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.

SOLARCAL OFFICE—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $118,000 from the Energy Resources Programs Account in the General Fund to the Secretary for Business, Transportation and Housing to support the SolarCal Office through December 1983. The proposed appropriation is $132,000, or 53 percent less than the amount appropriated for 1982–83, reflecting the fact that only six-months' funding is requested for the budget year. The office's expenditures will increase by the amount of any salary or staff benefit increase approved for the budget year.

Sunset for SolarCal

We recommend that funding for the SolarCal Office be terminated on July 1, 1983, for a savings of $118,000, and that Item 2060-001-465 be deleted from the Budget Bill.

The budget proposes to terminate the office during the first half of 1983–84. It provides only six months funding for the office, and adds language to the Budget Bill prohibiting the office from obligating the state in any manner beyond December 31, 1983.

Our analysis indicates that the type of staff services provided by the office to the council and the commission could be performed without an appropriation of state funds to a special state entity. The majority of the SolarCal Council membership represents private corporations and trade groups which benefit directly from the promotion of solar energy. Accordingly, it would be appropriate for these groups to pay for the council's expenses.

It also appears that the Local Government Commission could continue its work without direct state support. Organizations representing California cities and the counties already exist. These organizations could promote the solar energy interests of local governments in the absence of a state-supported office and commission, and local resources could be used to finance the incremental costs of those services if they represent a high enough priority to local government.

Consequently, we recommend approval of the Governor's proposal to terminate funding for the SolarCal Office. To the extent continuation of state funding for the office is not justified, as the administration has concluded, we see no programmatic reason to fund the office for an additional six months beyond June 30, 1983. Consequently, we recommend that no funds be appropriated for office activities in 1983–84, and that Item 2060-001-465 be deleted, for a savings of $118,000.

Business, Transportation and Housing Agency
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 2100 from the General Fund — Budget p. BTH 2

Requested 1983–84	$13,946,000
Estimated 1982–83	13,444,000
Actual 1981–82	13,768,000
Requested increase (excluding amount for salary increases) $502,000 (+3.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Hearing Costs. Recommend enactment of legislation to assess litigants at department hearings for the costs of these hearings. (Potential General Fund savings: $420,000 annually.) 279
2. Fees and Penalties. Recommend enactment of legislation to increase certain department fees and penalties to reflect the effect of inflation. (Potential General Fund revenue gain: approximately $1.6 million annually.) 280

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control (ABC), a constitutional agency established in 1954, has the exclusive power, in accordance with laws enacted by the Legislature, to license the manufacture, importation, and sale of alcoholic beverages in California, and to collect license fees. The department is given discretionary power to deny, suspend, or revoke licenses for good cause.

The department maintains 23 district and branch offices throughout the state, as well as a headquarters in Sacramento. The department is authorized 360.6 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $13,946,000 from the General Fund for support of the Department of Alcoholic Beverage Control in 1983–84. This is $502,000, or 3.7 percent, above estimated current-year expenditures. The increase is due to merit salary and price adjustments, which are offset, in part, by a reduction of $222,000 and 4.5 legal and support positions. The budgeted amount will increase by the amount of any salary or staff benefit increases approved for the budget year.

The expenditure of anticipated reimbursements totaling $310,000 results in a total expenditure program of $14,256,000 in the budget year. Table 1 shows expenditures and personnel-years for the department's three program elements.

Departmental Funding

The Department of Alcoholic Beverage Control is supported by the General Fund and produces revenue for the General Fund. It collects license fees and various other fees and charges according to schedules established by statute. All money collected by the department is deposited in or transferred to the General Fund.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

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

Expenditures	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Change from 1982–83 Amount*	*Change from 1982–83 Percent*
Licensing	$9,144	$8,947	$9,424	$477	5.3%
Compliance	4,882	4,777	4,832	55	1.2
Administration	(1,774)	(1,774)	(1,836)	(92)	(5.3)
Subtotals	$14,026	$13,744	$14,256	$532	3.9%
Less reimbursements	258	280	310	30	10.7
Totals	$13,768	$13,444	$13,946	$502	3.7%
Personnel-years					
Licensing	220.5	212.7	212.7	—	—
Compliance	107.7	103.9	99.4	−4.5	−4.3
Administration	45.6	44	44	—	—
Totals	373.8	360.6	356.1	−4.5	−1.2%

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

	Actual 1981–82	*Estimated 1982–83*	*Projected 1983–84*
Out-of-state beer certification	$9	—	—
Original license fees	3,335	$3,200	$3,200
Transfer fees	3,743	3,800	4,000
Special fees	319	320	320
Service charges	266	260	250
Penalties	315	300	300
Annual fees and offers in compromise	17,075	16,131	16,131
Surcharge on annual fees	1,615	1,529	1,529
Caterer's authorization, permits, and mgrs. cert	481	460	460
Miscellaneous income	11	—	—
Totals	$27,169	$26,000	$26,190

Department Revenue Underestimated

As shown in Table 2, the department estimates that revenue to the General Fund from fees and charges will amount to $26,190,000 in 1983–84. This is $190,000, or 0.7 percent, above estimated receipts in the current year. Our analysis indicates, however, that estimates for both the current and budget years are understated.

The budget indicates that $16,131,000 will be collected in 1982–83 and 1983–84 from annual fees and offers in compromise, a decrease of $944,000 or 5.5 percent, from the amount collected in 1981–82. According to the department, this decrease assumes an 85 percent decline in offers in compromise. The department now indicates, however, that the amount of offers in compromise will show only about a 17 percent reduction from the 1981–82 level. This would result in a revenue decrease of only $149,000. Thus, the level of General Fund revenues shown in the budget is understated by $611,000 in both the current and budget years.

The department also estimates a decline of $183,000 in annual fees collected. At the same time, it projects a 2.2 percent increase in the number of licensees. This growth rate is less than the average rate of increase—3.3 percent—experienced over the last five years. If the historical rate of increase continues, annual fee collections may be $534,000 more than estimated in 1982–83, and $1,086,000 more than budgeted in 1983–84.

In sum, our analysis indicates that the department's revenue estimate is understated by about $1,145,000 in 1982–83 and $1,697,000 in 1983–84.

Litigants Should Bear Hearing Costs

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 General Fund savings of up to $420,000 annually.

Under the Administrative Procedures Act, the Office of Administrative Hearings (OAH) in the Department of General Services conducts hearings for the department (as well as for numerous other state agencies) when requested to do so. These hearings are held whenever the department (1) refuses to issue a license, and the potential licensee petitions the department for a hearing, (2) approves a license which is objected to by another party, or (3) decides to take action against a licensee for violations of the Alcoholic Beverage Control Act or departmental regulations. Such hearings are conducted by an OAH hearing officer in the county seat of the county where the license is held or proposed to be held. The hearing is recorded by a certified court reporter.

Under existing law, the full cost of the hearings is paid by the department. 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.

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 specifically designated to offset partially the costs 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 department on those requesting a hearing. 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 department's decision is upheld (about 80 percent of the time). Additionally, the department should be authorized to waive all or a portion of the fees if the litigant can demonstrate a financial hardship.

Our analysis indicates that imposition of such fees would result in the cost of a hearing being borne by the party which imposes these costs on the state. Additionally, by charging litigants for the costs of their hearings, frivolous appeals might be discouraged.

In 1982–83, hearing costs average about $725 per case, and the OAH estimated it will handle 620 cases during the year. If the department charged litigants for hearing costs in 80 percent of these cases, it would collect approximately $417,000 during the current year.

Based on this analysis, we recommend the enactment of legislation requiring unsuccessful litigants to be assessed the actual costs of the ad-

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

ministrative hearings they request, for a potential General Fund savings of up to $420,000 annually.

Department Charges Need Updating

We recommend the enactment of legislation increasing certain department fees and penalties to reflect the effect of inflation, for a potential General Fund revenue gain of approximately $1,600,000 annually.

While the department collects a large number of statutorily or administratively established fees and fines, particular fines and license fees no longer reflect the size of the original penalty or the current cost of issuing a license, because inflation has reduced their value in "real dollars." We have identified three department charges that we believe need to be adjusted to reflect the effect of inflation since they were either established or last adjusted.

1. ***Offers in Compromise.*** When the department determines that a license suspension of 30 days or less is warranted due to a violation of the Alcoholic Beverage Control Act, the licensee may pay an "offer in compromise" (or fine) as an alternative to having his or her license suspended. In 1957, these fines were set at 20 percent of the licensee's daily gross sales, but were limited to between $250 and $2,000. In 1967, the fine limits were modified to $100 to $500 for those licensees that have not been the target of any departmental accusation during the previous three years. This change effectively reduced the fine for many violators. Except for the 1967 change, the fines have not been adjusted since they were established in 1957. Between 1957 and 1982, however, the cost of consumer goods has risen over 204 percent. As a result, the effective level of the fines has been reduced considerably. From the standpoint of purchasing power, a $2,000 fine in 1957 is equivalent to a $6,080 fine today.

According to the department, some licensees view these fines as simply part of the cost of doing business, rather than as an inducement to comply with the law.

In order to restore the deterrent effect of these fines, we recommend the enactment of legislation increasing these fines by 200 percent, as shown in Table 3.

Table 3
Department of Alcoholic Beverage Control
Analyst's Proposed Adjustments of Offers in Compromise

	Existing	*Proposed*
Nonrepeat offenders		
Minimum	$100	$300
Maximum	$500	$1,500
Repeat offenders		
Minimum	$250	$750
Maximum	$2,000	$6,000

According to department data, these adjustments would increase General Fund revenues by approximately $1,400,000 annually.

2. ***Daily Beer and Wine License.*** Special daily beer and wine licenses are issued for a fee of $5.50. This amount has not been adjusted since 1957. The cost to the department for issuing one of these licenses is about $10.

We recommend that the level of these fees be raised to cover actual departmental costs. Specifically, we recommend the enactment of legislation establishing a fee "not to exceed $15," and permitting the department to adjust the fee within this range to cover its cost. The department indicates that this adjustment would result in General Fund revenue of approximately $60,000 annually.

3. ***Miscellaneous Licenses.*** Currently, only 22 of the 33 types of licenses issued by the department require payment of an original fee. These licenses require fees ranging from $200 to $6,000 (with the exception of one fee, which is set at $50). Altogether, the department issued 539 licenses in 1981–82 for which it was not able to levy any fee, and over 1,800 for which it was able to charge only the $50 fee. Processing of these licenses, however, requires a significant department investigative and clerical effort. According to department data, processing costs associated with these licenses range from $100 to $400.

So that the state may recover a greater proportion of its costs in processing these licenses, we recommend the enactment of legislation setting a minimum $100 fee on those 12 licenses, for which no fee (or only a $50 fee) is charged currently, for an estimated General Fund revenue gain of $140,000.

Business, Transportation and Housing Agency

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 2120 from the Alcoholic Beverage Control Appeals Fund — Budget p. BTH 5

Requested 1983–84	$498,000
Estimated 1982–83	273,000
Actual 1981–82	271,000
Requested increase (excluding amount for salary increases) $225,000 (+82.4 percent)	
Total recommended reduction	None

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2120-001-117—Support		Alcoholic Beverage Control Appeals	$212,000
2120-011-117—Repayment of Loan		Alcoholic Beverage Control Appeals	286,000
Total			$498,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Board Members Overpaid. Recommend enactment of legislation to pay board members a per diem rather than a set salary. (Alcoholic Beverage Control Appeals Fund savings: $98,000 annually.) 283

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD—Continued

GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board was established by an amendment to the State Constitution in 1954. Upon request, the board reviews decisions of the Department of Alcoholic Beverage Control (ABC) relating to the assessment of fines or to the issuance, denial, transfer, suspension, or revocation of any alcoholic beverage license. The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal.

The board consists of a chairman and two members appointed by the Governor with the consent of the Senate. The board members are salaried and meet once each month, alternating between Los Angeles and San Francisco. In the current year, the board's staff consists of two attorneys and one clerical employee.

ANALYSIS AND RECOMMENDATIONS

The budget proposes two appropriations totaling $498,000 from the Alcoholic Beverage Control Appeals Fund for 1983–84. One would provide $212,000 for support of the Alcoholic Beverage Control Appeals Board in the budget year. The other would provide $286,000 which would be used to repay a General Fund loan that was made to the board during the current year.

Support Item. The $212,000 requested for support of the board is $61,000, or 22 percent below current-year estimated expenditures. The decrease reflects the proposed reduction of one attorney and 0.5 clerical positions. It does not reflect, however, the cost of any salary or staff benefit increases that the Legislature may approve for the budget year.

Loan Repayment Item. The 1982 Budget Act companion measure (Ch 327/82) requires that the board become entirely self-supporting by assessing fees on litigants appealing to the board. These fees are to be deposited in the Alcoholic Beverage Control Appeals Fund, which was established by Chapter 327. The 1982 Budget Act provided that the General Fund appropriation to the board for 1982–83 was a loan, to be repaid, with interest, from the fees collected. The $286,000 appropriation proposed in Item 2120-011-117 would be used to repay this loan.

Budget Proposes to Revise Fee Structure

As required by Ch 327/82, the board adopted a fee structure designed to cover the full amount of its costs. Assuming 108 appeals per year, the board set the filing fee equal to approximately $3,000 in the current year. As a result, only six appeals were filed from July through December 1982. In addition, five lawsuits were filed in the courts of appeal challenging the constitutionality of the fee.

The administration proposes that this fee structure be repealed, and has included a provision in the companion bill that would provide an alternative means for financing the board's activities. The administration proposes that the board be funded through surcharges levied on each alcoholic beverage licensee. Initially, this surcharge would be set at a level sufficient to yield the revenue needed to repay the current-year General Fund loan and finance expenditures during the budget year. The board would be authorized to adjust the surcharge periodically to cover its costs. The proposed legislation also would require the board to reimburse applicants who paid the filing fee authorized by Ch 327.

Board Members are Overpaid

We recommend that legislation be enacted to pay board members a per diem rate rather than a set salary, for a potential savings to the Alcoholic Beverage Control Appeals Fund of $98,000 annually.

Each of the three board members currently receive an annual salary of $25,444. Related staff benefits bring total state costs for the three board members to approximately $100,000 per year. Yet, as noted earlier in this analysis, the board meets only once a month, generally for one day, to decide cases.

Board members originally were given a relatively high salary because the board's workload and demands on the board members' time was much greater than it is now. Existing workload would not seem to justify salaries that are only slightly less than what members of the Legislature are paid.

Many other state boards and commissions (such as the Horse Racing Board, the California Transportation Commission, and the various licensing boards and bureaus within the Department of Consumer Affairs) pay their members per diems only. Because there appears to be no significant distinction between the demands placed on members of the Appeals Board and those placed on other part-time boards, we recommend that legislation be enacted providing Appeals Board members with a $100 per diem plus necessary expenses, in lieu of a salary, for a savings to the Alcoholic Beverage Control Appeals Fund of approximately $98,000 per year.

Business, Transportation and Housing Agency

STATE BANKING DEPARTMENT

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

Requested 1983–84	$6,681,000
Estimated 1982–83	6,348,000
Actual 1981–82	5,916,000
Requested increase (excluding amount for salary increases) $333,000 (+5.2 percent)	
Total recommended reduction	$53,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2140-001-136	—Support	State Banking	$6,622,000
2140-001-240	—Administration of Local Agency Security	Local Agency Deposit Security	59,000
Total			$6,681,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. ***Rent. Reduce by $53,000.*** Recommend reduction to eliminate overbudgeting of facilities operations costs. 285

STATE BANKING DEPARTMENT—Continued

GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from the losses that result when a bank or trust company fails. Because banks doing business in California have the option of being regulated by either the state or the federal government, not all banks in California are subject to regulation by this department. As of September 30, 1982, there were 260 state-chartered banks with 1,659 branch offices doing business in California. These banks had total assets of $65.1 billion. As of that date, there were also 79 federally-chartered banks with 2,758 branch offices doing business in the state. These banks had total assets of $204.1 billion.

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

The department is administered by the Superintendent of Banks, who is appointed by the Governor. Pursuant to law, the superintendent is designated as the "administrator of local agency security", and acts as an agent for approximately 1,600 local treasurers in supervising the handling of public funds by depository banks. In addition, the department licenses and regulates Business and Industrial Development Corporations (BIDCOs) pursuant to federal law which requires state licensure of BIDCOs as a condition for receiving loan guarantees from the Small Business Administration.

The department is supported by the State Banking Fund, which receives its revenues from assessments on banks and trust companies, license and application fees and service charges. The department's Local Agency Security program is supported from the Local Agency Deposit Security Fund, which receives revenues from fines imposed on Local Agency Treasurers who fail to follow state security requirements regarding investment of funds.

The department is headquartered in San Francisco, and has branch offices in Los Angeles, Sacramento and San Diego. The current authorized staff level for the department is 157 positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $6,681,000 from the State Banking Fund for support of the department in 1983–84. This is an increase of $333,000, or 5.2 percent, over estimated current-year expenditures of $6,348,000. The proposed augmentation is due primarily to increased rent for the department's Los Angeles office, and price adjustments. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

The department also proposes expenditures of $100,000 from reimbursements derived primarily from fees for (1) examining trust companies, and (2) conducting special examinations of banks. The department, thus, is requesting a total expenditure program of $6,781,000 for the budget year.

The budget proposes the deletion of three attorney positions and 1.5 related support staff (a reduction of $165,000). The budget states that these staff reductions are for the purpose of minimizing the proliferation of legal staffs within line departments. Our discussions with department staff indicate, however, that the reductions are the result of workload declines and more efficient allocation of work assignments among the remaining legal staff.

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

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

Program	Actual 1981–82 Personnel-Years	Actual 1981–82 Expenditure	Estimated 1982–83 Personnel-Years	Estimated 1982–83 Expenditure	Proposed 1983–84 Personnel-Years	Proposed 1983–84 Expenditure
1. Licensing and supervision of banks and trust companies						
Investigation of application for new facilities	7.6	$317	8.0	$338	8.0	$357
Continuing supervision of existing banks	131.1	5,468	137.3	5,808	134.8	6,082
Continuing supervison of trust activities	3.9	163	4.2	178	4.2	192
2. Payment instruments	0.3	11	1.8	46	1.8	46
3. Certification of securities	0.3	8	0.3	9	0.3	9
4. Administration of local agency security	1.3	51	1.4	55	1.4	59
5. Supervision of California business and industrial development corporations	0.5	18	1.0	36	1.0	36
6. Departmental administration (prorated to departmental program)						
Executive and administration services	(11.7)	(376)	(12.0)	(434)	(14.0)	(500)
Legal and legislative services	(12.7)	(434)	(14.0)	(501)	(9.5)	(355)
Policy information services	(6.0)	(215)	(8.0)	(248)	(8.0)	(259)
Totals	145.0	$6,036	154.0	$6,470	151.5	$6,781
Reimbursements		−120		−122		−100
Net Totals		$5,916		$6,348		$6,681

Rent Overbudgeted

We recommend a reduction of $53,000 to eliminate overbudgeting of rent for the department's Los Angeles office.

The department currently rents 4,815 square feet of space in its Los Angeles office, at a monthly rate of 69 cents per square foot. For 1983–84, the department will acquire an additional 1,920 square feet of space from the Department of Savings and Loan (which is located in the same building), thus increasing its space to a total of 6,735 square feet.

The Department of General Services (DGS) indicates that the department's lease will expire on May 31, 1983, and will be renegotiated at a monthly rate of $1.50 per square foot. As a result, total rent for its Los Angeles offices is projected by DGS to increase annually to $121,230 from its current level of $43,768. This will result in an annual increase in rent of $77,000. The department, however, is requesting an increase of $130,000 for rental costs in the budget year. As a result, the department's request for increased facilities operations expenses is overbudgeted by $53,000. We recommend that this amount be deleted.

Business, Transportation and Housing Agency

DEPARTMENT OF CORPORATIONS

Item 2180 from the General Fund — Budget p. BTH 13

Requested 1983–84	$6,285,000
Estimated 1982–83	7,134,000
Actual 1981–82	7,721,000
Requested decrease (excluding amount for salary increases) $849,000 (−12 percent)	
Total recommended reduction	None
Recommendation pending	$1,220,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Reduction in legal staff. Withhold recommendation pending receipt of additional information from the department regarding the effect of these reductions on the department's enforcement program. 288

GENERAL PROGRAM STATEMENT

The primary mission of the Department of Corporations is to protect the public from unfair investment practices, fraudulent sale of securities and franchises, and improper business practices by certain entities which lend or hold money in trust. The department carries out this mission through four programs: (1) investment, (2) lender-fiduciary, (3) consumer finance lenders, and (4) health care service plans. The cost of administering the department is prorated among these four programs.

Under the Investment program, the department approves securities and franchises offered for sale, and conducts investigations to enforce the various laws administered by the department. The department also reviews license applications of prospective securities broker-dealers and investment advisors. The Lender-Fiduciary program licenses and examines lender-fiduciary institutions regulated by the department. The Consumer Finance Lenders program was established by Chapter 724, Statutes of 1981 (SB 140). The program licenses and regulates finance companies that make loans to the public, normally taking as security real or personal property. (The department does not propose funding for this program in the budget year.) The Health Care Service Plan program is responsible for regulating health care service plans under the Knox-Keene Health Care Service Plan Act of 1975, and for administering the charitable trust statutes as they relate to health care service plans.

The department is administered by the Commissioner of Corporations, who is appointed by the Governor. The department's headquarters is in Sacramento, and it has branch offices in San Francisco, Los Angeles and San Diego. In the current year, the department has a total of 349.1 authorized positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $6,285,000 from the General Fund for support of the department in 1983–84. This is a decrease of $849,000, or 12.0 percent, below estimated current-year expenditures. The major reason for this decrease is a $1,220,000 reduction in legal staff, partially offset by increases for price adjustments and enhancements for the department's data processing system. The amount requested will increase by the cost of any salary or staff benefit increase that may be approved for the budget year.

The department also proposes expenditures from reimbursements of $6,265,000 in the budget year. These reimbursements are primarily in the form of fees for examining the financial records of licensees. Thus, total program expenditures for the department in 1983–84 are proposed at $12,550,000. This is a decrease of $259,000 or 2 percent, below total estimated current-year expenditures. Table 1 shows the cost and staffing data for the department's programs and their supporting elements.

Table 1
Department of Corporations
Expenditure and Staffing Data
(in thousands)

	Actual 1981–82		*Estimated 1982–83*		*Proposed 1983–84*	
Program/Element	*Personnel-Years*	*Expen-diture*	*Personnel-Years*	*Expen-diture*	*Personnel-Years*	*Expen-diture*
Investment:						
Qualifications	85.2	$3,017	90.3	$3,168	90.3	$3,394
Franchises	5.7	244	5.5	242	5.5	258
Regulation and enforcement	87.8	3,686	84.7	3,414	57.7	2,430
Lender-Fiduciary:						
Check Sellers and Cashers Law	2.8	111	1.7	61	1.7	69
Credit Union Law	38.3	1,489	37.4	1,481	37.4	1,607
Escrow Law	21.4	774	22.0	869	27.0	943
Industrial Loan Law	14.2	589	15.7	631	15.7	678
Personal Property Broker Law	36.5	1,352	39.0	1,420	39.0	1,542
Trading Stamp Law	0.1	5	0.1	4	0.1	4
Consumer Finance Lenders	—	—	—	—	—	—
Health Care Service Plan:						
Licensing	16.3	659	18.4	754	18.4	809
Financial examinations	5.0	202	5.6	231	5.6	248
Medical survey	4.9	211	5.6	262	5.6	281
Enforcement	5.4	234	6.1	268	6.1	287
Administration: (prorated to other programs)						
General office	(8.8)	(407)	(10.0)	(437)	(10.0)	(466)
Accounting and personnel	(7.7)	(245)	(8.0)	(262)	(8.0)	(280)
Program Totals	323.6	$12,573	332.1 [a]	$12,805	310.1	$12,550
Reimbursements		−4,855		−5,675		−6,265
Net Totals	323.6	$7,718	332.1	$7,130	310.1	$6,285
Legislative Mandate		3		4		(4) [c]
Totals		$7,721		$7,134 [b]		

[a] The department is authorized 349.1 positions in the current year.
[b] Estimated expenditures for 1982–83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.
[c] Appropriation requested in Item 968-010-001.

DEPARTMENT OF CORPORATIONS—Continued

Reduction in Legal Staff

We withhold recommendation on the budget proposal to delete $1,220,000, 18 legal positions, and 9 support positions. We recommend that the department report during budget hearings on the impact of these proposed reductions on its enforcement programs.

The Department of Corporations, through its Enforcement Division, is responsible for implementing the provisions of 10 laws relating to financial transactions. These include the Corporate Securities Law, Franchise Investment Law, Check Sellers and Cashers Law, Credit Union Law, Escrow Law, Industrial Loan Law, Personal Property Brokers Law, Trading Stamp Law, Consumer Finance Lenders Law, and the Knox-Keene Health Care Service Plan Law.

In the current year, the Enforcement Division is authorized 89.0 positions. After deducting the equivalent of 4.3 positions for salary savings, the division has a net authorized staffing level of 84.7 positions and anticipates expenditures in the current year of $3,414,000.

The Governor's Budget proposes the deletion of 18 legal positions and 9 support positions in the Enforcement Division, for a reduction of $1,220,000. The budget states that the reason for this action is "to minimize the proliferation of individual department legal staffs which often duplicate central state legal services . . . ". As a result, the budget proposes a staffing level of 57.7 positions.

According to the Enforcement Division's Report of Activities for the reporting period ending November 30, 1982, 760 new or continuing enforcement cases were under review. Of these, 525 related to the Corporate Securities Law, 60 involved the Franchisement Investment Law, 63 were under the Knox-Keene Health Care Service Plan Law, and 112 involved provisions of the various laws administered by the department's Lender-Fiduciary program. The department indicates that the total (760) was 184, or 32 percent, more than the 576 cases being reviewed during the same reporting period in the prior year.

Our review indicates that the budget does not propose an augmentation in funding or staff for the Attorney General's office to accommodate the workload associated with the department's Enforcement Division. It is not clear that the workload associated with 18 legal positions can be (1) absorbed within existing department resources, or (2) accommodated by the Attorney General's office.

For these reasons, we withhold recommendation on the proposed reduction of $1,220,000 in the department's legal and support staff, and recommend that the department report during budget hearings on the impact of these proposed reductions on its enforcement program.

Legislative Mandates

We recommend approval.

Chapter 941, Statutes of 1975, requires health care services plans to be licensed by the Department of Corporations. Each plan is required to establish a department-approved system which will enable enrollees to submit grievances to the plan. Currently, Contra Costa County operates a health care service plan for its Medi-Cal recipients. Pursuant to Section 2231 (a) of the Revenue and Taxation Code, Item 968-010-001 appropriates $4,000 from the General Fund to reimburse Contra Costa County for costs associated with meeting the provisions of Chapter 941.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT

Item 2200 from various funds — Budget p. BTH 18

Requested 1983–84	$7,905,000
Estimated 1982–83	6,695,000
Actual 1981–82	15,576,000
Requested increase (excluding amount for salary increases) $1,210,000 (+18.1 percent)	
Total recommended reduction	$13,000
Recommendation pending	$3,023,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2200-001-001	Department of Economic and Business Development, State Support (includes $3,023,000 transfer to the Small Business Expansion Fund)	General	$6,705,000
2200-001-890	Department of Economic and Business Development, Support	Federal Trust	(136,000)
2200-101-922	Office of Local Economic Development, Local Assistance	California Economic Grant and Loan	1,200,000
Total			$7,905,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Budget Request Overstates Needs. Reduce Item 2200-001-001 by $4,000.*** Recommend deletion to eliminate funding for space in excess of Department of General Services' guidelines, for a savings of $4,000 to the General Fund. 294
2. Office of Economic Planning, Policy, and Research Development. Recommend the department relocate this office from San Francisco to Sacramento. 295
3. Loan Guarantee Program. Withhold recommendation on $3,023,000 requested for loan guarantees until legal status of Small Business Expansion Fund is resolved. 296
4. Loan Guarantee Program. Recommend office report to the Legislature on alternatives other than General Fund appropriations for supporting small business loan guarantee program. 300
5. Fees for Technical Services. Recommend enactment of legislation permitting the department to charge fees for technical and other services provided to specific local governments, business, and other public and private organizations. 301
6. ***Foreign Travel. Reduce Item 2200-001-001 by $9,000.*** Recommend deletion of funds requested for foreign travel because purpose of this travel can be accomplished by the California World Trade Commission. 302

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

GENERAL PROGRAM STATEMENT

The principal mission of the Department of Economic and Business Development (DEBD) is to stimulate economic development in the state. Its specific responsibilities include:

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

The department is headed by a Director, who is appointed by the Governor. In addition, the department receives guidance from a 21-member advisory council, representing a cross-section of the state's economy. The department is authorized to have 83.1 personnel-years in 1982–83.

ANALYSIS AND RECOMMENDATIONS

The budget requests appropriations of $7,905,000 from the General Fund and the California Economic Grant and Loan Fund for support of the Department of Economic and Business Development (DEBD) in 1983–84. This is an increase of $1,210,000, or 18.1 percent, above estimated expenditures for the current year. This increase will grow by the amount of any salary or staff benefit increase approved by the budget year.

The budget proposes total expenditures from all funding sources of $8,085,000 for 1983–84. This is a decrease of $1,108,000, or 12 percent, from estimated current-year expenditures, and will be financed with $6.7 million from the General Fund, $136,000 in federal funds, $1.2 million from the Economic Development Grant and Loan Fund, and $44,000 in reimbursements. Table 1 summarizes the department's budget requirements, by program, for the past, current, and budget years.

The combination of an *increase* in the budget request for 1983–84 and the *decrease* in proposed total expenditures occurs for two reasons. *First,* the department received an one-time grant of $2.2 million in 1982–83 from the federal government, and this was reflected in the 1982–83 expenditure totals. *Second,* the budget reflects a change in the accounting treatment of certain funds which results from the sunset of a continuous appropriation. In prior years, income from investments and loan repayments to the California Economic Development Grant and Loan Fund was continuously appropriated for purposes of additional loans. However, pursuant to Ch 1284/78 (AB 3322), this continuous appropriation is repealed as of July 1, 1983. Therefore, these funds ($1.2 million) must now be appropriated in the Budget Act and included in the budget expenditure totals. A similar amount was expended in prior years, but was not reflected in the expenditure totals.

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

Program	Personnel-Years Actual 1981–82	Personnel-Years Estimated 1982–83	Personnel-Years Proposed 1983–84	Expenditures (in thousands) Actual 1981–82	Expenditures (in thousands) Estimated 1982–83[a]	Expenditures (in thousands) Proposed 1983–84
Small Business Development	11.2	10.5	10.5	$12,672	$6,780	$4,770
Local Economic Development	7.4	9.0	8.5	1,178	429	1,553
Tourism	8.7	7.8	7.8	626	590	590
Business and Industrial Development	11.0	13.2	13.2	571	694	620
Economic Planning, Policy, and Research Development	9.3	9.6	9.6	650	556	552
International Trade	7.4	3.4	—	444	100	—
California Commission on Industrial Innovation	3.2	1.5	—	158	44	—
Administration	20.2	19.1	16.6	(897)	(686)	(637)
Totals	78.4	74.1	66.2	$16,299	$9,193	$8,085
Funding						
General Fund	74.8	66.8	59.6	$7,384	$6,695	$6,705
Federal Trust Fund	3.3	—	—	619	2,388	136
Small Business Expansion Fund	—	—	—	7,867	—	—
Economic Development Grant and Loan Fund	—	—	—	—	—	1,200
Reimbursements	0.3	7.3	6.6	104	110	44
Totals	78.4	74.1	66.2	$16,299	$9,193	$8,085

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

Significant Program Changes

The budget proposes to reduce departmental expenditures from all sources by $1,108,000 in 1983–84. This reflects several significant budget changes which are summarized in Table 2 and described below:

1. ***Office of International Trade Transferred to Governor's Office.*** Chapter 1526, Statutes of 1982 (AB 3757), replaces the Office of International Trade in the department with a new California State World Trade Commission located within the Governor's office. This change, which took effect January 1, 1983, accounts for the reduction of 8.0 positions and $100,000 from the department's budget.

2. ***Reduction in Federal Funds for Industrial Innovation Program.*** In 1982–83, the department received an Economic Development Administration Grant of $2.2 million for use in providing financial and technical assistance to small businesses that develop and market innovative products. Of this amount, $2 million in Title IX funds has been allocated for a revolving loan program and $243,000 in Section 304 funds has been earmarked for technical assistance. This grant was awarded on a one-time basis. Consequently, federal fund support for the department is expected to decline by $2.2 million in 1983–84.

3. ***Termination of California Commission on Industrial Innovation.*** The budget proposes a reduction of $44,000 from the General Fund to reflect the termination of the California Commission on Industrial Innovation. This commission was established by an executive order to provide a forum for discussion of and formulating recommendations to the Governor and Legislature on the role of technological innovation in maintaining California's competitive position in the national and world economy. The

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

commission released its final report in September 1982, which details 50 recommendations for encouraging industrial innovation through investment in new technologies, education and job training, and workplace and management productivity.

4. ***Reduction in Funds for Economic Development Grants and Loans.*** The budget proposes expenditures of $1,200,000 for economic development grants and loans to public agencies and private businesses in economically depressed areas of the state. This represents a decrease of $756,000, or 39 percent from the level of current-year expenditures for this purpose (see Table 1). The budget requests no General Fund appropriations for this program for 1983–84. Instead, it proposes to fund new loans and grants using income from investments and loan repayments. In prior years, these funds were provided through a continuous appropriation, and were not identified in the Budget Bill. Proposed expenditures for these grants and loans are included in the budget for 1983–84 (Item 2200-101-922). Ch 1284/78 (AB 3322) requires that all funds continuously appropriated must be included in the Budget Act after July 1, 1983 unless excepted by the Legislature. We also recommend this change in last year's *Analysis,* in order to provide the Legislature with an opportunity to review and control the expenditure of these funds.

5. ***Plant Closure Assistance Program.*** The budget proposes expenditures of $32,000 to support the remaining activities of the plant closure assistance program. This is $66,000 less than estimated expenditures for this purpose during the current year. The program, funded by a CETA grant received from the Employment Development Department, provides job training, technical assistance, and other services to communities affected by plant closures.

6. ***Cost Changes.*** The budget requests $154,000 for salary adjustments and increases designed to compensate for the effect of inflation on the prices paid by the department in 1983–84. These changes are consistent with the adjustments to the baseline budget permitted by the Department of Finance.

Table 2
Budget-Year Changes
(in thousands)

	General Fund	*Federal Funds*	*Economic Grant and Loan Fund*	*Reimbursements*	*Totals*
1982–83 Revised	$6,695	$2,388	($1,956) [a]	$110	$9,193
1. Program Changes:					
a. Transfer of Office of International Trade to Governor's Office	−100	—	—	—	−100
b. Reduction in Federal Funds for Industrial Innovation Program	—	−2,243	—	—	−2,243
c. Termination of California Commission on Industrial Innovation	−44	—	—	—	−44
d. Economic Development Grants and Loans	—	—	1,200	—	1,200
e. Reduction in Plant Closure Assistance Program	—	—	—	−66	−66
2. Cost Changes:	154	−9			145
1983–84 Proposed	$6,705	$136	$1,200	$66	$8,085
Net Change	$10	−$2,252	(−$756)	−$44	−$1,108

[a] These expenditures were not included in the 1982–83 budget, although expenditure for this purpose are included in the 1983–84 budget.

REVIEW OF PROGRAMS AREAS AND ACCOMPLISHMENTS

The department is divided into five program areas, excluding administration and the Office of International Trade (which was transferred to the Governor's office effective January 1, 1983). This section briefly describes these programs and their accomplishments to date.

Office of Local Economic Development

The Office of Local Economic Development's (OLED) primary responsibility is to assist and coordinate the efforts of local governments and public agencies in promoting statewide economic and employment development. The office's specific activities include: (1) providing on-site, technical assistance to local entities for assessing economic needs, developing strategies, and implementing economic development plans; (2) administering loan and grant programs for local economic development; and (3) conducting seminars and disseminating information to local governments on how to promote economic development. The budget proposes 8.5 personnel-years and $316,000 from the General Fund to support the programs of the OLED in 1983–84.

According to information provided by the OLED, 113 local governments received on-site assistance during 1981–82, and an estimated 85 will receive assistance in 1982–83. The types of services provided by the office include grant administration and application assistance, development of goals and strategies, loan packaging, and assistance in establishing economic and local development corporations. The OLED also distributes information packets to local governments, publishes a quarterly newsletter, and prepares case studies on local economic development.

The Office of Local Economic Development, together with the Office of Small Business Development, is also responsible for administering economic development grants and loans. These grants and loans are made for public works construction and business expansion in economically distressed areas of the state.

In the past, this program has been supported by federal funds allocated by the Economic Development Administration (EDA) under Section 304 of the Public Works and Economic Development Act of 1965. The state was required to contribute $1 for each $4 provided by the federal government for each economic development project assisted under the program. Funds made available for this program from all sources are deposited in the California Economic Development Grant and Loan Fund.

Table 3 shows the actual and projected receipts and expenditures for this program during the past, current, and budget years. In the current year, this program will not receive additional support from either the federal government or the state. This reflects the termination of the Section 304 program by the federal government in September 1981. The budget requests no General Fund appropriation for 1983–84, and instead proposes to rely on loan repayments and investment income to fund additional grants and loans. Table 3 also shows that activity under the program has shifted from grants to loans. This effectively increases the amount of funds available for the program over time, because loan repayments can be relent to other borrowers.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

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

	Actual 1980–81	*Actual 1981–82*	*Estimated 1982–83*	*Projected 1983–84*
Balance as of July 1	$1,290	$2,984	$856	—
Receipts:				
Federal allocations	640	952	—	—
State allocations	1,700	325	—	—
Loan repayments	431	250	250	$850
Income from investments	—	853	850	350
Total Funds Available for Grants and Loans	$4,061	$5,364	$1,956	$1,200
Expenditures:				
Grants	$277	—	—	—
Loans	800	$4,508	$1,956 [a]	$1,200 [a]
Total Expenditures	$1,077	$4,508	$1,956	$1,200
Unencumbered Funds as of June 30	$2,984	$856	—	—

[a] A limited portion of this amount may be used for grants, as needed.

Office of Economic Planning, Policy, and Research Development

The Office of Economic Planning, Policy and Research Development, as its name implies, provides planning, analysis, and research support for the state's economic development policies and programs. Its principal responsibilities include (1) gathering, analyzing, and distributing economic information; (2) preparing studies on the economic and employment development potential of various businesses; and (3) advising the Governor and the Legislature on the economic impact of governmental policies and regulations. The budget proposes 9.6 positions and $488,000 from the General Fund for this office in 1983–84.

Office Space Requirements Overstated

We recommend deletion of $4,000 from Item 2200-001-001 to eliminate funding for space in excess of the Department of General Services' guidelines, for a corresponding savings to the General Fund.

This office presently is located in downtown San Francisco. According to the department, the lease for the office space will expire in May 1983, at which time the office plans to move to another location in San Francisco. The budget provides for new office space totaling 2,100 square feet and costing $.91 per square foot.

Our analysis indicates that this amount of space exceeds the standards established by the Department of General Services for an office of similar size and staff composition. Using these standards, we estimate that the amount of space needed for this office is approximately 1,700 square feet, or 400 square feet *less* than what is reflected in the budget. On this basis, we recommend that the amount of space for this office be limited to 1,700 square feet, for a savings of $4,000 to the General Fund.

No Need for San Francisco Location

We recommend that the Legislature adopt language under Item 2200-001-890 directing the Department to relocate this office to Sacramento.

Our analysis indicates there is no apparent reason why the Office of Economic Planning, Policy, and Research Development must be located in San Francisco, rather than in Sacramento. This office has ten authorized positions, of which six are presently located in San Francisco. Since the purpose of the office is to provide economic information and advice to the other programs in the Department, the Governor's office and the Legislature, we believe this responsibility could be carried out more effectively and at a lower cost if the staff were nearer to its principal clients. Moving the office to Sacramento would also give the staff greater opportunities to coordinate its economic research and policy development activities with those of other state departments.

Were the office to be relocated to Sacramento during 1983–84, the department would incur moving expense for staff and equipment that would more than offset the savings in lease costs. In subsequent years, however, cost savings are likely to be realized if the office is relocated. Based on space standards established by the Department of General Services and the lease costs paid by the other DEBD offices, we estimate that relocation could save approximately $1,000 per year in lease costs.

Because relocation of the office in Sacramento would improve the effectiveness of the office in carrying out its mission, we recommend that the Legislature adopt the following supplemental report language:

"It is the Legislature's intent that the Department of Economic and Business Development shall locate the Office of Economic Planning, Policy, and Research Development in Sacramento, California."

Office of Business and Industrial Development

The Office of Business and Industrial Development is responsible for promoting the expansion of business activity in California. A key activity of the office is providing assistance to businesses wishing to locate or expand in the state. Often, this assistance consists of providing information on labor markets, wage rates, land costs, and other factors important to site location decisions. In addition, the office assists business by expediting the processing and review of permits, and it acts as a liaison between government and the business community. The budget proposes 11.2 positions and $563,000 from the General Fund to support these program activities in 1983–84.

According to information provided by the office, a total of 237 firms received site location services in 1981–82, and 105 firms have received such assistance through November 1982. Since 1977, when this office was established, approximately 70 companies that received assistance under this program have expanded or located operations in California. The new operations represent $1.5 billion in new investment, and will eventually lead to the creation of 10,000 jobs. The extent to which assistance provided by the office was a factor in these firms' decisions to locate or expand operations in California is not known.

During 1982–83, the office has been involved in developing a program designed to relieve economic hardships caused by plant closures. The components of the program include job retraining and referral assistance, assessing alternatives for averting plant closures, and providing assistance

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

to communities in establishing plant closure response programs. The budget includes $32,000 in reimbursements and 0.9 personnel-years to support this program in 1983–84.

Office of Tourism

The Office of Tourism is responsible for increasing the number of tourists and visitors to California as a way of expanding job opportunities and business development in the state. Its principal activities include (1) preparing and distributing various promotional materials; (2) conducting research on tourism in California; (3) providing technical assistance to public and private agencies involved in tourism promotion; and (4) responding to inquiries from prospective visitors. The budget proposes 7.8 positions and $590,000 from the General Fund for support of these programs during 1983–84.

Information received from the department indicates that the office responded to approximately 42,000 inquiries from visitors in 1982–83. In addition, the office provided direct technical assistance to 37 local tourist organizations. To date, the office has prepared 21 separate promotional publications, including maps and brochures on tourist attractions in California. In the past, the office has sponsored the California International Travel Mart. (One will not be held in 1983 because of scheduling conflicts with other tourism conventions.)

Office of Small Business Development

The Office of Small Business Development (OSBD) is responsible for promoting economic and business development by providing financial, technical, and management services to small business. The specific components of the program include:

- Providing loan guarantees backing private loans to small businesses that are unable to secure financial assistance through conventional lending channels;
- Providing management and other technical assistance to small, disadvantaged businesses; and
- Coordinating public and private sector efforts designed to expand economic opportunities for small businesses.

These responsibilities are carried out both directly by OSBD and by nonprofit, regional development corporations under contract with the office. In addition, the program receives guidance from the Small Business Development Board, which consists of 17 members representing the administration, Legislature, the financial and business communities, and economically depressed areas of the state.

The Small Business Development program is the largest component of the department, accounting for nearly $4.8 million, or 60 percent of the department's budget for 1983–84. Approximately $3.0 million of this amount is proposed for loan guarantees. Another $1.0 million will be used to support the administrative expenses of urban and rural development corporations, as provided by current law.

Legal Status of Loan Guarantee Program Uncertain

We withhold recommendation on $3,023,000 requested from the General Fund for loan guarantees until the legal status of this program is resolved.

Key sections of the statutory authority which govern the office's loan guarantee program expired on January 1, 1983. We have asked the Attorney General for a legal opinion on this matter. At the time this analysis was prepared, the status of the program was uncertain. Accordingly, we withhold recommendation on the $3,023,000 requested for loan guarantees until either the legal status of the program is resolved or legislation is approved to extend or change the program.

To facilitate the Legislature's review of this program and consideration of any legislation to extend or modify it, we offer the following description and analysis of the program.

Background on Small Businesses Development Program

State assistance for small businesses dates back to 1968, when a loan guarantee program and various technical assistance programs for small businesses were created by the state to promote employment in disadvantaged areas. In 1973, the loan and technical assistance programs, which previously had been separate, were combined into a single program, called the California Job Creation Program (Cal-Jobs). This program was transferred from the Employment Development Department to the Business and Transportation Agency in 1974.

As is the case with the current OSBD program, Cal-Jobs was responsible for providing financial, management, and technical assistance to eligible small businesses. The activities and accomplishments of the Cal-Jobs program, however, were significantly limited by policy and administrative problems. Among the major criticisms of the program were the ineffective use of loan guarantee funds, high default rates on loans, and ineffective management and technical assistance provided to businesses. An important cause of these problems was that an appointed body representing many different interests (the Small Business Development Board), rather than an executive director, had direct responsibilities over the program.

In 1978–79, the Legislature took action to correct these problems by making the imposition of strict policy and management controls by the Business and Transportation Agency a condition of continued funding for the program. Subsequently, the program was restructured by the enactment of Ch 875/79 (AB 1656), with the administrative responsibility for the program placed under the Office of Small Business Development. The Small Business Development Board was made an advisory body to the office.

Structure of the Current Program

As indicated earlier, the responsibilities for administering the Small Business Development programs are shared by OSBD and seven nonprofit regional corporations supported by the state. Generally, the OSBD is responsible for providing information to small businesses on licensing procedures and businesses regulations, publishing and distributing guidebooks and manuals on small business management, and providing advocacy assistance to small businesses that are experiencing problems with state agencies. In addition, the office administers a limited number of direct loans to small businesses qualifying under specified programs.

Nonprofit regional corporations

The OSBD provides support for nonprofit, regional urban and rural development corporations, which administer the loan guarantee programs and provide technical assistance as needed to firms which receive

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

the guarantees. Under present law, the state is required to pay the initial administrative expenses of the corporation. There are now seven such corporations—three in Los Angeles, and one each in Emeryville, Salinas, Sacramento, and Fresno.

The State Small Business Development Board is responsible for approving the formation of regional corporations, and for monitoring their activities on an ongoing basis. In approving the formation of the corporations, the board considers such factors as organizational experience, proposed operating plans, ability to become self-sufficient, and whether the proposal fulfills specified legal requirements.

Loan Guarantee Program

The loan guarantee program provides for the state to guarantee up to 90 percent of the value of loans made by private lenders to disadvantaged small businesses through the state-designated regional development corporations. Currently, this program provides guarantees for small business loans to firms that do not exceed the size limitations of a "small business," as defined by the Small Business Administration ($7 million or less in annual gross receipts).

To be eligible for a loan guarantee, firms must demonstrate that they would be unable to obtain financing without the guarantee and that the loan proceeds will be used in the region of the corporation. Guarantees can be used for a variety of loans, including short and long-term loans, lines of credit, seasonable inventory loans, equipment purchases, and for other purposes.

Loan Guarantee Provisions

Loan guarantees made by the regional corporations are backed primarily by state funds which the Legislature has appropriated to this program from the General Fund. These monies are transferred from the General Fund to the Small Business Expansion Fund, where they remain until allocated by the OSBD to loan guarantee accounts maintained for each regional corporation.

In the past, these guarantee accounts were maintained by the State Treasurer. However, Ch 875/79 provided for the transfer of the accounts to lending institutions designated by the regional corporations and approved by the state. This change was made to increase investment earnings on the loan guarantee accounts, and also to encourage the participation of banks in the program, by allowing a portion of the loan guarantee accounts to be deposited with them. The OSBD and the regional corporations decided to consolidate the separate loan guarantee accounts into a single trust to (1) maximize interest earnings, (2) centralize management, and (3) minimize administrative costs. In 1981–82, a total of $11.0 million was transferred to this account. Regional corporations are permitted to use 25 percent of the interest earned by the trust account for administrative expenses, technical assistance, and direct loans. Other funds for administrative expenses are provided directly by the state, and from fees for loan packaging and contracts with local governments.

The funds in each corporation's guarantee account are used as "collateral" for loans made by financial institutions to businesses. As loans are made, funds in the guarantee accounts become "encumbered," or held in reserve until the loans are paid off. Current law requires that 100 percent of the guaranteed portion of the loan must be maintained in the account.

For example, if a business participating in the program borrows $100,000 a guarantee is issued for 90 percent of the loan, and $90,000 initially must be set aside in the guarantee account. The funds are reserved to pay off the guaranteed portion of the loan in case of default by the borrower. As the loan is paid off, the amount that must be held in reserve also declines.

Table 4 displays the amount of funds made available for loan guarantees. The department estimates that, as of June 30, 1983, a total of $16.9 million will be available for loan guarantees provided under this program. Most of this amount has been provided directly by allocations from the state General Fund. Between 1979–80 and 1982–83, General Fund appropriations provided $9.7 million for this program. The balance of the funding is accounted for by recoveries from loan defaults, earnings on investments and a one-time allocation from the Century Freeway Fund, which has been set aside specifically for businesses affected by construction of the Century Freeway project in Los Angeles.

Table 4 also shows that the amount of funds reserved for loan guarantees has grown significantly over the past four years. The department estimates that these reserves will reach $16.3 million by the end of the current fiscal year. Since the state guarantees 90 percent of each loan, the total face value of loans made under this program will be approximately $18.1 million by that date.

Table 4

Small Business Loan Guarantee Funds

	Actual 1979–80	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*
1. Fund balance as of July 1	$5,248	$6,595	$10,624	$14,216
2. Receipts				
a. General fund allocations	1,300	2,300	3,100	3,024
b. Century Freeway Fund	—	1,200	—	—
c. Recoveries form defaults	17	—	148	3
d. Investment income	472	933	458	50
e. Total revenues	1,789	4,433	3,706	3,077
3. Expenditures				
a. Payment of defaults	441	404	114	50
b. Total expenses	—	—	114 [a]	50 [a]
4. Total funds available as of June 30	6,595	10,624	14,216	16,895
5. Reserves for guarantees outstanding	4,070	6,993	9,522	16,295
6. Designated reserves [b]	2,033	2,325	2,517	—
7. Unencumbered reserves	492	1,306	2,177	600

[a] Includes costs of maintaining loan guarantee accounts.
[b] Includes loan reserves set aside for specific purposes or otherwise unavailable for loan guarantees.

Unencumbered Funds Should Be Used to Offset General Fund Appropriations

The budget proposes $3,023,000 in General Fund expenditures for 1983–84 to support the loan guarantee program. This is a decrease of $1,000 from the amount appropriated for this purpose during the current year.

As shown in Table 4, the regional corporations typically end the year with some unencumbered funds that are available for use in the following year. In 1981–82, for example, nearly $2.2 million in loan guarantee funds (or 15 percent of the total amount available) were unused at the end of the fiscal year. For 1982–83, the office estimates that $600,000 will be unencumbered. (These amounts do not include any amounts designated for specific purposes and projects or otherwise restricted from guaranteeing regular loans.)

We believe that funds expected to be unencumbered at the end of the current year should be considered in evaluating the need for additional funds from the General Fund to support loan guarantees. Such funds should be used to reduce the amount appropriated from the General Fund.

Size of the Program Relative to the Federal Small Business Administration Program

Since the loan guarantee program was reorganized in 1977, a total of $12.4 million has been transferred from the General Fund to the Small Business Expansion Fund to back loan guarantees on behalf of small businesses. These funds, together with $5.8 million in interest earnings and other income received by the Small Business Expansion Fund, will be supporting an estimated $18.1 million in loans by the end of the current year.

In contrast, the loan guarantee program of the federal Small Business Administration made approximately $172 million in loan guarantees in California in 1981–82—or about 10 times the amount guaranteed under the state's program.

Other Sources Needed to Support Loan Guarantee Program

We recommend that the Legislature adopt supplemental language directing the Office of Small Business Development to study alternative sources of funds other than General Fund appropriations supporting the Loan Guarantee program, and report its findings to the Legislature by March 1, 1984.

Given current funding shortages and other pressing demands on the General Fund, it is unlikely that sufficient funds will be appropriated to satisfy the demand for loan guarantees under this program. It is likely that the program will continue to be small—and serve relatively few businesses—as long as it relies on the General Fund as its primary source of funding.

For this reason, we believe that alternative methods of providing support for the Loan Guarantee program should be explored. Accordingly, we recommend that the Legislature direct the Office of Small Business Development to prepare a study of such alternatives and report its findings to the Legislature by March 1, 1984. This study should include a review of the following alternatives:

- *Current Regulations.* The regulation most important in limiting the amount of loan guarantee authority is the 100 percent reserve requirement. Under present law, guarantee accounts must include an amount equal to the guaranteed portion of the loans. If the required amount were reduced to 50 percent, the total guarantee authority would double. Currently, the maximum amount of loan guarantees is limited to $18.8 million. Reducing the reserve requirement to 50 percent would increase the guarantee authority to over $37 million. Changing the reserve requirement, however, could have a negative impact on the participation of financial institutions in this program. The Office of Small Business Development should consult with financial institutions to determine the conditions under which a change of the reserve requirement could be made.
- *New Methods.* The office should identify new methods that might

be established to provide loan guarantees. These might include the limited use of tax-exempt revenue bonds, a modified form of "small business participating debenture", loan insurance funds, and other types of instruments used to finance or guarantee loans for other purposes.

- ***Relationship to Other Programs.*** A variety of other programs already exist which provide direct loans, loan guarantees, and other types of financial assistance to small businesses. The loan guarantee program offered by the federal Small Business Administration is well known, but others have also been established, including the Business and Industrial Development Corporation (BIDCO) and the Minority Enterprise Small Business Industrial Development Corporations (MESBIDC). These programs also provide financial assistance to small businesses which have been unable to secure financing through conventional sources. Moreover, the statutes governing the program also permit the corporation to use BIDCO, MESBIC, and other guarantees as part of loan packages. We recommend that the OSBD study identify and compare the other existing programs which provide financial assistance to small businesses. Specifically, the study should examine how the resources of these programs could be used to leverage those available under the OSBD Loan Guarantee program.

To ensure that the department's study addresses these issues and is submitted in a timely manner, we recommend that the Legislature adopt the following supplemental report language:

"The department shall study and report to the Legislature by March 1, 1984, on alternative methods of providing support for the Small Business Loan Guarantee program. This study shall include an assessment of current regulations that limit the guarantee authority, methods of accessing resources of other existing programs that provide financial assistance to small businesses, and new methods of securing funds for this program. In preparing this study, the department shall consult with financial institutions, business organizations, and other agencies who are directly involved in this program or similar programs that assist small or otherwise disadvantaged businesses."

OTHER BUDGET ISSUES

Technical Services Should Be Supported on A Full-Cost Basis

We recommend that legislation be enacted to permit the Department to charge fees for technical services.

Our analysis indicates that a significant portion of DEBD's activities involve providing technical services and other forms of direct assistance that benefit specific local governments, businesses, and individuals. For instance, the Office of Local Economic Development frequently provides loan packaging and grant application assistance and helps local agencies establish economic development corporations. Similarly, the Office of Tourism helps local governments, tourist and convention bureaus, and other organizations establish tourist promotion programs in their communities. In addition, the Office of Business and Industrial Development provides specific businesses with site location information and other services.

We believe that these kinds of services can and should be supported on a full-cost basis by those who directly benefit from them. Presumably, some of these services otherwise would be provided by financial analyst

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

and economic development consultants in the private sector. We therefore recommend that legislation be enacted allowing the department to charge fees for technical assistance and other services provided to specific agencies, businesses, and individuals.

Foreign Travel Unjustified

We recommend deletion of $9,000 requested for foreign travel because these activities are more appropriately conducted or supported by the California State World Trade Commission.

The budget proposes $9,000 for foreign travel, an amount equal to approximately 10 percent of the department's travel budget. This amount would finance trips and trade missions to Japan, other points in the Far East, and Europe. These trips will be made to recruit foreign firms, represent the state at international trade meetings, and develop business contacts abroad.

Our analysis suggests that these activities are more appropriately conducted by the California State World Trade Commission, which the Legislature established last year to promote international trade, tourism, and development. Permitting two agencies to represent the state to foreign governments and businesses would result in an inefficient use of resources, and would also remove the incentive for the agencies to coordinate their activities. We also believe that it is important for the state to speak with one voice to foreign businessmen in these matters.

The budget includes $463,000 to support the commission in 1983–84, and its statutory responsibilities specifically include representing the state before foreign governments, encouraging foreign business investment in California, and other activities related to international trade and tourist development. We anticipate that a significant part of the commission's budget will be allocated for foreign trade missions.

If the Commission wishes to have Department staff represented in these activities, the costs of these trips should be borne by the Commission, rather than by the department. On this basis, we recommend deletion of $9,000 requested for foreign travel, for a corresponding savings to the General Fund.

Business, Transportation and Housing Agency

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Item 2230 from the Industrial Development Fund — Budget p. BTH 24

Requested 1983–84	$231,000
Estimated 1982–83	219,000
Actual 1981–82	130,000
Requested increase (excluding amount for salary increases) $12,000 (+5.5 percent)	
Total recommended reduction	$40,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***External Consultant and Professional Services. Reduce item 2230-001-215 by $40,000.*** Recommend deletion of funds because financial analysis can be done in-house with positions authorized for this purpose. 304

GENERAL PROGRAM STATEMENT

The California Industrial Development Financing Advisory Commission (CIDFAC) was created by Ch 1358/80 (AB 74) for the purpose of evaluating industrial development bonds (IDBs). IDBs are issued by local development authorities, and the proceeds are used to assist private businesses construct or purchase industrial facilities which promote economic development. The commission is responsible for reviewing all proposed IDB issues to ensure that they comply with disclosure regulations, have proper security, and satisfy specified public policy requirements.

The commission consists of the State Treasurer, the State Controller, the Director of Finance, the Director of the Department of Business and Economic Development, and the Commissioner of Corporations. It has a staff of four authorized positions for the current year, and its expenses are supported by fees charged on IDB issues.

Since this program was enacted, approximately 50 applications for IDB financing have been received by the commission. These applications, if approved and issued, would provide tax-exempt bond financing of $147 million for industrial development projects. As of December 1982, $49 million of these bonds had been issued.

ANALYSIS AND RECOMMENDATIONS

The budget requests an appropriation of $231,000 from the Industrial Development Fund for support of the California Industrial Development Financing Advisory Commission in 1983–84. This is an increase of $12,000, or 5.5 percent, over estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

The net increase in the commission's budget is attributable to (1) an increase in total personal service costs ($72,000) due to a reduction in estimated salary savings, and (2) a corresponding reduction in internal consultants and professional services ($60,000). The budget reflects re-

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION—Continued

duced salary savings because the commission plans to fill positions which have been vacant during part of 1982–83. Staff vacancies in the current year have required the commission to rely on the State Treasurer's Office for budget and management assistance. Since the commission will be fully staffed in 1983–84, there will be less need for such assistance, and the budget accordingly shows a reduction of $60,000 for internal consultants and professional services. This reduction will offset part of the increase in personal services cost, leaving a *net* budget increase of $12,000.

Authorization Increased for Industrial Development Bonds

Chapter 1605, Statutes of 1982 (SB 1526) increased the amount of bonds which may be issued from a maximum aggregate amount of $200 million to $250 million per calendar year. In addition, the act raised the maximum interest rate payable on the bonds from 10 to 12 percent.

Commission Increases Service Fees

Section 91533 of the Government Code authorizes the commission to charge fees to cover the expenses associated with reviewing industrial development bond applications. The commission originally established an application fee of $1,250 and a general fee of one-eighth of 1 percent of the face value of the bonds to be issued. This fee schedule, however, has failed to generate revenues sufficient to cover the commission's expenses. By 1981–82, the accumulated deficit had reached $80,000. Consequently, the commission recently acted to increase the application fee to $2,500 and to increase the general fee to one-half of 1 percent of the total face value of bonds issued. The IDB applications received after January 1, 1983 will be subject to the new fee schedule. According to documents provided by CIDFAC, revenues generated by the new fee schedule are expected to cover current operating expenses and repay the loans from the California Pollution Control Financing Authority which were used to cover operating deficits in prior years.

Financial Analysis Could Be Done In-House

We recommend deletion of $40,000 requested for external consultants and professional services because financial analysis can be done in-house with positions authorized for this purpose.

A primary responsibility of the commission is to assess the financial feasibility of projects requesting IDB financing. This involves reviewing financial statements, analyzing projected revenues and public benefits, and evaluating the proposed structure of financing. Two positions (treasury program manager and assistant treasury program officer) are authorized in the commission's budget to carry out these program responsibilities.

Since the commission was established, these activities have been handled mostly by a private consultant, in part because one of the positions had not been filled. The budget proposes $40,000 for private consultants to continue this activity in 1983–84. The commission, however, has indicated to us that it plans to fill all of its positions during 1983–84. We see no continuing need for consultants to do financial analysis of IDBs when the capabilities will be available in-house. Accordingly, we recommend deletion of $40,000 requested for external consultants and professional services.

Business, Transportation and Housing Agency

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 2240 from the General Fund and various funds — Budget p. BTH 26

Requested 1983–84	$32,582,000
Estimated 1982–83	43,795,000 [a]
Actual 1981–82	33,820,000
Requested decrease (excluding amount for salary increases) $11,213,000 (−26 percent)	
Total recommended reduction	$1,354,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2240-001-001—Support		General	$4,552,000
2240-001-245—Support		Mobilehome Parks Revolving	1,812,000
2240-001-451—Support		Mobilehome and Commercial Coach License Fee Account, General	1,617,000
2240-001-635—Support		Housing Predevelopment Loan	182,000
2240-001-648—Support		Mobilehome-Manufactured Housing Revolving	8,583,000
2240-001-925—Support		Land Purchase	37,000
2240-001-929—Support		Housing Rehabilitation Loan	407,000
2240-001-936—Support		Homeownership Assistance	218,000
2240-001-938—Support		Rental Housing Construction	325,000
2240-001-980—Support		Urban Housing Development Loan	77,000
2240-101-001—Local Assistance		General	7,075,000
2240-101-635—Local Assistance		Housing Predevelopment Loan	1,590,000
2240-101-925—Local Assistance		Land Purchase	393,000
2240-101-927—Local Assistance		Farmworker Housing Grant	(2,500,000)
2240-101-929—Local Assistance		Housing Rehabilitation Loan	346,000
2240-101-936—Local Assistance		Homeownership Assistance	512,000
2240-101-938—Local Assistance		Rental Housing Construction	1,615,000
2240-101-942—Local Assistance		Special Deposit—Office of Migrant Services	800,000
2240-101-980—Local Assistance		Urban Housing Development Loan	2,441,000
2240-001-890—Support		Federal Trust	(748,000)
2240-101-890—Local Assistance		Federal Trust	(39,107,000)
Total			$32,582,000

[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. ***Facilities Operations—Rent. Reduce by $94,000 ($17,000 from the General Fund in Item 2240-001-001 and $77,000 in various special funds).*** Recommend reduction to correct for overbudgeting.	309
2. ***Equipment. Reduce by $66,000 ($12,000 from the General Fund in Item 2240-001-001 and $54,000 in various special funds).*** Recommend reduction because proposed equipment purchases have not been justified.	310
3. ***Legislatively Mandated Reports. Reduce by $25,000 (Item 2240-001-001 General Fund).*** Recommend reduction to eliminate funds for publication of information that can be provided on request.	311
4. ***Factory-Built Housing Program. Reduce by $136,000 (Item 2240-001-001 General Fund).*** Recommend that the program be made self-supporting by deleting General Fund support and increasing reimbursements in similar amount (no impact on current level of program).	312
5. ***Employee Housing Inspection Program. Reduce by $411,000 (Item 2240-001-001 General Fund).*** Recommend reduction in General Fund support and corresponding increase in reimbursements to comply with legislative intent (no impact on current level of program).	313
6. ***Rural Development Assistance Program. Reduce by $357,000 (Item 2240-001-001 General Fund).*** Recommend that (1) program be made self-supporting, by increasing reimbursements by $357,000, (2) General Fund support for the program be deleted (no impact on current level of program).	314
7. Housing Rehabilitation Loan Fund. Recommend adoption of a control section transferring $321,000 in reported fund surplus to General Fund.	315
8. Mobilehome and Commercial Coach License Fee account. Recommend enactment of legislation revising fee schedule applicable to mobilehomes and commercial coaches. (Potential additional VLF revenue: $9.7 million in 1983–84 and $19.6 million in 1984–85 and $7.2 million in General Fund savings in 1984–85).	318
9. ***Local Mandate Program—Regional Housing Need Assessments. Reduce by $265,000 (Item 9680-101-001 General Fund).*** Recommend deletion of funding and repeal of mandate because mandated local activity can be performed by HCD staff.	321

GENERAL PROGRAM STATEMENT

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

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

(2) To promote, provide and assist in the availability of safe, sanitary and affordable housing;

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

The department carries out these responsibilities through four programs: (1) Codes and Standards, (2) Community Affairs, (3) Research and Policy Development, and (4) Administration.

The department has 565 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures totaling $77,352,000 financed from various sources, including federal funds and reimbursements, for support of the Department of Housing and Community Development (HCD) in 1983–84. This is $8,537,000, or approximately 10 percent, less than estimated current-year expenditures. Excluding federal funds and reimbursements, expenditures in 1983–84 are budgeted at $32,582,000, or 26 percent, less than estimated current-year expenditures. This, however, makes no allowance for the added cost of any salary or staff benefits increases that may be approved for the budget year.

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

Program Expenditures	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Codes and Standards Program	$11,701	$13,107	$13,380	$273	2
Community Affairs Program	31,287	70,705	63,032	−7,673	−11
Research and Policy Development	1,702	2,077	940	−1,137	−55
Administration	(2,770)	(4,864)	(4,087)	(−777)	−16
Administration—undistributed	194	—	—	—	—
Total Expenditures	$44,884	$85,889	$77,352	−$8,537	−10
Source of Funds					
General Fund	$12,764	$13,934	$11,627	−$2,307	−17
Farmworker Housing Grant Program	−250	250	—	−250	−100
Housing Predevelopment Loan Fund	1,866	2,176	1,772	−404	−19
Housing Rehabilitation Loan Fund	831	1,129	753	−376	−33
Mobilehome-Manufactured Housing Revolving Fund	8,651	8,245	8,585	338	4
Mobilehome Parks Revolving Fund	1,651	1,710	1,812	102	6
Mobilehome and Commercial Coach License Fee Account (General Fund)	1,448	1,445	1,617	172	12
Urban Housing Development Loan Fund	2,087	2,836	2,518	−318	11
Rental Housing Construction Fund	4,420	8,555	1,940	−6,615	−77
Homeownership Assistance Fund	223	2,309	730	−1,579	−68
Land Purchase Fund	129	406	430	24	6
Office of Migrant Services Account Special Deposit Fund	—	800	800	—	—
Total State Funds	$33,820	$43,795	$32,582	−$11,213	−26
Federal Trust Fund	6,695	38,731	39,855	1,124	3
Reimbursements	3,369	3,363	4,915	1,552	46
	$44,884	$85,889	$77,352	−$8,537	−10

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 1 presents a summary of departmental expenditures, by program and funding source for the three-year period ending June 30, 1984. It shows that the proposed General Fund appropriations would finance about 16 percent of the department's expenditures in the budget year. The department's 11 special funds would support approximately 25 percent of HCD's 1983–84 budget. Approximately 55 percent of the department's expenditures in the budget year will be federally funded.

The department anticipates receiving federal funds totaling $39.8 million in 1983–84. Most of this funding ($25.6 million) is associated with the department's management of the Small Cities portion of the federal Community Development Block Grant program. The HCD first assumed statewide management of the program in October 1982. Thus, 1983–84 will be the first full year in which the program is reflected in the budget for the department.

Table 2 summarizes the significant changes reflected in the department's proposed budget for 1983–84, including changes affecting the General Fund, special funds, federal funds, and reimbursements. The table indicates that during the budget year, increased expenditures are proposed from federal funds ($1.1 million) and reimburments ($1.5 million), while reduced expenditures are proposed from the General Fund ($2.3 million) and special funds ($8.9 million).

Table 2
Department of Housing and Community Development
Proposed 1983–84 Budget Changes
(in thousands)

	General[a]	*Special*	*Federal*	*Reimbursements*	*Total*
1982–83 Current Year Revised	$13,934	$29,861	$38,731	$3,363	$85,889
1. Program Changes					
State Operations					
Small Cities CDBG—assistance grant technical	—	—	120	—	120
Century Freeway Housing Program	—	—	—	1,418	1,418
Research & Policy Development—staff decrease	−312	—	—	—	−312
Legal staff decrease	−202	—	—	—	−202
Administrative Services staff decrease	−738	—	—	—	−738
Local Assistance					
Urban loan fund augmentation deleted	−500	—	—	—	−500
Net reduction in loans and grants	—	−9,646	955	—	−8,691
Onetime local mandate (Ch 1580/82)	−725	—	—	—	−725
Special appropriations terminated[b]	−51	—	—	—	−51
2. Cost Changes					
Price increase	221	443	49	134	847
Prorata increase	—	297	—	—	297
1983–84 Proposed Program	$11,627	$20,955	$39,855	$4,916	$77,352

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

[b] Ch 1154/79 and Ch 1035/81

Significant Augmentations

1. *Century Freeway Housing Replenishment Program.* The budget proposes to continue the 26 additional positions administratively established to support the Century Freeway Housing Replenishment Program in the current year, resulting in an increase of $1.4 million in reimbursements.
2. *Small Cities Community Development Block Grant Program.* The budget proposes an additional $1 million in expenditures to be financed with federal funds, due to an anticipated increase in the federal allocation of CDBG funds to California.

Significant Reductions

1. *Staffing reductions.* The budget proposes eliminating 3 attorney positions, 10 positions in the Research and Policy Development Program, and 25 positions in the Administration Program, for a total General Fund reduction of approximately $1.2 million.
2. *Reduced local loan and grant activity.* In 1983–84, the budget plans a net reduction of $8,691,000 in the amount of loans and grants awarded, due principally to the commitment of all remaining loan funds made available by Ch 1043/79.

Overbudgeting for Rent

We recommend a $94,000 reduction in the amount proposed for facilities operations to eliminate overbudgeting, for a savings of $17,000 to the General Fund and $77,000 to various special funds.

Table 3 shows the expenditures proposed by the department for facilities operations in 1983–84. As indicated in the table, the budget proposes $968,000 for rent and $131,000 for the Department of General Services assessment charges for State Police and lease management services. The amount requested for facilities operations in 1983–84 represents a $23,000, or 2 percent, increase over current-year expenditures for this purpose. The proposed increase, however, is really larger than 2 percent because in the current year, HCD is vacating 6 of its 24 statewide offices. Thus, actual expenditures in 1982–83 should be less than the amount budgeted. Furthermore, in 1983–84, the department will occupy only 18 offices across the state.

Table 3
HCD Facilities Operations
Budget Summary
(in thousands)

	Estimated 1982–83	*Proposed 1983–84*	*Legislative Analyst's Estimate*	*Difference*
Rent	$946 [a]	$968 [b]	$939	$28
Department of General Services	131	131	65	66
State Police	(30)	(30)	(30)	—
Building Rentals charge	(51)	(51)	(13)	(38)
Space Management charge	(50)	(50)	(22)	(28)
	$1,077	$1,099	$1,004	$94

[a] For 24 offices.
[b] For 18 offices.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Based on a review of both the department's proposal and the records of the Space Management Division of the Department of General Services (SMD), we conclude that the amount proposed for HCD's facilities operations in 1983–84 is overbudgeted by $94,000.

First, our analysis indicates that 1983–84 rent is overbudgeted by approximately $28,000. According to SMD information, HCD will be paying approximately $939,000 for office space rent in 1983–84. The budget, however, is requesting $963,000, or $28,000 more than the SMD amount. Since these rental payments are made based on the SMD amount, we conclude that the department has overbudgeted for rent by $28,000.

In addition, our review of the amount budgeted by HCD for Department of General Services assessments also indicates overbudgeting. According to SMD, the "Building Rentals" charge, which is calculated in the "Price Book" as equal to 1.4 percent of the annual expenditures on leased space, will be approximately $13,000. This charge is assessed by SMD as a management fee for handling the department's monthly rental payments and related monthly services. The SMD estimate is $38,000 less than the amount proposed for this purpose in the budget. In addition, our review of the "Space Management" charges, which are based on SMD billings to HCD, indicates that the amount budgeted for that purpose is overstated by approximately $28,000. These hourly-based charges are made for additional SMD services such as space planning or office space modifications.

In order to more accurately reflect the department's costs, we therefore recommend a $94,000 reduction in the amount budgeted for facilities operations, for a savings of $17,000 to the General Fund and $77,000 to various special funds.

Equipment Request Unjustified

We recommend the deletion of $66,000 ($12,000 from Item 2240-001-001 and $54,000 from various special funds) to eliminate funding for equipment purchases that have not been justified.

The department is requesting $66,000 for additional equipment in the budget year. This amount is $9,000, or 12 percent, less than estimated current-year expenditures for equipment, but $41,000, or 164 percent, greater than HCD's equipment related expenditures in 1981–82.

The budget year request includes funds for microfilm reader-printers, cameras, several calculators, copiers, and several typewriters. Some of the requested equipment is to replace existing property; other items are additions to the department's equipment inventory.

Section 8651 of the State Administrative Manual requires agencies to maintain a record of all state equipment under its control. Furthermore, agencies must conduct equipment inventories periodically, according to agency needs, but no less often than once every three years.

The HCD could not provide us with a current inventory of its equipment. Without a current master equipment inventory, we are unable to document the department's need for the additional equipment requested. Accordingly, we recommend a $66,000 reduction in the department's budget ($12,000 from Item 2240-001-001 and $54,000 from various special funds), on the basis that the need for additional equipment has not been established.

Discontinue Unnecessary Publications

We recommend that three annual legislatively-mandated reports be discontinued because (1) they do not serve a statewide interest and (2) the information they contain can be provided on request, for a General Fund savings of $25,000 in Item 2240-001-001.

Chapter 1632, Statutes of 1982, requires each agency to submit a list of publications it will produce during 1983–84 which are legislatively mandated and which require in excess of 100 employee hours to prepare.

Table 4 shows HCD's response to Chapter 1632, as well as both the department's and our recommendations regarding the continuation of these publications.

Table 4

1983–84 Legislatively-Mandated Publications Requiring Minimum of 100 Hours to Prepare

Title and Description	*Authority*	*Estimated Annual Cost*	*HCD Recommendation*	*LAO Recommendation*
1. *A Survey of Second Unit Ordinances in California* —Evaluation of local implementation of state mandate (due January 1984)	Ch. 1440/82 (SB 1534)	$9,000	Proceed with report	Proceed with report
2. *Statewide Housing Plan*—Biennial analysis of statewide housing activity (released December 1982).	Section 50408(c)[a] and 50452 Code	47,000	Continue	Continue
3. *Farmworker Assistance Plan*—Biennial summary of Farmworker Housing Grant Program (released December 1982).	Sections 50408 and 50517	15,000	Continue	Continue
4. *Marks-Foran Annual Report*—description of mortgage bond sales pursuant to enabling legislation (due Feburary 1983)	Section 37913	2,000	Continue	Discontinue
5. *California Housing Authority Activity Report*—Summary of total units, clients, and financial status of local housing authorites (last release: June 1982)	Section 34328.1	12,000	Continue	Discontinue
6. *Redevelopment Agency Activity Report*—Summary of local agency activity (last release: November 1982)	Sections 33080 and 50460	11,000	Continue	Discontinue
7. *The Housing Directory*—Compendium of federal, state and local housing programs (last release: May 1980)	Section 50456	23,000	Continue	Continue
8. *Annual HCD Report*—Report of operations and accomplishments of department and other state activity affecting housing	Section 50408(b)	NA	Discontinue	Discontinue
9. *Waterbed Use Feasibility Study*—One-time evaluation of safety of waterbeds in rental units (preliminary report due 1983).	ACR 117 (1982)	10,000[b]	Proceed with report	Proceed with report

[a] All statutory references are to the California Health and Safety Code.
[b] Payable out of private funds per legislative authorization.

California Housing Authority Activity Report. Section 34328.1 of the Health and Safety Code requires each local housing authority to submit

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

a report on its activities and programs to HCD by October 1 of each year. The department aggregates this data and publishes a statewide summary. Publication of the statewide summary, however, is *not* required by Section 34328.

Due to delays in receiving data from the local agencies, HCD did not publish the report in 1981.

Since there is no statutory mandate for HCD to publish this annual report, and since the information contained in it can be made available on request, we recommend that this report be discontinued for an annual General Fund savings of $12,000.

Marks-Foran Annual Report. Section 37913 requires the department to publish annually a report describing mortgage bonds sales pursuant to the Marks-Foran Residential Rehabilitation Act of 1973. According to the department, only six or seven jurisdictions are actually selling bonds under the act. No reports on bond sales have been issued by the department to date; the first report is expected to be released in February 1983.

Since only a small number of jurisdictions is participating in this program, an annual summary does not seem warranted or necessary. For this reason, we recommend the enactment of legislation eliminating the annual reporting requirement contained in Sections 37100 and 37913 of the Health and Safety Code, for a General Fund savings of $2,000.

Redevelopment Agency Activity Report. State law requires local redevelopment agencies to submit annual activity reports to HCD but does not require HCD to publish this material. The department nevertheless annually publishes the submitted reports.

Since the information contained in these reports can be provided on request, we recommend that funding for publication of these reports be deleted, for a General Fund savings of $11,000.

Make Factory-Built Housing Inspection Program Self-Supporting

We recommend a General Fund deletion of $136,000 and a corresponding increase in reimbursements (Item 2240-001-001) in order to make the Factory-Built Housing Program self-supporting.

Under Sections 19960–19997 of the Health and Safety Code, the department is responsible for regulating the design, manufacture, and installation of factory-built housing. Factory-built housing principally includes residential buildings or units that are wholly or partially manufactured at a site other than the location at which they will be assembled. State law requires that all factory-built housing units sold or offered for sale by the initial installer obtain an insignia of approval issued by HCD (or the local enforcement agency, when responsibility has been delegated by the department).

Section 19982 of the Health and Safety Code requires that HCD establish a schedule of fees for performing this function, such that the collected fee revenues "pay the costs incurred by the department for the work related to administration and enforcement" of the program. Currently the HCD requires manufacturers to pay these fees.

Our analysis indicates that the fees being collected by HCD for this program are not covering the program's administrative and enforcement costs, as the Legislature intended. While the budget proposes $205,000 in expenditures under this program in 1983–84, it anticipates that only $69,000 in fee revenue will be collected. As a result, the General Fund is subsidizing this program at a cost of $136,000.

We find no compelling reason why the General Fund should be subsidizing this function, which primarily benefits manufacturers and sellers of factory-built housing. More in particular, however, continued subsidization of the program is inconsistent with legislative intent as reflected in the statutory requirement that the program be fee-supported. In order to ensure that the department complies with legislative intent, we recommend a General Fund deletion of $136,000 from Item 2240-001-001 and a corresponding increase in reimbursements. This reduction will not affect the current level of program activity provided the department increases fees to replace the General Fund support.

Revise Fee Activity in the Employee Housing Program

We recommend a General Fund deletion of $411,000 and a corresponding increase in reimbursements for the Employee Housing Program (Item 2240-001-001) in order to ensure that the program is administered in accordance with legislative intent (no impact on current level of program). We further recommend that legislation be enacted permitting the department to recover the costs of enforcement and investigation from fines assessed against prosecuted violators (potential savings to the General Fund: $323,000).

The Employee Housing Program in the Division of Codes and Standards is responsible for enforcing minimum sanitary and safety standards in employee housing units and labor camps in the state that are occupied by five or more employees. Employee housing regulations require operators of these units or camps to obtain annual operating permits, and to comply with prescribed standards. Currently, 1,113 camps are registered under the state enforcement program.

The California Labor Code permits local agencies to assume responsibility for the statewide sanitary and safety regulations. Where a local agency has opted to enforce the standards, the department must annually monitor and evaluate the local enforcement effort.

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

In the 1979–80 *Analysis of the Budget Bill,* we noted that the department was not collecting sufficient revenue to cover the program's administrative and enforcement costs. Subsequently, the Legislature adopted language in the *Supplemental Report of the 1979 Budget Act,* which stated that "It is the intent of the Legislature that the Employee Housing Inspection program be of a self-supporting nature." In the 1981–82 *Analysis,* we recommended that all General Fund support for this program be deleted in order to reflect the intent of the Legislature, as reflected in the supplemental report language two years earlier.

In the 1981 Budget Act, the Legislature revised the funding for the Employee Housing Program. The act provided for increased fees to support the program, permitting a $107,000 reduction in General Fund support. In taking this action, the Legislature sought to restore the funding ratio for the program to what it was in 1979–80: 58 percent General Fund support and 42 percent fee support. Since 1980–81, however, the General Fund share of program costs has increased significantly above the 58 percent target, as depicted in Table 5.

The budget proposes $979,000 in expenditures for this program during 1983–84, only $195,000, or 20 percent, of which will be supported from fees collected by the department.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 5
Department of Housing and Community Development
Employee Housing Program
Budget Summary
(dollars in thousands)

	Funding			*Percentage*	
	General Fund	*Fees*	*Total*	*General Fund*	*Fees*
1976–77	$305	$162	$467	65%	35%
1977–78	238	154	392	61	39
1978–79	299	150	449	67	33
1979–80	188	139	328	58	42
1980–81	314	250	564	56	44
1981–82	694	135	829	84	16
1982–83 (estimated)	751	195	946	79	21
1983–84 (proposed)	784	195	979	80	20

Our review indicates that the department's fee collection practices are not adequate and are unresponsive to legislative policy directives.

The department reports that it is unable to set fees at a level sufficient to make the entire program self-supporting because (1) it is unable to assess fees for the cost of investigations conducted in response to complaints filed by employee-residents or local agencies and (2) it lacks authority to collect fines for infractions.

In order to ensure that the department complies with legislative intent and policy in administering the Employee Housing program, we recommend:

1. The deletion of $411,000 in General Fund support requested in Item 2240-001-001 and a corresponding increase in reimbursements. This General Fund reduction would restore the 58:42 General Fund-to-fee support ratio established by the Legislature in the 1981 Budget Act. This action would not affect the current program level.

2. The enactment of legislation authorizing the department to recover the costs of investigations from fines imposed on violators of state sanitary and safety standards. This would permit the department to increase fee revenues sufficiently to replace all General Fund support (potentially $373,000) for the Employee Housing Program, as intended by the Legislature in 1979.

Support Rural Assistance Program With Funds Acquired by the Program

We recommend the deletion of General Fund support and a corresponding increase in reimbursements for the Rural Development Assistance Program in Item 2240-001-001 because the program can be supported by reimbursements from the local communities serviced, for a General Fund savings of $357,000 (no impact on current level of program).

The Rural Development Assistance Program (RDAP) provides technical assistance and expertise to rural communities, to enable them to more effectively identify, apply, and compete for federal, state and private funds. The RDAP is the state-funded successor to the Remote Rural Demonstration Project, a two-year federally-funded program designed to provide concentrated technical assistance to rural agencies in preparing grant applications and implementing housing, public works, and economic development programs.

The demonstration project sought to build within the local communities the capacity at the local level to continue the program after federal funding was terminated. The federal Department of Housing and Urban Development selected HCD to participate in the 1977–1979 program in Modoc, Lassen, Siskiyou and Plumas Counties. The federal program was moved during the second year to Amador, Calaveras, Tuolumne, Alpine, Mono and Inyo Counties.

When the federal project terminated in 1979, HCD chose to continue the program. In 1982–83, the program, now exclusively supported by the General Fund, was moved to rural communities in Imperial, Riverside, Del Norte, Humboldt, and Trinity Counties.

Table 6 shows the total amount of federal, state and private funds secured by both the federal Remote Rural Project and the state-funded RDAP.

Table 6
California Rural Development Assistance Program
Support Expenditures and Amount of Funds Secured
(in thousands)

	Actual 1980–81	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
Support expenditures	$507	$451	$344	$357
Total Funds Secured	15,738	10,696	8,000	8,000

As the table shows, between 1980 and 1983 this program secured in excess of $34 million in additional funds for local California communities, at no cost to those jurisdictions benefitting from the program. The table also shows that support expenditures for the program have averaged about three-to-four percent of the amounts secured.

Considering the magnitude of the funds acquired for participating localities, it is not unreasonable to expect them to finance the costs of the program. Consequently, we see no compelling justification for the continued General Fund subsidization of this program. As indicated above, current staff levels could be maintained if only 4 percent of the total amount acquired for support of the RDAP staff were used to fund the program. Funding support commitments from the local agencies served could be secured through intergovernmental contracts with HCD.

In order to eliminate the General Fund subsidy to the RDAP, we recommend that reimbursements under Item 2240-001-001 be increased by $357,000 and that a corresponding amount in appropriated funds be deleted, for a General Fund savings of $357,000. The current level of the program would be unaffected by this action. We further recommend the adoption of Supplemental Report language directing the department to continue the Rural Development Assistance Program on a self-supporting basis, funded by reimbursements provided by those local jurisdictions served by the program.

Transfer Surplus in Housing Rehabilitation Loan Fund to General Fund

We recommend that the unallocated surplus of $321,000 be transferred from the Housing Rehabilitation Loan Fund to the General Fund, effective July 1, 1983, because the department reports that these funds are not needed to support the program in 1983–84.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

The Housing Rehabilitation Loan Fund provides low interest loans for the rehabilitation of housing for low and moderate income households. Loan commitments are made by HCD to local public agencies that, in turn, lend the funds to eligible property owners in the form of low interest deferred payment loans. Generally, the loans must be repaid (a) within five years or (b) when the property is sold or transferred, whichever comes first. Loan terms may be extended for additional five year periods, so long as the owner-occupant demonstrates an inability to repay the loan.

Loans are repaid to the Housing Rehabilitation Loan Fund. Until July 1, 1983, existing law provides for all money in this revolving fund to be continuously appropriated to HCD. The department may use the money in the fund for additional loans to local entities and to meet the department's administrative expenses related to the program.

The budget estimates that the fund will have $1,074,000 in resources available in 1983–84, $365,000, or 34 percent, of which will be derived from loan repayments. During the same period, the program anticipates expednitures totalling $753,000, consisting of $346,000 in new loans and $407,000 in program administrative costs.

Table 7 shows the lending and repayment activity, as well as the interest earnings and administrative costs, associated with this program since 1978–79. The table shows that loan repayments commenced in 1981–82, and that approximately 9 percent of the initial $12 million in loan funds available through the program will have been repaid by the end of 1983–84.

According to the budget, this program will have an unallocated surplus totalling $321,000 at the end of the budget year. This amount represents money in the Housing Rehabilitation Loan Fund that will be carried over into 1984–85, according to HCD plans.

Table 7
Department of Housing and Community Development
Housing Rehabilitation Loan Fund
Program Funding History
(dollars in thousands)

	Actual 1978–79	*Actual 1979–80*	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
Beginning Reserves:	$2,000 [a]	$2,073	$10,047 [b]	$471	$896	$672
Revenues:						
Loan Repayments	—	—	—	190	555	365
Interest Income	110	215	947	1,066	350	37
Total Funds Available	$2,110	$2,288	$10,994	$1,727	$1,801	$1,074
Expenditures:						
Administration	$38	$75	$74	$309	$363	$407
Loans Provided	—	2,165	10,268	522	766	346
Total Expenditures	$38	$2,240	$10,342	$831	$1,129	$753
Ending Reserves	$2,072	$47	$652	$896	$672	$321
(Carryover originally estimated in budget year)	—	—	—	—	—	—
(Carryover estimated at mid-year)	(1,000)	(5,143)	(270)	(68)	(672)	—

[a] Includes $2 million appropriation per Chapter 884/78.
[b] Includes $10 million appropriation per Chapter 1043/80.

Since this $321,000 will not be needed in 1983–84, we see no reason to keep it in the Housing Rehabilitation Loan Fund. Instead, we recommend that the funds be transferred to the General Fund, in order to give the Legislature more fiscal flexibility in responding to critical needs in this or other program areas.

As evidenced by Table 7, the department has almost consistently underestimated the amount of funds that will be carried over into the subsequent fiscal year. Hence, some additional funds are likely to be available to support this program in 1984–85.

The $321,000 could be transferred to the General Fund by adding a new control section to the Budget Bill, as follows:

"Notwithstanding the provisions of Section 50661 of the Health and Safety Code, on the effective date of this act, the sum of $321,000 shall be transferred from the Housing Rehabilitation Loan Fund to the General Fund."

Century Freeway Housing Replacement Program: Progress Report

Background. The Century Freeway Housing Replacement Program implements the Consent Decree which settled the *Keith v. Volpe* litigation over a 17-mile freeway corridor from the Los Angeles International Airport to the City of Norwalk. The decree issued by the federal district court in September 1979 resulted from negotiations between the plaintiffs (mainly residents of the area), the Federal Highway Administration, and the State Departments of Transportation (Caltrans) and Housing and Community Development. Under the decree, HCD, as the "lead agency," must develop and manage a comprehensive program of relocation, rehabilitation, and/or replacement of housing units which have been, or will be, displaced by the freeway construction.

Originally, the decree required the replacement of 4,200 units within six to eight years. The decree, however, was revised in the fall of 1981. Under the amended decree, the housing replacement activity was modified so as to place a greater emphasis on new construction and the disposition of the units remaining in the corridor. In addition, the number of units to be replaced was reduced to 3,700.

The amended decree ordered the creation of three distinct elements, or prongs, within the housing stock replacement program. The first prong involves the production of 1,025 units (rehabilitation or new construction); the second prong calls for the rehabilitation or new construction of 1,175 units; the third element provides $110 million to HCD, with instructions to produce the maximum possible number of units with this amount of funding. The HCD staff estimates that approximately 1,500 units can be constructed with the $110 million, assuming that production commences within two years.

Progress To Date. As of January 1983, HCD has initiated activity related to the first prong and the third prong ("$110 million program"). To date, approximately 40 units are complete and occupied. The department reports that it expects to complete an additional 600 units within the next six to eight months.

Table 8 summarizes the funding and production history of the program. The table shows that through June 1982, the department had spent approximately $7.1 million but had completed only six units. Furthermore, although program staffing tripled between 1979–80 and 1982–83, only 35 units had been completed by December 1982.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 8
Century Freeway Housing Replacement Program
Activity Summary
(dollars in thousands)

Resources Invested	*Actual 1979–80*	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Estimated Total for Five-year Period*
Personnel						
Number	(21)	(49)	(49)	(74)	(74)	—
Costs	$976	$2,274	$2,019	$3,594	$4,045	$12,908
Capital Outlay	—	435	1,458	60,800 [a]	121,000	183,693
Total Resources	$976	$2,709	$3,477	$64,394	$125,045	$196,601
Housing units produced	—	—	6	35 [a]	1,640	2,356

[a] As of December 1982, only 35 units were completed. The department reports it will complete a total of 710 units by June 30, 1983.

Additional Positions Requested. The budget requests 26 new positions and an additional $1.4 million for the Century Freeway Housing Replacement Program in 1983–84. These positions were administratively established during the current year, and the department is seeking permanent authorization to continue them. The additional staff is being sought to ensure that housing completion and clearance target dates imposed by the federal government and the amended Consent Decree are met.

The proposed expenditure is fully reimbursable from the State Highway Account in the State Transportation Fund through ongoing interagency agreements with Caltrans and the Federal Highway Administration. The funding for the entire Century Freeway project, including the housing replacement program, is split between the federal and state highway funds such that the maximum federal contribution does not exceed 92 percent of the total project costs. Similarly, the *minimum* cost to the state to support the project is 8 percent of total project costs. As indicated in Table 8, by the end of the 1983–84 fiscal year, project costs are expected to have reached $197 million, of which at least $15.8 million will have been paid from state funds.

Reform Mobilehome Tax Inequities

We recommend the enactment of legislation requiring that, effective July 1983, all mobilehomes, manufactured housing, and commercial coaches currently subject to annual vehicle license fees be transferred to local property tax rolls upon resale (potential VLF revenue increase for local agencies of $9.7 million in 1983–84 and $19.6 million in 1984–85 and $7.2 million in General Fund savings beginning in 1984–85).

Chapter 1149, Statutes of 1980, transferred all titling and registration responsibilities for mobilehomes, manufactured housing, and commercial coaches from the Department of Motor Vehicles to the Department of Housing and Community Development. Prior to this transfer, Chapter 1180, Statutes of 1979, created a bifurcated system of property taxation for mobilehomes and manufactured housing. Generally:

(1) all units sold or transferred for the first time on or after July 1, 1980, or

(2) those units for which the annual vehicle license fees were not paid within 120 days of the due date

are subject to local property taxation (LPT). Local county assessors are responsible for determining the assessed value, levying, and collecting the appropriate tax for these units.

All other mobilehomes, manufactured housing and commercial coaches, with certain exceptions, are subject to annual vehicle license fees. The vehicle license fee is an assessment against mobilehomes, manufactured housing, and commercial coaches that is imposed in lieu of local property taxation. The HCD collects the vehicle license fees (VLF) along with annual registration fees, directly from the owners of mobilehomes, manufactured housing, and commercial coaches. The VLF collections are deposited into the Mobilehome and Commercial Coach License Fee Account. Registration fees are placed in the Mobilehome-Manufactured Housing Revolving Fund.

Once the VLF are collected and deposited, the State Controller is responsible for apportioning these revenues to the local county assessors according to a schedule prepared by HCD that shows the number of VLF-paying units within each county. Approximately $27.2 million will be apportioned to the counties in the current year, and $19 million is expected to be apportioned in 1983–84.

VLF Statutory Schedule Based on Fallacious Assumption

Sections 18115 and 18115.5 of the Health and Safety Code specify the manner in which the VLF is assessed. The annual fee is calculated at 2 percent of the adjusted "market value" of the unit. "Market value" is based on the original sales price of the mobilehome when first sold to a consumer as a new unit. The annual adjustment of the "market value" is determined by applying the depreciation schedule prescribed in Section 18115.5 to the original sales price reported to HCD. The schedule thus sets a higher "market value" for the more recently purchased units (assessed at 85 percent in the first year) and a lower value for units sold for the first time several years ago (units sold more than 17 years ago are assessed at 15 percent). This schedule is based on the implicit assumption that mobilehomes, manufactured housing, and commercial coaches depreciate in value over time. Furthermore, the depreciation schedule—and thus the "market value" of a unit—is unaffected by a change in ownership. In effect, new owners "assume" the depreciation scale value applicable to the purchased unit.

Our analysis indicates that the assumption underlying the system for taxing mobilehomes, manufactured housing, and commercial coaches—that these units depreciate in value over time—is fallacious. As a consequence, the current system results in state and local governments losing millions of dollars in VLF tax revenues annually.

With the assistance of HCD staff, we examined a random selection of units that currently are registered with the department's Mobilehome Titling and Registration Program. These units are of varying ages, models, and dimensions. In each case, we compared the "market value" for each unit (as determined by applying the statutory schedule), with the appraised value for a unit meeting those specifications, as determined by 1982 editions of the National Automobile Dealers' Association (NADA) *Mobilehome Manufactured Housing Appraisal Guide* and by the Kelly Blue Book *Manufactured Housing and Mobilehome Guide* (Blue Book).

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Both of these publications were formally adopted by the Board of Equalization in January 1983 as official appraisal guides for purposes of collecting other state taxes.

In all but one case, our survey revealed that the NADA and Blue Book unit appraisals were higher than the "market value" assessed for the same units as determined by the statutory depreciation schedule. Some appraisals significantly deviated from the statutorily-set value. In one case, the NADA value was nearly 10 times the "market value," while the Blue Book value was 8 times higher than the statutory amount.

Our analysis indicates that the principal reason for the substantial differences between the public (statutory) and the private appraisals is the assumption built into the current statutory formula—that mobilehomes depreciate over time. Our survey and our discussions with HCD staff indicate the contrary—that mobilehomes, manufactured housing, and commercial coaches are *appreciating* in value.

Fiscal Impact of the Current Schedule

Our survey revealed that, on the average, the current statutory formula undervalues each unit by $13,110. If the "market value" for each of the estimated 400,000 units in California subject to the VLF were increased by $13,110, we estimate that an *additional* $105 million in annual VLF revenues could have been collected in calendar year 1982. The amount of revenue forgone in future years would depend on the future mobilehome rate of appreciation.

In a report entitled "An Analysis of the Vehicle License Fee System for Mobilehomes, Manufactured Housing and Commercial Coaches," to be released simultaneously with the *Analysis of the 1983–84 Budget Bill,* we provide an in-depth discussion of the problems associated with the current statutory formula associated with the current VLF structure. The report also describes five options for modifying or reforming the current system of VLF assessments, collections and apportionments. The options include reappraisals of units to more closely reflect the private market value, abandoning the original sales price as an indication or "base" for determining market value for VLF purposes, alternative methods for triggering the reappraisals, and various alternatives for the allocation of the additional VLF revenues collected. All of the options would require enactment of new legislation.

Based on our analysis, we recommend the enactment of legislation transfering all current VLF-paying units to the local property tax rolls upon resale. Under this option, effective July 1, 1983, the HCD staff would monitor and report these transfers to the State Controller and to local county tax assessors. Based on HCD's estimate of 74,000 transfers in 1981–82, and assuming that local governments would reassess the transferred units up to the market values reported by NADA and the Blue Book, we estimate additional local property tax revenues to the local agencies of approximately $9.7 million in 1983–84 and $19.6 million in 1984–85. These additional LPT revenues would continue to increase as (1) the transferred units are reassessed at a rate up to 2 percent annually (inflationary adjustment) and (2) more of the current VLF-paying units are transferred to the LPT system.

Our analysis indicates that this option would also lead to savings in General Fund costs in future years because a portion of these additional local tax revenues could be allocated for support of public schools. Barring any other funding adjustments, to the extent that these revenues offset General Fund subventions for local school districts, there would be major savings to the General Fund. Based on the current formula under which approximately one-third of the existing VLF revenues from mobilehomes are allocated to local school districts, we estimate General Fund savings of approximately $7.2 million in 1984–85. These savings would also increase in future years, as more LPT revenues are derived from the transferred, and subsequently reassessed, units.

In order to secure these additional revenues for local agencies and the General Fund savings, we recommend the enactment of legislation requiring that, effective July 1983, all mobilehomes, manufactured housing, and commercial coaches currently subject to annual vehicle license fees be transferred to local property tax rolls upon resale.

Mandated Local Program for Councils of Government (Regional Housing Needs)

We recommend the repeal of COG Regional Housing Need Assessments mandate and the deletion of $265,000 in Item 9680-101-001 because this function can be performed by HCD staff.

The budget proposes an appropriation of $265,000 from the General Fund to reimburse some local "councils of government" for mandated costs associated with determining regional housing need assessments in 1983–84. The $265,000 is shown under Item 2240, but is proposed to be appropriated under a new item 9680, in the General Government Section.

Background. Existing law requires each city and county to design a "housing element" as part of its local general plan that addresses that community's "appropriate share" of the regional demand for housing. Chapter 1143, Statutes of 1980, mandates that each council of government (COG) calculate this "appropriate share" for each city and county within its jurisdiction, based on statewide housing need determinations by HCD. Prior to the enactment of Chapter 1143, HCD regulations *permitted* but did not require, each COG to prepare regional fair-share housing allocation plans.

On August 19, 1981, the state Board of Control determined that, based on test claims filed by 14 COGs, Chapter 1143 constituted a reimbursable mandate requiring the COGs to undertake a "new program". On October 21, 1981, the board adopted "Parameters and Guidelines" for the COGs' claims limiting reimbursement to costs incurred on or after January 1, 1981, for certain specified activities.

The schedule of reimbursements approved by the board for the COGs claims is as follows:

Year in Which Costs Incurred	*Amount*
1980–81	$88,335
1981–82	303,626
1982–83	332,679
1983–84 (proposed)	265,000
Total funding	$989,640

Chapter 2675, Statutes of 1982, included approximately $725,000 to satisfy the COG's claims for the three fiscal years ending in 1982–83. The Department of Finance has estimated COG claims for 1983–84 at $265,000

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

and proposes that this amount be appropriated in Item 9680-101-001.

Our review of this mandate indicates that:

1. The Mandate has not been successful in achieving its intended objectives, and
2. There is no analytical basis for determining if the benefits from the mandate outweigh the costs associated with it.

Compliance. In enacting Chapter 1143, the Legislature stated that the measure's intent was "to assure the cities and counties will prepare and implement housing elements which . . . will move toward attainment of the state housing goal."

As of November 1982, only 113, or 23 percent, of all localities in the state had adopted a housing element that fully complies with the requirements contained in Chapter 1143. (Prior to the enactment of Chapter 1143, approximately 8 percent of the localities had housing elements which HCD found in compliance with statutory requirements.) In addition, only 13, or 54 percent, of the state COGs have prepared and adopted the regional housing allocation plans required by Chapter 1143. Since housing elements that comply with the statute must necessarily rely on information provided in the regional allocation plan, the delays in adopting housing elements can be attributed to the COGs' delays in adopting regional plans.

Benefits. The benefits that would result if COGs fully complied with the requirements of Chapter 1143 are not measurable. This is because the preparation of the regional plans and housing elements does not guarantee an increase in the amount of housing available to low- and moderate-income families. In fact, the COG allocations do not even determine each locality's "fair share" of total housing demand in the region because state law permits the locality to revise its assigned allocation. As a result, the COG assessments may not significantly alter locality-determined housing assessment. Thus, the benefits from these mandatory reviews (which will be ongoing) are questionable.

HCD Staff Can Perform Function, Making the Mandate Unnecessary. The HCD staff currently prepares housing allocation plans for regions without a COG. Since HCD also provides the preliminary data which the COGs use to make the regional allocations, the department necessarily must evaluate housing needs and goals throughout the state. Hence, the staff technically is capable of preparing and revising the statewide information on an ongoing basis. Our analysis indicates that making funds available to the COGs to allocate the housing need to localities has (1) not provided sufficient incentive to some COGs to complete the task, (2) not achieved the express legislative intent of Chapter 1143, and (3) will result in increased, ongoing costs to the state without a clear identification of statewide benefits.

Accordingly, we recommend the repeal of this mandate and the deletion of $265,000 from Item 9680-101-001. We further recommend that this function be assigned to HCD.

Business, Transportation and Housing Agency

CALIFORNIA HOUSING FINANCE AGENCY

Item 2260 from the California
Housing Finance Fund Budget p. BTH 39

Requested 1983–84	($5,546,000)
Estimated 1982–83	5,972,000
Actual 1981–82	(5,459,000)[a]
Requested decrease (excluding amount for salary increases) $426,000 (−7.1 percent)	
Total recommended reduction	154,000
Recommendation pending	$80,000

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

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Support Budget. Recommend that funding for support of the agency be made subject to legislative review and approval through the annual budget process by (1) adding Item 2260-001-501 to the Budget Bill and (2) amending current statutes.	325
2. Rental Housing Construction Program. Add Control Section transfering $6.4 million in Unencumbered Funds to the General Fund. Recommend that agency use bond proceeds to accomplish purposes for which these funds were originally appropriated, thereby giving the Legislature more fiscal flexibility.	327
3. ***Attorney General Fees. Reduce Item 2260-001-501 by $23,000.*** Recommend reduction in funding for legal services to eliminate overbudgeting.	329
4. ***Note Issuance Costs. Delete $131,000 from Item 2260-001-501.*** Recommend deletion of funds requested for costs of note issuance because agency is unable to document need for these funds.	329
5. Housing Bond Credit Committee. Withhold recommendation on $80,000 budgeted for reviews by the committee, pending development and receipt of estimated charges to the agency.	330

GENERAL PROGRAM STATEMENT

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

CALIFORNIA HOUSING FINANCE AGENCY—Continued

The agency's direct operating expenses are covered by a combination of service fees and interest earnings.

Under the provisions of Section 51000, funding for the agency's support budget is not subject to budget act appropriation. In enacting the Budget Act of 1982, however, the Legislature included an item appropriating funds in support of the agency's operating expenses. The 1983–84 Budget Bill proposes to restore the agency's plenary exemption from the annual budgetary review process, and allow the agency to adopt its own support budget without legislative review or approval.

The agency is governed by an 11-member board of directors, and has 101 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

Section 50913 of the Health and Safety Code requires CHFA to submit to the Business, Transportation and Housing Agency, the Director of Finance, and the Joint Legislative Budget Committee, on or before December 1, a preliminary budget for the ensuing fiscal year. The agency's preliminary budget for 1983–84 proposes an expenditure of $5,546,000 from the California Housing Finance Fund to support CHFA operating expenses in 1983–84. This amount is $426,000 less than estimated current-year expenditures, and represents a decrease of 7.1 percent. The decrease, however, makes no allowance for the added costs of any salary or staff benefit increases which may be approved in 1983–84.

Table 1 summarizes the agency's operating budget for the three-year period ending June 30, 1984.

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

Expenditure	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Personnel salaries	$2,445	$2,700	$2,783	$83	3.0
Benefits	674	816	877	61	7.5
Total Personal Services	$3,119	$3,516	$3,660	$144	4.0
Operating Expenses and Equipment					
State administrative charges	229	219	250	31	14.1
Inter-agency contracts	45	42	30	−12	−30.0
Consulting services					
General and audit	58	93	60	−33	−35.5
Financial and legal	167	193	245	52	26.9
Cost of bond and note issuance	301	264	184	−60	−22.7
General supplies and expense	145	163	170	7	4.3
Electronic data processing	145	220	145	−75	−34.1
Travel	275	270	315	45	16.7
Communications	172	173	182	9	5.2
Facilities operation	299	281	287	6	2.1
Equipment	64	57	38	−19	−33.3
Repayment of general advance	650	—	—	—	—
Earthquake insurance	373	400	250	−150	−37.5
Housing Bond Credit Committee	67	81	80	−1	−1.2
Total Operating Expenses and Equipment	$2,990	$2,456	$2,236	−209	−8.5
Total Expenditures	$6,109	$5,972	$5,896	−$76	−1.3
Reimbursements	—	—	$350	—	—
Total Appropriation	$6,109	$5,972	$5,546	−$426	−7.1

As indicated in the table, the agency proposes an increase in personal services costs of $144,000, or 4 percent, over estimated current-year expenditures for this purpose. Operating expenses in 1983–84 are proposed at a level that is $209,000 below the current-year level. Agency staff reports that this decrease is principally the result of fewer planned note issuances (−$60,000), reduced data processing costs (−$75,000), and lower earthquake insurance premiums due to a change in insurance carriers (−$150,000).

Changes in the Support Budget

The principal program change proposed by the agency is the net addition of five positions reflecting a shift from multi-unit loan underwriting (terminate 15 positions) to single family unit lending, portfolio management, and property management (add 20 positions). In large part, the change in focus is made necessary by the discontinuation of federal Section 8 rental subsidies for new multi-family construction in 1982–83. In effect, this change in federal policy means that CHFA will be unable to finance any more new rental housing developments for persons with low or very low income.

The shift in program emphasis from multi-family to single-family housing is also a reflection of the fact that the state's authority to issue tax-exempt bonds to finance mortgages on single family housing units pursuant to the Federal Mortgage Bond Subsidy Tax Act of 1980 will lapse within the next 12 months. Effective January 1984, CHFA will no longer be able to issue revenue bonds that are exempt from federal income tax for the purpose of financing mortgages on single family units. As a result, CHFA is accelerating the sale of tax-exempt bonds to finance single family units.

In 1983–84, the agency plans to commence implementation of recent legislation, including the Interest Subsidy Program (per Chapter 320, Statutes of 1982), the Builder Buy-Down Single Family Mortgage Program (Chapter 1450, Statutes of 1982), and a subordinated mortgage loan program (Chapter 1448, Statutes of 1982).

Agency's Support Expenditures Should be Subject to Legislative Review Throughout the Budget Process

We recommend that funds needed to support the California Housing Finance Agency be appropriated annually from the California Housing Finance Fund so as to assure legislative review and control of agency support expenditures as part of the state budget process. (Add Item 2260-001-501 to the Budget Bill.) We further recommend that legislation be enacted to eliminate the agency's statutory exemption from the annual budgetary process.

Section 51000 of the Health and Safety Code exempts the Housing Finance Agency from the normal budgetary review and approval process to which all other state agencies are subject. Instead, the agency is merely required to submit annually by December 1 a preliminary budget for the ensuing fiscal year to the Business, Transportation and Housing Agency, the Department of Finance, and the Joint Legislative Budget Committee. This exemption originally was granted as a means to insure that decisions made by the staff would not be influenced through the budget process.

CALIFORNIA HOUSING FINANCE AGENCY—Continued

As we recommended in the Analyst's June 1981 report and the *Analysis of the 1982–83 Budget Bill,* the Legislature added an item to the 1982 Budget Bill appropriating funds to support the CHFA in 1982–83. In doing so, the Legislature reviewed the reasonableness of the support expenditures proposed by the agency, and in some cases made modifications to the proposed spending levels. There is no evidence to indicate that legislative review and approval of CHFA's operating budget for the current year has in any way impaired or interrupted agency activities.

The Budget Bill does not include an item appropriating the funds for support of the CHFA in 1983–84. Instead, the budget proposes to restore CHFA's exemption from the normal budgetary review process.

Our analysis indicates that exempting the agency's support expenditures from legislative review and approval:

1. Is unnecessary to protect the integrity of the agency's decisionmaking process, and
2. Results in no outside check on the reasonableness of the agency's support budget.

Lack of Fiscal Accountability Results in Inadequate Fiscal Performance. In the 1982–83 *Analysis,* we cited several examples of the shortcomings that appear to result from the absence of any outside fiscal controls. Specifically, we indicated that:

1. The CHFA's staffing and salary levels were substantially above the average for other state agencies with comparable functions and workload.
2. The CHFA's board did not adopt the 1981–82 budget until *four months after* the 1981–82 fiscal year had already begun.
3. The preliminary budgets submitted to the Joint Legislative Budget Committee in past years lacked sufficient detail for in-depth analysis.
4. The agency's support budget increased by 91 percent between 1977–78 ($3,132,000) and 1982–83 ($5,972,000).

Our review of the agency's activities indicates that these shortcomings could have been avoided or minimized if the agency's support budget were subject to more effective and efficient legislative review.

Exemption From Normal Legislative Review and Approval is Unnecessary to Protect the Agency's Integrity. The CHFA is by no means unique in terms of the type of program decisions it makes. Some other state agencies administer programs that are financed in whole or in part with the proceeds of bonds. Some state agencies undertake capital outlay programs. Other state agencies are responsible for allocating significant amounts of state and federal funds to specific projects. ***The budget for each of these agencies, however, is subject to legislative review and approval.***

Agency Disregards Directive From the Legislature. The 1982 Budget Act includes a provision requiring the agency to give 30 days' notice to the Joint Legislative Budget Committee and chairs of the two fiscal committees before establishing two accounting technician positions. The Legislature added this provision to the bill because the agency had been unable to justify the positions during legislative hearings on the agency's budget.

The agency has established not two, but *three* accounting technician positions. At the time this *Analysis* was proposed, the notification required by the Budget Act had not been received.

The Agency's Preliminary Budget for 1983–84 is Excessive. The agency's preliminary budget for 1983–84 provides for an increase of 19.5 percent for general expenses and travel. In contrast, all other state agencies have been limited to a maximum increase of 5 percent for these items of expense in the budget year.

We believe the agency's performance in the past demonstrates the need for legislative oversight of its support expenditures. The CHFA's activities will now have an impact on the state's General Fund activities.

Recent Legislation Makes Agency Programs Dependent on General Fund Support. Chapter 320/82 directs the agency to administer the new Interest Subsidy Program, which is intended to finance mortgages for qualified first-time homebuyers. The costs of this program, including the CHFA's administrative costs, will be financed with its proceeds from the sale of up to $200 million in state general obligation bonds. ***The interest on these bonds will be paid from the General Fund, not from the California Housing Finance Fund.***

Chapter 1450/82 (SB 1862) requires CHFA to manage the Homeowner Interest Reduction Assistance Program. This program provides reimbursements to builders for advances ("buy-downs") made to lenders in order that lower-interest mortgages may be made available to qualified persons for the purchase of certain newly-constructed homes. ***The agency will request appropriations from the General Fund to satisfy these reimbursement claims and related CHFA administrative expenses.*** These appropriations could run as high as $180 million.

If the agency's support budget were to remain exempt from the regular budget review process, a bifurcated budget control system would result. The CHFA's administrative costs related to the new programs *would* be subject to budgetary review, while all other CHFA administrative costs would not be subject to such a review. Such a two-tiered system would be unwieldy. More importantly, it would make it difficult for the Legislature to control General Fund costs because it would not be able to review the full scope and funding of the agency's support operations.

For the reasons given above, we conclude that restoring the agency's exemption from legislative review is neither necessary nor, considering the agency's history of fiscal accountability, is it advisable. Therefore, we recommend that the Legislature again appropriate funds to support the California Housing Finance Agency in the Budget Bill. Specifically we recommend that:

1. A new item—2260-001-501—be added to the Budget Bill, appropriating $5,392,000 for support of CHFA in 1983–84 (a reduction of $154,000 from the amount shown in the CHFA's preliminary budget). The basis for our recommended reductions is discussed later in this analysis.
2. Legislation be enacted to amend Section 50913 and 51000 of the Health and Safety Code eliminating the CHFA's exemption from legislative review through the budget process.

Return Unallocated Sum of $6.4 Million to General Fund

We recommend the reversion of $6.4 million in disencumbered funds from the Rental Housing Construction Program to the General Fund because funding for future housing projects can be secured through the sale of CHFA revenue bonds.

Chapter 1043, Statutes of 1979 (AB 333), appropriated $82 million from the General Fund to the Rental Housing Construction Fund to finance the

CALIFORNIA HOUSING FINANCE AGENCY—Continued

production of low and moderate cost housing. Approximately $37.5 million of this appropriation was set aside for rental housing developments financed by CHFA.

In the companion bill to the 1981 Budget Act, the Legislature reverted $6.5 million of the $37.5 million to the General Fund. This was done because the agency had failed to allocate these funds to specific projects. As a result, the total CHFA set-aside was reduced to $31 million.

Since June 1980, CHFA has made funding commitments totaling $31 million to 30 projects—the full amount of the agency's allocation.

In November 1982, CHFA, in effect, refinanced its funding commitments by substituting the proceeds from its October 1982 revenue bond sale for the previously-committed appropriated funds. As a result, $23.8 million in appropriated funds was released for reallocation to other projects.

Chapters 1377 and 1448, Statutes of 1982 appropriate $12.1 million of this $23.8 million to fund two new programs enacted by the Legislature during the 1982 session. These chapters imposed certain funding obligations on all funds disencumbered between July and December 1982 in the Rental Housing Construction Fund. In addition, during December 1982, the agency reallocated approximately $5.3 million to 4 new projects. Consequently, approximately $6.4 million of the funds originally appropriated from the General Fund remain unallocated.

Table 2 summarizes activity related to the CHFA set-aside portion of the Rental Housing Construction Program (RHCP).

Table 2
California Housing Finance Agency
Rental Housing Construction Fund
Funding Commitment History [a]
(in thousands)

	Activity	*Amount*
1979–80	CHFA set-aside portion of appropriation	$37,500
	First cycle funding commitments	–17,000
1980–81	Second cycle funding commitments	–14,000
1981–82	Legislative reversion	–6,500
1982–83	Substitution of November 1982 bond proceeds	23,800
	Reserve for 1982 legislation	–12,100
	Reallocated funding commitments	–5,300
	Estimated unallocated balance subject to return to General Fund	$6,400

It would seem that, given the above, the $6.4 million with unencumbered funds are not critical to the agency's programs. The agency can continue to promote the goals of Chapter 1043 and provide financing for additional housing in California without using these funds through the sale of tax-exempt mortgage revenue bonds. Our review of agency bond sales in 1982–83 indicates that the rate at which the agency is selling bonds has increased significantly. During the first six months of the current year, the agency successfully issued approximately $350 million in bonds and notes. This volume exceeds the total bond sales in 1981–82 ($326 million), and represents 2½ times the amount of bond sales made in 1980–81. ($134 million)

We also note that the limitation on the agency's authority to issue bonds recently was raised by $350 million (Chapter 1441, Statutes of 1982). As a result, CHFA may now issue up to $1.85 billion in bonds and notes. As of January 1983, the agency had approximately $1.2 billion, or 66 percent of its total authorization outstanding. This means that the agency may issue an additional $630 million in bonds and notes.

Our analysis indicates that a portion of the $630 million in unused borrowing authority could be used to achieve the purposes for which the $6.4 million in unallocated RHCP funds were originally appropriated by the Legislature. In recognition of the fiscal constraints on the state's General Fund, and the restrictions that these constraints place on the Legislature in responding to high-priority state needs, we recommend that the $6.4 million in the California Housing Finance Fund be reverted to the General Fund. We further recommend that the agency be directed to use the proceeds from CHFA bond sales to accomplish the purposes for which these funds were appropriated. These recommendations can be implemented by:

1. Adding a new control section to the Budget Bill, as follows: "Notwithstanding the provisions of Section 50740 of the Health and Safety Code, on the effective data of this act, the sum of $6.4 million shall be transferred from California Housing Finance Fund to the General Fund."
2. Adopting supplemental report language, as follows: "The agency shall, in 1983–84, use $6.4 million out of the proceeds of its bond sales to finance developments under the Rental Housing Construction Program."

Legal Services Overbudgeted

We recommend a reduction of $23,000 in Item 2260-001-501 (if added to the Budget Bill) to eliminate overbudgeting for legal services.

The CHFA budget includes $40,000 for legal services provided by the Department of Justice. The department bills the agency on a monthly basis for bond counsel, legal opinion, and litigation-related services.

The Department of Justice has notified state agencies that the 1983–84 hourly rate for his services will be $56.00. Thus, CHFA's proposed level of expenditures would finance approximately 714 hours of legal assistance.

The department however, indicates that it expects to bill the agency for 300 hours of legal services in 1983–84. Using the $56.00-per-hour rate, these services will cost the agency approximately $17,000, or $23,000 less than the amount budgeted by CHFA.

The CHFA has not documented a need for a 100% increase in Attorney General services in 1983–84. Nor is the Department of Justice aware of any reason why such an increase might be necessary.

Furthermore, the Department of Finance staff has reviewed the Attorney General's estimate of 300 hours and agrees that it is reasonable.

For these reasons, we recommend that the amount budgeted for legal services be reduced by $23,000 to eliminate overbudgeting.

Contingency Budgeting

We recommend the deletion of $131,000 from Item 2260-001-501 (if added to the Budget Bill) because amount budgeted to cover the cost of issuing CHFA notes is excessive.

The CHFA budget proposes to spend $184,000 in 1983–84 to cover miscellaneous costs associated with the issuance of CHFA notes. This amount is $80,000, or 30 percent, less than estimated current-year expenditures.

CALIFORNIA HOUSING FINANCE AGENCY—Continued

These costs include (1) charges by the California Debt Advisory Commission for reviewing certain documents, (2) trustee fees, (3) bond counsel fees, (4) bond rating fees; and (5) printing and advertising expenses.

The agency anticipated 4 note issuances during the current year and budgeted $264,000 to cover the costs of these issuances. In January 1983, however, agency staff reported to the CHFA Board of Directors that only one note had been issued in 1982–83, and no additional issues were expected during the balance of the year. As a result, the staff noted, only $50,000, or 19 percent of the amount budgeted for note issuance costs would be spent in the current year.

Our analysis of the CHFA's proposal to spend $184,000 for two note issuances in 1983–84 indicates that the proposed level of expenditures is excessive. The proposal assumes an average cost of $92,000 per issue. This represents a 40 percent increase over current-year costs. The basis for this assumption is that (1) bond counsel fees will increase by 20 percent; (2) trustee fees will increase by 25 percent; (3) there will be a 33 percent increase in printing costs, (4) in-bond rating fees will rise by 82 percent; and (5) there will be a 33 percent increase in advertising expenses. Given the general price increases anticipated by the Department of Finance in preparing the 1983–84 budget, these increases are clearly excessive.

Accordingly, we recommend a deletion of $131,000 in the amount budgeted under Item 2260-001-501 for costs associated with issuing notes, in order to limit the increase to what other state agencies are using—5 percent.

Uncertainty in Review Costs

We withhold recommendation on $80,000 budgeted for the Housing Bond Credit Committee, pending receipt of information justifying the amount the agency anticipates it will be charged for these services.

The CHFA preliminary budget includes $80,000 for services to be provided by the Housing Bond Credit Committee (HBCC). This amount is $1,000, or 1 percent, less than estimated current-year expenditures for this purpose.

This five-member committee consists of the State Treasurer (chairman), State Controller, Governor, Director of Finance, and CHFA Executive Director. The HBCC staff consists of one half-time Executive Secretary. Existing law requires that, before it can issue any bonds, CHFA must submit to the HBCC a statement indicating the purposes for, and amount of, the proposed issuance. The HBCC is authorized to review the issue to insure that the state's credit would not be subject to undue risk as a result of the issue. Toward this end, the committee may approve, disapprove, or modify the issue.

The agency advises us that the $80,000 budgeted for the HBCC will pay the salary of the committee's executive secretary, as well as the operating expenses associated with that position. This is the only funding that will be provided to the HBCC.

The agency was unable to justify the amount budgeted for the HBCC in 1983–84. We understand that no budget is prepared for the committee. Thus, it would appear that the agency is fully supporting the HBCC, but there are no budgetary-type controls over expenditures by the committee.

Currently, the California Mortgage Bond Allocation Board and the California Debt Advisory Commission have similar bond-issue review functions. The State Treasurer, State Controller, and Director of Finance are also members of these bodies. The Executive Secretary to the HBCC also serves as secretary to the Mortgage Bond Allocation Board. The sole source of funding for these two entities is application fees charged to the agencies that submit proposed bond issues for their review.

Our analysis indicates that HBCC could be supported on a fee basis in the same manner as the board and the commission. We can find no substantial difference in function between the HBCC and the other review boards to warrant a different funding arrangement.

While we recognize that CHFA will incur some HBCC expenses in 1983–84, we are unable to determine the magnitude of these expenditures because of the current HBCC funding arrangement. We therefore withhold recommendation on $80,000 budgeted for the Housing Bond Credit Committee pending receipt of documentation justifying the amount the agency anticipates it will be charged for services provided by HBCC in 1983–84.

Business, Transportation and Housing Agency

CALIFORNIA MORTGAGE BOND ALLOCATION COMMITTEE

Item 2270 from the General Fund, Mortgage Bond Allocation Fee Account — Budget p. BTH 42

Requested 1983–84	$15,000
Estimated 1982–83	14,000
Actual 1981–82	—
Requested increase (excluding amount for salary increases) $1,000 (7.0 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Mortgage Bond Allocation Committee (MBAC) was established by Ch. 1097/81, to administer the requirements of the Federal Mortgage Subsidy Bond Tax Act of 1981. The MBAC is responsible for allocating among state and local government entities the amount of tax-exempt mortgage revenue bonds that may be issued in California to finance loans for owner-occupied housing. This allocation is necessary because the federal government has imposed a ceiling on the amount of such bonds that may be issued in any one year. In addition, the MBAC certifies specific census tracts in the state as "areas of chronic economic distress"—a special mortgage financing designation prescribed by the 1980 federal legislation.

The seven-member committee is composed of the State Treasurer (chairman), the Governor (or, in his absence, the Director of Finance), the State Controller, the Director of the Department of Housing and Community Development, the Executive Director of the California Housing Finance Agency, and two local government representatives. The committee staff consists of one Executive Director.

CALIFORNIA MORTGAGE BOND ALLOCATION COMMITTEE—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropration of $15,000 from the Mortgage Bond Allocation Account in the General Fund for support of the committee in 1983–84. This is the first appropriation to the MBAC requested in the Budget Bill since the committee was created in January 1982. The $15,000 request represents a $1,000, or 7 percent, increase over current-year expenditures. The current current-year expenditure authority of $14,000 was provided out of the 1982–83 Reserve for Contingencies or Emergencies.

Our analysis indicates that the level of receipts and expenditures proposed for 1983–84 is probably overstated. The Federal Mortgage Subsidy Bond Tax Act of 1980 terminates the federal income tax exemption for interest earned on mortgage revenue bonds, effective January 1984. Therefore, under current law the MBAC will have no allocation function to perform after December 1983. To the extent that $14,000 represents the *full*-year costs of operating the MBAC in 1982–83, it is unlikely that $15,000 will be required for six-months operation in 1983–84 (July to December 1983).

Since the committee is authorized to expend only those funds deposited in the Mortgage Bond Allocation Fee Account by MBAC, no action by the Legislature is needed to reflect a more realistic estimate of workload. Because of the reduced activity anticipated in 1983–84, the amount of resources available in the account probably will be less that the $15,000 proposed.

Business, Transportation, and Housing Agency

DEPARTMENT OF INSURANCE

Item 2290 from the Insurance Fund — Budget p. BTH 42

Requested 1983–84	$16,686,000 [a]
Estimated 1982–83	10,833,000
Actual 1981–82	10,317,000
Requested increase (excluding amount for salary increases) $5,853,000 (+54.0 percent)	
Total recommended reduction	$590,000

[a] Most of the increase is due to the fact that the budget appropriation now includes funds previously budgeted separately as reimbursements.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Support Budget. Reduce by $400,000.*** Recommend reduction due to a pattern of overbudgeting in recent years. 334
2. ***New Positions. Reduce by $63,000.*** Recommend deletion of two positions that will not help reduce the backlog of applications. Further recommend that the department re- 335

port during budget hearings on staff needed to reduce license application backlog.

3. ***Data Processing Costs. Reduce by $52,000.*** Recommend reduction to eliminate overbudgeting. 337
4. ***Travel Expenses. Reduce by $53,000.*** Recommend reduction because the requested amount has not been justified. 337
5. ***Rent. Reduce by $13,000.*** Recommend reduction because proposed space consolidation is not needed to achieve the department's program objectives and will unnecessarily increase costs. 337
6. ***Training. Reduce by $9,000.*** Recommend reduction because augmentation has not been justified. 338

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business which is entirely regulated by the states, rather than by the federal government. As a California industry, its worth, in terms of direct premiums written in the state, is estimated at approximately $22 billion.

The Department of Insurance is responsible for regulating the activities of insurance and title companies, as well as insurance agents and brokers, in order to protect insurance policyholders. Currently, there are 1,100 insurers licensed to do business in California.

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

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

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

The department is administered by the Insurance Commissioner, who is appointed by the Governor. The department maintains headquarters in San Francisco, and branch facilities in Los Angeles, San Diego and Sacramento. It has 404.1 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget requests an appropriation of $16,686,000 from the Insurance Fund for support of the Department of Insurance in 1983–84. The proposed appropriation represents an increase of $5,853,000, or 54 percent, over estimated current-year expenditures net of reimbursements. This amount will increase further if any salary or staff benefit increases are approved for the budget year.

The presentation of the department's budget has been changed significantly by recently enacted legislation. As a result, a simple comparison of expenditures in the current and budget years is not meaningful.

Chapter 722, Statutes of 1982 (AB 1797), makes the Insurance Fund

DEPARTMENT OF INSURANCE—Continued

directly responsible for 100 percent of the department's support costs in fiscal years 1983–84 through 1985–86. Currently, all revenues collected by the department (primarily license fees and examination fees) are deposited initially in the Insurance Fund. The balance remaining after authorized refunds have been made is then transferred to the General Fund. The department's budget is supported by an annual General Fund appropriation, as well as by reimbursements from insurers.

Chapter 722 requires that all department receipts, except fines and penalties, be deposited in and retained by the Insurance Fund, rather than be transferred to the General Fund as they are now. (Fines and penalties, however, will continue to be transferred to the General Fund.) As a result, the department's support appropriation is no longer supplemented by reimbursements. Instead, an amount equal to these reimbursements is reflected directly in the support appropriation.

If the 1982–83 and 1983–84 budgets are put on a comparable basis by subtracting from the 1983–84 request an amount equal to anticipated reimbursements, the department's net request would be $11,756,000, or 8.5 percent more than estimated current-year expenditures. This increase is due primarily to (a) an increase in facilities operating expenses, (b) added staff requested to accommodate an increase in the enforcement workload of the Bureau of Fraudulent Claims, and (c) adjustments needed to reflect the higher prices that the department must pay.

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

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

	Actual 1981–82		*Estimated 1982–83*		*Proposed 1983–84*	
Program	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*
1. Regulation						
a. Regulation of insurance companies	191.5	$10,791	197.3	$11,147	187.4	$11,753
b. Regulation of insurance producers	121.3	3,867	116.0	3,738	117.4	4,026
2. Fraud Control	12.0	504	13.0	522	20.0	769
3. Tax Collection and Audit	3.0	113.0	5.0	137	5.0	138
4. Administration (prorated to other programs)	(53.2)	(3,215)	(62.0)	(3,493)	(62.0)	(3,841)
Totals	381.0	$15,275	393.3 [a]	$15,544	391.8	$16,686
Reimbursements		−4,958		−4,711		—
Net Totals		$10,317		$10,833 [b]		$16,686

[a] The department is currently authorized 404.1 positions.
[b] Estimated expenditures for 1982–83 do not reflect the two-percent unallotment directed by Executive Order D-1-83.

Pattern of Overbudgeting in Support Budget

We recommend deletion of $400,000 to correct for overbudgeting and recognize efficiencies in departmental operations.

Our review of spending by the department in recent years has identified a significant increase in the amount of the department's appropriation that remains unexpended at year-end. Table 2 identifies the year-end unexpended balances for the department for each of the last four years.

Table 2
Department of Insurance
Unencumbered Balances
1978–79 to 1981–82

	Actual			
	1978–79	*1979–80*	*1980–81*	*1981–82*
Budget Act Appropriation	$7,765,000	$7,679,000	$8,818,000	$9,986,000
Amount Reverted	214,000 [a]	117,000 [b]	575,000	519,000 [c]
Percent of Appropriation	2.8%	1.5%	6.5%	5.2%

[a] Excludes reductions for personal services and operating expenses of $391,000 per Control Sections 27.1 and 27.2 of the 1978 Budget Act.
[b] Excludes reduction of $85,000 per Control Section 27.2 of the 1979 Budget Act.
[c] Excludes reduction for travel of $52,000 per Section 27.1 of the 1981 Budget Act, and savings of $56,000 resulting from Executive Order B97-82.

Table 2 shows that the amount unexpended at year-end was $575,000 in 1980–81, or 6.5 percent of the department's appropriation, and $519,000 in 1981–82, or 5.2 percent of the department's appropriation. In contrast, during the period 1974–75 to 1979–80, the department reverted an average of only 2.5 percent of its appropriation each year.

The department indicates that the increase in reversions during the past two years can be attributed to efficiencies realized in department operating procedures. These efficiencies, however, are not reflected in the department's budget for 1983–84. As a result, we anticipate that the department will continue to revert funds at the end of 1983–84 at about the same rate as in the two prior years.

To assure that the appropriation for the department is the minimum amount needed to support adequately the department's programs, we recommend that the department's proposed appropriation for 1983–84 be reduced by 3.4 percent, or $400,000. This represents the difference between the average annual percent of the department's appropriation reverted during the period 1974–75 to 1979–80 (2.5 percent) and the average annual percent reverted during the period 1980–81 to 1981–82 (5.9 percent). This would bring the department's anticipated reversions at the end of 1983–84 in line with the level of reversions prior to 1980–81.

New Positions Would Not Help Reduce the Applications Backlog

We recommend a reduction of $63,000 and two positions because these positions would not help reduce the size of the department's application backlog. We further recommend that the department report during budget hearings on the staffing levels needed to process incoming applications on a timely basis and reduce the size of the current application backlog, and of the costs associated with any additional staffing requirements.

The Corporate Affairs Bureau in the department's Legal Division is charged with reviewing applications from insurance companies for certificates of authority to do business in California. Currently, the bureau is authorized one staff counsel III, five staff counsel II, one staff counsel I, two staff counsel positions, and two legal assistants. Total estimated current-year expenditures for salaries and wages in the bureau are $395,000.

DEPARTMENT OF INSURANCE—Continued

In recent years, the department has experienced a significant increase in the number of applications for insurance company certificates. Table 3 shows the number of applications received, processed, and awaiting department action.

Table 3
Department of Insurance
Corporate Affairs Bureau Workload
1976–77 through 1982–83

Status of Applications	*Actual* 1976–77	1977–78	1978–79	1979–80	1980–81	1981–82	*Estimated* 1982–83
Received	52	51	54	80	84	166	200 [b]
Processed	44	58	57	52	90	121	168 [c]
Pending	100 [a]	91	81	116	110	155	171

[a] Includes 92 applications carried over from the prior year.
[b] Based on 100 applications received by the Bureau from July to December 1982.
[c] Based on 84 applications processed by the Bureau from July to December 1982.

Table 3 shows that the number of applications received by the department was relatively stable until 1979–80, when it increased by 48 percent over the 1978–79 level. For 1982–83, the department projects that the number of applications received will be 200, or 270 percent more than the number received in 1978–79.

Our review indicates that the bureau always has had a sizeable backlog. In 1981–82, the department processed 45 fewer applications than it received, causing its year-end backlog to increase from 110 to 155. The bureau estimates that it will process 32 fewer applications than it receives in the current year, increasing the number of insurers awaiting certification by the department to 171 on June 30, 1983.

To reduce the size of this backlog, the budget proposes two legal assistant positions at a cost of $63,000. The department indicates that processing an application requires review by legal staff, primarily because the license is issued based on the review and approval of rates, policies, and potential for continued financial viability. Legal assistants verify that all required documentation has been submitted by the insurer for review by department legal staff.

Our review indicates that the bureau currently has a sufficient number of legal assistants authorized to verify that required documentation has been submitted for all applications received. As a result, we conclude that the two legal assistant positions would be of little value in reducing the size of the bureau's backlog. We recommend, therefore, that these positions be deleted for a reduction of $63,000.

The large and growing backlog of applications indicates that the bureau does not have sufficient legal staff to process applications in a timely manner. Consequently, we recommend that during budget hearings, the department report to the Legislature on (1) the additional permanent positions needed to process the current rate of applications on a timely basis, and (2) the number of temporary positions needed to reduce the size of the current backlog, and the costs associated with any additional positions needed.

Data Processing Costs Overbudgeted

We recommend a reduction of $52,000 to correct overbudgeting for data processing costs.

The budget proposes an expenditure of $472,000 for the Department of Insurance's data processing activities in 1983–84. The department, however, identifies total data processing cost requirements of $420,000 consisting of $374,726 for the Teale Data Center, $20,704 for microfilm, $22,070 for maintenance-related expenses for its Data General and Four-Phase computers, and $2,500 for a key entry renewal contract. The department is unable to explain the $52,000 difference between the amount requested in the budget and the funding level detailed in its supporting budget data. On this basis, we recommend a reduction of $52,000 in the department's budget.

Reduce Travel Budget

We recommend a reduction of $53,000 from the department's request for in-state and out-of-state travel expenses because the department's request has not been adequately justified.

The department is requesting $630,000 for travel-related expenses in 1983–84, of which $337,000 is for in-state travel and $293,000 is for out-of-state travel.

The department has not submitted documentation to the Legislature that justifies its in-state travel request. In support of its out-of-state travel request, the department has submitted its 1982–83 Department of Finance-approved travel plan for the six-month period July 1982 to January 1983.

The State Administrative Manual (SAM) requires all departments requesting funds for out-of-state travel to submit a travel plan that identifies (1) the destination or general geographic area of intended travel, (2) the class title for those staff scheduled to travel, (3) the number of travel days, (4) the total number of department staff on travel, by class, (5) past-year actual and current-year estimated travel costs, and (6) a justification of the type of travel planned and the benefits to be derived by the state from that travel.

The six-month travel plan submitted by the department does not fulfill the requirement set forth in the SAM. It identifies travel destination as "nationwide," the number of travel days as "continuous" or "unknown," and the number of department staff on travel as "varies." Furthermore, the plan identifies the purpose of many requested out-of-state trips in general terms, without linking the requested travel to the benefits to be derived to the state.

In sum, the department has not provided the Legislature with the information it needs to assess the department's travel budget. Because the department is unable to justify the proposed budget increase for in-state and out-of-state travel, we recommend that the budget be reduced by $53,000. This would leave an amount in the budget equal to what the department actually spent on travel in 1981–82 ($577,000).

Facilities Operations Costs Overbudgeted

We recommend a reduction of $13,000 requested for rental costs because the justification for a proposed consolidation of office space is not adequate.

The budget proposes $890,000 for facilities operations in 1983–84. This

DEPARTMENT OF INSURANCE—Continued

amount is $191,000, or 27 percent, more than estimated current-year facility operations expenses.

Costs for Lease Renegotiation Justified. Of the amount requested, $437,204 is for rental of the department's Los Angeles office. Included in this amount is an augmentation of $173,000 to accommodate a rent increase. The Department of General Services (DGS) indicates that the department leases 22,515 square feet at its Los Angeles location, with the lease on 17,765 square feet due to expire on August 31, 1983. The department's monthly rent currently is 69 cents per square foot for the 17,765 square feet subject to lease renegotiation. Our analysis indicates that the proposed augmentation is justified.

Space Consolidation Not Justified. In addition, the department proposes to vacate 1,195 square feet of leased space at another Los Angeles site that it currently uses for the administration of insurance agent licensing examinations. It proposes to transfer that function to a similar amount of space to be leased in the building which houses its other headquarters offices.

The department currently is paying $717.35 per month, or $8,608 annually, for the space in which the licensing examinations are now administered. Moving the examination site would increase annual rental costs to $1,793 per month, or $21,516 per year, based on the renegotiated cost of $1.50 per square foot. Thus, the proposed move would increase the department's rental costs by $12,902 annually. The lease for the department's examination site does not expire until June 30, 1984. The department, therefore, does not have to move its licensing examination activities from the existing location in the budget year. Furthermore, for the period July 1984 to September 1986, the department acknowledges that it could renegotiate the lease at its current location at a cost per-square-foot below what it would have to pay if it moved its examination site to the Los Angeles headquarters offices.

Our analysis indicates that the department's planned move from its current examination site would result in unnecessary additional costs. The DGS's Downtown Los Angeles Facilities Plan indicates that both the department's examination and headquarters locations are to be consolidated in a new state office building, which will be available for occupancy by September 31, 1986. There is no immediate need to consolidate these functions in advance of that date. The consolidation proposal contained in the budget, however, would require the examination function to be moved *twice* within a 2–3 year period, and would increase costs for leased space during the interim. For these reasons, we recommend a reduction of $13,000 in the department's budget request for facilities operations.

Training Funds Overbudgeted

We recommend a reduction of $9,000 because the department has not been able to document the need for additional training funds.

The budget proposes expenditures of $55,000 for staff training in 1983–84. Based on actual expenditures of $23,000 for the first six months of the current year, we estimate that the department will spend $46,000 for training in 1982–83. Most of the department's training involves EDP training of examiners, and advanced course work in the business of insurance for examiners and property-casualty appraisers.

The proposed training budget reflects a $9,000 augmentation over estimated current-year expenditures. The department advises that its 1983–84 training plan essentially is the same as its plan for 1982–83, except for the addition of certain management training courses required by the Department of Personnel Administration (DPA). The Department of Insurance indicates it can provide the additional DPA-required courses with in-house staff at no additional cost. The department has not identified any additional training activities to be funded by the $9,000 augmentation. Accordingly, we recommend a reduction of $9,000.

Business, Transportation and Housing Agency

DEPARTMENT OF REAL ESTATE

Item 2320 from the Real Estate Fund — Budget p. BTH 47

Requested 1983–84	$17,346,000
Estimated 1982–83	17,164,000
Actual 1981–82	14,698,000
Requested increase (excluding amount for salary increases) $182,000 (+1.0 percent)	
Total recommended reduction	$1,279,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Education and Research. Reduce by $472,000.*** Recommend reduction due to department's inability to identify how it will expend the requested amount. 341
2. ***Subdivision Program. Reduce by $106,000.*** Recommend (a) disapproval of five proposed and 2.5 existing positions because existing staff is sufficient to meet projected workload, and (b) adoption of supplemental report language directing department to correct temporary help budgeting practices. 341
3. ***Temporary Help Blanket. Reduce by $69,000.*** Recommend reduction because need for positions has not been established. 345
4. ***Interagency Reimbursements. Increase reimbursements by $300,000 and reduce appropriation by same amount.*** Recommend reduction because the department has not budgeted reimbursements it will receive from the Department of Transportation. 347
5. ***New Positions to Implement Legislation. Reduce by $283,000.*** Recommend reduction because (a) department previously informed the Legislature that new positions would not be required, and (b) department may not be responsible for enforcement in the future. 348
6. ***Data Processing Contract. Reduce by $30,000.*** Recommend reduction because consultant contract has not been justified. 350
7. ***Fair Lending Litigation Funds. Reduce by $13,000.*** Recommend deletion of funds requested to reimburse the Business, Transportation and Housing Agency because the 350

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agency has not budgeted for such reimbursement.

8. ***Training and Travel. Reduce by $6,000.*** Recommend elimination of funds requested for unspecified miscellaneous expenses. 350

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for enforcing the Real Estate Law, and for protecting the public in certain real estate transactions.

To carry out its responsibilities, the department administers four programs: (1) licensing and education, (2) regulatory and recovery, (3) subdivisions, and (4) administration.

The department is headed by the Real Estate Commissioner, who is appointed by the Governor. Department headquarters is in Sacramento, and district offices are located in San Francisco, Los Angeles, San Diego, Sacramento, Fresno, and Santa Ana. For the current year, the department has 451 authorized positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $17,346,000 from the Real Estate Fund for support of the department in 1983–84. In addition, the department proposes expenditures of $240,000 to be financed by reimbursements. Thus, the total expenditure program proposed for the department in 1983–84 is $17,586,000. This is an increase of $182,000 or 1.0 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Table 1 shows expenditures and staffing for the programs administered by the department in the prior, current, and budget years. Total expenditures ($17,586,000) include $537,000 for recovery act claims, $672,000 for funding real estate education and research projects, and $16,481,000 for department support.

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

	1981–82 (Actual)		*1982–83 (Estimated)*		*1983–84 (Projected)*	
Program/Element	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*
1. Licensing and Education:						
a. Licensing	88.3	$2,828	91.4	$3,641	91.4	$3,875
b. Education	8.3	476	8.2	967	8.2	986
2. Regulatory and Recovery	171.7	6,654	174.4	7,047	160.4	7,411
3. Subdivisions:						
a. In-state	134.0	4,870	136.0	5,560	134.0	5,114
b. Out-of-state	5.0	180	5.0	189	5.0	200
4. Administration (prorated to other programs)	(42.3)	(1,899)	(40.0)	(2,202)	(40.0)	(2,151)
Totals	407.3	$15,008	415.0 [a]	$17,404	399.0	$17,586
Reimbursement		−310		−240		−240
Net Totals		$14,698		$17,164		$17,346

[a] The department is authorized 451 positions in the current year.

Education and Research Activities Overbudgeted

We recommend a reduction of $472,000 from the amount budgeted for education and research because the department has been unable to identify how it will use all of the funds requested.

Section 10450.6 of the Business and Professions Code requires that 15 percent of all license fees collected by the department be reserved in a separate account to provide support for educational and research efforts related to the real estate industry.

Table 2 shows funds appropriated for education and research, and the amount of these funds expended, for each year since 1974–75.

As shown in Table 2, the department expended the full amount of its appropriation for education and research purposes only once in the past eight years. With this one exception, the department has consistently underexpended its appropriation for education and research by an average of 33 percent. For the period 1980–81 through the current year, the average amount remaining (or expected to remain) unspent at year-end is 59 percent. In the current year, the department estimates it will spend only 31 percent of its appropriation for education and research.

The budget requests $672,000 from the Reserve for Education and Research for support of education and research activities in 1983–84. Of this amount, the department intends to use $200,000 for grants for two University of California campuses (Berkeley and Los Angeles). This is the same amount provided to these campuses in the current year. The department, however, is unable to identify how it will distribute the remaining $472,000 of the amount requested for 1983–84. In fact, at the time this *Analysis* was prepared, it couldn't even identify how it will expend the $472,000 balance of its appropriation for the current year.

Consequently, we are unable to recommend approval of the department's request for education and research activities. Lacking an expenditure plan for $472,000 of the amount requested, and given that the department has almost consistently overbudgeted for this activity in recent years, we recommend that the department's budget be reduced by $472,000.

Staffing for Subdivision Program

We recommend (1) deletion of $106,000 and five proposed new positions and 2.5 existing positions because the department can handle projected workload within existing staffing levels, and (2) that the Legislature adopt supplemental report language requiring that future requests for temporary help be budgeted in accordance with State Administrative Manual guidelines and not be included in the department's baseline budget.

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

Table 2
Department of Real Estate
Expenditures for Education and Research

Amount of Funds	*Actual*								*Estimated*	*Requested*
	1974–75	*1975–76*	*1976–77*	*1977–78*	*1978–79*	*1979–80*	*1980–81*	*1981–82*	*1982–83*	*1983–84*
Appropriated	$536,000	$536,000	$728,000	$512,000	$512,000	$389,000	389,000	$672,000	$672,000[a]	$672,000
Expended	474,990	485,000	512,000	487,000	262,000	389,000	308,000	210,000	200,000[b]	—
Unexpended	62,000	51,000	216,000	25,000	250,000	—	81,000	462,000	472,000[c]	—
Percent of Appropriation Unexpended	11.6%	9.5%	29.7%	4.9%	48.8%	—	20.8%	68.8%	70.2%	—

[a] Ch 315/82 suspended until June 30, 1983 the provisions of existing law requiring the allocation of 15 percent of license fee revenue to the Education and Research account.
[b] Encumbered to date.
[c] Unencumbered balance.

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

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

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

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

The department provided our office with the final version of its staffing standards report on August 16, 1982. The report was based on actual workload for 1979–80 through 1981–82. It concluded that staffing the subdivision program during periods of normal residential construction activity would require 70.9 real estate specialist positions and 36.5 clerical positions. Staffing for the subdivision program during below-normal workload periods would require 37.5 specialist positions and 19.3 clerical positions in order to meet the Chapter 1152 deadlines.

Workload Projected for the Budget Year. For 1983–84, the department is requesting an augmentation of $734,000 and 26 positions for the subdivision program to meet a projected 27 percent increase in the number of standard reports issued, and a 34 percent increase in the number of common interest subdivision reports issued. Table 3 shows how the new posi-

DEPARTMENT OF REAL ESTATE—Continued

tions contained in the department's 1983–84 staffing request for the subdivision program would be allocated.

Table 3
Department of Real Estate
Subdivision Program
Requested New Positions
1983–84

Position Title	*Positions*	*Amount*
Real estate specialist I	10	$162,720
Real estate specialist I: temporary help	10	162,720
Real estate manager I	1	25,488
Staff services manager I	1	27,336
Office assistant I	3	33,156
Office technician	1	13,740
Totals	26	$425,160

Table 4 shows performance measures for the department's subdivision program from the years 1979–80 through 1983–84.

Table 4
Department of Real Estate
Subdivision Program Activities
1979–80 to 1983–84

	Actual			*Estimated*	*Projected*
Activity	*1979–80*	*1980–81*	*1981–82*	*1982–83*	*1983–84*
Subdivision filings	5,623	6,964	2,681	2,562	3,800
Standard reports issued	1,975	1,109	585	498	682
Common interest reports issued	2,506	2,905	1,952	1,692	2,562
Amended reports issued	2,231	2,433	2,436	2,395	2,612
Renewed reports issued	273	219	253	251	271
Preliminary reports issued	2,253	3,100	1,200	1,138	1,386
Totals	14,861	16,730	9,107	8,536	11,313

Although workload is expected to increase in 1983–84, it is not expected to reach "normal" levels. As Table 4 indicates, subdivision filings for the budget year are projected to be 45 percent less than the number received in 1980–81. In addition, the numbers of standard and common interest reports projected for 1983–84 are below the 1980–81 levels by 39 percent and 12 percent, respectively. In total, program workload in all activity categories is projected to be 32 percent below the 1980–81 level.

Real Estate Specialists. The department currently is authorized 40 real estate specialists. The addition of 10 permanent and 10 temporary real estate specialist positions would increase the number of specialists to 60. We recommend approval of these additional positions on the basis of projected workload.

Proposed Increase in Other Positions. The department currently is authorized 39 clerical positions in its subdivision program. Based on the department's own staffing standards, this is 2.5 personnel-years *more* than the number of positions required for clerical support during normal workload periods, and 19.7 personnel-years more than the staffing level required during periods of below-normal building activity. Because the department's current level of clerical support is adequate to meet identified requirements for the subdivision program, we recommend the deletion of the three new office assistant I positions and one office technician position. In addition, we recommend the deletion of one currently-authorized office assistant I position, and 1.5 office assistant II positions, for a reduction of $28,000. This reduction would conform staffing for the department's subdivision program with the staffing standard it identified for periods of below-normal building activity.

The department also proposed $27,336 for an additional staff services manager I position. Currently, the department employs two associate management analyst positions in its Administration Division. One associate management analyst currently is responsible for the duties envisioned for the proposed staff services manager—acting as liaison with the building industry and consulting in personnel matters. The department is unable to identify any specific workload factors justifying the proposed new position. Given that an existing position is now performing the duties that would be assigned to the new position, we recommend that funding for the requested position be deleted.

Deletion of the 7.5 positions discussed above will result in a reduction of $106,000 in the department's budget.

Budgeting for Temporary Help. Of the 20 permanent real estate specialist positions the department proposes to fund in the budget year, 10 are budgeted in a "permanent" temporary help blanket authorization. The State Administrative Manual specifies that blanket authorizations must be reviewed annually or established with the prior approval of the Department of Finance. Thus, a "permanent" temporary help blanket, which would have the effect of incorporating temporary help into next year's budget base, is not permitted by State Administrative Manual guidelines.

The department should not budget temporary help positions in such a manner as to make them permanent. For this reason, we recommend that the Legislature adopt the following supplemental report language: "All requests by the Department of Real Estate for temporary help positions should be budgeted in conformance with State Administrative Manual guidelines, and should not be included in the department's budget base."

Temporary Help Positions Not Jusitifed

We recommend deletion of $69,000 and 8 personnel-years in temporary help positions because the need for these positions has not been established.

"Blanket" positions are budgeted in terms of full-time-equivalent personnel-years. These positions are used for short-term or intermittent workload where it is impractical to hire full-time permanent staff.

The budget for 1983–84 proposes continuation of two temporary help blanket authorizations for which funds were first appropriated in 1979–80. One temporary help blanket consisting of $33,602 and three personnel-years is budgeted for clerical support. A second consisting of $103,997 and 13 personnel-years is budgeted for proctors in connection with salesman and broker licensing examinations.

Prior-year appropriations not completely expended. Table 5 shows the amounts appropriated, the level of expenditures, and personnel-years utilized from both blankets since 1980–81.

DEPARTMENT OF REAL ESTATE—Continued

Table 5
Department of Real Estate
Clerical and Examination Proctor Blankets
1980–81 to 1983–84

	Actual 1980–81	*Actual* 1981–82	*Estimated* 1982–83	*Proposed* 1983–84
1. Clerical blanket				
a. Appropriation	$31,700	$33,602	$33,602	$33,602
b. Actual expenditures	24,053	30,236	—[a]	—
c. Personnel-years	2.3	2.5	—	—
2. Examination proctor blanket				
a. Appropriation	$98,110	$104,000	$104,000	$104,000
b. Actual expenditures	86,854	49,000	3,836[a]	—
c. Personnel years	11.5	4.1	0.7	—

[a] July-November, 1982.

Table 5 shows that neither one of these two blanket appropriations was fully spent during the last two years. Moreover, the department indicates that none of the appropriation for its clerical temporary help blanket was spent during the first five months of the current year. Based on the rate of expenditure for examination proctors during this period, we estimate that the department will probably spend less than 8 percent of the funds provided by this blanket appropriation.

Blanket Authorizations Not Subject to Department of Finance Review. The State Administrative Manual, however, stipulates that (1) temporary help blankets are to be used only for payment of employees for a limited time, (2) monthly or periodic payments may not be made from these blankets on a permanent basis, and (3) blanket authorizations in an approved budget must be reviewed and approved annually by the Department of Finance.

The department indicates, however, that both the clerical and the examination proctor blanket authorizations appear as part of its permanent baseline appropriation request, and thus were not subject to prior approval by the Department of Finance for inclusion in the 1983–84 budget.

Decline in Examinations. Table 6 shows the number of real estate salesman and broker licensing examinations administered by the department for the years 1979–80 through 1983–84.

Table 6

Department of Real Estate
Broker and Salesman Licensing Examination Workload
1979–80 to 1983–84

	Actual 1979–80	*Actual* 1980–81	*Actual* 1981–82	*Estimated* 1982–83	*Projected* 1983–84
Broker examinations	18,574	20,865	12,181	13,650	17,000
Salesman examinations	91,661	76,312	29,780	35,150	40,000

Table 6 indicates that in 1983–84, the department expects to administer 8.5 percent fewer broker licensing examinations, and 56 percent fewer salesman licensing examinations than in 1979–80—the year in which the examination proctor blanket was first authorized.

Conclusion. Our analysis indicates that both of these temporary help blankets are (1) improperly budgeted, and (2) overbudgeted. The department has not fully expended funds available from the examination proctor blanket in the past and has experienced a net decline in the number of broker and salesman licensing examinations administered since 1979–80. In addition, the department indicates that during the first five months of the current year, it has spent none of the appropriation available in its clerical temporary help blanket. Even if the department were again to begin spending these funds at a rate comparable to prior years, it is unlikely that the department will be able to expend its full current year appropriation by June 1983. We conclude, therefore, that the department's request to continue current year appropriation levels for both the examination proctor blanket and clerical help blanket are overstated. We recommend that one-half of the amount proposed in the budget for 1983–84 be reduced for a savings of $69,000.

Reimbursements Not Budgeted

We recommend a $300,000 decrease in the amount appropriated from the Real Estate Fund and a corresponding increase in reimbursements to reflect reimbursements the department expects to receive from the Department of Transportation.

The budget indicates that the department will receive $240,000 in reimbursements for both 1982–83 and 1983–84, primarily from fingerprinting charges to licensees and the sale of documents to the industry and the public.

During the current year, the department executed an interagency agreement with the Department of Transportation (Caltrans). This agreement calls for the department to provide Caltrans with up to four property appraisers and six real estate specialists in the current budget year to assist with right-of-way activities in connection with the Century Freeway project. These activities include appraisal, acquisition, relocation assistance, and property management. The agreement limits reimbursements to $1.4 million—$700,000 in each year covered by the contract.

Between July and November 1982 the department received $152,000 in reimbursements from Caltrans. This amount is not reflected in the department's current year budget. Nor are any of the reimbursements anticipated from Caltrans in 1983–84 reflected in the department's budget. The department indicates it may not receive these reimbursements in the budget year. It advises that it may choose to terminate the agreement (as permitted by the contract) and use these positions instead for increased workload in its subdivision program. The Caltrans budget, however, includes a maximum of $700,000 to reimburse the department for the use of 10 positions in 1983–84.

In our judgment, it is unlikely the department will experience a workload increase that is sufficiently large to warrant redirection of existing staff from the Caltrans agreement to the subdivision program. Although the department anticipates a workload increase of 33 percent in the subdivision program during 1983–84, this far exceeds the increase in any recent year. For example, since 1977–78, the department has not experienced an annual increase in subdivision filings exceeding 19 percent. In our judgment, therefore, a redirection of positions is unlikely to occur.

Given the level of reimbursements that the department is likely to receive from Caltrans in the current year, we believe the department can reasonably expect to receive *at least* $300,000 in reimbursements during 1983–84. Accordingly, we recommend an increase in reimbursements of $300,000, and a decrease of the same amount in the department's appropriation.

Should the department experience a workload increase sufficiently

DEPARTMENT OF REAL ESTATE—Continued

large to require redirection of positions to the subdivision program, it would still be able to handle this workload. It could rescind its contract with Caltrans, redirect the positions to the subdivision program, and use funds generated by its current schedule of filing fees on subdivision reports to offset any increased personnel costs.

Requested Positions Unwarranted

We recommend deletion of $283,000 and 11 personnel-years requested to implement recently enacted legislation because (1) the department previously had informed the Legislature that costs associated with the bill were absorbable, and (2) it is not clear if the departments workload will actually increase.

The budget requests $283,000 and 11 new positions to implement the provisions of Ch 886/82—an act regulating mortgage loan brokers.

Mortgage Loan Brokers. Mortgage loan brokers are licensed real estate brokers who negotiate new loans or the exchange of promissory notes secured by real property, in order to facilitate real estate transactions. There are currently 744 such brokers in the state, of which 60 percent are located in the department's southern regulatory region (Los Angeles-Santa Ana-San Diego).

Generally, real estate brokers engage in two distinct types of brokerage activities. One type involves transactions between one lender and one buyer, with the real estate broker providing traditional brokerage services to the two parties. The second type of brokerage activity involves a mortgage loan broker attempting to attract a number of persons for the purpose of investing in a single note. These funds are then pooled and made available to numerous borrowers. Attracting multiple investors to a single note is called "fractionalizing". Under current law, fractionalized notes are subject to the provisions of the Corporate Securities Act of 1968, and are under the regulatory jurisdiction of the Department of Corporations.

Bankruptcies involving mortgage loan brokers have increased significantly in recent years. Since March 1980, there have been 67 bankruptcies involving these brokers. The department estimates that 64,000 investors and $1.4 billion may be affected by these bankruptcies.

Recent Legislation affecting Mortgage Loan Brokers. In response to this problem, the Legislature enacted two statutes designed to increase regulatory oversight of the mortgage loan brokers industry. Chapter 1117, Statutes of 1981 (AB 1212) requires brokers who negotiate 20 or more new loans and contracts with total property sales of $2 million or more to file annually, with the Commissioner of Real Estate, an audit report on their business activities. In addition, mortgage loan brokers are required to submit a summary of the aggregate dollar amount of loans, trust deed sales, and real property sales transactions negotiated, fees collected, and funds held in trust. Chapter 1117 further requires the brokers to (1) provide both lenders and borrowers a disclosure statement describing the parties involved in the transaction, the property involved, and all financing arrangements, and (2) submit all advertisements of brokerage activity to the department for prior approval.

Chapter 886, Statutes of 1982 (AB 3666) requires all brokers who meet the 20 loan/$2 million sales volume criterion to file a quarterly trust fund report with the Commissioner. A broker who does not meet the 20 loan/$2 million threshold in any one quarter must attest to that fact on a form provided by the Commissioner. Should a broker fail to submit either the required annual or quarterly report, the Commissioner is empowered to conduct an audit and charge the broker one and one-half times the department's cost for conducting the audit and producing its report.

Analysis of Proposed New Positions. In the current year, the department has authorization for 21 auditor positions. For 1983–84, it requests an additional $283,000 and 11 personnel-years to implement the provisions of Ch 886/82. The new positions include seven auditors, one staff counsel I, one career executive appointment I, and two office assistant I positions.

Our analysis indicates that these additional funds and positions are not warranted for two reasons.

1. ***The department originally informed the Legislature that costs associated with Ch 886/82 could be absorbed, and additional staff would not be needed to implement the bill.*** When AB 3666 was heard by the fiscal committees, the department advised our office that enactment of AB 3666 "will not mean that (it) will need additional auditor staff to perform the analyses of the quarterly reports submitted by mortgage loan brokers. The department can readily absorb that function without adversely affecting its ability to protect the public against injurious practices of mortgage loan brokers . . . A statutory requirement of quarterly reports of the status of trust funds accounts . . . will substantially reduce the cost of regulating mortgage loan brokers by permitting the department to selectively audit mortgage loan brokers on the basis of information received from the broker rather than having to undertake a costly cyclical auditing program." Thus, when the Legislature considered and passed AB 3666, it did so with the belief that the bill would have no net fiscal impact.

2 ***It is not clear that AB 3666 will increase the department's workload.*** We have reviewed performance measures for the department's regulation of mortgage loan brokerage activity. Table 7 shows the number of audits and investigations conducted and the number of cease and refrain orders issued by the department in 1980–81, 1981–82, and 1982–83 (projected for the entire year, based on actual workload during the first six months of the current year).

Table 7
Department of Real Estate
Regulation of Mortgage Loan Brokers
1980–81 to 1982–83

	1980–81	*1981–82*	*1982–83*[a]
Investigations	521	679	612
Audits	142	141	164
Desist and refrain orders and accusations	166	87	46

[a] Based on workload from July to December, 1982.

This table indicates that the total number of investigations conducted in response to consumer complaints, and audits conducted routinely or as part of an ongoing investigation, generally have stablized, while the number of desist and refrain orders is expected to drop by 45 percent from last year's level during the current year. Thus, there is little to indicate that workload under this program will increase in the budget year. Furthermore, we believe any future increase in workload is more likely to fall within the jurisdiction of the Department of Corporations. This is because there is a greater likelihood of more serious violations occurring in those

DEPARTMENT OF REAL ESTATE—Continued

cases involving fractionalized notes, where a larger number of investors are involved, and dollar amounts tend to be greater.

Because the need for any additional positions has not been documented, and given the department's statement to the effect that any workload resulting from AB 3666 could be absorbed, we recommend the deletion of the $238,000 and 11 new positions requested to implement this measure.

Funds for Consultant Contract Not Justified

We recommend a reduction of $30,000 for data processing costs because funds requested for a consultant contract have not been justified.

The budget proposes $231,000 for data processing expenses in 1983–84, including $62,000 for two data processing feasibility studies.

Of this amount, $32,000 is for a contract with the Department of General Services (DGS) for systems analysis and design of computer programs. A second data processing contract is budgeted for $30,000. The department, however, is not certain (1) what the focus or topic of the study will be, (2) when this contract will be let, (3) if these funds would be encumbered in the budget year, and (4) who will conduct the study. As a result, there appears to be no justification for the expenditure of these funds in the budget year, and consequently we recommend that $30,000 be deleted from the department's request for data processing expenses.

Litigation Funds Unnecessary

We recommend a reduction of $13,000 budgeted for payment to the Business, Transportation and Housing Agency because (1) the agency has not budgeted for the receipt of these funds, and (2) the agency does not plan to perform the services for which these funds are requested.

The budget requests $13,000 in 1983–84 to partially offset Attorney General costs incurred by the Business, Transportation and Housing Agency in connection with litigation involving cases of fair lending abuses in the mortgage banker industry. The department provided reimbursements to the agency amounting to $8,000 in 1981–82, and estimates that it will provide an additional $12,000 in reimbursements to the agency for litigation costs in the current year.

Agency staff has informed us that expenditures for the litigation of fair lending cases have not been budgeted in 1983–84 because the agency does not plan to undertake such litigation during the budget year. Since neither the budget for the Secretary of Business, Transportation and Housing nor the budget for the Attorney General reflect the receipt of funds from the department, we recommend a reduction of $13,000 in the department's budget.

Miscellaneous Expenses Not Identified

We recommend a reduction of $6,000 in the amount requested for travel and in training because the department cannot identify how these funds will be used in the budget year.

The department is requesting $186,000 for in-state travel expenses, and $55,000 for support of its training programs in 1983–84. Of these amounts, the budget proposes $2,000 for miscellaneous travel expenses and $4,000 for miscellaneous training expenditures. The department is unable to identify how these funds will be used in the budget year. Consequently, we recommend they be deleted, for a savings of $6,000.

Business, Transportation and Housing Agency

DEPARTMENT OF SAVINGS AND LOAN

Item 2340 from the Savings and Loan Inspection Fund — Budget p. BTH 52

Requested 1983–84	$3,134,000
Estimated 1982–83	3,150,000
Actual 1981–82	5,825,000
Requested decrease (excluding amount for salary increases) $16,000 (−0.5 percent)	
Total recommended reduction	$443,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Necessity of Regulation.* Recommend the Legislature hold interim hearings to consider what role, if any, the state should have in regulating savings and loan associations. 357
2. ***Reimbursements. Reduce by $305,000.*** Recommend reduction to correct overbudgeting. 357
3. ***Vacant Positions. Reduce by $128,000.*** Recommend deletion of currently vacant positions which have not been justified. 358
4. ***Agency Assessment. Reduce by $10,000.*** Recommend reduction to correct overbudgeting. 358

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan, under the direction of a commissioner appointed by the Governor, is responsible for protecting the public by preventing conditions and practices which could jeopardize the safety and solvency of state-licensed savings and loan associations.

Savings and loan associations doing business in California have the option of being regulated by either the state or the federal government. As of December 31, 1982, there were 106 state-chartered savings and loan associations with 665 branches and total assets of $24 billion. There are currently 65 federally-chartered savings and loan associations, with 2,287 branches and total assets of $118 billion.

The department is supported from the Savings and Loan Inspection Fund, whose revenues are derived primarily from an annual assessment equal to a flat $100 plus 8 cents per $1,000 of assets levied on all state-regulated associations. The assessment levied against assets is set by the commissioner annually, in consultation with the savings and loan industry, at a level deemed sufficient to finance the department's operating costs.

The department is headquartered in Los Angeles and has a branch office in San Francisco. It currently has 88 authorized positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $3,134,000 from the Savings and Loan Inspection Fund for support of the department in 1983–84. This is a decrease of $16,000, or 0.5 percent, below estimated current-year expenditures. This, however, makes no allowance for the cost of any salary or staff benefit increase that may be approved for the budget year.

DEPARTMENT OF SAVINGS AND LOAN—Continued

The department also anticipates receiving $1,266,000 in reimbursements from the Department of Transportation to defray the expenses of 22 appraisers assigned to the Century Freeway Project. Thus, the department is proposing total expenditures for 1983–84 of $4,400,000.

Table 1 presents cost and staffing data for the department in the prior, current, and budget years.

Table 1
Department of Savings and Loan
Expenditures and Staffing
(dollars in thousands)

Supervision and Regulation Activities	*Actual 1981–82*		*Estimated 1982–83*		*Proposed 1983–84*	
	Personnel-Years	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*
Examination	49.1	$2,231	31.5	$1,584	30.0	$1,628
Appraisal	31.3	1,467	27.4	1,421	27.0	1,461
Facilities licensing and legal assistance	5.9	340	3.6	228	1.5	136
Economic and financial information	3.0	154	—	—	—	—
Management information systems	6.8	320	0.5	11	—	—
Administration	39.4	1,561	29.2	1,205	28.0	1,175
Totals	135.5	$6,073	92.2[a]	$4,449	86.5	$4,400
Reimbursements		−248		−1,299		−1,266
Net Totals		$5,825		$3,150		$3,134

[a] The department has received authorization for 88 positions.

STATE REGULATION OF SAVINGS AND LOAN ASSOCIATIONS

FUTURE OF STATE REGULATION OF SAVINGS AND LOANS NEEDS REVIEW

The primary source of revenue for support of the department is an assessment levied on the asset base of each state-chartered savings and loan association. Thus, the amount available for the department's regulatory programs depends on the asset base of state-chartered associations.

Since 1980–81, the amount of association assets under state regulation has declined dramatically. This is because many associations, including some of the largest, have converted from a state charter to a federal charter. As a result, 1983–84 revenue to the Savings and Loan Inspection Fund is projected to be approximately one-third of the amount collected in 1980–81. This loss of revenue has forced the department to reduce staffing from 150.5 positions in 1980–81, to 88 positions proposed for the budget year.

The reduction in available staff has produced a significant decline in the level of departmental regulatory activity. This, in turn, limits the department's ability to implement the state Savings and Loan Association Law. We believe this decline brings into question the need for continued state regulation of savings and loan associations.

The following sections discuss the current scope and level of the department regulatory activities directed at savings and loan associations and identifies the options available to the Legislature regarding the department's future.

ASSET BASE CONTINUES TO DECLINE

Charter Conversions

In our *Analysis of the 1982 Budget Bill,* we indicated that the conversion of many state-chartered savings and loan associations to federal charter had caused the asset base, on which assessments are made for support of the department, to decrease dramatically. At that time, we indicated that projected revenues to the Savings and Loan Inspection Fund in 1982–83 from assessments on state-chartered associations were expected to generate $3,803,000 to the fund. This amount was 40 percent less than revenues in 1980–81, and 43 percent below estimated revenues for 1981–82.

The 1983–84 budget indicates that current-year revenues will be even lower than what we anticipated a year ago. These revenues are expected to be $2,350,000 in 1982–83, or 61 percent below the 1980–81 level, and 62 percent below 1981–82 revenues. Revenues from assessments are expected to be lower still in the budget year: $2,250,000. In terms of purchasing power, the declines in revenues since 1980–81 are even larger.

Our review indicates that although the rate at which state-chartered associations are converting to a federal charter has slowed, some conversions are still occurring. In 1981–82, 26 state-chartered savings and loan associations converted to a federal charter or merged with a federal institution. In the current year, six associations already have converted to a federal charter, and applications for conversion have been filed by seven others. Table 2 shows the effect these changes have had on the asset base of the department.

Table 2
Department of Savings and Loan
State Chartered Associations and Asset Base
(dollars in billions)

	Actual		*Estimated*	*Projected*	*Change from*
	1980–81	*1981–82*	*1982–83*	*1983–84*	*1980–81*
Number of associations	126	105	125	135	+6.6%
Association assets	$82.9	$33.7	$24.4	$34.9	−57%

Table 2 indicates that in 1983–84, the department expects association assets under state regulation to be 57 percent less than in 1980–81, even though the number of associations subject to state regulation is expected to be larger (by nine) than in the earlier year.

New Applications for State Charter

As of December 31, 1982, there were 106 associations under state charter. During the first five months of 1982–83, the department received 31 applications for state charters, of which 17 were approved and none were denied. Of those associations approved for state charter, eight currently are in operation. A total of 18 applications await approval by the department (including four carryovers from 1981–82). As a result, the budget's projection that there will be 135 associations operating with state charters seems reasonable.

New Associations Unlikely to Restore Asset Losses

Although the department awarded licenses to 25 new associations between July 1, 1981 and December 31, 1982, the department's asset base is still well below the 1980–81 level. Moreover, it is unlikely that assess-

DEPARTMENT OF SAVINGS AND LOAN—Continued

ments on the new associations will generate sufficient revenue to (1) offset the revenue loss resulting from the conversion of 32 associations to federal charter since 1981–82, and (2) enable the department to restore its regulatory programs to previous levels. The 32 associations that converted to federal charter reduced assets under state regulation by $62.4 billion. The assets of the 25 newly-chartered associations total only $2.2 billion, for a net reduction since 1981–82 of $60.2 billion in the volume of assets under state regulation. Based on the present 8-cent-per-$1,000 assessment formula, this loss of assets has "cost" the department revenues of approximately $4.8 million annually.

Projections for Departmental Assets Too Optimistic

The department projects that association assets under state charter will total $34.9 billion in 1983–84. This is $10.5 billion, or 30 percent, more than the asset base the department projects for the current year. Our analysis indicates, however, that the projected increase is not supported by either past or current association growth trends. An increase of 30 percent is considerably more than what occurred in any year since 1978–79. Moreover, the department indicates that assets under state charter during the first two quarters of the current year grew at average annual rates of 7.9 percent and 5 percent, respectively. Looking to the future, there seems to be no clear basis for predicting how many savings and loan associations will apply for a change in their current charter—either from state to federal or from federal to state.

EFFECT OF DEPARTMENT REVENUE DECLINE ON FUND SURPLUS

The department's proposed budget for 1983–84—$3,134,000 from the Savings and Loan Inspection Fund—represents an expenditure level that the department can sustain only by drawing heavily on fund surpluses. These reserves, which are estimated to be $1.7 million at the beginning of the budget year, will decline to $944,000 by June 30, 1984.

DECLINE IN DEPARTMENTAL REGULATORY ACTIVITY

The sharp decline in revenues to the Savings and Loan Inspection Fund since 1981–82 (63 percent) has necessitated a major reduction in the scope of regulation conducted by the department.

Reliance on Federal Examiners. In order to offset the reduction in the number of state examiners, the department is taking advantage of the authority granted to the Commissioner of Savings and Loan by Section 8806 of the Financial Code. This statute allows the commissioner to accept examinations from specified federal regulatory agencies in lieu of having the department conduct examinations of state-chartered associations. It also allows the commissioner to conduct examinations in conjunction with these federal agencies. In fact, the department is now conducting examinations only for pre-licensing purposes, and in the year following the year in which a charter is first granted. The department generally leaves all other examinations to the Federal Home Loan Bank Board (FHLBB), relying entirely on the work of the board's staff. At the completion of the board's examination, the department generally reviews the board's findings with the association.

Table 3 shows the examination workload associated with state savings and loan associations, both for the FHLBB and the department, for 1980–81 through 1983–84.

Table 3
State-Chartered Associations and Assets Examined
1980–81 to 1983–84
(dollars in billions)

	Actual		*Estimated*	*Projected*
	1980–81	*1981–82*	*1982–83*	*1983–84*
Examinations	111	105	95	100
Assets examined	$68	$36.1[a]	$23.4	$25

[a] Assets examined in 1981–82 exceeded assets under regulation for that year (Table 2) because (1) a number of associations were examined twice, and (2) several associations examined during that fiscal year had converted to federal charter by June 30.

Table 3 shows that:

- The amount of association assets examined by the department and the FHLBB in 1983–84 is expected to be 63 percent less than in 1980–81.
- The number of examinations conducted in 1983–84 is expected to be 10 percent less than in 1980–81.

Table 4
Comparison of Examination Workload
State-Chartered Associations:
Department of Savings and Loan and the Federal Home Loan Bank Board
1980–81 through 1982–83

	1980–81	*1981–82*	*July 1982– November 1982*
Examiner Days			
Federal	3,434	4,090	1,086
State	2,295	3,094	509
Total	5,729	7,184	1,595
Examinations			
Federal	67	64	36
State	44	41	15
Total	111	105	51

Table 4 indicates that:

- 64 of the 105 examinations conducted in 1981–82, or 61 percent, were conducted by the FHLBB.
- For the first five months of 1982–83, 36 of the 51 examinations conducted, or 71 percent, were conducted by the board.
- Based on workload for the first five months of the current year, the number of state examination days is expected to be 56 percent below the 1980–81 level, and 67 percent less than in 1981–82.

Redirection of Examiner Staff

The department currently is authorized 11 examiner IV positions and 16 examiner III positions. Department staff informs us that the department maintains 10 examiners in the field to conduct state examinations and accompany federal examiners, and assigns the remaining 17 examiners to its Los Angeles office where they are used for department administration and review of applications for state charter. Clearly, the department has sharply reduced its use of state personnel for the examination of state-chartered associations.

DEPARTMENT OF SAVINGS AND LOAN—Continued

Reduction in Information Collected and Analyzed

The department no longer receives a monthly loan register report from state-chartered associations because it does not have the resources necessary to process the loan information. These reports describe the number, type, and location of loans made by state-chartered associations. Furthermore, the 1983–84 budget proposes to discontinue the department's Economic and Financial Information program and its Management Information Systems program, both of which monitor loan activity in the state. As a result, the department will no longer be able to develop the information needed to provide early warning of insolvencies among state-chartered associations.

The only information regarding the activities of state-chartered associations now available is contained in the monthly and semiannual reports prepared by the FHLBB and provided to the department. It is unclear, however, what state review of this information accomplishes, since federal examiners (1) do not check for compliance with the state's Savings and Loan Associations Law, and (2) utilize indicators of solvency which differ from those applied by the department.

OVERLAP OF STATE AND FEDERAL REGULATORY RESPONSIBILITIES

As indicated earlier, the primary responsibilities of the Commissioner of Savings and Loan under the Savings and Loan Association Law are to (1) require that all state-chartered savings and loan associations meet minimum standards for licensure required by the act and (2) prevent state-chartered associations from engaging in activities that may cause insolvency and endanger the savings of depositors.

The National Housing Act of 1933 established the Federal Home Loan Bank Board (FHLBB) to regulate savings and loan associations nationally. The act also established the Federal Savings and Loan Insurance Corporation (FSLIC) as a division of the board to insure deposits held in trust by *all* savings and loan associations. Currently, state-chartered associations in California are required to maintain insurance with FSLIC. Pursuant to the National Housing Act, when the FHLBB approves an association for insurance by the FSLIC, it automatically makes the savings and loan subject to examination by the board.

In many ways, FHLBB and FSLIC play a larger role in regulating state-chartered savings and loans and protecting depositors than does the department. For example, federal law permits the FHLBB to intervene directly in the operation of a state-chartered savings and loan association to determine if an association is operating in an unsound manner. State associations are required to report to the board monthly and semiannually on their loan activities. Should an association experience liquidity problems, the board advances cash to a savings and loan on the basis of identified need.

The FHLBB currently maintains a 10- to 14-month examination cycle for all savings and loan associations in the state. Federal officials examine for solvency and solidity, although they do not have the authority to enforce state law regarding the regulation of state-chartered associations.

State law provides that the FSLIC may act as a conservator of a state-chartered association if so appointed by the commissioner, or if it chooses to assume conservatorship for liquidation purposes. Should the commissioner appoint a conservator other than the FSLIC for an insolvent savings and loan, federal law provides that the FSLIC may assume conservatorship duties after 15 days.

DEPARTMENT'S ROLE IN QUESTION

Our analysis indicates that the department's declining revenue base has limited its ability to hire, train, and maintain staff. This in turn has reduced the department's ability to identify the incidence of insolvency among state-chartered associations.

Our review of the department's current scope of regulatory activity indicates that the department is operating, essentially, a registration and advisory program for newly-chartered associations. We are unable to identify any distinct regulatory service the department provides the public or the associations that is not currently provided by the federal government.

Furthermore, since the department is unable to develop the information necessary to identify problems before insolvencies develop, it does not appear that the department is capable of fulfilling its statutory mandate to insure the safety and solvency of state-chartered associations and the public's deposits in those associations. Consequently, the Legislature may want to modify or eliminate the state's current role in regulating savings and loans.

OPTIONS AVAILABLE TO THE LEGISLATURE

The Legislature has several options available to address the reduced effectiveness of state regulation of savings and loan associations:

1. Allow the federal government to assume full responsibility for licensing and regulating all savings and loans in the state.
2. Continue a state regulatory effort and identify in statute what distinct regulatory services the state should provide which are not currently provided by the federal government. To implement an altered mandate, it would be necessary to change the department's current funding structure in order to provide revenues adequate to maintain an effective regulatory program.

We recommend that the appropriate policy committees of the Legislature hold interim hearings to consider what role if any the state should have in regulating savings and loan associations.

BUDGETING ISSUES

Reimbursements Overbudgeted

We recommend a reduction of $305,000 to eliminate overbudgeting of reimbursements from the Department of Transportation.

In April 1982, the department contracted with the Department of Transportation (Caltrans) to provide up to 22 appraisers for work on the Century Freeway Project through June 30, 1984. The appraisers, whose salaries and operating costs are fully reimbursed by Caltrans under the contract, are assisting Caltrans staff with right-of-way activities, including appraisals, acquisitions, relocation assistance, and property management.

The department indicates that, at most, it will have 18 appraisers available for use by Caltrans in both the current and budget years. On this basis, it has budgeted $1,299,000 in reimbursements for the current year, and $1,266,000 for 1983–84.

The department indicates that it has received $400,548 in reimbursements from Caltrans to cover the cost of 18 appraisers assigned to the Century Freeway project during the first five months of the current year.

DEPARTMENT OF SAVINGS AND LOAN—Continued

On an annualized basis, therefore, the department can expect to receive $53,400 in reimbursements per employee. The amount budgeted by the department for 1983–84 ($1,266,000), however, would generate $70,333 per employee.

Given the actual amount of reimbursements received to date, this amount appears to be excessive. Accordingly, we recommend that reimbursements from Caltrans be budgeted at the level of $53,400 per employee, and that the amount included in the budget be reduced by $305,000.

Vacant Positions Unjustified

We recommend a reduction of $128,000 and the deletion of four vacant positions which have not been justified.

The department requests funding in 1983–84 for four full-time positions that are vacant in the current year. The positions (and the salaries budgeted for each) are as follows: one community liaison specialist ($31,452), one legal counsel ($28,800), one staff services analyst ($21,648), and one executive secretary ($16,416). The department indicates that the community liaison specialist position has been vacant since July 1, 1982; the legal counsel since October 1, 1982; the staff services analyst since September 11, 1982; and the executive secretary since December 18, 1981. The amount budgeted in salaries and wages for these positions totals $98,316.

The department is unable to specify when it intends to fill these positions and cannot justify on a workload basis their retention in the budget year. Accordingly, we recommend that the positions be deleted.

The State Administrative Manual recommends that departments budget an amount equal to 30 percent of staff salaries as operating expenses for department personnel. Based on this guideline, we recommend a reduction of $30,000 in operating expenses associated with these four positions, bringing the total recommended reduction to $128,000.

Agency Assessment Overbudgeted

We recommend a reduction of $10,000 to correct overbudgeting for assessments paid to the Business, Transportation, and Housing Agency.

The department has budgeted $45,000 for interdepartmental consultant and professional services in 1983–84. Of this amount, $23,000 is to reimburse the Attorney General for legal services in the budget year. The remaining $22,000 is to pay an assessment levied by the Business, Transportation, and Housing Agency for partial support of five exempt agency positions.

Our analysis indicates that for 1983–84, the agency is levying only a $12,000 assessment on the department for these positions. Accordingly, we recommend a reduction of $10,000.

CALIFORNIA TRANSPORTATION COMMISSION

Item 2600 from the State Transportation Fund — Budget p. BTH 55

Requested 1983–84	$1,136,000
Estimated 1982–83	1,083,000
Actual 1981–82	801,000
Requested increase (excluding amount for salary increases) $53,000 (+4.9 percent)	
Total recommended reduction	$153,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2600-001-042—Support		State Highway Account	$116,000
2600-001-046—Support		Transportation Planning and Development Account	1,020,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Operating Expenses. Reduce by $28,000.*** Recommend reduction in various operating expenses because of overbudgeting. 360
2. ***In-state Travel. Reduce by $20,000.*** Recommend reduction in in-state travel expenses because of overbudgeting. 361
3. ***Consulting and Professional Services. Reduce by $105,000.*** Recommend reduction because requests for consulting and professional services are premature and have not been substantiated. 362

GENERAL PROGRAM STATEMENT

The California Transportation Commission, which consists of nine appointed commissioners, was created in 1978 to replace the California Highway Commission, California Toll Bridge Authority, Aeronautics Board, and State Transportation Board.

The commission's major responsibilities include (1) adopting a five-year State Transportation Improvement Program (STIP), (2) determining transportation projects to be funded within annual appropriations, (3) adopting and issuing one-year and five-year transportation revenue estimates for use by regional transportation planning agencies in developing regional transportation programs, (4) recommending to the Legislature funding priorities among various elements of the state's Mass Transportation program, (5) issuing a California transportation plan in a biennial report, and (6) evaluating the Department of Transportation's annual budget and the adequacy of current state transportation revenues. The commission has 12 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $1,136,000 for support of the commission in 1983–84, including an appropriation of $1,020,000 from the Transportation Planning and Development (TP and D) Account, and $116,000 from the State Highway Account, State Transportation Fund.

CALIFORNIA TRANSPORTATION COMMISSION—Continued

This proposed expenditure level is $53,000, or 4.9 percent, higher than estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget proposes 12 positions to support commission activities in 1983–84, the same number as in the current year. This includes an Executive Director appointed by the commission, six professional staff and five clerical positions.

Pattern of Overbudgeting

In analyzing the California Transportation Commission's proposed spending levels for 1983–84 in comparison with its actual expenditures in prior years, we find a pattern of overestimating requirements in the budget year. As a result, since 1978–79 the commission has consistently reverted funds at the end of each fiscal year. The reversions for fiscal years 1978–79 through 1981–82 are shown in Table 1.

Table 1
California Transportation Commission
Fund Reversions
1978–79 to 1981–82
(dollars in thousands)

	1978–79	*1979–80*	*1980–81*	*1981–82*
Appropriation	$749	$928	$1,016	$1,076
Expenditure	584	752	741	801
Reversion	165	176	275	266[a]
Reversion as Percent of Appropriation	22.0%	19.0%	27.1%	24.7%[a]

[a] Does not reflect a $9,000 unallotment due to a reduction in travel expenses imposed by the Governor.

As Table 1 indicates, significant portions of the commission's support appropriations have been unexpended during the past four years. For 1981–82, the amount reverted was almost 25 percent of the total amount appropriated.

Several factors contribute to the commission's annual budget surpluses, some of which are uncontrollable while others may be predicted with some degree of accuracy. For example, the commission budgets fully for commissioners' per diem, at $100 per day, for the anticipated number of days of meetings. The annual request for personal services, therefore, is overbudgeted to the extent that some commissioners do not attend every meeting during the fiscal year. A second factor causing year-end reversions is the unanticipated freezes imposed by the Governor on specific expenditures in past years. As discussed below, however, our review indicates that even after adjusting for these two factors, the commission's budget requests still have been overstated in two basic areas: operating expenses and in-state travel.

Overbudgeted Operating Expenses

We recommend a reduction of $28,000 from the Transportation Planning and Development Account (Item 2600-001-046) because various operating expenses are overbudgeted.

Our analysis indicates that the commission has overbudgeted funds for various operating expenses for 1983–84. Table 2 shows actual expenditures for general expenses (office supplies, conference room rental, etc.), printing, communications, and postage for 1979–80 through 1981–82, as well as estimated current-year and proposed 1983–84 expenditure levels.

Table 2
California Transportation Commission
Actual and Projected Operating Expenses
(dollars in thousands)

	1979–80	*1980–81*	*1981–82*	*Estimated*[a] *1982–83*	*Proposed 1983–84*	*Projected by*[b] *Legislative Analyst 1983–84*
General Expenses	$17.6	$5.6	$18.0	$16.7	$35.0	$19.2
Printing	0.3	—	—	3.0	10.0	3.5
Communications	11.2	10.2	14.7	18.1	27.0	20.8
Postage	—[c]	—[c]	—[c]	0.6	2.0	0.7
Totals	$29.1	$15.8	$32.7	$38.4	$74.0	$46.2

[a] Estimates prepared by the commission.
[b] Projections allow for a 15 percent increase over current-year estimates to provide for cost increases and workload-related increases.
[c] Expenditures were less than $100.

Based on past and estimated current-year expenditures, we project that $46,000 will be needed to cover these expenses in 1983–84. Our recommended funding level allows an increase of 15 percent over current-year expenditures, which provides for a 5 percent price increase (in accordance with Department of Finance budget instructions) and an additional 10 percent to accommodate any workload-related increase in expenses. The commission, however, is requesting $74,000 for these expenses for the budget year. Accordingly, we recommend a reduction of $28,000 from the commission's budget.

Overbudgeted In-state Travel Expenses

We recommend a reduction of $20,000 from the Transportation Planning and Development Account (Item 2600-001-046) because in-state travel expenses have been overbudgeted.

The budget proposes an expenditure of $88,000 for in-state travel in 1983–84. This is an increase of $27,000, or 44 percent, over the current-year level of $61,000 estimated by the commission and is $36,000, or 69 percent, above the $52,000 average annual expense incurred for this purpose from 1979–80 through 1981–82. Thus, based on the current-year estimates, as well as past experience, the proposed amount of $88,000 appears to be excessive.

Allowing for the recent increase in travel per diem payments, and assuming an average travel cost of $300 per person per meeting for the same level of attendance at meetings as estimated for the current year, we estimate that $68,000 will be needed for in-state travel purposes in 1983–84. Accordingly, we recommend that the commission's budget be reduced by $20,000.

CALIFORNIA TRANSPORTATION COMMISSION—Continued

Consulting and Professional Services Request Excessive

We recommend a reduction of $105,000 from the Transportation Planning and Development Account (Item 2600-001-046), because the amount requested for consulting and professional services is not warranted.

The budget requests $256,000 for consulting and professional services in 1983–84. According to commission staff, this amount will be used to (1) procure engineering consulting services to interpret the results of a current-year study ($150,000), (2) provide a "reserve" of $30,000 for a possible follow-up study to a current-year study on mass transit projects, (3) develop the criteria to identify a system of California airports ($75,000), and (4) lease certain computer hardware ($2,000).

Current-Year Study. Resolution Chapter 114, Statutes of 1982, (SCR 46), requested the commission, in cooperation with local and regional transportation planning entities, to identify specific high priority state highway and guideway projects which are capable of being implemented and completed within five years after the identification study is finished.

In response to this request, the commission has contracted with a consulting firm to conduct the study in the current year, at a cost of $225,000—including $150,000 to identify a "backbone" highway system, and $75,000 to identify high priority mass transit projects.

Budget-Year Requests. For 1983–84, the commission proposes funding for leasing certain computer hardware, as well as for the following purposes.

1. The commission is requesting $150,000 to conduct a follow-up study to the current highway system identification study, and to work with regional agencies to determine the cost and time requirements of high priority projects. Our review of the intended scope of the follow-up study indicates that the amount is justified.

2. The commission is also requesting $30,000 as a "reserve" in the event a follow-up study to the current mass transit study is needed. There is, however, no concrete proposal for the use of the money, and substantiation for its need is lacking. We, therefore, do not think such a "reserve" is warranted.

3. Finally, the budget includes $75,000 to develop criteria to identify a system of California airports for general aviation purposes. Discussions with staff indicate that the state's role in general aviation in California is currently being reviewed as part of the commission's 1983 Biennial Report. Depending on the commission's action relative to the report's findings and recommendations, there might be a need to identify a statewide system of airports for general aviation purposes. The requested amount would then be used to fund a study to develop the criteria for the system's identification. Because the need for the study is contingent upon the commission's future actions which are unknown at this time, we believe the request for $75,000 is premature, and recommend that the amount be denied.

Accordingly, we recommend that the request for consulting and professional services be reduced by $105,000.

Business, Transportation and Housing Agency

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY

Items 2660 and 2660-301 from various funds — Budget p. BTH 60

Requested 1983–84	$932,549,000
Estimated 1982–83	1,006,661,000
Actual 1981–82	920,047,000
Requested decrease (excluding amount for salary increases) $74,112,000 (−7.4 percent)	
Total recommended reduction	$25,389,000
Recommendation pending	$145,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund [a]	Amount
2660-001-041	—Aeronautics—Support	Aeronautics Account	$1,789,000
2660-001-042	—Highway—Support	State Highway Account	617,790,000
	Mass Transportation—Support		104,000
2660-001-045	—Highway—Support	Bicycle Lane Account	9,000
2660-001-047	—Mass Transportation—Support	Abandoned Railroad Account	553,000
2660-a01-046	—Mass Transportation—Support	Transportation Planning and Development Account	19,450,000
	Transportation Planning—Support		5,020,000
2660-101-041	—Aeronautics—Local Assistance	Aeronautics Account	1,000,000
2660-101-042	—Highway—Local Assistance	State Highway Account	27,200,000
2660-101-045	—Highway—Local Assistance	Bicycle Lane Account	592,000
2660-101-046	—Transportation Planning—Local Assistance	Transportation Planning and Development Account	2,032,000
2660-301-042	—Highway—Capital Outlay	State Highway Account	223,110,000
2660-301-047	—Mass Transportation—Capital Outlay	Abandoned Railroad Account	5,211,000
	Total, Budget Act appropriations, State Funds		$903,860,000
Budget Act of 1980	—Mass Transportation—Local Assistance	Transportation Planning and Development Account	$2,573,000
Budget Act of 1977	—Highway—Capital Outlay	State Highway Account	200,000
Budget Act of 1978	—Highway—Capital Outlay	State Highway Account	200,000
Budget Act of 1979	—Highway—Capital Outlay	State Highway Account	200,000
Budget Act of 1980	—Highway—Capital Outlay	State Highway Account	500,000
Budget Act of 1981	—Highway—Capital Outlay	State Highway Account	41,859,000
Budget Act of 1982	—Highway—Capital Outlay	State Highway Account	55,340,000
Toll Bridge Funds	—Highway—Support	Toll Bridge Funds	29,251,000
Toll Bridge Funds	—Highway—Capital Outlay	Toll Bridge Funds	23,013,000
Budget Act of 1981	—Highway—Capital Outlay	Environmental License Plate	21,000
Budget Act of 1982	—Highway—Capital Outlay	Environmental License Plate	100,000
Continuing Aeronautics appropriations		Aeronautics Account	3,225,000
	Total, Continuing statutory appropriations, State Funds		$156,482,000
Minus, Balance Available in Subsequent Years			−87,403,000
Minus, Unexpended Balance			−40,390,000
	Total, All expenditures, State Funds		$932,549,000

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

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Highway Capital Outlay. Recommend that the California Transportation Commission (CTC) be requested to comment during budget hearings on the level of highway capital outlay expenditures proposed for 1983–84. 377
2. Federal Funds. Recommend adoption of supplemental report language directing the department to (a) charge project-related expenses directly to specific capital outlay projects, so as to maximize federal reimbursements, and (b) report to the fiscal committees and the Joint Legislative Budget Committee by June 1984 on its success in doing so. 378
3. ***Capital Outlay Staffing. Reduce Item 2660-001-042 by $12,024,000.*** Recommend reduction because the requested level of capital outlay support is not justified on a workload basis. 379
4. ***Highway Research. Reduce Item 2660-001-042 by $1,105,000.*** Recommend reduction because the need for the requested amount has not been substantiated. 383
5. ***Interagency Agreement. Reduce Item 2660-001-042 by $1,100,000.*** Recommend reduction to correct overbudgeting for appraisal services. 384
6. ***Consulting Services. Reduce Item 2660-001-042 by $948,000.*** Recommend reduction because budgeted expenditures have not been justified. 386
7. ***Road Equipment. Reduce Item 2660-001-042 by $2,512,000.*** Recommend reduction because (a) the cost of replacement equipment is overstated and (b) additions to existing equipment inventory are not warranted. 386
8. ***Maintenance Regionalization. Reduce Item 2660-001-042 by $1,050,000.*** Recommend reduction to reflect savings resulting from the continued implementation of regionalization in highway maintenance. 389
9. ***Cost Recoveries. Reduce Item 2660-001-042 by $5,000,000.*** Recommend reduction to reflect cost recoveries which offset expenditures. 389
10. Transfer of Transportation Planning and Development (TP and D) Account Funds. Recommend adoption of language under Item 2660-011-046 transferring the $66.4 million unencumbered balance of the TP and D Account to the General Fund, in order to increase Legislature's flexibility to meet high priority statewide needs. 390
11. ***Project Review Personnel. Reduce Item 2660-001-046 by $54,000.*** Recommend reduction because some projects will not require state review in the budget year. 391
12. ***Discretionary Transit Assistance. Reduce Item 2660-001-046*** 392

by $76,000. Recommend reduction because the program has been discontinued, and the workload has declined to where it merely involves monitoring on-going contracts.

13. ***Project Development Funds. Reduce Item 2660-001-047 by $468,000.*** Recommend reduction because an abandoned rail line will not be acquired and the right-of-way can be developed without spending state funds. 392
14. Local Assistance. Recommend deletion of local assistance language because it is inconsistent with existing legislative policy. 393
15. State Transit Assistance. Recommend that budget companion bills be amended to reduce allocation of State Transit Assistance by $32 million to pay only the ongoing operating expenses paid from STA funds. 393
16. Interregional Transit Services. Recommend CTC be requested to comment at budget hearings on recommended subsidy levels. Further recommend adoption of Budget Bill language specifying that subsidies are to be allocated by CTC as required by current law. 396
17. ***Intercity Bus Service. Reduce Item 2660-001-046 by $81,000.*** Recommend reduction to correct overbudgeting of personnel needed to monitor service contracts. 399
18. SP Station Management. Withhold recommendation on $145,000 (Item 2660-001-046) for commuter rail station management, pending receipt of Metropolitan Transportation Commission report. 400
19. ***Transit Demonstration Projects. Reduce Item 2660-001-046 by $48,000.*** Recommend reduction because fewer projects will be monitored in the budget year. 401
20. Ridesharing Tax Credit. Recommend $2.4 million reduction in transfer for tax credit reimbursement under Item 2660-011-046 to reflect more accurate estimates of program costs. 401
21. ***Ridesharing Projects. Reduce Item 2660-001-046 by $34,000.*** Recommend reduction because projects will not continue in budget year. 402
22. ***Reimbursed Planning Expenditures. Reduce reimbursements in Item 2660-001-046 by $1,516,000.*** Recommend reduction in reimbursed expenditures to reflect more accurate estimate of workload. 402
23. ***New Accounting System. Reduce Item 2660-001-042 by $634,000.*** Recommend reduction to reflect staff savings resulting from the conversion of the existing accounting system to Transportation Accounting and Management System (TRAMS). 403
24. ***Equipment for TRAMS. Reduce Item 2660-001-042 by $80,000.*** Recommend reduction to correct overbudgeting of equipment for TRAMS conversion. 403
25. ***Consulting Services for TRAMS. Reduce Item 2660-001-042 by $175,000.*** Recommend reduction because the amount will not be needed to complete an existing contract. 404
26. Legal Staff. Recommend the department be requested to comment during budget hearings on the impact of proposed reduction in legal staff. 404

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

GENERAL PROGRAM STATEMENT

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

The department's responsibilities are divided among five programs. Three programs—Highway Transportation, Mass Transportation and Aeronautics—concentrate on specific transportation modes. Transportation Planning seeks to improve the planning for all travel modes in the state. The fifth program, Administration, encompasses management of the department. Expenditures for this program are prorated among the other four operating programs.

The department's headquarters is in Sacramento, and it maintains 11 district offices throughout the state. The department is authorized 15,209.3 personnel-years in 1982–83.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures totaling $932,549,000 in state funds for Department of Transportation programs and activities in 1983–84. This is $74,112,000, or 7.4 percent, below estimated expenditures in the current year. This, however, makes no allowance for any salary or staff benefit increase that may be approved for the budget year.

In addition to proposed expenditures from state funds of $932,549,000, the department proposes to spend $786,541,000 in federal funds and $112,929,000 in reimbursements, for a total proposed expenditure program in 1983–84 of $1,832,019,000, a decrease of $49,073,000, or 2.6 percent, from current-year estimated expenditures of $1,881,092,000.

In 1983–84, staffing is proposed to decrease from the current authorized level of 15,209.3 personnel-years to 15,152.2 personnel-years, a decrease of 57.1 personnel-years, or 0.4 percent.

Table 1 compares the department's proposed budget for 1983–84 to expenditures authorized in the current year.

Significant Program Changes

The 1983–84 budget essentially is a baseline budget with respect to most of the department's functions, particularly those in the Aeronautics, Planning, and the Highway Transportation programs. Consequently, activity levels generally are proposed at the same levels authorized in the current year, with expenditures merely adjusted to compensate for the impact of inflation on the prices paid by the department. The budget recognizes, however, that recently enacted legislation increasing the federal gasoline tax rate will have a significant impact on the state's 1983–84 transportation program. Accordingly, the department indicates that it intends to propose amendments to the proposed budget after it has a better estimate of the amount that will become available to California under the new law, and has determined how these funds can best be used to support the state's transportation program.

Even though it is essentially a baseline budget, the expenditure program proposed for 1983–84 still reflects a number of significant program changes that, together, represent a shift in priorities from those which the previous administration espoused.

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

	Aeronautics Account	*State Highway Account*	*TP & D Account*	*Federal Funds*	*Reim-bursements*	*Other Funds*	*Total*
1982–83 Authorized	$5,799	$882,813	$73,051	$723,230	$151,201	$44,998	$1,881,092
1. 1983–84 Cost Changes	215	31,688	1,002	63,311	1,237	13,731	111,184
2. Workload & Program Changes							
A. Aeronautics							
(1) State Operations	—	—	—	—	—	—	—
(2) Local Assistance	—	—	—	—	—	—	—
Subtotals	—	—	—	—	—	—	—
B. Highways							
(1) State Operations	—	−2,828	—	—	—	—	−2,828
(2) Local Assistance	—	—	—	—	—	—	—
(3) Capital Outlay	—	—	—	—	−20,959	—	−20,959
Subtotals	—	(−2,828)	—	—	(−20,959)	—	(−23,787)
C. Mass Transportation							
(1) State Operations	—	−4,669	−6,411	—	—	—	−11,080
(2) Local Assistance	—	−65,700	−41,140	—	—	—	−106,840
(3) Capital Outlay	—	—	—	—	−18,550	—	−18,550
Subtotals	—	(−70,369)	(−47,551)	—	(−18,550)	—	(−136,470)
D. Transportation Planning							
(1) State Operations	—	—	—	—	—	—	—
(2) Local Assistance	—	—	—	—	—	—	—
Subtotals	—	—	—	—	—	—	—
Total Proposed Changes	—	−73,197	−47,551	—	−39,509	—	−160,257
1983–84 Proposed Expenditures	$6,014	$841,304	$26,502	$786,541	$112,929	$58,729	$1,832,019

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Highway Transportation. The budget proposes a reduction of 50 personnel-years in its legal division, including 34 personnel-years in attorney staff and 16 personnel-years in clerical support, for a savings of approximately $2.8 million in 1983–84. This reduction is a part of the administration's effort to (1) reduce the size of legal staffs in various state departments and (2) centralize the provision of legal services in the Department of Justice.

The department advises us that, if the need for these positions is substantiated, it will propose an amendment to the budget to increase staffing in the legal division above the budgeted level.

Mass Transportation. The budget proposes several changes in the Mass Transportation program. First, it proposes to eliminate three existing intercity and commuter rail passenger services, for a savings of $11.1 million, while continuing rail service between San Francisco and San Jose and between Los Angeles and San Diego. Second, the budget does not include any funding for transit capital improvements. The department indicates that it will propose amendments to the Budget Bill that provide funds for the capital improvement program after it has completed a review of the need for such funds. Third, the department is administratively adding 30.2 personnel-years in the current year to provide technical assistance to local agencies on a reimbursed basis. The budget proposes to continue these positions in 1983–84.

Finally, the budget proposes two reductions in special transportation programs which are not reflected in the department's expenditure totals. First, the budget proposes to reduce the State Transit Assistance program from the currently authorized 1983–84 level of $103 million to $75 million. In addition, the budget proposes to eliminate the 1983–84 transfer of $6 million in income tax revenues from the General Fund to the Ridesharing and Alternative Transportation Fund.

RECENT FEDERAL LEGISLATION INCREASES TRANSPORTATION RESOURCES

The Surface Transportation Assistance Act of 1982 (H. R. 6211), enacted in December 1982, authorizes the federal highway and transit assistance programs from federal fiscal year (FFY) 1983 through FFY 1986. The act also provides funding for various transportation assistance programs. Funding for some of these programs will be at higher levels than those previously authorized. The additional funding would result from an increase in the federal excise tax imposed on gasoline and diesel fuel from the current four cents-per-gallon to nine cents, beginning in April 1983. Eighty percent of the revenues generated from the tax increase will be dedicated to highway improvements, and the remaining 20 percent will be used for transit improvements.

Changes in the Highway Assistance Program

Besides reauthorizing the expenditure of federal funds for highway activities, H. R. 6211 changes some of the formulas which determine how much federal highway money each state receives. The legislation:

- Increases annual authorizations for Interstate system construction from $3.2 billion to $4.0 billion and authorizes use of up to 50 percent of the state's Interstate apportionment for Interstate 4R (resurfacing, rehabilitation, restoration and reconstruction) purposes.

- Authorizes increases for Interstate 4R from $800 million to $1,950 million in FFY 1983, with even higher annual authorizations thereafter.
- Apportions funds for the primary system based on the higher amount resulting from use of the existing formula (which reflects the geographic and population size of the state and its postal route mileage) or a new apportionment formula that is based strictly on population factors.
- Requires that, beginning in FFY 1984, a minimum of 40 percent of federal aid for primary, secondary, and urban systems be expended on 4R purposes, except in instances where the state can certify that repair needs for the secondary system can be met with less than 40 percent of a state's apportionment.
- Changes the apportionment formula for bridge replacement and rehabilitation assistance funds to reflect replacement and rehabilitation needs and costs.
- Requires that each state's total apportionment be at least equal to 85 percent of its share of estimated Highway Trust Fund contributions available for highway purposes. Funds made available to reach the 85 percent level can be spent on any highway program category.
- Permits waivers of the state matching requirements in FFY 1983 and FFY 1984 for obligations in excess of the FFY 1982 ceiling. Repayment will be required either in cash or in reduced FFY 1985 and FFY 1986 apportionments.

Anticipated highway funding in California. The increase in the highway authorization level will increase the amount of federal assistance available for California's Interstate highway program. In addition, the change in the primary assistance formula will increase the state's relative share of total primary funds. Table 2 shows the estimated apportionments to California from FFY 1983 to FFY 1986 for selected categories of federal highway assistance, based on Federal Highway Administration projections for FFY 1983 and 1984. The estimates assume that the historical share that California received in each program category (except for the primary system) remains the same throughout the period. The table also compares projected funding levels with the FFY 1982 apportionments made under previous law.

Table 2

Apportionments of Federal Highway Assistance to California [a]
FFY 1982 to FFY 1986
(dollars in millions)

	1982	*1983*	*1984*	*1985*	*1986*
Interstate [b]	$335	$378	$378	$378	$378
Interstate 4R [b]	74	182	224	262	294
Federal Aid Primary	93	130	147	161	172
Federal Aid Secondary	15	24	24	24	24
Federal Aid Urban	99	99	99	99	99
Bridge Replacement	18	35	36	38	46
Unrestricted Grant [c]	–	28	60	N/A	N/A

[a] Assumes continuation of historical apportionment rates to California, except for rate of Federal primary assistance, which will increase.
[b] Assumes one year advancement of funding as permitted by federal law.
[c] Allocated to make total state apportionments equal to 85 percent of state tax contribution.
N/A—Not available.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Changes in the Mass Transit Assistance Program

Prior to the new law, the two largest federal mass transit assistance programs were Section 3 and Section 5 of the Urban Mass Transportation Act. Section 3 is a discretionary capital grant program. Section 5 is a four-tiered capital and operating assistance program under which funds are apportioned through four different formulas to regional transportation planning agencies. These programs are financed with general revenues (rather than with gas tax revenues) of the federal government.

Section 9 block grant. H. R. 6211 significantly modifies the provision of federal transit assistance to the state. The Section 5 program is eliminated, effective in FFY 1984. In its place, the legislation establishes in FFY 1984 a new block grant program—Section 9—to be funded with general revenues. These funds will be distributed on a formula basis, with approximately 88 percent apportioned to urban areas with populations exceeding 200,000, approximately 9 percent apportioned to urban areas with populations up to 200,000, and the remaining 3 percent going to non-urbanized areas. Funds going to non-urbanized areas will continue to be apportioned to the Governor on a population basis. Funds going to urbanized areas of less than 200,000 will continue to be apportioned to the Governor, based on population and population density. Funds apportioned to urban areas of over 200,000 will be apportioned to regional planning agencies on the basis of several factors, including bus and guideway revenue, vehicle miles and route miles, the relative efficiency of transit services, and population and population density.

Section 9 funds may be spent for operating or capital assistance, provided the state complies with the same matching requirements established by prior law. The amount that can be used for operating assistance, however, is restricted. Operating assistance to a transit system in an urban area with a population of 1 million or more cannot exceed 80 percent of the system's FFY 1982 apportionment which could be spent on operating assistance. The limits imposed on operators in urban areas with population between 200,000 and 1 million and populations under 200,000 are 90 percent and 95 percent of 1982 levels, respectively. (Funds apportioned under Section 5 in 1983 are subject to the same limitations.) In FFY 1983 and FFY 1984, transit systems can increase their operating assistance funds to the FFY 1982 levels by transferring apportioned funds available for capital assistance. For every $3 transferred, however, only $2 can be spent on operating assistance. The remaining $1 must be transferred to the Section 3 discretionary capital grant program.

New transit funding source—Section 9A grant. H. R. 6211 also makes federal gas tax revenues available to transit for the first time, through a new Section 9A program. These funds are available only for capital assistance. In FFY 1983, the funds will be apportioned in the same way as Section 9 funds. Beginning in FFY 1984, the funds will be allocated by the Secretary of Transportation on a discretionary basis. Under the new program, however, the federal government will finance 75 percent of a project's cost, rather than 80 percent as provided under the Section 3 program. Unlike the Section 9 funds, which are subject both to an authorization and an appropriation process, Section 9A funds are available for expenditure as soon as these funds have been authorized by the Congress.

Anticipated transit revenues in California. Table 3 displays the impact of H. R. 6211 on California transit programs, based on estimates provided by the American Public Transit Association. The table indicates the total revenues available for operating and capital assistance since FFY 1981, and compares these levels to the maximum available for these purposes under the new law.

Table 3
Apportionments and Distributions of Federal Transit Assistance to California FFY 1981 to FFY 1986 (dollars in millions)

	1981	*1982*	*1983*	*1984*[a]	*1985*[a]	*1986*[a]
Formula Operating Assistance[b]	$153	$152	$124	$125	$125	$125
Formula Capital Assistance	49	50	161	245	272	285
Discretionary Capital Assistance[c]	170	193	160	125	110	110
Totals	$372	$395	$445	$495	$507	$520

[a] Assumes the full amount authorized is appropriated.
[b] Assumes Tier I, II and III of Section 5 funds are spent on operating assistance. Also assumes that no capital funds are switched to operating assistance in 1983 or 1984.
[c] Assumes that the historical distribution rates to California continue beyond 1982. (Represents Section 3 grants through FFY 1983, and Section 9A grants beginning FFY 1984.)

As Table 3 indicates, H. R. 6211 could increase significantly the total amount of federal transit assistance provided to California. Total assistance could increase from $395 million in FFY 1982 to $520 million in FFY 1986, an average increase of over 7 percent annually. The table also indicates, however, that the full amount of the increase will be in formula capital assistance. Operating assistance has been reduced from $152 million in 1982 to $124 in 1983, and to $125 million thereafter. Operators could transfer $28 million in 1983 and in 1984 from capital assistance to bring operating assistance equal to 1982 levels, but, because of the "swapping" provisions of the new federal law, capital assistance would decline by a total of approximately $42 million in both 1983 and 1984. Even with the "swapping" of funds in 1983 and 1984, however, total assistance to California will still be above the 1982 levels.

Issues Raised by the Federal Legislation

H. R. 6211 provides an indication of the potential level of federal funding available for California's transportation program through 1985–86. The precise funding received by California could differ from the amounts indicated above, particularly if Congress does not appropriate the amount authorized for transit under Section 9. Nonetheless, the new federal law will permit the Legislature to make plans for financing transportation during the next few years with considerably more certainty regarding the amount of federal assistance that will be available to supplement state funds.

In doing its fiscal planning, we believe the Legislature should consider the following major issues:

Will the state be able to match the amount of federal funds available? Although H. R. 6211 increases the level of federal transportation funding available to California, transportation projects must receive state and/or

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

local funding in order to qualify for federal participation. The level of such support ranges from less than 10 percent for the Interstate system to 25 percent for transit projects funded from federal gas tax revenues.

1. ***Matching highway funds.*** Current estimates indicate that, when compared to previously-authorized funding levels, H. R. 6211 will increase California's apportionment of FFY 1983 Interstate and Interstate 4R funds by $151 million, and will increase the state's primary system funding by about $47 million. To match all federal highway funds expected to be available during the five-year 1983 STIP period (1983–84 through 1987–88), the state will need an estimated $657 million. This represents an increase of approximately $144 million over the amount that would have been required if authorization levels had remained at the previous level during the STIP period.

There is, however, no basis at this time to state how much, if any, *additional* state revenues will be needed to match the additional federal funds. For the current STIP period, which began in July 1982, the CTC has programmed approximately $100 million in state funds to construct projects which were *eligible* for federal assistance, but for which such funds were not available. With more federal funds being available, the amount of state funding needed to undertake these projects should decline. Consequently, to determine how much additional state money is needed to match the federal funds, the department first will have to determine how much of the new federal money can be spent on projects funded (a) only with state funds or (b) at levels exceeding those required by federal law. The department then can estimate the level of additional state funding needed to match any remaining federal funding.

In addition, it might not be in the state's interest to match all available federal highway funds. For example, it would not be in the state's interest for it to reallocate its resources away from highway activities which are considered to be of high state priority, simply to maximize the receipt of federal funds that are restricted to uses which have a relatively low priority to the state.

2. ***Matching transit funds.*** H. R. 6211 would increase California's apportionment of formula capital funds by over $200 million by FFY 1986, if the full amount authorized is appropriated. The amount of discretionary transit capital funding which California would receive in the future cannot be projected. If California continues to receive its historical share of discretionary funds, however, total federal capital funding for California could increase to as much as $370 million in FFY 1984 (or $327 million if capital funds are redirected to operating assistance) and $395 million in FFY 1986. We estimate that the state would require between $92 million and $103 million in 1983–84 (depending on how much capital assistance is transferred) and $108 million in 1985–86 to match all available federal funds. This is less than or about the same as the $107 million in state- and local-financed transit capital investment reported to the State Controller in 1980–81. It appears that, as in the case of highway projects, the shortage of federal funds for transit projects has increased the amount of state and local investment in transit projects. Consequently, if federal funds are used to pay for projects which previously required state and local capital funds, an increase in state funding may not be needed to match the increase in federal money available.

Does the increase in federal support for transit capital investment war-

rant a reduction in state support? The Legislature has appropriated an average of $100 million annually for transit capital improvements during the past three years. No funding for this purpose is proposed in the 1983–84 budget (although the Department of Finance is expected to amend the budget to request funds for transit capital improvements). Table 3 indicates that, under H. R. 6211, California could receive $84 million to $127 million more in federal capital funds in FFY 1984 than it did in FFY 1982, depending on the level of discretionary funding obtained by the state and the level of capital funding transferred to operating assistance.

It appears that the state could spend less state money on transit capital improvements and still (1) match all available federal funds, and (2) maintain the total funding (all sources) for capital projects at the same level as in the recent past. Consequently, the Legislature may wish to consider whether state funds now used for transit capital projects should be reallocated to meet other state priorities, given the greater availability of federal funding.

How much state money is needed for transit operating assistance, given the increases in funding provided by H. R. 6211? Under existing law, $103 million will be allocated for State Transit Assistance in 1983–84. The $103 million was appropriated in anticipation of a scheduled phasing out of federal operating assistance for local transit over a three-year period. The budget proposes to reduce funding for State Transit Assistance in 1983–84 to $75 million.

It appears now that, under H. R. 6211, federal operating assistance in individual regions of the state will stabilize at a level that is five percent to 20 percent lower than FFY 1982 levels. In FFY 1984, operating assistance could reach FFY 1982 levels *if* sufficient capital assistance funds are redirected for operating assistance.

Consequently, the Legislature may wish to consider how much, if any, State Transit Assistance funding is needed in light of H. R. 6211. (A more detailed discussion of funding for the STA program is presented later in our analysis of the department's budget).

STATE TRANSPORTATION IMPROVEMENT PROGRAM

The State Transportation Improvement Program (STIP) is the basic plan for all state and federally funded transportation improvements in California. It is required by Chapter 1106, Statutes of 1977, which specifies that the California Transportation Commission (CTC) shall adopt and submit a five-year STIP to the Legislature and the Governor by July 1 of each year. The annual planning process actually begins eight months earlier, in November, when the CTC adopts estimates of revenues available to the department and regional agencies. Using these revenue estimates, the department then prepares a proposed STIP which is submitted to the CTC in December. Regional TIP's are also submitted to the CTC, which holds hearings on the plans beginning in April and continuing until the STIP is adopted. Public hearings are held from July to mid-August, at which time appeals may be raised on the adopted STIP.

Fund Allocation

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

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Role of the Legislature

The Legislature establishes, through the Budget Act, maximum expenditure levels for the various program components. The Budget Act also permits the department to transfer funds between programs, if the CTC and the Department of Finance approve, provided that any decrease in authorized expenditures within a program element (such as Rehabilitation or Maintenance) does not exceed 10 percent.

Chapter 1106 prohibits the Legislature from identifying in the Budget Act specific capital outlay projects to be funded.

STIP Implementation

After the STIP is adopted by the commission, the department is responsible for implementing the STIP consistent with (1) allocations to projects made by the commission and (2) the Budget Act. Because many years are required to plan and carry out typical capital outlay projects, program development and capital outlay support activities of the department during the budget year also include appropriate planning and design work for improvements scheduled for years in and beyond the five-year STIP.

1983 Fund Estimate

The CTC adopted the 1983 Fund Estimate in January to provide funding targets for state and regional transportation agencies to use in preparing their transportation improvement programs. The Fund Estimate reflects (1) the projected federal fund apportionments authorized by H. R. 6211, (2) a reduced level of state highway revenues, primarily because of reduced gasoline sales and prices and (3) a downward adjustment in revenues to reflect an error made by the department when it projected motor vehicle registrations during the preparation of the current 1982 STIP.

The net effect of higher federal funding levels and a lower state revenues is a projected shortfall of $650 million in state funds over the five-year 1983 STIP period, assuming that the state (1) matches all available federal fund apportionments during the STIP period, (2) funds all projects, including those which are programmed in the 1982 STIP to receive only state funds, and (3) does not substitute federal funds for state funds in any projects programmed in the 1982 STIP.

Fund Estimate direction. To deal with this projected shortfall, the CTC has directed that capital outlay projects in the 1983 STIP be categorized into two funding tiers. Tier I will contain all projects programmed in the 1982 STIP except those funded entirely with state funds. Tier II will contain (1) all projects funded in the 1982 STIP with state funds only, and (2) all new projects which could be funded with the new federal funds if sufficient state matching funds were available. Project development work will continue on Tier II projects, which could receive funding if sufficient state resources become available. In addition, the CTC has directed the department to determine how much federal money could be spent on projects which had been programmed using only state funds.

Department Requests Lump Sum Appropriations

The Legislature has delegated to the CTC the authority to allocate state funds to specific highway and transit capital outlay projects and transit services. The department's budget requests lump-sum amounts within specific categories, such as New Facilities, Transit Capital Improvements and Bus and Rail Services, and the Legislature appropriates funds within these categories. The CTC then allocates the lump-sum amount among specific eligible projects. Table 4 indicates the lump-sum amounts proposed by the department for 1983–84.

Table 4
Proposed State Funding to be Allocated by the CTC 1983–84 (in thousands)

Highway Transportation (Capital Outlay)	
Rehabilitation	$56,150
Operational improvements	49,470
New facilities	90,390
Mass Transportation	
Transit capital improvements	—
Bus and rail services	8,925

In the case of most state programs, we make recommendations to the Legislature regarding the specific capital outlay projects proposed for funding, based on the merits of each project. This is because the Legislature decides which projects to fund and which projects not to fund. In transportation, however, the decision to fund specific projects and services is made by the CTC, not by the Legislature. Consequently, we make no recommendation to the Legislature on funding levels for the highway and transit capital programs and bus and rail services. Recommendations to the Legislature on funding levels for these programs will be made by the CTC, based on the funding requirements of specific projects. These recommendations will be included as part of the CTC's review of the department's budget. However, in each program, we will recommend that the CTC be requested to comment on their recommended funding levels. In addition, we will comment on the requested funding level to provide information to the Legislature concerning the proposed transportation program.

AERONAUTICS

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

The department requests an appropriation of $6,014,000 from the Aeronautics Account in the State Transportation Fund to support the program's activities in the budget year. State operations are budgeted to decrease by 1 percent (to $1,789,000), and local assistance is proposed to increase by 5.8 percent (to $4,225,000) over current-year levels. The department also proposes an expenditure of $23,000 in federal reimbursements for airport inspections, for a total proposed expenditure program of $6,037,000. This is an increase of 3.6 percent above current-year levels.

Program staff is budgeted at 42.1 personnel-years, the same level author-

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ized in the current year. The budget does not propose any changes in the Aeronautics program for 1983–84.

HIGHWAY TRANSPORTATION

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

The department proposes 1983–84 expenditures of $1,723,466,000 for the Highway Transportation program, which is $82,483,000, or 5.0 percent above the current-year expenditure estimate of $1,640,983,000 indicated in the Governor's Budget.

Expenditures for state operations are proposed to increase by $17.9 million (2.5 percent) in 1983–84. This reflects an increase of $20.7 million to offset the higher prices that the department will have to pay in the budget year, and a reduction of $2.8 million in legal services. The department also proposes an increase of $64.5 million (or 7.0 percent) for capital outlay and local assistance expenditures. This reflects a $69.7 million increase for capital outlay activities, and a reduction of $5.2 million in local assistance.

The State Highway Account will finance $841.2 million (49 percent) of the proposed expenditures. An additional $764.7 million (44 percent) will be financed from federal funds. The remaining $117.6 million (7 percent) will be paid from other state funds and reimbursements.

Table 5

Proposed 1983–84 Highway Transportation Program Changes and Fund Source (dollars in thousands)

	Personnel-Years	*State Operations*	*Capital Outlay and Local Assistance*	*Total Expenditures*
1982–83 Estimated	14,623.7	$722,652	$918,331	$1,640,983
1983–84 Baseline	14,621.7	743,409	982,885	1,726,294
Program Changes:				
Administration	−50.0	−2,828	—	−2,828
1983–84 Proposed	14,571.7	$740,581	$982,885	$1,723,466
1983–84 Fund Sources				
State Highway Account		$617,790	$223,410	$841,200
Bicycle Lane Account		9	592	601
California Environmental License Plate Fund		—	100	100
Federal Funds		83,928	680,770	764,698
Toll Bridge Funds		29,251	23,013	52,264
Reimbursements		9,603	55,000	64,603
Total Funds		$740,581	$982,885	$1,723,466

Table 5 shows proposed expenditures and funding sources for the Highway Transportation program in 1983–84. The budget requests a staffing level of 14,571.7 personnel-years. This is 52 personnel-years, or 0.4 percent, lower than the estimated current-year level of 14,623.7 personnel-years.

The reduction includes a two personnel-year reduction in the department's request for capital outlay support, and a proposed reduction of 50 personnel-years of legal support.

Highway Capital Outlay Expenditures

We recommend that the California Transportation Commission be requested to comment during budget hearings on the proposed level of highway capital outlay expenditures in 1983–84.

The budget proposes to expend $760.6 million from various funding sources for the construction of highway projects in 1983–84. This amount is $69.7 million, or 10 percent, higher than the estimated current-year expenditure level of $690.9 million. Of the $760.6 million, the budget requests that $196.2 million (26 percent) be funded from the State Highway Account, and $504.3 million (66 percent) be financed using federal funds. The remaining $60.1 million (8 percent) will be financed by the Toll Bridge Funds and by reimbursements.

This proposal is based on the requirements for projects included in the 1982 STIP. The proposal is subject to change, however, because (1) the recent increase in federal highway assistance will make more capital outlay funds available to the state in the budget year and (2) the department will be submitting a proposed 1983 STIP to the CTC which may propose a different capital outlay schedule than the one adopted in the 1982 STIP.

As we indicated earlier, we have no analytical basis for making a recommendation to the Legislature on the proposed funding levels for highway capital outlay, given that the Legislature is not being asked to fund specific projects. Instead we recommend that the CTC be asked to comment during budget hearings on the adequacy of the proposed funding level, relative to the funding needs of specific projects.

Capital Outlay Support

Personnel used to develop highway capital outlay projects are distributed among three elements of the Highway Transportation program—rehabilitation, operational improvements, and new facilities. For 1982–83, the department is authorized 5,202.6 personnel-years to perform the design, preliminary engineering, environment impact review, right-of-way acquisition, and contract monitoring of highway projects. For 1983–84, the budget proposes a total capital outlay staffing level of 5,334 personnel-years, at a cost of $226.4 million. This represents approximately 30 percent of total Highway program support expenditures, and over 36 percent of the personnel requested for the program in the budget year.

"Direct" versus "indirect" support. The department budgets for, and keeps account of, expenditures on capital outlay support in two categories —"direct" and "indirect" expenditures. The "direct" portion, which generally accounts for approximately 65 percent of all capital outlay support expenditures, includes all staff support which are directly attributable to specific capital outlay projects, whether or not these projects are programmed in the STIP. The current-year authorization includes approximately 3,238 personnel-years for "direct" support. The remaining support expenditures are not directly identified with a project, and are considered to be "indirect" costs. These include (1) all project-related staff support which are not distributed to specific projects, either (a) because they represent small increments of time spent on minor projects, or (b) because they involve training time; and (2) all non-project related staff support, including general supervision and managerial support.

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

PYPSCAN, however, is used to estimate only those personnel needs that are directly related to a project. "Indirect" support is budgeted separately from PYPSCAN. According to the department, total "indirect" support expenses are budgeted based on a five-year correlation between actual "indirect" staff hours and direct-charged staff hours for capital outlay support activities.

Project support needs are difficult to identify and validate. Our analysis of this budgeting methodology indicates that permitting project-related costs to be charged as "indirect" costs has three weaknesses.

1. It hinders an evaluation of the personnel effort needed to build projects in the future because project-specific information is incomplete.
2. It hinders the use of PYPSCAN as a control mechanism to monitor the use of personnel authorized for a project because not all the personnel effort on a project is being charged specifically to that project.
3. As we discuss in greater detail below, it reduces the federal reimbursement for project development activities.

Potential for Additional Federal Funds

We recommend adoption of supplemental report language directing the department to (1) charge, to the extent possible, project-related expenses directly to specific capital outlay projects in order to maximize federal reimbursements; and (2) report to the fiscal committees and the Joint Legislative Budget Committee by June 1984 on its success in doing so.

Federal participation in highway capital outlay financing is provided on a reimbursement basis, with the federal government determining which expenses are eligible for reimbursements. Reimbursements are available only for qualified projects and qualified types of activities. In addition, the federal participation rate varies depending on the category of highway system for which expenses are incurred. Participation rates range from 90 percent for Interstate projects to 75 percent for certain non-Interstate projects.

Reimbursements are available for capital outlay support activities as well as construction costs. Table 6 shows the funding sources for capital outlay support activities in the rehabilitation, operational improvements and new facilities program elements. As the table indicates, the budget projects that federal funds will account for around 32 percent of total capital outlay support expenditures in 1983–84, while the State Highway Account will be responsible for over 65 percent of these expenditures.

Table 6
Capital Outlay Support Expenditures
by Fund Sources
(dollars in millions)

	Actual 1980–81		*Actual 1981–82*		*Estimated 1982–83*		*Proposed 1983–84*	
	Amount	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*
Total State Operations	$207.4	100.0%	$213.7	100.0%	$221.0	100.0%	$226.4	100.0%
Federal Funds	64.9	31.3	56.2	26.3	72.4	32.7	73.0	32.3
State Highway Account	132.5	63.9	150.2	70.3	141.4	64.0	147.5	65.2
Other state funds and reimbursements	10.0	4.8	7.3	3.4	7.2	3.3	5.9	2.6

Because (1) federal reimbursement rates vary by type of project, and (2) not all expenses are eligible for reimbursements, it is important that the department accurately account for *all* expenditures related to individual projects. The existing accounting procedures used by the department, however, result in a significant amount of capital outlay support expenditures not being identified with specific projects, thereby increasing the likelihood that federal reimbursements will not be provided for project-related activities.

Discussions with the department indicate that federal reimbursements for some portion of "indirect" costs were available up until a year ago. For the current year, however, "indirect" support costs will not be reimbursed. Because $44.3 million was spent in 1981–82 on the undistributed, but project-related, portion of the department's "indirect" costs, it appears that if these costs were attributed to specific projects and were eligible for reimbursements, the state could receive considerably more in federal funds than it now receives.

The department recognizes the potential for obtaining additional federal reimbursements, and indicates that it is in the process of revising its accounting procedure to maximize reimbursements. Our analysis indicates that this effort could increase federal reimbursements, and we, therefore, recommend that the following supplemental report language be adopted in order to ensure that the department continues its efforts.

"The Department of Transportation shall, to the extent possible, charge all project-related expenses to specific capital outlay projects in order to maximize federal reimbursements. The department shall report to the fiscal committees and the Joint Legislative Budget Committee on the results of this effort by June 30, 1984."

Capital Outlay Staff Excessive for Existing Workload

We recommend a reduction of 334 personnel-years and $12,024,000 from the State Highway Account (Item 2660-001-042) because the requested amount of capital outlay support is not justified based on existing workload projections.

Current-year authorized support. The department is authorized 5,202.6 personnel-years for capital outlay support in the current year. This level of staffing is based on (1) PYPSCAN projections of staff needs for capital outlay projects contained in the *proposed* 1982 STIP, as well as for certain non-STIP projects, and (2) "indirect" support activities.

Current-year needs. The budget indicates a current-year estimated staffing level of 5,336 personnel-years for capital outlay support activities, at an estimated cost of $221 million. However, more recent information provided by the department indicates that only 5,115 personnel-years will be needed for 1982–83. This amount, which includes the equivalent of

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approximately 89 personnel-years in cash overtime, consists of approximately (1) 3,360 personnel-years for "direct" support for projects programmed in the 1982 STIP, as *adopted* by the CTC, and certain non-STIP projects, and (2) 1,755 personnel-years for "indirect" and administrative and managerial needs.

Capital outlay support for 1983–84. The budget requests 5,334 personnel-years and $226.4 million for capital outlay support in 1983–84. Our review indicates that this level is in excess of the level needed to accommodate the *existing* workload. For capital outlay projects programmed for delivery in the 1982 STIP period (1982–83 through 1986–87), PYPSCAN projects "direct" support needs of 3,177 personnel-years in 1983–84. Assuming that the department would need the same level of staff effort for non-STIP projects and "indirect" work as estimated for the current year, we estimate that 1983–84 capital outlay support needs would be 5,000 personnel-years, at a cost which is $12,024,000 less than the amount requested in the department's baseline budget for 1983–84. Accordingly, we recommend that the department's budget be reduced by $12,024,000 and 334 personnel-years.

Capital outlay support needs could change. Given the recent passage of the federal gas tax legislation, California will be receiving in 1983–84 a larger amount of federal highway funds than previously anticipated. At the time this *Analysis* was prepared, however, the 1983 STIP, which will incorporate the additional federal funds, had not been proposed, and there is no indication of which additional projects will be programmed in the 1983 STIP. Consequently, it is premature to anticipate the amount of additional support resources that would be needed in the budget year to deliver projects in the 1983 STIP. When the 1983 STIP is prepared and the department has a better estimate of what additional resources will be needed in 1983–84, we anticipate that the department will propose an amendment to the budget conforming its request to the more recent estimate of staffing needs. We will review the department's revised request at that time and modify our recommendation accordingly.

REHABILITATION

The rehabilitation element includes those activities which extend the service life of the highway system through the restoration and reconstruction of facilities which have deteriorated due to age, use or disasters. In some instances, improvements, or protective betterments, are made to existing structures to reduce the likelihood of serious damage at a later date. This element also contains resources for the construction and improvement of district buildings and related facilities.

The department proposes total expenditures of $227.7 million for highway rehabilitation in 1983–84, of which $175.5 million is for capital outlay and $52.2 million is for support. The total amount requested is $45.7 million, or 25 percent, above current-year estimated expenditures of $182.1 million. Essentially all of the increase has been requested to augment capital outlay expenditures.

A total of 1,223.5 personnel-years is requested for support activities of the rehabilitation element in 1983–84.

OPERATIONAL IMPROVEMENTS

The operational improvements element encompasses activities and structural improvements designed to increase the capacity and efficiency of the existing highway system. The components of this element include: (1) safety improvements—signals, median barriers, warning signs and crash barriers; (2) compatibility improvements—sound walls, roadside rests, vista points, highway planting and fish and wildlife preservation, and (3) system operation improvements—high-occupancy vehicle lanes, passing and climbing lanes, and lane delineation and channelization.

The budget proposes an expenditure of $234.1 million in 1983–84 for the operational improvements element, including $160.4 million for capital outlay purposes, and $73.7 million for 1,872 personnel-years of support activities. The total amount requested is $10.1 million, or 4.5 percent, above the current-year estimated expenditure of $224.0 million. The higher 1983–84 expenditure request includes a proposed augmentation of $8.0 million in capital outlay.

LOCAL ASSISTANCE

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

Proposed expenditures in this element total $238.4 million in 1983–84, including $222.3 million for capital outlay and subventions, and $16.1 million for support. This represents a decrease of $4.0 million, or 1.7 percent, from estimated current-year expenditures. The decrease reflects (1) an anticipated reduction of $5.6 million in federal subventions to local agencies, primarily in natural disaster assistance, and discretionary funds for bridge replacement, (2) an increase of $1 million in state subventions, (3) an increase of $1.2 million in staff support, and (4) a reduction of $500,000 in reimbursed capital outlay work.

The department is requesting 325.4 personnel-years to perform the local assistance support functions.

PROGRAM DEVELOPMENT

The program development element encompasses three component activities, including: (1) research—theoretical, applied, and environmental studies designed to improve the construction, maintenance, and safety of highways; (2) system planning—road mapping, monitoring construction progress and the 55 miles per hour speed limit, and preparation of the STIP and other reports and (3) highway programming—scheduling of capital investments and determination of the distribution of resources.

Expenditures for this element are budgeted at $14.2 million in 1983–84, which is $180,000 (1.2 percent) above the estimated expenditure level for the current year. Staffing is proposed to remain at the current-year level of 333.5 personnel-years.

Highway Research

The department's research activities encompass a wide range of theoretical and applied research, testing and evaluations, and demonstration projects. Research activities include (1) facilities research, which promotes the design of efficient highways; (2) environmental research, which

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explores the impact of highway facilities on the environment; and (3) resource conservation, which explores means to conserve fuel and other resources.

Funding and staffing. Research activities are supported by a combination of federal and state funds. Current federal law merely restricts the use of certain portions of the state's highway fund apportionment to transportation planning and research activities. The state determines how much is spent on each activity. Federal funding of research projects is on a reimbursement basis. Reimbursements are made only for work that has been approved by the Federal Highway Administration (FHWA) *prior* to the work being performed. According to the department, the FHWA pays up to 89 percent of most qualified research expenses. Certain activities, however, are reimbursed 100 percent by FHWA.

Table 7 shows the staffing and funding levels for highway research activities from 1980–81, including the level of state and federal participation. The department estimates that $4.9 million will be spent on highway research activities in 1982–83. It proposes spending $4.4 million for research in 1983–84. The table also shows that, in the past, FHWA has paid significantly less than 89 percent of the cost of all research, the maximum federal participation rate for most research activities.

Our review indicates that there are two principal reasons for the low level of federal participation: (1) the department undertakes projects which are not eligible for reimbursements, and (2) it incurs certain administrative expenses which are not reimbursable.

Table 7
Funding Level and Staffing for Highway Research (dollars in thousands)

	Actual 1980–81		*Actual 1981–82*		*Estimated 1982–83*		*Proposed 1983–84*	
	Amount	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*
Expenditures	$3,618	100.0%	$3,282	100.0%	$4,864	100.0%	$4,394	100.0%
State Highway Account	2,305	63.7	953	29.0	491	10.1	220	5.0
Federal funds	1,301	36.0	2,270	69.2	4,029	82.8	4,174	95.0
Reimbursements and other funds	12	0.3	59	1.8	344	7.1	—	—
Personnel-Years	65.8		55.4		72.0		72.0	

Current and budget year federal funding is uncertain. Although the budget estimates that, in 1982–83, state funds will pay for 10 percent of total research expenses and federal funds will finance 83 percent, this estimate is highly uncertain. Our review indicates that as of November 1982, 22 of the 132 projects scheduled to be undertaken in 1982–83 had not been started. Total funding for these FHWA-approved projects is budgeted at $724,000. If the department chooses not to pursue some of these projects, and substitutes in their place some other projects which are not approved by FHWA, federal reimbursements will be denied, and the state's share of total research expenses for 1982–83 will increase.

Similarly, the budget projects that federal funds will support 95 percent of research expenses in 1983–84. Once again, this projection assumes that the department will adhere to a yet unknown agenda of projects which must be approved by the FHWA. Depending on the projects on the agenda, and the extent to which the department follows that agenda, the amount of federal funds available for research could change.

Project selection criteria is subjective. To obtain prior approval from the FHWA, the department each year develops an agenda of research topics. Topics are solicited from district offices and then reviewed to determine how they fit into three-year research plans developed by various department units. Projects are chosen through a rather subjective priority-rating process which describes the projects as having either an urgent, high, medium, or low priority. This contrasts with the method formerly used by the department, whereby projects were evaluated using a relatively more rigorous cost-benefit analysis to determine whether they are worth undertaking.

Research agenda is subject to change. Our review indicates that the current selection method may result in the department spending too much money on some projects before they are dropped because the efforts prove to be unproductive. The termination of projects prior to completion frees up unanticipated resources for other uses including (1) other research projects, (2) transportation planning activities, or (3) other departmental activities. Depending on departmental priorities in resource utilization, the research agenda might be modified or reduced.

Because of changes in research activities such as these, the actual staff resources utilized on research in past years has been lower than the authorized level.

Research Funding Level for 1983–84 Has Not Been Substantiated

We recommend a reduction of 17.9 personnel-years and $1,105,000 from the State Highway Account (Item 2660-001-042) because the request for highway research has not been substantiated.

Of the research projects currently underway, 41 are scheduled to be completed during the current year. Consequently, continued funding of these projects in the budget year will not be needed. These projects account for an estimated 17.9 personnel-years and $1.3 million in 1982–83 expenditures, including $275,000 from the Environmental License Plate Fund appropriated to fund a one-year project.

The budget is proposing an expenditure level of $4,394,000 and 72 personnel-years for research activities in 1983–84. At the time this *Analysis* was prepared, however, the department did not have a proposed research plan for 1983–84, to justify the requested amount other than the continuation of the current agenda.

Information from the department indicates that an estimated $3,289,000 and 54.1 personnel-years will be needed to fund projects currently in progress and other research-related expenditures in 1983–84. While we acknowledge that some degree of program flexibility is necessary, we can find no analytical basis for simply continuing the current-year funding level for research in 1983–84. Lacking a detailed agenda indicating project priorities and research needs, we recommend that any resources which become available when projects have been completed be deleted from the budget. These funds should not be made available for additional research unless the department can justify such expenditures on worthy projects.

Accordingly, we recommend that the level of research funding for 1983–84 be reduced by $1,105,000 and 17.9 personnel-years.

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NEW FACILITIES

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

The budget proposes $524.9 million for this element in 1983–84, an increase of $19.6 million, or 3.9 percent, over the estimated current-year expenditure level. Of the requested amount, approximately $424.5 million will be spent on capital outlay projects, with the remaining $100.4 million to be spent on state operations. New highway construction will receive the largest percentage of funds proposed for this element—a total of $514.2 million (98 percent). Of the remaining amount, $5.2 million is budgeted for toll bridge construction expenditures, and $5.5 million is proposed for the development of new bicycle facilities.

The budget requests a staffing level of 2,238.5 personnel-years for 1983–84, which is the same as the estimated current-year staffing level.

Interagency Agreement Overbudgeted

We recommend a reduction of $1,100,000 in the State Highway Account (Item 2660-001-042) to correct overbudgeting of interagency agreements for appraisal services.

In anticipation of an increase in right-of-way appraisal and acquisition workload relating to the Century Freeway project, the department has contracted with the departments of General Services, Real Estate, and Savings and Loan to obtain real property appraisal services, beginning in the current year. According to the department, the agreements will enable it to obtain additional staff services on a short-term basis, without requiring a permanent increase in staff.

The department is requesting $2,850,000 for 1983–84 (half of the maximum amount for two years) to pay the agreements. Our review indicates that this amount is excessive, for three reasons.

1. ***The other departments anticipate lower expenditures pursuant to these agreements.*** Table 8 shows the *maximum* amounts specified in the agreements which could be spent in 1982–83 and 1983–84, and the *maximum* level of personnel effort to be provided under the agreements. The table also shows the reimbursements budgeted for 1983–84 by the respective agencies.

Adjusting Table 8 to reflect a more appropriate level of reimbursements to the Department of Real Estate, it would appear that only about $1,750,000 would be spent pursuant to the interagency agreements by the three agencies in the budget year.

2. ***The average personnel-year cost is too high.*** As Table 8 shows, the maximum amount of services to be provided in 1983–84 would be 37 personnel-years. An expenditure of $2,850,000 for 37 personnel-years of service implies an average personnel-year cost pursuant to these agreements of $77,000. This rate is almost twice as high as the department's average personnel-year cost for 1983–84 of $39,000. We cannot find any

Table 8
Two-Year Interagency Agreements for Appraisal Services on Century Freeway Project (dollars in thousands)

	Maximum Amount	*Maximum Level of Personnel-Years Provided*	*1983–84 Budgeted Reimbursements*
Department of General Services	$800	5	$181
Department of Real Estate	1,400	10	—[a]
Department of Savings & Loan	3,500	22	1,266
Total	$5,700	37	$1,447

[a] Our review indicates that the Department of Real Estate has underestimated the reimbursements for this agreement, and we are recommending in our analysis of Item 2320-001-037 an adjustment to the Department of Real Estate's budget to increase reimbursements by $300,000. This will increase total reimbursements to $1,747,000.

reason why the department should contract for services at a cost which is so much higher than its own staff costs. Budgeting the services at the average personnel-year cost for the department as a whole would result in a maximum cost of $1,443,000.

3. ***Actual expenditures in the current year indicate that the level of expenditures in 1983–84 will be significantly lower than the maximum.*** Our review indicates that through November 1982, approximately $580,000 have been expended on these agreements. This implies an annual cost of about $1.4 million.

Based on (1) the level of reimbursements anticipated from the Department of Transportation by the three departments in 1983–84, as indicated in Table 8, (2) a more reasonable estimate of the cost of using state personnel and (3) the actual rate of expenditure in the current year, we conclude that the most the department should spend on these services in 1983–84 is $1,750,000.

Consequently, we recommend that the department's budget request be reduced by $1,100,000.

ADMINISTRATION

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

The budget proposes an expenditure level of $82.8 million for this element in 1983–84. This is a decrease of $3.7 million, or 4.3 percent, below estimated current-year expenditures. The decrease reflects (1) a reduction of $1.8 million in professional and technical services, (2) a reduction of $3.4 million in state administrative pro rata expenditures, and (3) a $1.5 million increase for general administration.

Staffing is proposed to decline from the current-year estimated level of 1,512.1 personnel-years to 1,462.1 personnel-years in 1983–84. The reduc-

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tion of 50 personnel-years reflects the administration's policy decision to reduce legal staff in line agencies.

Consulting Expenses Unnecessary

We recommend a reduction of $948,000 from the State Highway Account (Item 2660-001-042) because the amount budgeted for consulting expenses has not been justified.

The budget requests $4,598,000 to purchase various consulting and professional services in the administration element of the Highway program. Requested consulting services include (1) $3,083,000 for the maintenance of the department's telecommunications system by the Department of General Services, (2) $373,000 for a contract to convert an existing accounting system, (3) $120,000 for a maintenance management system study, (4) $744,000 for expert witness services, (5) various minor contracts totaling $190,000 and (6) $88,000 for "miscellaneous" unidentified purposes.

Our review indicates that the amount budgeted for consulting expenses is excessive, and should be reduced by $948,000. Our conclusion is based on the following considerations:

1. *Expert witness expenses are double-budgeted.* The department contracts for expert witnesses and appraiser services for its project development and right-of-way acquisition activities. The department spent $689,000 and $840,000, for these services in 1980–81 and 1981–82, respectively. Our review of the department's budget for 1983–84 indicates that $849,000 has been included specifically for expert witness services. In addition, we have identified $744,000 included in the amount requested for consulting services which, according to the department, will also be expended for expert witness services. The department, however, has not been able to provide any substantiation for the increase. Based on the level of expenditures in recent years, we believe that the additional $744,000 will not be needed. Accordingly, we recommend that this amount be deleted.

2. *Maintenance management systems project has already been funded.* The department indicates that $120,000 will be used to study the maintenance management system. Our review, however, indicates that the study is being conducted in the current year, at a maximum cost of $85,000. Thus, the department will not need the $120,000 requested for the budget year.

3. *Miscellaneous expenses have not been substantiated.* The budget includes $88,000 for "miscellaneous consulting expenses". The department has not provided any information on how it intends to spend this money, or any justification for the amount requested.

Accordingly, we recommend a total reduction of $948,000 in Item 2660-001-042.

Road Equipment Request Unwarranted

We recommend a reduction of $2,512,000 from the State Highway Account (Item 2660-001-042) because the amount requested for vehicles and road equipment has not been justified.

The department has a total road equipment inventory of over 13,400 vehicles, consisting of approximately 3,800 passenger vehicles, 5,700 trucks and 3,900 construction and maintenance vehicles. Of the total inventory, approximately 11,000 vehicles and road equipment are currently being used. The remaining items are either being modified to fit the department's needs, or are scheduled to be sold.

A portion of the total equipment in use is being replaced annually. In addition, the department adds to the existing inventory of equipment when workload warrants such increases. The current-year budget includes $24.7 million for road equipment purchase. For the budget year, the department is requesting $25,530,000 for such purchases. Our analysis indicates that this amount is excessive, for two reasons.

1. ***The cost of replacing equipment is overestimated.*** The department proposes to acquire 787 vehicles and road equipment for *replacement* purposes, at a projected cost of $23,193,000. Our review indicates that although the replacement schedule appears to be reasonable, the projected costs are too high. Using prices projected by the Department of General Services, which purchases all of the department's vehicles, we estimate that the cost of replacing this equipment will be $175,000 lower than the amount rquested by the department.

2. ***Additions to existing equipment inventory are not warranted.*** The department is also requesting $2,337,000 for 82 new vehicles and road equipment primarily to *add* to its existing maintenance-related equipment inventory. The budget, however, does not propose any increase in or expansion of highway maintenance activities beyond the level authorized for the current year. Consequently, we find no analytical basis for adding to the department's existing road equipment inventory, and recommend that the request for additional equipment be denied.

For these reasons, we recommend that the department's equipment request be reduced by a total of $2,512,000.

OPERATIONS

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

Expenditures in this element are proposed to decrease from an estimated current-year level of $55.8 million to $50.6 million in the budget year. The $5.2 million, or 9 percent, decrease is the result of reductions in various operating expenses, including (1) a $2.6 million reduction in the traffic operations component, (2) a $2.4 million reduction in the toll collection component, and (3) a $200,000 reduction for real property services.

The budget requests a staffing level of 1,090.3 personnel-years for the operations element, the same level as estimated for the current year.

Redefinition of program components. The Governor's Budget has redefined some of the department's program activities, so that certain activities defined under one program element in prior years' budgets are grouped under a different element. The redefinition applies to all three years displayed in the 1983–84 budget. Such a redefinition makes it dif-

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ficult to compare activity costs during this period with levels prior to 1981–82.

As part of this redefinition, the 1983 Governor's Budget indicates a shift of transportation permit issuance activities from the highway maintenance element to the operations element.

MAINTENANCE

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

The budget proposes maintenance expenditures of $350.5 million in 1983–84, which is an increase of $20.1 million, or 6.0 percent, over the current-year estimated expenditure level of $330.4 million. The proposed amount would provide support for 6,026.4 personnel-years.

The highway maintenance element is the largest element in the Highway Transportation program. The budget proposes that over 47 percent of 1983–84 highway program support expenditures and over 41 percent of all personnel-years in the Highway program be used for maintenance activities. The budget projects that 98 percent of the requested funds would come from the State Highway Account, with the balance coming from Toll Bridge Funds. Maintenance activities receive no federal support.

Table 9 shows the expenditure and staffing level for the five maintenance components, from 1981–82 to 1983–84.

Table 9
Expenditures and Staffing for Highway Maintenance
(dollars in millions)

	1981–82 Actual		*1982–83 Estimated*		*1983–84 Proposed*	
Component	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*
Roadbed	$41.8	670.2	$61.4	715.3	$63.5	715.3
Roadside	107.4	2,653.8	119.9	2,788.2	118.9	2,788.2
Structures	23.8	459.3	27.2	476.2	22.5	476.2
Traffic controls and service facilities	67.3	1,080.4	70.3	1,024.1	85.3	1,024.1
Maintenance auxiliary	57.3	1,172.6	51.6	1,022.6	60.3	1,022.6
Total	$297.6	6,036.3	$330.4	6,026.4	$350.5	6,026.4

As Table 9 indicates, the roadside component, which includes litter pick-up, weed and vegetation control and landscaping, accounts for the largest proportion of personnel and expenditures in the highway maintenance element. The proposed level of expenditures in 1983–84 is $118.9 million, representing approximately 34 percent of all maintenance expenditures. Roadside maintenance activities also are highly labor-intensive, representing over 46 percent of the personnel requested in the maintenance element.

Redefinition of program components. During the current year, the department has redefined some of its program activities. Two major activities that have been redefined affect the maintenance element:

- ***Issuance of special transportation permits*** has been shifted from the maintenance element to the operations element. The budget proposes 145.1 personnel-years, at a cost of $4.5 million, for this activity in 1983–84.
- ***Operation of tunnels, tubes and their related energy costs*** has been shifted from the traffic operations component to the structures maintenance component. For 1983–84, the budget requests 137.6 personnel-years and $3.9 million for this activity.

Regionalization Results in Staff Saving

We recommend a reduction of 35 personnel-years and $1,050,000 from the State Highway Account (Item 2660-001-042) to reflect savings resulting from the continued regionalization of maintenance activities.

In 1980–81, the department began implementation of a five-year maintenance regionalization program, in order to reduce the highway maintenance element's administrative overhead expenses. The main objective of regionalization is to (1) restructure 81 maintenance *territories* into 41 *areas,* and (2) standardize the geographic size and staffing levels of the regions. This effort was undertaken after a detailed study conducted by the department identified significant potential savings, including a projected staff reduction of 200 personnel-years over the five-year period.

Budget-year savings are possible. Our review indicates that during the first three years of implementation, the department reduced staff in the maintenance auxiliary services component by approximately 130 personnel-years. According to estimates made in the department's study, an additional 70 personnel-years could be saved if regionalization were implemented fully over the five-year period. Thus, it would appear that continuing implementation of this program should permit the department to achieve half of the 70 personnel-years' reduction in 1983–84. Accordingly, we recommend that the department's maintenance budget be reduced by 35 personnel-years, for a savings of $1,050,000.

Cost Not Abated for Recoveries

We recommend a reduction of $5 million in the State Highway Account (Item 2660-001-042) to reflect cost recoveries which offset the department's total expenditures.

The department is requesting $278.2 million for various operating expenses in connection with its Highway program activities. This amount represents the total anticipated cost to the department of activities other than personnel expenses, and includes expenditures on items such as vehicles, and highway maintenance and construction materials. The department, however, is able to recover part of these costs, and thereby reduce the net cost to the state, of the department's activities, from (1) repayments for damage to the department's property such as road signs, and (2) recoveries for the sale of items such as excess material, equipment, salvaged items, and fuel. These cost recoveries are treated by the department as reimbursements, and thus reduce the need for appropriated funds by offsetting expenditures.

Our review indicates that the department, when budgeting for equipment expenses, makes an allowance for the proceeds from the sale of

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previously purchased equipment. Actual cost recoveries in the past, however, have been significantly higher than the amounts budgeted. In 1980–81 and 1981–82, for example, the department recovered $7.2 million and $7.0 million, respectively. The department indicates that for the first five months of the current fiscal year, cost recoveries totaled $3 million. Approximately half of the recoveries were for property damages, and half were for the sale of excess material and equipment.

The department's 1983–84 budget, however, does not reflect any anticipated cost recoveries. While we acknowledge that the department does not have full control over the amount of recoveries for property damages, past experience indicates that recoveries from the sale of excess material, equipment and salvaged items are reasonably predictable. Because the amounts recovered are used to finance the department's expenditures, our analysis indicates that the department's budget request is overstated, and should be reduced to reflect anticipated recoveries. Based on actual recoveries in the past and the rate of recoveries so far during the current year, and allowing for property damage-related recoveries which the department cannot count on, we believe that projected recoveries of $5 million in 1983–84 is reasonable. Accordingly, we recommend that the department's budget request be reduced by this amount.

MASS TRANSPORTATION

The Mass Transportation program contains eight elements: (1) full mobility transportation, (2) local assistance, (3) interregional public transportation (bus and rail transportation), (4) transfer facilities and services, (5) transportation demonstration projects, (6) administration, (7) work for others, and (8) ridesharing.

The budget proposes total program expenditures for mass transportation of $88,006,000 in 1983–84, a reduction of $131,422,000, or 60 percent, from current-year expenditures of $219,428,000. Personnel levels are proposed to decline by 35.1 personnel years, or 9.5 percent, to 335.4 personnel-years.

The proposed reduction primarily reflects (1) the proposed elimination of three of the five existing rail passenger services and (2) the absence of any funding for capital improvements to transit facilities.

Unencumbered Balance Should be Transferred

We recommend that language be added to Item 2660-011-046 transferring the unencumbered balance of the Transportation Planning and Development (TP and D) Account—$69,378,000—to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

The budget indicates that resources in the TP and D Account exceed proposed expenditures in the budget year by $70,612,000. Item 2660-011-046 authorizes the Controller to transfer $11,080,000 from the account to the General Fund in 1983–84. In addition, the budget companion bills (AB 223 and SB 124) would transfer $28 million to the General Fund. Finally, we have recommended reductions in TP and D Account totaling $34,846,000 in this *Analysis.* Adoption of these recommendations, in addition to the budgeted balances, would leave an unappropriated balance of $66,378,000 in the account.

Leaving unappropriated funds in special purpose accounts such as the TP and D Account limits the Legislature's options in allocating funds to meet high-priority needs. In order that the Legislature may have additional flexibility in meeting those needs, we recommend that the unencumbered balance of the TP and D Account be transferred to the General Fund. Consequently, we recommend that Item 2660-011-046 be amended to read:

"Notwithstanding any other provisions of law, the Department of Finance shall authorize the State Controller to transfer the unencumbered balance of the Transportation Planning and Development Account, State Transportation Fund, to the General Fund."

(Adoption of this recommendation would permit the deletion of Section 141 of SB 124 and AB 223, which would transfer $28 million from the account to the General Fund.)

FULL MOBILITY TRANSPORTATION

Activities in this element are intended to improve the accessibility and service levels of transportation systems used by the low mobility population (the elderly and the disabled). The budget proposes expenditures of $803,000 for this purpose in 1983–84. This is an increase of $44,000, or 5.8 percent, above estimated expenditures in 1982–83.

TRANSIT OPERATOR ASSISTANCE

Both financial and technical assistance are provided to operators under this element. Major assistance programs include (1) the abandoned railroad rights-of-way program, and (2) the transit capital assistance program under Article XIX of the Constitution and Ch 322/82. Transit development programs and administration of federal and state aid functions are among the other assistance activities provided by the department under this element.

The department proposes expenditures of $7,604,000 for this element in 1983–84. This represents an increase of $146,000 (6.5 percent) for state operations and a decrease of $101,049,000 (95 percent) for local assistance from current-year expenditure levels.

No Funds Requested in the Budget for Transit Capital Projects

The $101 million decline in local transit operator assistance funds reflects the lack of any funding requested for capital improvements to transit systems in 1983–84. This decline, however, is misleading. Department staff indicate that the decline does *not* represent a policy recommendation by the administration, but merely reflects the fact that administration has proposed what essentially is a "baseline" budget, with few changes in authorized program levels. Transit capital assistance funds are allocated by the CTC to specific projects, and hence do not have a "baseline" level; in effect they are "zero-based" each year.

Department staff anticipate that funding for transit capital projects will be proposed by the administration in budget amendment letters which will be submitted prior to legislative budget hearings.

Review Request Overstated

We recommend a reduction of 1.5 personnel years and $54,000 from the Transportation Planning and Development Account (Item 2660-001-046) because the number of guideway projects to be reviewed in the budget year is overstated.

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Under current law, the department must review and approve guideway projects before state funds can be spent on them. The department requests $223,000 and 6.2 personnel years to review 20 proposed guideway projects in 1983–84. Our analysis indicates that the department's personnel needs are overstated by 1.5 personnel years, for two reasons.

1. The department proposes to use 1.5 personnel years and $54,000 to review 12 proposed San Francisco Municipal Railway (MUNI) projects. MUNI staff indicate, however, that six projects will not have progressed sufficiently in 1983–84 for MUNI to request a department review in the budget year. Consequently, the 0.9 personnel-years and $32,000 the department budgeted to review these projects will not be needed in 1983–84.

2. The department plans to review additional vehicles to be purchased by the Bay Area Rapid Transit (BART) District, using 0.6 personnel years and $22,000. BART staff indicate, however, that the district will use only district funds to purchase the vehicles, which means that the purchase will not be subject to the department's review. As a result, the department will not need the requested staff in the budget year.

Consequently, we recommend a reduction of $54,000 and 1.5 personnel years to correct for this overbudgeting.

Program Monitoring Workload Declining

We recommend a reduction of two personnel-years and $76,000 from the Transportation Planning and Development Account (Item 2660-001-046) because workload in connection with a discretionary transit grant program has declined.

The budget requests $95,000 and 2.5 personnel-years to continue administrtion of a discretionary transit grant program established by the Legislature. A total of $16.4 million was appropriated in 1979–80 and 1980–81 to the Business, Transportation and Housing Agency to be allocated by the secretary to public agencies with special unmet transportation needs. The agency delegated administrative responsibilities for the program to the department.

No funds have been appropriated for this program since 1980–81. Consequently, the department's workload under the program has decreased significantly. The department indicates that only 0.5 personnel-years is needed in 1983–84 to prepare (1) written responses to inquiries on payments, (2) post-audits and (3) a report on the funded projects. We therefore recommend that the department's budget be reduced by $76,000 and two personnel-years to reflect the phase-out of this program.

Project Development Funds Not Needed

We recommend a reduction of 14.5 personnel-years and $468,000 from the Abandoned Railroad Account (Item 2660-001-047) because the department will not need state funds to acquire and develop the Wilmington Branch right-of-way.

Chapter 954, Statutes of 1981, requires the department to spend Abandoned Railroad Account funds to purchase the Wilmington Branch of the Southern Pacific (SP) Railroad in Los Angeles. The amount authorized in the measure also would pay for the personnel costs related to the acquisition of the right-of-way and the preparation of plans to develop the right-of-way for transit purposes. The budget includes $468,000 and 14.5 personnel years for staff support of the acquisition project.

The department indicates that SP does not intend to abandon the line and, therefore, the state will not purchase it. The department also indicates that the Los Angeles County Transportation Commission intends to allocate local funds to pay the department for transit development services, eliminating the need for the state to appropriate funds for this purpose. Consequently, we recommend a reduction of $468,000 and 14.5 personnel-years from the Abandoned Railroad Account.

Proposed Control Language is Unnecessary

We recommend deletion of proposed control language in Item 2660-101-042 relating to allocations of transit guideway funds because it is redundant.

The Budget Bill includes two sets of language in Item 2660-101-042 relating to the use of State Highway Account funds appropriated for transit guideways. One set of language makes all of the funds available for expenditure for three years. The second set restricts the three-year lifespan of the funds to money allocated by the CTC for (1) construction of transportation facilities, or (2) the acquisition of related right-of-way or rolling stock. Funds allocated for planning purposes are available only for one year.

Our analysis indicates that only one set of language is necessary. It also indicates that the second set is consistent with the action taken by the Legislature on the 1982 Budget Act, which made funds allocated for planning purposes available only for one year. The first set of language proposed in the Budget Bill apparently was included in the 1982 Budget Act due to a printing error. However, this language, which would permit funds allocated for planning purposes to be available for three years, is inconsistent with the recent legislative action.

We, therefore, recommend (1) deletion of the language making all State Highway Account funds appropriated for guideways available for three years, and (2) approval of the proposed language making such funds available for three years if allocated for capital outlay purposes. Adoption of this recommendation is consistent with legislative action on the current-year budget.

Reductions in State Transit Assistance Proposed

We recommend that the budget companion bills (AB 223 and SB 124) be amended to reduce the 1983–84 allocation of the STA appropriation by $32 million to pay only the ongoing transit operating expenses financed by STA funds.

AB 223 and SB 124, the companion legislation to the Budget Bill, would reduce the 1983–84 allocation of funds appropriated for State Transit Assistance (STA) from the level authorized by current law—$103 million—to $75 million. The proposed level is $15 million, or 16.7 percent, less than the current-year allocation.

STA funds are distributed to regional transportation planning agencies on a population and local revenue basis. The regional agencies redistribute the funds to eligible transit operators for capital purposes and, under certain conditions, operating assistance. In rural areas, the funds can be spent for street and road purposes. In allocating the funds, regional agencies must give priority consideration to proposed uses which (1) offset reductions in federal operating assistance, (2) pay the unanticipated increases in transit operators' fuel costs, (3) enhance existing public transpo-

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tation services, or (4) meet other high-priority transit needs.

Analyst's review of STA. At the request of the Legislature, we reviewed the STA program during late 1981, and presented our findings and recommendations in a February, 1982 report entitled *The Allocation and Expenditure of State Transit Assistance Funds.* Our review indicated that the program was established by the Legislature in 1979, in response to (1) rapidly rising fuel costs which were having a significant impact on transit operators' operating costs and (2) a dramatic increase in transit demand resulting from the higher fuel prices and inadequate fuel supplies. Additional funds, therefore, were provided to transit operators outside the normal transit funding mechanisms to help them cope with the increased transit service demands and higher fuel prices.

Our review also indicated that the two problems which constituted the original rationale for the program no longer existed on a statewide basis. Fuel prices had stabilized, allowing the "normal" growth in funds available to transit to cover the cost of the higher fuel prices. In addition, the dramatic increases in transit ridership following the 1979 fuel price increases turned out to be temporary. In the report, we indicated that transit ridership on three major systems in 1981–82 was not significantly higher than a level projected for that year using pre-1979 ridership trends.

Consequently, we were unable to establish a need for continuing the STA program, and could not recommend its continuation. Nonetheless, we recognized a potential need for STA in the future. Specifically, we took note of the fact that, at the time we prepared the report, the Reagan Administration had announced its intention to phase out operating assistance by federal fiscal year 1985. We recommended that, if the STA program was continued in response to a new problem, such as the elimination of federal operating assistance, the program be restructured to address that specific problem.

Legislative response. In response to concerns raised by our report and pending reductions in federal operating assistance, the Legislature enacted Ch 322/82, which (1) increased the authorized level for STA by 20 percent, (2) appropriated $193 million for STA, to be allocated over two years—$90 million in 1982–83 and $103 million in 1983–84 and (3) indicated that a priority use of STA funds is to offset reductions in federal operating assistance.

Since the enactment of Chapter 322, federal transit policy through 1986 has been set. While this policy calls for some reductions in operating assistance over the next few years, the authorized level of operating assistance will be stable through the budget year. Moreover, by increasing the gas tax and making 1 cent of the increase available for transit, the Congress has increased the level of federal transit capital assistance significantly.

Given the marked change in the outlook for federal transit funding, the Legislature may wish to re-evaluate the need for increased transit assistance through STA, relative to other needs, in 1983–84.

Budget year objectives. The appropriate level of funding for STA in 1983–84 depends upon the specific objectives which the Legislature wishes to achieve under this program. Among the objectives that the Legislature might wish to achieve are the following:

1. *Offset reduced federal operating assistance.* Under the new federal law, transit systems can receive between 80 percent and 95 percent of the amount of federal operating assistance they received in FFY 1982, depend-

ing upon the size of the urban areas they serve. During 1983–84, operators could increase the amount of federal aid available for operating assistance to the FFY 1982 levels by redirecting some capital funds to this activity. As we discussed earlier, however, doing so would reduce the amount of federal money available for capital projects by $1.50 for each $1 transferred to transit operations assistance. Nonetheless, if supporting current operations represents a high-priority use of federal funds to a given operator, sufficient federal funds will be available to the operator in 1984 to maintain the level of federal operating assistance that he received in 1982.

Nevertheless, reductions in federal operating assistance might occur relative to the levels provided *prior* to 1982. Our analysis of estimates made by the American Public Transit Association (APTA), however, indicates that federal operating assistance declined only $600,000 statewide between FFY 1980 (which along with 1981 was the year in which the greatest amount of federal assistance was received) and 1982. Some individual areas of the state, nonetheless, did experience more significant reductions in federal funds, which were offset by increases in other areas of the state.

If the 1980 federal assistance levels were adjusted to reflect projected increases in the cost of state and local government purchases through 1983–84, the difference between the 1980 levels and the maximum amount available for transit operations (that is, assuming sufficient capital funds were transferred to operating assistance) in 1983–84 would be $50 million statewide.

Accordingly, if the Legislature wished to approrpiate sufficient STA funds to compensate for a portion of the inflation-adjusted decline in federal operating assistance, it would need to provide up to $50 million, depending on how much of the reduction the Legislature decided to offset.

2. ***Maintain the historical STA funding level for transit operations.*** Our 1982 analysis of the STA program indicated that 54 percent of the STA funds were spent on transit operations. If the 1983–84 STA levels were determined under the provisions of prior law (that is, existing law at the time Chapter 322 was being considered by the Legislature), we estimate that the funding level would be $79 million. Using the prior distribution of STA funds between operating and capital expenditures, this would mean that $43 million would be needed to maintain previous levels of STA operating assistance.

3. ***Match federal transit capital funds.*** The new federal law authorizes substantially higher levels of capital assistance than the amounts available under previous federal law. Assuming that (a) funds are appropriated to match authorized levels, and (b) the state continues to receive the proportionate share of discretionary funds that it has received in the past, APTA estimates indicate that federal capital funding for California will increase from the FFY 1981 level of $218.9 million to between $327 million and $370 million in FFY 1984, depending upon how much capital funds are transferred to operating assistance. We estimate that it would require a total of between $92 million and $103 million in state *and* local funds to match the full amount of these federal funds in 1983–84. According to a State Controller's report, however, total state and local expenditures in transit capital acquisitions were $107.1 million in 1980–81. This amount, which consisted of $63.5 million in state funds and $43.6 million in local funds is in excess of what would be needed to match available federal funds in the budget year.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

In the past three years, state appropriations of transit capital funds from the State Highway Account and the TP and D Account, *excluding the STA program,* have averaged about $100 million annually. Consequently, it appears that if the local agencies continue to invest their funds in capital projects at previous levels, the Legislature could appropriate *less* state money for transit capital improvements than it has in the past without having to make any STA appropriation to match federal funds.

Analyst's recommendations. Our analysis indicates that, in 1983–84, (1) the reduction in federal operating assistance should be insignificant on a statewide basis and (2) the level of capital assistance will increase substantially with no new funding needed to match the additional federal funds. Consequently, no STA funding should be needed in 1983–84 to replace reduced federal operating assistance or to make capital improvements. Accordingly, STA should only be needed to continue the same level of funding the program provided to operate transit systems in the past. We estimate that this would require $43 million in 1983–84. Consequently, we recommend that AB 223 and SB 124 be amended to reduce the 1983–84 allocation of STA funds to $43 million, for a savings to the TP and D Account of $32 million.

INTERREGIONAL PUBLIC TRANSPORTATION

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

This element proposes expenditures of $38,515,000, a decrease of $28,215,000, or 73 percent, from estimated expenditures in 1982–83. Major proposed changes include: (1) the elimination of three rail services, for a total savings of $11.1 million and (2) the elimination of funding for capital improvements to the rail services, for a reduction of $18.2 million from the current year.

Proposed Reduction in Interregional Transportation Services

We recommend that the California Transportation Commission be requested to comment during budget hearings on the level of bus and passenger rail subsidies it recommends. We further recommend an amendment to the Budget Bill which specifies that funds appropriated to subsidize such services be allocated by the California Transportation Commission to specific services pursuant to current law.

Chapter 322, Statutes of 1982, requires the California Transportation Commission (CTC) to allocate to specific bus and passenger rail services any lump-sum appropriations made by the Legislature for such services. The budget proposes to spend $8,925,000 from the TP and D Account to subsidize these services in 1983–84, and $1,276,000 and 30.2 personnel-years to provide marketing and related staff support. The amount of state funds requested represents a decrease of 49 percent from the level of current-year state-funded expenditures. The budget also proposes expenditures of $27,944,000 from federal funds and reimbursements, for a total expenditure level of $38,124,000. This is a decrease of 24 percent from 1982–83 expenditures (all funds).

The requested amount will subsidize existing passenger rail services between San Francisco and San Jose and between Los Angeles and San Diego in the budget year. The department will propose to the CTC that the existing services between (1) Oakland and Bakersfield, (2) Los Angeles and Sacramento, and (3) Los Angeles and Oxnard not be funded. In addition, no bus services would be funded under the department's proposal. Nevertheless, the budget includes funding for department staff to review bus services for possible funding subsidy in the budget year.

As we discussed earlier, we have no analytical basis for making a recommendation to the Legislture on the level of funding for those programs, such as rail and bus subsidies, for which the Legislature appropriates a lump-sum for allocation by the CTC to specific projects. The CTC, however, should be asked to comment on the adequacy of the funding level contained in the budget.

To facilitate legislative review of this issue, we offer the following comments on the department's proposal.

1. ***The success of existing rail transit services varies.*** The state is subsidizing five rail services in the current year, at a total cost of $19.7 million. Our review shows that these services are having mixed results. Table 10 indicates the projected performance for each service in the current year, as measured by (1) the state subsidy per passenger-mile and (2) the percentage of operating cost paid by operating revenues (known as the "farebox ratio"). It also compares each service's performance with (1) the average subsidy per passenger-mile of the services and (2) farebox ratio required by 1984–85 (1985–86 for Los Angeles-Oxnard) under current law: 40 percent for commuter services and 55 percent for intercity services.

For those services which are performing relatively well, the state subsidy per passenger-mile should be less than 100 percent of the average state subsidy indicated in the table, while the farebox ratio would be more than 100 percent of the farebox ratio required by law.

Table 10

Performance Indicators of Rail Services [a]

1982–83

	State Subsidy (in cents per passenger mile)	*Percent of Average Subsidy per Passenger Mile*	*Farebox Ratio*	*Percent of Required Farebox Ratio*
San Francisco-San Jose	4.3	81.1%	39.8%	99.5%
Los Angeles-San Diego	3.7	69.8	57.7	104.9
Los Angeles-Oxnard	10.1	190.6	37.1	92.8
Los Angeles-Sacramento	7.3	137.7	34.2	62.2
Oakland-Bakersfield	6.5	122.6	45.1	82.0

[a] Based on department data. Estimates for Los Angeles-Oxnard are subject to considerable variation, due to lack of verifiable cost and revenue data for the Los Angeles-Oxnard service. Figures for the service assume department estimate of service cost at $50,000 per month. Railroad estimates costs of $588,000 per month.

As Table 10 indicates, the three services proposed for elimination are performing the least well on the basis of state cost per passenger mile and required farebox ratio. In the case of the Los Angeles-Oxnard line, this could be explained by the fact that it has been operating for only a short time and by the very hasty inauguration of the service in October, 1982. On the other hand, recent ridership figures indicate that patronage on the

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Los Angeles-Oxnard line is not improving. Daily ridership continues to average about 350 to 375 people, despite the additional stations served and the fact that the service has now been operating for four months.

2. ***There may not be sufficient funds requested in the budget to fund those services proposed for continuation.*** Our analysis of the department's proposal indicates that there may not be enough money in the budget to pay for subsidies and related staff of the Los Angeles-San Diego and San Francisco-San Jose lines in 1983–84. There are two reasons for this. First, federal law requires the state's share of the Los Angeles-San Diego service deficit to increase from 50 percent to 65 percent in 1983–84. Amtrak staff also propose to charge the state for a portion of the service's "associated capital costs". These two increases in the state share will be partially offset by a redefinition of costs, but the net effect of these changes will be a state liability which in 1983–84 is $10,000 higher than the amount assumed in the budget. Second, under the contract with Southern Pacific for the San Francisco-San Jose service, the state must pay significantly higher costs for railroad cars and maintenance in 1983–84 than it is paying in 1982–83. Consequently, department costs for the existing level of San Francisco-San Jose service will be about $1.6 million higher than provided for in the budget.

This underfunding, however, is partially offset by two other factors. First, the department's estimate of the cost of the San Francisco-San Jose service includes $855,000 for a contingency reserve against unanticipated expenses in excess of the levels agreed to by Southern Pacific and the department. Our analysis indicates that the negotiated budget should be sufficient to operate the service. Adjusting for this overbudgeted contingency, we estimate that the apparent underfunding is $715,000. Second, California and other states which contract for Amtrak service are disputing the "associated capital cost" charge. According to the department, if the states can persuade Amtrak not to charge this expense, California's cost of the Los Angeles-San Diego service would be reduced by $502,000.

The Legislature can take one of two actions with respect to the underfunding problem:

- Augment the budget by $715,000 to fund the existing level of service. If the "associated capital costs" are not charged to California, only an additional $213,000 would be needed to maintain existing service levels.
- Appropriate the amount proposed in the budget, thereby requiring either (a) the level of service on one or both lines to be reduced, or (b) local agencies, which currently pay half of the subsidy on San Francisco-San Jose service, to increase their contribution for the commuter service or contribute funds for the Los Angeles-San Diego service to make up for the underfunding.

3. ***If all existing services were maintained, state expenditures would have to increase significantly.*** Our analysis indicates that continuing the three existing services proposed for elimination in the budget year would require an increase in state expenditures of $8.4 million-to-$16.6 million for subsidies and $1.3 million for marketing and staff costs. This is indicated in Table 11 which displays the total cost of these three services in 1983–84, assuming that current service levels are maintained. The higher estimates shown in the table for the intercity services reflect current estimates of

the cost to operate the service made by Amtrak. The lower estimates reflect (a) the department's lower estimates of probable service deficits and (b) elimination of the "associated capital cost" expenditures. The lower estimates for the Los Angeles-Oxnard service reflect the department's estimate of the cost of the service. The higher estimate reflects the railroad's estimate.

Table 11
State Cost of Current Rail Services
1983–84
(dollars in thousands)

	Subsidy	*Marketing and Staff Costs*	*Total*
Los Angeles-Oxnard	$2,440—9,000	$492	$2,932—9,492
Los Angeles-Sacramento	3,778—4,685	507	4,285—5,192
Oakland-Bakersfield	2,165—2,881	310	2,475—3,191
Total	$8,383—$16,566	$1,309	$9,692—$17,875

4. ***The Budget Bill should be amended.*** In order to ensure that funds are spent pursuant to existing law, we recommend that the Budget Bill be amended to specify that funds appropriated for bus and rail services be allocated by the CTC, as required by existing law. This could be achieved either by (a) adding a new item which separately appropriates subsidy funds, and includes language specifying that the funds are to be allocated by the CTC, or (b) adding Budget Bill language in Item 2660-001-046 which identifies the subsidy level appropriated for the services and specifies that the funds be allocated by the commission. The Budget Bill already includes language which specifies that, pursuant to existing law, the CTC must allocate funds appropriated for highway and transit capital outlay projects. Adopting our recommendation would be consistent with that policy.

Bus Service Monitoring Personnel Overbudgeted

We recommend a reduction of two personnel years and $81,000 from the Transportation Planning and Development Account (Item 2660-001-046) because the budget proposes to spend more funds to monitor subsidized bus services than the amount that is needed.

The budget proposes $143,000 and four personnel-years to monitor intercity bus services subsidized by the state. Our analysis indicates that this staffing level would be sufficient to monitor all existing service contracts funded from prior appropriations *and* solicit new services in the budget year. The department, however, does not propose to subsidize any new bus services in 1983–84. Personnel, therefore, are needed only to monitor the seven existing services. The department indicates that this workload requires two personnel years and $62,000. Consequently, we recommend a reduction of $81,000 and two personnel-years to reflect actual workload requirements.

TRANSFER FACILITIES AND SERVICES

The department is authorized by law to (1) enter into agreements to plan and design mass transit guideways and their related fixed facilities and (2) construct, purchase or lease, improve and operate rail passenger facilities which provide intermodal passenger facilities. In addition, the

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

department is required to evaluate proposed transfer facilities, and to prepare a report which lists these facilities by priority.

The budget proposes expenditures of $1,242,000 for transfer facilities and services, which is $3,124,000 or 72 percent, less than estimated current-year expenditures. Major changes for the budget year include the elimination of capital improvements to intermodal facilities, for a reduction of $2.9 million from the current-year funding level.

Station Management Report Unavailable

We withhold recommendation on $145,000 from the Transportation Planning and Development Account (Item 2660-001-046) and 2.5 personnel-years for Peninsula commuter rail station management, pending receipt of a Metropolitan Transportation Commission report on alternative strategies to manage the stations.

The department is proposing $145,000 and 2.5 personnel-years in state funds to manage stations acquired along the Southern Pacific (SP) route between San Francisco and San Jose during the budget year. An additional $205,000 and 3.5 personnel years will be reimbursed by three county agencies participating in the financing of the services, bringing total costs for management of the stations to $350,000 in 1983–84. This proposal, which does not represent an increase from current-year service levels, finances department management and maintenance of the stations, and permits the department to contract for station security services.

In last year's *Analysis,* we noted that the department had not evaluated alternative methods of managing the SP stations when it requested funds for the current year. The CTC, in its review of the deparment's 1982–83 budget, indicated several disadvantages to the state if the department operated the stations exclusively with state resources, as was proposed. In response, the Legislature reduced funding for this purpose in the current year, and adopted language in the *Supplemental Report to the 1982 Budget Act* requesting the Metropolitan Transportation Commission (MTC), the regional transportation planning agency in the Bay Area, to prepare a study which evaluates alternatives for local involvement in financing, operating and managing the SP stations.

The MTC did not submit its findings to the Legislature in time for us to include an evaluation of these findings in this *Analysis.* The information provided in the report should be useful when the Legislature considers the department's funding request for the budget year. Consequently, we withhold recommendation on the department's request for station management funds, pending receipt of the MTC report.

TRANSPORTATION DEMONSTRATION PROJECTS

This element includes technical studies and demonstration projects undertaken by the department to improve transit equipment and services. The budget proposes to spend $364,000 in 1983–84, a decline of $17,000 or 5 percent, from estimated current-year levels. State funds would pay $186,000 (61 percent) of proposed budget year expenses, with federal funds and reimbursements paying the balance.

Demonstration Project Funds Overstated

We recommend a reduction of 1.1 personnel-years and $48,000 from the Transportation Planning and Development Account (Item 2660-001-046) to reduce monitoring of demonstration projects because the amount requested is overstated.

The budget is requesting $65,000 and 1.5 personnel-years to continue administration of transit demonstration projects supported by funds appropriated in Ch 1130/75. Department staff indicate that 0.4 personnel-years are needed to monitor four remaining projects in the budget year. It could not provide, however, any substantiation for the remaining 1.1 personnel-years. Consequently, we recommend deletion of $48,000 and 1.1 personnel-years to correct for this overbudgeting.

WORK FOR OTHERS

This element includes work the department performs at the request of local public agencies. The cost of this activity, which is totally reimbursable, will amount to an estimated $33,096,000 in 1983–84. This is an increase of $568,000 (2 percent) over estimated expenditures for reimbursed work in the current year.

RIDESHARING

The ridesharing element provides funds to increase the number of people who ride together in vehicles when commuting to work or taking recreational trips. The budget proposes to spend $4,770,000 in 1983–84 for such activities to promote ridesharing, a decrease of $32,000, or 1 percent, from current-year levels. These funds are used primarily to (1) match people traveling to and from nearby locations and (2) encourage employers to establish ridesharing programs.

Ridesharing Tax Credit Claims Overestimated

We recommend a reduction of $2.4 million in the transfer from the Transportation Planning and Development Account to the General Fund (Item 2660-021-046) proposed to reimburse the General Fund for ridesharing tax credit revenue losses because recent experience indicates that the amount budgeted greatly exceeds the revenue loss.

Chapter 844, Statutes of 1981, authorizes businesses to claim tax credits and deduct as business expenses those expenditures related to the purchase of vans for ridesharing purposes. The act also requires the TP and D Account to reimburse the General Fund for any revenue loss resulting from the measure. The budget proposes to transfer $2.7 million to the General Fund for this purpose.

Our analysis indicates that this request greatly overstates the revenue loss resulting from Chapter 844. Franchise Tax Board staff indicate that, with 95 percent of the 1981 income tax returns filed, total credits to date for the 1981 tax year are about $74,000. Even allowing for a 100 percent increase in the revenue loss, the revenue loss in the 1983 year would total only about $300,000. Consequently, we recommend that the amount budgeted for 1983–84 to reimburse the General Fund for 1983 revenue losses be reduced by $2.4 million.

Adoption of this recommendation would have no net fiscal effect on either the General Fund or the Transportation Planning and Development Account if the Legislature adopts our recommendation to transfer the unencumbered balance of the account to the General Fund.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Unneeded Ridesharing Expenses

We recommend a reduction of 0.1 personnel-year and $34,000 from the Transportation Planning and Development Account (Item 2660-001-046) for ridesharing programs which are not proceeding in the budget year.

The budget is proposing to spend $34,000 and 0.1 personnel-year to continue two ridesharing demonstration projects. The first project, which is attempting to demonstrate the feasibility of marketing ridesharing at the residential site, rather than at the employment site, will be completed in the current year. Consequently, no funds are needed for this project in the budget year.

The second project would attempt to determine the practicality of sharing vehicles in large, high-density residential complexes. The 1982 Budget Act requires the department to submit a feasibility study on the project to the Joint Legislative Budget Committee before state funds are spent on this project. After the report is reviewed, the chairman of the committee will then recommend to the Department of Finance whether to continue the project. At the time this *Analysis* was prepared, the administration had not decided whether to fund the project, and no report had been submitted to the committee chairman. Consequently, it is premature to include funds for this project in next year's budget.

Accordingly, we recommend that the funds for these two projects be deleted from Item 2660-001-046, for a savings of $34,000 and 0.1 personnel-year.

TRANSPORTATION PLANNING

The Transportation Planning program contains four elements which are designed to improve the quality of transportation planning in the state: (1) statewide planning, (2) regional planning, (3) administration and (4) reimbursed services.

The budget proposes an appropriation of $7,052,000 from the Transportation Planning and Development Account in the State Transportation Fund. The budget also proposes to subvene $4 million in federal funds to regional planning agencies, and will spend $3,458,000 from reimbursements, for a total expenditure of $14,510,000, a decrease of 2 percent from the approved current-year levels.

Program staff are budgeted at 203 personnel-years, the same levels as in the current year.

Excessive Number of Reimbursed Positions

We recommend a reduction of 41.8 personnel-years and $1,516,000 in reimbursed expenditures from Item 2660-001-046 because the department will not be providing the level of reimbursed planning services proposed.

The department, when requested, provides technical assistance to regional transportation planning agencies in the preparation and updating of regional transportation plans. The department is fully reimbursed by the agencies for this assistance. The budget proposes to spend 68.7 personnel-years and $2,737,000 in reimbursements to provide such assistance. The department's review of the regional agency work plans indicate, however, that only 26.9 personnel-years is required to respond to agency requests in 1983–84. Consequently, we recommend a reduction of $1,516,-

000 and 41.8 personnel in reimbursed expenditures in Item 2660-001-046. This will not reduce the appropriation for this item, but it will reduce the expenditure authorization and personnel level for the department.

ADMINISTRATION

The department's administrative activities include accounting and financial systems, as well as professional and technical services, such as data processing, legal and laboratory services. The budget proposes expenditures totaling $85,672,000, a decrease of $2,486,000, or 3 percent, from current-year expenditures, and 1,496.5 personnel-years.

These expenditures are distributed among the department's other four operating programs.

Savings from TRAMS

We recommend a reduction of 16 personnel-years and $634,000 from the State Highway Account (Item 2660-001-042) to reflect staff savings resulting from the conversion of the existing financial and accounting system to TRAMS.

In the current year, the department has contracted with a private consulting firm to convert its existing financial and accounting system to a new system known as the Transportation Accounting and Management System (TRAMS). The department is planning to install TRAMS by July 1983. Our review indicates that completing the installation of TRAMS will result in savings during the budget year for two reasons.

1. ***One-time conversion funding will no longer be needed.*** Although it is being conducted by a private consultant, the conversion effort receives department staff support. In 1982–83, the department is providing approximately 16 personnel-years of programming and data processing efforts to the project, at a cost of $636,000. The department's conversion plan, however, indicates that only $197,000 and approximately 5 personnel-years will be needed in 1983–84 to complete the conversion and implementation of the system.

Because the conversion cost is a one-time cost, the 11 personnel years will not be needed in 1983–84. Accordingly, we recommend a reduction of 11 personnel-years for a savings of $439,000.

2. ***Conversion to TRAMS will result in on-going staff savings.*** The department's decision to convert to TRAMS, instead of to other systems, was based in part on the potential savings to be achieved by reducing accounting personnel identified in the conversion project's feasibility study report. Initially, the department indicated that savings of up to 30 personnel-years could be realized each year. More recent evaluation by the department, however, indicates that because of a need to retrain staff in the use of the new system, the 1983–84 savings will be reduced to approximately 5 personnel-years. The department's budget does not reflected this savings. Accordingly, we recommend a reduction of 5 personnel-years and $195,000 from the State Highway Account.

Equipment for TRAMS Not Needed

We recommend a reduction of $80,000 from the State Highway Account (Item 2660-001-042) to correct overbudgeting of equipment for TRAMS conversion.

The department's effort to convert its accounting system to TRAMS also requires the acquisition of certain computer equipment. The current-year budget includes $750,000 for this purpose. Recent discussions with the

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

department indicate that because of a change in equipment needs, the estimated equipment cost will be lower than anticipated. Moreover, there will not be any additional computer equipment needed in 1983–84 for the conversion effort. Our review indicates that the department, however, has erroneously included $80,000 in its 1983–84 budget request for equipment for TRAMS. Because this amount will not be needed, we recommend that the department's budget request be reduced by $80,000.

Consulting Services for Accounting System will be Less

We recommend a reduction of $175,000 in the State Highway Account (Item 2660-001-042) because the amount is not needed for the completion of an existing contract.

The budget is also requesting $373,000 to continue a contract with a consulting firm to convert the department's financial and account system to the TRAMS system. This consulting contract is initially due to expire July 1, 1983, which is also the target implementation date for the new system. The department has advised us that the contract needs to be modified due to unanticipated changes necessary for the conversion efforts. Consequently, the contract costs will be $1,082,000, instead of $916,800. For the current year, the Legislature has appropriated $884,000 for this contract. The amendment of the contract will require, therefore, an additional $198,000 in 1983–84 to supplement the current-year appropriated amount. The needed amount is $175,000 less than the amount included in the department's budget. Accordingly, we recommend that consulting services be reduced by $175,000.

Proposed Reduction in Legal Staff

We recommend that the department be requested to comment, during budget hearings, on the effect of the proposed reduction in legal staff.

As part of the administration's effort to reduce legal staff in various state departments, and to centralize the provision of legal service in the Department of Justice, the Governor's Budget proposes a reduction of 50 personnel-years in the department's legal staff in 1983–84, for a savings of approximately $2.8 million. This reduction, which includes a reduction of 34 personnel-years in attorney staff and 16 personnel-years in clerical support, represents a decrease of approximately 21 percent in the department's total legal personnel effort.

The department has advised us that it is in the process of reviewing its legal workload to determine the need for these positions. We have no basis, therefore, to determine whether the department will be able to absorb the anticipated workload for 1983–84 with the reduced level of staff. In order that the Legislature may be informed of the effect of the proposed reduction, however, we recommend that the department be requested to comment, during budget hearings, on the impact of the proposed reduction in legal staff.

Business, Transportation and Housing Agency
OFFICE OF TRAFFIC SAFETY

Item 2700 from various funds — Budget p. 93

Requested 1983–84	$414,000
Estimated 1982–83	193,000
Actual 1981–82	167,000
Requested increase (excluding amount for salary increases) $221,000 (+115.0 percent)	
Total recommended reduction	63,000
Recommendation pending	$200,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2700-001-044—Support		State Transportation, Motor Vehicle Account	$214,000
2700-001-464—Support		First Offender Program Evaluation	200,000
Total			$414,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Executive Director Position. Reduce amount budgeted by $66,000 and transfer $46,000 of that amount to grant program. Reduce Motor Vehicle Account expenditure by $20,000.*** Recommend reduction because the duties of the director can be performed by other personnel within the office. Further recommend adoption of supplemental report language directing the State Personnel Board to upgrade the assistant director position. 408
2. DUI First Offender Study. Withhold recommendation on proposal to evaluate county programs offered to first-time DUI offenders. (Pending: $200,000) 409
3. ***Consultant Services. Reduce amount budgeted by $144,000 and transfer $101,000 of that amount to grant program. Reduce Motor Vehicle Account expenditure by $43,000.*** Recommend reduction because proposed consulting expenditures are not justified by past experience or support materials. 409

GENERAL PROGRAM STATEMENT

The Office of Traffic Safety (OTS) is responsible for evaluating and approving all state and local highway safety projects supported by federal grants. In order to qualify for federal funding, these projects must (1) comply with uniform safety standards established by the federal Department of Transportation and (2) address highway safety problem areas identified by OTS. In addition, OTS is responsible for (1) updating the California Highway Safety Plan, (2) providing technical assistance to state and local agencies in the development of traffic safety plans, and (3) coordinating ongoing traffic safety programs.

OTS is authorized 28 positions in the current year.

OFFICE OF TRAFFIC SAFETY—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $9,877,000 to support state and local traffic safety activities and the administrative expenses of the Office of Traffic Safety in 1983–84. This amount consists of $9,400,000 in federal funds, $214,000 from the Motor Vehicle Account in the State Transportation Fund, $200,000 from the First Offender Program Evaluation Fund, and $63,000 in reimbursements. Proposed expenditures will increase by the amount of any salary or staff benefit increase approved for the budget year.

The amount proposed from the Motor Vehicle Account is $21,000, or 10.9 percent, above the estimated level of expenditure supported by state funds in the current year. The $200,000 requested from the First Offender Program Evaluation Fund represents the initial appropriation from that fund.

Financing Office Activities. The federal government currently provides 100 percent of the funds for grants to state and local agencies, and approximately 86 percent of the funds needed to support OTS's administrative duties. The remaining 14 percent (excluding reimbursements) is financed from the Motor Vehicle Account, State Transportation Fund. The OTS is proposing to spend $200,000 in 1983–84 from the First Offender Program Evaluation Fund to begin evaluating "driving under the influence" (DUI) programs for first offenders, pursuant to Ch 1339/82. These funds are provided from fees assessed against participants in such programs. Table 1 displays funding availability for the prior, current, and budget years.

Table 1
Office of Traffic Safety
Funding Summary
(in thousands)

Item	*Funding source*	*Purpose*	*Actual 1981–82* [a]	*Estimated 1982–83*	*Projected 1983–84*
2700-001-890	Federal Trust Fund	Grants to state agencies and program administration	$10,243	$9,366 [b]	$4,700
2700-101-890	Federal Trust Fund	Grants to local agencies	8,054	7,143 [b]	4,700
2700-001-044	Motor Vehicle Account	Program administration	167	193	214
2700-001-464	First Offender Program Evaluation Fund	Evaluation of county-operated first offender DUI programs	—	—	200
	Totals [c]		$18,464	$16,702	$9,814

[a] Expenditures and encumbrances.
[b] Total amount available for expenditure, including carryovers from previous years.
[c] Excludes reimbursements.
Source: Office of Traffic Safety

New Program Match Required. Beginning October 1, 1983, the federal Department of Transportation will increase the matching requirement imposed on states for administrative expenses in connection with traffic safety programs. The required match will increase from the current level of 14 percent to 30 percent. If the office were required to pay 30 percent of the total administrative costs displayed in the budget, state support for OTS would approximate $450,000 in the budget year. The budget, however, reflects a new cost allocation approach developed by OTS which will permit a substantial reduction in the matching funds required by the state.

Cost Allocation Approach. In order to offset the increased matching requirement imposed on California in 1983–84, OTS has redefined what constitutes state administrative costs. Consequently, certain expenses which traditionally have been categorized as state administrative costs, such as coordinating, auditing, and planning, will now be charged against the grants that state and local agencies receive to operate traffic safety programs. This will allow OTS to apply the increased state matching requirement against a much smaller base of administrative expenses. As a result, state expenditures for administration costs should not increase significantly from the current-year level, despite the 100 percent increase in the matching requirement imposed by the federal government. The level of funding for programs operated by state and local agencies should not be affected significantly by the new cost allocation approach devised by OTS.

Office Support and OTS's Grant Program

The OTS proposes an expenditure of $1,505,000 for program administration in 1983–84 (excluding $200,000 appropriated from the First Offender Program Evaluation Fund pursuant to Ch. 1339/82). The cost of administering California's highway safety program will be distributed between two separate categories: (1) *direct state costs* amounting to approximately $715,000, of which the state will pay 30 percent ($214,000) and (2) *indirect costs* amounting to $790,000, which will be charged to the grant program.

The indirect costs and the federal share of direct administrative expenses—amounting to $1,291,000—will be allocated from the $9,400,000 in federal funds available to California in 1983–84. This represents 14 percent of the costs associated with the traffic safety program. For the budget year, indirect administrative expenses, as noted above, will include the costs of coordination, auditing and planning activities.

Grants to State Agencies. Allocations totaling $3,409,000 are proposed to state agencies for traffic safety projects in 1983–84. This is an increase of $567,000, or 20 percent, over allocations in the current year. Current-year funding includes $1,227,000 for the 55-mile-per-hour speed enforcement project operated by the California Highway Patrol (CHP). This project will be continued through the budget year. In addition, OTS proposes to fund ongoing projects being carried out by the CHP, the Department of Motor Vehicles, the Department of Transportation, the Department of Justice and the Commission on Peace Officers Standards and Training. Grants allocated to state projects in 1983–84 represent 36 percent of available federal funds.

Local Assistance. Local agencies are scheduled to receive $4,700,000, or 50 percent of available federal funds, for traffic safety activities in 1983–84. Approximately 90 local agencies receive OTS grants each year for a variety of traffic safety purposes, ranging from alcohol and drug enforcement to emergency medical services. Federal regulations require that at least 40 percent of the funds provided to California be allocated to local agencies.

OFFICE OF TRAFFIC SAFETY—Continued

Executive Director Position is Unnecessary

We recommend (1) elimination of the executive director's position in the Office of Traffic Safety, because the duties of the position can be absorbed by other personnel within the office, for a savings of $66,000, and (2) that $46,000 of the savings be transferred to the grant program, and that $20,000 be deleted from Item 2700-001-044 in the budget. We further recommend the adoption of supplemental report language directing the State Personnel Board to upgrade the assistant director position.

Overall policy guidance is provided to OTS by an executive director, who is appointed by the Governor and serves in the Business, Transportation and Housing Agency at the pleasure of the agency secretary. The position is classified as a highway safety representative, and in the past has been supported jointly by federal and state funds on the same basis as all administrative services.

During the first six months of the current year, the executive director spent 50 percent of his time as chief of the OTS and the remainder as an assistant secretary of transportation in the Business, Transportation and Housing Agency. His agency responsibilities included the Department of Motor Vehicles and the California Highway Patrol, in addition to overseeing the OTS. The federal government has notified OTS that, beginning in 1983–84, it will no longer continue to fund the executive position shared by OTS and the agency.

Our analysis indicates that OTS's mission can be carried out effectively without an executive director.

- Prior to 1979, the office was directed by a civil service employee who met weekly with an agency secretary to discuss policy direction. This same employee still serves as the assistant director of the OTS, and currently is responsible for the day-to-day management of the office. In the absence of an executive director position, policy guidance could continue to be provided to OTS through regular meetings between the civil service employee and an agency official, as was done in the past.
- In reviewing staffing patterns utilized by other states, we have been advised by the federal official responsible for the highway safety program in this region that, in many states, a civil service employee is solely responsible for the daily operation of the traffic safety program and reports periodically to a representative of the Governor in those states.
- The cumulative state experience of the four staff services managers at OTS is 84 years, with 19 years combined managerial experience. This degree of supervisory background, paired with the relatively small size of the OTS staff (28 positions), reduces the need for constant policy guidance from an executive director position.

For these reasons, we conclude that a full-time executive director position for OTS is not justified. Accordingly, we recommend that the executive director position in OTS be deleted, for a savings of $66,000. This would permit a redirection of $46,000 in federal funds from program administration to the grant program, and a savings of $20,000 to the Motor Vehicle Account.

In order to clarify the duties and responsibilities of the assistant director's position, we further recommend the adoption of the following supplemental report language:

"It is the intent of the Legislature that the State Personnel Board reclassify the assistant director's position to that of 'director', and that the newly-created position be accorded all the duties and responsibilities formerly granted to the executive director."

Driving Under the Influence (DUI) First Offender Study

We withhold recommendation on $200,000 requested to evaluate first offender DUI programs, pending receipt of an expenditure plan and a detailed outline of evaluation activities planned for 1983–84.

Chapter 1339, Statutes of 1982 (AB 3405), directed the Governor's Interdepartmental Advisory Council on Alcohol, Drugs and Traffic Safety to conduct a three-year evaluation of first offender programs offered by counties to persons convicted of "driving under the influence" (DUI). The council has no permanent staff, but receives administrative support from the Office of Traffic Safety to carry out its duties. Consequently, the responsibility for conducting the evaluation fell to OTS. Funds for the evaluation are derived from a special assessment (not to exceed $5) on participants in first offender programs. These funds are deposited in the First Offender Program Evaluation Fund in the General Fund. Assuming that there will be 40,000 participants in 1983–84, OTS estimates that first-year revenue will approach $200,000.

The OTS has requested $200,000 in the budget year to begin the required evaluation. According to the office, the amount proposed for 1983–84 is equal to one-third of the total costs projected during the three-year evaluation period. At the time this *Analysis* was prepared, OTS was not able to explain the basis for its estimate of total evaluation costs ($600,000), nor could staff provide an expenditure plan for the initial $200,000.

The office has stated that budget details and a definitive proposal outlining the scope of the project should be available in January or February of 1983. Until we have reviewed this information, we have no basis for recommending approval of the $200,000 request. Accordingly, pending receipt of an expenditure plan and a detailed outline of the DUI First Offender Program Evaluation, we withhold recommendation on the OTS request.

Consultant Services

We recommend that the amount budgeted for interdepartmental and external consulting be reduced by $144,000 to eliminate overbudgeting, and that $101,000 of the savings be transferred to the grants program. We further recommend that the amount of $43,000 budgeted in Item 2700-001-044 as the state's share of administrative costs be deleted, for a corresponding savings to the Motor Vehicle Account.

Table 2
Office of Traffic Safety
Budgeted Versus Actual Expenditures for Consultant Services
1980–81 through 1982–83

	1980-81			1981-82			1982-83[a]		
Category	*Budgeted*	*Actual*	*Percent Unspent*	*Budgeted*	*Actual*	*Percent Unspent*	*Budgeted*	*Actual*	*Percent Unspent*
Interdepartmental	$238,856	$148,000	38.0%	$269,512	$26,000	90.4%	$138,000	$8,800	93.6%
External	74,000	17,000	77.0	79,175	1,000	98.7	85,000	21,200	75.1
Totals	$312,856	$165,000	47.3%	$348,687	$27,000	92.3%	$223,000	$30,000	86.6%

[a] Projection based on actual expenditures as of 12/28/82.

OFFICE OF TRAFFIC SAFETY—Continued

OTS proposes to expend a total of $234,000 in the budget year to contract for consultant and professional services provided by (1) other state agencies ($145,000) and (2) agencies outside state government ($89,000). Our analysis of OTS consulting expenditures indicates that the amount requested in the budget significantly overstates the office's needs. Table 2 compares actual expenditures since 1980–81 for this category with the amounts budgeted for consultant services.

Interdepartmental. As Table 2 indicates, actual expenditures for interdepartmental consultant services have consistently fallen short of budgeted amounts since 1980. This is due, in part, to the fact that the office is now performing many of the functions that previously were performed by other state agencies under contract to OTS. In the past, the OTS relied on other agencies to provide auditing, clerical services and technical expertise which the office could not provide itself. In recent years, the office has begun to establish the necessary expertise to perform these functions internally, but no adjustment has been made to reflect the reduced dependence on consultant and professional services.

We acknowledge that, periodically, special needs will arise that require funding for interdepartmental consultant services. In the budget year, for example, the office is planning to contract for a fiscal manual and compatible accounting system. The OTS indicates that the manual and system will cost approximately $60,000 and could be provided by the Department of General Services. According to the staff of the Fiscal Management Audits Section in the Department of Finance, the development of the manual and the system will enable OTS to track receipts and disbursements accurately and in a timely fashion. Under the current system, some transactions have taken up to six months to record. Based on the information provided by OTS and the Department of Finance, this expenditure appears justified. Nevertheless, it appears that the remainder of the OTS request for interdepartmental consulting is overbudgeted by $76,000.

External. During the budget year, the Office of Traffic Safety proposes to spend $89,000 for external consulting (other than consulting related to the DUI evaluation). Table 2 indicates that, as in the case of interdepartmental consulting, the majority of funds budgeted for external consulting contracts are not spent for such purposes. In 1981–82, for example, OTS expended only 1.3 percent of the funds available for this purpose. Although expenditures for the first six months of 1982–83 indicate that costs are increasing, it still appears that 75 percent of the funds budgeted for external consulting in the current year will go unspent.

OTS's record of overbudgeting funds for external consulting needs is largely attributable to the way in which its request for funds developed. Even if no specific external consulting needs are identified for a given budget year, OTS requests funds for this purpose to provide a cushion for meeting unexpected demands coming from the Governor's office or federal officials.

The need for such contingency funding, however, is not borne out by OTS's experience in recent years. Only once during the past five years were funds utilized to support unplanned activity. Accordingly, we recommend that the amount provided for this activity in 1983–84 be reduced by $68,000, which would leave sufficient funds to maintain the current-year level of external consulting.

Reduction Needed. We recognize that it is reasonable for OTS to contract for services which it is not capable of providing internally. The level of funding requested by OTS, however, is not justified by past experience or supporting documentation. We, therefore, recommend that funds for consulting purposes be budgeted at the projected 1982–83 expenditure level of $30,000, and that an additional $60,000 be appropriated to meet the department's accounting needs. This action would result in a total reduction of $144,000 for interdepartmental ($76,000) and external ($68,000) consulting. This would permit a redirection of $101,000 from program administration to state and local grants, and a savings of $43,000 to the Motor Vehicle Account.

Business, Transportation and Housing Agency

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 2720 from the State Transportation Fund — Budget p. BTH 95

Requested 1983–84	$345,912,000
Estimated 1982–83	316,829,000
Actual 1981–82	308,005,000
Requested increase (excluding amount for salary increases) $29,083,000 (+9.2 percent)	
Total recommended reduction	2,905,000
Recommendation pending	$118,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2720-001-044—Support		State Transportation, Motor Vehicle Account	$325,179,000
2720-001-050—Support		State Transportation, CHP Law Enforcement Account	20,733,000
Total			$345,912,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Relocation Costs for New Supervisors. Reduce Item 2720-001-050 by $109,000.*** Recommend reduction because moving expenses associated with new sergeants and lieutenants exceed departmental average. Further recommend adoption of supplemental report language requiring State Personnel Board to review supervisory ratios for sergeants and lieutenants. 415
2. ***Communications Center Watch Commanders. Reduce Item 2720-001-044 by $116,000.*** Recommend replacement of five sergeant positions with three nonuniformed positions because watch commander duties at LACC are more appropriately performed by communications supervisors. 416
3. ***Special Enforcement Costs. Reduce Item 2720-001-044 by*** 417

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

$77,000. Recommend reduction of overtime hours requested because proposed patrol sites are not yet operational.

4. ***Clerical and Janitorial Staffing. Reduce Item 2720-001-044 by $164,000.*** Recommend deletion of 10.5 personnel-years because the department's budget request is not supported by adequate documentation of the need for these positions. 418
5. ***Helicopter Replacement. Reduce Item 2720-001-044 by $363,000.*** Recommend reduction because the department received funds to replace its Los Angeles helicopter last year. 419
6. ***Regional Helicopter Service. Reduce Item 2720-001-044 by $23,000.*** Recommend reduction because request to begin regional helicopter service in Bay Area is premature. 419
7. On-Site Fee Collection. Withhold recommendation on $118,000 and four personnel-years for participation in the CHP-DMV On-Site Commercial Fee Collection program, pending receipt of DMV's status report on the program. (Pending $118,000) 421
8. ***Truckee Inspection Facility. Reduce Item 2720-001-044 by $112,000.*** Recommend deletion of 15 positions proposed to operate new Truckee facility because facility will not be completed until 1986. 422
9. ***Telecommunications Costs. Reduce Item 2720-001-044 by $388,000.*** Recommend reduction because any rate increase will take effect no earlier than September, and funds are already available to partially cover the additional costs. Further recommend adoption of Budget Bill language requiring the Director of Finances' approval before the additional telecommunications funds can be spent. 423
10. ***Operating Expenses. Reduce Item 2720-001-044 by $1,049,000.*** Recommend reduction to correct for overbudgeting, based on the Department of Finance's guidelines. 424
11. ***Rent Schedule. Reduce Item 2720-001-044 by $261,000.*** Recommend reduction because estimated leasing costs in current and budget years exceed costs specified in actual lease agreements. Further recommend adoption of Budget Bill language creating a rental reserve for three facilities which are planned for purchase in the budget year. 425
12. ***Equipment Purchases. Reduce Item 2720-001-044 by $135,000.*** Recommend reduction because minor equipment is not needed, given current inventory. 428
13. ***Miscellaneous Reductions. Reduce Item 2720-011-044 by $108,000.*** Recommend reduction due to various overbudgeted expenditures. 429

GENERAL PROGRAM STATEMENT

The Department of the California Highway Patrol (CHP) is responsible for ensuring the safe, lawful and efficient movement of persons and goods along the state's highway system. To meet this responsibility, the department administers three programs designed to assist the motoring public.

These programs are: (1) Traffic Management, (2) Regulation and Inspection, and (3) Vehicle Ownership Security. A fourth program, Administrative Support, provides administrative services to the first three programs.

Department activities are coordinated from CHP headquarters in Sacramento, which oversees eight division commands, 95 area offices, several inspection and scale facilities, and two communication centers. These facilities are linked to headquarters by an extensive communications network. The department has 7,679.7 authorized positions in the current year, of which 5,340.8 are uniformed and 2,338.9 are nonuniformed.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $350,255,000 from various funds for support of the Department of the California Highway Patrol in 1983–84. These expenditures are funded from three sources. First, the budget proposes an appropriation of $325,179,000 from the Motor Vehicle Account, State Transportation Fund. Second, the department proposes to spend $20,733,000 from the California Highway Patrol Law Enforcement Account, State Transportation Fund, to train, equip and deploy the additional officers authorized by Ch 933/81. Third, reimbursements and federal funds are expected to finance $4,343,000 in expenditures during the budget year.

Proposed expenditures are $28,619,000 or 8.9 percent, greater than estimated expenditures in the current year. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

The budget proposes to add 228 traffic officers, 15 sergeants and 5 lieutenants to continue implementation of Ch 933/81. In combination with previously authorized positions, these personnel will increase the number of traffic officers by as much as 670 over a four-year period.

Other significant program changes proposed in the budget are (1) a $2,651,000 increase for telecommunications and operating expenses, (2) an increase of 59.8 personnel-years and $1,055,000 for nonuniformed support staff, and (3) an augmentation of $1,518,000 for equipment and operating expenses related to flight operations.

TRAFFIC MANAGEMENT

Traffic management is the largest department program, accounting for $319,991,000, or 91 percent, of proposed departmental expenditures in 1983–84. Approximately 86 percent of the department's uniformed personnel, and nearly half of its nonuniformed personnel, are employed in this program. According to the department, 90 percent of the uniformed personnel in the program are used regularly on patrol duty. Officers spend about 88 percent of their time in "on-sight" patrol, with the balance spent on activities such as report writing.

Two elements make up the traffic management program. They are (1) ground operations, which carries out most of the department's responsibilities on the highway, and (2) flight operations, which assists CHP ground units and allied agencies in traffic, law enforcement, and rescue activities.

Table 1 presents program staffing and expenditure levels for the traffic management program.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Table 1
Traffic Management Program
Staffing and Expenditures
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Percent Change*	*Proposed 1983–84*	*Percent Change*
Program Expenditures	$287,891	$292,825	1.7%	$319,991	9.3%
Personnel-years:					
Uniformed	4,174.8	4,486.0	7.5	4,719.0	5.2
Nonuniformed	1,031.5	1,069.3	3.7	1,148.0	7.4
Total	5,206.3	5,555.3	6.7	5,867.0	5.6

AB 202: The First Year

In 1981, the Legislature enacted Chapter 933 (AB 202) as a means of raising enough revenue to increase the number of CHP officers. The act imposes a $1 surcharge on motor vehicle registration fees from 1982 through 1985. According to the department, the surcharge will generate approximately $80 million over the four-year period. The revenue from the surcharge is deposited in the CHP Law Enforcement Account, which was created by the act. The CHP is currently in the first year of hiring, training and deploying officers authorized by Chapter 933. The department expects that the act will increase the number of CHP officers by as many as 670 by 1985.

As we discussed in last year's *Analysis*, the CHP has indicated that its first priority in deploying newly-authorized officers (commonly referred to as AB 202 officers) is to provide 24-hour coverage on the Interstate highway system and state routes 99 and 101. Consequently, the first 31 AB 202 officers were assigned in September 1982 to four area offices whose primary responsibility is patroling the Interstate system—Barstow (8 positions for Interstate 5), Riverside (6 positions for Interstate 10), Newhall (11 positions for Interstate 5) and Tejon (6 positions for Interstate 5).

We also indicated in last year's *Analysis* that the CHP was establishing additional priorities for the deployment of AB 202 officers. Subsequently, the patrol decided that its second priority will be to ensure that all area offices are capable of providing "basic patrol coverage," which means that the patrol will raise the staffing level at CHP's smaller area offices by establishing "minimum" staffing levels. The final criterion to be applied when deploying AB 202 officers will be workload requirements identified in the area offices.

In last year's *Analysis*, we noted that the CHP was expecting AB 202 surcharge revenues to fund only 550 officer positions, rather than the 670 that were specified in the act. This conclusion is no longer valid, however, because of delays in deploying the new officers.

As a result of the need to fill regular state traffic officer (STO) positions left vacant by attrition, the training of the new AB 202 officers was delayed. Consequently, the Highway Patrol is deploying these officers at a much slower rate than anticipated. When the initial AB 202 implementation plan was developed the department anticipated that it would put 250 AB 202 officers on duty in the current year. Consequently, the CHP will be able to use one-time salary savings resulting from the delay to meet the original AB 202 staffing target of 670 traffic officers in 1984–85. This, however, will increase significantly the ongoing costs to the Motor Vehicle Account if these officers are retained after the $1 surcharge expires.

CHP's 1983–84 Budget Request

We recommend adoption of supplemental report language requiring the State Personnel Board to review the CHP's supervisory staffing ratio for sergeant and lieutenant positions. We further recommend a reduction of $109,000 in the amount requested from the CHP Law Enforcement Account (Item 2720-001-050) because the CHP has overestimated costs to relocate new sergeants and lieutenants.

The department is requesting $9,167,000 from the CHP Law Enforcement Account to increase authorized staffing levels by 271 personnel in 1983–84. Specifically, the budget proposes (1) 228 additional state traffic officers, (2) 18 additional cadets, (3) 15 new sergeants, (4) 5 new lieutenants and (5) 5 new clerical positions. Approximately $6,171,000 of the department's request would be spent on salaries and benefits for STO, cadet, and clerical positions, and approximately $1,948,000 would be spent on training, equipment and operating expenses related to these new positions. These expenditures appear to be warranted. Consequently, we recommend approval of the $8,119,000 requested to support 246 officer and cadet positions and 5 clerical personnel.

Additional Supervisors Requested. Our analysis, however, does not find a need for the 20 additional supervisory personnel requested by the department.

The need for 15 sergeants and 5 lieutenant positions was not identified when the department first developed its deployment plan in 1982. In fact, the CHP specifically told us in 1981 that *no* supervisory support would be needed for the AB 202 officers. At that time, a CHP representative stated that, because the new officers would be spread uniformly throughout the state, they would have only a minimal impact on the supervisors' workload in any individual area office, thus eliminating the need for additional supervisory positions.

According to the Department of Finance, the new positions will permit the CHP to maintain current staffing ratios of approximately 8.3 traffic officers per authorized sergeant and 3.1 sergeants per authorized lieutenant. The CHP, however, has provided no analytical basis for either staffing ratio. Nor has the patrol been consistent in the application of the staffing ratios. We note, for example, that the ratio of traffic officers to sergeants has ranged from 11 to 1 (in 1971) to 7.6 to 1 (in 1979).

The department claims that recent court decisions have increased the complexity of the traffic officer's job, requiring that CHP sergeants and lieutenants spend more time supervising the activity of state traffic officers. The extra supervision involves more thorough review of reports, monitoring of procedures, and managing the reporting and investigation of accidents and other traffic incidents. The department concluded that the increasing complexity of the work, plus the added workoad represented by the 228 new AB 202 officers, require that additional supervisory positions be authorized.

We have no analytical basis for determining what the appropriate supervisory ratio is. Accordingly, we do not recommend any change in the level of staffing proposed by the department. We believe, however, that the staffing ratios used by the CHP to determine its 1983–84 request need to be be reexamined to ensure that (1) future requests for increased supersisory personnel reflect actual needs and (2) the current staffing ratios are not out-of-date because of the changing environment in which law enforcement takes place. Accordingly, we recommend the adoption of the following supplemental report language directing the State Personnel

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Board to undertake a review of CHP supervisorial requirements:

"The State Personnel Board shall conduct a study to determine appropriate state sergeant-state traffic officer and state lieutenant-state sergeant field supervision ratios for the Department of the California Highway Patrol and report to the fiscal committees and the Joint Legislative Budget Committee by December 1, 1983. The scope of this report shall include, but not be limited to, an evaluation of the current ratios used by the department and consideration of changing environmental factors in law enforcement."

Excessive Moving Expenses for Supervisory Personnel. New supervisory positions, such as the 20 proposed in the budget, are filled through promotions. Consequently, the Highway Patrol is requesting a total of $200,000 to relocate the current employees who will be promoted to fill the 20 new sergeants and lieutenants positions. This would provide for $10,000 to move each officer.

In 1981–82, the CHP spent only $3,760 to relocate each employee promoted in the department. Even allowing for a 10 percent annual increase in expenses since 1981–82, relocation expenses per new supervisor should not exceed $4,550 in the budget year, $5,450 less than the amount budgeted. For 20 positions, the overbudgeting totals $109,000. We therefore recommend that funding for relocation expenses requested in Item 2720-001-050 for these 20 supervisory positions be reduced by $109,000.

LACC Watch Commanders: They Keep on Ticking

We recommend a reduction of $116,000 and two positions from the Motor Vehicle Account (Item 2720-001-044) to reflect (1) a reduction of 5 sergeant positions made available by the transfer of uniformed watch commanders to the field and (2) the assumption of watch commander duties by additional and existing supervisory personnel at the Los Angeles Communications Center (LACC).

In December 1980, the State Personnel Board (SPB) issued a report on the CHP's use of uniformed positions. As part of its findings, SPB indicated that five sergeants serving as "watch commanders" at the CHP's Los Angeles Communications Center (LACC) were being used inappropriately, and recommended that nonuniformed personnel instead be used to perform watch commander duties. Watch commanders currently oversee the entire dispatch operation, and provide supervision and support to nonuniformed communications personnel. According to the SPB report, "CHP indicated that they agree that the sergeants should be removed as soon as possible."

Our review of the department's authorized position levels reveals that the five sergeants are still serving as watch commanders in LACC, *over two years after the CHP agreed that they should be removed.* The department explains that it needed additional time to (1) evaluate the role of the sergeants at the communication center, and (2) create a nonuniformed supervisor class to perform watch commander duties.

The CHP has now created this class, and will hold an exam for it in March 1983. The SPB indicates that the five sergeants should be reassigned to the field soon after the CHP conducts the civil service exam for the new classification. The CHP would then hire five nonuniformed communications supervisors to serve as watch commanders.

This action will permit a reduction of five sergeant positions in the budget year. The savings from deleting the five sergeant positions would be partially offset by the cost of hiring replacement supervisors. However, our analysis of staffing patterns in the department's other dispatch centers indicates that it does not need to hire five supervisors to replace the five sergeants. The other dispatch centers currently are authorized one supervisor for every eight dispatchers or service desk operators. Only three supervisors, in addition to the nine supervisors already authorized at LACC, are needed to maintain that ratio in Los Angeles. In addition, we cannot determine any reason to hire supervisors exclusively to serve as watch commanders, as the CHP proposes for LACC. As the 1980 SPB report indicated, LACC is the only dispatch center where communications supervisors do not serve both as watch commanders and as personnel supervisors.

Elimination of five sergeant positions will result in savings of $181,000 to the Motor Vehicle Account. Three additional communications supervisors will cost $65,000 in salary and benefits. Accordingly, we recommend a reduction of $116,000 and two positions to reflect the transfer of five sergeants to field duty and the assumption of watch commander duties by supervisory personnel at the Los Angeles Communications Center.

HOV Enforcement: Life in the Fast Lane

We recommend a reduction of $77,000 from the Motor Vehicle Account (Item 2720-001-044) because the budgeted overtime enforcement costs for high-occupancy vehicle lanes and ramp meter bypass lanes overstate the department's needs.

In 1980, the CHP, in conjunction with the Department of Transportation (Caltrans), hired a consultant to evaluate strategies for regulating the use of high-occupancy vehicle (HOV) lanes and ramp meter bypass lanes on freeways. These facilities are reserved for vehicles which contain at least two, and sometimes three, people. Such facilities are intended to encourage people to carpool because these facilities generally are less congested than normal highway lanes and ramps. According to the CHP, a review of enforcement strategies was required because one-occupant vehicles also were using HOV lanes and bypass ramps, thereby undermining the incentive for motorists to carpool.

In the final report, the consultant recommended that the CHP increase its enforcement of bypass lanes and HOV lanes in order to prevent further growth of, and perhaps even reduce, the number of one-occupant vehicles using the facilities. As a result, the CHP is requesting $337,000 for overtime expenses for special HOV lane and metered ramp enforcement.

Our analysis indicates that this request overstates the amount actually needed for the department to operate an effective enforcement program, for two reasons.

First, the Highway Patrol based its 1983–84 request for special ramp meter bypass enforcement on the assumption that 250 such ramps exist in California, and that enforcement will cost $916 per ramp in overtime expenses annually. According to Caltrans, however, only 195 bypass ramps currently are operating statewide, and only 5 to 10 are expected to be constructed by the end of the budget year. Adjusting the department's request to reflect enforcement on 205 bypass ramps reduces the CHP's needs by $41,000.

Second, the cost of special enforcement of HOV lanes on Route 101 in Marin assumes that the department will deploy one traffic officer in the morning and four traffic officers in the evening. This appears to conflict

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

with the consultant's report which stated that, "On Marin 101 routine enforcement is negligible and special enforcement occurs daily at levels that are probably higher than necessary. If future Caltrans counts show no increase in violations, the number of motorcycle officers assigned to special enforcement in the evening should be cut from four to two." Caltrans recently told us that the violation rate had, in fact, *decreased* since the report was issued in October 1981. Consequently, we recommend that only two officers be deployed evenings on Route 101 in Marin County for additional savings in requested overtime expenses of $36,000 to the Motor Vehicle Account.

Accordingly, we recommend a total reduction of $77,000 for HOV lane and bypass ramp enforcement.

Clerical and Janitorial Staffing

We recommend a reduction of 10.5 personnel-years and $164,000 from the Motor Vehicle Account (Item 2720-001-044) requested for clerical and janitorial support because (1) the CHP request is overbudgeted, based on supporting documentation and (2) the department has budgeted additional clerical staff for offices with declining workload.

The patrol is requesting a total of $492,000 for additional clerical and janitorial services to support division and area office operations. This will increase staffing levels by 25.75 personnel-years for clerical functions and six personnel-years for janitorial activities.

Our analysis indicates that a discrepancy exists between the amount requested in the budget and the amount justified by supporting documentation. In addition, the department is requesting clerical positions for area offices where workload has actually *decreased*.

First, the department's budget proposes $406,000 to support the addition of (1) 8.75 clerical personnel-years at division offices and (2) 17 clerical personnel-years at area offices. The CHP supporting documentation, however, indicates that (1) only 5.75 personnel-years in additional clerical support will be required in division offices in 1983–84, and (2) only 12.5 personnel-years are necessary to meet clerical deficiencies at area offices. Consequently, the budget overstates the amount needed by $118,000 and 7.5 personnel-years, and should be reduced accordingly.

In addition, the department is requesting a total of 2.25 personnel-years for additional clerical support at area offices in Hayward, Madera, East Los Angeles, Indio, Santa Ana, Santa Cruz and Santa Maria. Our analysis of clerical workload in these offices indicates that the workload has *decreased* in the past year. There is no apparent basis, therefore, for adding clerical staff in these offices in the budget year. Consequently, the budget should be reduced by $35,000 and 2.25 personnel-years.

Finally, the budget requests $86,000 to support six additional personnel-years in janitorial services at area offices. Information provided by CHP indicates, however, that only 5.25 personnel-years in additional staff are justified, permitting a reduction of $11,000 and .75 personnel years.

Consequently, we recommend total reductions for clerical and janitorial staffing of $164,000 and 10.5 personnel years to eliminate overbudgeting.

FLIGHT OPERATIONS

The CHP has conducted air operations since 1969, when helicopters were purchased to assist traffic management in Los Angeles and San Francisco. Since then, the department has expanded its air support to include (1) four single-engine fixed-wing aircraft based in Coalinga, Barstow and El Centro, (2) three fixed-wing planes purchased with federal funds, which are used in conjunction with ground units to increase compliance with the 55 miles-per-hour speed limit, and (3) six helicopters, which are used for traffic management, regional law enforcement activities and search-and-rescue efforts.

Table 2 shows the staffing and expenditure levels for the flight operations element of the traffic management program. The personnel-years include 25 helicopter pilots, 13 fixed-wing pilots, and 24 observers who assist pilots during flight operations.

Table 2
Flight Operations Element
Staffing and Expenditures
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Percent Change*	*Proposed 1983–84*	*Percent Change*
Expenditures	$5,240	$7,168	36.8%	$7,214	0.6%
Personnel-years					
Uniform	61.5	62.2	1.1	62.2	—
Nonuniform	13.3	14.0	5.3	14.0	—
Totals	74.8	76.2	1.8	76.2	—

One Helicopter For the Price of Two

We recommend the deletion of $363,000 requested from the Motor Vehicle Account (Item 2720-001-044) for a replacement helicopter because funds for this replacement were appropriated in the 1982 Budget Act.

The CHP maintains six helicopters to assist its ground operations and allied agencies in various activities. Four helicopters, which are located in Redding, Sacramento, Fresno, and Barstow, provide "regional helicopter services" that support crime control, emergency medical services, and traffic management activities. These services are provided at no cost to state and local agencies. The other two helicopters, located in Van Nuys and Napa, concentrate mostly on traffic management in the Los Angeles and San Francisco Bay areas, respectively.

As part of its 1983–84 budget request, the department is proposing to replace the helicopter located in the Los Angeles area. The net cost of this helicopter is estimated to be $363,000.

No such funds are needed because the Legislature appropriated $505,000 in the current year to replace this same helicopter. According to the department, the Los Angeles helicopter will be replaced in May of 1983. Consequently, we recommend the deletion of $363,000 to correct for double-budgeting.

Need for Additional Regional Helicopter Service Not Proven

We recommend a reduction of the $23,000 requested from the Motor Vehicle Account (Item 2720-001-044) to convert a traffic management helicopter to regional service because the department has not substantiated the need for or evaluated the impact of the conversion.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

The Highway Patrol proposes to convert the Bay Area helicopter from traffic management to regional service in 1983–84. The CHP indicates that this conversion will permit the CHP to respond to emergencies and disasters in those areas where access by ground vehicles is difficult. In order to accomplish this conversion, the patrol is requesting a four-wheel drive, ¾ ton pickup equipped with a 200-gallon fuel tank. The truck-tank combination, described by the department as a "nurse rig", is meant to provide the CHP with the capability of fueling the helicopter in remote locations. This equipment is estimated to cost $21,200. The cost of additional life-support equipment increases the CHP's total request to about $23,000.

Our analysis indicates that converting the Bay Area traffic management helicopter to a "regional" helicopter is not warranted at this time. The department has not evaluated (1) how converting the helicopter to regional service will affect the department's ability to continue to provide current levels of traffic management, which is the department's primary responsibility, (2) the need for regional helicopter service in the Bay Area, and (3) the extent to which regional search-and-rescue, crime control, and evacuation efforts would duplicate services provided by other public and private agencies in the Bay Area.

On analysis also indicates that such services could be provided in the Bay Area with existing CHP regional helicopters. The department proposes to deploy auxiliary fuel tanks at Lake Berryessa and Clearlake in 1983–84, specifically to increase the distance that the regional helicopters stationed in Sacramento and Redding can travel in order to respond to emergencies. Consequently, the Sacramento and Redding helicopters could, if needed, respond to an emergency in and around those sections of the Bay Area where access by ground vehicles is difficult.

Accordingly, we recommend that the department's request to convert the Bay Area traffic management helicopter to regional service be denied, and that the funds proposed for this conversion be deleted, for a savings to the Motor Vehicle Account of $23,000.

REGULATION AND INSPECTION

The regulation and inspection program is composed of six activities. These activities include inspection of commercial vehicles, school buses, special purpose vehicles, hazardous materials carriers and farm labor vehicles. CHP personnel also enforce payment of proper registration fees by vehicle owners and drivers.

Table 3
Regulation and Inspection Program
Staffing and Expenditures
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Percent Change*	*Proposed 1983–84*	*Percent Change*
Program Expenditures	$21,219	$22,625	6.6%	$23,781	5.1%
Personnel-Years					
Uniformed	211.3	212.7	0.7	216.5	1.8
Nonuniformed	181.5	222.9	22.8	239.3	7.4
Totals	392.8	435.6	10.9	455.8	4.6

The budget proposes total expenditures of $23,781,000 for regulation and inspection in 1983–84, an increase of $1,166,000, or 5.1 percent, above current-year expenditures. The increase is spread among all program activities. Table 3 shows staffing and expenditures for the regulation and inspection program for the three years ending June 30, 1984.

On-Site Commercial Fee Collection

We withhold recommendation on the CHP's request for four traffic officers and $118,000 from the Motor Vehicle Account (Item 2720-001-044) to finance its continued participation in the On-Site Commercial Fee Inspection program, pending receipt of DMV's report on the program.

The California Highway Patrol and the Department of Motor Vehicles (DMV) jointly administer the On-Site Commercial Fee Collection program. This program is conducted at five border inspection facilities, and is intended to increase the registration compliance of commercial vehicles entering California from other states. The purpose of the program is to increase compliance with vehicle registration requirements by collecting fees at California's points of entry, rather than allowing vehicles to proceed on the presumption that the vehicle owners will pay the fees to DMV at a later date.

The Highway Patrol is authorized to detain a commercial vehicle at the inspection facilities if it appears that the vehicle is not in compliance with state registration laws. After a DMV employee has verified the registration status of a commercial vehicle in question and assessed any required fees, the CHP officer releases the vehicle from the inspection facility.

The CHP currently deploys four traffic officers to assist with the workload arising under the program. These officers are authorized only through June 30, 1983.

The CHP has requested $118,000 and permanent authorization for the four state traffic officers it currently uses to assist DMV personnel at facilities in Truckee (which has two CHP officers in the program), Cajon and Winterhaven. (The DMV also proposes continuation of 16.3 positions in the budget year in 1983–84. DMV's participation in this program is discussed more fully in our analysis of the DMV's budget, Item 2740.)

In 1981, when the on-site program was first proposed, we expressed concerns about (1) the statewide cost-effectiveness of the program and (2) the need for one of the officers proposed for Truckee and the officer proposed for Winterhaven. The cost, savings and workload data stemming from the first two years of operation have not alleviated these concerns.

According to the DMV, the revenue being generated at the Mt. Shasta, Truckee and Winterhaven inspection facilities narrowly exceeds the cost of operating the program at these facilities. This apparent conclusion, however, assumes that, in the absence of the on-site program, the revenue would not have been collected by any other means, such as voluntary compliance or by the regular observation program conducted by the CHP at inspection facilities. Consequently, the program may, in fact, not generate sufficient *additional* revenue to justify the costs.

In addition, we indicated in the 1981–82 *Analysis* that additional officers were not needed at Truckee and Winterhaven because existing staff at these facilities could stagger their hours to coincide with DMV work hours. This still appears to be possible.

The DMV planned to issue a report in late January which would address these issues and propose changes in the on-site collection program. At the time this *Analysis* was prepared, however, the report had not been released. Without information documenting the need for a cost effectiveness of the CHP's contribution to this program, we have no basis to recom-

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

mend approval of the four traffic officer positions requested by the CHP. Therefore, pending receipt of DMV's report on changes in the On-Site Commercial Fee Collection program, we withhold recommendation on CHP's request.

Truckee Facility Will Open in 1986

We recommend a reduction of 15 positions and $112,000 from the Motor Vehicle Account (Item 2720-001-044) requested for additional inspection activities because the proposed inspection facility at Truckee will not be operative in the budget year.

The Highway Patrol is requesting $112,000 for partial-year funding of 15 positions which would be stationed at a new inspection facility at Truckee. The budget indicates that the facility will begin operation in April, 1984.

Discussions with Caltrans staff and a review of the State Transportation Improvement Program, which lists all state highway and inspection facility completion dates, indicate, however, that the Truckee facility will not be ready until 1986. The CHP now agrees that the facility will not open until well after the budget year. Consequently, we recommend a reduction of $112,000 and 15 positions associated with operating the new facility at Truckee.

VEHICLE OWNERSHIP SECURITY

The California Highway Patrol is proposing expenditures of $6,483,000 in 1983–84 to support the Vehicle Ownership Security program. Most of the program resources are budgeted for the vehicle theft control element, which is aimed at recovering stolen vehicles by (1) assisting and training allied agency personnel in the investigation and recovery of stolen vehicles and (2) conducting public awareness programs and working with the automotive industry to reduce the incidence of vehicle theft. The budget also includes a vehicle identification number element, which identifies and renumbers vehicles when identification plates have been removed or are missing.

As Table 4 indicates, proposed budget year expenditures for this program represent an increase of $297,000, or 4.8 percent, above estimated current-year expenditures.

Table 4 displays proposed staffing and expenditure levels for the Vehicle Ownership Security program.

Table 4
Vehicle Ownership Security Program
Staffing and Expenditures
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Percent Change*	*Proposed 1983–84*	*Percent Change*
Program Expenditures	$6,272	$6,186	−1.4%	$6,483	4.8%
Personnel-Years:					
Uniformed	97.9	99.3	1.4	99.3	—
Nonuniformed	22.4	23.6	5.4	23.6	—
Totals	120.3	122.9	2.2	122.9	—

ADMINISTRATIVE SUPPORT

Proposed expenditures for administrative support are budgeted at $66,714,000, an increase of 8.2 percent over estimated current-year expenditures. The six elements of this program include administrative services, management and command, budget and fiscal management, planning and analysis, training and the Statewide Integrated Traffic Records System.

Administrative costs are prorated among the department's other three operating programs. Expenditure and staffing information for administrative support is presented in Table 5.

Table 5
Administrative Support Program
Staffing and Expenditures
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Percent Change*	*Proposed 1983–84*	*Percent Change*
Program Expenditures	$57,695	$61,659	6.9%	$66,714	8.2%
Personnel-Years:					
Uniformed	438.9	444.3	1.0	444.2	0.0
Nonuniformed	800.8	918.1	14.6	929.8	1.3
Totals	1,239.7	1,362.4	9.9	1,374.0	0.8

Telecommunications Costs

We recommend a reduction of $388,000 in telecommunication expenditures from the Motor Vehicle Account (Item 2720-001-044) because increased costs will not occur before January 1, 1984. We further recommend that the Legislature adopt Budget Bill language requiring the Director of Finance to give the fiscal committees and the Joint Legislative Budget Committee at least 10 days' prior notification before authorizing the expenditure of funds for telecommunications.

The department is requesting $1,726,869 to support anticipated communications cost increases. The Pacific Telephone Company has applied to the Public Utilities Commission (PUC) for rate adjustments, and the patrol indicates that if the telephone company's request is approved, a substantial increase in line costs can be expected.

According to the department, the company's request was rejected in 1982. The department indicates, however, that Pacific Telephone's application will be resubmitted to the PUC in March 1983. The commission's decision probably will not be issued until December, 1983, and any new rates approved by the PUC would go into effect on January 1, 1984. It is *possible*, however, that the commission would grant the company some lesser degree of interim relief, perhaps as early as September, 1983.

Consequently, the department's request should be reduced by 17 percent to reflect the fact that the potential increased rates will be in effect for, at the most, 10 months during 1983–84, for a reduction of $288,000. In addition, we note that the budget already includes a communications reserve of $100,000 to support unexpected price increases such as this one. Use of this reserve would further reduce the department's need for additional funds in the budget year by $100,000, permitting a total reduction of $388,000.

Accordingly, we recommend a reduction of $388,000 in the CHP's request for additional telecommunications funds. This would leave $1,339,000 in the support budget for communication cost increases. Due to the

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

uncertainty surrounding Pacific Telephone's application for rate increases, however, we further recommend the adoption of the following Budget Bill language to ensure that the requested funds are spent only for the intended purposes:

"Provided, that none of the $1,339,000 appropriated for telecommunications cost increases in 1983–84 shall be expended unless and until authorized in writing by the Director of Finance and 10 days' prior notification is provided to the Joint Legislative Budget Committee. Any unencumbered balance of this appropriation shall not be encumbered for any other purpose, and shall revert to the Motor Vehicle Account in the State Transportation Fund."

Operating Expenses Miscalculated

We recommend a reduction of $1,049,000 from the Motor Vehicle Account (Item 2720-001-044) because the department has budgeted for various operating expenditures in excess of the amount needed.

The Department of Finance annually issues guidelines to state agencies to assist them in the preparation of their operating expense budgets. Under the guidelines covering the preparation of the 1983–84 budget, departments could determine their 1983–84 operating expense requirements either by (1) increasing specified expenditure categories by specific percentage amounts over the 1982–83 authorized level, and inflating all remaining categories by 4 percent, or (2) increasing all categories by 5 percent over the 1982–83 authorized level.

As it usually does, the CHP chose the first alternative. The budget proposes to increase the department's budget year operating expenses by $3,759,000, or 6.2 percent, to reflect cost increases in individual expenditure categories above the 1982–83 levels.

Table 6

CHP Operating Expense Schedule
Overbudgeted Amounts

	Amount Budgeted	*Analyst's Projection* [a]	*Amount Overbudgeted*	*Nature of Error*
General Expense[b] (excluding minor equipment)	$503,254	$438,672	$64,582	Incorrect base year
Travel In-State[b]	196,750	184,602	12,148	Incorrect base year
Department of General Services[b]	378,302	175,572	202,730	Incorrect base year
Communications: Service Charges[c]	1,400,141	974,685	425,456	Incorrect base year
Communications: Use Charges[c]	1,332,643	1,093,719	238,924	Incorrect base year
Minor Equipment[d]	466,086	361,121	104,965	Incorrect cost factor
Totals	$4,277,176	$3,228,371	$1,048,805	

[a] Based on Department of Finance guidelines.
[b] Expenditures for Executive and Administrative Services Division.
[c] Expenditures for Field Operations.
[d] Department-wide expenditures.

An analysis of the department's calculations reveals that, in several categories, the department either applied a correct cost factor to the wrong base year, or applied an incorrect cost factor to the right base year. Table 6 displays the amount overbudgeted in six categories, and the nature of the error in each case.

Use of Incorrect Base Year. In five cases, the department applied the allowable cost factor to the wrong base year. In three instances, the department applied the general 4 percent increase to 1981–82 actual costs, even though Finance's guidelines instruct agencies to apply the increase to the 1982–83 authorized level. In all three cases, expenditures in 1981–82 were higher than 1982–83 authorized levels. As a result, applying the cost increases to the 1981–82 amount increases budget year totals to levels which exceed the allowable amount. The department did not provide any justification for such increases.

In the other two cases, communications costs were increased by 25% from current year levels, even though the guidelines instruct departments to apply this rate of increase to 1981–82 actual costs, which were lower.

Use of Incorrect Cost Factors. The CHP also applied an incorrect inflation factor to a current-year base. Beginning in the budget year, the Highway Patrol is distributing its minor equipment costs among all of the department's functional units to reflect accounting system changes. When we combined these expenditures, we found that the budget increased total minor equipment expenditures by 34 percent from current year levels. The Department of Finance's guidelines, however, instructed departments to budget for a 4 percent increase for this category of expenditure. This resulted in overbudgeting by $104,965. The department provided no justification for the higher equipment request.

Based on our review of the CHP's operating expense budget, we recommend a reduction of $1,049,000 to eliminate the amount the department has overbudgeted for price increases.

Rent Schedule Needs Adjustment

We recommend a reduction of $261,000 from the Motor Vehicle Account (Item 2720-001-044) rental and a reappropriation of $197,000 from 1982–83 to the 1983–84 budget because the department has overbudgeted the amount needed to lease facilities in the current and budget years. We further recommend the adoption of Budget Bill language establishing a rental reserve of $270,000 and reverting any unused portion of that amount to the Motor Vehicle Account.

The patrol will lease land, offices and other facilities at 60 locations in 1983–84. In addition, the department is proposing to purchase three facilities which it currently leases. Monthly charges and lease expiration dates are presented in the department's line-item budget.

Our review of the patrol's leasing schedule and discussions with personnel in the Division of Space Management (DSM) of the Department of General Services indicate that the budget-year cost of facility leases have been overbudgeted in both the current and budget years.

According to personnel at the Division of Space Management, difficulties often arise in attempting to predict what the department's leasing needs will be one or two years in advance. Obtaining a particular office or site usually depends on the ability of DSM and the department to reach an agreement with a particular property owner, a process which often takes months and sometimes is not concluded successfully. While we acknowledge these difficulties, we also note that the CHP has often budgeted amounts well above what one would reasonably expect to be needed in order to secure these leases.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

We recommend that the amount overbudgeted in the current year be reappropriated to the budget year, thereby reducing the amount of the new appropriation needed in the budget year. We also recommend further reductions to correct for overbudgeted lease costs in 1983–84. Our specific recommendations are displayed in Table 7 and discussed below.

Table 7
Adjustment to CHP Rental Schedule for Buildings

Facility	*Overbudgeted Amounts 1982–83*	*Overbudgeted Amounts 1983–84*	*Reserve for Purchased Facilities*
Alturas	$18,000	—	—
Mariposa	—	$9,000	—
Newhall	—	—	$84,000
Riverside	—	35,649	—
San Andreas	61,300	—	—
Santa Cruz	—	15,870	—
Santa Rosa	63,084	3,428	—
Stockton	—	—	54,413
Trinity River	54,759	—	—
West Los Angeles	—	—	132,000
Totals	$197,143	$63,947	$270,413

Proposed CHP leasing expenditures	$1,916,756
Less recommended reductions:	
Reappropriations for overbudgeted amounts, 1982–83	(197,143)
Overbudgeted amounts, 1983–84	(63,947)
Total recommended reductions	$261,090
Adjusted line-item total	$1,655,666
Recommended amount held in reserve	($270,000)

Alturas. The department has budgeted $2,400 per month in the current year to pay the leasing costs associated with the Alturas area office. Division of Space Management records indicate that the department is paying only $900 per month for this facility, a difference of $1,500 per month, or $18,000 in 1982–83. We recommend that this amount be reappropriated to the budget year, permitting a corresponding reduction in the appropriation for 1983–84. No reduction is warranted for the budget year, for which the CHP did budget the correct monthly rental.

Mariposa. CHP leasing plans call for the patrol to move into a new Mariposa facility on January 1, 1984, at a net cost of $4,920, which includes sublease payments made by DMV to the patrol. According to DSM, occupancy will not take place until March 1, 1984 at the earliest. Allowing for continued occupancy at the current facility during January and February, the delay will result in net savings of $9,000 in lease expenditures. We recommend a reduction of this amount in 1983–84.

Riverside. The 1982–83 Budget Act appropriated $900,000 to the CHP to purchase the Riverside area office. The department is continuing to budget leasing funds of $35,649 for this facility in 1983–84, even though the expected purchase date is July 1, 1983. Thus, funds to lease this facility in the budget year are unnecessary. Accordingly, we recommend a reduction of $35,649 in the 1983–84 appropriation.

San Andreas. According to DSM, current leasing costs for the CHP facility in San Andreas are $850. The CHP has budgeted a monthly rent of $9,000, resulting in overbudgeting of $8,150 per month. The CHP, however, will move into a new facility on March 1, 1983 which will increase monthly rent to $9,975, or $975 more per month than the patrol has budgeted for March 1 through June 30. The miscalculation of current-year leasing costs results in net overbudgeting of $61,300. We, therefore, recommend that $61,300 be reappropriated to the budget year and that this same amount be reduced from CHP's 1983–84 appropriation.

Santa Cruz. The Legislature approved the purchase of the Santa Cruz office in 1982. The patrol indicates that the state should assume ownership of this building by the end of the current fiscal year, thereby eliminating the need for future leasing expenditures by the CHP in Santa Cruz. Nonetheless, the department has budgeted $15,870 to pay rent for the first two months of the budget year. On this basis, we recommend that $15,870 be reduced from the department's 1983–84 budget.

Santa Rosa. The Highway Patrol has budgeted $121,644 in 1982–83 to lease the Santa Rose area office. A review of the CHP lease, however, reveals that only $58,560 is being expended to lease this facility in the current year, a difference of $63,084. We, therefore, recommend that $63,084 be reappropriated from the current year to 1983–84 and that the budget year appropriation be reduced by this amount. Furthermore, the patrol has budgeted 1983–84 expenditures at $62,675, or $3,428 more than the CHP lease requires in 1983–84. We also recommend that this amount be deleted.

Trinity River. Completion of a new shared facility for the CHP and the Department of Motor Vehicles is planned for April 1983. The total 1982–83 cost of renting the existing facility until April and renting the new facility afterwards is $29,241. The CHP, however, has estimated expenditures of $84,000 for 1982–83, or $54,759 more than is required. We recommend that $54,759 be reappropriated to the budget year and that an equal amount be eliminated from the 1983–84 budget.

Purchase of Leased Facilities. The department proposes to purchase currently-leased facilities in Newhall, Stockton, and West Los Angeles. If these purchases are approved, most of the rental funds budgeted for these facilities ($270,000) will not be needed. The amount of rental funds that *will* be needed depends on the length of time it takes to negotiate the purchase of each facility. To ensure that only that portion of these funds actually needed for rental payments is expended, we recommend the adoption of Budget Bill language which (1) establishes a rental reserve of $270,000 for the three area offices that are proposed for purchase, and (2) reverts unused rental funds in this reserve to the Motor Vehicle Account. By establishing a reserve, the Legislature makes sufficient rental funds *available* for any timetable, but limits expenditures to the actual amounts required. Specifically, we recommend that the following Budget Bill language be adopted:

> "Provided that a rental reserve of $270,000 be established for the Newhall, Stockton and West Los Angeles offices that are proposed to be purchased in 1983–84. If actual leasing costs are less than the amount of reserves provided in this item, any unencumbered balance shall not be encumbered for any other purpose and shall revert to the Motor Vehicle Account, State Transportation Fund."

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Minor Equipment Can be Reduced

We recommend a reduction of $135,000 from the Motor Vehicle Account (Item 2720-001-044) because funding for specified equipment items can be deleted without reducing the effectiveness of the department's operations.

The CHP is proposing equipment expenditures of $13,043,000 in 1983–84. Examination of the equipment schedule indicates that a reduction of $135,000 in equipment expenditures is warranted because the department overbudgeted equipment in four areas.

Sirens. The CHP proposes to purchase 96 electronic sirens in 1983–84, at a cost of $48,000. These sirens are placed in enforcement vehicles as a means of signaling motorists and pedestrians to pull off the road. In 1982–83, the patrol purchased 960 sirens, and the department indicates that the additional 96 are needed to completely equip the 1,056 patrol cars that the CHP said in its documentation for the siren purchase it would replace in the budget year. The department's budget, however, only includes enough funds to purchase 857 patrol cars in the budget year. This reduced level of vehicle replacement eliminates any need for additional sirens. We, therefore, recommend deleting funds for the 96 sirens from the equipment schedule, for a savings of $48,000 to the Motor Vehicle Account.

Cameras. Over the last three years, the department has purchased over 380 cameras. In the budget year, the department is requesting $65,000 to replace 134 cameras and purchase 31 additional cameras, at an average cost of nearly $400 per camera. The CHP states that cameras are needed to produce photographic evidence to be used in court.

We acknowledge that photographs are a valuable means of presenting evidence in court cases. We question, however, whether it is appropriate to purchase the 165 cameras requested in the budget year, given the volume of cameras purchased in the past three years. If cameras purchased since 1980 were evenly distributed among all CHP area offices, every office would now have four cameras which could be used to photograph evidence. Enough cameras will be purchased in 1982–83 alone to provide each office with an average of two new cameras. The department contends that the requested cameras would permit it to continue providing one camera for every six traffic officers. The department, however, did not provide us with any data on actual usage which would justify such high levels of deployment. In the absence of any information documenting the need for additional cameras, we recommend that no new cameras be purchased in 1983–84, for a savings of $65,000.

Soft Body Armor Carriers. The department is requesting $58,240 to replace 4,200 soft body armor carriers. The carriers, made of polyester and cotton, are worn in conjunction with bullet-proof vests. The carriers must be worn underneath the vests in order to prevent the vests from becoming soiled, and thereby less resistant to bullets. In addition, the department is proposing $546,000 for the replacement of 3,500 armor sets, each of which will include a bullet-proof vest and three accompanying carriers. We recommend approval of these requests.

The equipment schedule, however, proposes an additional expenditure of $13,500 for the purchase of armor carriers for executive and administrative personnel. Based on the department's unit cost estimates, $13,500 would buy enough equipment for 321 uniformed employees. There are, however, only 29 uniformed personnel in the Executive and Administrative Division. It appears that the patrol is requesting a surplus of 292 carriers. We recommend a reduction of $12,000 to reflect deletion of these 292 soft body armor carrier sets.

MIS Terminals at Inspection Facilities. The department is proposing to equip five inspection facilities with computer terminals which will have access to the CHP's Management Information System (MIS). A total of seven terminals will be purchased, at a cost of $35,000. The department has indicated that it needs faster access to and transmission of data, such as registration and drivers license information, at the five facilities. Currently, these stations must depend on telephone calls to obtain this information. The department is requesting that the Cordelia and San Onofre facilities each receive two terminals because these facilities operate stations on both sides of the highway.

The placement of *two* terminals at these facilities appears to be an excessive use of resources. Inspection facilities would use the equipment only occasionally. It would appear, therefore, that a more cost-effective approach would be to place a terminal at one station of each facility and require that the remaining station use the telephone to receive information from the station with the terminal. Consequently, we recommend that the Cordelia and San Onofre inspection facilities each be equipped with only one terminal, for a savings of $10,000.

Miscellaneous Reductions

We recommend a reduction of $108,000 from the Motor Vehicle Account (Item 2720-001-044) for various overbudgeted expenses.

Our analysis of the department's budget revealed technical or other budgeting errors in three areas. Adjusting the budget to eliminate these errors would reduce department expenditures by $108,000.

Flare Purchase. The budget includes $678,000 to purchase flares used in traffic management. Our review indicates that in fact the CHP intends to spend only $628,000 for flares in the budget year. We therefore recommend that the $50,000 difference be deleted from the CHP's budget.

Data Processing Personnel. According to the patrol, additional personnel will be required in 1983–84 to provide data processing support for various computer functions performed at CHP headquarters. The department has requested $143,000 to pay the salaries and benefits of these positions. Our analysis of the department's calculations reveals, however, that personnel costs associated with the requested positions will total $95,000, or $48,000 less than the budgeted amount. Consequently, we recommend a reduction of $48,000 to correct the overbudgeting.

Cargo Tank Inspections. Pursuant to Ch 1255/82 (AB 2457), the responsibility for inspecting cargo tanks carrying flammable liquids was transferred from the State Fire Marshal to the CHP on January 1, 1983. The CHP is requesting $495,000 and 14.5 personnel-years in the budget year to administer the inspection program. As part of its request, the Highway Patrol has budgeted the salary for some of its new inspection positions at one step above the entry level, because the department assumed that personnel will have been employed for six months in the current year and thus be eligible for a merit salary adjustment in the budget year. The department recently indicated, however, that inspection staff will not be hired until July 1983. Consequently, the $10,000 requested for a merit salary adjustment in the budget year will not be needed. We recommend a reduction of this amount.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

DEFICIENCY PAYMENT

We recommend approval.

Section 42272 of the Vehicle Code prohibits the creation of deficiency payments in support of this department. Moreover, the department cannot obtain additional funds from the Emergency Fund. The Legislature, recognizing that emergencies could occur in a department of this size, has provided funds each year which may be used for any approved deficiency. The budget proposes $2,000,000 for this purpose in 1983–84.

The Joint Legislative Budget Committee must be notified at least 30 days before the authorization of funds for *contingency* expenditures, and within 10 days after the authorization of funds for *emergency* expenditures. No expenditures have ever been authorized from this item.

ADVANCE PURCHASE AUTHORIZATION

We recommend approval.

Because the automotive model year and the state's fiscal year do not coincide, the California Highway Patrol must on occasion order cars in one fiscal year for delivery in the next. This item provides the department with the authority to incur automotive purchase obligations up to $5,000,000 in 1983–84 for vehicles to be delivered in 1984–85. No funds have ever been expended under this procedure. It provides authorization only, with actual expenditures made from the department's regular budget in the years affected.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY

Item 2720-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 106

Requested 1983–84	$3,529,000
Recommended approval	340,000
Recommended reduction	240,000
Recommendation pending	2,949,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Golden Gate Division Office and Communications Center. Reduce Item 2720-301-044(a) by $171,000.* Recommend deletion of proposed preliminary planning funds because project has not moved forward in the current year, and funds for preliminary plans have already been provided by the Legislature. 431
2. *Oakland Area Facility. Reduce Item 2720-301-044(e) by $32,000.* Recommend reduction to eliminate overbudgeted funds and excessive amount for fees. Further, withhold recommendation on the remaining $33,000, pending receipt of information justifying proposed site development work and 432

clarifying the allocation of space in the proposed building.

3. Purchase of Leased Facilities. Withhold recommendation on Items 2720-301-044(b), (c) and (d) for purchase of leased facilities in Newhall, West Los Angeles, and Stockton, respectively, pending receipt of preliminary appraisals and estimated administrative costs. 433
4. Property Options. Recommend that the Budget Bill be amended to allow expenditure of proposed funds for property appraisals. 435
5. ***Minor Projects. Reduce Item 2720-301-044(g) by $37,000.*** Recommend deletion of one project which will not achieve stated goal. 436

ANALYSIS AND RECOMMENDATIONS

The budget proposes $3,529,000 under Item 2720-301-044 for the Department of the California Highway Patrol (CHP) capital outlay program. Included in this total is $3,152,000 for five major capital outlay projects, $350,000 for six minor projects, and $27,000 for appraisals and purchase options for future construction sites. Table 1 summarizes the department's proposal and our recommendations.

Table 1
Department of the California Highway Patrol
1983–84 Capital Outlay Program
Item 2720-301-044
(in thousands)

Project Title	*Phase*[a]	*Budget Bill Amount*	*Analyst's Proposal*	*Estimated Future Cost*[b]
Golden Gate Division Office and Communications Center	p	$171	—	$4,351
Oakland area facility	p	65	pending	1,100
Newhall—purchase leased facility	a	905	pending	35
West Los Angeles—purchase leased facility	a	1,163	pending	40
Stockton—purchase leased facility	a	848	pending	56
Property options	a	27	27	—
Minor projects	pwc	350	313	—
Totals		$3,529	pending	$5,582

[a] Phase symbols indicate: a = acquisition, p = preliminary plans, w = working drawings, c = construction.
[b] Department's estimate.

A. Field Office Construction Program

Two projects in the department's budget involve planning activities related to the future construction of new field office facilities. Specifically, $171,000 is being requested for continued planning of the Golden Gate Division Office and Communications Center, and $65,000 is requested for preliminary plans for a new Oakland area facility.

Golden Gate Division—Communications Center and Division Office

We recommend that Item 2720-301-044(a), preliminary plans, Golden Gate Division Office and Communications Center, be deleted because (1) the project has not moved forward in the current year, and (2) the Legisla-

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

ture has already provided funds for this purpose, for a savings of $171,000.

Item 2720-301-044(a) provides $171,000 for preliminary plans for the new Golden Gate Division Communications Center and Division Office. This facility will provide consolidated space for the radio dispatch function and the division office of the Golden Gate Division. These functions currently are housed at four locations in the Bay Area: Oakland, San Jose, Santa Rosa, and San Francisco.

The 1982 Budget Act provided $706,000 to begin work on this project. Of this amount, $598,000 was appropriated for site acquisition and $108,000 was provided for preliminary planning. The Legislature adopted supplemental report language which provides for a 32,000 square foot building, and excludes certain items of work which had been proposed by the department.

Status of Project. At the time this *Analysis* was prepared, the department had not yet acquired a site for the new facility. Consequently, the Office of State Architect had not begun work on the preliminary plans for the project. Moreover, the OSA indicated that the preparation of a budget package for this project had not been authorized. Consequently, we have no cost information on this project other than what was presented to the Legislature last year.

In addition, it is not clear why the budget is requesting additional funds for preliminary funds, given the $108,000 provided by the Legislature for this purpose in 1982–83. If the department fails to obtain release of the 1982–83 planning funds before the end of the current year, these funds should be reappropriated. A new appropriation for this purpose is not needed.

Because (1) the project has not moved forward in the current year, (2) preliminary planning funds have already been provided, and (3) no updated cost information is available, we recommend that the proposed funds be deleted, for a savings of $171,000.

Oakland Area Facility

We recommend that Item 2720-301-044(e), preliminary plans, Oakland, be reduced by $32,000 to eliminate overbudgeted funds and excessive fees. Further, we withhold recommendation on the remaining $33,000, pending the receipt of information justifying extensive site development work and clarifying the allocation of space in the building.

The budget includes $65,000 under Item 2720-301-044(e) for the preparation of preliminary plans for a new field office in Oakland. The existing Oakland office is a modular building on a state-owned site on Telegraph Avenue. Under the department's proposal, the modular facility will be demolished following the completion of the new building. The proposed replacement facility would comprise 9,100 square feet of office space and a 3,300 square foot carport.

The department indicates that the modular facility was first occupied in 1968, with the intention of replacing it after 10 years of service. The department further states that the structure has deteriorated to the extent that it is not economical to spend additional funds to rehabilitate it. The department cites the following specific problems with the building:

1. The roof has required continuous repairs to correct leaking. The department indicates that this problem has been compounded by the

installation of air conditioning units and skylights on the roof.
2. The heating and air conditioning system requires frequent repairs.
3. Because the foundation has settled, the floors are uneven throughout the building.
4. The walls are thin and present a security problem.
5. There is a limited amount of telephone and electrical capacity.

Need for Extensive Site Work Unclear. The total project cost of $1,165,000 includes $246,000 for site development work. Included in this amount are funds for grading, drainage, area lighting, landscape sprinklers, landscaping, and a change in the location of the fuel dispensing system. It is not clear why extensive site work needs to be done for this project. The department has operated a field office at this site for 15 years. Moreover, the proposed amount of site development represents 28 percent of the total contract cost of this project. We recommend that, prior to hearings on the Budget Bill, the department clarify the need to do this work.

Problems with Space Allocation. The plans submitted for this project provide for allocations of space which exceed the levels specified in the State Administrative Manual (SAM) and the guidelines provided by the CHP. For example, the captain's office comprises 186 square feet and the field lieutenant is provided 180 square feet. The SAM indicates, however, that only executives and administrators at the division chief level and above are provided offices of more than 150 square feet. Moreover, CHP's standard plans for a 100-traffic officer facility provide only 150 square feet for the captain and 120 square feet for the field lieutenant. Furthermore, interview space amounting to 192 square feet is provided in the Oakland plans. This is more than two times the amount requested by the department (64 square feet). Prior to hearings on the Budget Bill, the department and the OSA should provide an explanation of the standards used to allocate space in the building.

Excessive Fees and Contingency. The OSA's estimated total project cost includes an amount for architectural and engineering fees and construction contingency equal to 22 percent of contract cost. We have repeatedly recommended that an amount equal to 18 percent of the estimated contract should be sufficient to cover these costs for this type of project. The Legislature generally has approved these recommendations. We have also repeatedly requested OSA to provide information justifying fee and contingency requests in excess of 18 percent. No such information, however, has been received in connection with this project. Based on the 18 percent funding level the OSA should need only $33,000 for planning purposes. Consequently, we recommend deletion of $32,000 in excessive fees. If the OSA believes an additional amount is warranted for contingency and fees, it should submit supporting information prior to budget hearings.

We withhold recommendation on the remaining $33,000 pending receipt of the information identified above.

B. Purchase of Leased Facilities

We withhold recommendation on Items 2720-301-044(b), (c), and (d), purchase lease facilities in Newhall, West Los Angeles, and Stockton, respectively, pending receipt of preliminary appraisals and estimated administrative costs from the Department of General Services, Real Estate Services Division.

The department is requesting $2,916,000 to purchase three area facilities which it currently occupies. The department is proposing to acquire the

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

field offices which are located in Newhall, West Los Angeles and Stockton. Table 2 shows the department's budget request broken down by the estimated acquisition cost and administrative cost, the present annual rental, and the lease expiration date for each location.

Table 2

Department of the California Highway Patrol Proposed Purchases of Leased Facilities

Location	*Budget Request* *Acquisition* [a]	*Budget Request* *Administrative* [a]	*Present Annual Rental*	*Lease Expiration Date*
Newhall	$890,000	$15,000	$84,000	1/31/85
West Los Angeles	1,138,000	25,000	132,000	9/31/84
Stockton	833,000	15,000	52,000	2/29/84

[a] Estimate by the CHP, but not verified by Real Estate Services.

To properly analyze these acquisitions proposals, the present worth of projected rental rates should be compared to the present worth of acquisition costs less the estimated residual value of the property. This information should be provided prior to budget hearings. Each project is discussed individually below.

Newhall Area Facility. Item 2720-301-044(b) would provide $905,000 for the purchase of the currently leased CHP office in Newhall. Construction of the facility was completed in early 1968, at which time the patrol accepted and occupied the building. The lease on this facility recently was renegotiated for a two year term at a cost of $84,000 per year, and the owner has indicated that he may be willing to sell the facility. The department indicates that the facility, which was constructed to house 50 traffic officers and supporting staff, is satisfactory for continued occupancy for at least 12 years. The department further indicates that minor alterations for handicapped compliance and to provide space for female officers will be needed in the near future. These alterations would have to be performed regardless of whether the state purchases the facility or continues to lease it.

The present value of projected rental costs over the next 12 years is $750,000. The Department of General Services, Real Estate Services Division (RES), has not yet completed its preliminary appraisal of the property. Consequently, it is impossible to calculate the present worth of acquisition costs and building maintenance costs at this time. This information should be available to the Legislature prior to hearings on the Budget Bill. We withhold recommendation on this project until we have had the opportunity to review the RES appraisal and proposed charges for acquisition.

West Los Angeles Area Facility. Item 2720-301-044(c) would provide $1,163,000 to purchase the currently leased facility in West Los Angeles (Culver City). This 100-traffic officer facility was constructed and first occupied by the patrol in 1967. To allow the patrol time to acquire the property, a short-term lease recently was renegotiated at a rental rate of $132,000 per year. Because the owner is not willing to sell, the department intends to acquire the property through condemnation.

Minor modifications, estimated at $40,000, will be necessary to bring the building into compliance with handicapped standards and to provide equitable locker space for female traffic officers. These alterations would be necessary regardless of whether the state continues to lease the facility or acquires it outright.

Over the next twelve years of anticipated occupancy, the state would make rental payments with a present value of $1.1 million. The CHP estimates that it will cost $1,163,000 to acquire this facility. However, this estimate is not based on a preliminary appraisal by the RES. Until the RES estimate and information on proposed administrative charges are available for our review, we have no basis for evaluating this project. This information should be available for our review prior to hearings on the Budget Bill. Consequently, we withhold recommendation on this project until we have received and reviewed the appraisal and estimate of administrative charges.

Stockton Area Facility. The budget includes $848,000 under Item 2720-301-044(d) for the purchase of the currently leased facility in Stockton which the owner has agreed to sell to the state. The department indicates that this facility was constructed and first occupied by the patrol in 1967. The department further indicates that this 75-traffic officer facility will be adequate for occupancy by the patrol for at least 13 years after purchase. Minor alterations estimated at $56,000 will be necesssary to provide for handicapped compliance and to provide locker room facilities for female traffic officers.

The lease for this facility recently was renegotiated at an annual rate of $52,000 for a term ending in February 1984. In its justification for acquiring the facility, the department estimates an annual rental rate of $102,000 starting in 1984, increasing on each five-year anniversary date. This results in a present worth of rental payments amounting to $793,000 for the 13-year period. Given the recently renegotiated rate of $52,000, we believe that the department's estimated rental rate is too high. Under the assumption that the $52,000 annual rental rate is a fair market price and that this rate will increase an average of 5 percent per year over time, we estimate the present worth of rental payments to be $488,000.

The RES has not yet completed its preliminary appraisal of the property. This appraisal and information on RES administrative charges should be available to the Legislature prior to hearings on the Budget Bill. Consequently, we withhold recommendation on this item until we have had a chance to review the necessary information.

C. Miscellaneous Projects

Property Options—Various Areas

We recommend that the Budget Bill be amended to allow expenditure of the proposed funds for property appraisals as well as for property options.

The budget includes $27,000 under Item 2720-301-044(f) for the Highway Patrol to use in securing options on property for proposed major capital outlay projects. Budget language is included under this item restricting the use of these funds to projects which are to be included in the Governor's 1984–85 Budget. Supporting information provided by the department indicates that the proposed appropriation consists of $10,000 for property options and $17,000 for property appraisals.

The land acquisition phase of capital outlay projects often is delayed because of the extended time needed for site evaluation, site selection, negotiations, appraisals, and settlements. The time needed for this process

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

can be reduced if the department can secure an option to purchase the site being considered for a project. This appropriation will allow the department to obtain an initial appraisal and acquire a purchase option for a viable site, once funds have been included in the Governor's Budget for acquisition. In this way, a firm funding level for the acquisition can be established.

While some additional costs could result from staff time expended on projects that are subsequently denied by the Legislature, these costs would be more than offset by the savings made possible by reducing the acquisition time for approved projects. Because of the potential benefits resulting from this accelerated process, we recommend approval of the proposed funds. We further recommend that the Budget Bill be amended to *specify* that the $27,000 can be used for property options *or* property appraisals for projects which are to be included in the Governor's 1984–85 Budget.

Minor Projects

We recommend deletion of $37,000 for one minor project because the department's proposal will not achieve the stated goal.

Item 2720-301-044 (g) would provide $350,000 to the Highway Patrol for six minor capital outlay projects. These projects are shown in Table 3. We recommend approval of all but one of these projects.

Table 3
Department of the California Highway Patrol
Minor Capital Outlay Projects

Project Title	*Location*	*Budget Bill Amount*
Modifications to accommodate female traffic officers	Various	$143,000
Handicapped accessibility modifications	Various	98,000
Impact attenuators—high-speed track	Academy	35,000
Additional "S" curve—high-speed track	Academy	37,000
Replace damaged storage building	Mt. Pass	2,000
Install aviation fuel tank	Inland division	35,000
Total		$350,000

High-Speed Track Modification—Academy. The department is requesting $37,000 to construct an additional "S" curve in the high-speed driving track at the academy. The department indicates that student drivers can memorize the variations in the performance driving track in a relatively short period of time. The students can then respond through habit with the correct vehicle control measures to safely negotiate the track. The department feels this situation effectively neutralizes both the training and evaluation of student drivers, and proposes to construct an additional "S" curve so that students will be confronted with an unfamiliar roadway situation.

Our analysis indicates that the department's proposal will not adequately address the identified problem. While the new curve would be unfamiliar to students who have trained on the existing track, students who train on the track after the new curve is installed will be able to learn the necessary reactions to negotiate this curve as well. Hence, the new students will not be faced with the unfamiliar roadway situation which the department is attempting to achieve. Because the proposed modifications will not achieve the stated goal, we recommend that the $37,000 for this project be deleted.

Business, Transportation and Housing Agency

DEPARTMENT OF MOTOR VEHICLES

Item 2740 from the Motor Vehicle Account, State Transportation Fund and various funds — Budget p. BTH 108

Requested 1983–84	$235,119,000
Estimated 1982–83	208,171,000
Actual 1981–82	185,907,000
Requested increase (excluding amount for salary increases) $26,948,000 (+12.9 percent)	
Total recommended reduction	4,818,000
Recommendation pending	$923,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2740-001-001	Anatomical donor designation, petit jury selection	General	$40,000
2740-001-044	Departmental Operations	Motor Vehicle Account, State Transportation Fund	170,329,000
2740-001-064	Collection of Vehicle Use Taxes	Motor Vehicle License Fee Account, Transportation Tax Fund	62,246,000
2740-001-378	Bicycle Registration	State Bicycle License and Registration Fund	28,000
2740-001-516	Undocumented Vessel Registration	Harbors and Watercraft Revolving Fund	2,476,000
2740-011-044	Reserve for deficiencies	Motor Vehicle Account State Transportation Fund	(1,000,000)
Total			$235,119,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Staffing Need Projection. Reduce Item 2740-001-044 by $2,088,000 and 117.6 personnel-years.*** Recommend reduction because the department appears to have overstated its staffing needs for registration and licensing programs. 440
2. ***Salary Savings. Reduce by $1,000,000.*** Recommend reduction because the departmental salary savings estimate is below what the department has actually experienced since 1976. 443
3. On-Site Commercial Fee Collection Program. Withhold recommendation on continued funding for this program, pending receipt of a department report containing proposals for improving program effectiveness. (Pending $403,000) 444
4. ***Bad Checks. Reduce by $220,000 and 12.5 personnel-*** 445

DEPARTMENT OF MOTOR VEHICLES—Continued

years. Recommend reduction because department has not budgeted savings expected from new check collection procedures. Further recommend that the department reconsider two alternatives for reducing the volume of dishonored checks.

5. ***Computer Equipment. Reduce by $33,000.*** Recommend reduction because the department failed to budget for a price reduction associated with a contract for leasing computer hardware. 449
6. ***Provisional Licensing. Reduce by $256,000.*** Recommend reduction to Item 2740-001-044 (Motor Vehicle Account) because federal funds are available to support provisional licensing program. Withhold recommendation on Commercial Registration Renewal program, pending receipt of department's report to the Legislature on March 1, 1983. (Pending $520,000) 450
7. ***Occupational Licensing and Regulation. Reduce by $593,000 and 16.4 personnel-years.*** Recommend deletion because requested increase is not justified on a workload basis. 452
8. Office of Administrative Hearings Costs. Recommend enactment of legislation which authorizes the department to recover the cost of administrative hearings when its decision is upheld. (Potential Savings: $217,000 annually.) 453
9. Targets of Opportunity. Recommend adoption of supplemental report language requesting the department to develop a "Targets of Opportunity" memorandum for use in preparing its 1984–85 budget. 455
10. ***Building Security. Reduce by $57,000.*** Recommend reduction because the department has erroneously calculated the amount needed for building security. 456
11. ***Leasing Costs. Reduce by $497,000.*** Recommend reduction of $497,000 and a reappropriation of $225,000 in 1982–83 funds because the department has overstated its leasing costs in the current and budget years. Further, recommend adoption of Budget Bill language creating a rental reserve of $297,000 for facilities where leasing costs are tentative. 456
12. ***Miscellaneous Reductions. Reduce by $74,000 and reduce level of reimbursements by $39,000.*** Recommend reduction because the department has overbudgeted expenses associated with minor repairs and printing requests. Further recommend a reduction of $39,000 in level of reimbursements and 1 personnel-year because of reduced work for others. 460

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest and promoting public safety on California's roads and highways. The department includes the Divisions of Drivers Licenses, Field Office Operations, Administration, Electronic Data Processing, Registration and Compliance. Through these divisions, the department administers the following programs: (1) Vehicle and Vessel Registration and

Titling, (2) Driver Licensing and Control, and Personal Identification, (3) Occupational Licensing and Regulation, and (4) Administration. In addition, the New Motor Vehicle Board operates as an independent agency within the department.

In the budget year, the department will operate 155 field offices in 15 districts throughout California, as well as a headquarters facility in Sacramento. The department has 7,489.5 authorized positions in 1982–83.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $235,119,000 from various funds for support of the Department of Motor Vehicles in 1983–84. This is an increase of $26,948,000, or 13 percent, over estimated expenditures in the current year. This increase will grow by the amount of any salary or benefit increase that may be approved for the budget year.

The budget also proposes expenditures of $17,312,000 from reimbursements for services the department will provide to other agencies and the public. This results in a total proposed expenditure program of $252,431,000, an increase of $26,868,000, or 12 percent, over total expenditures in 1982–83.

Authorized positions for the Department of Motor Vehicles in 1983–84 are budgeted at 7,895.9, compared to 7,489.5 in the current year. This represents a net increase of 406.4 positions or 5.4 percent.

Significant Program Changes

The department is proposing 10 significant budget changes in 1983–84. Table 1 identifies these changes, and indicates the staffing and fiscal consequences of each.

Table 1
Department of Motor Vehicles
Significant Program Changes
(dollars in thousands)

Program Change	*Personnel-Years*	*Cost*	*Revenue-Producing*	*Nature of Change*	*Cause of Change*
1. DMV automation—Phase II (registration)	52.8	$8,817	No	Program expansion	Department
2. DMV automation—Phase III (drivers licenses)	6.0	193	No	Program expansion	Department
3. Reflectorized license plates	86.8	6,761	Yes	Program expansion	Ch 696/79
4. Registration compliance—foreign vehicles	17.8	401	Yes	Reauthorization	Department
5. On-site commercial fee collection	16.3	403	Yes	Reauthorization	Department
6. Provisional licensing—young adults	7.2	256	No	New program	Ch 776/82
7. Common registration	29.2	520	Yes	New program	Ch 757/82
8. Driver license extensions	−47.1	−1,153	No	Reduced workload	Ch 776/82
9. Reduction of legal staff	−4.5	−217	No	Reduced need	Department
10. Workload adjustment	331.2	−574 [a]	No	Increased workload	Department
Net Totals	495.7	$15,407			

[a] Net reduction due to reduced expenditures in equipment and operating expenses.

DEPARTMENT OF MOTOR VEHICLES—Continued

Staffing Needs Appear to be Overstated

We recommend a reduction of $2,088,000 and 117.6 personnel-years because the department appears to have overstated its staffing requirements for field office registration and licensing activities.

In preparing its budget, the Department of Motor Vehicles each year determines to what extent budget-year staffing requirements will differ from those in the current year. The size, nature and volatility of DMV's workload necessitates these adjustments in order to avoid a significant shortage or surplus of personnel.

In projecting its 1983–84 staffing needs, DMV made certain assumptions regarding the economy, new and used car sales, and the general public demand for DMV services. Such assumptions serve as the key indicators for the workload that DMV anticipates processing in the budget year.

In estimating the staffing requirements for 1983–84, the department (1) applied 1981–82 *workload standards* to projected workload volumes, (2) weighted the results according to the time it takes to process each element of workload, and (3) produced a staffing projection for 1983–84. This projection was then compared to revised 1982–83 staffing levels for various programs to develop the *workload adjustment* for 1983–84.

Registration and Licensing Activities at Field Offices Represent Largest Increase. Major workload adjustments for 1983–84 include a 158.8 personnel-year increase for the registration and titling program, and a 149.5 personnel-year increase for the drivers licensing and control program. Increases in field office operations will account for 256 personnel-years, or 83 percent, of the total increase in staffing for the registration and licensing programs. The increase in field office staffing represents a weighted workload adjustment of 7.4 percent. Table 2 shows the computation used to determine the staffing increases needed.

Table 2

Department of Motor Vehicles

Weighted Workload Adjustment Methodology Used for Registration and Licensing Programs (Field Offices)

1981–82 and 1983–84

Workload Indicator	*1981–82 Estimated*[a]	*1983–84 Proposed*	*Weighted Percent of Total*	*Percent Change*	*Weighted Percent Change*
Registration:					
New vehicles	1,193,500	1,383,300	4.4	15.9	0.7
Nonresident vehicles	313,200	343,100	5.9	9.5	0.6
Potential renewals	4,618,000	4,161,000	16.3	–9.9	0.3[b]
Normal renewals	2,667,000	2,760,000	4.3	3.5	0.2
Transfers	3,290,000	3,423,000	21.5	4.0	0.9
Licensing:					
Originals	850,000	902,000	19.8	6.1	1.2
Renewals	2,278,000	2,596,000	16.3	14.0	2.3
Duplicates and corrections	922,000	976,000	7.7	5.9	0.5
ID card originals	575,000	679,000	3.8	18.1	0.7
Totals	16,706,700	17,233,400	100.0		7.4

[a] Based on 9 months' actual data.

[b] Technical adjustment to reflect shifting of more complex renewals to field offices.

Our analysis indicates that the workload projections made for the budget year are extremely optimistic given (1) the overall state of the economy, (2) the level of new and used car sales over the past 24 months, and (3) the level of public demand for DMV services since 1981. Although increases can be expected in all three of these areas during 1983–84, it appears to us that the increases will not be as large as the department projects. Accordingly, we conclude that DMV's estimate of staffing needs for 1983–84, especially at the field office level, is not justified on a workload basis.

Recent Workload Activity. In reviewing workload data for the first 11 months of 1982, we found that 8 of the 12 major workload indicators which dictate DMV staffing needs were lower than they were in the same 11 months during 1981. Two of the areas which have increased, enhanced registration renewals and driver license extensions, have little or no impact on field office operations, where, according to the department's projections, over 83 percent of the increased registration and licensing workload is expected to occur.

During the first 11 months of 1982, the department experienced declines in such workload areas as new vehicle registration (−8 percent), commercial vehicle transactions (−7 percent), total vehicle registration (−0.5 percent), new drivers' licenses issued (−8 percent), license duplicates issued (−19 percent), and identification cards issued (−15 percent). Even if workload in 1983–84 increased to 1981 levels, a request for a combined total of 308.3 personnel-years in registration and licensing activities would be excessive.

The department's predictions of workload requirements for each of the last two fiscal years have not been accurate. The department overestimated 1981–82 transactions involving registered vehicles by 827,000, or 4.2 percent. If revised estimates are correct, the department overestimated current-year registration transactions by 1,046,100, or 5.2 percent, when it developed its 1982–83 budget request. Likewise, initial departmental estimates for combined drivers license/identification card transactions in 1981–82 exceeded the number of actual transactions by 172,290, or 2.6 percent. The original estimates for this category in 1982–83 appear to exceed the actual number of transactions by 311,480, or 4.5 percent.

Field Office Operations. If department estimates are correct, staffing requirements for registration and licensing activities at field offices will increase by an average of 7.4 percent. As Table 3 indicates, the department is basing this estimate on its assumption that (1) workload in eight of nine major areas will increase in 1983–84, resulting in workload increases of 7.1 percent on a weighted basis, and (2) the volume of workload in the ninth area—potential renewals—will decrease, but the remaining workload will become more complex, resulting in a net weighted workload increase of 0.3 percent.

Given lower interest rates and a slightly improved economy, predictions of increased activity in these workload areas is not unreasonable. Projecting an average weighted workload increase of 7.4 percent, however, is not supported by the department's experience from 1980–81 through 1982–83, as Table 3 shows.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 3
Department of Motor Vehicles Weighted Workload Adjustments for Registration and Licensing—Field Offices 1980–81 through 1983–84

Workload Indicator	*Weighted Percent of Total*	*1980–81 Actual*	*1981–82*[a] *Estimated*	*1982–83 Estmated*	*1983–84 Proposed*
Registration:					
New vehicles	4.4%	−1.0	−0.9	0.2	0.7
Nonresident vehicles	5.9	−0.3	−0.3	−0.1	0.6
Potential renewals—field offices	16.3	1.5	3.7	−3.4	0.3
Normal renewals	4.3	0.4	−0.2	−0.3	0.2
Transfers	21.5	−4.1	−0.7	1.9	0.9
Drivers' Licenses					
Originals	19.8	0.2	−1.6	0.0	1.2
Renewals	16.3	−6.3	−2.1	2.5	2.3
Duplicates/corrections	7.7	0.7	0.0	0.1	0.5
I.D. card originals	3.8	1.3	0.5	0.2	0.7
Totals	100.0%	−7.6	−1.6	1.1	7.4

[a] Based on nine months of data.

Table 3 indicates that the weighted workload adjustment for field office registration and licensing functions in 1983–84 far exceeds the actual and estimated totals for the three preceding years. Unless a dramatic increase in automobile sales and public demand for DMV services should occur, we do not believe that field office operations will experience a 7.4 percent increase in required staffing.

Some Workload Is Increasing. One element of the licensing program which is experiencing a significant increase in workload demands is post-licensing control (actions against licensed drivers), which is scheduled to increase by 45.6 personnel-years, or 8 percent, over current-year staffing (part of this increase is reflected in field office operations). This increase is largely due to implementation of the Negligent Operator Treatment System (NOTS) and Ch 584/81, which requires a mandatory suspension at the time of a second failure to appear in court. Using data for the first 11 months of both 1981 and 1982, we found that in 1982 drivers' license hearings increased by 22,726, or 57 percent, over the previous year, and that suspensions more than doubled (118 percent).

Proposed Reductions. We expect that an upward swing in the economy over the next 18 months will reverse the declining trend in the department's workload. Also, we expect declining interest rates to have a positive impact on the number of transactions in all categories of vehicle and vessel registration. In addition, we expect increases in the department's driver's license control program to continue.

Notwithstanding these considerations, however, we find that the proposed staffing increase of 308.3 personnel-years for registration and licensing overstates DMV workload-based needs for 1983–84.

Workload in the current year is projected to be approximately 2.7 percent above the 1980–81 level, and only 1.1 percent above 1981–82. With this in mind, we recommend that the budget be based on an increase in workload of 4 percent. This would warrant an increase of 191 personnel-years in registration and licensing activities. While a 4 percent workload increase is somewhat arbitrary, we believe it is more reasonable than the department's proposal, given the recent experience of the department.

DMV Salary Savings Underestimated—A Budget Tradition

We recommend that the estimate of salary savings be increased by $1,000,000 to reflect the department's actual salary savings in recent years, and that Item 2740-001-044 be reduced by an equivalent amount.

All state agencies experience savings because of vacancies in authorized positons, staff turnover, delay in filling new positions, and filling positions at the first step of the salary range. Since the magnitude of these savings generally is somewhat predictable, based on past patterns, an amount equal to the estimated savings is deducted from the budget for salaries and wages.

Our analysis indicates that the Department of Motor Vehicles has understated the amount of salary savings which it reasonably should expect to experience in the budget year. In fact, the department has consistently underestimated its salary savings since 1976. For *each* of the fiscal years 1976–77 through 1978–79, the department ended the year with over $1 million more in salary savings than it had budgeted for. In the following three years, the department's salary savings predictions were similarly off the mark. In 1979–80, actual salary savings exceeded the amount budgeted by $1,885,167. In 1980–81, the amount of the difference was $1,494,890, and in 1981–82 salary savings were underbudgeted by $1,374,812. Table 4 displays the department's experience in projecting salary savings from 1979–80 through 1981–82.

Table 4
Department of Motor Vehicles
Estimated versus Actual Salary Savings
1979–80 through 1981–82

	1979–80	*1980–81*	*1981–82*
Estimated Salary Savings[a]	$3,128,048	$3,394,621	$4,198,000
Actual Salary Savings[a]	5,013,215	4,889,511	5,571,812
Amount Realized above Estimate	$1,885,167	$1,494,890	$1,374,812

[a] Does not include staff benefits paid.

A comparison of the 1983–84 salary savings/personal services ratio to actual ratios for the past two years lead us to conclude that the department is once again projecting an unrealistically low ratio For 1983–84, the department is projecting salary savings of $4,973,000, or 2.8 percent of total personal services. In 1980–81, the salary savings/personal services ratio was 3.3 percent, or 18 percent higher than what the department projects for 1983–84. The 1981–82 ratio was 3.6 percent, or 29 percent over what is projected for the budget year. In fact, the department is budgeting $601,000 *less* in salary savings in 1983–84 than it actually realized in 1981–82 ($5,572,000), even though it is expecting to hire 1,055 *more* persons in the budget year than it hired in 1981–82.

In support of its salary savings projections, the department notes that the hiring freezes imposed by the Governor in 1981–82 and in 1982–83 reduced its ability to fill positions, thereby distorting the amount of salary savings for those years. Our analysis indicates, however, while the Governor's hiring freeze may have accounted for some of the discrepancy between estimated and actual salary savings in these two years, the department's experience was not out of line with its experience in the earlier

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years when no freeze was in effect. Accordingly, we find that the amount budgeted in 1983–84 for salary savings understates the amount which can reasonably be expected. Therefore, we recommend an increase of $1,000,000 in salary savings, which will bring salary savings up to 3.4 percent of total personal services, which is more in line with the department's actual salary savings experience in the years prior to the hiring freeze.

REGISTRATION AND TITLING

The department's largest program, Vehicle and Vessel Registration and Titling, accounts for $142,952,000, or 56 percent, of the proposed expenditures by the DMV in 1983–84. This represents an increase of $20,162,000, or 16 percent, over current-year expenditures. Activities carried out as part of this program include the issuance of titles and registration documents, the determination of vehicle or vessel ownership, the collection of various fees for state and local government, and the processing of registration information. In the budget year, the department is requesting a staffing level of 3,892.8 personnel-years for registration and titling services, an increase of 270.5, or 7.5 percent, over the current-year level.

Table 5 shows staffing and expenditure levels for the registration and titling program.

Table 5
Department of Motor Vehicles
Vehicle and Vessel Registration and Titling Program
Staffing and Expenditures
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Percent Change*	*Proposed 1983–84*	*Percent Change*
Program Expenditures	$109,625	$122,790	12.0%	$142,952	16.4%
Personnel-Years	3,366.6	3,622.3	7.6	3,892.8	7.5

On-Site Fee Collection

We withhold recommendation on $403,000 and 16.3 personnel-years requested for the On-Site Commercial Fee Collection program, pending receipt of a status report on the program.

The Department of Motor Vehicles, together with the California Highway Patrol, is participating in an On-Site Commercial Fee Collection program, which is intended to increase the registration compliance of commercial vehicles entering California from other states. The on-site approach permits DMV to collect delinquent commercial vehicle registration fees at California's points of entry, instead of allowing unauthorized commercial vehicles to proceed on the presumption that the fees will be paid at a later date.

Department personnel located at five inspection facilities throughout the state are authorized to verify registration of commercial vehicles which do not appear to have proper California registration indicia. Vehicles found to be in violation of registration requirements are detained by the CHP, and assessed the required fees and penalties by DMV before being allowed to proceed. The 1981 Budget Act authorized the program, which will sunset on June 30, 1983, the end of the current fiscal year.

In the budget year, DMV is requesting $403,000 and 16.3 personnel-years in order to continue the On-Site Commercial Fee Collection program on a permanent basis. This represents an increase of $79,000 and 2 personnel-years over the current year levels. In addition, the CHP is proposing $118,000 and 4 personnel-years to support its participation in the program. (The CHP's request is discussed as part of our analysis of the CHP budget Item 2720.)

Our analysis of the DMV request reveals that changes are likely to be needed in the program in order to justify continuation of the program.

Initial cost and revenue data from the department indicate that three of the five inspection sites (Mt. Shasta, Truckee, and Winterhaven) are not producing a significant return on the combined DMV-CHP investment for the on-site program. In 1981–82, these three sites collected revenues of $342,520, with total costs of $225,985, for a ratio of 1.5 to 1. In contrast, the remaining two sites at Banning and Cajon collected revenues of $723,-847, at a cost of $145,623—a ratio of 5 to 1. Moreover, our analysis indicates that the benefit-cost ratio for the first three sites may overstate the effectiveness of the on-site program at these locations for two reasons.

First, it is likely that a major portion of the revenue that has been attributed to the On-Site Fee Collection Program at those facilities would hae been generated in the *absence* of any on-site program. At inspection facilities where the on-site program is not in operation, the California Highway Patrol conducts an Observation Report program in which the CHP forwards to the DMV information regarding all commercial vehicles found to be in violation of California's registration laws. The department reviews this information and sends a written request for compliance to those companies deemed to be in violation. The department's authority to seize and sell the vehicles of those companies which do not respond enhances compliance with the department's request. Thus, the *marginal* revenue (revenue not collectable through other means) attributable to the on-site program at Mt. Shasta, Truckee, and Winterhaven is probably significantly less than the amount cited ($342,520).

Second, the DMV indicates that the revenue reported for the Winterhaven inspection facility ($108,752) may be overstated.

The DMV has acknowledged that changes are needed in the on-site program, and indicated its intention to propose changes in a report scheduled for issuance in January 1983. At the time this *Analysis* was written, we had not received the report. Without knowing the department's proposals for strengthening the program, we are unable to make a recommendation on the amount requested to continue it in 1983–84. Accordingly, we withhold recommendation on the request for $403,000 and 16.3 personnel-years, pending receipt of the department's report on the On-Site Fee Collection Program.

Bad Checks—Revisited

We recommend a reduction of $220,000 and 12.5 personnel-years to reflect savings that the department anticipates as a result of a new dishonored check collection procedure. We further recommend that the department reconsider two alternatives for reducing the volume of dishonored checks.

In the *Analysis of the 1982–83 Budget Bill,* we expressed concern over (1) the number of dishonored (bad) checks that the DMV was receiving and (2) the department's apparent inability to effectively clear the backlog of dishonored checks that had built up since 1979. In an attempt to stem the increasing volume of bad checks, we recommended that the Legislature adopt supplemental report language requiring the depart-

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ment to review its procedures for handling dishonored checks.

In the *Supplemental Report of the 1982 Budget Act,* the Legislature directed the Department of Motor Vehicles to review its procedures for handling dishonored checks to determine what improvements could be made to reduce the number of dishonored checks received and the number of outstanding dishonored checks. Language in the report required the department to report its finding to the fiscal committees and the Joint Legislative Budget Committee by December 31, 1982. In late December 1982, the department submitted its report, which described improvements it had made to reduce both the number of dishonored checks it received and the number of uncleared dishonored checks.

Review of DMV's Bad Check Report. Improvements planned by DMV should begin to reduce the overall volume and dollar loss attributable to dishonored check activity. Our analysis of these improvements and our recommendations related to DMV's dishonored check program are presented below.

Efforts to Reduce the Number of Bad Checks Received. The department considered six alternatives to reduce the number of incoming bad checks, and considered seven alternatives to reduce the number of outstanding bad checks. Of the six alternatives related to incoming bad checks, the DMV chose to adopt only one: "Post signs in field offices advising customers of dishonored check consequences." The remaining alternatives were not considered feasible or cost-effective.

Posting signs in field offices warning customers of the consequences of writing bad checks may help reduce the number of bad checks it receives. Even a small improvement could produce a big savings. For example, if 10 percent of all persons who wrote bad checks at field offices in 1981–82 had been deterred by warning signs, the department would have realized additional revenue of approximately $166,000.

Reducing the number of bad checks received at field offices, however, will not, by itself, substantially decrease the total number of bad checks the department receives.

As the department indicated in its report to the Legislature, only *35 percent* of the bad checks it receives are written at DMV field offices. Consequently, almost two-thirds of all those who write bad checks to the DMV make payment *by mail.* These individuals are not likely to be influenced by warning signs. Even if the department were able to eradicate *all* dishonored check activity at DMV field offices, over $3 million in bad checks would still be received annually at DMV headquarters in Sacramento.

We believe that the department could reduce the number of bad checks received by mail if it were to implement one of the alternatives it rejects in its report. That alternative involved adding a separate dishonored check warning notice to the registration renewal notice. The DMV rejected it because it would cost approximately $50,000 and duplicate the dishonored check message now printed on the back of the renewal notice.

We suggest that modifying the *existing* registration renewal notice to strengthen the dishonored check warning would be effective, and would be less costly than the *separate* notice considered and rejected by the DMV. Displaying the message prominently on the *front* of the notice, and strengthening the warning would discourage more bad checks than the current dishonored check message, which is almost hidden on the back side of the renewal notice, and is a rather weak statement.

Efforts to Reduce the Number of Outstanding Checks. Of the seven alternatives for reducing the number of "outstanding" dishonored checks, six will be implemented by July 1, 1983. The changes to be adopted will:

1. Strengthen the wording of the dishonored check letter which is sent to persons who have issued bad checks to the department.
2. Lower the minimum amount on dishonored checks which are sent to investigators within the department.
3. Allow the department's computer to update records before placing a dishonored check stop, thereby permitting correct vehicle and address information to be entered into DMV files.
4. Reduce the amount of time a dishonored check stays in the inactive file from 16 months to four.
5. Consolidate dishonored check functions into one process. (They are currently distributed among three divisions.)
6. Establish a telephone collection unit on a pilot basis to follow up the second collection letter with a telephone contact.

With the exception of Alternative 4, these proposals should significantly enhance the department's check collection efforts. Alternative 4—the accelerated purge of dishonored check files—will reduce the *recorded* backlog of bad checks, but will not increase the actual number of checks on which the department eventually receives payment.

We believe that one additional step can be taken to decrease the volume of outstanding bad checks. The one alternative not accepted by the department—utilization of commercial check collection services—could provide the department with a final collection measure when all other check collection efforts have failed.

In its report, DMV indicated that collection service would cost about $3 per check. Based on the total volume of bad checks received in 1981–82 (53,109), total annual cost would approximate $160,000. In addition, DMV stated that Telecredit, a collection service, estimated that it could collect $4 for every $1 of cost or about $640,000 on the volume of 53,109 bad checks received. The DMV's own collection efforts on the 1981–82 checks recovered $2,500,000. On the basis that its collections exceeded the Telecredit estimate by $1,860,000, DMV determined that a commercial check collection service would not be cost-effective.

We disagree with the department's conclusion. The DMV's analysis assumes that *all* dishonored checks would be sent to the check collection service. We would suggest, instead, that DMV refer only those checks determined to be "uncollectible". This would enable DMV to clear bad checks more expeditiously, and result in the payment of fees previously thought to be lost, *at no net cost to the department.* We recommend that DMV reconsider this alternative.

Additional Savings. The planned consolidation of DMV dishonored check functions will, by reducing duplication, produce annual savings of $220,000 and 12.5 personnel-years. The department has not, however, reflected these savings or personnel reductions in its 1983–84 budget. For this reason, we recommend a reduction of $220,000 and 12.5 personnel-years.

DRIVERS LICENSING AND CONTROL AND PERSONAL IDENTIFICATION

The Drivers Licensing and Control and Personal Identification Program is designed to promote the public's use of the road and highway system, while minimizing the risk of injury, death, or property loss. To these ends, the program licenses drivers, promotes safe driving practices, and exer-

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cises control over drivers who have mental or physical impairments or have been judged to be unsafe. In addition, the program provides personal identification services for all drivers and nondrivers in the state. Operations include providing anatomical donor stickers with driver's lilcenses and identification cards, and promoting financial responsibility of vehicle operators by suspending the driving privilege of individuals who are unable to show required financial responsibility following an accident.

The department is proposing total expenditures of $93,544,000 in 1983–84 for drivers licensing and personal identification activities. This is an increase of $5,163,000, or 5.9 percent, over current-year expenditures.

Staffing and expenditure levels for the Drivers Licensing and Control, and Personal Identification program are displayed in Table 6.

Table 6
Department of Motor Vehicles
Drivers Licensing and Control, and Personal Identification Program
Staffing and Expenditures
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Percent Change*	*Proposed 1983–84*	*Percent Change*
Program expenditures	$80,815	$88,381	9.9	$93,544	5.9
Personnel-years	2,592.9	2,748.7	6.0	2,851.2	3.7

DMV Automation Continues

The Department of Motor Vehicles currently is in the fourth year of a long-range project that is designed to automate fully 90 field offices and major headquarters units. This effort, known as the DMV Automation Project, began in 1978, after the department concluded that modern computer technology offered the best available method to achieve cost reductions associated with its labor-intensive functions. The project was divided into three phases to facilitate the procurement and installation of equipment, and to take advantage of the incremental learning approach that three phases could offer. The three phases are: Phase I—revenue accounting, Phase II—registration, Phase III—drivers licenses and identification cards.

Phase I—revenue accounting—is fully operational, and is expected to generate annual net savings of $384,000 to the Motor Vehicle Account and permit a staff reduction of 15.2 personnel-years. On May 11, 1982, the IBM Corporation was awarded the contract to begin work on Phases II and III of the DMV Automation Project. Implementation of Phase II—registration—will allow offices to begin actual on-line transactions in the budget year. By the end of 1983–84, it is estimated that 45 field offices will have automated registration capability. Phase II is scheduled to be completed and fully operational by January 1985.

Most of the implementation activities associated with Phase III—drivers licenses and I.D. cards—will take place in 1984–85. Phase III costs will consist largely of the development of the electronic data processing software package and training that will be needed for DMV licensing personnel. The computer hardware and modular furniture obtained for Phase II implementation will serve the needs of both phases. Completion of Phase III and full operation of automated drivers license functions is scheduled for June 1985.

Service Impact. Throughout the implementation periods for Phase II and Phase III, department personnel will receive training at (1) one of nine permanent training facilities, (2) one of 12 temporary training sites, or (3) at a field office which has automated capability. Because of the comprehensive nature of this project, DMV proposes to utilize a substantial number of temporary positions in 1983–84 and 1984–85 to fill in at DMV field offices while registration and licensing staff are receiving computer terminal training. According to DMV, use of temporary help should address any staffing shortages caused by this training. The average length of a training session will be one week.

When Phases II and III are fully operational, the department estimates that the time for processing a vehicle registration will be reduced from an average of 23 minutes to an average of 20 minutes, and drivers license processing will decline from 20 minutes to 18 minutes. Application of these estimated time savings to an average workday at a DMV field office should moderately reduce the time customers must wait in line before their transactions are processed.

Fiscal Outlook. In the *Analysis of the 1982–83 Budget Bill,* we indicated that the department could begin to realize net savings from Phases II and III automation as early as 1984–85. Since that time, however, the department has experienced a four-month delay in the execution of its contract with IBM, due to a protest over bid procedures. Consequently, net savings will not be realized until 1985–86, when the department estimates that (1) savings will exceed costs by $1,626,000 and (2) personnel-years will be reduced by 1,000. In 1986–87, and thereafter the department anticipates annual savings on the order of $17,000,000.

Budget-Year Automation Request

We recommend a reduction of $33,000 in Item 2740-001-044 to reflect savings from a price decline in an EDP contract.

The department is requesting a budget adjustment of $8,817,000 and 52.8 personnel-years in 1983–84 to continue implementation of Phase II—automated registration. This request is primarily for funds to cover leasing costs associated with the IBM computer and related terminals, and the purchase of modular furniture. The additional personnel-years proposed will be used to provide temporary replacements for staff receiving training.

The department also requests a smaller increase to perform some preliminary tasks associated with the driver's license, or Phase III, portion of the program although full-scale implementation of Phase III will not begin until 1984–85. The budget proposes $193,000 and 6 personnel-years to support program development and initial training efforts that will be required as part of Phase III implementation.

Our analysis indicates that the proposed increases for Phase II and Phase III are justified. We find, however, that the department has not reflected in its budget the savings expected from a price reduction associated with its IBM contract. In the budget year, these savings will amount to $33,000, with future savings estimated at $756,000 during the next five years. Accordingly, we recommend a reduction of $33,000 in 1983–84 to reflect these savings. We will also continue to monitor future automation requests to ensure that the expected savings from this price reduction are budgeted by the department.

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Funding Requirements For New Legislation

We recommend that the DMV submit an application to the Office of Traffic Safety for a grant to fund the provisional licensing program, and that Item 2740-001-044 be reduced by $256,000. We withhold recommendation on DMV's request for $520,000 and 29.2 personnel-years to support the Common Registration Renewal program, pending receipt of the department's report to the Legislature on March 1, 1983.

The department's budget request includes a *net* increase of $437,000 and 28.8 personnel-years to support activities associated with new legislation. In addition, the department is anticipating added revenue of $9,790,000 in the budget year as a result of the new legislation. Major bills enacted by the Legislature in 1982 include:

- Chapter 776 (SB 483), which revises the drivers license extension program to allow for two successive four-year extensions, and also authorizes the DMV to establish a provisional licensing program for minors. Estimated 1983–84 net savings: $897,000 and 39.9 personnel-years.
- Chapter 757 (AB 2430), which requires the DMV to study the feasibility of establishing a common registration renewal date for owners of more than one vehicle, and implement a full-scale or pilot program by July 1, 1983. Estimated 1983–84 cost: $520,000 and 29.2 personnel-years. Revenue: $600,000.
- Chapter 1338 (SB 1601), which transfers from the courts to the DMV the responsibility for placing driving restrictions on persons convicted of driving under the influence. Estimated 1983–84 cost: $344,000 and 18.9 personnel-years. Revenue: $535,000.
- Chapter 892 (SB 33), which mandates DMV to require, upon renewal of registration, certificates of compliance related to vehicle emissions. Estimated 1983–84 cost: $178,000 and 8.2 personnel-years.

Our analysis of information provided by the DMV in support of budget increase requested for the purpose of complying with the new legislation leads us to question the following components of the request.

Provisional Licensing. Chapter 776, Statutes of 1982, authorizes the department to establish a demonstration program to evaluate the traffic safety effects of issuing a provisional drivers license to persons under 18 years of age. The department is requesting $256,000 and 7.2 personnel-years in 1983–84 to support these new licensing responsibilities.

The amount requested is needed to handle the additional workload that DMV is likely to incur. We are concerned, however, that DMV has not made sufficient effort to receive federal highway safety funding for this new traffic safety activity. Federal highway safety grants, administered by the Office of Traffic Safety (OTS), are available to state and local agencies to carry out traffic safety responsibilities and to test new methods of preventing accidents and traffic violations.

Staff at DMV indicate that funding the provisional licensing program with a traffic safety grant was never discussed with OTS officials. The OTS is, however, financing the provisional licensing *evaluation* which will follow the pilot program. We see no reason why the provisional licensing program would not warrant OTS funding, as well. Moreover, our analysis of the OTS budget—Item 2700—indicates that there is sufficient funding available in 1983–84 for this program. We recommend, therefore, that the

DMV submit an application to OTS requesting a federal traffic safety grant to fund the provisional licensing program, and that the Motor Vehicle Account appropriation be reduced by $256,000 in anticipation of receiving this grant.

Common Registration Renewal Date. Persons who currently own more than one vehicle are required to re-register each vehicle annually, based on the month and day that each vehicle was first registered. Chapter 757, Statutes of 1982, requires the DMV to study the feasibility of establishing *one* renewal date for all vehicles owned by one person, and to implement a full-scale or pilot program by July 1, 1983. Chapter 757 also requires DMV to report to the Legislature by March 1, 1983 on the progress of the study, and specifies that the report shall contain certain information.

The DMV is requesting $520,000 and 29.2 personnel-years in 1983–84 to provide sufficient staff to operate the common registration renewal date program. The cost will be offset fully by additional registration fee revenue of about $600,000. At the time this analysis was written, however, the department had not decided on the scope or nature of the program. As a result, we have no basis at this time on which to recommend approval of the DMV's proposal. Consequently, we withhold recommendation on the request for $520,000 and 29.2 personnel-years, pending receipt of the department's report to the Legislature on March 1, 1983.

Smog Certification. The department, along with the Bureau of Automotive Repair (BAR) in the Department of Consumer Affairs, is scheduled to begin implementation of Ch 892/82 in 1983–84. This law requires biennial motor vehicle inspection to detect and reduce violations of vehicle emission standards.

The DMV's role will consist of providing information to the public on the new program, and requiring a certificate of compliance as a condition for renewing registration, beginning March 1984. The statute authorizes the BAR to charge inspection and repair stations up to $6 for each compliance certificate, and to deposit the fee revenue in the Vehicle Inspection Fund. The program will be conducted in urban non-attainment areas (those areas failing to meet federal air pollution standards) and will eventually replace DMV's current change-of-ownership smog certification program, which is scheduled to expire in March, 1984.

The DMV is proposing expenditures of $178,000 and 8.2 personnel-years in 1983–84 to support certification and public information activities. The DMV expects expenditures to escalate in 1984–85 to $898,000 and 42.5 personnel-years, in order to finance a fully-operational program. These expenditures appear to be in line with the department's workload estimate. As reflected in the budget, the projected costs for both 1983–84 and 1984–85 are to be funded from the Motor Vehicle Account, State Transportation Fund.

We understand that the proposal to fund the program from this account, rather than from the Vehicle Inspection Fund, results from the BAR's concerns that the fund may experience a cash-flow problem in 1983–84. According to the DMV, its request to fund DMV activities under the program from the Vehicle Inspection Fund was denied by the Department of Finance because of the potential cash-flow problem cited by BAR. In 1984–85 and future years, however, the bureau is anticipating a fund *surplus.*

We see no reason why the Motor Vehicle Account should shoulder the financial burden of this program after 1983–84, given that a surplus is *eventually* expected in the Vehicle Inspection Fund.

DEPARTMENT OF MOTOR VEHICLES—Continued

Based on the anticipated cash flow problems in the Vehicle Inspection Fund in 1983–84, we recommend that expenditures of $178,000 and 8.2 personnel-years from the Motor Vehicle Account be approved. We suggest, however, that the DMV work with the Bureau of Automotive Repair and the Department of Finance to reach consensus on how future DMV expenditures under this program should be funded. We will monitor the departments' progress in this regard, and report to the Legislature on any need for legislative action in next year's *Analysis.*

OCCUPATIONAL LICENSING AND REGULATION

The department provides consumer protection to the motoring public through its occupational licensing and regulation program. This protection is realized through the program's regulation of persons and firms engaged in the manufacture, transportation, sale, distribution, and dismantling of vehicles. The program also serves as a means of remedial or recovery action for victims of financial loss. In addition, the New Motor Vehicle Board, an independent review agency, provides quasi-judicial and regulatory oversight for manufacturers, dealers and salespersons of new vehicles.

In 1983–84, DMV is proposing to expend $15,935,000 on occupational oversight activities. This expenditure is $1,104,000, or 7.4 percent, over estimated expenditures in 1982–83.

Table 7 displays expenditure and staff data for the Occupational Regulation and Licensing program.

Table 7

Department of Motor Vehicles
Occupational Licensing and Regulation
Staffing and Expenditures
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Percent Change*	*Proposed 1983–84*	*Percent Change*
Program expenditures	$13,369	$14,831	10.9%	$15,935	7.4%
Personnel-years	361.1	400.0	10.8	408.3	2.1

Staffing Increases Are Not Justified

We recommend a reduction of $593,000 and 16.4 personnel-years budgeted in Item 2740-001-044 for workload increases because the department has not demonstrated that a workload increase is likely to occur.

According to the budget, the Occupational Licensing and Regulation Program could be staffed with 16.4 personnel-years *fewer* than the number proposed for 1983–84 if projected workload adjustments were not expected to occur. Our analysis of workload associated with this program indicates that an increase is not likely in the budget year for the following reasons.

First, the only area in which there have consistently been workload increases during the past two years is that of driving school operator/owner licenses. These licenses, however, represent only 5 percent of total DMV licensing activity. Increases in workload associated with these licenses has been more than offset by a significant decrease in the number of investigations emanating from consumer complaints—the major source of workload in the occupational licensing and regulation program.

Second, as we noted in the *Analysis of the 1982–83 Budget Bill,* many of the workload estimates for the Division of Compliance are not based on actual historical workload, but are ". . . determined by administrative policy." Consequently, the workload adjustment proposed in the budget year is not based on the number of cases DMV typically receives, but rather on a *presumed* level of activity. The department, however, has not demonstrated that the presumed level of activity is either necessary or will produce quantifiable results toward the achievement of program goals. Accordingly, we are unable to recommend approval of the 16.4 personnel-years proposed for workload increases. Hence, we recommend the deletion of the 16.4 personnel-years and $593,000 from the amount budgeted in support of the occupational licensing and regulation program.

OAH Costs Should be Fee-Supported

We recommend the enactment of legislation authorizing the DMV to (1) require occupational licensees and applicants requesting adjudication by the Office of Administrative Hearings to put down a deposit prior to the hearing, (2) waive the deposit in cases of financial hardship, and (3) retain the deposit in cases where DMV's administrative decision is upheld. (Potential savings $217,000, annually.)

The Office of Administrative Hearings (OAH), within the Department of General Services, conducts quasi-judicial hearings for state agencies in connection with the issuance, renewal, suspension or revocation of licenses. The Department of Motor Vehicles utilizes OAH services to resolve disputes concerning adverse actions taken by DMV against its occupational licensees. These licensees include dealers, salespersons and dismantlers of motor vehicles. Adverse actions concerning drivers' licenses are adjudicated solely by DMV.

The department is required to file for a hearing and notify the licensee of the accusations, and his or her right to a hearing, whenever the department decides to suspend or revoke an occupational license. Applicants who wish to appeal the decision must request a hearing directly from OAH.

In the budget year, DMV proposes to spend $224,000 to pay for services provided by OAH. The department pays the hearing costs for *all* cases, even those in which DMV's original decision is *upheld* by an OAH hearing officer. We believe that when the DMV decision is affirmed, the cost of the hearing should be paid by the licensee or applicant, not by the public at large. Moreover, the current system does nothing to discourage frivolous requests for hearings, since the requestor is not required to pay for the costs of his/her hearing.

In 1981–82, 198 licensees and 87 applicants received adjudication from the OAH regarding adverse decisions made by the DMV. *In 96 percent of the licensee cases, and 100 percent of the applicant cases, the DMV decision was upheld.* On the average, DMV paid $519 for every case that was reviewed by OAH. Thus, the department is incurring substantial costs to have its administrative decisions validated by the OAH.

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 specifically designated to offset partially the costs of providing court reporters. In addition, various courts charge for the actual costs of reporters, juries, transcripts, and other costs. Current law, however, authorizes the department to pass on only those costs related to the preparation of transcripts when a transcript is requested.

Based on the very high rate at which the DMV's actions are sustained

DEPARTMENT OF MOTOR VEHICLES—Continued

by OAH and the desirability of discouraging frivolous appeals, we recommend the enactment of legislation authorizing the department to charge for hearing costs in those cases where a DMV administrative decision is upheld. In order to avoid potential collection problems, we further recommend that the DMV be authorized to require a deposit (equal to its average cost per hearing) from persons requesting OAH adjudication, *prior* to the actual hearing. The DMV could return deposits to persons who receive a favorable ruling from the OAH; the deposits put down by unsuccessful appellants would be retained to cover the cost of hearings. Finally, we recommend that the department be authorized to waive all or a portion of the deposit if a litigant can demonstrate financial hardship.

Based on 1981–82 actual costs and the percentage of DMV decisions which have been upheld at previous OAH hearings, we estimate that this legislation could produce $217,000 in annual savings to the Motor Vehicle Account, State Transportation Fund.

ADMINISTRATION

The department's administration program provides executive direction in administering and enforcing provisions of the Vehicle Code, formulates departmental policy and provides management support services, including EDP services to all department programs.

The budget request for this program is $17,351,000, which is $543,000, or 3.2 percent, more than estimated expenditures in the current year. This amount reflects a reduction of $217,000 and 4.5 personnel years in the department's legal section.

Table 8 shows staffing and expenditure data for the Administration program, which is distributed to the other three DMV programs.

Table 8
Department of Motor Vehicles
Administration Program
Staffing and Expenditures
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Percent Change*	*Proposed 1983–84*	*Percent Change*
Program expenditures	$15,139	$16,808	11.0%	$17,351	3.2%
Personnel-years	518.8	554.5	6.9	552.8	−0.3

Reduction in Legal Staff

The 1983–84 budget proposes to reduce the department's legal staff by 4.5 positions, for a savings of $217,000. According to the budget, this action is intended to "minimize the proliferation of individual departmental legal staffs which often duplicate central State legal services, and to direct use of legal positions to only the highest priorities." Three of the positions in question are attorney positions. Deletion of these positions will reduce the number of authorized attorney positions in the department from 11 to 8. The other 1.5 positions proposed for elimination currently provide clerical support.

The department's legal staff maintains that the proposed 27 percent reduction in attorneys will reduce the efficiency of the DMV in carrying out a number of responsibilities, regardless of whether the workload assigned these three positions is transferred to the Attorney General's office.

Based on our analysis of the workload handled by these positions, we disagree with the department. Further, we recommend *against* transferring any of this workload to the Attorney General's office, on the basis that it could be assigned instead to existing or new non-legal DMV employees.

Our review of DMV's legal section indicates that in many instances attorneys currently handle duties which could reasonably be handled by DMV employees with no legal background. For example, we are not aware of any compelling reason why non-legal DMV staff could not assume responsibility for: (1) assisting the State Compensation Insurance Fund staff at Workers Compensation Appeals Board hearings, (2) analyzing the impact of legislative proposals, (3) working with the Office of Administrative Law, (4) reviewing contracts, and (5) advising on the development of training manuals. In fact, these responsibilities *are* performed by non-legal staff in other departments, such as the California Highway Patrol. If other staff assumed these duties from *all* attorneys, the 8 remaining attorney positions would have sufficient time to handle the strictly legal aspects of the workload associated with the three positions being eliminated.

In summary, it appears that DMV can adjust to the proposed reduction in attorneys with no adverse impact on its program, and without the need for additional Attorney General services.

"Targets of Opportunity"

We recommend that the Legislature adopt supplemental report language requiring the department to produce a new "Targets of Opportunity" memorandum for use in the preparation of the 1984–85 budget, and to report any actions it plans to take as a result of the memorandum to the fiscal committees and the Joint Legislative Budget Committee by December 15, 1983.

In January 1976, the Research and Planning Section (now the Research and Development Section) of the DMV prepared an internal memorandum listing potential areas where the department might reduce costs without adversely affecting services to the general public. The memorandum—entitled "Targets of Opportunity"—was prepared at the request of the DMV director, and was used by top-level management in its review of DMV operations.

The results of this effort were highly productive. Of the 23 recommendations that were forwarded to the director's office, ten were subsequently implemented as proposed. The department partially implemented another five recommendations. Two others were adopted by the management staff of DMV, but later withdrawn during a review by the Business and Transportation Agency. Only six of the proposals were never proposed for implementation.

The 23 recommendations ranged across all divisions and programs operated by DMV. Among the cost-saving proposals which eventually were adopted are:

- The elimination of DMV's Soundex files through replacement with microfiche equipment.
- Elimination of driving tests as a condition for reinstating certain licensees whose license had expired.
- Issuance of a suspense receipt (SCRIP) in lieu of a refund check.
- Elimination of registration sticker number information from computer files.

DEPARTMENT OF MOTOR VEHICLES—Continued

The proposals which were implemented as a result of the "Targets of Opportunity" memorandum continue to generate annual savings in excess of $1 million to the Motor Vehicle Account. Costs to prepare the memorandum in 1976 were minimal. Given the obvious success of the 1976 review effort, it is not unreasonable to assume that a similar endeavor in 1983–84 would identify additional "targets of opportunity" capable of producing even more savings. Moreover, this effort would be useful to the department in preparing the 1984–85 budget.

Accordingly, we recommend that the Legislature adopt the following supplemental report language:

> "The Department of Motor Vehicles shall produce a new "Targets of Opportunity" memorandum for use in its preparation of the 1984–85 budget, and shall report any actions it plans to take as a result of the memorandum to the fiscal committees and the Joint Legislative Budget Committee by December 15, 1983."

Security for DMV Facilities

We recommend that Item 2740-001-044 be reduced by $57,000 because the department has overbudgeted the amount needed to provide security for DMV facilities.

Security and police services are provided to DMV through contracts with the California State Police and private security companies. The purpose of these services is to protect the state's investment in property occupied and utilized by DMV. The department is requesting an augmentation of $363,000 for security purposes in 1983–84, an increase of 42 percent over current-year expenditures.

According to the department, the *amount* of security services will not increase significantly in 1983–84. The *cost* of these services will increase, however, as a result of (1) a California State Police decision to begin billing DMV *directly* for protection of its headquarters facilities, rather than collecting its charges as a part of "pro rata" services, and (2) allowable price increases cited in the Department of General Services' Price Book.

At the time DMV was notified of the new billing procedure for its headquarters facilities, the State Police indicated that DMV would be billed $245,000 in the budget year. This amount was later verified by DMV budget staff as the correct amount. Documentation provided by the department in support of its operating expense budget for 1983–84, however, includes $258,336 as a workload increase related to security. This amount is in error, and the difference—$13,000—can be deleted.

In addition, the DMV has budgeted a price increase of $105,162, for police and security services, a *12* percent increase over 1982–83 estimated expenditures. The average price increase allowed in the Department of General Services' Price Book for police and security services, however, is approximately *7* percent. Because the budget applied the incorrect price increase, it is overstated by $44,000.

We recommend a total reduction of $57,000, to correct for these two budgeting errors.

Leasing Costs are Overstated

We recommend a reduction of $497,000 and a reappropriation of $225,000 in 1982–83 funds from Item 2740-001-044 to correct for overbudgeting related to leased facilities. We further recommend the adoption of Budget

Bill language creating a rental reserve of $297,000 and requiring reversion of unused lease funds in the reserve.

The department plans to lease offices and other property at 86 locations in the budget year. In addition, DMV is proposing to share space with the California Highway Patrol at five other facilities where DMV will pay rent as part of an interagency agreement.

Our review of the DMV's proposed leasing schedule and discussions with staff of the Division of Space Management (DSM) within the Department of General Services indicate that amounts budgeted for leasing in the current and budget year are overstated by $225,727 and $270,908, respectively. First, the DMV has budgeted funds for facilities which will not be occupied in 1983–84. Second, the amounts needed to lease certain facilities have been overstated. Finally, some lease cost calculations are based on incorrect occupancy dates.

For these reasons, we recommend that amounts budgeted in 1983–84 for lease costs be reduced by $270,908. We further recommend that the amounts overbudgeted in the current year—$225,727—be reappropriated, thereby reducing the appropriation needed for the budget year. Finally, we recommend the adoption of Budget Bill language which would create a rental reserve to hold the rental funds for certain facilities and revert the unused portion of these funds at the end of the budget year. A summary of our analysis is presented in Table 9 and our specific recommendations on each affected facility follow.

Table 9

Department of Motor Vehicles
Adjustment to the DMV Lease Schedule for Buildings
Recommended by Legislative Analyst

Facility	*Overbudgeted Amounts 1982–83*	*Overbudgeted Amounts 1983–84*	*Reserve for Lease-Purchase and Other Facilities*
Auburn	—	$26,440	—
Blythe	—	13,350	—
Corona	$2,700	5,400	—
Mission Viejo	104,000	—	$156,000
Mountain View	—	—	18,000
Palm Springs	28,245	—	—
Petaluma	—	—	38,760
San Clemente	27,000	10,000	—
San Luis Obispo	20,000	60,000	—
Ukiah	6,050	—	84,000
Visalia	—	121,680	—
DMV-CHP Shared			
Alturas	1,670	10,014	—
Lakeport	—	16,368	—
Mariposa	—	7,656	—
San Andreas	18,330	—	—
Weaverville	17,732	—	—
Totals	$225,727	$207,908	$296,760
Proposed DMV leasing expenditures			$2,519,000
Less recommended reductions:			
Reappropriations for overbudgeted amounts, 1982–83			(225,727)
Overbudgeted amounts, 1983–84			(270,908)
Total, recommended reductions			$496,635
Adjusted line item total			$2,022,365
Recommended amount held in reserve			($296,760)

DEPARTMENT OF MOTOR VEHICLES—Continued

Auburn. The lease schedule submitted by DMV indicates that the department plans to relocate its Auburn office by January 1, 1984, at a net additional leasing cost of $26,440. No plans for a new location have been submitted to DSM, nor does the department have a definite site proposed. In addition, DMV's current lease extends *through* the budget year. On this basis, we recommend a reduction of $26,440.

Blythe. The DMV plans to relocate by April 1, 1984 into a new facility, at a net additional cost of $13,350. DSM staff indicate that a new site will not be ready until 1984–85, and that the current lease in Blythe is in effect until *November 1984.* Accordingly, we recommend a reduction of $13,350 in the budget year.

Corona. The department took occupancy of a new office in Corona beginning January 1 of this year. According to DSM, the lease price was $5,550 per month, and no price increase is expected in the budget year. The department, however, budgeted $6,000 per month in 1982–83 and 1983–84 for this facility. We recommend, therefore, that $2,700 of the amount appropriated in 1982–83 be reappropriated to the budget year, and that $5,400 be deleted from the budget year to correct for this overbudgeting.

Mission Viejo. The department had originally planned to open an office in Mission Viejo by November 1982, and budgeted $104,000 in the current year for this purpose. Subsequently, the DMV changed its plans and now is planning to serve this area with an office in the Irvine/El Toro area, with a probable occupancy date of July 1, 1983. This delay will permit reappropriation of the $104,000 to the budget year.

Mountain View. Plans call for the leasing of a new office in the Mountain View area in April of 1984. According to the DMV, it has yet to settle on a specific site. Consequently, plans have not been submitted to DSM to proceed with a lease arrangement. We recommend that $18,000 requested for this purpose be placed in reserve pending clarification of the department's proposal.

Palm Springs. The department had planned to move into a new Palm Springs facility by January 1, 1983, at a net additional cost of $9,400 per month, and has budgeted current-year funds on this basis. The DMV, however, had not yet occupied the space at the time this analysis was written. The DSM indicates that occupancy of a new Palm Springs facility may possibly occur by April 1, 1983, if further delays are avoided. We recommend, therefore, that funds budgeted in 1982–83 for this facility be reduced by $28,245, and that the amount be reappropriated to the budget year, in recognition of the three months during which lower rent will be paid.

Petaluma. The department has budgeted increased funds of $38,760 that are likely to be required to purchase this currently leased facility in April 1984. Due to the long-term nature of purchase negotiations, however, the assumptions of the department are at best speculative. For this reason, we recommend that $38,760 be held in reserve until purchase terms are agreed upon.

San Clemente. The department initially anticipated moving to new quarters in San Clemente by April 1983. Those plans have been modified, and it now appears that occupancy will not occur until July 1, 1983. This delay will result in savings of $27,000 in 1982–83. We recommend that these savings be reappropriated to the 1983–84 year. Additionally, combined lease exenditures and remodeling expenses overstate actual costs for the budget year by $10,000. For this reason, we recommend a reduction of $10,000 in 1983–84.

San Luis Obispo. When leasing estimates were being prepared, the DMV anticipated relocating in San Luis Obispo by May 1, 1983, at a projected cost of $10,000 per month. It now appears that the new facility will not be secured until January 1, 1984, thereby producing savings of $20,000 in 1982–83 and $60,000 in 1983–84. We recommend, therefore, that $20,000 be reappropriated to the budget year, and that the 1983–84 DMV appropriation be reduced by $60,000.

Ukiah. The department plans to complete a purchase agreement for this leased facility by *June 1,* 1983. The DSM staff indicate that a *July 1,* 1983 date is more likely. Even the latter date may be overly optimistic, given the difficulty in determining the amount of time required to complete a purchase agreement. For this reason, we recommend that $6,050 budgeted in the current year for purchase be reappropriated to 1983–84, and that $84,000 budgeted in 1983–84 for this purpose be held in reserve until the purchase agreement is finalized.

Visalia. Purchase of the Visalia DMV office is planned for October 1, 1983. The DMV has budgeted lease funds, however, for the entire fiscal year. A deletion of the nine month's rent not needed for this facility will result in savings to the Motor Vehicle Account of $121,680. We therefore recommend that this amount be reduced from Item 2740-001-044.

Shared Facilities

Alturas. The DMV has budgeted for a new joint facility with the California Highway Patrol at Alturas, based on a May 1, 1983 occupancy date. Both DSM and CHP facilities personnel indicate that the move will probably not occur until January 1, *1984.* This delay will result in savings of $1,670 in 1982–83 and $10,014 in the budget year. Accordingly, we recommend that $1,670 appropriated in the current year be reappropriated in 1983–84, and that the budget year request be reduced by $10,014.

Lakeport. The CHP plans to relocate in 1983–84 to Kelseyville, which is approximately seven miles south of the current shared facility in Lakeport. In preparing its 1983–84 leasing estimate, the DMV assumed it would relocate with the Highway Patrol, at an increased monthly cost of $1,364. The DMV has since decided to remain in Lakeport, which will reduce budgeted leasing costs by $16,368. We recommend that this amount be deleted in 1983–84.

Mariposa. Estimates prepared by DMV facilities staff reflect occupancy of a shared facility in Mariposa by September 1, 1983, at a monthly cost of $2,500. The CHP facilities personnel indicate that the actual rental charge for DMV will be $3,280, but will not begin until March 1984. Accordingly, we recommend a net reduction of $7,656 in 1983–84, which corrects for both DMV's low rent estimate and the premature relocation date.

San Andreas. The DMV leasing schedule indicates that occupancy of a new San Andreas CHP / DMV office should have taken place on September 1, 1982. The DSM staff state, however, that this office will not be ready until at least March of *1983.* We recommend, therefore, that overbudgeted rent of $18,330 be reappropriated to the 1983–84 budget.

Weaverville. The Department of Motor Vehicles anticipated moving

DEPARTMENT OF MOTOR VEHICLES—Continued

into new quarters in Weaverville by *January* 1, 1983. The CHP states that occupancy of the Weaverville facility will not occur until *May* 1983, which would permit a four-month rental savings of $17,732. We recommend that this amount be reappropriated to the DMV's 1983–84 budget total.

Proposed Budget Bill Language. To ensure that only necessary rental funds are expended, we recommend adoption of Budget Bill language creating a rental reserve of $296,760. By establishing a reserve, the Legislature makes rental funds available, but limits the appropriation to actual expenses that are incurred. We further recommend that the language require the reversion of unused funds. The language we suggest reads as follows:

> "Provided, that a rental reserve of $296,760 be created for lease-purchase facilities and those projects which remain tentative in nature. If actual leasing costs are lower than reserves provided in this item, any unencumbered balance shall not be encumbered for any other purpose and shall revert to the Motor Vehicle Account, State Transportation Fund."

Miscellaneous Reductions

We recommend a reduction of $74,000 in Item 2740-001-044 to correct for miscellaneous overbudgeted items in DMV's budget. We further recommend that the level of reimbursements in Item 2740-001-044 be reduced by $39,000 and 1.0 personnel-year to reflect a decline in data processing workload for the Traffic Adjudication Board.

The department's budget includes expenditures for special repairs, printing and work for others. A review of the proposed expenditures indicates that the following items should be reduced:

- ***PCA Time-Reporting Forms.*** Time-reporting, as a component of DMV's Program Cost Accounting (PCA) system, was suspended in December of 1982. According to the department, time-reporting will begin again in November of 1983, on a test basis. The suspension of time-reporting will result in savings of $25,000 in 1983–84, because forms used to record this information will not be needed. The budget does not reflect these savings.
- ***Registration Forms.*** According to information provided by the department, the amount budgeted for registration forms is overstated because (1) the reflectorized license program will reduce the need for additional registration forms, for a savings of $14,000, and (2) there will be sufficient carryover inventory which will further reduce the need for printing more DMV registration forms, resulting in additional savings of $10,000. The total savings warranted by adjustments to registration form volumes is $24,000.
- ***Special Repairs.*** To address safety and maintenance concerns, the department is in the midst of a multi-year plan to replace the carpet tiles at its Sacramento headquarters. The department has budgeted $100,000 in the budget year for this purpose, which would provide for about two-thirds of the department's carpeting needs. According to the department, the amount requested has been adjusted for tiles which can be reused. The latest DMV estimate is that *20* percent of these tiles can be reused. An inspection of the DMV's carpet needs indicates that *40* percent of existing tiles could be reused if partially worn tiles were used in areas where safety was not a factor, such as

beneath a desk or filing cabinet. This increased use of existing resources would result in savings of $25,000 in the budget year.

- ***TAB Reimbursement.*** Through an interagency agreement with the Traffic Adjudication Board (TAB), DMV provides data processing services which are budgeted at $242,000 and *5* personnel-years in 1983–84. TAB staff indicate, however, that only *4* positions will be needed to process TAB's workload in the budget year. On this basis, DMV's reimbursements should be reduced by $39,000, and one personnel-year should be deleted.

As the result of the overbudgeting discussed above, we recommend that the department's budget be reduced by $74,000 and one personnel-year, and that level of reimbursements be reduced by $39,000.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY

Item 2740-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 122

Requested 1983–84	$7,082,000
Recommended approval	5,089,000
Recommended reduction	1,932,000
Recommendation pending	61,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***San Jose—Construction. Reduce Item 2740-301-044(a) by $182,000.*** Recommend reduction to reflect appropriate funding level for a project of this type. 462
2. ***Los Angeles—Construction. Reduce Item 2740-301-044(b) by $192,000.*** Recommend reduction to reflect legislatively approved program. 463
3. ***El Cajon—Construction. Reduce Item 2740-301-044(c) by $1,558,000.*** Recommend deletion because preliminary planning has not begun and adequate cost information is not available. 463
4. Minor projects. Withhold recommendation on $61,000 under Item 2740-301-044(e), pending receipt of additional information. 464

ANALYSIS AND RECOMMENDATIONS

The budget proposes $7,082,000 under Item 2740-301-044 for the Department of Motor Vehicles' (DMV) capital outlay program. This includes $6,157,000 for construction of three new field offices, $850,000 for purchasing a leased facility and $75,000 for minor projects. Table 1 summarizes the department's proposal and our recommendations.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

Table 1
Department of Motor Vehicles
1983–84 Capital Outlay Program
Item 2740-301-044
(in thousands)

Project/Location	*Phase*[a]	*Budget Bill Amount*	*Analyst's Proposal*	*Estimated Future Cost*[b]
New field offices:				
San Jose (Santa Teresa)	c	$1,343	$1,162	—
Los Angeles, Hope Street	c	3,256	3,064	—
El Cajon	c	1,558	—	—
Purchase leased facility:				
Visalia	a	850	850	—
Minor projects	pwc	75	14	—
Totals		$7,082	$5,090	—

[a] Phase symbols indicate: p=preliminary plans, w=working drawings, c=construction.
[b] Department's estimate.

San Jose—Construction

We recommend that Item 2740-301-044(a), construction, San Jose, be reduced by $182,000 to reflect an appropriate funding level for a project of this type.

The budget includes $1,343,000 under Item 2740-301-044(a) for construction of a new DMV field office in San Jose.

A New Facility is Needed. The Central San Jose DMV facility is overcrowded, and new quarters in the southeast portion of San Jose would both better serve this community and relieve pressure on the existing facilities in San Jose. The proposed 8,715 square foot building contains approximately 4,100 square feet of public service area.

The 1980 Budget Act included $981,000 for site acquisition, preliminary plans, and working drawings for this project. Preliminary plans for the project were completed in September 1982. The OSA indicates that working drawings currently are in progress, and it anticipates completion by May 1983. The OSA estimates the total cost of the project at $1,431,000.

The Project is Too Costly. The total estimated project cost of $1,431,000 includes a building cost of $844,000, or $92 per gross square foot.

During hearings on the 1982 Budget Bill, the OSA indicated that it could provide a similar office for Los Angeles at a cost of $73 per gross square foot. This is equal to $77 per gross square foot using 1983–84 prices. The reasonableness of this estimate is borne out by the fact that the budget requests (under Item 2740-301-044(b)) construction funds for the Los Angeles building that amount to $77 per gross square foot. We see no reason for the discrepancy between the cost of this project and the cost of the Los Angeles project.

Allowing $77 per gross square foot for the proposed building, no more than $1,249,000 should be needed for the project as a whole. A total of $88,000 has already been transferred to OSA for design of this project. Consequently, an appropriation of $1,161,000 should be sufficient to complete the project. We recommend approval of the project, funded at the reduced amount, for a savings of $182,000.

Los Angeles, Hope Street—Construction

We recommend that Item 2740-301-044(b), construction, Los Angeles, be reduced by $192,000 to reflect the program previously approved by the Legislature.

Item 2740-301-044(b) includes $3,256,000 for construction of a new 34,000 gross square foot DMV field office on Hope Street in Los Angeles. The proposed facility would be constructed on part of the parking lot at the south end of the existing state-owned site. The Hope Street facility currently occupied by DMV was built in the early 1930's as a tire warehouse. The building is in poor condition and there are no suitable buildings available for lease on a permanent basis in the area.

The proposed two-story structure will house a typical DMV field office as well as the office of the regional manager, legal staff, central registration center and the Los Angeles information unit.

The Legislature has appropriated funds in the past two budget acts for the preparation of preliminary plans and working drawings, and for acquisition from the city of Los Angeles of a narrow strip of land. The working drawing amount appropriated by the Legislature last year ($58,000) was based on a 31,855 gross square foot building costing $73 per gross square foot (1982–83 prices). The unit cost reflected in the proposed construction amount is consistent with the legislatively approved level of last year. The size of the building, however, is not. No justification has been provided for increasing the size of the building from 31,855 square feet to 34,000 square feet. Furthermore, when the Public Works Board released funds for the preparation of working drawings for this project on November 5, 1982, no mention was made of the need for additional space. In fact, prior to the board's action, the Department of Finance, in a letter dated November 4, 1982, certified to the Chairman of the Joint Legislative Budget Committee that the project was consistent with the legislatively approved scope and cost.

Based on the legislatively approved size of 31,855 square feet and a building cost of $77 per gross square foot, the total cost of this project should be $3,229,000. A total of $165,000 has already been made available to OSA for work on this project. Consequently, only $3,064,000 should be needed to complete the project. We recommend approval of the project, funded at the reduced amount, for a savings of $192,000.

El Cajon—Construction

We recommend that Item 2740-301-044(c), construction, El Cajon, be deleted because adequate information is not available on which to evaluate the proposed level of expenditure, for a reduction of $1,558,000.

The department is requesting $1,558,000 under Item 2740-301-044(c) for construction of a new DMV field office in El Cajon (San Diego County). The proposed 12,000 square foot office would contain 5,700 square feet of public service area plus space for driver improvement analysis and an automobile dealer room. The project would also include 150 parking spaces and a motorcycle testing area.

The El Cajon area presently is served by a leased facility in La Mesa. The department indicates that the La Mesa facility is overcrowded and the lessor will not renew the lease. To provide improved service to both communities, the department is proposing to split the service area and provide offices in both El Cajon and La Mesa. The El Cajon office will be designed so that it can be expanded in the future to handle population growth. The lease for the La Mesa office terminates in November 1987. The department plans to request funding to replace this building at some future time.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

On this basis the Legislature provided funds in the 1982 Budget Act for site acquisition ($990,000) and the preparation of preliminary plans and working drawings ($137,000) for the El Cajon facility. These amounts were based on an estimated total project cost of $1,558,000.

The department has acquired a site for the new facility, and the OSA is in the process of developing schematic drawings for the building. Preliminary plans are not scheduled to begin until March 1983 and will not be completed until May 1983. If this schedule is not accelerated, the Legislature will not have sufficient information to assess the adequacy of the amount requested for construction. Under the circumstances, we must recommend deletion of the requested funds. At the same time, we urge the department to request that OSA revise the project schedule so that preliminary plans will be completed in time for legislative consideration of the request for construction funds. In addition, we recommend that the department direct OSA to design the building within the $77 per gross square foot cost guideline.

Visalia—Purchase Leased Facility

We recommend approval of Item 2740-301-044 (d), purchase leased facility, Visalia.

The budget includes $850,000 under Item 2740-301-044(d) to purchase the existing DMV field office in Visalia. The 7,290 square foot building, which sits on a site of approximately two acres, was built to DMV specifications and was first occupied on January 1, 1981. The department currently pays $162,000 annually in rent for this building. Under the terms of the lease agreement, the state has the option to purchase the facility on the second anniversary of the lease and any time thereafter. The option price increases through time so it is to the state's advantage to exercise the option as early as possible.

The department is proposing to acquire the facility on October 1, 1983. The amount included in the budget would provide $839,000 to cover the purchase price plus $11,000 for administrative costs.

The state could have purchased the facility on January 1, 1983 for $783,000. The department, however, did not request funds for this purpose in 1982–83.

The department indicates that the office size is sufficient to serve the population of the Visalia area until 1995. The building is constructed so that it can be expanded at a later date to accommodate the population projected for the year 2005. Thus, the site should be sufficient to serve DMV's needs in the area for 22 more years.

Based on a present worth analysis of the lease terms, we recommend approval of this project. Our analysis indicates that the state will save approximately $150,000 (present value) over the remaining 13 years of the lease. These savings would be increased by any residual value of the property at the end of that 13-year period.

Minor Projects

We withhold recommendation on $61,000 under Item 2740-301-044(e) requested for an automated security system, pending receipt of additional information.

The budget includes $75,000 under Item 2740-301-044(e) for two minor capital outlay projects (projects costing $150,000 or less) for the Department of Motor Vehicles. Specifically, funds are included for computer room modifications and for an automated security system at the Sacramento headquarters of the department.

Computer Room Modifications. The department is proposing to spend $14,000 for modifications to the existing computer room at the Sacramento headquarters. These funds would be used to construct a separate input-output room in the northwest corner of the existing computer room. The department indicates that under existing operating conditions, the noise and paper dust pollution from the operation of the printer creates a hazardous environment for the operation of the computer. The department is also proposing to move the problem-solving area outside of the computer room to improve security, and to move the tape library within the computer room to provide a more stable, controlled environment for the storage of tapes. We recommend approval of this project.

Automated Security System. The budget includes $61,000 to install a new automated security system to control access to the DMV headquarters' computer complex. The department states that the present security system is not totally effective during shift changes, and that security guards cannot adequately monitor all the personnel. In addition, the department indicates that the supplier of the existing system has gone out of business and replacement parts are hard to obtain.

The department is proposing to install a new security system which utilizes a mini-processor and magnetic entry badges to control access. The department indicates that project will also encompass the security system of the Teale Data Center, which will share in the cost of installation. The department further indicates that the proposed system will eventually be expanded to provide external security for the DMV buildings on evenings and weekends. The department, however, has been unable to provide an estimate for either the Teale portion of the work or future DMV costs.

This project represents a shift in policy toward security at both the Teale and DMV computer centers. Such a change should be made only after the preparation and review of a feasibility study report. Prior to hearings on the Budget Bill, the department should report to the Legislature on the various alternatives considered for dealing with the security problem and the cost-effectiveness of each. Further, the department should detail the full cost—to both DMV and the Teale Data Center—of the proposal. We withhold recommendation pending receipt of this information.

Business, Transportation and Housing Agency

TRAFFIC ADJUDICATION BOARD

Item 2760 from the Driver Training Penalty Assessment Fund — Budget p. BTH 123

Requested 1983–84	$1,877,000
Estimated 1982–83	1,671,000
Actual 1981–82	1,545,000
Requested increase (excluding amount for salary increases) $206,000 (+12.3 percent)	
Total recommended reduction	$39,000

TRAFFIC ADJUDICATION BOARD—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Data Processing Costs Overbudgeted. Reduce by $39,000.* Recommend deletion of funds budgeted for one position not needed in budget year. 467

GENERAL PROGRAM STATEMENT

The Traffic Adjudication Board (TAB) was established by Ch 722/78. The board operates a demonstration program for adjudication of traffic safety violations (infractions) in Sacramento and Yolo Counties, in lieu of adjudication by the courts. The board is authorized 46.2 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $1,877,000 from the Driver Training Penalty Assessment Fund to support the board's activities in 1983–84. This is $206,000, or 12 percent, more than estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The increase proposed for 1983–84 is largely due to a $126,000 increase in state pro rata assessments charged the board. This amount includes $61,000 to repay the General Fund for assessments not charged in the past year. Excluding the increase in these charges, proposed expenditures in 1983–84 are only $80,000, or 4.8 percent, above estimated current-year expenditures.

Total funding for support of the board in 1983–84, including funding from reimbursements, is budgeted at $2,028,000. Reimbursements are projected to decline by $121,000, or 44 percent, due to the scheduled completion in January 1984 of evaluation reports covering the TAB program. Currently, these reports are funded by a federal grant administered by the state Office of Traffic Safety. Total TAB expenditures proposed from all funding sources are $85,000, or 4.4 percent, higher than estimated current-year expenditures.

Annual Reports to the Legislature

The board is required to submit an annual report to the Governor and the Legislature on the progress of the demonstration program. The report, which is due on January 1 of each year, is to be accompanied by evaluations of the program prepared by independent consultants retained by the board. The consultants' evaluations must address areas specified in Chapter 722, including the program's impact on the judicial system, law enforcement, local governments, defendants, the general public, driver improvement programs, and the Department of Motor Vehicles. The evaluations must also include an analysis of the impact of administrative adjudication on traffic safety, as compared to adjudication through the court system.

Contracts to perform these evaluations were awarded in January 1980. Science Applications, Inc. (SAI), was awarded the contract to perform the cost-benefit evaluation, and Dunlap and Associates, Inc. was awarded the traffic safety evaluation contract.

Chapter 1632, Statutes of 1982 requires each state agency to evaluate the need to continue certain legislatively mandated reports. In compliance with this statute the board notes that its report is necessary if the Legislature is to determine the ultimate success or failure of this project, and recommends that the reporting requirement be continued. We concur.

Cost-Benefit Evaluation Report

SAI's second annual report, which was released in December 1981, indicates that TAB processed citations at an average cost of approximately $16.50. Excluding the costs associated with the pilot project aspects of TAB (such as various data processing costs), the board processing costs average only about $12 per citation. In contrast, the costs of the Sacramento County court system average about $19 per citation, while the costs of the Yolo County System average about $13 per citation.

The third annual report currently is being reviewed by parties involved in the project, and will be submitted in March 1983.

Traffic Safety Evaluation Report

The second traffic safety evaluation report was issued by Dunlap and Associates in May 1982. The report did not indicate any major differences in the outcomes of court and TAB cases, although TAB processing time was reported as being noticeably faster. While the court conviction rate was higher, the court more often suspended sentences, so that the net percentage of sanctions imposed by the two systems was about the same.

The third annual report also will be delayed until March 1983.

TAB Sunset Date

Chapter 722, which set up TAB, established a sunset date of July 1, 1984, for the program. The final evaluation reports on TAB, however, will not be presented to the Legislature until after January 1, 1984. Because any legislation continuing TAB would have to be enacted prior to January 1, 1984 in order to avoid a hiatus between July 1, and December 31, 1984 (agencies cannot be created through urgency legislation), the Legislature would have to consider the board's fate without the benefit of these evaluations.

For this reason, the board is proposing the enactment of legislation extending the program by one year. Such an extension of the program would enable the Legislature to review the final reports before determining whether to expand, continue, modify, or abolish TAB.

So that the Legislature will have the most complete information to make its decision on the future of the board, we recommend the enactment of legislation extending the program for one year.

Data Processing Funds Not Needed

We recommend the deletion of funds for one contracted position that is not needed in the budget year, for a $39,000 savings to the Driver Training Penalty Assessment Fund (Item 2760-001-178).

TAB currently operates its data processing equipment through an interagency agreement with the Department of Motor Vehicles. Through this agreement, the department provides the board with a data processing staff of five employees and related support, at an annual cost of $242,000.

Our review of TAB operations indicates that the amount budgeted for data processing is excessive. The Department of Motor Vehicles currently is operating this unit with only four employees, and has not refilled one position *at TAB's request*. The board indicates it is only approving additional data processing projects that have a relatively short payback time, or that are required by legislative and administrative changes.

TRAFFIC ADJUDICATION BOARD—Continued

On this basis, we recommend that funds for one contracted position not needed in the budget year be deleted, for a savings of $39,000 (Item 2760-001-178). We also recommend a corresponding reduction in reimbursements budgeted for the Department of Motor Vehicles (Item 2740-001-044).

In Control Section 24.10, the budget proposes reverting to the General Fund any balance in the Driver Training Penalty Assessment Fund on June 30, 1984. Thus, adoption of this recommendation would increase the amount available in the General Fund that could be used for other legislative priorities.

Business, Transportation and Housing Agency

STEPHEN P. TEALE DATA CENTER

Item 2780 from the Stephen P. Teale Data Center Revolving Fund — Budget p. BTH 125

Requested 1983–84	$37,822,000
Estimated 1982–83	35,415,000
Actual 1981–82	30,831,000
Requested increase (excluding amount for salary increases) $2,407,000 (+6.8 percent)	
Total recommended reduction	$430,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. ***Overtime. Reduce by $350,000.*** Recommend reduction in amount requested for overtime expenses to correct for overbudgeting.	469
2. ***Facilities Operations. Reduce by $80,000.*** Recommend reduction to delete overbudgeted expenses.	470
3. Budgeting Inconsistency. Recommend adoption of supplemental report language requiring improvements in the display of data processing expenses in the Governor's Budget.	470

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Data Center is one of three consolidated data centers authorized by the Legislature. The center, which provides computer services to 105 state governmental units, was established to provide a modern computing capability to state agencies while at the same time minimizing the total cost of data processing to the state. The costs of operating the center are fully reimbursed by the center's customers, and annual increases in its budget for the most part reflect increased user workload.

The data center is authorized 349 positions in 1982–83.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of $37,822,000 for the data center in 1983–84. This is an increase of $2,407,000, or 6.8 percent, above estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Proposed staffing for 1983–84 totals 349 personnel-years, which is the same number estimated for 1982–83.

Significant Budget Increases

Table 1 displays the major components of the proposed increase in the data center's budget for 1983–84.

Table 1
Stephen P. Teale Data Center
Significant Budget Increases
(dollars in thousands)

Item	*Proposed Increase*
1. Computing operations expense	$1,257
2. Personal services	508
3. Central administrative services	451
Total	$2,216

As shown in Table 1, most of the increase, $1,257,000, is requested to meet higher computing operations expenses, primarily consisting of charges for equipment rental or payments for installment purchases and maintenance. This increase reflects the growth in the data center's computing capacity to meet customer workload processing requirements. The increase of $508,000 in personal services represents merit salary adjustments and staff benefit increases. The $451,000 increase for central administrative services is the Department of Finance's estimate of the data center's pro rata share of support for statewide services such as those provided by the Department of Finance and the State Personnel Board. This cost, as well as all data center costs, are recovered from the data center's customers through monthly billings.

Despite the cost increases budgeted for 1983–84, the data center does not intend to increase rates charged to user agencies in the budget year, as anticipated workload growth should generate sufficient additional revenue to offset added costs.

Reduce Overtime Allocation

We recommend a $350,000 reduction in the amount requested for overtime, because the budgeted amount exceeds anticipated requirements.

The data center's budget for personal services in 1983–84 includes $702,651 for overtime expenses, an amount which is almost four times the $181,000 actually spent for overtime in 1981–82. Although data center staffing has increased by approximately 14 percent since 1981–82, and the center now operates two separate computer facilities, we can find no basis for such a substantial increase in overtime expenses.

The data center has reevaluated its overtime requirements at our request, and concurs with our finding. It now agrees that the overtime expense budget could be reduced by $350,000. Accordingly, we recommend a reduction of $350,000 in the amount budgeted for personal services.

STEPHEN P. TEALE DATA CENTER—Continued

Facilities Operations Overbudgeted

We recommend an $80,000 reduction in the amount requested for operating expenses to eliminate overbudgeting.

One of the primary computing services provided by the data center is "time-sharing", which allows numerous customers to access and share computer time on a simultaneous basis, through remote terminal devices located at customer sites throughout the state. The data center maintains a dual computer complex which is dedicated to this service. This complex is in addition to other computers maintained by the data center for more general workload processing. At the time the budget was being prepared, the data center was contemplating adding a third time-sharing computer in 1983–84 because of continued increases in the demand for time-sharing services. The data center now indicates that this proposal will not be implemented in the budget year.

Our review of the budget discloses, however, that $60,000 of the amount requested for facilities operations in 1983–84 is for air-conditioning and electrical power to support a third computer for time-sharing services. Consequently, this amount should be deleted from the budget.

Our budget review also reveals instances in which incorrect percentage increases have been applied to certain operating expense items, or the computed amounts exceeded the increase authorized by Department of Finance budget instructions. Our recalculation of allowable increases shows that an additional $20,000 in operating expense funds should be deleted to compensate for these errors by adjusting the budgets for utilities (—$12,000), guard services (—$4,000) and pro rata charges for state police services (—$4,000).

For these reasons, we recommend that the amount budgeted for operating expenses be reduced by a total of $80,000.

Budget Reconciliation

We recommend that the Legislature adopt supplemental report language requiring proposed data processing expenditures to be displayed in a more comprehensive manner in the budget.

In preparing this analysis of the data center's budget, we experienced difficulty in reconciling the center's proposed budget with amounts requested in the budgets of user agencies to pay for data center services. This difficulty arose from the inconsistent manner in which data center expenditure allocations are identified in the budget. For example, throughout the budget, data processing line item expenses are identified as "Consolidated Data Centers," "Data processing," or "Teale Data Center." Amounts associated with the "Teale Data Center" designation are self-explanatory. The former two designations, however, *may* include amounts not only for the Teale Data Center, but for a department's *internal* computing expenses, as well as charges for services provided by the Health and Welfare Agency Data Center. These imprecise designations create a serious problem in analyzing the Teale Data Center's budget, because the data center has 105 customers. (In contrast, the Health and Welfare Data Center has only 13 customers.)

Line items for data processing expenditures in the budget should distinguish between internal costs and data center costs, by data center, in a consistent manner. This would facilitate budget reconciliation and provide more meaningful budget information to the Legislature. For this reason, we recommend that the Legislature adopt the following supplemental report language:

"The Department of Finance, in preparing the budget, shall display proposed data processing expenditure line items in such a manner as to distinguish clearly between internal costs and data center costs, by data center."

Concerns Over Customer Service

In December 1982, the California Information Technology Advisory Board (CITAB) issued a report on the state's uses of computers. The report—"Information Technology in California State Government"—addressed a concern expressed by many customers of the Teale Data Center ". . . that Teale's size and growth will impact (the users) negatively." To resolve this situation, the report recommends that the data center enhance its customer liaison functions, and place increased emphasis on addressing customer concerns for involvement in the data center's decision-making process.

We concur with this recommendation. The ability of the data center to enable customers to make maximum effective use of information technology is dependent, in part, on the extent to which organizations are motivated to use the data center's services. Motivation, in turn, is somewhat dependent on the level of confidence in the data center's ability to provide a cost-effective and reliable service.

Data center management, aware of the importance of its customer liaison function, indicates that it intends to propose some restructuring based on the CITAB report. There were, however, no firm plans for implementing the CITAB recommendation at the time we prepared this *Analysis.* Consequently, the potential fiscal effect of modifications in the data center's customer services function is unknown.

These modifications could include establishing a unit of systems analysts and programmers to provide computer application development assistance to customer departments needing this type of service. The cost of this direct assistance would be recovered through billings to customers using the service. Restructuring could also entail an increase in data center administrative overhead, in which case the cost would be spread among all customers.

We will prepare a supplemental analysis of any proposed plan for implementing the recommendation contained in the CITAB report, to the extent such a plan is presented during budget hearings and is found to have a fiscal effect.