Legislature might view the addition of more auditors as resulting in too great a state "presence" in the lives of California citizens. The threat of taxpayer harassment, of course, becomes greater as the audit function is expanded.
- ***Make State Funds Available for Other Purposes.*** Even if the expenditure of state resources on additional audits resulted in revenues in excess of costs, the expenditure of such funds on *other* desirable activities might result in an even greater return (in terms of total social benefits) to the state.

Audit Augmentation

We recommend an augmentation of 23 personnel-years and $500,000 to the FTB audit program, so that the department can perform additional productive audits, and thereby increase revenues to the General Fund in 1983–84 by approximately $1,000,000.

It would seem that, with audit coverage at the margin still returning nearly $5 for every $1 of audit costs, the *total* benefits to be gained from additional audit activity would exceed the *total* costs of this activity—both monetary and nonmonetary. On this basis, we recommend that FTB's audit staff be augmented further in the budget year.

Our review indicates that the FTB's highest priority *unbudgeted* audit workload for 1983–84 is the audit group "eastern field office—nonmajor apportioning cases." In allocating the audit hours budgeted for 1983–84, FTB was able to provide only a portion of the manpower necessary to complete these eastern field office audits. We believe, however, that there are important reasons why the Legislature might want to provide FTB with additional resources to audit the remaining returns in this audit group:

- First, the group's benefit-cost ratio—over 5.0—is high.
- Second, if FTB does not continue to perform these audits in 1983–84, the department will have to incur significant costs in relocating field resources (both personnel and office space). These eastern field office audits are being performed in the current year, but because of the yearly redirection of audit resources to where they can be used most productively, this audit category was moved for the most part "below-the-line" of audit groups which could be worked with existing resources.

Accordingly, we recommend that the department's budget be augmented by 23 personnel-years and $500,000 so that these eastern field office audits can be performed in 1983–84. We estimate that these audit resources would generate additional General Fund revenues of approximately $1 million in 1983–84, and approximately $2.5 million annually thereafter.

FRANCHISE TAX BOARD—Continued

Audit Protest and Appeals

The budget proposes to add 6.7 personnel-years in legal staff to handle projected increases in protests and appeals resulting from audits. The department has, in fact, experienced a dramatic increase in the number of taxpayers using the legal resources available to them upon receiving notices of audit assessment. We therefore recommend approval of this augmentation.

A large percentage of the appeals handled by FTB legal staff are "tax protest" cases. These are taxpayers who are not so much questioning a particular issue or provision of the tax code, as much as they are challenging the validity of the income tax system as a whole. In many cases, protests and appeals are filed simply to delay payment of taxes and/or clog the tax system.

In order to reduce the number of these frivolous legal actions, we have recommended elsewhere in the *Analysis* that the state conform its law to federal law with regard to frivolous appeals. A more detailed discussion of this issue is included in the analysis of the Board of Equalization's budget.

STATE INFORMATION RETURNS

The federal Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 imposed new information reporting requirements on state governments. In instances where a state makes refunds of state income tax or allows credits against tax liability, the state must: (1) report to the U.S. Treasury Department the names and addresses of people receiving such refunds or offsets, and (2) furnish information on the refund amount to taxpayers in January of the year following the year in which the refund is recieved.

The federal government wants this information in order to ensure that taxpayers claiming itemized deductions on their federal returns for state income taxes paid in one year include in federal income the following tax year any subsequent refund of state income taxes.

FTB has no problem in providing the specified information to the Treasury Department. It is already able to provide this information, at basically no additional cost. The requirement that the state provide individual information returns to taxpayers each January, however, appears to be a costly one. FTB estimates that complying with this requirement could cost $1.8 million per year, beginning in 1983–84.

No plan to Meet Federal Requirement

We recommend the Legislature direct the Department of Finance to specify how the state will comply with the new information return requirement in federal law.

FTB's 1983–84 budget does not include any funds for complying with the January 1984 TEFRA reporting requirement. The budget narrative indicates that during 1983 the department will enclose a notice with all refund checks sent to taxpayers reminding them that the amount refunded should be declared as income on the taxpayer's federal tax return for 1983. It now appears, however, that because of the cost and the fact that the notice would not meet the requirements of federal law, the department will not be sending notices to taxpayers during 1983.

Thus, it would seem that at present the administration has no plan for complying with this federal requirement. Because any effort by the board to comply with the requirement would have significant budgetary consequences, the administration should inform the Legislature during the budget process as to how it is going to address this issue. We therefore recommend that the Legislature direct the Department of Finance to specify how it plans to meet this federal statutory requirement.

EXEMPT CORPORATIONS

Under the Bank and Corporation Tax Law, nonprofit corporations can file for tax exempt status. Existing law provides 17 general categories of organizations—from churches to social clubs to homeowners' associations—which are eligible for the exemption. Qualifying corporations do not have to file regular annual income tax returns, nor do they have to pay the $200 minimum tax which all for-profit firms must pay even if they have no net income in a given year.

All tax-exempt corporations, however, must file with FTB one of two types of annual *information* returns. Of the approximately 80,000 corporations currently holding tax-exempt status, about 30,000—generally, those with gross receipts of greater than $25,000 a year—file a Form 199 information return and pay an accompanying $5 fee. The remaining 50,000 corporations file a shorter, simplified annual statement (Form 199B) and pay no fee.

In order to qualify for tax-exempt status, a nonprofit organization must file an application with FTB (Form 3500) and pay a filing fee of $10.

Recommend Legislation Increasing Filing Fees

We recommend legislation increasing the filing fees on exempt corporations, so that the revenue from these fees cover the administrative costs of processing exempt-corporation documents, for an annual General Fund revenue gain of approximately $440,000.

The filing fees noted above are set by the Legislature (Revenue and Taxation Code Sections 23701 and 23772). Apparently, the rationale behind the fees was that even though nonprofit organizations pursue desirable societal ends, they still enjoy great benefits from incorporation. Thus, given the benefits of tax exemption, these firms should at least pay for the administrative costs associated with tax-exempt filings.

The fees charged by FTB, however, have not been changed since 1969. The department estimates that it now costs about $50 (instead of $10) to process an exempt application and $10 (instead of $5) to process an annual information return (Form 199).

To eliminate this gap between fees and costs, we recommend that the Legislature increase an exempt corporation's filing fees to $50 for an exempt application and $10 for an information return. This would result in an annual General Fund revenue gain of approximately $440,000.

DEPARTMENT OF GENERAL SERVICES

Item 1760 from various funds. Budget p. SCS 89

Requested 1983–84	$277,992,000
Estimated 1982–83	259,294,000
Actual 1981–82	223,730,000
Requested increase (excluding amount for salary increases) $18,698,000 (+7.2 percent)	
Total recommended reduction	$3,868,000
Recommendation pending	$11,190,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1760-001-001—Department of General Services.	For direct support of department operations.	General	$4,744,000
1760-001-002—Department of General Services.	For maintaining and improving properties (1) acquired under the Property Acquisition Law or (2) declared surplus prior to disposition by state.	General	1,883,000
1760-001-003—Department of General Services.	For maintaining, protecting, and administering state parking facilities.	General	2,018,000
1760-001-006—Office of State Architect.	For verifying that plans of structures purchased with state funds are accessible for use by physically handicapped.	General	206,000
1760-001-022—Communications Division.	For support of Emergency Telephone Number program.	General	341,000
1760-001-026—Department of General Services.	For payment of claims resulting from the Motor Vehicle Liability Self-Insurance Program.	General	6,246,000
1760-001-120—Office of State Architect.	For direct support of specified plan checking services.	Architecture Public Building	1,075,000
1760-001-189—Department of General Services.	For support of energy assessment programs.	Energy and Resources	1,028,000
1760-001-344—Office of Local Assistance.	For support of State School Building Lease-Purchase Program.	State School Building Lease-Purchase	1,065,000
1760-001-450—Department of General Services.	For support to test and certify gas valves.	Seismic Gas Valve Certification Fund	65,000
1760-001-602—Office of State Architect.	For support of operations.	Architecture Revolving	10,134,000
1760-001-666—Department of General Services.	For support in form of revenues from agencies receiving products or services other than printing.	Service Revolving, other activities	189,299,000
1760-001-739—Office of Local Assistance.	For support of State School Building Aid Program.	State School Building Aid	617,000
1760-001-961—Office of Local Assistance.	For support of State School Deferred Maintenance Program.	State School Deferred Maintenance	193,000
1760-011-666—Department of General Services.	Provides authority whereby funds appropriated for purchase of automobiles or reproduction equipment may be used to augment the Service Revolving Fund which finances General Services carpool and reproduction services.	General	N/A

1760-021-666—Office of State Printing. For support in form of revenues from agencies receiving printing services.	Service Revolving, printing	$38,275,000
1760-101-022—Communications Division. For reimbursement of local costs of implementing Emergency Telephone Number program as authorized by Chapter 443, Statutes of 1976.	General	20,803,000
Total		$277,992,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Office of State Architect. Withhold recommendation on architectural/engineering services ($10,610,000) pending submission of a workplan based on level of capital outlay expenditures included in the Governor's Budget. 201
2. Office of State Architect. Recommend development of a construction management unit to improve services to clients. 202
3. Architecture Revolving Fund. Recommend that unencumbered funds ($1,674,000) on deposit in the Architectural Revolving Fund be returned to the appropriate fund sources, in order to increase the amount available for appropriation by the Legislature. 204
4. ***Buildings and Grounds Division. Reduce Item 1760-001-666 by $560,000.*** Recommend that utility budget be reduced to reflect cost savings to be achieved by new gasification plant in Sacramento. Further, we recommend that by March 1, 1984, the department report to the Legislature on (1) any needed utility augmentations during 1983–84 and (2) the actual savings to date attributable to the gasification plant. 205
5. ***Buildings and Grounds Division. Reduce Item 1760-001-666 by $80,000.*** Recommend deletion of funds for three special repair projects. This will increase the amount available for transfer to the General Fund. 206
6. Buildings and Grounds. Withhold recommendation on $488,000 from the General Fund for maintenance and security of the Governor's residence, because the issue of a permanent residence for the Governor has not been resolved. 207
7. ***Building Rental Account—Reduce Item 1760-001-666 by $1,991,000.*** Recommend deletion of amounts budgeted from this account to support various departmental activities because (1) some services are being charged twice to the account and (2) some charges are not permitted by the Government Code. 208
8. ***Building Rental Account. Increase General Fund Revenues by $1,991,000.*** Recommend adoption of Budget Bill language transfering savings from recommended reductions in the Building Rental Account to the General Fund. 208
9. Building Rental Account. Withhold recommendation on $92,000 for building fire insurance, pending submission and review of a cost-benefit analysis. 208
10. ***Office of Facilities Planning and Development. Increase*** 210

DEPARTMENT OF GENERAL SERVICES—Continued

Item 1760-001-666 by $400,000. Recommend that the division recover the cost of planning activities through a surcharge on rental payments made by agencies in leased space, rather than by charging the Building Rental Account.

11. Real Estate Services Division. Withhold recommendation on proposed reduction of 9.5 positions, pending submission of adequate workload information on real estate acquisition, sales and management services. 211
12. Real Estate Services Division. Recommend adoption of supplemental report budget language requiring the department to prepare annual workload plans and report to the Legislature. 211
13. Real Estate Services Division. Recommend enactment of legislation requiring public agencies which receive state surplus property to pay for net management costs and sales cost incurred by Real Estate Services Division. 212
14. *Real Estate Services Division. Reduce Item 1760-001-666 by $20,000.* Recommend Public Works Board responsibility be centralized in the Department of Finance. 213
15. *Space Management Division. Increase Item 1760-001-666 by $119,000.* Recommend change in funding source for four space planning projects proposed from Building Rental Account. Further recommend that funding for one project be denied because funds are available in current year. Withhold recommendation on two projects pending clarification of proposed financing mechanism. 214
16. Space Management Division. Recommend enactment of legislation returning approval of lease-purchase and lease-with-purchase-option agreements to the Legislature. 214
17. *Space Management Division. Increase 1760-001-666 by $35,000.* Recommend that the proposed expansion of lease management activities be denied, and that the contract with the Fire Marshal for fire safety inspection of state-leased space be restored. 217
18. *Building Standards Commission. Reduce Item 1760-001-001 by $177,000 and increase Item 1760-001-666 by $177,000.* Recommend deletion of General Fund support for commission because costs should be fully recovered through assessments on other agencies. 219
19. Building Standards Commission. Recommend that prior to budget hearings, the commission report to the Legislature on fees and workload associated with the appeals process. 219
20. *Radio Repairs. Reduce Item 1760-001-666 by 39 positions and $1,688,000.* Recommend reduction of telecommunciations technician positions because the department has overestimated radio maintenance workload and set its workload standards too low. 221
21. Insurance. Recommend adoption of new control section prohibiting the purchase of discretionary commercial insurance policy covering loss of assets unless 30 days advance notification has been given to the Legislature. 223

22. State Police. Recommend adoption of supplemental report language requiring that the department report to the Legislature on (1) how it reconciles the discrepancies between space management's report, which is used by State Police for assessment of pro rata services, and information submitted by agencies to the State Police Division and (2) the effectiveness of other mechanisms established to prevent errors and to update its property inventory as changes occur. 224
23. State Printing. Recommend the department report to the fiscal committees, prior to budget hearings, regarding expected savings in the budget year as a result of Ch 1503/82 (AB 2561). 225
24. ***State Contracts Register. Reduce Item 1760-001-666 by $83,000.*** Recommend an increase in subscription rates to help cover publishing costs of the Contract Register. 226

GENERAL PROGRAM STATEMENT

The Department of General Services was established to increase the overall efficiency and economy of state government operations by (1) providing support services on a centralized basis to operating departments at a lower cost than what these departments otherwise would have to pay if they attempted to secure these services on their own, (2) performing management and support functions as assigned by the Governor and as specified by statute, and (3) establishing and enforcing statewide standards, policies and procedures.

The department provides these services through two major programs: property management services and statewide support services.

The department has authorization for approximately 4,144 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $278,092,000 from various funds to support activities of the Department of General Services in 1983–84. This is $18,698,000, or 7.2 percent, more than estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefits increase approved for the budget year.

Table 1 presents a summary of total department expenditures, by source of funds, for the three-year period ending with fiscal year 1983–84.

The department is funded by direct support appropriations and revolving fund appropriations. Direct support refers to monies appropriated specifically to support General Services' operations. Revolving Fund appropriations permit the department to expend specified amounts from revenues it earns by providing services and products to customer agencies. Table 1 shows that 85.5 percent of the department's costs are supported from revenues earned, while 14.5 percent are funded by direct support. Included in direct support is $100,000 in federal funds.

Total expenditures proposed for the budget year include $4,744,000 from the General Fund for direct support of departmental activities. This is an increase of $186,000, or 4.1 percent, over current-year expenditures. The department's General Fund appropriation pays for maintenance and security for the Capitol complex, support of the Small and Minority Business Procurement Assistance Division, and a small portion of the local assistance program.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 1
Department of General Services
Total Expenditures by Source of Funds
1981–82 to 1983–84
(in thousands)

Source of Funds	*Actual 1981–82*	*Estimated 1982–83* [a]	*Proposed 1983–84*	*Percent of Total*
Direct Support:				
General Fund	$19,049	$32,292	$36,241	13.0%
Architecture Public Building Fund	1,609	988	1,075	0.4
State School Building Aid Fund	717	883	617	0.2
Seismic Gas Valve Certification Fund	—	16	65	—
State School Building Lease Purchase Fund	1,018	837	1,065	0.4
State School Deferred Maintenance Fund	148	185	193	0.1
Energy and Resources Fund	900	941	1,028	0.4
Fair and Exposition Fund	—	30	—	—
Federal Trust Fund	26	100	100	—
Subtotals, Direct Support	$23,467	$36,272	$40,384	14.5%
Revolving Funds:				
Architecture Revolving Fund	$9,732	$9,582	$10,134	3.6%
Service Revolving Fund, Miscellaneous	158,698	176,903	189,299	68.1
Service Revolving Fund, Printing	31,859	36,637	38,275	13.8
Subtotals, Revolving Funds	$200,289	$223,122	$237,708	85.5%
Total Expenditures	$223,756	$259,394	$278,092	100.0%
Less:				
Federal Trust Fund	$26	$100	$100	—
Total State Funds	$223,730	$259,294	$277,992	—

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

Table 2 identifies the allocation of staff among department functions over the three-year period ending June 30, 1984. As the table indicates, 4142.4 personnel-years are proposed for the budget year—a net decrease of 1.4 personnel years below the current-year level.

The department proposes to add (a) 14 positions for the state police to provide security at the new Santa Rosa and Van Nuys state buildings and to provide protection to the State Controller, (b) 24.1 maintenance positions for the new state buildings in Santa Rosa and Sacramento and (c) 2 positions to review the installation of and provision of state reimbursements for emergency telephone number ("911") systems, (d) 1 position for new parking facilities and (e) 2 positions (supplemented by the redirection of 2 positions) for the Energy Assessment Program. The department proposes to reduce the number of positions assigned to the Office of Local Assistance, Real Estate, Architectural Consulting and Construction Services, Insurance and the Printing Plant, because of decreasing workloads. The department also proposes the reduction of six attorney and support staff positions, as part of the administration's policy to centralize the provision of legal services, and the reduction of six radio maintenance positions which are related to equipment purchases that, contrary to expectations, will not be made in the 1982–83 fiscal year.

Table 3 presents total expenditures, by program elements, during the three-year period ending June 30, 1984.

Table 2
Department of General Services
Staff by Programs
1981–82 through 1983–84

Operating Unit	*Filled Positions 1981–82*	*Authorized Positions 1982–83*	*Requested Positions 1983–84*	*Percent of Total*
1. Property Management Service	1,676.2	1,757.9	1,776.5	42.9%
a. Architectural consulting and construction	285.7	282.9	281.9	
b. Buildings & grounds	1,179.9	1,271.1	1,293.1	
c. Facilities planning and development	13.2	13.0	13.0	
d. Local assistance	57.5	49.5	47.1	
e. Real estate services	74.5	67.6	67.6	
f. Space management	65.4	66.8	66.8	
g. Building Standards	—	7.0	7.0	
2. Statewide Support Services	2,077.3	2,233.7	2,213.7	53.4
a. Administrative hearings	70.8	74.5	74.5	
b. Communications	282.9	312.4	308.3	
c. Fleet administration	148.7	148.5	148.5	
d. Insurance services	19.5	19.8	18.8	
e. Legal services	18.8	19.2	13.3	
f. Management services office	261.4	270.1	270.1	
g. Office services	204.8	212.4	212.4	
h. Procurement	212.5	206.9	206.9	
i. Records management	30.5	38.2	38.2	
j. State Police	294.9	379.0	385.0	
k. State Printing	512.5	532.3	517.3	
l. Small and minority business assistance	20.0	20.4	20.4	
3. Administration	148.0	152.2	152.2	3.7
a. Executive	32.2	31.8	31.8	
b. Administrative support and services	82.5	88.5	88.5	
c. Program and compliance evaluation	33.3	31.9	31.9	
Totals	3,901.5	4,143.8	4,142.4	100%
Percent Change		6.2%	—	

Table 3
Department of General Services
Total Expenditure by Program
1981–82 to 1983–84
(in thousands)

Program	*Total 1981–82*	*Estimated 1982–83*[a]	*Proposed 1983–84*	*Difference 1983–84 from 1982–83*
1. Property Management Services				
a. Architectural consulting/construction	$13,788	$13,918	$14,770	$852
b. Buildings and grounds	36,026	40,870	43,225	2,355
c. Building rental	30,947	32,709	37,011	4,302
d. Facilities planning and development	599	599	630	31
e. Local assistance	1,949	1,948	1,920	−28
f. Real estate services	5,105	4,940	5,125	185
g. Space management	3,008	3,028	3,100	72
h. Building standards	—	377	398	21
Totals, Property Management Services	$91,422	$98,389	$106,179	$7,790

DEPARTMENT OF GENERAL SERVICES—Continued

2. Statewide Support Services				
a. Administrative hearings	$3,745	$4,004	$4,179	$175
b. Communications	35,739	38,830	41,601	2,771
c. Fleet administration	19,318	21,722	21,846	124
d. Insurance services	4,991	7,217	7,737	520
e. Legal services	928	973	724	−249
f. Management services	8,775	9,456	10,256	800
g. Office services	9,684	10,894	11,542	648
h. Procurement	28,682	30,376	32,318	1,942
i. Records management	1,349	1,703	1,722	19
j. State Police	11,268	12,460	13,374	914
k. State printing	31,859	36,637	38,275	1,638
l. Small and minority business assist.	829	932	978	46
Totals, Statewide Support	$157,167	$175,204	$184,552	$9,348
3. Administration				
a. Executive	$1,955	$2,037	$2,205	$168
b. Administrative support and services	2,464	2,540	2,671	131
c. Program and compliance evaluation	1,377	1,354	1,409	55
Totals, Administration	$5,796	$5,931	$6,285	$354
4. Emergency Telephone	$4,538	$16,959	$20,803	$3,844
Subtotals	$258,923	$296,483	$317,819	$21,336
Distribution of Intrafund Transfers	−35,167	−37,089	−39,727	−2,638
Total, Net Expenditures	$223,756	$259,394	$278,092	$18,698
Percent increase over previous year		15.9%	7.2%	

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

Table 4 shows the changes reflected in the proposed 1983–84 budget resulting from workload adjustments, cost increases, and program changes. The table shows that workload increases account for about 28 percent of the $18.7 million increase, and adjustments to compensate for the impact of inflation on the prices that the department must pay account for about 74 percent. These increases are partially offset by a $275,000 reduction reflecting proposed program changes.

The proposed $746,000 decrease in General Fund expenditures primarily is due to a reduction in the budget for the Division of Fleet Administration reflecting one-time costs to purchase vehicles in the current year. This reduction is partially offset by increases in costs due to inflation.

Table 4
Department of General Services
Proposed 1983–84 General Fund Budget Changes
(in thousands)

	General Fund	*Special Funds*	*Federal Funds*	*Other Funds*	*Total*	*Percent of Total*
1982–83 Current-year Revised [a]	$5,490	$28,777	$100	$225,027	$259,394	
1. Workload Changes						
a. Police & Security Services	—	—	—	159	159	
b. Microwave Equipment	—	—	—	903	903	
c. Structural Safety, Schools	—	−6	—	6	—	
d. Public Parking Facility	—	79	—	—	79	
e. Building Maintenance	—	—	—	666	666	
f. ATSS Rate Increase	—	—	—	179	179	
g. Emergency Telephone	—	3,937	—	—	3,937	
h. Printing Plant	—	—	—	−597	−597	
i. Local Assistance	—	—	—	−142	−142	

j. Real Estate-State Parks	—	—	—	−16	−16	
k. Energy Assessment Program	—	—	—	54	54	
l. Fairs and Exposition	—	−30	—	—	−30	
Subtotals, Workload Changes	—	$3,980		$1,212	$5,192	27.8
2. Cost Changes						
a. Merit Salary Adjustment	$28	$16	—	$723	$767	
b. Staff Benefits	133	69	—	3,633	3,835	
c. Price Increase	49	631	—	7,186	7,866	
d. Pro Rata	—	143	—	1,170	1,313	
Subtotals, Cost Changes	$210	$859		$12,712	$13,781	73.7
3. Program Changes						
a. Printing Plant-Roof	—	—	—	$500	$500	
b. Printing Plant-Reduce Equipment	—	—	—	−60	−60	
c. Delete one-time vehicle cost	−$932	—	—	—	−932	
d. Radio Maintenance	—	—	—	−220	−220	
e. Delete one-time equipment for new buildings	—	—	—	−124	−124	
f. Adjust for full year cost of building maintenance and police	—	—	—	836	836	
g. Fireranges	−24	—	—	—	−24	
h. Attorney staff	—	—	—	−206	−206	
i. Board of Control Claims	—	—	—	5	5	
j. Seismic Gas Valve Certification	—	$49	—	—	49	
k. Fire Marshal Workload	—	—	—	−99	−99	
Subtotals, Program Changes	−$956	$49	—	$632	−$275	−1.5
Total, Changes	−$746	$4,888	—	$14,556	$18,698	100%
1983–84 Proposed Expenditures	$4,744	$33,665	$100	$239,583	$278,092	

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

1. PROPERTY MANAGEMENT SERVICES

The Property Management Services program consists of eight elements which relate to those operating divisions of the department concerned with ownership, use and regulation of state property. These elements, and the staffing and expenditures proposed for each, are listed in Table 2 and Table 3, respectively.

OFFICE OF STATE ARCHITECT

Architectural Services Workload Undetermined

We withhold recommendation on funds proposed for architectural and engineering services in Items 1760-001-602 and Item 1760-001-666 for the Office of State Architect, pending receipt of additional workload information based on the level of capital outlay expenditures proposed in the Governor's Budget.

The budget includes $10,610,000 for architectural and engineering serv-

DEPARTMENT OF GENERAL SERVICES—Continued

ices to be provided by the Office of State Architect (OSA).

The OSA provides architectural and engineering services to other state agencies in implementing capital outlay construction projects approved by the Legislature. Design services are provided by in-house staff or by consulting architectural/engineering firms engaged by OSA, based on the dollar level and complexity of capital outlay projects included in the Budget Act. In addition, the OSA provides inspection services for all projects assigned to the office.

Table 5 shows the anticipated workload for in-house and consulting design services, as well as for inspection of construction, associated with projects approved in the 1982 Budget Act. The workload estimates were contained in a report submitted by the Director of General Services to the Legislature in August 1982. This report was submitted in response to language included in the 1982 Budget Act.

At the time this *Analysis* was prepared, the Office of State Architect did not have any information on the amount of capital outlay proposed in the budget for 1983–84. Consequently, the office is unable to provide a meaningful projection of the workload in the budget year. Accordingly, we recommend that prior to legislative hearings on the budget, the OSA evaluate the workload associated with all capital outlay projects, including those projects funded in the budget, and provide a new workplan for architectural/engineering and inspection services reflecting this workload.

Table 5
Office of State Architect
Architectural and Engineering Services
Planned Workload—1982–83

	1982–83[a] Positions	1982–83[a] Workload
1. Maximum allowable value of working drawings completed in-house by Budget Act language	—	$52,755,000
2. Construction value of working drawings to be completed in-house	98	$45,200,000
3. Construction value of working drawings to be completed by consultants	20	$120,000,000
4. Construction Inspection Hours	67	115,000 hours
5. Other (Administration, Business Services, etc.)	44	
Total positions needed	229	
Total positions authorized	230	
Proposed reduction	1	

[a] Data per August 1982 report to the Legislature.

A Construction Management Unit is needed in the Office of State Architect

We recommend that the Office of State Architect reorganize available resources in the Consulting Services Section so as to establish a "Construction Management" unit within the office to improve services to client agencies.

The Office of State Architect (OSA) is responsible for acting as the state's representative in construction activities. In recent years, many problems have plagued OSA's execution of capital outlay projects, such as cost overrun and delays. Our analysis indicates the following specific problems:

- There usually is no direct communication between the client agency and the consultant architect assigned to the agency's project. The OSA assigns its own staff to oversee consultants' work, so any client agency communications with the consultant go through OSA. As a result, the client's objectives are often misinterpreted, and projects frequently must be redesigned *at additional cost* in order to meet the client's needs.
- Often the OSA does not respond adequately to the priority or urgency of a particular project requested by a client agency. The OSA staff are not familiar with issues which influence the relative importance of projects needed to meet the programmatic objective of the department.
- OSA's organizational structure does not provide accountability for overexpenditure of project funds. It is difficult to identify responsibility for project budget control.
- OSA's accounting system does not provide adequate information for the OSA managers, making it difficult for them to properly administer the project. (The OSA is installing a new system which should prove beneficial in providing up-to-date information on project expenditures.)

These problems are best illustrated by the new state office building located in Sacramento—the Bateson Building. This project was completed after numerous delays, and experienced major cost overruns. In fact, the contractor requested that the state pay $1.5 million more than what was provided for in the construction contract. In response, the OSA recommended that nearly $1 million in additional compensation be appropriated for the contractor because its review showed that OSA had authorized additional services for which no funds were budgeted. The building was finally occupied more than a year after the target date, and after the cost for the project had increased by about 50 percent over the amount the OSA originally requested.

Recent Improvements. The OSA's performance in renovating the state hospitals generally was better than what it has been on other projects. This $150 million project included alterations to ten state hospitals to provide facilities meeting code requirements for over 8,000 developmentally disabled persons. To ensure completion of the needed renovation by the federally mandated compliance date of July 1982, the OSA engaged the services of a "construction management" (CM) firm. This firm essentially operated as an extension of OSA staff, focusing its efforts on monitoring the progress of consulting architects and contractors assigned to the project. In addition, the CM instituted improvements in the OSA's management practices, for this project, by standardizing procedures, and expediting construction, thereby reducing overall project costs. The renovations were completed by the compliance date, and overall costs stayed within budget. In our judgment, the renovation would not have been completed on schedule and within the amount of funds budgeted if it had not been for the services provided by the CM firm.

Opportunities for Making Further Improvements in OSA Performance. The knowledge gained in administering the state hospital renovation program can be used to further improve OSA services. This can be done by instituting a CM-type unit within the Office of State Architect, rather than by using consultants for individual projects. This would re-

DEPARTMENT OF GENERAL SERVICES—Continued

quire OSA to reorganize its resources so as to bring together those personnel qualified to provide CM-type services. Establishing such a unit would be a departure from the OSA's traditional approach in executing projects. The unit, however, would fill the gap which exists between the client agency and the consulting architect plus provide expertise in construction methods and project scheduling.

In order to maximize the benefits from a CM-type unit, we suggest that

(1) The CM unit be given the responsibility for assuring that the project has the approved scope, stays within budget, and is completed on schedule.

(2) The consulting architect assigned to projects work closely *with the client agency* and OSA staff. This is the only way that communication between the client department and the design architect can be improved.

(3) For major projects, OSA establish a steering committee composed of the architect, the CM staff, the client department and the Department of Finance for the purpose of providing direction and decision-making to expedite the project.

(4) The CM unit must use, to the fullest extent possible, computer scheduling and monitoring of project costs and implementation.

(5) The CM unit give priority to review and verification of estimates provided by consulting architects, and make appropriate recomendations to the steering committee. In the past OSA has not reviewed or verified these estimates on a regular basis.

(6) The CM unit must have personnel with experience in construction techniques and contractor practices.

Several agencies, including the University of California and the Department of Corrections, are implementing the CM technique for their major projects. In our judgment, the Office of State Architect could improve services to its client agencies if it implemented this process as well. Accordingly, we recommend that the Office of State Architect develop a plan to implement a CM unit to provide this type of service using "in-house" personnel.

Unencumbered Funds Remaining in the Architecture Revolving Fund

We recommend that unencumbered money in the Architecture Revolving Fund be reverted to the funds from which the original appropriations were made, for a savings of $1,674,000.

The *Supplemental Report of the 1977 Budget Act* requires the Department of General Services to report annually to the Joint Legislative Budget Committee on the status of funds in the Architecture Revolving Fund (ARF). The Director of General Services' most recent report (October 22, 1982) details the status of the ARF as of June 30, 1982. The report identifies (1) funds which have been deposited in the ARF and have remained unencumbered for at least three years and (2) funds for projects which have been completed for at least three months.

The Director's report indicates that unencumbered funds ($1,957,000) for 23 projects fall within category (1) above and that the Department of Finance has extended the availability of these funds. Table 6 shows the specific amounts extended by the Department of Finance, as of June 30, 1982. One of these projects having an unencumbered balance of $282,993, involves the construction of a new sewage line at McGrath State Beach. This project is ready for construction, and consequently the unencumbered balance should be retained in the ARF. The remaining amount of unencumbered funds however, is for projects having a surplus contingency from projects where favorable bids were received or for projects which have been deferred for various reasons. These funds total $1,674,000.

Given the fiscal problems currently facing the state, we see no reason why these unencumbered funds should be retained in the ARF. Consequently, we recommend that these funds, which have been available for at least three and one-half years, but have not been used, be reverted to the funds from which the original appropriations were made. This would have the advantage of increasing the amount available for appropriation by the Legislature. Reversion of all funds identified in Table 6 would increase the amount available for appropriation from the General Fund by $1,587,000, and the amount available for appropriation from special funds by $87,000. These amounts could be used by the Legislature to fund other priority needs.

Table 6
Architecture Revolving Fund
Unencumbered Funds Extended by Department of Finance
(in thousands)

Fund	*Number of Projects*	*Amount (as of 6/30/82)*
General Fund	18	$1,587,000
General Fund, Special Account for Capital Outlay	1	61,000
State Transportation Fund, Motor Vehicle Account	3	26,000
Subtotals	22	$1,674,000
Collier Park Preservation Fund (State Parks and Recreation Fund)	1	283,000
Totals	23	$1,957,000

BUILDINGS AND GROUNDS DIVISION

Utilities Savings from Gasification Plant Not Reflected in Budget

We recommend that Item 1760-001-666 be reduced by $560,000 to reflect utility savings to be realized by operation of the new gasification plant in Sacramento. We further recommend that Budget Bill language be included in this item requiring DGS to report (1) any augmentations for utility expenditures and (2) the actual cost and savings attributable to the gasification plant based on its first year of operation.

The 1978 and 1979 Budget Acts appropriated a total of $3.3 million for construction of a gasification plant adjacent to the central heating and cooling plant in Sacramento. The plant will produce low-quality gas by burning tree trimmings, woodchips or other solid waste material.

Construction began in August of 1981, and to date the administration has approved augmentations to the project of over $600,000 indicating a new total project cost of $3.9 million. The plant is anticipated to be completed in March 1983.

The project was justified to the Legislature on the basis that once in operation, the plant would replace 55 percent of the natural gas used in the central plant, and thus allow the state to reduce its purchase of natural gas by one million therms per year.

Our review of the budget for the Buildings and Grounds Division—which operates the central heating plant—indicates that the savings at-

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tributable to the gasification plant have not been reflected in the utility budget. Given the department's savings estimate of one million therms, of natural gas, there should be a savings in the budget year of $560,000 (based on the current price of 56 cents per therm for natural gas). Accordingly, we recommend that the department's utility budget be reduced by this amount.

So that the Legislature can evaluate the success of this project, the department should determine the actual utility savings and additional operating costs that can be attributed to the gasification plant, and report its finding to the appropriate committees. Further, to the extent that savings fall short of the department's estimate, the department should report any supplemental allocations made to the DGS utility budget. Accordingly, we recommend that the following Budget Bill language be adopted under Item 1760-001-666.

"Provided that prior to allocation of any additional funds for utility expenditures, the Department of Finance shall report the need for such allocation pursuant to Section 28.00 of this act. By March 1, 1984, the Department of General Services shall report to the chairmen of the fiscal committees and the Chairman of the Joint Legislative Budget Committee on the actual costs and savings attributable to operation of the gasification plant."

Special Repairs Deferral Would Increase General Funds

We recommend that $80,000 budgeted in Item 1760-001-666 for four special repair projects be deleted because these projects are not critical and deferral will increase the amount available in the General Fund.

The budget includes $571,000 for 19 special repair projects at various buildings operated by the Buildings and Grounds Division. Six projects would repair roofs and windows which are leaking, three projects pertain to correction of electrical deficiencies, and six projects would repair or replace heating and ventilation system components.

Our analysis indicates that four proposed projects do not involve essential repairs. While these projects may be desirable, they could be deferred until the states fiscal situation improves. The four projects are as follows:

- $36,000 for new flooring in the San Francisco State Building. The project would replace all floor covering in hallways and lobbies because matching floor covering is not available when minor repairs are necessary.
- $26,000 to clean and regrout wall terrazzo in the San Francisco State Office Building. The project would simply improve the appearance of the front lobby.
- $9,000 to replace 120 thermostats in Sacramento state office buildings. This is a phased replacement program started in 1975. Deferral of this phase should cause no hardship.
- $9,000 to replace sidewalks. This is an ongoing maintenance effort with no specific projects identified. If critical projects arise, recurring maintenance funds can be used to do needed work.

Deferral of these projects would reduce maintenance costs charged to the Building Rental Account, and thus would increase the amount available for transfer to the General Fund. Accordingly, we recommend deletion of the four proposed projects, for a reduction of $80,000.

Maintenance and Security Requirements for Governor's Residence Uncertain

We withhold recommendation on $488,000 budgeted in Item 1760-001-001 for maintenance and security for 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 $65,000 from the General Fund for maintenance and $423,000 for police services for the Governor's residence. This amount is based on the costs to the department for providing police services and maintaining both the space at 1400 N Street used by the previous Governor as a residence, and the vacant residence in Carmichael.

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 $488,000 requested for maintenance and security of 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.

BUILDING RENTAL ACCOUNT

Purpose of the Building Rental Account

All rental receipts from agencies housed in office buildings under the Department of General Service's jurisdiction are deposited in the Service Revolving Fund, Building Rental Account. The account was created in 1972 when the department instituted a standard rental rate. Prior to 1972, building rent varied, depending on the method of financing used for construction of the building. For example, agencies located in buildings financed by the General Fund paid for space at a rate that was sufficient to recover maintenance and operation costs only. Agencies located in the Resources Building, which was financed through the issuance of debt instruments, were charged a rate sufficient to recover maintainance, operation *and* debt service.

Under the current policy, any balance remaining in the Building Rental Account after the payment of rent (debt service) and the cost of maintaining, operating, and insuring building space, is credited to the General Fund.

Current Status of the Account. Several state office buildings recently have been completed and occupied. These buildings, which were financed either by the General Fund or the Special Account for Capital Outlay, will add approximately one million square feet to the 3.8 million square feet of office space currently administered through the Building Rental Account. As a result, rental charges in 1983–84 will generate reve-

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nue totaling $37.9 million. Expenditures budgeted (excluding those from the General Fund) from the account include (a) $32.1 million for maintenance and operation costs provided by the Building and Grounds Division, (b) $1.9 million for debt service on buildings originally constructed through the issuance of certificates, (c) $0.3 million for General Fund interest and depreciation, and (d) $2.1 million in miscellaneous costs. The planned total expenditure of $36.4 million indicates that there will be a surplus balance of $1.5 million available in this account on June 30, 1984.

Inappropriate Charges to the Account

We recommend that costs charged to the Building Rental Account in the Service Revolving Fund be reduced by $1,991,000, which will increase General Fund revenues by a like amount. In addition, we withhold recommendation on $92,000 budgeted for fire insurance, pending submission and review of cost-benefit analyses covering the purchase of such insurance for state office buildings.

Our analysis of the Building Rental Account indicates that the department has inappropriately charged the account for certain costs. These costs are not among those allowed by the Government Code: debt service, maintenance, operations and insurance. Table 7 shows the various miscellaneous and overhead charges which the department allocates to the Building Rental Account. As Table 7 indicates, the combined charges have increased 232 percent during the past four years. In contrast, the rental rate has increased only 23 percent. Our analyses of the specific miscellaneous/overhead charges are summarized below.

Table 7
Department of General Services
Building Rental Account
Miscellaneous/Overhead Charges
1979–80 to 1983–84
(in thousands)

Charge	*1979–80*	*1980–81*	*1981–82*	*1982–83*	*Proposed 1983–84*	*Percent Increase Since 1979–80*	*Analyst's Proposal*
1. Statewide Pro rata (Central Administrative Services)	$4	$2	$175	$188	$251	6,175%	—
2. Departmental Overhead	165	695	785	874	974	490%	—
3. Space Management	113	166	247	307	267	136%	—
4. Facilities Planning	294	394	395	420	449	53%	—
5. Insurance	53	53	53	97	100	89%	pending
6. Handicapped Compliance	—	—	—	50	50	—	—
Totals	$629	$1,310	$1,655	$1,936	$2,091	232%	pending
Total Rental Rate—sf/mo	$0.57	$0.63	$0.65	$0.68	$0.70	23%	

Statewide Pro Rata (Central Administrative Services) ($251,000). This charge represents a portion of the amount assessed to the Department of General Services for General Fund service agencies such as the Department of Finance and the State Personnel Board. The department's assessment for 1983–84 is $6,561,000. The amount distributed by the department to this account has varied from a low of $2,000 in 1980–81 to a high of $251,000 in 1983–84.

Our analysis indicates that statewide pro rata charges totaling over $1 million are already included in most of the charges to the account including the $32.7 million in maintenance and operation charges from the Buildings and Grounds Division. In fact, the pro rata charge to the Public Building Construction Fund (which is the fund where most of the account's debt service is deposited) is listed by the Department of Finance as having a $4,234 *credit* for past overcharges for statewide pro rata.

Consequently, the $251,000 charge represents a "double charge" for statewide pro rata.

Departmental Overhead ($974,000). This charge represents the Building Rental Account's share of the department's overhead costs (accounting, budget and executive). The department indicates that this charge is allocated to the divisions to reflect the proportion of the department's total budget accounted for by each division.

This departmental overhead charge to the Building Rental Account duplicates other charges to the account. For example, the Buildings and Grounds Division is assessed $1,125,000 for departmental overhead, and this assessment is included in the division's billings for maintaining and operating the buildings. Consequently, direct billing of departmental overhead to the Building Rental Account constitutes a double charge for departmental overhead.

Space Management Division ($267,000). The Space Management Division maintains a major projects unit which is responsible for planning space in new state office buildings. The department estimates that in 1983–84 this unit will charge the account approximately $267,000 to fund planning activities related to various major capital outlay and lease/purchase projects. These charges do not constitute debt service, maintenance, operation or insurance of building space, and consequently do not represent an appropriate charge to the Building Rental Account as specified in the Government Code. Accordingly we recommend deletion of the funds. In our analysis of the Space Management Division's budget, we recomend an alternative funding source for this work.

Facilities Planning ($449,000). The Facilities Planning and Development Division of the Department of General Services is charged with evaluating facility needs for all state agencies on a statewide basis. It periodically prepares and updates facilities plans for various state agencies in metropolitan areas throughout California.

This activity is also not consistent with defined allowable charges to the Building Rental Account. This function, however, is an appropriate one for the Department of General Services to perform, and in our analysis of the Facilities Planning and Development Division, we recommend an alternative funding source for this work.

Insurance ($100,000). The budget includes $100,000 for the purchase of fire insurance for various buildings under DGS jurisdiction. In our analysis of the Insurance Office, we have recommended that as a matter of policy, property insurance should be purchased by the state only where there is a contractual obligation or where cost-benefit analyses indicate that it is economically advantageous to do so. Of the amount budgeted for insurance, $8,000 relates to contractual obligations in connection with the financing of three buildings. The remaining $92,000 relates to discretionary policies for which cost-benefit analyses are needed. Pending development of such analyses by the Insurance Office, we withhold recommendation on the remaining $92,000 budgeted for fire insurance.

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Handicapped Compliance ($50,000). This charge is related to an interagency agreement between DGS and the State and Consumer Services Agency, Office of Statewide Compliance Coordination. Under this interagency agreement, the agency secretary's office is to provide training services to DGS personnel regarding federal and state compliance requirements and to provide appropriate "sensitivity awareness" about the unique issues and needs of disabled persons. The agency also is to provide technical services and advice on compliance issues.

Our analysis indicates that the services provided by the agency do not constitute an appropriate charge to the Building Rental Account. These services should be charged to the respective divisions of General Services which will be receiving the training and technical assistance concerning disabled program compliance.

Control Section Needed to Capture Additional General Fund Revenue. Our recommended reductions to the amount budgeted from the Building Rental Account total $1,991,000. Because DGS rates will accumulate the revenues planned to cover these expenditures, this reduction will increase the surplus in the account. Because the surplus in this account at the end of the fiscal year reverts to the General Fund, approval of our recommended reductions would increase revenue to the General Fund by $1,991,000. Alternatively, the excess revenues could be reverted to General Fund early in 1983–84 so as to give the Legislature more fiscal flexibility during the year. (Adequate funds to make this transfer prior to June 30, 1984 will be available in the Service Revolving Fund.) To provide the Legislature with this flexibility, we recommend adoption of the following control section:

> "On the effective date of this act, the State Controller shall transfer $1,991,000 from the Service Revolving Fund to the General Fund as a reversion of savings pursuant to Section 16422 of the Government Code."

OFFICE OF FACILITIES PLANNING AND DEVELOPMENT

Planning Functions Not Properly Funded

We recommend that Item 1760-001-666 be increased by $400,000, and that the office place a surcharge on the rental payments made by agencies in leased space to fund the cost of its planning activities, since there is a direct relationship between the scope of these activities and the amount of space the state leases.

The Office of Facilities Planning and Development is responsible for determining the future space requirements of all state agencies, and for developing plans and formulating recommendations to meet those needs. The office prepares and updates plans for metropolitan areas and the Capital Area, and compiles an annual summary of the state construction program.

The budget proposes to fund this work with proceeds from the Building Rental Account, Service Revolving Fund. As indicated in our analysis of the Building Rental Account, however, the Government Code limits the expenditure of rent proceeds from state-owned space to debt service, maintenance, operations and insurance of building space. Consequently, charging the account for the office's planning efforts is inappropriate.

The primary goal of the office's planning function is to achieve statewide economies by reducing the amount of space leased by the state through the consolidation of state functions in state-owned space. Thus, the scope of the planning effort bears a direct relationship to the amount of leased space the state occupies. Consequently, we believe it would be reasonable for the office to finance this effort by imposing a surcharge on lease payments.

Our analysis indicates that while $449,000 is included in the Building Rental Account budget for planning activites, the office has identified only approximately $400,000 in proposed charges against the account. Based on the current statewide lease cost, a 0.5 percent surcharge on the rental payments made by agencies in leased space would recover this amount.

In summary, we recommend that the department add a 0.5 percent surcharge to each lease payment, and that Item 1760-001-666 be increased by $400,000 to allow expenditure of these funds to support the office's identified planning activities. In our analysis of the Building Rental Account, we have recommended that the $449,000 budgeted for this same purpose be deleted, for a corresponding increase in General Fund revenues.

REAL ESTATE SERVICES DIVISION

Work Plan Needed for budget Year Activities

We recommend that prior to legislative hearings on the budget, the department provide a workload projection for the Real Estate Services Division during the budget year. Pending submission and review of this work plan, we withhold recommendation on the proposed reduction of 9.5 positions and $327,000 related to property acquisition activities.

We further recommend that the Legislature adopt supplemental report language requiring the department to prepare annually a work plan and submit a report to the Legislature on the changes to the work plan resulting from legislative and administrative action on the Budget Bill.

The Real Estate Services Division (RESD) is responsible for (1) acting as the state's agent in acquiring property for most state agencies, (2) identifying surplus state property and conducting sales to dispose of such property, and (3) managing state property which has been acquired but not transferred to the owning department.

The division recovers its costs for these activities through an hourly billing system covering staff time devoted to individual projects. For acquisition projects, staff time is billed directly to capital outlay appropriations. Sales and property management expenses are covered from the sale of the surplus property and by leasing property managed by the division. These is no limit on the amount that RESD may charge for its administrative activities.

Through 1982–83, revenues from property management activities were continuously appropriated to the department by Section 15863 of the Government Code. Section 13340 of the Government Code however, eliminated many continuous appropriations, including this one, effective July 1, 1983. As a result these funds must be appropriated in the Budget Bill.

No Workload Plan. The RESD property acquisition workload in any fiscal year is dependent on the number and complexity of acquisition projects carried over from prior years and those funded in the annual budget. The balance of the division's workload is determined by a combination of surplus property inventory and the inventory of properties which have been acquired but not transferred to the owning agency.

The division, however, does not prepare an overall workload plan to assess the need for specific projects or services in the budget year. Accord-

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ingly, we are unable to analyze the appropriate level of staffing for the division, or determine the impact of deleting 9.5 positions as proposed in the budget. So that the Legislature may assess the department's needs, a workload plan for 1983–84 should be developed by the department and made available for review prior to legislative budget hearings. We withhold recommendation on the staff reductions proposed in the budget, pending receipt and review of this plan.

Annual Workload Plan Needed. The Legislature needs an overall workload plan—similar to the annual plan developed by the Office of State Architect for construction projects—in order to:

- determine the appropriate staffing requirements for the division.
- review the priorities assigned by the department to various projects.
- identify the impact of legislative and administrative changes in the final budget so that staffing adjustments can be monitored to ensure that resources are consistent with projected workload.
- measure the division's progress in implementing the overall program approved by the Legislature. At the present time there is no means of determining if the division has either undertaken or completed the number of acquisitions that were anticipated when it submitted justification for its proposed staffing level.

To fulfill this need, we recommend that the Legislature adopt budget language requiring RESD to submit (1) by March 1 a workload plan consistent with capital expenditures proposed for the budget and (2) by September 1 a report to the Legislature detailing a workload plan reflecting the budget as enacted. Specifically, we recommend adoption of the following supplemental report language under Item 1760-001-666:

"Prior to March 1 of each year, the Department of General Services shall submit a report to the chairmen of the fiscal committees, and the Chairman of the Joint Legislative Budget Committee, which indicates the anticipated workload for the Real Estate Services Division based on the proposed budget and prior appropriations. Prior to September 1 of each year, the department shall submit a similar report which shows the anticipated workload based on the final budget."

General Fund Subsidy of Real Estate Sales to Governmental Agencies

We recommend that legislation be enacted requiring that governmental agencies which acquire state surplus land reimburse the Real Estate Services Division for all costs related to interim management and sale of the property conveyed to them.

The Real Estate Services Division is responsible for compiling a list of suspect state surplus property and recommending the enactment of legislation authorizing the sale of these surplus properties.

The Government Code allows the Director of General Services to convey property which has been declared surplus by the state to other governmental agencies at less than market value when the Director determines that this action is in the best interest of the state. In some cases, property can be transferred at no cost to the receiving agency.

In recent years, state surplus property has been conveyed to local agencies to provide low cost housing and open-space parklands. In addition, the School for the Blind and Deaf in Berkeley recently was transferred to the University of California for open space and housing.

The financial statements prepared by the Department of General Services reveal that in some cases where property has been conveyed to governmental agencies, the proceeds from the sale have been less than the costs to the division of conducting the sale and arranging for the conveyance to the purchaser. When this happens, RESD must cover its losses using revenues received from leasing other state properties under its jurisdiction.

Were it not for the need to underwrite these losses, the revenues from the department's leasing activity would be available to the General Fund. Consequently, to the extent that RESD does not cover its costs in selling surplus property to governmental agencies, the General Fund is, in effect, providing a subsidy to the agency receiving the property.

The sale of the School for the Blind and Deaf at Berkeley is a case in point. RESD spent $250,000 in managing this property once it was declared surplus by the Department of Education. This amount included approximately $130,000 for police services to protect the property. Thus, not only did the state convey to the University of California, *at no cost,* property having an estimated value exceeding $10 million, it also subsidized the transfer of property, using resources from the General Fund, to the extent of approximately $250,000.

To avoid this type of hidden subsidy in the future, we recommend that legislation be enacted requiring any governmental agency which receives state surplus property at less than market value, to pay all net management and administration costs incurred by the RESD in connection with the transfer.

Public Works Board Support Belongs in Department of Finance

We recommend that funding for all administrative staff assigned to the State Public Works Board be deleted from the Real Estate Services Division because this responsibility should be consolidated in the Department of Finance for a savings of $20,000.

The powers and duties of the State Public Works Board are defined in Government Code Section 15752 et seq. The board consists of three voting members—the Directors of Finance, Transportation and General Services. Six legislative members act as advisors to the board but do not vote. The board's duties include determining if and when acquisitions, construction, capital improvements and the purchase of equipment shall be undertaken.

Control Section 8.00 of previous Budget Acts requires that each month, prior to the board meeting, the Department of Finance submit a letter to the chairperson of each fiscal committee, the Chairperson of the Joint Legislative Budget Committee and the legislative members of the board certifying that the projects included on the board's agenda adhere to legislatively-approved scope and cost. If the Department of Finance approves changes to legislatively-approved scope and cost, Section 8.00 requires the department to indicate the changes and associated cost implications in its letter.

The provisions of this control section are included in Section 44 of the companion bill to the Budget Bill.

Staff Changes Needed. The chairperson of the board is the Director of Finance. Currently, however, the secretary to the board is located in the Real Estate Services Division. It seems logical that staff to the board be directly responsible to the chairperson. This would suggest consolidating staff to the board in the Department of Finance. Moreover, the Department of Finance is the administration's fiscal control agency, and the

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responsibility for the Public Works Board agenda and cost controls should rest entirely with it.

Another problem with the current arrangement is that property acquisition projects are placed on the board's agenda by Real Estate Services Division without being reviewed or approved by the Department of Finance. All construction-related items however, are reviewed and placed on the agenda by Department of Finance staff. This results in dual standards being applied to state capital outlay projects. It also assigns to the Real Estate Services Division a responsibility which it is not equipped to handle. The division is a service organization which provides expertise in the purchase/selling of real estate. The policy and cost implications of proceeding with an acquisition project go beyond its area of expertise. These matters more properly fall within the Department of Finance's area of expertise.

For these reasons, we recommend that the responsibility for Public Works Board staff support be assigned exclusively to the Department of Finance, and that $20,000 included in RESD budget for support of the board be deleted. The existing capital outlay budget staff at the Department of Finance should be able to absorb this workload, and consequently no additional staff should be needed. Thus, this recommendation would result in savings amounting to $20,000.

SPACE MANAGEMENT DIVISION

Major Projects Unit

We recommend that (1) $119,000 be added to Items 1760-001-666 and 1760-301-036 to fund space planning activities for four new state buildings, and (2) planning funds be denied for one project which has planning funds available in the current year.

Further, we recommend that legislation be enacted requiring lease-purchase and lease-with-option-to-purchase agreements to obtain legislative approval before they are signed.

We withhold recommendation on planning funds for two projects pending review of (1) criteria used by the department to determine financing mechanisms for building projects and (2) the reason for cost differentials between lease-purchase and capital outlay.

The major projects unit of the Space Management Division is responsible for programming and planning space in new state office buildings. The costs associated with these activities are recovered by billing client agencies, imposing charges against capital outlay appropriations, or charging the Building Rental Account in cases where no appropriation or single client is involved. The estimated workload of the unit and proposed source of funds for its activities in 1983–84 are shown in Table 8.

As indicated earlier in this analysis, rent proceeds from state-owned space may be used only for four purposes: rental payments, maintenance, operations or insurance of building space. The cost of space planning for new office buildings can not be charged to the account, and we recommended that the $267,000 budgeted from the account to cover such charges be deleted.

Table 8
Space Management Division
Major Projects Unit
1983–84 Workload Estimate

Project	*Hours Budgeted*	*Total Charges*	*Charges to Clients/ Appropriations*	*Proposed Charges to Building Rental Account*	*Recommended SAFCO Appropriation*
Van Nuys Office Building	309	$14,300	—	$14,300	$14,000
New San Francisco Office Building	163	7,500	—	7,500	8,000
Site 1D, Sacramento	275	12,700	—	12,700	pending
Site 4, Sacramento	1,530	70,800	$9,300	61,500	—
Site 5, Sacramento	529	24,500	5,600	18,900	pending
San Francisco Office Building, Backfill	1,300	60,200	60,200	—	—
Franchise Tax Board Facility, Sacramento	1,825	84,500	—	84,500	85,000
New Los Angeles Office Building	2,819	130,500	118,500	12,000	12,000
State Teachers Retirement System Building	200	9,300	9,300	—	—
Totals	8,950	$414,300	$202,900	$211,400	pending

The division has identified seven projects for the budget year involving charges of $211,000 that the budget funds from the Building Rental Account. There is no identified workload for the remaining $56,000 in charges. Our analysis and recommendations concerning funding for the seven identified projects follow.

Projects Recommended for SAFCO Funding. Four of the projects proposed for funding from the Building Rental Account previously have been approved by the Legislature or are proceeding using the authority granted to the Director of General Services by Section 14669 of the Government Code:

1. The *Van Nuys office building* was funded by the Legislature through capital outlay appropriations in previous budget acts. Funds are requested to finish space planning activities.
2. Plans and specifications for the *new San Francisco office building* were developed with funds from capital outlay appropriations. In the 1982 Budget Act, the Legislature authorized the formation of a joint powers authority to fund construction of the building.
3. The development of the *new Los Angeles building* is proceeding under a joint powers authority authorized by the 1981 Budget Act. Funds for schematic plans were appropriated by the Legislature in 1980–81.
4. Work on phase one of the *new Franchise Tax Board facility* is proceeding under the authority of Section 14669 of the Government Code. The Director is planning to enter into a lease purchase agreement for a 466,000 gross square foot building on a 50-acre site in Sacramento, at an annual rental of $4.2 million.

In these four cases, space planning funds are justified so that work can be concluded on projects in progress. Because these are construction projects which involve the state, the Special Account for Capital Outlay (SAFCO) is an appropriate source of funds. Consequently we recommend that Item 1760-301-036, Department of General Services, capital outlay, be amended to include the following appropriation:

(d) Statewide—Space Planning $119,000

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1. Van Nuys Office Building	$14,000
2. New San Francisco Office Building	8,000
3. Franchise Tax Board Facility	85,000
4. New Los Angeles Office Building	12,000

Item 1760-001-666 should be increased by the same amount to allow the division to expend the funds.

Project with Current Year Funding. The division is requesting authority to expend $61,500 from the Building Rental Account to finance space planning for a new office building on Site 4 in Sacramento. The 1982 Budget Act included $1.4 million for preliminary plans and working drawings for this building. The 1982 appropriation should be adequate to fund the proposed planning activity. Consequently, there should be no need for additional planning funds in the budget year. We recommend that the request for an additional $61,500 be denied.

Proposed Lease-Purchase Projects. The division is requesting funds to do space planning for two additional office building projects (Site 1D and Site 5) in Sacramento. The budget does not state how the construction of these buildings will be financed. We assume that, since no capital outlay funds are proposed in the budget, the Director is proceeding under the authority granted by Section 14669 of the Government Code.

In the long run, it is more economical for state agencies to occupy state-owned buildings rather than lease privately-owned space. Moreover, it should be more economical for the state to construct its own buildings than to acquire buildings through lease-purchase or lease-with-purchase-option agreements.

In recent years, the department has chosen to obtain additional office space through lease-purchase or lease-with-a-purchase-option agreements, rather than through capital outlay. It is not clear on what basis the department decides which method should be used in individual cases. So that the Legislature can oversee the department's process in acquiring needed office space, the department should provide the Legislature with the criteria it uses to determine whether buildings will be acquired through lease-purchase-type agreements or capital outlay.

Another area in which further clarification is needed involves the *cost* of obtaining space through lease-purchase-type agreements relative to the cost of direct construction by the state. The department's information regarding the proposed Franchise Tax Board lease-purchase proposal indicates that the estimated construction cost of the facility is significantly less than the State Architect's estimate of what it would cost the state to construct a similar building. Given this disparity, it appears that the department has two sets of building standards—one for state-constructed and one for privately constructed facilities. Apparently, the department is willing to accept less costly construction alternatives if the building is acquired through lease-purchase than if it is constructed by the state. In view of this, we recommend that the department also provide the Legislature with a detailed explanation of why there is such a wide variation in these two estimates.

Pending review of this information, we withhold recommendation on the request to fund space planning for Site 1D and Site 5. If these projects are to proceed, planning funds are needed, and the SAFCO would be an appropriate fund source.

Legislature Should Have Budgetary Review of Proposals. Chapter

919, Statutes of 1981 amended the Government Code to permit the Director of General Services to lease-purchase or lease with the option to purchase building space for use by state agencies. The Director is required to solicit written bids and to award the contract to the lowest responsible bidder. The Director may reject all bids if he deems it in the best interest of the state.

This process precludes legislative review of individual projects and their fiscal implications. Existing law requires only that *notification* be given to the *Joint Legislative Budget Committee* and that the agreement be reviewed by the Legislative Analyst. It does not give the *Legislature* itself authority to *approve or disapprove* the proposed agreement. Consequently, Section 14669 of the Government Code effectively removes from the Legislature's direct budgetary control major state commitments and expenditures, and gives this control to the Director of General Services. This seriously limits the Legislature's ability to control expenditures by the state, and therefore limits the Legislature's fiscal flexibility in setting priorities among state needs.

For example, the lease-purchase agreement for the new Franchise Tax Board facility will result in rental and operating costs in excess of $6 million per year, and may lead to a capital outlay expenditure of $40 million to purchase the building in 1986.

The decision to incur the additional rental and operating costs, however, was made by the Director of the Department of General Services, not by the Legislature. Furthermore, this decision will make it difficult *not* to commit the $40 million in the future, since the cost of purchasing the building in 1986 will be less than the discounted present value of continuing to rent the building. Thus, the Legislature may feel that it is "locked in" to a $40 million expenditure that it might not have approved in the first place, if given the choice.

We believe decisions of this type should be made by the *Legislature,* having the benefit of testimony received in public hearings. Consequently, we recommend that legislation be enacted to amend the Government Code so as to require that lease-purchase and lease with option to purchase proposals be approved in advance by the Legislature.

Lease Management Activities

We recommend that two leasing officer positions and $64,000 for personal services be deleted, and that $99,000 be added to operating expenses and equipment under Item 1760-001-666 (a net increase of $35,000) because (1) the proposed expansion in lease management activities would not be cost-effective, and (2) the Fire Marshal has statutory responsibility for fire safety inspection of state occupied space.

The Space Management Division (SMD) is responsible for managing properties leased by the Department of General Services. Lease management activities include ongoing monitoring to assure compliance with lease terms, correcting operations and maintenance problems and calculating rent escalation factors.

The Office of the State Fire Marshal is responsible for assuring that state-leased buildings comply with fire and panic safety regulations. Since 1980–81, the SMD has contracted with the Fire Marshal to conduct inspections and plan reviews of state-leased spaces. The two agencies jointly establish a priority list and inspection schedule, and the Fire Marshal forwards reports of code deficiencies to the SMD. In the current year, the SMD anticipates reimbursing the Fire Marshal $106,000 for services provided by his office.

DEPARTMENT OF GENERAL SERVICES—Continued

Although not explicitly acknowledged in the budget, the department is proposing to discontinue contracting with the Fire Marshal, and instead to use SMD personnel to conduct inspections covering fire and life safety and other control issues in the budget year. Specifically, SMD would use two existing positions to assure that:

- There is compliance with fire safety regulations.
- Handicapped access regulations are not violated by tenant action.
- Energy conservation policies are adhered to by tenant agencies.
- Underutilized space is returned to the lessor or occupied by other agencies.
- Building and mechanical problems are identified and reported for corrective action.

The department indicates that under the program, each office and warehouse location would be inspected once every two years.

We recommend that the proposed change in the department's budget not be approved because:

(1) The Fire Marshal has statutory responsibility for enforcing fire and panic safety regulations in state-leased space.

(2) The remaining goals can be achieved more effectively and efficiently through administrative control and tenant action than through biennial inspections by SMD personnel.

Fire Marshal Responsibilities. Section 13108 of the Health and Safety Code explicitly assigns to the Fire Marshal the responsibility for enforcement of regulations and building standards related to emergency egress and fire and panic safety in all state-leased buildings. No provision is made in the code for transferring this responsibility to other state agencies. Further, in contrast to staff of the Fire Marshal, SMD personnel do not necessarily have the expertise to conduct fire and life safety inspections.

The Fire Marshal contract now in effect would cost approximately $112,000 in the budget year. Information provided by the department indicates that the SMD proposal would cost the Service Revolving Fund $35,000 less, or $77,000. We question whether the work can be accomplished satisfactorily for this amount. The SMD allowed the Fire Marshal $27,000 for travel in the current year, while the department is requesting only $13,000 in the budget year for the same purpose. Moreover, the Fire Marshal contract calls for two Deputy Fire Marshal II positions, while SMD feels it could accomplish the work with lower paid staff.

Efficiencies Through Administrative Actions. The SMD desire to expand its lease management activities is part of the reason it proposes to assume responsibility for fire safety inspections. These activities would be conducted in connection with fire safety inspection visits to state-occupied space.

Our analysis suggests that one visit every two years will not prevent tenants from taking actions which impair handicapped access, energy conservation or the efficient use of space. Furthermore, other alternatives for achieving these goals offer more promise. Specifically, executives of those agencies occupying leased space should take responsibility for ensuring that these statewide goals are met, without the help of SMD personnel. Building problems are generally more easily recognized by the people who occupy the space year-round than by a leasing officer who visits for part of one day. The SMD is a service agency and is not meant to police tenant activities. The SMD should instead concentrate its effort on quick resolution of reported problems.

Consequently, we recommend that $64,000 requested for two leasing officer positions be deleted from Item 1760-001-666, and that a net $99,000 be restored to operating expense under the same item to continue the interagency agreement with the Fire Marshal for timely inspection of state-occupied space. This results in a net increase of $35,000 to Item 1760-001-666.

BUILDING STANDARDS COMMISSION

General Fund Appropriation Not Needed

We recommend a reduction of $177,000 in General Fund support (Item 1760-001-001), and a corresponding increase in Service Revolving Fund support (Item 1760-001-666), for the commission because it should recover total costs from other agencies. We further recommend that prior to budget hearings, the commission report to the Legislature on the fee schedule adopted by the commission for appeals, the workload anticipated from appeals in the budget year, and the impact of the fee revenues on regular agency assessments.

Chapter 1082, Statutes of 1981, amended the Health and Safety Code to require each agency responsible for adopting building standards to reimburse the Building Standards Commission for the agency's proportionate share of the commission's cost to review and publish the standards. The commission is directed to determine each agency's proportional share on the basis of existing and proposed new standards.

Prior to the enactment of Ch 1082/81, the activities of the commission were funded fully from the General Fund.

The commission retained its General Fund appropriation ($174,000) in 1982–83, and credited it against the charges which would have been assessed to agencies with General Fund support. The budget proposes to continue this practice in 1983–84, and requests a $177,000 appropriation from the General Fund which, along with $221,000 in reimbursements, will support the commission.

Table 9 shows those agencies responsible for contributing toward the support of the commission in 1983–84, the proposed allocation of costs, the General Fund credit as calculated by the commission, and the net level of reimbursement. The commission staff indicates that the General Fund credit allocated to each agency is based on the relative proportion of agency General Fund support to total agency expenditures.

The commission's method for determining the allocation of its General Fund appropriation has resulted in the General Fund bearing more than its proportionate share of the commission's cost. For example, the Office of Statewide Health Planning and Development is receiving a $32,000 General Fund credit, while its health facility regulation program is not a General Fund activity. The Occupational Safety and Health Standards Board receives a $65,000 credit against its $99,000 assessment, despite the fact that the program receives 50 percent of its funding from the federal government. On the other hand, General Fund agencies such as the Department of the Youth Authority and the California Community Colleges receive no General Fund credit.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 9
Building Standards Commission
1983–84 Revenue Plan
(in thousands)

Agency	*Allocated Cost*	*Credit from General Fund Appropriation*	*Net Reimbursement Level*
Department of Housing and Community Development	$32	$23	$9
Office of the State Fire Marshal	32	25	7
Office of State Architect	87	—	87
Office of Statewide Health Planning and Development	41	32	9
Department of Health Services	40	32	8
Occupational Safety and Health Standards Board	99	65	34
California Energy Resources and Development Commission	61	—	61
Department of Food and Agriculture	3	—	3
Board of Corrections	0.5	—	0.5
Department of Transportation	0.5	—	0.5
California Community Colleges	0.5	—	0.5
Department of Consumer Affairs	0.5	—	0.5
Department of Education	0.5	—	0.5
Department of the Youth Authority	0.5	—	0.5
Totals	$398	$177	$221

Given the provisions of Ch 1082/82, and the inequities resulting from the commission's allocation of General Fund credits, we see no basis for continuing the General Fund appropriation to the commission. The commission should charge those agencies which adopt building standards the full cost of its review and publication activities. In this way, the appropriate source of funds can be tapped for the needed reimbursements. Consequently, we recommend that $177,000 in General Fund support be deleted (Item 1760-001-001), and that Service Revolving Fund support (Item 1760-001-666) be increased by the same amount.

Fees for Appeals. Chapter 1082, Statutes of 1981, also requires the commission to establish a schedule of fees to pay for the cost of administering and hearing appeals on building standards. The commission staff indicates that no appeals have been filed and no fee schedule has been adopted for future appeals. It is anticipated, however, that some appeals will be filed in the budget year.

The commission's budget proposes to recover all appeal-related costs from the regular assessments on agencies which adopt building standards. That portion of the commission's budget which is attributable to the appeals process should be recovered from appeal fees, rather than through regular assessments. We recommend that, prior to hearings on the Budget Bill, the commission report to the Legislature on its adopted fee schedule for appeals, its anticipated workload in the budget year from appeals, and the reduction in regular assessments which will result from the implementation of the appeals fees.

Legislatively Mandated Publications

The Health and Safety Code requires the Building Standards Commission to publish the (Compiled) State Building Standards Code triennially and various supplements on an annual basis. The building standards (Title 24, California Administrative Code) contains provisions relating to the method of use, properties, performance, and type of materials used in the construction or alteration of buildings, structures, factory-built housing, and other real property improvements. The code comprises the following seven parts:

1. State Building Standards Commission
2. Basic Building Regulations
3. Basic Electrical Regulations
4. Basic Mechanical Regulations
5. Basic Plumbing Regulations
6. Special Building Regulations
7. Elevator Safety Regulations

The code contributes to the public health and safety by requiring reasonable levels of workmanship and materials in construction in the state.

2. STATEWIDE SUPPORT SERVICES

The statewide support services program consists of 12 program elements. Table 3 lists the elements and the expenditures for each over the three-year period ending June 30, 1984.

COMMUNICATIONS DIVISION

Radio Maintenance Function is Overstaffed

We recommend that 39 telecommunications technicians and $1,688,000 be deleted because the department has overestimated radio maintenance workload and set its workload standards too low.

The Communications Division utilizes telecommunications technician positions for the installation, modification, preventive maintenance and repair of radio systems owned by the state, and by a few local agencies. The division's technicians are stationed at radio repair shops located throughout the state.

Telecommunication technicians are required to record on a work ticket the amount of travel and labor time spent for each service call. From this, the Communications Division calculates the average length of time a technician spends to maintain various types of equipment. This average time period is used to measure the efficiency of individual technicians and to determine staffing needs.

The staffing authorization for radio maintenance and installation in 1981–82 and 1982–83 was based upon workload data that was presented in one of the department's 1982–83 budget change proposals. The division developed workload estimates for these years based on past workload data, adjusted for an expected increase in the amount of customer equipment it needed to install and maintain. The division estimated that it would deliver 198,700 hours of labor and travel time in 1981–82, and 203,600 hours in 1982–83. Workload standards, which the department calculates by examining the actual productivity of its technicians in previous years, were set at 1,275 and 1,285 productive hours per technician in 1981–82 and 1982–83, respectively. By applying the workload standards to the projected workload, the department developed staffing estimates which indicated that an additional 21 positions were needed in 1981–82, and that two more technicians would be required in the current year. The Legislature authorized the augmentation, and the current technician staff (including trainee and assistant positions) is the equivalent of 157 full-time positions.

Our analysis indicates that this level of staffing is excessive for the following two reasons:

1. ***Workload is overestimated.*** Although DGS anticipated that workload in 1981–82 would be approximately 198,700 hours, the division's time

DEPARTMENT OF GENERAL SERVICES—Continued

reports indicate that the actual productive (billable) output in 1981–82 was 186,130 hours. This is 12,570 hours, or 6.3 percent, less than the estimate for the division. In addition, our review of the division's *current* year time reports indicate that the actual number of productive hours provided by technicians has decreased. The division recorded 76,144 productive hours during the first five months of 1981–82, whereas the corresponding amount in 1982–83 was 74,727. Consequently, the total number of productive hours during this period was 1,417 hours (1.1 PY, or 2 percent) less than it was in the prior year.

By applying the *same workload standards* and the same procedure used to determine the past and current year level of authorized positions, we calculate that the radio maintenance function is overstated by 11 positions in the current year. The 1983–84 budget proposes to delete 6 of these technician positions because of new operating equipment which was not purchased during the current year. Nevertheless, the 1983–84 budget still includes 5 positions which are not needed on a workload basis.

2. ***Workload standards are too low.*** A comparison of technician productivity in state service and private industry indicates that state workload standards are too low. In order to test whether data on actual state technician productivity (which is the basis of the division's workload standards) reasonably reflects a technician's capabilities, we reviewed the maintenance records kept by DGS and two large radio repair shops located in Sacramento.

We selected 5 types of radio equipment, which are representative of 60 percent of the equipment assigned to the division for service, and compared the average time required by state-employed technicians to repair the radios with the average time required by private-sector technicians. We calculated the average service time required by a technician in private industry by sampling work tickets, which document the technician's actual travel and maintenance time spent to service a radio. Approximately 80 work tickets were sampled for each of the five equipment units. We calculated average maintenance time for state employees by dividing the total number of hours they devoted to each type of equipment by the total number of units that they serviced. The results of our comparison are displayed in Table 10.

Table 10
Average Maintenance Time for Radio Repair
(in hours)

Equipment Unit	*DGS*	*Private Industry*	*Difference*	*Percent*
Mobile radio	5.1	1.2	3.9	76%
Fixed station	9.3	2.8	6.5	70
Handie-Talkie	3.2	1.0	2.2	69
Pager	2.4	1.1	1.3	54
Remote control	6.0	1.4	4.6	77

Our analysis indicates that the average technician employed by the state takes over twice as long as a technician employed by the private sector to provide radio repair service for each of the five types of equipment. Furthermore, as mentioned earlier, the division's current year time report indicates that the actual number of productive hours per technician is *decreasing* in the current year.

We know of no reason why state technicians should have a lower productivity than comparable technicians employed in the private sector. Accordingly, we recommend that the division's current workload standards be adjusted to reflect workload experience in the private sector. By weighting our sample data, we determined that the private sector spends 73 percent less time servicing the five types of equipment than DGS does. Although the five types of equipment listed represent 60 percent of the *number* of units assigned to the division, they represent only 50 percent of the service *time* provided by the division. As a result, we assume that 50 percent of the radio maintenance staff, or 46 positions, are assigned to this workload. We conclude that the department is overstaffed by 34 positions, or 73 percent of the 46 currently authorized positions.

In summary, our analysis indicates that the Communications Division is overstaffed by five positions because the division has *overestimated* workload, and by 34 positions because it has *underestimated* workload standards. We recommend that these 39 positions be deleted, for a savings of $1,688,000.

INSURANCE OFFICE

Insurance Against Loss of Assets

We recommend that a new Control Section be adopted to prohibit the expenditure of funds for the purchase of a discretionary commercial insurance policy covering loss of assets unless the department has given the Legislature 30 days advance notification of its intent to do so.

The Insurance Office informs us that in 1981–82 the state purchased commercial insurance policies covering the state against loss of state assets, at a cost of $4,387,000. Of this amount, $4,036,000 was spent for mandatory insurance, such as insurance required by (1) the resolutions governing revenue bond financing of the states' toll bridges or (2) the terms of a federal grant. The remaining $351,000 expended in 1981–82 was for elective or discretionary insurance.

Historically, the state has followed the policy of self-insurance whenever possible. The Legislature has concluded that, in the long term, it is less costly to pay the full cost of an occasional loss than to pay annual premiums to an insurance company. The Legislature reaffirmed this policy in 1981 when it added Control Section 4.70 to the Budget Act (Section 7.00 in the 1983 Budget Bill) prohibiting the use of funds to purchase discretionary tort liability policies unless 30 days advance notification and a cost benefit analysis have been given to the Legislature.

The insurance office projects that it will spend $358,000 in 1983–84 for premiums on 108 discretionary policies. These policies cover (1) aircraft hulls, (2) buildings, (3) EDP and other equipment, (4) musical instruments, and (5) office contents from losses resulting from crimes, fires, floods and other perils. The fire insurance policies cover the state printing plant ($29.7 million), the residence of the Chancellor of the California State University ($569,000) and the Governor's residence ($2.4 million), as well as other structures.

Not only is the *need* to insure any of these assets questionable, the amount of coverage in some cases appears to be excessive. For example, the policy covering the Governor's residence—$2.4 million—insures only the building itself, whereas the Department of General Services has informed us that the appraised value of the mansion is $1.5 million including the land.

Our analysis indicates that there is no basis to exempt this type of

DEPARTMENT OF GENERAL SERVICES—Continued

discretionary insurance coverage from the state's policy of self-insuring, except in those cases where a cost-benefit analysis demonstrates that private insurance would be in the state's interest. For this reason, we recommend that a new Control Section be adopted prohibiting the purchase of a discretionary commercial insurance policy covering loss of assets unless 30 days advance notice and a written cost-benefit analysis have been given to the Legislature.

CALIFORNIA STATE POLICE DIVISION

State Police

We recommend that supplemental report language be adopted directing the State Police Division to report to the Joint Legislative Budget Committee and the fiscal committees, by November 1983, on (1) how the department reconciles the differences between the management report which is used by the State Police for billing purposes, and information submitted by agencies to the State Police Division and (2) the effectiveness of the mechanisms established to ensure that future assessments of pro rata police services are accurate.

The California State Police (CSP) traditionally has billed state agencies for protective services.

At the direction of the Joint Legislative Audit Committee, the Auditor General reviewed the California State Police Division's pro rata assessments for police services for 1981–82. The report, which was issued in April 1982, determined that the assessments were inaccurate and resulted in various agencies being under- and over-assessed for their share of pro rata costs. The Auditor General recommended various actions to correct this problem. The *Supplemental Report of the 1982 Budget Act* requested our office to review the efforts of the Department of General Services in resolving the inaccurate pro rata assessments reporting for state police services.

In billing agencies for state police services in the past, the CSP used reports prepared by the DGS Space Management Division (SMD). Until recently, the SMD used street and freeway boundaries, as outlined in the State Administrative Manual, to determine which state property is subject to a pro rata assessment for state police service. The Auditor General reported that these guidelines were, in some cases, difficult to follow, resulting in billing errors. He recommended that the California State Police Division establish clear guidelines to define what property is eligible for pro rata charges.

While the Auditor General's review was in progress, the CSP issued new guidelines to SMD. The revised guidelines use city boundaries to define the areas within which state property is subject to a pro rata assessment. The administration unit of the Division of State Police has taken responsibility to update this information as necessary.

The Auditor General found that the CSP was billing several departments for protection of more or less property than the departments actually occupied. Although the CSP has access to SMD's records of all state-owned and leased property, neither division has a fool-proof system for keeping records of acquisitions, disposals, and transfers of property owned and managed by state agencies. SMD tells us it has informed agencies that they should notify the division whenever there is a change in their state-owned or -leased occupancy status. Departments do not always comply with this directive, however, which means that SMD reports and CSP billings are inaccurate in some cases.

In his report, the Auditor General recommended that the California State Police Division undertake a comprehensive survey of state agencies to discover errors and omissions from its inventory list of protected property.

Accordingly, the California State Police requested that all state agencies which receive pro rata police services update the CSP's square footage records on agency-managed property within the California State Police pro rata regions. After making repeated requests to the agencies, the CSP received this updated information. As expected, some of the data was inconsistent with the information in Space Management's report. These discrepancies have not been reconciled.

We recommend that by November 1983, the department report on how it plans to reconcile differences between the information contained in Space Management's report and the information provided by state agencies regarding the property they own or lease.

In his report, the Auditor General recommended that the State Police Division establish a mechanism to prevent property record errors, and to update its property inventory as changes occur.

The division has proposed three actions to ensure that future property transactions are reflected on the pro rata inventory list. It plans to:

- Print, on all future invoices, a statement directing agencies to review the invoices for accuracy and to report discrepancies,
- Conduct an annual survey requesting updated office and square footage information from all agencies, and
- Include in the State Administrative Manual a provision requiring state agencies to provide specific facility information upon the division's request or upon vacating, relocating, or occupying facilities within areas covered by CSP pro rata services.

Not surprisingly, the State Police Division indicates that, although many agencies are quick to report discrepancies that result in overcharges, they do not always report space for which they are not being billed. We question whether the three actions that the CSP proposes to take will alleviate this problem. We recognize, however, the limitations on the division's ability to obtain timely and accurate data on occupancy.

Accordingly, we recommend that the department report on the effectiveness of the mechanisms established to ensure agency cooperation, accurate property inventory lists, and accurate pro rata assessments.

OFFICE OF STATE PRINTING

Uncertain Textbook Workload

We recommend that prior to budget hearings, the Department of General Services report to the fiscal committees the estimated savings in the Office of State Printing that will result from enactment of Chapter 1503, Statutes of 1982 (AB 2561).

Chapter 1503, Statutes of 1982 (AB 2561), modified the state's system for ordering textbooks, effective July 1, 1983.

Under the current system, school districts submit all textbook orders to the Department of Education, which determines which ones are to be printed by the state and which are to be ordered from commercial publishers. This determination is based upon whether the department finds that the State Printer would publish the textbooks at a savings to the state.

DEPARTMENT OF GENERAL SERVICES—Continued

Savings generally depend upon the volume of the work order. In recent years the State Printer has produced approximately 1.3 million textbooks annually.

Effective July 1, 1983, Chapter 1503 authorizes school districts to order materials directly from publishers. If a significant number of districts, or a few large districts, elect to order textbooks directly from publishers, workload could be reduced to a level where it would no longer be economically feasible for the State Printer to print K–8.

The State Board of Education will inform districts early in 1983 about the procedures they must use to notify the state of their intention to order textbooks directly. The Department of Education informs us that May 1 is the proposed deadline by which districts must notify the board of their intentions.

Chapter 867/81 (SB 653), which allows the California State Universities to use private binders for hand binding has already reduced the printing plant's need for textbook-related skills. The Department of General Services has indicated that Chapter 1503 may completely eliminate its textbook production workload. We were advised last spring by the Office of State Printing that, if this were the case, about 10 positions (approximately 40 part-time technical and general production personnel) will be eliminated.

The Departments of Education and General Services should know by the time hearings are held on the DGS budget whether the State Printer will have enough workload to justify continuing textbook operations.

Accordingly, we recommend that the department report to the fiscal committees, prior to the budget hearings, regarding the workload and personnel impact of AB 2561 on the Office of State Printing in the budget year.

SMALL AND MINORITY BUSINESS PROCUREMENT ASSISTANCE DIVISION

California State Contracts Register

We recommend that the Department of General Services raise the subscription rate for the California State Contracts Register, (Item 1760-001-666) to help cover publishing costs of the Register, for a potential savings of $83,000.

The California State Contracts Register is a semi-monthly register which is coordinated and published by the Small and Minority Business Procurement Assistance Division. This Register references the majority of state agencies' or departments' small contracting and procurement activities, so as to inform the business community of business opportunities that are available with state government.

At the department's request, the Legislature authorized the publication of this register, and approved increased expenditures for printing and postage in 1981–82. The budget change proposal submitted by the department specified that funding for this activity would be obtained from paid subscriptions to the register. The department projected that during the first year of operations, there would be 7,400 paid subscribers. By charging a subscription rate of $25 to $35 per year, it proposed that this program would be self-supporting.

The department informs us that subscription rates have failed to cover the cost of publishing the contract register. In 1980–81, there were no paid subscriptions to the Register. One issue, however, was published and distributed on a complimentary basis to various businesses. The department reports that in 1981–82 there were 1,986 paid subscribers, and estimates that the number will rise to 2,355 in 1982–83. It projects 3,300 subscribers to the contract register in the budget year. Currently, the department charges $50 for a subscription to the Register, $10 of which is directed to the Procurement Division for billing services and $40 of which is directed to the Small and Minority Business Procurement Assistance Division for publishing costs. The department, however, is unable to recover its full costs at this rate. Table 11 displays cost and income received for contract register activity since the inception of the program.

Table 11

	1980–81 (Actual)	*1981–82 (Actual)*	*1982–83 (Estimated)*	*1983–84 (Projected)*
Cost [a]	$83,000	$238,000	$265,000	$285,000
Income	—	77,000	106,000	132,000
Cost in Excess of Income	$83,000	$161,000	$159,000	$153,000

[a] Does not include Procurement Division's cost for billing services.

In order to increase the number of subscriptions, the department is proposing to contract with a salesperson to solicit subscriptions and advertisement space for the register. Any additional income resulting from this proposed contract would be shared between the department and the salesperson. It is not certain, however, if the increased marketing effort will be able to make this publication self-supporting.

Clearly, it may not be feasible to raise the subscription rate sufficiently to cover all operating costs projected in the budget year. Consequently, we recommend an increase rate of only $25 per subscription as an incremental step towards making this activity self-supporting, as envisioned when first proposed by the department and approved by the Legislature.

3. ADMINISTRATION

The administration program contains executive management, fiscal, and personnel functions which support the department's line programs. The department also provides accounting, budgeting, consulting and personnel services to a number of smaller state entities on a reimbursable basis.

4. EMERGENCY TELEPHONE NUMBERS—LOCAL ASSISTANCE

Under this program, the Department of General Services reimburses local public agencies for the costs they incur in implementing emergency telephone number systems.

In 1972, the Legislature enacted a plan calling for a statewide emergency telephone system which would allow a person to dial "911" anywhere in the state and be connected to an emergency services network of police, fire and medical organizations. Under the program, each local government sets up its own system and applies to the state for reimbursement of its expenses. The costs are funded through the State Emergency Telephone Number Account of the General Fund, which derives its revenues from a surcharge on all intrastate telephone billings. The surcharge may range from 0.5 percent to 0.75 percent; it is currently set at 0.5 percent. The Board of Equalization sets the surcharge rate, and the Communications Division of DGS administers the program.

DEPARTMENT OF GENERAL SERVICES—Continued

During the early years of the system, a surplus built up in the account because surcharge revenues far exceeded reimbursements claimed by local government. This is because only a few systems were in operation and eligible for reimbursement.

Last year, the Department of Finance projected that the balance in the account would be $57.9 million as of June 30, 1982, and $56.4 million as of June 30, 1983. Subsequently, however, the Legislature enacted Chapter 207/82 (AB 884), which reverted $20 million of this surplus to the General Fund, in order to help avoid a deficit in the state's budget. It is legislative intent that these funds be returned to the emergency telephone number account when the funds are needed to reimburse local governments.

According to the 1983–84 budget, the balance in the account will be $48.8 million as of June 30, 1983, and $50.6 million as of June 30, 1984. The administration is currently proposing to once again use funds in the account to help the General Fund avoid a deficit in the current year. Our review of this progam indicates that the proposed transfer—$48.8 million —will not result in cash flow problems for the 911 account in either the current or budget years.

In the current year, the department is collecting more revenues than it estimated, and will spend less than it estimated. Although the department estimates current-year revenues at $21.5 million, it has received $11.6 million during the first two quarters of the fiscal year. After taking into consideration a rate reduction for telephone services, we estimate that revenue collections for the current year will be $1.6 million more than the estimate.

In addition, expenditures will fall short of the estimate. The local assistance item provides funds to pay for the cost of initial installation and publicity expenses, as well as for ongoing telephone service and staff expenses. The department informed us that it inadvertently budgeted funds in both the current and budget year to reimburse local governments in the Los Angeles basin for installing 911 systems. Since this system will not be installed until the budget year, expenditures for the current year will be $7 million, rather than $17 million as budgeted. Consequently, we project that, in fact, the account will have a balance in excess of $11 million by the end of the current year, even if the $48.8 million is transferred to the General Fund as proposed in the budget.

The budget projects expenditures under this program of $21.2 million in 1983–84, which would be more than covered by revenues of $23 million. This would result in a surplus of $1.8 million. The increase in expenditures reflects an increase in the number of systems approved by DGS for installation and operation. This includes the systems for the Los Angeles basin area. When added to the $11 million balance we project at the end of the current year, this would result in a balance exceeding $12 million on June 30, 1984.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY

Items 1760-301 and 1760-311 from the General Fund, Special Account for Capital Outlay — Budget p. SCS 107

Requested 1983–84	$5,241,000
Recommended approval	909,000
Recommended reduction	4,052,000
Recommended augmentation	119,000
Net recommended approval	1,028,000
Recommendation pending	280,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Transfer Savings to the General Fund. Recommend that net savings of $3,933,000 resulting from our recommendations on Items 1760-301-036 and 1760-311-036 be transferred from the Special Account for Capital Outlay to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide. 230
2. ***Elevator Modifications. Reduce Item 1760-301-036(a) by $310,000.*** Recommend reduction to eliminate overbudgeted funds and excessive fees and contingency. Further recommend that the Budget Bill be amended to indicate that the funds are appropriated for the construction phase of the project. 231
3. ***High-Rise Fire and Life Safety. Reduce Item 1760-301-036(b) by $2,077,000.*** Recommend deletion of proposed funds because Department of Finance has been unable to identify what work will be accomplished. 232
4. ***Minor Projects. Reduce Item 1760-301-036(c) by $115,000.*** Recommend reduction to eliminate five projects with unsubstantiated or negligible energy savings and one project which has received prior funding. 233
5. ***Space Planning Activities. Augment Item 1760-301-036 by $119,000.*** Recommend increase to fund certain Space Management Division activities which have been inappropriately charged to the Building Rental Account. 234
6. ***PCB Equipment Replacement. Reduce Item 1760-311-036 by $1,550,000.*** Recommend reduction of $1,550,000 for disposal of fluids and solids because workload has not been identified and costs have not been substantiated. Further, withhold recommendation on $280,000 for sampling, pending clarification of cost estimate. 234

ANALYSIS AND RECOMMENDATIONS

The budget proposes $5,241,000 from the General Fund, Special Account for Capital Outlay, for three major capital outlay projects and various minor capital outlay projects for the Department of General Services. Table 1 summarizes the administration's proposal and our recommendations.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

Table 1
Department of General Services
1983–84 Capital Outlay Program
(in thousands)

Project	*Location*	*Phase* [a]	*Budget Bill Amount*	*Analyst's Recommendation*	*Future Cost*
Elevator modifications for earthquake safety	Statewide	c	$1,080	$770	—
Fire and life safety modifications	Statewide	c	2,077	—	—
Minor projects	Statewide	pwc	254	139	—
Replacement of PCB-contaminated equipment	Statewide	pwc	1,830	pending	unknown
Totals			$5,241	pending	unknown

[a] Phase symbols indicate: p = preliminary plans, w = working drawings, c = construction.

Transfer to the General Fund

We recommend that the net savings resulting from our recommendations on Items 1760-301-036 and 1760-311-036—$3,933,000—be transferred from the Special Account for Capital Outlay to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

We recommend net reductions amounting to $3,933,000 in the Department of General Services' capital outlay proposal. Approval of these reductions, which are discussed individually below, would leave an unappropriated balance of tidelands oil revenues in the Special Account for Capital Outlay where it would be available only to finance programs and projects of a specific nature.

Leaving unappropriated funds in special purpose accounts limits the Legislature's options in allocating funds to meet high-priority needs. We recommend that any savings resulting from approval of our recommendations be transferred to the General Fund in order that the Legislature may have additional flexibility in meeting these needs.

Budget Documents Lack Sufficient Detail

The State Administrative Manual (SAM) directs agencies to include a general description and specific objectives for each program in their budget. In addition, the SAM requires that each capital outlay expenditure request include the project title and a brief description of the purpose of the expenditure.

The Department of General Services' capital outlay presentation in the budget does not include any description or overall objectives. With the exception of one project, the budget fails to identify whether the funds proposed for 1983–84 will be used for preliminary plans, working drawings, construction, or acquisition. The Budget Bill includes no phase designations at all. One item in the budget, the high-rise fire and life safety project, is actually a proposal to fund four individual major projects at different locations. However, no detail is provided on this proposal in either the budget or the Budget Bill. In the future, the Department of Finance should ensure that the budget documents contain sufficient detail so that the Legislature will know what it is that is being proposed.

Elevator Modifications for Earthquake Safety

We recommend that Item 1760-301-036(a), elevator modifications for earthquake safety, be reduced by $310,000 to correct for overbudgeting.

The budget proposes $1,080,000 under Item 1760-301-036(a) for modifications to elevators in 21 state office buildings to comply with California Administrative Code requirements relating to earthquake safety. The department is proposing to retrofit a total of 96 elevators under this project.

The Elevator Safety Orders (Chapter 4 of Title 8, California Administrative Code) were revised in 1975 to include provisions related to earthquake safety, certain sections of which are applicable to existing installations. A period of seven years was allowed for bringing existing installations into compliance. Effective October 6, 1982, the Department of Industrial Relations, Division of Occupational Safety and Health, upon inspection, can order that noncomplying elevators be brought up to code. The owner of the elevator has 30 days in which to reply to the order and show good faith in fulfilling the requirements. This project would bring 96 elevators in state buildings into compliance with applicable sections of the code.

The department spent $45,000 in 1981–82 to prepare preliminary plans for this project. The 1982 Budget Act provided $41,000 for the development of working drawings. Preliminary plans were completed in October 1982.

Two months prior to the completion of the preliminary plans, in August 1982, the Department of Finance transferred the 1982–83 working drawing appropriation to the Architecture Revolving Fund. Contrary to the requirements of the Budget Act, this was done without having received Public Works Board approval.

Fund Request Overstated. The budget includes $1,080,000 in construction funds for the proposed modifications. Estimates provided by the Office of State Architect (OSA) show that, based on completed preliminary plans, there is a need for only $863,000 to complete the work. The OSA estimate however, includes excessive amounts for architectural and engineering fees and construction contingency. An amount equal to 20 percent of the estimated contract cost should be sufficient to cover these costs for alteration projects, and in past *Analyses* we have repeatedly recommended that funding for these purposes be limited to 20 percent. The Legislature generally has approved this recommendation. We have also repeatedly requested OSA to provide information justifying fee and contingency requests in excess of 20 percent. No justification, however, has been provided in connection with the fees and contingency amounts proposed for this project.

Our analysis indicates that the University of California, Berkeley, has requested funds for a similar project, and has budgeted only 20 percent for fees and contingency purposes. We see no reason why OSA cannot complete this project within the same percentage. If the OSA believes an additional amount is warranted, it should submit supporting information for the extra funds prior to budget hearings.

Based on the 20 percent allowance, only $770,000 should be needed to complete the work under this project. We recommend approval of this reduced amount, for a savings of $310,000. We further recommend that the Budget Bill be amended to specify that the funds are appropriated only for the construction phase of the project.

High-Rise Fire and Life Safety

We recommend that Item 1760-301-036(b), high-rise fire and life safety, be deleted because the Department of Finance has been unable to identify what work would be accomplished with the funds, for a reduction of $2,077,000.

The budget includes $2,077,000 under Item 1760-301-036(b) for fire and life safety modifications to high-rise state office buildings. Information provided by the department indicates that these funds would be used to bring four buildings into compliance with provisions of the California Administrative Code. Specifically, funding is requested for modifications to the Oakland state building, and three buildings in Sacramento—the Employment Development Department building, and Office Buildings 8 and 9.

Budget Amount Unfounded. It is not clear what work the administration intends to accomplish with the funds proposed in the budget. Based on estimates provided by the OSA, the budget amount is not sufficient to fund the work proposed. Table 2 shows the amounts which OSA indicates are necessary to modify the four buildings.

Table 2
Department of General Services
Fire and Life Safety Modifications
OSA Estimated Cost
(in thousands)

Building	*Estimated Construction Cost*
Office Building 8, Sacramento	$435
Office Building 9, Sacramento	533
Employment Development Building	1,243
Oakland State Office Building	985[a]
Total	$3,196

[a] Amount based on Office of State Architect estimate of March 14, 1980, indexed to 1983–84 price levels.

As indicated in the table, OSA estimates that the modifications will cost in excess of $3,000,000, while the budget contains only $2,077,000. Revised estimates on three of the projects were available to the Department of Finance (DOF) in October 1982. The DOF however, has been unable to identify what work is included within the amount budgeted. Consequently, we recommend that the $2,077,000 under this item be deleted.

Projects Should Be Budgeted Individually. The funds proposed for the fire and life safety projects appear as a single appropriation in the Budget Bill. This project, however, actually comprises four distinct capital outlay projects, each costing in excess of $150,000. If the Legislature chooses to appropriate funds to do this work, the Budget Bill should be amended to include a specific appropriation for construction at each location.

Minor Capital Outlay

We recommend that Item 1760-301-036(c), minor projects, be reduced by $115,000 to eliminate funding for (1) five energy projects with unsubstantiated or minimal energy savings, and (2) one project for which funds have already been provided.

Item 1760-301-036(c) includes $254,000 for minor capital outlay projects for the Department of General Services. The proposed funds would be used for 13 projects at various locations in the state. The projects are summarized in Table 3. Those projects with which we have concerns are addressed below.

Table 3
Department of General Services
Minor Capital Outlay Projects
(in thousands)

Type of Project	*Location*	*Budget Bill Amount*	*Analyst's Recommendation*
Energy conservation	Various	$150	$45
Electrical feeder service	San Diego	5	5
Modifications to Office of State Printing	Sacramento	60	60
Replace loading dock	San Francisco	29	29
Install sound system	Long Beach	10	—
Totals		$254	$139

Projects With Unsubstantiated or Minimal Energy Savings. Eight of the department's 13 minor capital outlay projects are justified on the basis of energy conservation. However, no energy analysis has been provided for the following four projects:

- Ventilation system modification ($20,000)—Redding
- Insulate interior walls ($60,000)—Fresno
- Insulate interior walls ($7,000)—Stockton
- Replace steam valves ($12,000)—San Francisco

The department has not identified any energy or utility budget savings to be realized from these projects. Consequently, we have no basis for judging whether or not the projects are cost effective. We, therefore, recommend that the funds for these four projects be deleted, for a savings of $99,000.

In addition, one project submitted by the department has an excessively long payback. The proposed solar collectors for the Red Bluff state office building have a payback of 15 years, based on optimistic assumptions about energy costs. Generally, the state has funded energy projects with paybacks of seven years or less. Consequently, we do not believe this project is justified, and we recommend that the funding be deleted, for a savings of $6,000.

Department Deleted Sound System on a Priority Basis. The 1978 Budget Act included $11.7 million for construction of a new state office building in Long Beach. This appropriation included funds to provide a sound system for the auditorium of the building. Moreover, the State Public Works Board augmented the original appropriation by $2.3 million —a 20 percent increase. The department indicates that the sound system was deleted from the project, on a priority basis, before the construction contract was signed. The department is now requesting an additional $10,000 to install the sound system in the budget year. Because the Legisla-

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

ture has already provided funds for this project, and the department chose to delete this feature on a priority basis, we see no reason for providing the additional funds. Consequently, we recommend that the $10,000 for the sound system be deleted.

Space Planning Activities

We recommend that Item 1760-301-036(d) be added to the Budget Bill to provide $119,000 from the Special Account for Capital Outlay to fund certain planning activities of the Space Management Division.

The department's Space Management Division is responsible for programming and planning space in several new state office buildings. In our analysis of the department's support budget, we indicate that these activities are being inappropriately charged against the Building Rental Account, and we recommend that planning activities related to four buildings be funded from the Special Account for Capital Outlay. A more detailed discussion of this issue can be found under Item 1760. Based on our analysis, we recommend that Item 1760-301-036 be amended to include the following appropriation:

(d) Statewide—Space Planning		$119,000
1. Van Nuys Office Building	$14,000	
2. New San Francisco Office Building	8,000	
3. Franchise Tax Board Facility	85,000	
4. New Los Angeles Office Building	12,000	

Replacement of PCB-Contaminated Equipment

We recommend that Item 1760-311-036 be reduced by $1,550,000 because the workload related to disposal activities has not been clearly identified and costs have not been substantiated. Further, we withhold recommendation on $280,000 for sampling activities, pending clarification of the cost estimate.

Item 1760-311-036 proposes $1,830,000 from the Special Account for Capital Outlay for the replacement of PCB-contaminated equipment. Information provided by the department however, indicates that the money will not be used for replacement of equipment, but rather, for the incineration and detoxification of PCB fluids, disposal of contaminated pieces of equipment which have been removed and stored, and the sampling of leaking equipment which potentially contains PCB material.

PCB's are insulating liquids which have been used primarily in electrical transformers and capacitors as a dielectric fluid. The PCB substances have been found to be highly toxic, and can seriously harm the health of human beings if certain concentrations are ingested over a period of time. Consequently the use, storage, and disposal of the PCB substances are strictly controlled by regulations administered by the Environmental Protection Agency of the federal government. No health hazard exists when the electrical equipment encasements are tightly sealed. The problems arise from PCB substances leaking from the encasements.

The Legislature appropriated $3,647,000 in the 1981 Budget Act to replace all leaking, hazardous or PCB-contaminated equipment which had been identified in a study done by a private consultant under contract to the OSA. The department spent $501,000 in 1981–82 to replace PCB-contaminated equipment which the department felt posed a risk to food or feed products, and to begin planning for the replacement of other leaking or hazardous installations. Expenditure of the remaining funds ($3,146,-000) was deferred and the funds were reverted.

The Legislature provided $3,147,000 in 1982–83 to complete the work originally proposed for 1981–82. Specifically, funds were provided to replace leaking or hazardous transformers in non-food handling areas, and to store them in temporary facilities constructed for that purpose.

The funds proposed for the budget year will be used for:

(1) Sampling of all leaking in-service and in-storage equipment containing suspect or questionable fluids,

(2) Disposal of high concentration PCB fluids by high temperature incineration and detoxification of low concentration PCB fluids on site, and

(3) Disposal of contaminated solids in chemical waste land fills approved by the EPA and the Department of Health Services.

Sampling of Fluids. The department is proposing to sample fluids contained in electrical equipment which is in service and is leaking, and in items of equipment which are in storage. The department has identified 653 items of equipment which need to be sampled—187 are in service, 106 are to have been removed from service by the end of the current year, and 360 are out of service and perhaps illegally stored. The department, however, has not provided any detail to substantiate the proposed level of funding.

The proposed fluid sampling is necessary so that the state will have an accurate assessment of which items contain PCB's. However, we have no basis for judging the adequacy of the amount requested at this time. Consequently, we withhold recommendation on this proposal until the department provides information detailing the associated costs.

Disposal of Fluids and Solids. The department is proposing a program to dispose of PCB fluids through incineration and detoxification, and to dispose of contaminated solids in approved landfills. The department estimates that the cost of these activities in 1983–84 is $1,550,000. We recommend that these funds be deleted for two reasons:

1. It is not clear that the department will have anything to dispose of.
2. The department has provided no information justifying the costs used in developing the proposal.

The need for a disposal program depends on the successful completion of the equipment replacement phase of the program. As of December 1982, the OSA's project schedule indicated that the working drawings for the PCB equipment replacement projects were only 50 percent complete. It is not clear when the documents will be finished, nor is it clear that the construction work will proceed in 1982–83.

Moreover, the department has not provided any information supporting the unit costs used in developing the program. The costs of disposal and detoxification depend on the methods employed and the location of the activities. The department has not provided this information. There is a potentially serious liability problem with the disposal of PCBs. The state could remain liable for any damage or harm resulting from the disposal process until the PCBs are destroyed. Consequently, the state could be faced with a substantial financial risk. The Legislature should be more-fully apprised of the program details before being asked to accept this risk.

Based on the lack of supporting detail, and the lack of progress in the 1982–83 program we recommend that the $1,550,000 related to these ac-

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

tivities be deleted from the department's budget.

Projects by Descriptive Category

In *The Budget for 1983–84: Perspectives and Issues,* we identify a number of problems that the Legislature will confront in attempting to provide for high-priority state needs within available revenues. To aid the Legislature in establishing and funding its priorities, we have divided those capital outlay projects which our analysis indicates warrant funding into the following seven descriptive categories:

1. Reduce the state's legal liability—includes projects to correct life threatening security/code deficiencies and to meet contractual obligations.
2. Maintain the current level of service—includes projects which if not undertaken will lead to reductions in revenue and/or services.
3. Improve state programs by eliminating program deficiencies.
4. Increase the level of service provided by state programs.
5. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of less than five years.
6. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of greater than five years.
7. Other projects—includes noncritical but desirable projects which fit none of the other categories, such as projects to improve buildings to meet current code requirements (other than those addressing life-threatening conditions), utility/site development improvements and general improvement of physical facilities.

Individual projects have been assigned to categories based on the intent and scope of each project. These assignments do not reflect the priority that individual projects should be given by the Legislature.

The space planning activities ($119,000) fall under category six. The elevator modification project ($770,000) and minor projects ($139,000) fall under category seven.

DEPARTMENT OF GENERAL SERVICES—REVERSION

Item 1760-495 to the General Fund — Budget p. SCS 107

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes reversion of the unencumbered balance of appropriations contained in Chapter 28, Statutes of 1979. This measure included a $1,100,000 appropriation, derived from the interest earned on the original $42 million appropriation for restoration of the State Capitol, to the Department of General Services for electrical work, in the east and west wings of the State Capitol related to the restoration project.

According to the Governor's Budget, there is a $338,000 unencumbered balance from the amount appropriated to the Department of General Services. The project is complete and the remaining funds should be returned to the General Fund.

State and Consumer Services Agency

STATE PERSONNEL BOARD

Item 1880 from the General Fund and various other funds — Budget p. SCS 109

Requested 1983–84	$23,065,000
Estimated 1982–83	22,155,000
Actual 1981–82	22,369,000
Requested increase (excluding amount for salary increases) $910,000 (+4.1 percent)	
Total recommended reduction	$447,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1880-001-001—Support		General	$21,701,000
1880-001-677—Services to local governments		Cooperative Personnel Services Revolving	1,364,000
Total			$23,065,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Operating Expenses and Equipment. Reduce Item 1880-001-001 by $63,000 and Item 1880-001-677 by $1,000.*** Recommend deletion of funding for unjustified operating expenses and equipment. 239
2. ***Reimbursements for services to other agencies. Reduce Item 1880-001-001 by $108,000.*** Recommend reduction in General Fund support by $108,000 and corresponding increase in reimbursements to eliminate double-budgeting for services provided to seven other agencies. 240
3. Decentralized Employee Selection Program. Recommend that the board report prior to budget hearings on the total resources to be reallocated to departments for decentralized testing in 1983–84. Further recommend adoption of supplemental report language requiring the SPB to report on the timetable for implementation of the decentralized testing program and the departments to be phased in to the program in 1983–84 and future years. 241
4. ***Career Opportunities Development (COD) Coordinator. Reduce Item 1880-001-001 by $275,000.*** Recommend that the WIN/COD program be reduced by $275,000 because COD coordinators duplicate other state staff. 244

GENERAL PROGRAM STATEMENT

The State Personnel Board (SPB) is a constitutional body consisting of five members appointed by the Governor for 10-year terms. The board has authority under the state constitution and various statutes to adopt state civil service rules and regulations.

STATE PERSONNEL BOARD—Continued

An executive officer, appointed by the board is responsible for administering the merit aspects of the state civil service system. (The Department of Personnel Administration (DPA), which was established effective May 1, 1981, is responsible for managing the nonmerit aspects of the state's personnel systems). The board and its staff also are responsible for establishing and administering on a reimbursement basis merit systems for city and county welfare, public health, and civil defense employees, to ensure compliance with federal requirements.

Pursuant to the Welfare Reform Act of 1971, the board staff administers a Career Opportunities Development (COD) program designed to create job opportunities for disadvantaged and minority persons within both state and local governments.

The board also is responsible for coordinating affirmative action and equal employment opportunity efforts within state and local government agencies, in accordance with state policy and federal law.

The board has 535.2 positions authorized in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $26,621,000 from the General Fund, special funds, and reimbursements for support of the SPB in 1983–84. This is $910,000, or 3.5 percent, more than estimated total expenditures for the current year.

Board expenditures exclusive of reimbursements are estimated at $23,065,000, which is $910,000, or 4.1 percent, above estimated current-year expenditures. The General Fund portion of this request is $21,701,000, which is $862,000, or 4.1 percent, above the current-year level. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Table 1 summarizes expenditures and personnel-years for each of the board's programs, for the three-year period ending June 30, 1984. As the table shows, the budget proposes no change in total staffing for the board during 1983–84.

Table 1
State Personnel Board
Budget Summary
(in thousands)

	Actual 1981–82	*Estimated[a] 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
1. Merit System Administration	$22,292	$21,212	$21,974	$762	3.6%
2. Appeals	1,892	1,685	1,779	94	5.6
3. Local Government Services	2,207	2,814	2,868	54	1.9
4. Administrative Services (distributed)	(3,763)	(3,413)	(3,635)	222	(6.5)
Total Expenditures	$26,414	$25,711	$26,621	$910	3.5%
Less Reimbursements	−4,045	−3,556	−3,556	—	—
Total State Costs (Excluding Reimbursements)	$22,369	$22,155	$23,065	$910	4.1%
General Fund	*21,525*	*20,839*	*21,701*	*862*	*4.1*
Cooperative Personnel Services Revolving Fund	*844*	*1,316*	*1,364*	*48*	*3.6*
Personnel-years	523.5	524.1	524.1	—	—

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

The workload, cost, and other changes proposed for the budget year are displayed in Table 2. The budgeted increase in expenditures is primarily attributable to merit pay increases and the effects of inflation on the prices paid by the board, plus the restoration of employer retirement contributions that were reduced on a one-time basis in 1982–83.

Table 2
State Personnel Board
Proposed Budget Changes
(in thousands)

	General Fund	*Cooperative Personnel Services Revolving Fund*	*Reimbursements*	*Total*
1982–83 Revised Budget [a]	$20,839	$1,316	$3,556	$25,711
1. Workload changes:				
None	—	—	—	—
2. Cost changes:				
a. Personal services	153	10	—	163
b. Operating expenses	145	9	—	154
3. Other changes				
a. Allocation for CALSTARS costs	67	—	—	67
b. Restore benefit reduction in current year	507	29	—	536
c. Reduction for Office of Administrative Law	−10	—	—	−10
Total Proposed Changes	$862	$48	—	$910
1983–84 Proposed Budget	$21,701	$1,364	$3,556	$26,621

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

Operating Expenses and Equipment—Technical Budgeting Issues

We recommend a reduction of $64,000 ($63,000 General Fund in Item 1880-001-001 and $1,000 in Item 1880-001-677) because operating expenses and equipment are overbudgeted or lack sufficient justification.

Analysis of the department's Supplementary Schedule of Operating Expenses (Schedule 11) and Supplementary Schedule of Equipment (Schedule 9) reveals several instances of overbudgeting. Table 3 summarizes the reductions that we recommend be made in the department's operating expense and equipment budget. A discussion of each item follows.

Photocopier Rental. The budget includes $20,000 to purchase a photocopier and $10,611 to lease the same machine.

Because the purchase of the machine would be in the state's long-term economic interest, we recommend that funds requested to purchase the copier be approved. Use of these funds, however, will make it unnecessary to continue leasing the copier. Accordingly, we recommend that the unneeded lease funds be deleted, for a savings of $10,611.

STATE PERSONNEL BOARD—Continued

Table 3
State Personnel Board
Overbudgeted Operating Expenses and Equipment

Purpose	*Amount Requested*	*Analyst's Proposal*	*Difference*
1. Multicopier rental	$10,611	—	$10,611
2. Consulting-Personnel Consulting Services	15,000	$10,000	5,000
3. Consulting-State Controller's Office	65,197	35,000	30,197
4. Equipment-Electric binder	1,600	—	1,600
5. Equipment-Combat Arrest Simulation Device	17,000	—	17,000
Totals	$109,408	$45,000	$64,408

Consulting-Research Consulting Services. The board is requesting $15,000 for consulting and technical assistance services in planning, developing and analyzing test validation studies. The staff indicates that the $10,000 budgeted for current-year activities is adequate to meet current needs, and that no increased need is anticipated for 1983–84. Accordingly, we recommend deletion of $5,000 budgeted for this purpose.

Consulting-State Controller's Office. The SPB is requesting $65,197 for consulting services from the State Controller's Office for development of reports from the employee history file and Teale Data Processing services associated with the reports. The board advises us that these charges are for standard monthly reports and any special reports required to update the employment history file. Based on our analysis, we find that $30,197 of the total amount proposed is for *unspecified* consulting and professional services. In effect, this represents contingency budgeting and fails to provide the Legislature with an opportunity to review the proposed use of the funds. Accordingly, we recommend a deletion of $30,197, for a corresponding savings to the General Fund.

Equipment-Electric Binder. The budget proposes the expenditure of $1,600 for an electric binder to be used in the Cooperative Personnel Services (CPS) program of the Local Government Services Division. The CPS staff has advised us, however, that its manual binder is sufficient to meet its needs, and this equipment is not needed. Accordingly, we recommend deletion of the $1,600 budgeted for this purpose.

Equipment-Combat Arrest Simulation Device. The Selection Programs and Services Divison is requesting $17,000 for a device to test combat arrest situations deemed essential for all law enforcement classifications. These funds would be used to purchase a yet-unspecified piece of equipment. According to the SPB, the feasibility study to determine the need for such equipment will not be completed until the fall of 1983. Even after the study is completed, it is not clear that more equipment, rather than more research and development, will be required.

We conclude that the funding request for this equipment is premature, because the board has not established whether a simulation device is necessary to meet the board's needs or provided documentation on the specific item to be purchased. For these reasons, we believe that funding for a combat arrest simulation device should be deferred until the feasibility study has been completed.

Budget Omits Reimbursements

We recommmed a reduction of $108,000 from the General Fund and a corresponding increase in reimbursements because the budget fails to reflect fully the amount of reimbursements it will receive from other agencies.

The board receives reimbursements for providing administrative services to other state agencies. These services include exam scoring, mass mailings, optical scanning, and data processing. Analysis of the board's Supplementary Schedule of Reimbursements for the past three years reveals a consistent pattern of unbudgeted reimbursements. These funds are labled as unscheduled reimbursements in the prior-year column; the corresponding dollar amounts, however, do not appear in current-year estimates or budget-year projections.

The SPB's 1983–84 budget again fails to account fully for reimbursements anticipated from the board's provision of the specified administrative services. As of December 31, 1982, SPB had negotiated contracts with the Departments of Forestry, Personnel Administration, Consumer Affairs, and Real Estate, the Board of Corrections, the Commission on Peace Officer Standards and Training, and the Contractors' State License Board, calling for the board to receive $104,000 in reimbursements during the current year. These funds, however, do not appear in the current-year reimbursement estimates. Similarly, budgets for the same seven agencies in 1983–84 contain $108,000 to continue purchasing administrative services from the SPB, but the SPB budget does not indicate that the board will receive these funds as reimbursements.

Failure to include these reimbursements in the SPB budget schedules results in double-budgeting, since the services are funded with appropriations both in the SPB budget and in the budgets of the seven agencies. This unnecessarily inflates General Fund requirements, leaving the Legislature with that much less fiscal flexibility. Accordingly, we recommend that the SPB's General Fund appropriation be reduced by $108,000, and that reimbursements be increased by the same amount.

Merit System Administration Program

The merit system administration program is responsible for (1) maintaining the classification plan; (2) recruiting, selecting and placing qualified candidates in state jobs; (3) developing and adopting personnel management policy; (4) administering the state's affirmative action program; and (5) developing employment opportunities for disadvantaged persons under the Career Opportunities Development (COD) program.

Decentralized Employee Selection Program

We recommend that the board report to the fiscal committees prior to budget hearings on the total resources to be reallocated to departments for decentralized testing in 1983–84. We further recommend adoption of supplemental report language requiring the SPB to report on the implementation of the decentralized testing program and the departments to be phased into the program in 1983–84 and future years.

In 1981, the SPB initiated, on a pilot basis, decentralized employee selection program. Under decentralized selection, the line agency, rather than SPB, administers the entire civil service selection process.

In the *Supplemental Report of the 1981 Budget Act,* the Legislature directed the board to report on the results of its pilot program, and on its plans for continuing the program or extending it to other state agencies. The SPB reported to the Legislature in December of 1981 on the pilot project. Due to the preliminary nature of the data contained in the December 1981 report, the SPB provided a follow-up report in February 1982.

In both reports, the SPB concluded that the decentralized selection

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program is a cost effective alternative to the existing centralized civil service selection process. The SPB recommended that responsibility for all departmental and for selected multi-departmental examining be delegated to departments. The board proposed to retain examining responsibility for servicewide classes, and for departmental classes with candidate groups larger than 1,000 people.

During 1981–82, participation by the four departments in the pilot program, (Department of Motor Vehicles, Department of General Services, Franchise Tax Board, and California Youth Authority) was on a probationary basis. Upon successful completion of the probationary period, each department was to receive additional examining resources from the SPB. In its second report, the SPB identified $79,000 in resources to be reallocated to these departments during 1982–83. Subsequently, however, the Department of Finance reported that, in light of the state's fiscal situation, the participating departments had agreed to absorb the added costs.

During the current year, the board has expanded the decentralization pilot project to the following seven agencies:

Department of Food and Agriculture
Department of Insurance
Department of State Banking
Department of Transportation
Department of Water Resources
State Lands Commission
State Personnel Board

The board currently is reviewing the progress of these seven departments, and indicates that it will be prepared to report on the potential transfer of examining resources from its budget to the budgets for these departments during legislative hearings on the budget.

The board's most recent report on the decentralized selection program contains no detailed discussion of the board's plan to add additional departments to the program beyond 1982–83. The report only states that additional departments will be phased-in in future years. In addition, the report provides an estimate of the number of SPB staff and related costs that will no longer be needed in 1982–83, but does not provide any detail on the fiscal effects of decentralization in subsequent years. The *Supplemental Report of the 1981 Budget Act,* however, required an assessment of the board's plans to continue the decentralization program beyond 1982–83.

In order to ensure that the Legislature can continue to monitor the costs and benefits of a decentralized selection program, we recommend that prior to legislative budget hearings, the SPB indicate the total amount of 1983–84 resources to be reallocated to eligible departments to conduct examinations on a decentralized basis. We further recommend the adoption of the following supplemental report language:

> "The State Personnel Board shall report on the departments to be phased in to a decentralized testing program and the timetable under which completion of the decentralization program is to be accomplished."

Career Opportunities Development Program

The purpose of the Career Opportunities Development (COD) program is to create job opportunities in the public sector for (1) current and potential welfare recipients and (2) disabled persons. The State Personnel Board administers the program in cooperation with the Employment Development Department (EDD) and the Department of Rehabilitation (DOR). The SPB negotiates, administers, and monitors contracts with state agencies providing training to program participants. The board reimburses the contracting agencies for trainees' salaries (80 percent for welfare recipients and 90 percent for disabled persons). The agencies are expected to employ the participants in permanent state jobs, once their training is completed.

The EDD identifies and refers welfare applicants and recipients to employment and training opportunities created by the board. It also develops, negotiates, and monitors employment and training opportunities in local governments and community-based organizations. The DOR identifies and refers disabled clients for training and placement in state or local jobs.

The budget proposes expenditures totaling $8,562,000 from the General Fund and reimbursements for support of the COD program in 1983–84. This is an increase of $17,000, or less than one percent, over estimated current-year expenditures. Table 4 details proposed expenditures by program component and revenue source.

Table 4
Career Opportunities Development Program
Expenditures by Source of Revenue and Program Component
1981–82, 1982–83 and 1983–84
(in thousands)

	Actual 1981–82	*Estimated* 1982–83	*Proposed* 1983–84	*1982–83 to 1983–84 Change* Amount	Percent
General Fund					
Salaries for welfare recipients	$4,497	$4,605	$4,605	—	—
Match for vocational rehabilitation federal funds [a]	1,752	1,687	1,687	—	—
Project grants	253	—	—	—	—
Program coordinators	319	275	275	—	—
Administration	300	221	235	$14	6.3%
Subtotals, General Fund	$7,121	$6,788	$6,802	$14	0.2%
Reimbursements [a]					
Salaries for the disabled	$1,752	$1,687	$1,687	—	—
Administration of the disabled unit at SPB	95	70	73	$3	4.3%
Subtotals, Reimbursements	$1,847	$1,757	$1,760	$3	0.2%
Total, Revenues and Expenditures	$8,968	$8,545	$8,562	$17	0.2%

[a] Through an interagency agreement, SPB transfers General Fund monies to DOR which applies this amount towards the required state match for federal vocational rehabilitation funds. DOR, in turn, provides SPB with (1) an amount equal to the amount transferred to pay salaries for the disabled trainees and (2) additional funds to administer a unit for the disabled in SPB.

Interagency agreements with EDD and DOR increase the funds available for trainees' salaries beyond what is reflected in SPB's budget by $1.3 million, as follows: (1) $1 million in federal Work Incentive (WIN) pro-

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gram funds is included in EDD's 1983–84 budget to pay for a portion of welfare trainees' salaries and (2) $320,000 in federal vocational rehabilitation funds (matched by $80,000 from COD) is included in DOR's budget for salaries for the disabled in local governments. Therefore, the total *program* budget for COD in 1983–84 is $9,299,000, of which $5,605,000 is for salaries for welfare recipients and $3,694,000 is for disabled trainees.

WIN/COD Coordinators

We recommend deletion of funding for the COD coordinators because their functions duplicate those of other state staff, for a General Fund savings of $275,000.

The budget proposes $275,000 in General Fund monies for WIN/COD program coordinators located in various agencies. These coordinators work with departments within their agencies to promote COD training opportunities and monitor the progress of COD participants. The agencies are reimbursed by SPB for the coordinators' salaries and benefits. Table 5 shows the agencies proposed to have coordinators in 1983–84, and the proposed levels of reimbursements in the budget year. Agency reimbursements in the budget year total only $208,331. SPB cannot identify how the remaining $66,669 will be spent.

Table 5
Career Opportunities Development Coordinators
1983–84
(in thousands)

	Authorized Positions	*Reimbursements 1983–84*
Health and Welfare Agency	1	$57,414
State and Consumer Services Agency	1	60,000
Resources Agency	1	41,000
Business, Transportation, and Housing Agency	1	49,917
Totals	4	$208,331

Our review indicates that the coordinator positions are not needed and can be eliminated for the following reasons:

1. *The agency coordinators perform services for the agencies that are not related to the COD program.* A review of the coordinators' annual reports indicates that COD-related activities account for only a small amount of their total activities. According to the annual reports, much of their time is spent on such activities as civil rights and affirmative action, collective bargaining, and other employee-related matters.

2. *Services performed by the COD coordinators duplicate activities performed by other state staff.* For example, the Employment Development Department (EDD), through its field offices, develops COD placements in state departments. Affirmative action and recruitment officers within various state departments also develop placements and make proposals for training programs to COD. Finally, COD program staff located in SPB develop placements and monitor the progress of COD trainees.

3. *Departmental use of WIN/COD trainees is determined by specific departmental needs, rather than by the influence of the agency coordinators.* For example, the Youth and Adult Corrections Agency coordinator position currently is vacant. This vacancy, however, has not affected the

demand for WIN/COD trainees within the Department of Corrections. The department, which has a WIN/COD Coordinator who spends full time on this function, currently is training 85 WIN/COD participants for clerical and correctional officer positions. Further, the department's WIN/COD coordinator indicates that corrections has a greater demand for WIN/COD correctional officer trainees than the program currently is supplying.

4. *Budget year coordinator staffing and funding levels are uncertain.* The SPB has budgeted $275,000 for the coordinators in 1983–84. However, we can identify only $208,331 in agency reimbursements. SPB cannot explain how the remaining $66,669 will be spent.

For these reasons, we recommend deletion of funding for the COD coordinators, for a General Fund savings of $275,000. To the extent that the agencies require additional support for their affirmative action and civil rights activities, these funds should be sought through the normal budgetary process. If the Legislature decides to support the four proposed WIN/COD coordinator positions, we recommend the appropriation be reduced by $66,669, since SPB cannot identify how these funds will be used.

Appeals Program

The Appeals Program involves investigating and making recommendations relative to appeals filed with the SPB regarding examinations, discriminatory actions, grievances, and related areas. The budget proposes no staffing changes in the appeals program.

Local Government Services Program

The Local Government Services Program consists of two interrelated subprograms: (1) Merit Systems Service (MSS) and (2) Cooperative Personnel Service (CPS). The budget proposes no change in staffing for these programs.

Merit System Services

Under the Merit System Services Program, the SPB approves or operates merit systems for a number of local government jurisdictions. This program operates on a fully reimbursable basis.

Cooperative Personnel Services (Item 1880-001-677)

Under the cooperative Personnel Services (CPS) Program, the board provides recruitment, selection and other technical personnel services to local government agencies. All program costs, except those resulting from language proficiency tests and the compilation of interpreter lists (discussed below) are financed on a reimbursement basis by local agencies. All reimbursements are paid into the Cooperative Personnel Services Revolving Fund.

The budget requests $87,000 from the General Fund for 1983–84 so that the board can continue to:

1. Develop and conduct examinations for ensuring the language proficiency of interpreters used in county superior courts, pursuant to the provisions of Chapter 158, Statutes of 1978 (AB 2400).
2. Compile and publish a list of interpreters it has determined to be proficient, for use by state agencies in conducting administrative hearings, pursuant to Chapter 1057, Statutes of 1977 (SB 420).

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Administrative Services Program

The Administrative Services Program consists of executive management and central support services, including accounting, budgeting, mail and duplicating services. Program costs are distributed among the board's three line programs.

The budget proposes no change in staff positions for these functions.

Agency Reports

Pursuant to Chapter 1632/82, which requires the review of certain state agency reports, the board recommends that it be permitted to continue publishing the following reports:

- Report to the Governor and the Legislature on the *Annual Census of State Employees.*
- Annual Affirmative Action Report.
- Report to the California State Legislature on State Personnel Board activities under the Welfare Reform Act of 1971.

We concur with the recommendation of the board to continue these reports.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Item 1900 from the General Fund and various funds — Budget p. SCS 115

Requested 1983–84	$26,591,000
Estimated 1982–83	33,839,000
Actual 1981–82	29,699,000
Requested decrease (excluding amount for salary increases) $7,248,000 (−21.4 percent)	
Total recommended reduction	$15,000
Recommendation pending	$674,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1900-001-001	Social Security Administration	General	$57,000
1900-001-820	Retirement Administration	Legislators' Retirement	85,000
1900-001-830	Retirement Administration	Public Employees' Retirement	24,008,000
1900-001-950	Health Benefit Administration	Public Employees' Contingency Reserve	2,266,000
1900-001-962	Retirement Administration	Volunteer Firefighters' Length of Service Award	48,000
1900-011-001	Administration of the Judges' Retirement System	General	127,000
Total			$26,591,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Delays in Service to Members. Recommend adoption of supplemental report language requiring the PERS to conduct a management review of delays in service to members, and to report its findings and recommendations to the Legislature by November 1, 1983.	251
2. Reimbursements for Investment Services. Withhold recommendation on $674,000 budgeted as reimbursement from the State Teachers' Retirement Fund, pending receipt and analysis of an amended expenditure plan (Item 1900-001-830).	253
3. ***Out-of-State Travel. Reduce Item 1900-001-830 by $15,000.*** Recommend deletion to correct for overbudgeting (Item 1900-001-830).	254

GENERAL PROGRAM STATEMENT

The Public Employees' Retirement System (PERS) administers retirement, health and related benefit program that will serve an estimated 811,882 active and retired public employees in 1982–83. The participants in these programs include state constitutional officers, members of the Legislature, judges, state employees, most nonteaching school employees and other California public employees whose employers elect to contract for the benefits available through the system.

PERS administers the coverage and reporting aspects of the Federal Old Age Survivors, Disability and Health Insurance program, which is mandatory for state employees and is available to local public workers whose employers elect such coverage. The health benefits program offers state employees, and other public employees, a number of health benefits and major medical plans on a premium-sharing basis.

The system administers a number of alternative retirement plans through which the state and the contracting agencies provide their employees with a variety of benefits. The costs of these benefits are paid from employer and employee contributions, based on specified percentages of each employee's salary. These contributions are designed to fund the long-term actuarial cost of the various benefits provided. For state employees and nonteaching local school employees, the contribution rates are determined by state law, and are adjusted when any statutory change is made in the benefits. For contracting local agencies, the employer and employee rates are determined by PERS actuaries, based on the cost of the particular benefit package approved by the respective governing bodies of these agencies.

The PERS is managed by a Board of Administration, the members of which are either elected by specified membership groups or appointed by the Governor. The PERS is under the administrative jurisdiction of the State and Consumer Services Agency.

The PERS has a total authorized staff of 692.6 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total net expenditures of $26,591,000 from various funds for support of PERS in 1983–84. This is a decrease of $7,248,000, or 21.4 percent, from estimated current-year expenditures. This, however, makes no allowance for the cost of any salary or staff benefit increase that

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

may be approved for the budget year.

The apparent reduction of $7.2 million in proposed expenditures by the PERS is misleading. The decrease reflects a technical change in budgeting, rather than a true reduction in expenditures. In the prior and current years, the annual General Fund appropriation for local PERS retirement program costs mandated by legislation have been included in the PERS budget. In the 1983–84 budget, this appropriation ($8,265,000) is proposed under separate item ("Mandated Local Programs"—Item 9680-101-001) in the General Government portion of the budget. If adjustments are made for this change, the net total expenditure of $26,591,000 proposed for 1983–84 actually is $1,017,000, or 3.0 percent, *above* estimated current-year expenditures.

Staffing, expenditures and funding sources are shown for the PERS in Table 1, for the past, current and budget years.

Table 1
Summary of Public Employees' Retirement System Budget Requirements (dollars in millions)

	Staff-Years			*Expenditures*		
Program	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
Retirement	548.2	596.2	594.3	$20.1	$22.3	$23.4
Social Security	15.7	17.1	17.1	0.5	0.5	0.5
Health Benefits	51.4	53.5	53.6	2.0	2.2	2.3
Redesign Projects	20.7	14.0	14.0	1.0	1.3	1.1
Administration:						
Distributed to other programs	(196.3)	(219.6)	(216.7)	(10.2)	(11.8)	(12.2)
Undistributed	12.7	11.8	27.2	0.6	0.5	0.6
Legislative Mandates	—	—	—	6.7	8.3	(8.3) [a]
Totals	648.7	692.6	706.2	$30.9	$35.1	$27.9
Reimbursements	—	—	—	−1.2	−1.3	−1.3
Net Totals	648.7	692.6	706.2	$29.7	$33.8	$26.6
Funding Source						
General				$6.9	$8.5	$0.2 [b]
Public Employees' Retirement				20.7	23.0	24.0
Public Employees' Contingency Reserve				2.0	2.2	2.3
Legislators' Retirement				0.1	0.1	0.1
Volunteer Firefighters' Length of Service Award				0.01	0.05	0.05
Net Total Funding				$29.7	$33.8 [c]	$26.6

[a] Beginning in 1983–84, this expenditure is budgeted under Item 9680 in the General Government portion of the budget.

[b] Includes proposed expenditures of $57,000 for Social Security administration and $127,000 for administration of the Judges' Retirement System, payable from the General Fund.

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

Budget-Year Changes

The budget proposes a staff increase of 25.5 positions. This increase is proposed to meet existing and anticipated workload resulting from a new federal law affecting PERS benefits and a recent court decision, and to improve administrative services.

Specifically, under the retirement program (1) seven new positions are proposed to comply with recently enacted federal income tax withholding requirements, (2) two positions will be needed to comply with a court decision which deemed holiday pay and uniform allowances to be part of employees' compensation and therefore requires PERS to recalculate benefits for safety members and (3) one limited-term position is extended to meet ongoing workload in the Refund Section. Under the administration program, (1) 12.5 positions are added to improve internal administration, redesign and auditing functions and (2) 3 positions are proposed to handle the increasing management workload associated with construction of the new PERS headquarters building.

Partially offsetting the staff increase is the proposed deletion of three positions (two attorneys and one legal typist) from the PERS Legal Office. According to the budget document, this reduction reflects a policy decision made by the administration to centralize the provision of legal services in the Department of Justice, and to limit the use of legal positions in the individual departments to the highest priority areas. The impact of this reduction on PERS will be discussed later in this analysis.

The budget proposes a total of $859,000 in merit salary and benefit increases for existing staff. A major portion of this increase is attributed to restoration of the employer's retirement contributions, following a one-time reduction in the contribution rate during the January-June 1983 period.

Table 2

Budget-Year Changes (By Fund)

		Expenditures (in thousands)		
	Staff Years	*General Fund*	*Nongovernmental Cost Funds*[a]	*Total*
1982–83 Revised Net Budget	683.7[b]	$8,478	$25,361	$33,839
1. Workload Changes				
a. Retirement program	10.0	—	253	253
b. Consolidated Data Center	—	—	340	340
c. New PERS building coordinators	3.0	—	63	63
d. Administration program	10.5	—	133	133
e. Internal auditing program	2.0	—	68	68
2. Cost Changes				
a. Merit salary and benefit increases	—	—	859	859
b. License fee for actuarial program	—	—	12	12
c. Recruitment of new executive officer	—	—	25	25
d. Data processing costs	—	—	−140	−140
e. External consultant services	—	—	−547	−547
f. Other operating costs (net)	—	−29	11	−18
3. Program Change Proposals				
a. Redesign of actuarial programs	—	—	100	100
b. Reduction of in-house legal staff	−3.0	—	−131	−131
c. Legislative mandates	—	−8,265	—	−8,265
1983–84 Proposed Net Budget	706.2	$184	$26,407	$26,591
Net Increase Over 1982–83 Proposed Budget	22.5	−$8,294	$1,046	−$7,248

[a] Includes the Public Employees' Retirement Fund, the Public Employees' Contingency Reserve Fund, Legislators' Retirement Fund and the Volunteer Firefighters' Length of Service Award Fund.

[b] Total authorized positions, adjusted for salary savings and new positions established during 1982–83.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

In the operations category, additional funds are proposed for (1) interdepartmental consulting services, including $100,000 for redesign of the computerized actuarial programs, (2) data processing at the Teale Center ($340,000), (3) costs associated with recruitment of a new executive officer, (4) pro-rata charges, and (5) other operating expenses. The budget proposes to reduce support for external consultants and data processing costs by $547,000 and $140,000, respectively, due to the completion of several computerized retirement administration and accounting programs.

The budgetary impact of these changes is shown in Table 2. Our analysis of the information submitted in support of these changes indicates that, with the exception of those discussed below, the proposed changes are warranted.

Delays in Service to Members

In response to a growing number of complaints from members about significant delays in PERS service, we examined the adequacy of the services provided by PERS staff.

Our analysis indicates that a growing backlog in certain key sections of the system is primarily responsible for the delays in service to members. These sections are the Member Services Section in the Membership Division and the Processing Unit in the Benefits Division of the system. The Member Services Section is responsible for maintaining members' records and making changes in service credit and contributions. The Processing Unit in the Benefits Division handles all applications for PERS benefits and inquiries from members concerning benefits.

Statistics compiled by the PERS show an accumulated backlog of work totaling approximately 40,000 staff hours (equivalent to 23 staff-years) in the Benefits Division and 15,000 staff hours (equivalent to 8.5 staff-years) of the Membership Division, as of December 1982. In the Membership Division, this backlog increased the average response time for requested changes in service records to 11 months. The average response time considered desirable by this division is 6 months. In the Benefits Division, the desired processing time of applications from the receipt of the application to the payment of the first benefit check is 2 months, rather than the current 3–12 months. Table 3 shows the processing record of this division during 1981–82 for the various benefits paid, as compiled by the PERS.

Table 3

PERS Benefits Division

Percent of Total Applications Processed in 1981–82

from Date of Receipt

Benefits category	*0–2 months*	*3–6 months*	*6 months–1 year*	*Total*
Service retirement	87%	11%	2%	100%
Disability retirement	35	41	24	100
Industrial disability	46	35	19	100
Pre-retirement death	28	54	18	100
Post-retirement death	63	30	7	100

Table 3 shows that, with the exception of service retirement and post-retirement death benefits, the PERS was unable to meet its desired processing time for more than one-half of the benefit applications received during 1981–82. The resulting delay in receipt of payment may be critical, particularly for recipients of disability and death benefits.

There are numerous reasons for the backlog and the resulting delays in processing time. Some of the delay may be due to incorrect or incomplete applications, or may be caused by the employers in processing and forwarding the paperwork to PERS. The majority of the delays, however, are PERS-related. The PERS advises us that the factors which are primarily responsible for these delays include (1) staff shortage in the critical processing and computing units, (2) recent past changes in eligibility requirements, service and interest crediting rates (which increased workload, but were not accompanied by staff increases), (3) high turnover among key technicians in the processing units and (4) shortage of supervisors who assign and monitor workload in the critical processing units.

Our review indicates that approval and strategic allocation of additional staff may solve the problem of delays in the long run, but will not alleviate these problems in the short term. This is because it takes 6 months to 1 year, and the use of considerable supervisor-time, to train new PERS employees for work in the critical processing units.

PERS Management Study is Needed

We recommend that supplemental report language be adopted directing the PERS, in cooperation with the Department of Finance, to conduct a management review of the delays in processing applications for benefits and record-changes within the Benefits and Membership Division of PERS, and to report its findings and recommendations to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1983.

In recent years, the PERS has requested and received substantial staff increases. A large portion of these increases were allocated to the administration and redesign programs, rather than used to address the accounting backlog in the retirement program.

Our analysis indicates that certain management actions should be considered by the PERS as a means of alleviating the delays in providing service to members. These management actions might include (1) redistributing existing PERS staff to sections with the most serious backlog problems, (2) establishing a task force, composed of existing, cross-trained technicians and supervisors capable of handling various types of workloads, and (3) allocating budgeted overtime funds to units with the greatest need, in order to ease the backlog problem.

In July 1982, the Membership Division established a Staff Advisory Group to investigate the backlog problem in its Member Services Section, and to make recommendations for alleviating the problem. Charged with specific responsibilities, this group is scheduled to report its findings and recommendations to the division chief by August 1983. The Benefits Division is also considering a management review of the backlog problem in its processing and benefit calculation units.

We believe that completion of an internal PERS review of the backlog problem is essential if a solution to this problem is to be found. Therefore, we recommend adoption of the following supplemental report language:

"The PERS, in cooperation with the Department of Finance, shall conduct a management review of the delays in processing applications for benefits and record-changes within the Benefits and Membership Divi-

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sions, and report its findings and recommendations to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1983."

Significant Changes in the Public Employees' Retirement Law

During its 1981–82 Regular Session, the Legislature enacted and the Governor signed Senate Bill 46 (Ch. 330/82) which made a number of significant changes in the Public Employees' Retirement Law. Effective June 30, 1982, this statute:

1. Reduces permanently the employers' retirement contribution rates for state and school members of the PERS by specified amounts, based on actuarial experience. As shown in Table 4, this reduction will result in estimated total savings of $66.8 million (all state funds) in 1982–83, increasing annually thereafter in proportion to the increase in payrolls for state and certified school members of the PERS;
2. Authorizes the PERS Board of Administration to further reduce PERS contribution rates for state, school and contracting agency employers during the January–June 1983 period, if such reduction would not adversely affect the system's actuarial integrity. Accordingly, the PERS board authorized additional, temporary reductions in state employer's contribution rates for the January–June 1983 period, as shown in Table 4. For employers of PERS school members and contracting agency members, similar relief was provided in the form of a contribution credit, to be applied evenly during the January–June 1983 period, instead of a percentage reduction in their contribution rates. These reductions and the PERS administrative actions will result in total estimated savings during 1982–83 of $254 million to the state, $73 million to school employers and $132 million to local contracting agencies;
3. Requires the PERS crediting rate (the annual interest rate paid by the PERS on employers' and employees' retirement contribution accounts) to be no less than the actuarial interest-earning rate. In recent years, the crediting rate has lagged behind the actuarial interest rate, resulting in the accumulation of reserves for deficiencies in the Public Employees' Retirement Fund (PERF) reaching nearly $1 billion;
4. Restricts the use of the PERF reserve for specified purposes, and limits the amount of the reserve to an amount equal to 1 percent of total PERS assets at the end of each fiscal year;
5. Extends, for a two-year period, an *ad hoc* cost-of-living adjustment of 10 percent in pensions paid to all PERS retirees and beneficiaries eligible to receive benefits as of December 31, 1979. The act requires a transfer of $130 million from the PERF reserves (in excess of the 1 percent of assets) for the payment of this *ad hoc* benefit during the October 1982–September 1984 period; and
6. Designates the earnings on PERS assets which exceed actuarial liabilities, specified crediting obligations and PERS administrative costs to be used for (a) supplemental crediting of interest to employers' and employees' PERS contribution accounts, (b) additional reduction in employers' PERS contributions and (c) establishment of an Investment Dividend Disbursement Account (IDDA) for future cost-of-living adjustments to PERS retirees and beneficiaries during the 1984–1989 period.

Table 4
Changes in Employers' PERS Contribution Rates Pursuant to Ch. 330/82 (percent of applicable salaries)

PERS Membership	*Permanent Rate Prior to 7/1/82*	*Permanent Rate effective 7/1/82*	*Temporary Rate January–June 1983*[c]	*Change from Current Permanent Rate*
State miscellaneous	19.563%	18.345%	8.773%	−9.572%
State industrial	20.263	18.971	11.055	−7.916
State safety	20.409	20.339	12.423	−7.916
Highway Patrol	31.995	23.113	15.197	−7.916
School employees	13.020	12.045	—[a]	—
Contracting agency employees	Various[b]	Various[b]	—[a]	—

[a] School and contracting agency employers receive a credit which they deduct from their monthly PERS contributions during the January–June 1983 period, rather than a reduction in their respective contribution rates.

[b] Varies, depending on the membership classification of the employees and provisions of the contract with PERS.

[c] These rates will terminate June 30, 1983 and contributions will be based on permanent rates effective July 1, 1982, unless changed by prior legislative and PERS Board action.

Excess Reserves Finance Benefits for State Employees and Increased Aid to Education

Under provisions of Chapter 330 and corresponding provisions in the 1982 Budget Act, the PERS Board took action to finance certain benefits provided to state employees during 1982–83 by replacing a total of $254 million in state funds in the budget with the state's share of excess reserves in the PERF. This was accomplished by (a) reducing the state's (employer's) PERS contributions during the January–June 1983 period, as shown in Table 4, (b) additional crediting of interest on retirement contributions in state employer's PERS accounts, (c) transferring excess funds in special benefit accounts, and (d) extending the funding period for benefits of state PERS members from 25 years to 30 years. The loss to the employers' account in PERF resulting from these actions was made up by a transfer of $254 million from the state's share of the excess reserves in the PERF.

These actions freed up $254 million in state funds which were used, pursuant to the 1982 Budget Act, to finance benefits for state employees (including merit salary and benefit adjustments, and a $50 per month reduction in most state employees' PERS contributions) and an additional $50 million for school apportionments during 1982–83.

Funding of Investment Office Uncertain

We withhold recommendation on $674,000 budgeted as a reimbursement from the State Teachers' Retirement Fund for investment services provided by the PERS to the State Teachers' Retirement System (STRS), pending receipt and analysis of an amended expenditure plan which is consistent with statutory requirements (Item 1900-001-830).

The budget proposes that the PERS will receive $674,171 in reimbursements from the State Teachers' Retirement Fund for investment services to be performed for the STRS through interagency agreement in 1983–84.

An analysis indicates that the proposal to budget funding for these services as reimbursements is not consistent with the provisions of Chapter 1434/82 (AB 3163). Effective July 1, 1983, this act prohibits the STRS from employing, through interagency agreement, any investment personnel which also concurrently serve as investment staff to the PERS.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

The budget document acknowledges that provisions of Chapter 1434 will result in the loss of the budgeted reimbursements from the STRS. The budget also states that, at the time it was prepared, the STRS had not completed its proposal for implementing Chapter 1434 and the PERS had not completed its analysis of the fiscal impact of this act on its Investment Office. Consequently, the budget does not reflect any change in the current method for funding this function, as the law requires. The budget document states that an amended expenditure plan will be submitted by the Department of Finance prior to legislative consideration of this item.

Pending receipt and analysis of an amended expenditure plan for the PERS Investment Office, we withhold recommendation on the $674,000 budgeted as reimbursement from the State Teachers' Retirement Fund.

Out-of-State Travel Overbudgeted

We recommend a reduction of $15,000 from the Public Employees' Retirement Fund (Item 1900-001-830) because the proposed 100 percent increase in out-of-state travel has not been justified.

The budget proposes $87,000 for out-of-state travel by the PERS Board and staff in 1983–84. This is $21,000, or 31 percent, more than estimated 1982–83 expenditures for this purpose. Of the $87,000, $30,000 is proposed for trips to inspect out-of-state properties to be considered for the PERS mortgage and real estate equity investment programs. This is 100 percent more than the $15,000 budgeted for this purpose in 1982–83, and 132 percent higher than the $12,925 actually spent during 1981–82.

Our analysis indicates that a 100 percent increase for intrastate travel associated with the real estate investment programs is unjustified, for the following reasons:

1. PERS records show that only $5,442 (36 percent) of the $15,000 budgeted for this purpose in the current year had been spent as of December 31, 1982. Given the travel freeze imposed by the Governor on January 3, 1983, it is reasonable to assume that actual 1982–83 expenditures will not exceed the $12,925 spent for real estate travel outside California in 1981–82.
2. Taking this $12,925 as a budgeting base and applying a 7 percent price increase for 1982–83 and a 5 percent price increase for 1983–84, the amount justified for 1983–84 would seem to be approximately $15,000, rather than the $30,000 proposed.

For these reasons, we recommend that $15,000 requested for out-of-state travel be deleted from the proposed budget.

Proposed Reduction in Legal Staff

The budget proposes to reduce the existing staff of the PERS Legal Office by three positions (two staff counsels and one legal typist) and delete a total of $131,000 supporting these positions. According to the budget document, this proposal reflects the administration's overall policy decision to increase reliance on the centralized legal services of the Department of Justice by reducing the number of legal and support positions in state entities. The proposed reduction would eliminate one-third of the currently authorized staff of the PERS Legal Office.

During recent years, there has been an increase in the number of legal challenges involving various PERS benefits and retirement rights, resulting in a growing number of administrative and court hearings. In 1979, the Department of Justice authorized the PERS Legal Office to represent the system in these types of cases, in order to handle the increasing workload. Subsequently, the PERS legal staff was increased by two attorney positions.

If this trend in PERS legal workload continues in 1983–84, the proposed reduction in PERS legal staff will require a corresponding increase in legal services provided by either the Attorney General or private counsel.

Our analysis indicates that the amount budgeted by the PERS for Attorney General's legal services in 1983–84 is $77,177 more than the amount reflected in the Attorney General's budget. The excess may be used by the PERS to purchase additional legal services as needed, either from the Attorney General or from private counsel, to handle the additional legal workload.

In the event the Attorney General, or private counsel cannot provide legal services to the PERS in a timely manner, the system may forego or lose administrative or judicial challenges of retirement benefits, resulting in potentially major growth in retirement program costs.

Legislative Mandates Underfunded

The 1983–84 budget proposes a General Fund appropriation of $8,265,-000 (Item 9680-101-001) to reimburse local entities for their costs of complying with various legislative mandates involving additional employer's PERS contributions. This appropriation is $1,149,000, or 12.2 percent, less than the revised estimate of current-year expenditures. The amount is shown under Item 1900 but is proposed to be appropriated under a new item 9680, in the General Government section.

The apparent reduction of $1.1 million in budgeted expenditures is misleading and is unlikely to occur. The budget estimate is based on *actuarial estimates,* while the revised, current-year cost estimate is based *on claims actually filed* for reimbursements. Historically, claims filed have exceeded the actuarial estimates, and the difference have been covered by deficiency appropriations in the claims bill. For example, the 1982–83 claims bill augmented the amount appropriated for the current year by $1,128,000. Based on this experience, it is reasonable to assume that the actuarial estimate for 1983–84 underfunds these mandates by a similar amount. The projected 1983–84 costs of these mandates will be adjusted in December 1983, when a more accurate cost estimate can be developed, based on actual claims filed.

The 1983–84 appropriation is based on the estimated, amortized costs of four mandates as follows:

	Amount (thousands)
1. Ch 1398/74 (AB 2926) Retirement credit for unused sick leave for PERS school members	$1,300
2. Ch 1170/78 (AB 2545)—Pension increase for certain retired school members of PERS	5,100
3. Ch 1036/79 (SB 629)—Cost of living increase for retired school members of PERS	1,620
4. Ch 799/80 (SB 162) increased death benefits to survivors of PERS school members	245
Total	$8,265

STATE TEACHERS' RETIREMENT SYSTEM

Item 1920 from the State Teachers' Retirement Fund and the Teacher Tax-Sheltered Annuity Fund — Budget p. SCS 121

Requested 1983–84	$11,486,000
Estimated 1982–83	10,898,000
Actual 1981–82	10,380,000
Requested increase (excluding amount for salary increases) $588,000 (+5.4 percent)	
Total recommended reduction	None
Recommendation pending	$1,565,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1920-001-835	—Retirement Administration	State Teachers' Retirement	$11,424,000
1920-001-963	—Annuity Administration	Teacher Tax-Sheltered Annuity	62,000
Total			$11,486,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Staff Benefits. Withhold recommendation on $945,000 budgeted for staff benefits, pending submittal of a revised budget. (Items 1920-001-835 and 1920-001-963). 258
2. Investment Services Budget. Withhold recommendation on $620,000 budgeted for investment services from PERS, pending receipt and analysis of an amended expenditure plan (Item 1920-001-835). 258
3. Legal Staff Reduction. Recommend the STRS report prior to budget hearings on its plans to handle workload with a reduced legal staff. 259

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for providing retirement benefits to public school teachers. The system is managed by the State Teachers' Retirement Board, and is under the administrative jurisdiction of the State and Consumer Services Agency.

The primary responsibilities of the STRS include (1) maintaining a fiscally sound plan for funding approved benefits, (2) providing authorized benefits to members and their beneficiaries in a timely manner, and (3) furnishing pertinent information to teachers, school districts, and other interested groups. In addition to having overall management responsibility for STRS, the board reviews applications for benefits provided by the system.

Funding for the benefits provided by the system is discussed under "Contributions to the Teachers' Retirement Fund" (Item 6300).

The STRS has a total authorized staff of 280 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes two appropriations of $11,486,000 from the Teachers' Retirement Fund and the Teacher Tax-Sheltered Annuity Fund for support of the STRS in 1983–84. This is $588,000, or 5.4 percent, more than estimated 1982–83 expenditures. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

Table 1 shows the staffing, expenditures and funding sources for the STRS in the past, current and budget years.

Table 1
State Teachers' Retirement System
Summary of Budget Requirements and Funding
(dollars in millions)

	Staff-years			*Expenditures*		
Programs	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
Administration	18.6	22.3	22.3	$1.2	$1.3	$1.4
Operations (records) [a]	70.8	5.0	5.0	2.3	0.2	0.3
Member services	89.6	112.3	110.3	3.2	4.1	4.2
Accounting	30.3	30.0	30.0	1.2	1.2	1.3
Data processing	37.3	39.2	39.2	1.5	1.6	1.7
Management services	26.4	28.7	27.7	1.3	1.3	1.3
External operations [a]	—	42.5	41.5	—	1.5	1.6
Totals	273.0	280.0	276.0	$10.7	$11.2	$11.8
Reimbursements	—	—	—	−0.3	−0.3	−0.3
Net Totals	273.0	280.0	276.0	$10.4	$10.9	$11.5
Funding						
Teachers' Retirement Fund				$10.3	$10.8	$11.4
Teacher Tax-sheltered Annuity Fund				0.1	0.1	0.1
Net Total Funding				$10.4	$10.9	$11.5

[a] New programs resulting from internal reorganization of the STRS during 1982.

Budget-Year Changes

The budget proposes to establish permanently two limited-term positions to continue a rehabilitation program for STRS disabilitants. The program, established during 1981–82 as a pilot project, is designed to rehabilitate STRS members with an occupational disability through medical and vocational counseling. The STRS statistics show that the program avoided an estimated $1 million in future retirement program costs by returning STRS disabilitants to the workforce during its two years of operation. For this reason, the budget proposes to continue the program on a permanent basis, at an increased cost of $24,000. The increase will be used for consultant services, primarily for vocational counseling.

The budget proposes the deletion of three positions (two staff counsels and one legal typist) from the STRS Legal Office and $131,000 in supporting funds, as part of the administration's policy to encourage the use by state entities of the Department of Justice for legal services.

The proposed budget-year changes also include additional operating expenses for (1) actuarial valuation and experience analysis required by state law ($73,000), (2) new computer equipment for the on-line information system ($124,000), (3) increased prorata charges ($211,000) and (4) $224,000 for restoration of the system's PERS contributions following a

STATE TEACHERS' RETIREMENT SYSTEM—Continued

one-time reduction in these contributions during 1982–83.

The budgetary impact of these and other changes proposed for 1983–84 is shown in Table 2.

Table 2

Budget-Year Changes

	Expenditures[a] (thousands)
1982–83 Revised Budget	$10,898
1. Program Change Proposals	
a. Continue rehabilitation program on a permanent basis	24
b. Reduction of in-house legal staff	–131
2. Cost Changes	
a. Actuarial valuation and experience analysis	73
b. Equipment for computerized information system	124
c. Prorata charges	211
d. Restored retirement contributions	224
e. Other cost changes	63
1983–84 Proposed Net Budget	11,486
Net Increase Over 1982–83 Revised Budget	$588

[a] Includes expenditures from the State Teachers' Retirement Fund and the Teacher Tax Sheltered Annuity Fund.

Staff Benefits Underbudgeted

We withhold recommendation on $945,000 budgeted for staff benefits, pending submittal of a revised budget by STRS and the Department of Finance (Items 1920-001-835 and 1920-001-963).

The budget requests $6,289,000 for STRS personal services. This amount includes $945,000 budgeted for staff benefits, including retirement, health, unemployment and other insurance contributions, assuming a staff of 276 positions in 1983–84. The $945,000 is 17.7 percent of the $5,344,000 in net total salaries and wages budgeted for these positions.

Our analysis shows that the actual cost of staff benefits in 1981–82 was $1,612,000 for 273 positions. The $1.6 million amounted to 31.5 percent of the $5.1 million spent by STRS for salaries and wages during 1981–82. On the basis of actual experience, it is clear that the $945,000 proposed for staff benefits will not be sufficient to fund the cost of benefits that the STRS will be required to pay in 1983–84.

Therefore, we withhold recommendation on the amount budgeted for staff benefits, pending submittal of a revised budget which adequately funds staff benefits.

Funding of Investment Services Uncertain

We withhold recommendation on $620,000 budgeted for investment services to be provided by the Public Employees' Retirement System (PERS) to the STRS, pending receipt and analysis of an amended expenditure plan for these services which is consistent with statutory requirements (Item 1920-001-835).

The budget proposes the expenditure of $620,000 for STRS investment services to be performed by the PERS investment staff through interagency agreement in 1983–84.

Our analysis indicates that budgeting for this service through the PERS is inconsistent with the provisions of Chapter 1434/82 (AB 3163). Effective July 1, 1983, that statute prohibits the STRS from employing, through interagency agreement, any investment personnel which also concurrently serves as investment staff to the PERS.

The budget document states that at the time the budget was prepared STRS had not determined how it will implement Chapter 1434. The budget indicates that the STRS is considering establishing its own in-house investment unit, and an appropriate expenditure plan for such a unit will be submitted by the Department of Finance prior to budget hearings.

Pending receipt and analysis of an amended expenditure plan for investment of STRS assets, we withhold recommendation on the $620,000 budgeted for investment services from the PERS.

Proposed Reduction in STRS Legal Staff

We recommend that the STRS report to the Legislature prior to the budget hearings on how it plans to handle its workload with a reduced legal staff.

The budget proposes to reduce the existing staff of the STRS Legal Office by three positions (two staff counsels and one legal typist), and to delete a total of $131,000 supporting these positions. According to the budget document, this proposal is part of the administration's statewide policy designed to encourage the provision of legal services on a centralized basis through the Department of Justice, and to minimize duplilcation of these services by the legal staff employed by individual state entities. The proposed reduction would eliminate approximately one-half of the currently authorized staff of the STRS Legal Office.

In recent years, there has been a steady increase in the STRS legal workload, as a result of (1) a growing number of legal challenges involving retirement benefits and (2) increasing complexity in the administration and investment of the system's assets. Prior to 1976, the workload of the STRS Legal Office consisted primarily of in-house legal support to the STRS Board and staff, as well as research assistance to the Attorney General for legal opinions and representation in legal disputes. Beginning in 1976, the STRS Legal Office assumed responsibility for drafting opinions on STRS legal matters. In 1979, the Attorney General delegated to the STRS legal staff the responsibility for making court appearances and filings on all joinder dissolution of marriage cases involving STRS benefits, as well as representation of the system's interests in administrative hearings held in northern California. These delegations were made in order to facilitate the handling of the STRS legal workload. As a result of these delegations and a growing STRS workload in the investment area, the STRS legal staff was increased by two attorney positions in 1982.

If recent trends, in STRS legal workload continue during 1983–84, as we expect them to, the proposed reduction of three positions from the STRS Legal Office will require the STRS to purchase additional legal services, either from the Attorney General or from private counsel.

In the event the STRS cannot purchase additional legal services, or the Attorney General and private counsel cannot provide legal services in a timely manner, the STRS may forego or lose legal challenges involving retirement benefits. This may accelerate the growth in STRS retirement program costs.

For these reasons we recommend the STRS report to the Legislature prior to the budget hearings on how it plans to handle its workload with a reduced legal staff.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA

Items 1960–1970 from the General Fund and special funds — Budget p. SCS 125

Requested 1983–84	$34,811,000
Estimated 1982–83	32,292,000
Actual 1981–82	30,879,000
Requested increase (excluding amount for salary increases) $2,519,000 (+7.8 percent)	
Total recommended reduction	$72,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1960-001-001	—Administration/Veterans Claims and Rights	General	$2,074,000
1960-001-592	—Administration	Cal-Vet Farm and Home	703,000
Continuing Appropriation	—Administration	Cal-Vet Farm and Home	12,487,000
Continuing Appropriation	—Administration	Cal-Guard Farm and Home	386,000
1970-011-001	—Veterans' Home	General	18,741,000
1960-101-001	—Local Assistance	General	420,000
1970-011-890	—Veterans' Home	Federal Trust	(8,869,000)
Total			$34,811,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Department Legal Services Unit. Recommend department report to the fiscal committees, prior to budget hearings, on measures it plans to take to reduce the backlog in its legal services unit. 263
2. New Positions. Recommend three positions proposed for the Veterans' Home be limited to June 30, 1985, to reflect projected automation efficiencies. 263
3. Automation Project. Recommend department report to the fiscal committees by October 15, 1984, on potential savings from the Veterans' Home automated management system. 264
4. ***Operating Expenses. Reduce Item 1970-001-001 by $72,000.*** Recommend deletion to correct for overbudgeting. 264

GENERAL PROGRAM STATEMENT

The Department of Veterans Affairs provides services to California veterans and their dependents, and to eligible members of the California National Guard, through five programs:

1. ***Cal-Vet Farm and Home Loan.*** Provides low-interest farm and home loans to qualifying veterans, through the sale of general obligation and revenue bonds.

2. *Veterans Claims and Rights.* Assists eligible veterans and their dependents in obtaining federal and state benefits, by providing claims representation, county subventions, and direct educational assistance to qualifying veterans' dependents.

3. *The Veterans' Home.* Provides approximately 1,400 California war veterans with several levels of medical care, rehabilitation services, and residential services.

4. *Cal-Guard Farm and Home Loan.* Provides low-interest farm and home loans to qualifying National Guard members through the sale of revenue bonds.

5. *Administration.* Provides for implementation of policies established by the California Veterans Board and the department director.

The department is authorized to have 1,318.5 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $34,811,000 from various state funds for support of the department in 1983–84. This is an increase of $2,519,000, or 8 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.

Table 1
Department of Veterans Affairs
Funding Summary
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change from 1982–83 Amount*	*Change from 1982–83 Percent*
General Fund:					
Item 1960-001-001 (Claims and Rights/Administration)	$2,187	$2,046	$2,074	$28	1.4%
Item 1970-011-001 (Veterans' Home)	16,771	17,027	18,741	1,714	10.1
Item 1960-101-001 (Veteran Service Offices)	420	420	420	—	—
Totals, General Fund	$19,378	$19,493	$21,235	$1,742	8.9%
Special Fund (Cal Vet):					
Item 1960-001-592 (Department Administration)	$583	$720	$703	−$17	−2.4%
Continuing Appropriation (Loan Program Administration)	10,655	11,722	12,487	765	6.5
Loans, debt service, taxes	693,606	793,072	845,850	52,778	6.7
Totals, Cal-Vet Fund	$704,844	$805,514	$859,040	$53,526	6.6%
Special Fund (Cal-Guard):					
Continuing Appropriation (Department Administration)	$18	$34	$36	$2	5.9%
Continuing Appropriation (Loan Program Administration)	245	323	350	27	8.4
Loans, debt service, taxes	14,918	16,698	23,832	7,134	42.7%
Totals, Cal-Guard Fund	$15,181	$17,055	$24,218	$7,163	42.0%
Federal Funds	8,253	9,755	8,869	−886	9.1
Reimbursements	3,691	3,932	4,021	89	2.3
Grand Totals	$751,347	$855,749	$917,383	$61,634	7.2%

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued

As shown in Table 1, expenditures from all funding sources, including federal funds and reimbursements, plus the cost of loans, debt service, and taxes for the Cal-Vet and Cal-Guard loan programs, are proposed at $917,383,000 in the budget year. This is $61,634,000, or 7.2 percent, above the estimated level of these expenditures and costs in 1982–83.

The budget proposes expenditures of $21,235,000 from the *General Fund* for support of veterans' claims and rights, educational grants, the Veterans' Home, and county veteran service offices in 1983–84. This is an increase of $1,742,000, or 8.9 percent, above the current-year level. The *special fund* expenditures under the two loan programs will provide for (1) a portion of the department's administrative costs, (2) administration of the loan programs, and (3) the cost of property tax, interest, and insurance payments on behalf of participating home buyers. The federal funding shown in Table 1 consists of direct medical and billet payments received by the department from the federal government on behalf of residents of the Veterans' Home. The reimbursements include federal "aid and attendance" payments made to disabled veterans who require special assistance, and fees paid directly by the veterans.

Table 2 summarizes the department's expenditures and personnel-years, by program, for the prior, current, and budget years.

Table 2
Department of Veterans Affairs
Program Cost Summary
(dollars in thousands)

				Change from 1982–83	
Expenditures	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Amount*	*Percent*
Farm and Home Loan—Cal Vet	$704,844	$805,514	$859,040	$53,526	6.6%
Claims and Rights	2,328	1,959	1,956	−3	−0.2
Veterans' Home	28,994	31,221	32,169	948	−3.0
Farm and Home Loan—Cal Guard	15,181	17,055	24,218	7,163	42.0
Administration	(1,146)	(1,389)	(1,404)	(15)	(1.1)
Totals	$751,347	$855,749	$917,383	$61,634	7.2%
Personnel-Years					
Farm and Home Loan—Cal Vet	272.1	292.4	291.1	−1.7	−0.4
Claims and Rights	37.9	36.3	34.3	−2.0	−5.5
Veterans' Home	891.3	969.2	956.2	−13.0	−1.3
Farm and Home Loan—Cal Guard	6.3	6.8	6.8	—	—
Administration	(29.8)	(35.7)	(33.7)	(−2.0)	(−5.6)
Totals	1,207.6	1,304.7	1,288.4	−16.3	−1.3%

Cal-Vet Farm and Home Loan Program

The budget proposes $859,040,000 for the Cal-Vet Farm and Home Loan program in 1983–84. This is an increase of $53,526,000, or 7 percent, over estimated current-year expenditures. The budget-year appropriation proposed for the Cal-Vet program is expected to finance approximately 7,400 new loans amounting to $336,550,000. Because the department is the legal owner of the property financed with Cal-Vet funds, *it* is responsible for paying property taxes and insurance on this property. These costs are expected to total $107,000,000 in 1983–84. The budget also includes $13,190,000 for loan processing and servicing, and program administration.

Interest payments, redemption of bonds, and costs associated with selling new bonds are projected to total $402,300,000. The interest payments are primarily responsible for the increase in expenditures during the budget year.

Backlog in Cal-Vet Program

We recommend that the department report to the fiscal committees, prior to budget hearings, on what measures it plans to take to reduce the backlog in its legal services unit.

The budget proposes deleting one attorney from the department's legal staff of two attorneys, for a $54,000 savings to the Cal-Vet fund. This reduction reflects a policy decision by the administration to reduce the number of attorney positions in the line agencies in order to centralize the provision of state legal services in the Department of Justice. At the same time that it is eliminating this position, however, the budget is also proposing one new attorney position and one clerical position in the department's legal services unit. Both positions were administratively established during the current year to respond to a significant increase in the workload of this unit. The net effect of these two budget adjustments is to leave the department with the same number of attorneys—two—as authorized in the 1982 Budget Act.

The legal services unit currently has a large and growing backlog, due to a substantial increase in the number of foreclosure cases requiring legal action. The number of active cases of all types—including foreclosures—at year-end, has risen from 75 in June 1980, to 120 in June 1981, and to 244 in June 1982. The backlog has developed because there has been no increase in output per attorney to offset the increase in workload. Our analysis indicates that the staffing level proposed in the budget will not be sufficient to eliminate—or even stablize—the current backlog. According to the department's data, failure to eliminate the backlog could result in a major loss of revenue.

The department estimates that the 156 foreclosure actions that are now pending involve loans that amounted to $7.8 million as of July 1, 1982. Department staff indicate that further delays in resolving these cases may result in a revenue loss of approximately $1 million annually.

Given this potential revenue loss, we recommend that the department report to the fiscal committees, prior to budget hearings, on what measures it plans to take to reduce the backlog in its legal services unit.

Veterans' Home

The budget proposes appropriations totaling $32,169,000 from various funds for support of the Veterans' Home in 1983–84. This is $948,000, or 3.0 percent, above estimated current-year expenditures. General Fund expenditures, including the allocation of headquarters administrative costs, are proposed at $19,279,000, and expenditures from federal funds are expected to be $8,869,000. Reimbursements are estimated at $4,021,000, with $3,375,000 of that amount coming from fees paid by members.

New Positions May not be Needed Permanently

We recommend that three proposed positions be limited to June 30, 1985, to reflect projected automation efficiencies.

The budget proposes 11 additional positions to be financed through increased Medicare reimbursements, allowing a net General Fund savings of $107,000. Our review of department data indicates that these positions

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued

are necessary to improve medical care and insure continued federal accreditation of the home. Our analysis indicates, however, that three of the positions—those proposed to handle workload increases in the Medicare billing and pharmacy sections—may not be needed on a permanent basis. According to departmental documents, these sections should experience significant productivity improvements as a result of the home's automated financial management and patient tracking information system, which is scheduled to begin operation in these sections by December 1983. The department indicates that it is not certain to what extent these positions will be needed in the future, in light of the new system. For this reason, we recommend that the three positions be limited to June 30, 1985, so that the ongoing need for the positions will be subject to legislative review.

Automation Project Delayed

We recommend the adoption of supplemental report language requiring the department to report to the Legislature by October 15, 1984, on potential savings from the Veterans' Home automated management system.

The *Supplemental Report of the 1982 Budget Act* required the department to report to the Legislature, prior to October 15, 1983, on the potential savings from implementation of the automated management system at the Veterans' Home. Due to project delays that have already been experienced, and the likelihood of further delays as a result of the Governor's Executive Order prohibiting equipment purchases during the remainder of the current year, the department will not have sufficient experience with the operation of the system to report by October of this year. On this basis, we recommend that the Legislature give the department more time to prepare the report by adopting the following supplemental report language:

"The department shall, not later than October 15, 1984, report to the Joint Legislative Budget Committee on potential savings in personnel costs and positions, resulting from implementation of the automated management system at the Veterans' Home. The report shall include, at a minimum, the following: (a) positions which can be eliminated, and resulting savings; (b) positions which can be eliminated that the department wishes to redirect to provide a higher level of service; (c) positions which cannot be eliminated because of licensure level-of-care requirements. The department shall also submit to the Joint Legislative Budget Committee, a progress report providing any preliminary data available on these issues, not later than October 15, 1983."

Operating Expenses Overbudgeted

We recommend deletion of $72,000 requested for operating expenses to correct for overbudgeting, for a corresponding savings to the General Fund.

In the current year, the department received a $69,000 grant from the U.S. Department of Energy to examine the Veterans' Home energy use policies, and identify potential methods of reducing costs through improved energy conservation. The grant will expire at the end of the current year. The budget, however, has included this amount (adjusted to compensate for inflation) in the home's baseline budget request for 1983–

84. This results in operating expenses being overbudgeted by $72,000. Accordingly, we recommend a reduction of this amount, for a General Fund savings of $72,000 (Item 1970-001-001).

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY

Item 1970-301 from the General Fund, Special Account for Capital Outlay — Budget p. SCS 136

Requested 1983–84	$3,512,000
Recommended approval	163,000
Recommended reduction	3,092,000
Recommendation pending	257,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Transfer to General Fund. Recommend that savings resulting from our recommendations on Item 1970-301-036—$3,-092,000—be transferred from the Special Account for Capital Outlay to the General Fund to increase the Legislature's flexibility in meeting high-priority needs statewide. 267
2. Master Plan Costs. Recommend that, prior to hearings on the Budget Bill, the department report to the Legislature on a revised program for implementing the Master Plan for the home. 267
3. Availability of Federal Funds. Recommend enactment of Budget Bill language prohibiting commitment of state construction funds until the department obtains a commitment from the federal government to fund 65 percent of project cost. 268
4. ***Funding Request Not Clear. Reduce Items 1970-301-036 (b), (c), (d), (e), and (f) by a total of $2,326,000.*** Recommend deletion of five projects because the Department of Finance has been unable to identify what will be accomplished with the proposed funds. 269
5. Section F. Withhold recommendation on Item 1970-301-036(k), Section F remodel, pending receipt of information detailing how the project will be coordinated with other remodeling efforts at the home. 270
6. ***Sections H, J, K, and L. Reduce Item 1970-301-036(i) by $450,000.*** Recommend deletion because funds will not be needed in the budget year, given the status of related projects. 270
7. ***Acute Care Facility Renovation. Reduce Item 1970-301-036(g) by $50,000.*** Recommend deletion because funds will not be needed in the budget year, given the status of a related project. Further, recommend that the department report to the Legislature on any proposed shifts in functions between the existing hospital and the new hospital addition. 271
8. ***Hospital Wards 1A, 2A, and 3A. Reduce Item 1970-301-*** 272

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

036(h) by $50,000. Recommend deletion because funding will not be needed in the budget year, given the status of related project. Further recommend that the department report to the Legislature on the progress and findings of the Ward 1A pilot project.

9. ***Renovate Heating System, Sections A and C. Reduce Item 1970-301-036(j) by $216,000.*** Recommend deletion because the work is not essential and the Legislature has previously disallowed funding for this work. 273
10. Minor projects. Withhold recommendation on one project, pending clarification of cost estimate and of impact of skilled nursing renovations. 273

ANALYSIS AND RECOMMENDATIONS

The budget proposes $3,512,000 from the General Fund, Special Account for Capital Outlay, for 10 major capital outlay projects and three minor projects at the Veterans Home in Yountville. The major capital outlay projects are related to the master plan for renovation of the Veterans Home. The department's proposal, and our recommendations are summarized in Table 1.

Table 1
Department of Veterans Affairs
1983–84 Capital Outlay Program
Item 1970-301-036
(in thousands)

Project Title	*Phase* [a]	*Budget Bill Amount*	*Analyst's Proposal*	*Estimated Future Cost* [a]
Section A (domiciliary)	—	$1,041	—	—
Section B (intermediate care)	—	50	—	—
Section C (domiciliary)	—	1,156	—	—
Section D (domiciliary)	—	39	—	—
Section E (domiciliary)	—	40	—	—
Section F (residential care)	—	225	pending	—
Sections H, J, K, L (domiciliaries)	—	450	—	—
Acute Care Facility renovation	—	50	—	—
Hospital Wards, remodel	—	50	—	—
Renovate Heating Systems, Sections A and C	—	216	—	—
Minor Projects	—	195	pending	—
Total		$3,512	pending	

[a] Based on available information, we are unable to determine either the phase for which funds are requested or the estimated future cost.

Budget Documents Lack Sufficient Detail

The State Administrative Manual (SAM) directs agencies to include a general description and specific objectives for each program in their budget. In addition, the SAM requires that each capital outlay expenditure request include the project title and a brief description of the purpose of the expenditure.

The Department of Veterans Affairs Capital Outlay presentation in the budget does not include any description or overall objectives. Further, the budget and the Budget Bill both fail to identify whether the funds proposed for 1983–84 will be used for preliminary plans, working drawings, construction, or acquisition. In the future, the Department of Finance should ensure that the budget documents contain sufficient detail to inform the Legislature of what is being proposed.

Transfer to the General Fund

We recommend that the savings resulting from our recommendations on Item 1970-301-036—$3,092,000—be transferred from the Special Account for Capital Outlay to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

We recommend reductions amounting to $3,092,000 in the Department of Veterans Affairs capital outlay proposal. Approval of these reductions, which are discussed individually below, would leave an unappropriated balance of tidelands oil revenues in the Special Account of Capital Outlay, where it would be available only to finance programs and projects of a specific nature.

Leaving unappropriated funds in special purpose accounts limits the Legislature's options in allocating funds to meet high-priority needs. So that the Legislature may have additional flexibility in meeting these needs, we recommend that any savings resulting from approval of our recommendations be transferred to the General Fund.

Overview of Master Plan

We recommend that, prior to hearings on the Budget Bill, the department provide the Legislature with a revised schedule and cost estimates for implementing the Master Plan for the Veterans Home.

The Department of Veterans Affairs operates a home in Yountville to provide long-term care to California veterans who meet eligibility requirements set forth in the Military and Veterans Code. In 1979, the department prepared a master plan to correct identified code and certification violations, and to renovate the facilities at the home. The work proposed in the master plan would provide new and renovated space for the following levels of service:

- *Acute Care.* An addition to Holderman Hospital would be constructed to house 56 acute care beds, surgery, laboratory, radiology, pharmacy, and a major portion of the outpatient clinic services. Other acute care support facilities would be retained in part of the existing hospital structure.
- *Skilled Nursing.* The remaining portion of the hospital would be renovated to provide space for 308 skilled nursing beds. Modifications would correct privacy and space violations.
- *Intermediate Care.* The two annexes to the hospital and the Section B building would be remodeled to provide a total of 302 intermediate care beds. The proposed work would correct code deficiencies and privacy and space violations.
- *Residential and Domiciliary Care.* Ten buildings would be renovated to provide residential and domiciliary care for home members. The renovation would correct code deficiencies and provide one-, two-, and three-bed rooms to meet privacy and space requirements.

In addition to renovating facilities as discussed above, the master plan also proposes major improvements to other facilities. Included in the overall plan are modifications to the laundry building, boiler plant, main kitch-

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

en and dining room, maintenance shop, central warehouse, members workshops, recreation/theatre building and the administration building.

The master plan estimated that the total cost of these renovations and improvements would be $30.7 million. This is equivalent to $38.7 million when adjusted to reflect 1983–84 prices.

As the department has proceeded with the implementation of the master plan, the estimated costs of individual projects proposed in the plan are turning out to be significantly more than what was anticipated. Table 2 compares the original estimated cost, the master plan cost adjusted to reflect 1983–84 prices, and the Office of State Architect's latest estimate of cost for each of the projects which has received funding from the Legislature, or which is proposed for funding in the budget year. As shown in the table, those projects for which current cost estimates are available are expected to cost 46 percent more than the amount originally anticipated when the master plan was presented to the Legislature. If this trend continues, implementation of all features of the master plan could cost $57 million (1983–84 prices).

Table 2
Department of Veterans Affairs
Comparison of Master Plan and Office of State Architect Cost Estimates
(in thousands)

	Original Estimated Cost in Master Plan	*Master Plan Cost Adjusted to Reflect 1983–84 Prices*	*Latest OSA Estimated Cost*	*Percent Increase Over Master Plan Cost, As Adjusted*
Acute Care Hospital Addition	$6,250	$7,875	$9,516	21%
Section A (Domiciliary)	1,625	2,048	3,225	57
Section B (Intermediate Care)	1,875	2,363	3,601	52
Section C (Domiciliary)	1,750	2,205	3,558	61
Section D (Domiciliary)	1,500	1,890	2,769	47
Section E (Domiciliary)	1,500	1,890	2,892	53
Section F (Residential Care)	125	158	1,999	1165
Hospital Wards 1A, 2A, 3A	1,125	1,418	1,484	5
Totals	$15,750	$19,847	$29,044	46%

So that the Legislature is kept fully informed of the estimated total cost of implementing the Veterans Home master plan, we recommend that the department update the estimated costs and schedule for implementation of the plan and submit this information to the Legislature prior to hearings on the department's budget. This information should indicate when the department will be requesting funds for preliminary plans, working drawings, and construction, for each project included in the plan. The estimated costs should be expressed in 1983–84 prices, and the schedule should take into account the moves and staging required to implement the plan.

Availability of Federal Funds

We recommend that Budget Bill language under Item 1970-301-036 be amended to prohibit the Office of State Architect from entering into construction contracts for any project related to the master plan until a firm

commitment is obtained from the Veterans Administration to fund 65 percent of the project's cost.

The department assumes that the Veterans Administration (VA) will provide 65 percent of the total project cost of implementing the master plan, and that the state's share will be 35 percent. Recovery of the federal share, however, does not occur until after construction on the project has started.

The Budget Bill includes language which provides that no funds for *working drawings* related to master plan projects shall be released sooner than 30 days after written notification has been provided to the Joint Legislative Budget Committee that the project qualifies for federal matching funds. Identical language was included in the 1982 Budget Act for the projects funded in the current year. Because no funds were appropriated for construction in 1982–83, the 1982 Budget Act language did not address the release of funds for construction.

By letter dated December 1, 1982, the Director of Veterans Affairs notified the Chairman of the Joint Legislative Budget Committee that the following projects are *eligible* for 65 percent VA participation:

1. Hospital Addition (acute care).
2. Section A (domiciliary).
3. Section C (domiciliary).
4. Section B (intermediate care).
5. Section D (domiciliary).
6. Section E (domiciliary).
7. Holderman Hospital Ward 1A renovation.

The fact that a project *qualifies* for federal funding does not mean that the federal government is *committed* to fund 65 percent of the total cost. This commitment should be obtained *before* the state enters into a contract for construction of any master plan project at the Veterans Home. Otherwise, the state would be obligated to finance the entire cost of the project in the event the federal government declined to fund it. To assure that this does not occur without legislative approval, we recommend that, if any construction funds are provided in the Department of Veterans Affairs' budget, the following language be included under Item 1970-301-036:

> "No contract for construction of any project related to the Department of Veterans Affairs' master plan shall be entered into prior to the department obtaining a written commitment from the federal government to fund 65 percent of the project cost."

Funding Request Not Clear

We recommend deletion of Item 1970-301-036(b) Section A Domiciliary, (c) Section B Intermediate, (d) Section C Domiciliary, (e) Section D Domiciliary, and (f) Section E Domiciliary, because the Department of Finance has been unable to identify what will be accomplished with the proposed funds, for a reduction of $2,326,000.

The budget includes funding for five projects which have been considered previously by the Legislature. These projects would correct code deficiencies and privacy and space violations in living quarters at the home. Table 3 shows these five projects, the amounts which have been provided to date, the amounts which OSA indicates are needed for the next phase of each project, and the amount included in the Budget Bill.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

Table 3

Department of Veterans Affairs
Comparison of Needed Funds and Budget Request
(in thousands)

Project	*Previous Funding*[a]	*Funds Needed for Next Phase*[a,b]	*Budget Bill Amount*
Section A	$215 [pw]	$2,975 [c]	$1,041
Section B	113 [p]	144 [w]	50
Section C	239 [pw]	3,303 [c]	1,156
Section D	87 [p]	111 [w]	39
Section E	90 [p]	115 [w]	40

[a] Phase symbols indicate: p = preliminary plans, w = working drawings, c = construction.
[b] Based on OSA estimates.

As shown in Table 3, the amounts included in the Budget Bill do not coincide with the amounts the OSA and the department indicated are needed for the next phase of the project. Moreover, the Department of Finance has been unable to identify what work would be accomplished with the requested funds. Because it is not clear what the administration is proposing to do with the money it is requesting, we have no basis for recommending approval of the funds, and therefore, recommend that the funds for these five projects be deleted, for a reduction of $2,326,000.

Section F

We withhold recommendation on Item 1970-301-036(k), Section F, pending the receipt of information detailing how the project will be coordinated with other remodeling work at the home.

The budget includes $225,000 under Item 1970-301-036(k) for an unspecified purpose related to remodeling the Section F building at the Veterans Home. This structure currently houses the only residential care facility at the home. The proposed renovations include modifications to meet handicapped requirements, installation of a direct-indirect evaportative cooling system, and renovations to the electrical and heating systems.

When the master plan was developed, the department anticipated making only minor modifications to the Section F building. Consequently, the master plan assumed that the residents of Section F could remain in the structure while the work was being accomplished. Since that time, the scope of the project has increased significantly with the incorporation of evaportative cooling for the building. It is no longer clear that the residents will be able to remain in the building during construction.

We withhold recommendation on this project, pending clarification by the department of the need to relocate the Section F residents during construction, and the consequent need to coordinate this project with other remodeling activities at the home.

Sections H, J, K, and L, Remodel

We recommend deletion of Item 1970-301-036 (i), Sections H, J, K, and L remodel, because (1) funds for these projects will not be needed in the budget year, and (2) we have no information to judge the adequacy of the funding request, for a reduction of $450,000.

Item 1970-301-036(i) would provide funding for an unspecified purpose related to remodeling of the Section H, J, K, and L buildings. The department is proposing to renovate the four existing domiciliary buildings to correct fire and life safety and handicapped code violations. The proposed work includes modifications to the toilet and bathing facilities, installation of a handicapped entrance ramp, the widening of all doorways, enclosure of stairways, and other minor fire and life safety modifications. The project also includes installation of a direct-indirect evaportative cooling system for each of the buildings, and renovation of the electrical and heating systems.

Timing of Project. The master plan for the Veterans Home indicates that the members who currently live in Sections H, J, K, and L will be moved temporarily to the completed Section E building while the remodeling work on these four buildings is in progress. The department's schedule however, does not take this into account. It shows remodeling construction on Sections H, J, K, and L starting *before* the remodeling of Section E is completed. The schedule also assumes that construction funds for the Section E building will be provided in 1983–84. The budget however, does not include funds for this purpose. Consequently, the construction of Section E will be delayed at least four months beyond what is anticipated in the department's schedule. Thus, work on the plans for Sections H, J, K, and L can be delayed. Because the proposed funding is not needed in the budget year, we recommend that the item be deleted.

OSA Estimate Not Available. At the time this *Analysis* was prepared, the OSA had just received authorization from the Department of Finance to proceed with the preparation of a budget package for this project. Budget packages are supposed to be completed well in advance of when the budget is submitted to the Legislature, so that the amounts included in the budget reflect what is needed for the project. Since this information is not available, we have no basis for judging the adequacy of the proposed funds.

We note that this project actually comprises four distinct major capital outlay projects. In future presentations, each of these projects should be presented independently and funding requests should be made on that basis.

Acute Care Facility Renovation

We recommend deletion of Item 1970-301-036(g), Acute Care Facility renovation, because (1) funds for the project will not be needed in the budget year, given the status of a related project, and (2) we have no information to judge the adequacy of the funding request, for a reduction of $50,000. Further, we recommend that prior to hearings on the Budget Bill, the department report to the Legislature on any proposed shifts in functions between the existing hospital and the new hospital addition.

Item 1970-301-036(g) includes $50,000 for an unspecified purpose related to renovation of a portion of Holderman Hospital to house the acute care support services. Specifically, the two-story clinic addition and the ground floor of the most easterly wing of the hospital will be renovated to provide space for central supply, speech pathology, audiology, dental, physical and occupational therapy, and administrative services.

The department indicates that the acute care support services are essential to the health care program at the Veterans Home. These services will complement those functions which are to be housed in the new hospital addition.

In response to language included in the 1981 Budget Act, the depart-

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

ment contracted with an outside consultant to compare various alternatives for meeting the acute care needs of home members. The results of this study were presented to the Legislature during hearings on the 1982 Budget Bill. The Legislature chose to provide funds for preliminary plans and working drawings for a hospital addition to house 56 acute care beds, surgery, laboratory, radiology, pharmacy, and a portion of the outpatient clinic services. The remaining functions are to be retained in the existing hospital structure.

Plans Not Available for Review. At the time this *Analysis* was prepared, the OSA had not completed work on the schematic drawings and budget estimate for the renovation project. Moreover, it is our understanding that the architect who is developing plans for the hospital addition has recommended several changes regarding the functions to be housed in the addition. This would affect the proposed renovation work. The department should provide information to the Legislature detailing and justifying any proposed changes in the project scope, and the impact of these changes on the overall program.

Timing of This Project is Dependent Upon Progress of Hospital Addition Project. The need to proceed with planning for the acute care support services renovation is linked to progress in constructing the hospital addition. Renovation of the acute care support services cannot begin until construction of the hospital addition is completed and the functions have been moved from the existing building into the new structure.

The schedule which the department submitted with its 1983–84 capital outlay program indicates that it will take approximately 16 months to prepare preliminary plans and working drawings for this project. The same schedule indicates that construction on the hospital addition is to begin in 1983–84. No funds, however, are included in the budget to finance the construction of the hospital addition, and the department indicates that the preparation of working drawings for the addition will take most of the budget year. This will delay the estimated completion date for the addition until January 1986 at the earliest. Consequently, planning funds for this project are not needed in 1983–84.

For these reasons, we recommend deletion of the $50,000 proposed for planning in connection with the renovation of the acute care support services.

Hospital Wards 1A, 2A, and 3A, Remodel

We recommend deletion of Item 1970-301-036(h), hospital wards remodel, because funds for the project will not be needed in the budget year, given the status of related projects, for a reduction of $50,000. We further recommend that the department report on the progress of the Ward 1A pilot project and the need to assess its impact before proceeding with further ward renovations.

Item 1970-301-036(h) provides $50,000 for an unspecified purpose related to remodeling hospital wards 1A, 2A, and 3A. Wing A of Holderman Hospital currently contains open ward nursing units for acute care, skilled nursing care, and intermediate care. The master plan for the Veterans Home provides that this space will be used for skilled nursing care only. The acute care functions will be moved into the hospital addition and intermediate care will be moved into the remodeled Section B building. The three floors of the A wing will then be remodeled to provide space for 22 skilled nursing beds each.

Problems with Timing of Project. Construction work to remodel the hospital wards cannot begin until the functions can be moved from this space into the hospital addition and Section B. Construction funds are not included in the 1983–84 budget for either of these projects. If construction funds for the hospital addition and Section B are approved in 1984–85, construction of the hospital ward remodel project could begin in 1985–86. The department estimates that it will take approximately 14 months to prepare preliminary plans and working drawings for this project. Therefore funding for the preparation of preliminary plans and working drawings can be deferred until 1984–85.

Previously Funded Work. The department requested and received funding in 1981–82 to remodel hospital ward 1A. The $94,600 provided by the Legislature was for a pilot project to remodel Holderman Hospital to meet the privacy, space and recreation requirements of a skilled nursing unit, and to show the effects of the proposed arrangement on the type of patient which the home serves. The department was planning to assess these effects before proceeding with the remodeling of the entire hospital.

The information submitted by the department fails to address the status of this project. It would appear from the budget documents prepared by OSA that the construction work on Ward 1A is being included in the project proposed for the budget year. The department should address this inconsistency in its program, as well as the reasons why the results of the pilot project do not need to be assessed before the remainder of the hospital is remodeled.

Renovate Heating Systems, Sections A and C

We recommend deletion of Item 1970-301-036(j), renovate heating systems, Sections A and C, because the work is not essential and the Legislature has previously disallowed funding for this work, for a savings of $216,000.

Item 1970-301-036(j) includes $216,000 to renovate the heating systems in the Section A and Section C buildings. The department is proposing to replace the existing steam heating system with a hot water system. The department indicates that the existing radiator systems are old, and that it is more cost effective to replace them than to repair them.

Previous Legislative Action. The 1981–82 budget included a proposal to remodel the Section A and Section C buildings. Included in this proposal was the renovation of the existing heating system. In appropriating funds for the preparation of preliminary plans and working drawings for these buildings, the Legislature adopted language in the *Supplemental Report of the 1981 Budget Act* excluding the renovation of the radiator heating system from the scope of the project.

Justification for the Project Has Not Been Provided. The department indicates that it would not be cost effective to repair these systems. It has not, however, provided any analysis supporting this conclusion.

Because the Legislature has previously disallowed funding for this project, and because the department has not provided adequate information in support of its request, we recommend that the $216,000 proposed in the budget be deleted.

Minor Projects

We recommend approval of $163,000 for two minor projects. We withhold recommendation on $32,000 for restrooms in Holderman Hospital, pending receipt of additional information.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

The budget includes $195,000 under Item 1970-301-036(a) for minor capital outlay projects at the Veterans Home. Funds are being requested for the following three projects:

1. Correct filtration plant deficiencies ($149,000).
2. Restrooms, hospital community center ($32,000).
3. Automatic doors, administration building ($14,000).

Filtration Plant. In February 1980, the Veterans Home was notified by the Department of Health Services of certain deficiencies at its water filtration plant, located below Rector Reservoir. The proposed project would rectify the deficiencies and preclude the need to increase staffing at the plant. The project is justified and we recommend approval.

Community Center Restrooms. The old dining room of the hospital is used as a community center for the home. The department indicates that there are no restroom facilities near this center. Therefore the department is proposing to install male and female restrooms in the adjacent hallway.

The department is in the process of planning extensive renovations to Holderman Hospital. It is not clear how those renovations will affect the need for the restrooms. Further, it is not clear that the proposed work can be accomplished for the $32,000 which is being requested. Consequently, we withhold recommendation on this project, pending clarification of the cost estimate and of how this project relates to the overall renovations of the hospital building.

Automatic Doors. Members of the home require frequent access to the administration building to reach the cashier, estates office, financial services, social services, guardianship offices, and the Cal Vet hall. The department is proposing to install automatic doors to increase accessibility for handicapped individuals. We recommend approval.

Projects by Descriptive Category

In *The Budget for 1983–84: Perspectives and Issues,* we identify a number of problems that the Legislature will confront in attempting to provide for high-priority state needs within available revenues. To aid the Legislature in establishing and funding its priorities, we have divided those capital outlay projects which our analysis indicates warrant funding into the following seven descriptive categories:

1. Reduce the state's legal liability—includes projects to correct life threatening security/code deficiencies and to meet contractual obligations.
2. Maintain the current level of service—includes projects which if not undertaken will lead to reductions in revenue and/or services.
3. Improve state programs by eliminating program deficiencies.
4. Increase the level of service provided by state programs.
5. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of less than five years.
6. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of greater than five years.
7. Other projects—includes noncritical but desirable projects which fit none of the other categories, such as projects to improve buildings to meet current code requirements (other than those addressing life-threatening conditions), utility/site development improvements and

general improvement of physical facilities.

Individual projects have been assigned to categories based on the intent and scope of each project. These assignments do not reflect the priority that individual projects should be given by the Legislature.

The two minor projects at the Veterans Home ($163,000) fall under category seven.

Business, Transportation and Housing Agency

SOLARCAL OFFICE

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

Requested 1983–84	$118,000
Estimated 1982–83	250,000
Actual 1981–82 [a]	88,000
Requested decrease (excluding amount for salary increases) $132,000 (−52.8 percent)	
Total recommended reduction	$118,000

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

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Earlier Termination of Office. Reduce Item 2060-001-465 by $118,000.* Recommend no funding for office in budget year because there is no justification to keep office operating for six months. — 276

GENERAL PROGRAM STATEMENT

The SolarCal Office serves as staff to two entities created by executive order.

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

The *Local Government Commission on Renewable Resources and Conservation,* which is composed of local officials appointed by the Governor, assists local government officials in adopting ordinances to enhance solar energy development and promote cooperation in renewable resource development and conservation between state and local governments.

The budget erroneously indicates that the office has 8.5 authorized positions in the current year, rather than the 7.5 positions approved in the 1982 Budget Act.