DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY

Item 1970-301-890 from the Federal Trust Fund — Budget p. SCS 152

Requested 1985–86	$5,917,000
Recommendation pending	5,917,000

ANALYSIS AND RECOMMENDATIONS

Federal Matching Funds for Veterans' Home Projects

We withhold recommendation on Items 1970-301-890 (1), (2), and (3), pending receipt of additional information on the Sections A, C and D domiciliary projects.

The budget includes $5,917,000 in federal construction matching funds for three projects at the Veterans' Home. State funds for these projects are requested under Item 1970-301-036.

Specifically, $1,786,000 is included under Item 1970-301-890(1) to remodel Section A (domiciliary); $2,365,000 is included under Item 1970-301-890(2) to remodel Section C (domiciliary); and $1,766,000 is included under Item 1970-301-890(3) to remodel Section D (domiciliary). These funds are provided under the Veterans Administration's grant program for construction or repair of state homes for veterans.

We have withheld recommendation on the *state's* share of these projects, pending receipt of additional information. Consequently, we withhold recommendation on this item.

Business, Transportation and Housing Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

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

Requested 1985–86	$16,373,000
Estimated 1984–85	15,922,000
Actual 1983–84	13,499,000
Requested increase (excluding amount for salary increases) $451,000 (+2.8 percent)	
Total recommended reduction	117,000

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 361.7 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $16,373,000 from the General Fund for support of the Department of Alcoholic Beverage Control in 1985–86. This is $451,000, or 2.8 percent, above estimated current-year expenditures. The increase will grow by the cost of any salary and staff benefit increases approved for the budget year.

The proposed increase of $451,000 reflects:

- Merit salary and employee compensation adjustments totaling $90,000.
- An additional $134,000 for inflation adjustments for operating expenses.
- Additional in-state travel funds of $72,000 to pay for costs associated with increased levels of training for staff.
- A special adjustment of $125,000 to pay for increased rental costs from newly negotiated leases.
- The purchase of audiovisual equipment, at a cost of $30,000, for presentations to applicants and licensees on procedures and regulations.

The expenditure of $565,000 in anticipated reimbursements results in a total expenditure plan of $16,938,000 in the budget year. Table 1 provides a summary of expenditures and personnel-years for the department's three programs.

Table 1
Department of Alcoholic Beverage Control
Program Summary
1983–84 through 1985–86
(dollars in thousands)

				Increase From 1984–85 to 1985–86	
Expenditures	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Amount*	*Percent*
Licensing	$9,587	$10,702	$10,979	$277	2.6%
Compliance	4,405	5,762	5,959	197	3.4
Administration (distributed)	(1,674)	(2,079)	(2,124)	(45)	(2.2)
Totals	$13,992	$16,464	$16,938	$474	2.9%
Personnel-Years					
Licensing	207.2	208.1	206.1	−2.0	−1.0%
Compliance	96.5	101.4	103.4	2.0	2.0
Administration	39.1	41.8	41.8	—	—
Totals	342.8	351.3	351.3	—	—

Retirement Costs Grow

The estimated level of current-year expenditures includes an allocation of $228,000 from the appropriation for contingencies or emergencies. These funds will be used to pay increased retirement costs associated with Ch 280/84, which created a new retirement category for peace officers and firefighters, effective July 1984. System members who are in this category will receive higher retirement benefits. As a result, the department's contribution to the system must also increase. A total of $230,000 is included in the department's budget request for 1985–86 for this purpose.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

ANALYSIS AND RECOMMENDATIONS

Technical Recommendations

We recommend a General Fund reduction of $117,000 to eliminate overbudgeting, as follows:

- The department has underestimated salary savings by $76,000, given anticipated turnover rates in its investigative classes.
- The amount budgeted for facility rental exceeds by $26,000 the amount which will be needed in the budget year, based on the Department of General Services' most recent estimates of negotiated rental rates.
- The department has budgeted $15,000 more for payments to the Business, Transportation and Housing Agency for legislative and liaison services than the agency indicates it will charge the department in the budget year.

General Fund Revenues Projected to Increase

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.

Table 2 provides a summary of actual, estimated, and projected revenues by fiscal year. As shown in the table, the department estimates that its activities will generate revenues to the General Fund of $31,181,000 in 1985–86. This is an increase of $947,000, or 3.1 percent, from estimated current-year revenues. The increase is largely attributable to the projected growth in the number of active licensees.

Table 2

Department of Alcoholic Beverage Control
License Fees and Miscellaneous General Fund Revenues
1983–84 through 1985–86
(in thousands)

	Actual 1983–84	*Estimated 1984–85*	*Projected 1985–86*
Out-of-state beer certificates	$10	$10	$10
Original license fees	3,367	3,500	3,700
Transfer fees	4,257	4,300	4,350
Special fees	328	330	332
Service charges	271	275	280
Annual fees and offers in compromise	18,618	18,850	19,450
Ten percent surcharge on annual fees	1,669	1,690	1,740
Caterer's authorization, permits, and manager's certificates	327	340	350
Surcharge on annual fees for administrative hearings	464	677	696
Modification of conditions	6	12	13
Penalty assessments	243	250	260
Miscellaneous income	9	—	—
Totals	$29,569	$30,234	$31,181

Business, Transportation and Housing Agency
ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

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

Requested 1985–86	$386,000
Estimated 1984–85	286,000
Actual 1983–84	185,000
Requested increase (excluding amount for salary increases) $100,000 (+35.0 percent)	
Total recommended reduction	None

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 meet once each month, alternating between Los Angeles and San Francisco. The members are reimbursed for expenses, and receive a per diem of $100 for each day the board meets. In the current year, the board's three-person staff consists of two attorneys and one clerical employee.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $386,000 from the Alcoholic Beverage Control Appeals Fund for support of the board in 1985–86. This amount is $100,000, or 35 percent, more than estimated current-year expenditures for support of the board. This increase will grow by the cost of any salary or staff benefit increases approved for the budget year.

The increase is requested to provide (1) an additional $4,000 for employee compensation adjustments and for inflation adjustments to operating expenses, and (2) an additional $96,000 for pro rata charges for central administrative services.

Pro rata charges are assessed against special fund agencies to recover a "fair share" of the cost of those administrative services which are provided to all agencies, but are funded by the General Fund. Because of the methodology used by the Department of Finance to calculate pro rata charges, no assessment is made on a special fund during its first two years of existence. Instead, charges attributable to those two years are recovered through higher-than-normal assessments in the two subsequent years. The board was first funded from the Alcoholic Beverage Control Appeals Fund in 1983–84. Consequently, 1985–86 is the first year in which pro rata charges will be assessed. The charges should decrease in 1987–88, once assessments for 1983–84 and 1984–85 have been collected.

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD—Continued

Surcharge Will Be Lowered

Existing law requires the board to establish a surcharge on annual liquor license fees that is sufficient to provide the revenue needed to support the board. Revenues from the surcharge are deposited in the Alcoholic Beverage Control Appeals Fund. Since the establishment of the surcharge in 1983, the rate has been set at the maximum allowable level of 3 percent.

The level of revenue generated by this surcharge has been sufficient in the past and current years to fund both the ongoing support of the board and repayment of a General Fund loan made to the fund in 1982–83. The loan repayment is required by provisions of the 1982 Budget Act, which specified that the General Fund appropriation to the board in that year constituted a loan which must be repaid with interest from surcharge revenues, as well as by the budget companion measure (Ch 327/82) which requires the board to be self-supporting.

The board will make the final payment on the General Fund loan in the current year, so the demands on the fund's resources in 1985–86 and thereafter will be limited to the board's ongoing support requirements. Accordingly, the board proposes to reduce the surcharge on liquor license fees from 3 percent to 1.8 percent in 1985–86.

Business, Transportation and Housing Agency

STATE BANKING DEPARTMENT

Item 2140 from the State Banking Fund — Budget p. BTH 6

Requested 1985–86	$8,646,000
Estimated 1984–85	8,316,000
Actual 1983–84	7,012,000
Requested increase (excluding amount for salary increases) $330,000 (+3.9 percent)	
Total recommended reduction	60,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2140-001-136—Support	State Banking	$8,581,000
2140-001-240—Administration of Local Agency Security	Local Agency Deposit Security	65,000
Total		$8,646,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Supplemental Language Report. Recommend the department explain to the fiscal subcommittees at the time of budget hearings, why it did not fully respond to language in the *Supplemental Report to the 1984 Budget Act* regarding the effects of deregulation of the banking industry. 254
2. ***Consulting Funds. Reduce Item 2140-001-136 by $60,000.*** Recommend reduction because the proposed study is not specific and lacks adequate justification. 255

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 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 December 31, 1984, there were 289 state-chartered banks doing business in California. The combined assets of these banks was $81 billion. There also were 151 federally chartered banks with total assets of $204.7 billion operating in California.

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

In addition, the department licenses and regulates Business and Industrial Development Corporations (BIDCOs). Federal law requires state licensure of BIDCOs as a condition for receiving loan guarantees from the Small Business Administration.

The department is administered by the Superintendent of Banks, who is appointed by the Governor. Pursuant to law, the superintendent is designated as the "administrator of local agency security," and acts as an agent for approximately 1,600 local treasurers in supervising the handling of public funds by depository banks.

The department is headquartered in San Francisco, and has branch offices in Los Angeles, Sacramento and San Diego. The department is authorized 176 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $8,581,000 from the State Banking Fund and $65,000 from the Local Agency Deposit Security Fund for support of the State Banking Department in 1985–86. This is $330,000, or 4.0 percent, more than estimated expenditures from these funding sources in the current year. This increase will grow by the cost of any salary or staff benefit increases approved for the budget year.

Table 1 shows expenditures and personnel-years for the department's programs in the past, current, and budget years.

Table 1
State Banking Department
Staffing and Expenditures, by Program
1983–84 through 1985–86
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1983–84	*Estimated 1984–85*	*Proposed 1985–86*	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*
Licensing and supervision of banks and trust companies	150.4	169.6	170.0	$7,001	$8,253	$8,524
Payment instruments	1.1	1.6	3.4	36	49	107
Certification of securities	0.4	0.4	0.4	17	19	19
Supervision of California business and industrial development corporations	0.6	0.7	0.7	29	31	31
Administration of local agency security	2.6	3.2	3.2	59	64	65
Departmental administration	(30.8)	(35.5)	(35.3)	(1,439)	(1,817)	(1,835)
Totals	155.1	175.5	177.7	$7,142	$8,416	$8,746
Reimbursements				−130	−100	−100
Net Totals				$7,012	$8,316	$8,646

STATE BANKING DEPARTMENT—Continued

In addition, the department anticipates receiving reimbursements of $100,000 during the budget year, resulting from fees charged for (1) examining trust companies, and (2) conducting special examinations of banks. Thus, the budget proposes total expenditures of $8,746,000 in 1985–86.

Table 2 shows the budget changes proposed for 1985–86.

Table 2
State Banking Department
Proposed Budget Changes
(dollars in thousands)

	State Banking Fund	*Local Agency Deposit Security Fund*	*All Funds*
1984–85 Expenditures (Budget Act)	$7,768	$61	$7,829
1. Allocation for employee compensation	501	3	504
2. Reduction per budget section 4.10	−17	—	−17
1984–85 Expenditures (Revised)	$8,252	$64	$8,316
Baseline Adjustments, 1985–86:			
1. Merit salary adjustments	21	—	21
2. Increase to offset inflation	130	1	131
3. Pro rata increase	57	—	57
4. Delete limited-term positions	−103	—	−103
Program Change Proposals			
1. Financial industry study (BT&H Agency)	60	—	60
2. Add staffing for money transmitters' program	57	—	57
3. Add funds for temporary help	9	—	9
4. Add limited-term legal positions	98	—	98
1985–86 Expenditures (Proposed)	$8,581	$65	$8,646
Change from 1984–85:			
Amount	$329	$1	$330
Percent	4.0%	1.6%	4.0%

ANALYSIS AND RECOMMENDATIONS

Department's Report on Banking Deregulation is Not Responsive to the Legislature's Directive

We recommend that during budget hearings, the department be directed to explain why it did not fully respond to language contained in the Supplemental Report of the 1984 Budget Act.

In our *Analysis of the 1984–85 Budget Bill* (please see page 310), we discussed banking deregulation and its effects on bank profitability. Specifically, we indicated that the phase-out of interest rate controls had increased competition for depositors' funds between different types of financial institutions, the results being a higher cost of funds to banks, higher interest paid to depositors (large and small), and a general narrowing of banks' profit margins. Furthermore, we pointed out that deregulation had also introduced a new element—equity risk—into the banking equation by permitting banks to assume an equity position in commercial ventures.

Recognizing the need for the Department of State Banking to address the impacts of deregulation on the banking environment and the need for changes in state regulatory programs, the Legislature adopted language in the *Supplemental Report of the 1984 Budget Act* which required the department to (1) identify significant federal and state legislation since 1978 which aided in the deregulation of the banking industry and provide a summary of its effect on the industry; (2) provide a general estimate of how widely state-chartered banks are using their broadened investment authority; and (3) evaluate whether the deregulated environment had resulted in the need for (a) a redefinition of the department's role as a regulator, (b) a restructuring of the department, or (c) a change in the department's resource needs.

We find that the department's report adequately addresses the first and second directives set forth in the supplemental language. Its response to the third directive, however, is too general and does not provide the Legislature with the information it needs in order to set policy in this important area. Specifically, we found that the department's report failed to

- critically and objectively evaluate the department's role in a deregulated financial services marketpace, vis a vis the role of federal regulators;
- provide *any* alternatives to the department's current organizational structure; and
- develop a firm foundation which the Legislature could use to evaluate and analyze future requests for changes in department funding and staffing.

We find that, essentially, the department's report simply proposes a continuation of the status quo—at higher staffing levels—with no firm justification for its current role and no clear-cut plan of action for the future. We therefore recommend that during budget hearings, the department be directed to explain why it did not fully respond to the language contained in the *Supplemental Report of the 1984 Budget Act.*

Consulting Funds Are Not Justified

We recommend a reduction of $60,000 in consulting funds because the proposed use of these funds lacks adequate justification. (Reduce Item 2140-001-136 by $60,000)

The Governor's Budget requests $300,000 for the Secretary of Business, Transportation and Housing Agency to use in contracting for an independent comprehensive review of the state's policy role towards the regulation of financial service institutions in California. This would be the second phase of a two-phase effort which the agency plans to start in the current year.

At the time this analysis was prepared, staff advised us that the plan for Phase I had not been completed. The preliminary cost estimate for this phase, however, was approximately $100,000, with each of the agency's five financial regulatory departments (including the State Department of Banking) expected to pay $20,000. Phase II—$300,000—would also be funded by the five regulatory departments, with each one providing $60,000.

While our analysis confirms the need for further study of the issues facing the state financial regulatory programs, we are unable to recommend approval of the request for contract funds because the proposal

STATE BANKING DEPARTMENT—Continued

lacks adequate justification. This proposal and our analysis of it are discussed more fully as part of our analysis of the proposed budget for the Secretary of Business, Transportation and Housing (Item 0520-001-001). Consistent with our recommendation in that item, we recommend that the $60,000 requested in this item not be approved.

Business, Transportation and Housing Agency

DEPARTMENT OF CORPORATIONS

Item 2180 from the General Fund — Budget p. BTH 12

Requested 1985–86	$8,203,000
Estimated 1984–85	8,111,000
Actual 1983–84	6,886,000
Requested increase (excluding amount for salary increases) $92,000 (+1.1 percent)	
Total recommended reduction	140,000
Recommendation pending	1,977,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Consulting Funds. Reduce Item 2180-001-001 by $60,000.*** Recommend reduction because the proposed study is not specific and has not been adequately justified. 258
2. ***Lender-Fiduciary Program. Reduce Item 2180-001-001 by $80,000.*** Recommend reduction to correct for underbudgeted reimbursements. 259
3. Knox-Keene Health Care Service Program. We withhold recommendation on $56,000 requested in Item 2180-001-001 and $1,921,000 in reimbursements for the Knox-Keene Health Care Service Plan program, pending receipt of a final program budget for this activity. 260

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 that lend or hold money in trust. The department carries out this mission through three programs: (1) investment, (2) lender-fiduciary, and (3) health care service plans. The cost of administering the department is prorated among these three programs.

Under the *Investment program* the department approves securities and franchises offered for sale, and conducts investigations to enforce the various laws administered by the department. The department also reviews license applications submitted by prospective securities broker-dealers and investment advisors.

The *Lender-Fiduciary program* licenses and examines lender-fiduciary institutions regulated by the department, including check sellers, credit unions, escrow offices, industrial loan companies, consumer finance lenders, commercial finance lenders, and trading stamp companies.

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 is authorized to have a total of 335 personnel-years.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $8,203,000 from the General Fund for support of the Department in 1985–86. This is an increase of $92,000, or 1.1 percent, above estimated General Fund expenditures in the current year. The proposed increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

The budget proposal does not include any funds for the cost of merit salary increase ($54,000) in 1985–86 or inflation adjustments for operating expenses and equipment ($70,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

The department anticipates that, during the budget year, it will receive reimbursements of $7,804,000 in the form of fees charged for examining the financial records of licensees. Thus, the budget proposes total expenditures by the department of $16,007,000 in 1985–86. This is $508,000, or 3.3 percent, more than total estimated expenditures in the current year.

The Department of Finance has authorized the department to spend an additional $66,000 in reimbursements in the current year for five limited-term auditors that will assist in the liquidation of an insolvent industrial loan company.

The budget anticipates that the department's programs will generate revenues of $13,045,000 to the General Fund in 1985–86. This reflects an increase of $1,365,000, or 11.7 percent, above what is estimated for the current year.

Table 1 shows staffing and expenditure data for the department covering the past, current, and budget years.

Table 1
Department of Corporations
Staffing and Expenditures, by Program
1983–84 through 1985–86
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1983–84	*Estimated 1984–85*	*Budgeted 1985–86*	*Actual 1983–84*	*Estimated 1984–85*	*Budgeted 1985–86*
Investment	165.1	175.1	175.1	$7,321	$8,039	$8,248
Lender-Fiduciary	113.9	124.4	123.8	4,810	5,536	5,906
Health Care Service Plan	32.2	35.8	35.8	1,536	1,924	1,977
Administration	(17.5)	(16.3)	(16.3)	(798)	(831)	(846)
Totals	311.2	335.3	334.7	$13,667	$15,499	$16,131
Unallocated reduction				—	—	−124[a]
Reimbursements				−6,781	−7,388	−7,804
Net Totals				$6,886	$8,111	$8,203

[a] Unallocated General Fund reduction for merit salary adjustments and operating expenses.

DEPARTMENT OF CORPORATIONS—Continued

Table 2 displays adjustments to the department's current-year budget as well as the changes proposed for 1985–86.

Table 2
Department of Corporations
Proposed Budget Changes
(dollars in thousands)

	General Fund	*Reimbursements*	*All Funds*
1984–85 Expenditures (Budget Act)	$7,626	$7,120	$14,746
Adjustments:			
1. Allocation for employee compensation	510	268	778
2. Reduction per Section 4.10	−3	—	−3
3. Estimated savings	−22	—	−22
1984–85 Expenditures (Revised)	$8,111	$7,388	$15,499
Baseline adjustments:			
1. Full-year cost of 1984–85 employee compensation adjustment	$84	$163	$247
2. Elimination of one-time costs	−27	—	−27
3. Merit salary adjustments	54	49	103
4. Increases to offset the effects of inflation	70	124	194
5. Unallocated General Fund reduction for merit salary adjustments and operating expenses and equipment	−124	—	−124
Program Change Proposals			
1. Study of California's financial services industry (BT&H agency)	35	25	60
2. One auditor position for lender-fiduciary program	—	55	55
1985–86 Expenditures (Proposed)	$8,203	$7,804	$16,007
Change from 1984–85:			
Amount	$92	$416	$508
Percent	1.1%	5.6%	3.3%

ANALYSIS AND RECOMMENDATIONS

Consulting Funds Are Not Justified

We recommend a reduction of $60,000 in the amount requested for outside consulting because the proposed use of funds has not been specified and the request lacks adequate justification. (Reduce Item 2180-001-001 by $60,000)

The Governor's Budget proposes $300,000 for the Secretary for Business, Transportation and Housing Agency to fund a contract providing for an independent comprehensive review of the state's policy towards the regulation of financial service institutions in California. This would be the second phase of a two-phase effort which the agency plans to start in the current year. At the time this analysis was prepared, staff advised us that the plan for Phase I had not been completed. The preliminary cost estimate for this phase, however, was approximately $100,000, with each of the agency's five financial regulatory departments (including the Department of Corporations) expected to pay $20,000. Phase II—$300,000—would also be funded by the five regulatory departments, with each one providing $60,000.

Analyst's Review. It is evident that the changing market for financial services confronts the state with serious policy issues regarding (1) the relationships between state and federal regulatory authorities and the responsibilities of each, and (2) the effectiveness of the existing state regulatory structure. Depending on how these issues are resolved, major changes may be needed in the state's programs for regulating state licensed financial service institutions. In *The 1985–86 Budget: Perspectives and Issues*, we discuss these emerging issues at some length.

While our analysis confirms the need for further study of the issues facing the state financial regulatory programs, we are unable to recommend approval of the request in the Secretary for Business, Transportation and Housing Agency's budget (please see Item 0520-001-001) to support the proposed consulting contract. The reason for not recommending approval of the request is because the proposal is not specific and lacks adequate justification. Consistent with this recommendation, we also recommend the $60,000 requested in this item not be approved.

Lender-Fiduciary Reimbursements Are Underbudgeted

We recommend a reduction of $80,000 in the General Fund appropriation, because reimbursements are underbudgeted. (Reduce Item 2180-001-001 by $80,000 and increase reimbursements by the same amount.)

The department's Lender-Fiduciary program regulates eight separate types of lender-fiduciary institutions, including check sellers and cashers, credit unions, escrow offices, industrial loan companies, consumer finance lenders, commercial finance lenders and trading stamp companies. The budget proposes total expenditures of $5,906,000 for this program in 1985–86. This is $307,000, or 6.7 percent, more than the department estimates it will spend for the program in the current year.

Program Costs Are Reimbursable. Part of the costs incurred by the department to regulate these industries are borne by the General Fund, with the balance funded from pro rata assessments on individual licensees. These assessments show up in the budget as reimbursements.

Table 3 displays the distribution of costs between these two funding sources proposed for 1985–86.

Table 3
Department of Corporations
Lender-Fiduciary Program
Proposed General Fund and Reimbursement Support
1985–86
(dollars in thousands)

Law	*Costs Financed by General Fund*	*Reimbursements*	*Total, Proposed Expenditures*
Check sellers and cashers	$1	$16	$17
Credit union	—	1,904	1,904
Escrow	29	1,221	1,250
Industrial loan	19	1,237	1,256
Personal property broker	13	836	849
Consumer finance	32	522	554
Commercial finance	35	32	67
Trading stamp	9	—	9
Totals	$138	$5,768	$5,906

DEPARTMENT OF CORPORATIONS—Continued

Our review of the statutes governing the administration of these programs indicates that the department can reasonably propose some General Fund expenditures for the Check Sellers, Credit Union, Escrow, Industrial Loan and Trading Stamp Laws. We find, however, that statutes governing the administration of the personal property broker, consumer finance lender, and commercial finance lender laws required the department to levy an assessment on each of the industries sufficient to cover *all* costs reasonably incurred to regulate them. Thus, the department's cost to regulate these industries should be *completely* reimbursed. Contrary to legislative intent, however, the department proposes to expend $80,000 from the General Fund in 1985–86 to partially offset its costs in regulating personal property brokers, consumer finance lenders, and commercial finance lenders. Consequently, we recommend that Item 2140-001-001 be reduced by $80,000 and that reimbursements be increased by a corresponding amount.

Knox-Keene Program

We withhold recommendation on $56,000 requested in Item 2180-001-001 and $1,921,000 in reimbursements for Knox-Keene Health Care Service Plan regulation, pending receipt of a final program budget.

The budget proposes to spend $1,977,000 for support of the department's Health Care Services Plan (HCSP) program in 1985–86. This is $53,000, or 2.8 percent, more than estimated expenditures in the current year. The increase reflects increased personal services and operating expenses resulting from salary and inflation adjustments.

The HCSP program is responsible for regulating health care service plans pursuant to the Knox-Keene Health Care Service Plan Act of 1975. These plans provide health care services to their members for a prepaid or periodic charge. The types of service provided to members must include (1) physician services; (2) hospital in-patient and ambulatory care services; (3) diagnostic laboratory services; (4) home health services; (5) preventive health services; and (6) emergency services. Health care services plan which (1) are *multiple-employer trusts,* or (2) serve to *substantially indemnify* plan members, are *not* subject to licensure under the provisions of the Knox-Keene Act.

The regulatory workload of the HCSP program is divided among four separate program elements: licensing, financial and administrative examinations, medical surveys, and enforcement.

Program Deficiencies Cited. In our *Analysis of the 1984–85 Budget Bill,* we did not recommend approval of the funding proposed for this program. Instead, we noted that the department was planning to substantially modify and revise its procedures relating to the licensure and medical review of health plans. More importantly, we identified serious deficiencies in the way the program was being administered. Specifically, we found that the department was not conducting on-site medical and financial audits of health plans at least once each five years, as the statute requires. Furthermore, we found that application backlogs were excessive. We also pointed out that the department's proposed procedural changes would have reduced the number of days spent conducting on-site medical surveys and discontinued reviews of patient medical records to determine whether the medical quality assurance system implemented by the health plan was, indeed, working.

Legislative Action Taken. In response to our findings, the Legislature took a series of actions designed to improve program performance. Specifically, it

- Redirected funding to medical surveys,
- Required that the program's 1985–86 budget be prepared using a zero-based budgeting approach,
- Required revisions in the medical survey procedures to provide for in-depth, on-site surveys which include a review of patient records under controls to ensure confidentiality,
- Required the department to submit quarterly program performance reports to the Legislature.

A Final Budget For the Program Has Not Been Submitted. A zero-based budget for this program was submitted to the Legislature in December of 1984. In its transmittal letter, however, the Department of Finance stated that the funding requirements for the program would not be included in the 1985–86 budget document. Instead, the budget would reflect only preliminary baseline changes for the program. To the extent other changes in funding are necessary, they will be proposed in a Department of Finance letter, prior to budget hearings.

Given the preliminary nature of the request for this program in the budget document, we withhold recommendation on the $1,977,000 proposal, pending receipt and review of a revised request.

DEPARTMENT OF COMMERCE

Item 2200 from the General Fund and various funds — Budget p. BTH 19

Requested 1985–86	$17,456,000
Estimated 1984–85	16,836,000
Actual 1983–84	7,289,000
Requested increase (excluding amount for salary increases) $620,000 (+3.7 percent)	
Total recommended reduction	345,000
Recommendation pending	3,890,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2200-001-001—Support (includes transfers to other funds)	General	$16,256,000
2200-001-890—Support	Federal Trust	(136,000)
2200-001-922—Office of Local Development, Local Assistance	Economic Development Grant and Loan	1,200,000
Total		$17,456,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. ***Small Business Revitalization Program. Reduce Item 2200-001-001 by $289,000.*** Recommend deletion of funds to support the state's continued participation in this program.	265
2. Small Business Loan Guarantees. Withhold recommenda-	270

DEPARTMENT OF COMMERCE—Continued

tion on $3,023,000 for loan guarantees and $867,000 for support of regional development corporations pending receipt of the department's plan for regional development corporations to become independent of additional state funding.

3. ***Enterprise Zone Program. Reduce Item 2200-001-001 by $27,-000.*** Recommend deletion due to overbudgeting. 271
4. ***Salary Savings Adjustment. Reduce Item 2200-001-001 by $29,000.*** Recommend deletion to correct for under-budgeting of salary savings. 271

GENERAL PROGRAM STATEMENT

The principal mission of the Department of Commerce (DOC) is to promote business development and job creation 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;
5. Providing information and statistics on the state's economy, products, tourism, and international trade; and
6. Promotion of filmmaking in California.

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 has 95.9 authorized positions in the current-year.

OVERVIEW OF THE BUDGET REQUEST

Table 1
Department of Commerce
Summary of Budget Requirements
(dollars in thousands)

	Personnel-Years			*Expenditures*		
Program	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*
Business Development	14.4	26.5	20.1	$1,079	$2,980	$3,068
California Film Office	—	2.8	5.7	—	294	408
Tourism	8.4	11.1	10.5	795	5,940	6,037
Local Development	7.3	13.9	10.5	1,074	4,122	2,202
Small Business	11.1	12.9	13.4	4,657	6,594	5,315
Economic Research	7.5	10.7	11.1	479	956	1,025
Administration (distributed)	17.1	18	19.3	(709)	(1,041)	(1,123)
Unallocated Reduction	—	—	—	—	—	−358
Totals	65.8	95.9	90.6	$8,084	$20,886	$17,697
Funding Source						
General Fund	*56.9*	*80.2*	*90.6*	*$6,605*	*$15,595*	*$16,256*
Olympic Reflectorized License Plate Account	*0.8*	*0.9*	—	*159*	*41*	—
Federal Trust Fund	*4.8*	*1.3*	—	*361*	*3,195*	*136*
Economic Development Grant and Loan Fund	—	—	—	*525*	*1,200*	*1,200*
Reimbursements	*3.3*	*13.5*	—	*434*	*855*	*105*

The budget requests appropriations of $16,227,000 from the General Fund and $1,200,000 from the California Economic Development Grant and Loan Fund for support of the Department of Commerce (DOC) in 1985–86. In addition, $29,000 is available from Ch 1647/84 which will be carried over to the budget year. The proposed support is an increase of $620,000, or 3.7 percent, over estimated expenditures in the current year. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

The budget also includes $136,000 in expenditures from federal funds and $105,000 in other reimbursements. This brings the department's proposed total budget year expenditures to $17,697,000, which is a decrease of $3,189,000 from the department's estimated total expenditures for the 1984–85 fiscal year. This decrease primarily reflects the expenditure of $3,059,000 in federal grants during the current year, which the budget anticipates will not be available in 1985–86. The department's expenditures for the past, current, and budget years are summarized, by program, in Table 1.

Table 2 shows the change in department expenditures for 1985–86.

Table 2

Budget Year Changes (dollars in thousands)

	General Fund	*Olympic Reflect-orized License Plate Account*	*Federal Funds*	*California Economic Development Grant and Loan Fund*	*Reim-burse-ments*	*Total*
1984–85 Revised	$15,595	$41	$3,195	$1,200	$855	$20,886
1. Program Changes						
A. Enterprise Zone Programs	211	—	—	—	—	211
B. Small Business Revitalization Program	164	—	—	—	−124	40
C. California Film Office	75	—	—	—	—	75
D. Motion Picture Council	39	—	—	—	—	39
E. Small Business Conferences	10	—		—	—	10
F. Business Development staff training funds	4	—	—	—	—	4
G. Federally-funded Programs	—	—	−3,059	—	−611	−3,670
H. Expired Programs	—	−41	—	—	−15	−56
Total Program Changes	$503	−$41	−$3,059	—	−$750	−$3,347
2. Administrative Changes						
A. Salary Savings Adjustment	99	—	—	—	—	99
B. Facsimile Equipment	18	—	—	—	—	18
C. Mail Clerk, Copier	15	—	—	—	—	15
Total Administrative Changes	$132	—	—	—	—	$132
3. Cost Changes						
A. Unallocated Reduction	−358	—	—	—	—	−358
B. Price Increases	384	—	—	—	—	384
Total Cost Changes	$26	—	—	—	—	$26
Totals	$16,256	—	$136	$1,200	$105	$17,697
Net Change	661	−41	−3,059	—	−750	−3,189

DEPARTMENT OF COMMERCE—Continued

ANALYSIS AND RECOMMENDATIONS

NEW ECONOMIC DEVELOPMENT PROGRAMS

The budget proposes to continue or increase funding for several new programs which will commence during the current year. Requested levels of funding include:

- $5.1 million for tourism marketing,
- $1.8 million for industrial marketing,
- $289,000 to fund California's continued participation in the Small Business Revitalization Program, and
- $350,000 in support for the Enterprise Zone Program.

Tourism and Industrial Marketing Programs

We recommend approval.

The underlying goal of both the tourism and industrial marketing programs is to create more jobs for Californians. This is to be achieved by attracting more tourists and more businesses to California. In both cases, the department partly justifies the need for marketing by pointing to increases in the level of tourism and industrial promotion being undertaken by other states. The tourism marketing program seeks to increase California's share of tourism nationally. The industrial marketing program's objective is to increase business expansion in the state, primarily through efforts aimed at overcoming negative perceptions of the business climate in California.

The 1984 Budget Act appropriated $2,120,000 to the Office of Tourism (OT) and $1,800,000 to the Office of Business Development (OBD) to launch marketing campaigns. Chapter 309, Statutes of 1984 (SB 1061) appropriated an additional $3 million for the tourism marketing program. These funding levels reflect, in part, what other states are spending for similar programs, although it also is based on the department's subjective judgment as to the amount of funds needed in order for the campaign to be effective. The department plans to begin the tourism advertising campaign in March 1985, while the industrial marketing campaign is scheduled to "kick-off" in February 1985.

Table 3
Expenditures for
Tourism and Industrial Marketing
1984–85

	Industrial Marketing		*Tourism Marketing* [a]	
Purpose:	*Amount*	*Percent*	*Amount*	*Percent*
Advertising production	$60,000	3.6%	$670,000	11.8%
Media purchase	900,000	50.6	3,000,000	52.7
Printing brochures	170,000	9.7	675,000	11.9
Public relations	90,000	5.4	200,000	3.5
Research and testing	20,000	1.1	110,000	1.9
Contracted response services	135,000	7.6	450,000	7.9
Promotional activities/travel	—	—	43,000	0.8
Coop seed funding	—	—	50,000	0.9
Miscellaneous	390,000	22.0	494,484	8.7
Totals	$1,765,000	100%	$5,692,000	100%

[a] Includes $572,000 from Office of Tourism's Budget.

Table 3 shows how the funds allocated for these programs are being expended in the current year. As shown in the table, over 50 percent of the budget for each program will be spent for the purchase of advertising space and time in the current year. Under the tourism marketing program, approximately 45 percent of this money will be spent inside California, primarily on radio, television, and print advertising in the San Francisco and Los Angeles areas. The rest of the media purchase funds will be spent in major metropolitan areas of the western states. The $900,000 budgeted for media purchase under the industrial marketing program will be used to buy advertising space in a number of business journals.

In 1985–86, the OBD plans to expand its promotional efforts internationally and target specific industries. Tourism marketing will be expanded to North Central and Northeastern states. At the time of this analysis, the department could not say exactly how the $8 million proposed to support the marketing programs in the budget year would actually be spent. However, it does anticipate that budget year expenditures for media purchase for both marketing programs will increase over the current year levels. This increase will result from the expansion of advertising into new areas. The department predicts that costs for producing brochures and pamphlets will increase substantially due to increased inquiries. The amount spent on research should also jump in fiscal year 1985–86, as the department attempts to gauge the effectiveness of the program in changing tourist and business perceptions about California, and whether or not this program produces actual increases in tourism or business expansion. The department plans to spend less on the production of advertising in the second year of the program, because the majority of advertisements will have been developed in the current year.

According to department estimates, inquiries to the OT will increase from 90,000 in 1983–84 to 250,000 in the current year, due primarily to the launching of the advertising campaign in March. It claims that the level of inquiries should increase to 500,000 in succeeding years of the program. The department expects inquiries to the OBD to increase from 5,000 in 1983–84 to 30,000 in the current year, after the launching of the advertising campaign in February.

Our analysis indicates that the proposed level of funding is consistent with the Legislature's intent for these programs. Accordingly, we recommend approval.

Small Business Revitalization Program

We recommend deletion of $289,000 in General Fund support budgeted for continued state participation in this program.

The Office of Local Development (OLD) within the Department of Commerce administers the Small Business Revitalization (SBR) Program at the state level. The Governor's Budget shows that $249,000 will be expended for the SBR program in the current year. Of that amount, one-half ($125,000) will come from the General Fund and $124,000 was to have come from local reimbursements for services provided. However, according to the department, OLD does not plan to collect any local reimbursements in the current year. As a result, total estimated expenditures in the current year appear to be overstated by the amount of the reimbursements, or $124,000.

DEPARTMENT OF COMMERCE—Continued

The budget proposes an increase of $164,000 in General Fund support in 1985–86, of which $124,000 is proposed in lieu of collecting any local reimbursements. The remaining $40,000 is proposed to replace federal matching funds which will not be available in the budget year.

California is one of 10 states participating in the SBR program nationally. According to the department, the underlying purpose of California's participation in the program is to aid it in expanding its existing economic development program, with an emphasis on stimulating small business activity. This is to be accomplished by helping local governments develop programs for economic expansion, and training them to assist small businesses in their area. An integral part of the assistance offered by the OLD is developing financial packages for local governments, including assisting local communities in obtaining Urban Development Action Grant (U-DAG) and Community Development Block Grant financing for local development projects.

Under the terms of the program, the federal government provides $40,000 for a training and consulting contract with the National Development Council (NDC). In addition to matching the federal government's $40,000 contribution, the department is required to designate four qualified staff persons for training by NDC as "economic development professionals." The OLD planned to sign a 12 month contract with the council in January 1985, to be paid for completely with funds available in the current year. It plans to hire additional staff in March 1985.

Under its existing program, the Office of Local Development assists local governments in developing programs for job creation in their area. It offers communities its expertise in the form of on-site training workshops, seminars, and handbooks, and assists them in such programs as downtown revitalization, forming local development corporations, preparing economic development strategies, and encouraging industrial development and tourism. The OLD assists local governments in obtaining financing for development projects through a number of sources, including the state and federal loan and grant programs administered by the department. In addition, the OLD has used state funds to directly assist local agencies. For example, the OLD is paying the $40,000 cost of a contract with a private consultant to prepare a strategic plan for the economic development of a southern California county. Between July and December in the current year, OLD responded to 1,090 inquiries from local communities and made 108 site visits.

Local Governments Unable or Unwilling to Support OLD

Continuation of the SBR program in the budget year would allow the OLD to significantly expand the level of services provided to local governments. As noted earlier, because local governments are unwilling or unable to pay for these services, the department proposes to fund this increase in services through an increase in General Fund support. In addition, the budget proposes that the existing contract with NDC be extended in 1985–86, at a cost of $80,000 in state funds.

The department asserts that the state's participation in the SBR program is needed for California to receive its fair share of federal funds, including funds available under the Urban Development Action Grant (UDAG) and Community Development Block Grant programs. Our analysis indicates that the amount of federal monies awarded in California is unlikely to increase significantly as a result of the SBR program. First of all, a recent change in the formula used by the federal government to determine UDAG eligibility greatly reduces the availability of these grants to California communities.

Secondly, California already receives approximately 10 percent of total nationwide grants awarded under the federal Community Development Block Grant Program. The state Department of Housing and Community Development administers the small cities portion of this program, and will award $30 million in grants to small communities in 1984–85. The OLD assisted many communities in applying for a portion of these grants and SSED Planning Grants. Of the 36 Small Community Block Grant applications the office helped prepare, 21 were approved, for a total of $9,062,325 in grants. Thirteen communities received planning grants totaling $500,000. Finally, it appears that the federal government may be planning to cut entirely or greatly reduce several programs assisting local communities, in an effort to trim the federal deficit. Among the programs targeted for cuts are UDAG and Community Development Block Grants. For these reasons, we question the value of an expensive effort to assist local governments in applying for federal funds.

Another set of benefits the department has stated will result from the SBR program is greater opportunities for small business. However, it already administers a number of programs, in addition to those in the OLD, to provide technical and management assistance to small businesses.

The Office of Small Business (OSB) within the department administers a $27 million program which provides loan guarantees to small businesses. In addition to loan guarantees, regional corporations participating in the program offer management and technical assistance, and seminars. The OSB responded to 9,401 inquiries for assistance in 1983–84. It helped put on 38 conferences and it published numerous handbooks to assist the small business community.

Finally, the department plans to open the doors of three Small Business Development Centers (pursuant to Ch 1154/83) in February and March 1985. These centers will draw together federal, state, local, and private resources to provide a wide range of management services to small businesses. The department anticipates four additional centers will be open by the end of 1985–86.

Our analysis indicates that the department has failed to document the need for continued funding for the SBR program. The proposed expansion of OLD staff would certainly expand the amount of services which could be provided, but the department has not adequately justified its contention that local communities are in need of additional assistance. Further, our review indicates that the potential for improving the level of federal grants received by California communities is limited by federal law, the fact that California already receives a fair share of these grants, and, possibly, by pending federal budget cuts. Finally, the department has indicated that its existing contract with the NDC will provide training for all of the OLD staff. Thus, we question the department's assessment that more services are needed in this area. Given the lack of evidence as to the expected results of the proposed program expansion, we recommend that the $289,000 proposed for this program be deleted.

DEPARTMENT OF COMMERCE—Continued

Enterprise Zone Program to Begin Operations

We recommend approval.

Chapters 44 and 45, Statutes of 1984 (AB 514 and AB 40, respectively) established two different enterprise zone programs in California. These programs are designed to encourage development in economically-depressed areas of the state, primarily communities with above average levels of unemployment and poverty. Communities seeking to be designated as an enterprise zone must prepare a plan specifying the proposed boundaries of the zone and the incentives to be utilized in attracting private sector investment to the zone. Once such an area is designated by the department as an enterprise zone, certain tax, regulatory and program incentives are made available to businesses which expand their operations within the enterprise zone. Such incentives might include the suspension or relaxation of building codes and zoning laws, the reduction or elimination of local fees, construction taxes and business license taxes, and the provision of federal grant monies. The department awards enterprise zone designation to an area based on the combination of incentives planned for the program, and the pace of economic development that is anticipated as a result.

Chapters 44 and 45 appropriated $105,000 for support of the Enterprise Zone Program. An additional $50,000 in support for the program was provided by Ch 309/84 (AB 139), bringing the total funds available to $155,000. These funds will be depleted by the end of the 1984–85 fiscal year. During the initial 15 months of the program, the Department of Commerce has drafted regulations, prepared promotional materials, and answered constituent questions. Beginning in March 1985, the department will begin reviewing the first cycle of preliminary applications.

The budget requests $350,000 to support the program in 1985–86. During this period the department plans to select 20 final applicants for each program, conduct a site visit to each, and award preliminary designation to no more than three zones under Chapter 44 and 10 zones under Chapter 45. A new application cycle will begin in January 1986, whereby the department may designate up to three additional zones under Chapter 44, and additional zones under Chapter 45, so long as the overall limit of 10 zones has not yet been reached. During the budget year, the department will also draft regulations covering auditing and monitoring of zones, procedures to determine which businesses qualify for incentives, and coordinate regulations drafted by several other departments. In addition, the department plans to begin marketing the program to businesses. The proposed level of funding, as modified to account for the overbudgeting of consulting services discussed in the Technical Budget Issues section of this *Analysis,* appears sufficient to carry out the Legislature's objectives in this area. Accordingly, we recommend approval.

SMALL BUSINESS LOAN GUARANTEE PROGRAM

The department, through the Office of Small Business (OSB), operates a loan guarantee program which guarantees loans made to small businesses. 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). The loan guarantee program is administered by nonprofit regional and urban development corporations, which receive OSB funding.

Loan guarantees made by the regional corporations are backed primarily by state funds which are appropriated 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 OSB 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 OSB and the regional corporations decided to consolidate the separate loan guarantee accounts into a single trust to minimize administrative costs and maximize interest earnings. In 1981–82, a total of $11 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. A guarantee is normally issued for 90 percent of a loan, and 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, and a guarantee is issued for 90 percent of the loan, $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, 1985, a total of $24.7 million will be available for loan guarantees provided under this program. Between 1979–80 and 1984–85, General Fund appropriations provided $15.9 million for this program. The balance of 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 five years. The department estimates that these reserves will reach $23 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 $25 million by that date.

DEPARTMENT OF COMMERCE—Continued

Table 4

Small Business Loan Guarantee Funds
1980–81 through 1984–85
(dollars in thousands)

	Actual 1980–81	*Actual 1981–82*	*Actual 1982–83*	*Actual 1983–84*	*Estimated 1984–85*
1. Fund Balance as of July 1	$6,595	$10,624	$14,216	$18,353	$22,456
2. Receipts:					
a. General Fund allocations	2,300	3,100	3,024	3,023	3,023
b. Century Freeway Fund	1,200	—	—	—	—
c. Recoveries from defaults	—	148	21	34	48
d. Investment income	933	458	2,217	2,391	2,630
Totals	$4,433	$3,706	$5,262	$5,448	$5,701
3. Expenditures:					
a. Payment of defaults	404	114	524	820	898
b. Corporation expenses	—	—	601	525	649
Totals	$404	$114	$1,125	$1,345	$1,547
4. Total Funds Available as of June 30	$10,624	$14,216	$18,353	$22,456	$26,610
a. Reserves for guarantees outstanding	6,993	9,522	15,756	15,827	23,021
b. Designated reserves	2,325	2,517	1,595	1,843	1,956
c. Unencumbered reserves	1,306	2,177	1,002	4,786	1,633

Department Report on Regional Development Corporations Forthcoming

We withhold recommendation on $3,023,000 for loan guarantees and $867,000 for support of regional development corporations participating in the loan guarantee program pending receipt of department's report.

The 1985–86 budget request includes a transfer of $3,023,000 from the General Fund to the Small Business Expansion Fund to support additional loan guarantees. It also proposes $867,000 to support the administration of the program by regional development corporations. These amounts are both the same as the amount ultimately approved for that purpose by the Governor for the current year. Additional funding in the amount of $935,000 for support of a new corporation was vetoed by the Governor.

Chapter 875, Statutes of 1979 required regional development corporations to become independent of state funding support within four years. This limit was increased to five years by Ch 268/84 (SB 1379). Two of the seven regional development corporations currently participating in the program are now in their fifth year. Thus, under current law, these corporations will no longer be eligible for additional state loan guarantee funds or state funds for administrative support in the budget year. In the *Supplemental Report of the 1984 Budget Act*, the Legislature requested the department, in conjunction with the regional development corporations, to develop a plan for the corporations to become independent of state financial support. This report was due to be submitted to the Legislature on February 1, 1985.

The findings of the department's report should be considered in establishing the amount of additional General Fund support needed in 1985–86 for loan guarantees and for the administrative activities of the regional development corporations.

The Legislature has, in the 1983 and 1984 Budget Acts, indicated its interest in providing support for additional regional development corporations. Without increased levels of state support, funding for *additional* corporations can only be achieved through reducing the level of support provided to *existing* corporations. The application of the five-year limitation on assistance would certainly accomplish this. However, other alternatives may also accomplish this goal, while offering the potential for enhanced achievement of other program goals.

Accordingly, until we have had an opportunity to review this report, we withhold recommendation on the $3,023,000 proposed for additional loan guarantees and $867,000 for administrative support.

Other Means of Support for Loan Guarantees Are Available

The *Supplemental Report of the 1983 Budget Act* required the Office of Small Business (OSB) to conduct a study on alternative methods to fund California's loan guarantee program and to report on its findings. The office issued the report in March of 1984. Although there was not sufficient time before the start of the current year to implement any of the options suggested by the report, we believe that a few of the alternatives considered hold promise for the budget or future years. The department has indicated that it is working on a plan to implement alternative financing for the program.

TECHNICAL BUDGET ISSUES

Enterprise Zone Contract Overbudgeted

We recommend that funds proposed for support of the Enterprise Zone Program be reduced by $27,000 to correct for overbudgeting.

The budget proposes $156,000 to hire a private consultant to assist in the preparation and review of Environmental Impact Reports (EIR). However, the schedule of contractual services provided by the department indicates that the *actual* cost of the consulting contract will be $129,000. Accordingly, we recommend approval of funds for the program in the reduced amount of $323,000.

Salary Savings Underbudgeted

We recommend a reduction of $29,000 to correct for underbudgeting of salary savings.

In the current year, the department indicates that its salary savings target has been set at 7.67 percent of salaries and wages, or $189,000. The 1983–84 salary savings rate was 8 percent. The budget proposes that the rate of salary savings for the department be reduced to 4 percent, or $101,000 in 1985–86. The department justifies this reduction on the basis that forced salary savings has slowed the implementation of new activities and projects in the current year. Our analysis largely confirms the department's view. However, we do not find the use of 4 percent as the proposed new rate adequately justified. Neither the Department of Commerce, nor the Department of Finance, was able to offer any data that would support 4 percent as the proper rate of salary savings. We therefore recommend that the department's current 7.67 percent salary savings rate be lowered to 5 percent, the accepted rate for new programs in accordance with the State Administrative Manual (Section 6113). This would give the department a level of salary savings for 1985–86 of $130,000, rather than $101,000 as proposed in the budget. Accordingly, we recommend that the department's budget be reduced by $29,000 to correct for underbudgeting of salary savings.

Business, Transportation and Housing Agency

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 2240 from the General Fund and various special funds Budget p. BTH 28

Requested 1985–86	$40,053,000
Estimated 1984–85	59,862,000
Actual 1983–84	46,482,000
Requested decrease (excluding amount for salary increases) $19,809,000 (−33.1 percent)	
Total recommended reduction	590,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2240-001-001—Support	General	$5,260,000
2240-011-001—Support	General	50,000
2240-001-245—Support	Mobilehome Parks Revolving	2,046,000
2240-001-451—Support	Mobilehome and Commercial Coach License Fee Account, General	1,730,000
2240-001-530—Support	Mobilehome Park Purchase	115,000 [a]
2240-001-635—Support	Rural Predevelopment Loan	164,000
2240-001-648—Support	Mobilehome-Manufactured Home Revolving	10,040,000
2240-001-890—Support	Federal Trust	(992,000)
2240-001-929—Support	Housing Rehabilitation Loan	442,000
2240-001-936—Support	Homeownership Assistance	193,000
2240-001-938—Support	Rental Housing Construction	473,000
2240-001-980—Support	Urban Housing Development Loan	170,000
2240-001-985—Support	Emergency Housing Assistance	74,000 [a]
Subtotals, Support		($20,757,000)
2240-101-001—Local assistance	General	$6,900,000
2240-101-635—Local assistance	Rural Predevelopment Loan	3,256,000 [a]
2240-101-890—Local assistance	Federal Trust	(40,027,000)
2240-101-927—Local assistance	Farmworker Housing Grant	(2,500,000) [a]
2240-101-929—Local assistance	Housing Rehabilitation Loan	887,000 [a]
2240-101-938—Local assistance	Rental Housing Construction	2,404,000 [a]
2240-101-942—Local assistance	Special Deposit—Office of Migrant Services	900,000
2240-101-972—Local assistance	Mobilehome Recovery	200,000 [a]
2240-101-980—Local assistance	Urban Housing Development Loan	2,610,000 [a]

2240-101-985—Local assistance	Emergency Housing Assistance	1,667,000 [a]
Subtotal, Local assistance		($19,296,000)
Total Funding		$40,053,000

[a] Spending authority provided through a continuous statutory appropriation.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Small Cities Community Development Block Grant Program. Reduce Item 2240-001-001 by $43,000.*** Recommend reduction because anticipated workload does not justify four additional staff positions. 278
2. Century Freeway Housing Program. Recommend department report to the fiscal committees on the program's progress to date and on its plans for using a proposed $1.9 million augmentation to accelerate housing production in 1985–86. 278
3. Program Staff Reductions. Recommend that during budget hearings, the department explain how proposed staff reductions will affect services provided in various programs. 280
4. ***Mobilehome Program—Interest Payments. Reduce Item 2240-001-648 by $355,000.*** Recommend reduction to eliminate funds budgeted for one-time interest payments in 1983–84. 280
5. ***Technical Overbudgeting. Reduce by $235,000 ($123,000 from the General Fund, $69,000 from special funds, $5,000 from Federal Trust Fund and $38,000 from reimbursements).*** Recommend reduction to correct for overbudgeting. 281

GENERAL PROGRAM STATEMENT

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

1. To protect the public from the inadequate construction, manufacture, repair, or rehabilitation of residential buildings;
2. To promote, provide, and assist in the availability of safe, sanitary, and affordable housing; and
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) Housing Policy Development, and (4) Administration.

The department has 560.8 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $88,324,000 from various sources, including federal funds and reimbursements, for support of the Department of Housing and Community Development (HCD) and its programs in 1985–86. This is $17,627,000, or approximately 17 percent, *less* than estimated current-year expenditures. Expenditures from state funding sources (excluding reimbursements) are budgeted at $40,053,000 in 1985–86, or 33 percent *less* than estimated current-year expenditures. Part

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

of this reduction, however, will be offset by the added cost of any salary or staff benefits increase that may be approved for the budget year.

The budget proposal does not include any funds for the estimated costs to the General Fund for merit salary increases ($35,000 in 1985–86) or inflation adjustments for operating expenses and equipment ($90,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 1
Department of Housing and Community Development
Budget Summary
1983–84 through 1985–86
(dollars in thousands)

Program	Actual 1983–84	Estimated 1984–85	Proposed 1985–86	Change From 1984–85 Amount	Change From 1984–85 Percent
Codes and Standards Program	$13,313	$16,113	$16,072	–$41	–0.3%
Community Affairs Program	74,747	88,557	71,219	–17,388	–19.6
Housing Policy Development Program	1,232	1,281	1,163	–118	–9.2
Administration Program—Distributed	(4,309)	(6,024)	(6,291)	(267)	(4.4)
Unallocated General Fund Reduction for MSAs and Operating Expenses	—	—	–130	–130	—
Totals, Expenditures	$89,292	$105,951	$88,324	–$17,627	–16.6%
Funding Sources					
General Fund	$12,189	$18,866	$12,210	–$6,656	–35.3%
Mobilehome Park Revolving Fund	1,816	2,172	2,046	–126	–5.8
Mobilehome and Commercial Coach License Fee Account (General)	1,579	1,760	1,730	–30	–1.7
Mobilehome Park Purchase Fund	—	2,885	115	–2,770	–96.0
Rural Predevelopment Loan Fund	—	3,679	3,420	–259	–7.0
Housing Predevelopment Loan Fund	1,860	101	—	–101	–100.0
Mobilehome-Manufactured Home Revolving Fund	8,467	10,251	10,040	–211	–2.0
Self-Help Housing Fund	—	(3,000)	—	—	—
Land Purchase Fund	376	20	—	–20	–100.0
Farmworker Housing Grant Fund	—	—	472	472	—
Housing Rehabilitation Loan Fund	995	6,874	1,329	–5,545	–80.7
Homeownership Assistance Fund	2,030	2,471	193	–2,278	–92.2
Rental Housing Construction Fund	10,880	2,865	2,877	12	0.4
Special Deposit Fund—Office of Migrant Services	800	800	900	100	12.5
Special Deposit Fund—Senior Shared Housing	300	—	—	—	—
Urban Predevelopment Loan Fund	2,701	3,380	2,780	–600	–17.8
Rural Communities Facilities Fund	1	499	—	–499	–100.0
Mobilehome Recovery Fund	—	—	200	200	—
Emergency Housing and Assistance Fund	2,488	3,239	1,741	–1,498	–46.2
Subtotals, State Funds	($46,482)	($59,862)	($40,053)	(–$19,809)	(–33.1) %
Federal Trust Fund	$38,702	$40,920	$41,019	$99	0.2%
Reimbursements	4,108	5,169	7,252	2,083	40.3
Totals, All Funds	$89,292	$105,951	$88,324	$17,627	–16.6%

Table 1 presents a summary of departmental expenditures, by program and funding source, for the three-year period ending June 30, 1986. It indicates that the General Fund would finance about 14 percent of the department's total expenditures in the budget year; special funds would finance approximately 32 percent of these expenditures; and federal funds would finance about 44 percent of the total.

The department anticipates receiving approximately $41 million in federal funds during the budget year. Most of this funding—$26.7 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.

Table 2
Department of Housing and Community Development
Proposed 1985–86 Budget Changes
(dollars in thousands)

	General Fund	*Special Funds*	*Federal Funds*	*Reim-bursements*	*Total*
1984–85 Expenditures (Revised)	$18,866	$40,996	$40,920	$5,169	$105,951
Baseline Adjustments:					
Full-year funding of salary increase	27	131	8	48	214
Increases to offset effects of inflation	1	199	13	72	285
Increased statewide indirect costs	—	−540	—	—	−540
One-time legislation (Chs 1690/84, 374/84, 1630/84, 1678/84, 1527/84, 1443/84)	−6,500	−150	—	—	−6,650
Subtotals, Baseline Adjustments	(−$6,572)	(−$360)	($21)	($120)	(−$6,691)
Workload Changes:					
Midyear implementation of new programs	$71	−$141	—	—	−$70
Loan and grant activities (local assistance)	—	−12,892	—	—	−12,892
Subtotals, Workload Changes	($71)	(−$13,033)	—	—	($12,962)
Program Changes:					
Staffing Increases:					
Century Freeway	−$225	−$51	−$33	$1,997	$1,688
Legal Affairs Office	—	59	—	−24	35
Small Cities CDBG	151	—	111	—	262
Rental Housing Construction	−65	111	—	—	46
Emergency Shelter	−75	74	—	—	−1
Implement Mobilehome Park Purchase Program	−31	115	—	—	84
Mobilehome third-party inspections	—	−46	—	—	−46
Combine loan and grant committees	—	−2	—	—	−2
Increase salary savings	−10	−20	—	−10	−40
Subtotals	(−$255)	($240)	($78)	($1,963)	($2,026)
1985–86 Expenditures (Proposed)	$12,210	$27,843	$41,019	$7,252	$88,324
Change from 1984–85:					
Amount	−$6,656	−$13,153	$99	$2,083	−$17,627
Percent	−35.3%	−32.1%	0.2%	40.3%	−16.6%

Proposed Budget-Year Changes

Table 2 summarizes the significant changes in the department's budget proposed for 1985–86. The budget proposes reduced expenditures from all funding sources *except* federal funds (which are proposed to increase by $99,000) and reimbursements (which are projected to increase by $2.1

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

million). The most significant budget-year adjustments are due to the following factors:

- ***Decreased Loan and Grant Activity.*** The budget proposes a $12.9 million reduction in loan and grant activity from the current-year level. This reduction, however, probably is greatly overstated. This is because the budget historically has *over*estimated the level of current-year activity. Consequently, although some reduction in loan and grant activity probably will occur in 1985–86, it is unlikely to be of the magnitude reflected in the budget.
- ***Current-Year Base Inflated by One-Time Funds.*** During the current year, the department will spend approximately $6.5 million in one-time funds appropriated in recent legislation for the Emergency Shelter, Seniors Shared-Housing, and Rental Housing Construction (Rural Rental Assistance) programs and a mobilehome park zoning study. Consequently, the department's budget-year General Fund expenditures will decrease by $6.5 million.
- ***Century Freeway Housing Program (CFHP).*** The department requests a $1.9 million increase in reimbursements to support additional positions (10 personnel-years), contracting services, and the installment of a new automated system for the CFHP.

Significant Staffing Changes Proposed

For 1985–86, HCD proposes staffing changes affecting 18 of its programs and activities. These changes are summarized in Table 3. The table shows that HCD intends to reduce 20 positions in 12 programs and to redirect 19 of these positions to 6 other programs. Although these changes would result in no *net* change in total expenditures, there would be significant shifts in terms of funding sources. The proposed staffing changes would reduce General Fund expenditures by $287,000, increase expenditures from reimbursements by $170,000, and increase special fund expenditures by $39,000.

Table 3
Department of Housing and Community Development
Summary of Proposed Staffing Changes
1985–86
(dollars in thousands)

Programs Losing Positions	*Current Staffing Level (PYs)*	*Proposed Changes: Number of Positions*	*Amount*	*Funding Source*
Rural Development Assistance	9	5	$134	General
Indian Assistance	3	1	29	General
Farmworker Housing Grants	5	1	14	General
Housing Assistance (Disabled Persons)	1	1	18	General
Housing Assistance ("Section 8" Rental Assistance)	7	1	18	Federal
Office of Migrant Services	8	2	36	General
Route 2 Housing Replacement	2	2	50	Reimbursements
Grove-Shafter Housing Replacement	1	1	28	General
Predevelopment Loan	12	2	76	General
Homeownership Assistance	4	1	28	Special [a]
Engineering Review (Energy Efficiency Compliance)	6	2	37	Reimbursements
Mobilehome Inspections	15	1	27	Special [b]
Totals, Staff Reductions		20	$497	

Programs Gaining Positions				
Century Freeway Housing	67	10	$257	Reimbursements
Legal Affairs Office	6	1	31	Special [b]
Small Cities CDBG	13	4	96	General/Federal
Rental Housing Construction	6	2	57	Special [c]
Emergency Shelter	(1)	1	28	Special [d]
Mobilehome Assistance	(1)	1	28	Special [e]
Totals, Staff Augmentations		19	$497	

[a] California Homeownership Assistance Fund (continuously appropriated per Section 50778 of the Health and Safety Code).
[b] Mobilehome-Manufactured Home Revolving Fund (continuously appropriated per Section 18016.5 of the Health and Safety Code).
[c] Rental Housing Construction Fund (continuously appropriated per Section 50740 of the Health and Safety Code).
[d] Emergency Housing and Assistance Fund (continuously appropriated per Section 50800.5 of the Health and Safety Code).
[e] Mobilehome Park Purchase Fund (continuously appropriated per Section 50782 of the Health and Safety Code).

ANALYSIS AND RECOMMENDATIONS

SMALL CITIES COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The HCD currently administers the federal Small Cities Community Development Block Grant Program (CDBG) in California. The department took on this responsibility in October 1982, when federal law first gave states the option to assume responsibility for administering the Small Cities portion of the federal CDBG program. The Small Cities CDBG program provides federal grants for economic and community development activities, on a competitive basis, to cities with populations under 50,000 and to counties with populations under 200,000. Funded activities must either: (a) benefit low- and moderate-income persons; (b) aid in the prevention or elimination of slums and blight; or (c) meet a particular urgent need in the local community.

Table 5
Department of Housing and Community Development
Small Cities CDBG Program
Summary of Program Activity
1982–83 through 1985–86
(dollars in thousands)

Grants	*1982–83*	*1983–84*	*1984–85*	*1985–86*
Amount Awarded	$27,152	$34,067 [a]	$26,651	$26,651
Number Awarded	53	82	70	70
Number Administered	—	53	130	138
Number Closed	—	—	5	62
Administrative Costs				
General Fund	84	151	229	360
Federal Funds	111	324	370	111
Totals	$195 [b]	$475 [c]	$599	$471
Staff Size	6	9	13	17

[a] Includes $7.2 million in one-time additional grants from the federal Jobs Bill of 1984.
[b] Represents direct program administrative funding for a nine-month period (excludes indirect departmental costs).
[c] Includes $55,000 in additional funding from the federal Jobs Bill of 1984.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 5 presents a summary, by fiscal year, of the Small Cities CDBG program activity and funding through 1985–86. The table shows that the CDBG program has distributed approximately $27 million in CDBG grants each year. In 1983–84, these funds were supplemented by $7.2 million made available on a one-time basis by the federal Jobs Bill of 1984. The table also indicates that during 1985–86, the department anticipates receiving and distributing approximately the same amount of federal grants ($26.7 million) as in the current year.

CDBG Administrative Costs Can Be Reduced

We recommend a reduction of one position and $43,000 requested from the General Fund because the anticipated workload increase in the CDBG program justifies only three additional staff positions. (Reduce Item 2240-001-001 by $43,000.)

The department proposes adding four positions, at an estimated cost of $118,000, to the current 13-member staff of the Small Cities Community Development Block Grant Program. In addition, the budget requests $102,000 in additional associated administrative overhead expenditures. According to HCD staff, the staffing increase is needed because of the increase in the number of grants that the program will either award, administer, monitor or closeout during 1985–86.

Our analysis of program workload indicators indicates that only *three* of the four positions requested are justified. Our conclusion is based on the following factors:

- ***Workload increases in 1985–86 are due primarily to the closeout of grants awarded in 1982–83.*** Staff indicates that most of this activity will be completed in the fall of 1985.
- ***The department receives new grant applications in the spring of 1986, and makes awards in June 1986.*** The department's workload estimates did not fully take into account that staff working on these new grant applications will be available for other program tasks during the first half of the fiscal year.
- ***Certain program staff activities are unnecessarily duplicative of similar requirements already imposed on local grantees.***

For these reasons, we believe that the anticipated increase in workload can be accommodated if only 3 staff positions are added in 1985–86. Consequently, we recommend the deletion of one proposed position, for a General Fund savings of $43,000.

The Century Freeway Housing Program At a Crossroads

We recommend the department report to the fiscal committees at the budget hearings on the Century Freeway Housing Program's progress to date, and on how a proposed $1.9 million augmentation in 1985–86 will be used to achieve its required production goals.

Background. The Century Freeway Housing Program (CFHP) implements the Amended Consent Decree which settled the *Keith v. Volpe* litigation involving housing units displaced by the construction of the highway linking the Los Angeles International Airport to the City of Norwalk (called the Century Freeway). The decree, issued in 1979 and amended in 1981, resulted from negotiations between the plaintiffs (mainly residents of the area), the Federal Highway Administration, and the state Departments of Transportation 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. The decree requires the replacement of 3,700 units by 1990.

Progress to date. Table 6 summarizes the staffing, funding and production history of the program. The table shows that in the five-year period ending June 30, 1984, the department had spent $11.8 million and completed a total of *69 units,* only 61 of which were occupied. Table 6 indicates, however, that program output is increasing, as 64 additional units were completed in the first three months of 1984–85.

Table 6

Century Freeway Housing Program
1979–80 through 1985–86
(dollars in thousands)

			Housing Unit Production		
	Personnel-Years	*Support Expenditures*	*In Progress*	*Completed (Cumulative)*	*Occupied (Cumulative)*
1979–80	31.2	$1,448	0	0	0
1980–81	39.5	2,274	11	0	0
1981–82	38.8	2,019	446	22	22
1982–83	48	2,633	1,718	41	41
1983–84	58.1	3,399	666	69	61
1984–85	70	3,995	1,284	133 [a]	NA
1985–86 (est.)	77	6,285	2,159	NA	NA

[a] As of September 28, 1984

The budget requests an increase of $1.9 million in reimbursements for support of the CFHP during 1985–86. This represents a 57 percent increase over estimated current-year expenditures of $4.0 million. Ninety-two percent of the proposed reimbursements are derived from federal funds; the balance are state highway funds transferred to HCD by the California Department of Transportation.

The additional funding is requested for:

- ***10 additional positions*** (raising total CFHP staff to 77),
- ***Additional contractual services*** ($880,000), and
- ***Automated equipment*** for a new management information system ($227,000).

The CFHP staff indicates that this augmentation is needed because existing resources are inadequate to meet the accelerated housing production workload that the program anticipates for 1985–86.

Because this request for increased funding for CFHP represents such a substantial increase over the current-year level of support for this program, and given the program's production history, we recommend that the department report to the fiscal committees at the budget hearing on its progress to date and its plans to use these additional resources to accelerate the program's production.

Impact of Department's Plan to Reduce Program Staff Positions Is Unknown

We recommend that during budget hearings the department explain how it can reduce staffing in three programs and still maintain existing service levels.

In 1985–86, the budget proposes to eliminate 20 positions in 12 different programs administered by the department. Our analysis indicates that in several cases, there has not been a clear evaluation of the consequences that these reductions would have on current service levels.

Rural Development Assistance Program (RDAP). The budget proposes to eliminate five of the nine positions currently assigned to the program and, replace them with services obtained by contract. The budget requests $250,000 in contract funds (1) to support the training of local government staff to perform RDAP-type tasks and (2) to augment the current local assistance activities of the state Department of Commerce (DOC) relating to rural economic development. Our analysis indicates that the department did *not* evaluate whether the remaining RDAP staff could manage the workload associated with training eligible localities in the six counties currently assisted. Furthermore, the DOC budget does *not* include any funds for RDAP-related projects.

California Indian Assistance Program (CIAP). Under HCD's proposal, one of the nine CIAP positions would be eliminated. The workload handled by this position would be assigned to one of the department's other construction-inspection units (for example, Office of Migrant Services) or by private local inspectors. The Office of Migrant Services, however, is also scheduled to lose staff. Although the department maintains that the staffing reduction is justified by an "evaluation" of CIAP, it could not provide us this evaluation.

Housing Assistance Program (HAP). The budget proposes to eliminate two positions (out of eight total positions) in HAP because local governments or third parties could, pursuant to a contract with HCD, administer the local portion of this federal rental subsidy program. Our analysis indicates that HCD has not examined either the feasibility or the legality of these local contracts.

Grove-Shafter Housing Replacement Program. The HCD defends its proposal to eliminate all staffing (two positions) for this program because all remaining activities could be completed in the current year *provided* that the City of Oakland agrees to contract with HCD in order to complete follow-up activities (including a possible *new construction project*.) At the time this analysis was prepared, the department was unable to say whether this contract would be forthcoming.

So that the Legislature can fully understand the basis for and cost-effectiveness of these proposed staffing reductions, we recommend that during budget hearings, the department demonstrate how it can maintain existing service levels in the cited programs, given these reductions.

Overbudgeted Interest Payments

We recommend a $355,000 reduction in the amount requested from the Mobilehome-Manufactured Home Revolving Fund (Item 2240-001-648) to correct for overbudgeting.

In 1980–81, HCD received a $1.5 million General Fund loan for start-up costs associated with its assumption of the Mobilehome Titling and Registration Program. (Chapter 1149/80 transferred responsibilities for this program from the Department of Motor Vehicles to HCD, in keeping with a change in state policy that considers mobilehomes as "dwelling units" rather than as "vehicles.") Chapter 1149/80 required repayment of the loan with interest within three years. According to HCD staff, approximately $566,000 in total interest payments were made between 1981–82 and 1983–84, during which time the loan was repaid. All interest payments were paid out of the department's "general expense" category.

The department neglected to delete a portion of these one-time expenses from its "baseline budget." As a result, the current-year and budget-year "general expense" item includes funding for these expenses.

To correct for this overbudgeting, we recommend a $355,000 reduction in the amount requested from the Mobilehome-Manufacture Housing Revolving Fund (Item 2240-001-648).

Technical Recommendations

We recommend the reduction of $235,000 ($123,000 from the General Fund, $69,000 from special funds, $38,000 in reimbursements, and $5,000 from the Federal Trust Fund) to eliminate overbudgeting, as follows:

Savings from eliminated staff positions underestimated. The department's estimates of the savings from eliminating 20 existing positions is understated by $82,000 ($51,000 from General Fund, $14,000 from special funds, $12,000 from reimbursements and $5,000 from the Federal Trust Fund). This is because the department assumed that each of these positions was budgeted at the *entry level;* most of these positions currently are filled at higher levels.

Overestimated central administrative costs. The amount requested from special funds for central administrative costs (pro rata billings and statewide cost allocation recovery) exceeds by $49,000 the amount the department will be charged in 1985–86.

Overinflated "general expense" request. In estimating its anticipated 1985–86 expenditures for various "general expense" items, the department included $47,000 (General Fund) for certain one-time federal audit exceptions which will not recur in the future.

Overbudgeted office rent. The department office rent request is overbudgeted by $43,000 ($17,000 from the General Fund and $26,000 from reimbursements) because: (a) it includes an additional $34,000 for *redirected* positions; and (b) it overestimates by $9,000 its current office rent needs.

Overestimated billings. The department's anticipated billings for reviews by the State Building Standards Commission during 1985–86 are overstated by $8,000 (General Fund), due to a technical error in fee revenue estimates made by SBSC (please see page 193).

Unnecessary uniform allowances. The budget includes $6,000 (special funds) for uniform allowances for staff, even though no uniforms are required for any of the department's programs.

Business, Transportation and Housing Agency

DEPARTMENT OF INSURANCE

Item 2290 from the Insurance Fund — Budget p. BTH 45

Requested 1985–86	$21,772,000
Estimated 1984–85	19,500,000
Actual 1983–84	17,199,000
Requested increase (excluding amount for salary increases) $2,272,000 (+11.7 percent)	
Total recommended reduction	80,000
Recommendation pending	414,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Consulting Funds. Reduce Item 2290-001-217 by $60,000.* Recommend reduction because the proposed study is not specific and lacks justification.	284
2. *Data Processing Support. Reduce Item 2290-001-217 by $20,000.* Recommend reduction because the additional position is not justified on a workload basis.	285
3. Computer System Upgrade. Withhold recommendation on $114,000 proposed for upgrading the department's computer system, pending the submission of a feasibility study report which identifies the costs and benefits of various alternatives.	285
4. Earthquake Study. Withhold recommendation on $300,000 requested for an earthquake study because the scope of the study has not been defined and the proposed funding level has not been substantiated.	286
5. Recurring Cash-Flow Problem. Recommend that prior to budget hearings the department provide the fiscal subcommittees with a preliminary report, regarding the feasibility of implementing a *year-around* license renewal system.	286
6. General Fund Loan. Recommend that during budget hearings, the department explain to the fiscal committees what steps will be taken to repay a General Fund loan.	287
7. Insurance Fund. Recommend that the Legislature enact legislation to permanently extend the Insurance Fund beyond the existing July 1, 1986, sunset date.	287

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business that is entirely regulated by the states, rather than by the federal government. In California, 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 about 1,400 insurers licensed to do business in California. The department estimates that these insurers write policies in the state that carry premiums of approximately $28 billion annually.

The department's *Regulation program* provides for: (1) the processing of inquiries and complaints from the public regarding the actions of insurance companies; (2) the examination and rating of insurers; (3) the examination of applicants seeking to be licensed as insurance agents or brokers; and (4) the investigation of complaints concerning insurance agents and brokers.

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

The Insurance Commissioner, who is appointed by the Governor, administers the department. The department maintains headquarters in San Francisco, and branch facilities in Los Angeles, San Diego and Sacramento.

The department is authorized to have 400 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests an appropriation of $21,772,000 from the Insurance Fund for support of the department in 1985–86. This is an increase of $2,272,000, or 11.7 percent, over estimated expenditures in the current year. The increase will grow by the cost of any salary or staff benefit increases approved for the budget year.

Chapter 772, Statutes of 1982 (AB 1797), created the Insurance Fund to support the department's activities, beginning July 1, 1983. Previously, the department was supported by appropations from the General Fund.

Revenues deposited in the Insurance Fund are derived primarily from license fees and renewals as well as from insurance company examination fees. According to the department's estimates, the Insurance Fund will accrue revenues of $20,761,000 in the current year, and $22,814,000 in the budget year.

Table 1 displays staffing and expenditure data for the department in the past, current, and budget years.

Table 1
Department of Insurance
Staffing and Expenditures, By Program
1983–84 through 1985–86
(dollars in thousands)

	Personnel-Years			*Expenditure*		
	Actual 1983–84	*Estimated 1984–85*	*Budgeted 1985–86*	*Actual 1983–84*	*Estimated 1984–85*	*Budgeted 1985–86*
Regulation	353.0	375.3	384.7	$16,398	$18,450	$20,707
Fraud Control	13.9	20.0	20.0	663	890	903
Tax Collection and audit	3.0	5.0	5.0	138	160	162
Administration	(76.7)	(83.7)	(84.6)	(3,666)	(4,273)	(4,783)
Totals	369.9	400.3	409.7	$17,199	$19,500	$21,772

Table 2 displays adjustments to the department's budget for the current year, as well as the changes proposed for 1985–86.

DEPARTMENT OF INSURANCE—Continued

Table 2
Department of Insurance
Proposed Budget Changes
(dollars in thousands)

	Insurance Fund
1984 Expenditures (Budget Act)	$17,913
Baseline adjustments, 1984–85	
1. 1984–85 salary and health benefit increase	1,182
2. Proposed deficiency appropriation	405
1984–85 Expenditures (Revised)	$19,500
Baseline adjustments, 1985–86	
1. Full-year cost of 1984–85 salary and health benefit increase in 1985–86	99
2. Increase to adjust for inflation	194
3. Pro rata adjustments	1,209
4. Administrative adjustment	10
5. Prior year deficiency appropriation	−405
Program change proposals	
1. Upgrade existing computer hardware and software	114
2. Provide data processing support personnel	20
3. One-time training costs	34
4. Earthquake insurance study	300
5. License bureau—additional staff	34
6. Policy Services bureau—additional staff	86
7. Fingerprinting cost increase	295
8. Field examinations—additional staff	296
9. Administrative reductions	−74
10. Financial industry study (BT&H Agency)	60
1985–86 Expenditures (Proposed)	$21,772
Changes from 1984–85:	
Amount	$2,272
Percent	11.7%

ANALYSIS AND RECOMMENDATIONS

Consulting Funds Are Not Justified

We recommend a reduction of $60,000 in consulting funds requested for a study because the proposal is not specific and lacks adequate justification. (Reduce Item 2290-001-217 by $60,000.)

The Governor's Budget proposes $300,000 for the Secretary of the Business, Transportation and Housing agency to fund a contract providing for an independent comprehensive review of the state's policy towards the regulation of financial service institutions in California. This would be the second phase of a two-phase effort which the agency plans to start in the current year. At the time this analysis was prepared, staff advised us that the plan for Phase I had not been completed. The preliminary cost estimate for this phase, however, was approximately $100,000, with each of the agency's five financial regulatory departments (including the Department of Insurance) expected to pay $20,000. Phase II—$300,000—would also be funded by the five regulatory departments, with each one providing $60,000.

Analyst's Review. It is evident that the changing market for financial services confronts the state with serious policy issues regarding (1) the relationships between state and federal regulatory authorities and the responsibilities of each, and (2) the effectiveness of the existing state regulatory structure. Depending on how these issues are resolved, major changes may be needed in the state's programs for regulating state-licensed financial service institutions. In *the 1985–86 Budget: Perspectives and Issues,* we discuss these emerging issues at some length.

While our analysis confirms the need for further study of the issues facing the state financial regulatory programs, we are unable to recommend approval of the request in the Secretary for Business, Transportation and Housing Agency's budget (Item 0520-001-001) to support the proposed consulting contract. This is because the request is not specific and lacks adequate justification. Consistent with this recommendation, we also recommend that the $60,000 requested in this item not be approved.

Key Data Support, Insufficient Workload

We recommend a deletion of $20,000 requested for one key data entry operator because the position is not justified on a workload basis. (Reduce Item 2290-001-217 by $20,000.)

The department proposes to add one key data entry operator ($20,000) to its Electronic Data Processing Bureau in Sacramento. Currently, this bureau has one key data supervisor and four key data entry operators. The key data operation supports various data processing applications, including the personnel time-reporting system, the premium tax audit and accounting system, and the insurance company master file maintenance system. The department indicates that it needs to add a single key data entry operator to its Sacramento office, due to increasing workload and persistent backlogs.

Our analysis indicates that the workload projected for the department's Sacramento office can be handled adequately by existing staff in 1985–86. The department, however, plans to transfer an existing key data entry position from the Sacramento office to its San Francisco office. Consequently, the proposed position would be used to *backfill* an existing position. The department has not substantiated the need for the proposed transfer. Consequently, we recommend deletion of $20,000 and one key data entry operator position requested in the budget for 1985–86.

Computer System Upgrade

We withhold recommendation on $114,000 proposed for upgrading the department's existing computer system, pending the submission of a feasibility study report which identifies the costs and benefits of the project.

The department currently has a computer system in its Los Angeles office. The system handles 50 data processing applications of various sizes, involving actuarial analysis, financial analysis, rate regulation, field examination, statistical, investigative, consumer service and policy service functions. The system is operated primarily by three EDP personnel and five user staff personnel that have direct access to the system.

Proposal to Upgrade Computer System. The department indicates that the existing computer system is working at maximum capacity and is experiencing mounting processing backlogs, slow system performance and failures, and limited terminal availability.

The department proposes to upgrade the system in the budget year, at an estimated cost of $114,000. According to the department, the upgraded computer will:

- Meet current and future departmental needs for the next 10 years;
- Increase system performance by 100 percent;
- Increase system accessibility by 100 percent;

DEPARTMENT OF INSURANCE—Continued

- Decrease turnaround time by 50 percent;
- Increase productivity by 100 percent; and
- Minimize manual processing of various reports.

Analyst's Recommendation. The department's proposal is not supported by a feasibility study report which evaluates its computer needs, discusses the costs and benefits of various alternatives, and identifies the most cost-effective system. The department indicates that such a study should be complete by March 15, 1985. Without this information, it is not clear whether the department has selected a cost-beneficial alternative which adequately addresses its needs.

Accordingly, we withhold recommendation on the $114,000 requested for upgrading the department's computer system, pending completion of the feasibility study report.

Proposed Earthquake Study

We withhold recommendation on $300,000 requested for an earthquake study because the scope of the study has not been defined and the proposed funding level has not been substantiated.

The department proposes to spend $300,000 in 1985–86 for a comprehensive study of the economic impact that a major earthquake would have on California and the ability of the insurance industry to provide earthquake insurance protection. In support of the study, the department indicates that the potential loss to the insurance industry could surpass the industry's resources. The department indicates that no consulting contracts would be awarded without the prior knowledge and consent of the Governor's office.

Analyst's Recommendation. We acknowledge that earthquake insurance is an appropriate concern of the public, the insurance industry and the insurance department. Our analysis of the department's proposal, however, indicates that it lacks specifics, in regard to the scope of the study, and does not provide sufficient information to substantiate the proposed funding level of $300,000. Consequently, we withhold recommendation on the $300,000 requested by the department for an earthquake study, pending the receipt of detailed information on the scope of the study and documentation of the proposed funding level.

Department's Cash-flow Problems Persist

We recommend that prior to budget hearings, the department report to the fiscal committees on the feasibility of implementing a year-around license renewal system in 1985–86, in order to resolve its cash-flow problems.

In enacting Chapter 722, Statutes of 1982 (AB 1797), which created the Insurance Fund, the Legislature provided that any balance remaining in the fund at the end of any fiscal year may be carried forward into the next fiscal year, as necessary to provide for the department's cash-flow needs. Excess reserves in the fund are to be reverted to the General Fund.

The Governor's Budget indicates that the department will begin 1985–86 with $2,254,000 in reserve and $2,333,000 in fee revenues it will collect during the first quarter of 1985–86. Thus, the department will have only $4,587,000 available to meet its projected first-quarter obligations of $5,400,000, indicating a potentially serious cash-flow problem.

Report Required. During the hearings on the department's 1984–85 budget, we suggested that the department explain to the fiscal committees why it had not budgeted carryover funds for 1984–85 cash-flow purposes. Subsequently, the Legislature added language to the 1984 Budget Act which permitted the carryover of sufficient funds to meet the department's cash-flow needs. In addition, the Legislature adopted language in the *Supplemental Report of the 1984 Budget Act* requiring the department to submit a report that addresses the department's cash-flow problems and presents recommendations for resolving the problems.

Report Ignores Root of Problem. Our analysis of the department's report indicates that it fails to examine what appears to be the root of the department's cash-flow problem during the first six months of the fiscal year—the practice of renewing licenses between January and May each year. This problem could be eliminated by scheduling license renewals on a *year-around* basis, rather than during a five-month period. This would have the added advantage of evening out the department's workload.

Analyst's Recommendation. For these reasons, we recommend that prior to budget hearings, the department report to the fiscal committees on the feasibility of implementing a year-around license renewal system to even out workload and revenue collections and resolve the department's cash-flow problems.

Department Fails to Repay General Fund Loan

We recommend that during budget hearings the department report to the fiscal committees on what steps it will take to repay the General Fund loan.

In order to resolve the department's cash-flow problem during its first full year as a special-fund agency, the 1983 Budget Act provided a $2,793,000 loan from the General Fund to the Insurance Fund. This loan was to be repaid from revenues deposited in the Insurance Fund not later than October 1, 1984.

The department has failed to repay the General Fund start-up loan, as the act required. The department indicated that it had not done so because it had not collected sufficient revenues to both meet its payroll obligations and repay the loan.

We recommend that the department explain to the fiscal committees what steps will be taken to repay the General Fund start-up loan.

Insurance Fund Sunsets July 1, 1986

We recommend the Legislature enact legislation permanently extending the Insurance Fund beyond the existing July 1, 1986 sunset date.

Chapter 722, Statutes of 1982 (AB 1797), created the Insurance Fund to support the department's activities from July 1, 1983, to July 1, 1986, when the fund is scheduled to sunset. Revenues deposited in the fund are primarily from insurance company license and examination fees. The department previously was supported by appropriations from the General Fund. Presumably, the department's support will switch back to the General Fund if legislation is not passed which permanently extends the Insurance Fund beyond the existing sunset date.

Our analysis indicates that, as demonstrated in 1983–84 and 1984–85, the regulatory activities of the Department of Insurance can be supported directly from fees levied on the insurance industry. Accordingly, we recommend that legislation be enacted permanently extending the Insurance Fund beyond the July 1, 1986, sunset date.

DEPARTMENT OF INSURANCE—Continued

Business, Transportation and Housing Agency
DEPARTMENT OF REAL ESTATE

Item 2320 from the Real Estate Fund — Budget p. BTH 49

Requested 1985–86	$19,353,000
Estimated 1984–85	19,338,000
Actual 1983–84	15,901,000
Requested increase (excluding amount for salary increases) $15,000 (+0.8 percent)	
Total recommended reduction	340,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Real Estate Education Report. Recommend that the department explain to the fiscal subcommittees at the time of budget hearings why it failed to comply with 1984 Budget Act language directing the department to provide plans and recommendations for increasing funding and resources to the community colleges for real estate license education. 290
2. ***Consulting Funds. Reduce Item 2320-001-317 by $60,000.*** Recommend reduction because the proposed study is not specific and lacks adequate justification. 290
3. ***Reimbursements. Reduce Item 2320-001-317 by $53,000.*** Recommend reduction to correct for underbudgeting of reimbursements. 291
4. ***Subdivision Program. Reduce Item 2320-001-317 by $227,000 and 10 positions.*** Recommend reduction of 10 vacant positions in the subdivision program because they are not justified by workload. 291

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for enforcing the Real Estate Law, and for protecting the public in connection with offerings of subdivided property, real property securities, and certain real estate transactions.

To carry out its responsibilities, the department administers four programs: (1) *licensing and education,* which conducts licensing examinations throughout the state and maintains ongoing real estate research projects and continuing education activities; (2) *regulatory and recovery,* which investigates violations of real estate law and may pursue formal proceedings and disciplinary action of licensees; (3) *subdivisions,* which administers the subdivision law and publishes annual public report filings with relevant information on subdivided property for sale; and (4) *administration,* which is the central management, administrative, and nontechnical support program of the department.

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. In the current year, the department has 385 authorized positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $19,353,000 from the Real Estate Fund for support of the department in 1985–86. This is $15,000, or 0.8 percent, more than estimated expenditures from the Real Estate Fund in the current year. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

In addition to the amount requested in this item, the budget indicates that the department will receive $250,000 in reimbursements, primarily in the form of fingerprint fees paid by applicants. Thus, the budget proposes total expenditures by the department of $19,603,000 in 1985–86. This is $15,000, or 0.8 percent, above estimated current-year expenditures.

Table 1 presents expenditures and staffing data, by program, for the department in 1982–83, 1983–84, and 1984–85.

Table 1
Department of Real Estate
Expenditures and Staffing, by Program
1983–84 through 1985–86
(dollars in thousands)

	Personnel-Years			*Expenditures*		
Program	*Actual 1983–84*	*Estimated 1984–85*	*Projected 1985–86*	*Actual 1983–84*	*Estimated 1984–85*	*Projected 1985–86*
Licensing & education	82.0	95.4	91.0	$3,909	$4,761	$4,719
Regulatory & recovery	157.2	171.5	170.3	7,749	9,261	9,431
Subdivisions	94.0	118.1	105.6	4,570	5,566	5,453
Administration (distributed)	(51.6)	(58.2)	(54.4)	(2,636)	(3,375)	(3,267)
Totals	333.2	385.0	366.9	$16,228	$19,588	$19,603
Reimbursements				−327	−250	−250
Net Totals				$15,901	$19,338	$19,353

Table 2
Department of Real Estate
Proposed Budget Changes
(dollars in thousands)

	Real Estate Fund
1984–85 Expenditures (Budget Act)	$18,417
1. Allocation for employee compensation	1,089
2. Unallocated reduction	−168
1984–85 Expenditures (Revised)	$19,338
Baseline adjustments, 1985–86:	
1. Full-year cost of 1984–85 employee compensation adjustment	62
2. Delete limited-term positions—subdivision program	−295
3. Delete one-time equipment costs	−149
4. Merit salary adjustments	149
5. Increase to offset inflation	225
6. Pro rata adjustment	115
Program change proposals:	
1. Add two legal analyst positions	62
2. EDP operational savings reductions	−49
3. Operational savings reductions	−147
4. Administrative reduction	−18
5. Financial industry study (BT&H agency)	60
1985–86 Expenditures (Proposed)	$19,353
Change From 84–85:	
Amount	$15
Percent	0.8%

DEPARTMENT OF REAL ESTATE—Continued

Table 2 displays the adjustments to the department's budget for the current year, as well as the changes proposed for 1985–86.

ANALYSIS AND RECOMMENDATIONS

Report Not Fully Responsive to Budget Act Language

We recommend the department explain to the fiscal subcommittees at the time of budget hearings why it failed to comply with 1984 Budget Act language directing the department to provide plans and recommendations for increasing funding and resources to the community colleges for real estate license education.

Language in the 1984 Budget Act prohibited the Department of Real Estate from expending $100,000 of the $200,000 appropriated for real estate education and research at campuses of the University of California until it submitted a report regarding the education and research program to the Chairpersons of the Joint Legislative Budget Committee and the two fiscal committees. In its report, the department was required to address the following:

1. Past activities and future plans to improve dissemination of real estate-related research information and studies by the University of California's real estate centers to the state university system, the community colleges, real estate licensees and trainees, and other interested institutions and parties; and
2. The department's plans and recommendations for providing increased funding and resources to community colleges for real estate license education and training.

The department's report adequately responded to the first of the two requirements contained in the language. The report, however, is not responsive to the second requirement. It does not contain the department's plans and recommendations for providing increased funding and resources to community colleges for real estate license education and training. Consequently, we recommend the department explain to the chairpersons of the fiscal committees at the time of budget hearings why it failed to comply with 1984 Budget Act language requiring it to provide its plans and recommendations for providing increased funding and resources to the community colleges for real estate license education and training.

Consulting Funds Are Not Justified

We recommend a reduction of $60,000 in the amount requested for consulting because the need for these funds has not been adequately justified. (Reduce Item 2320-001-317 by $60,000.)

A total of $300,000 is included in the budgets of various agencies to fund an independent comprehensive review of the state's policy towards the regulation of financial service institutions in California. This review would be conducted by a private consultant, under contract to the Secretary of Business, Transportation and Housing. The funds would be used to finance the second phase of a two-phase effort which the agency plans to start in the current year.

At the time this analysis was prepared, agency staff advised us that the plan for Phase I had not been completed. The preliminary cost estimate for this phase, however, was approximately $100,000, with each of the agency's five financial regulatory departments (including the Department of Real Estate) expected to pay $20,000. Phase II—$300,000—would also be funded by the five regulatory departments, with each one providing $60,000.

Analyst's Review. It is evident that the changing market for financial services confronts the state with serious policy issues regarding (1) the relationships between state and federal regulatory authorities and the responsibilities of each and (2) the effectiveness of the existing state regulatory structure. Depending on how these issues are resolved, major changes may be needed in the state's programs for regulating state-licensed financial service institutions. In *The 1985–86 Budget: Perspectives and Issues,* we discuss these merging issues at some length.

Our analysis clearly confirms the need for further study of the issues facing the state's financial regulatory programs. Nevertheless, we are unable to recommend approval of the request for funds to support the proposed contract because the proposal is not specific and lacks adequate justification. This issue and the specific reasons for our recommendation are discussed more fully in our analysis of the proposed budget for the Secretary of Business, Transportation and Housing (Item 0520-001-001).

Consistent with this recommendation, we also recommend deletion of the $60,000 requested in this item for the study.

Reimbursements Underbudgeted

We recommend a reduction of $53,000 because reimbursements are underbudgeted. (Reduce Item 2320-001-317 by $53,000 and increase reimbursements by the same amount.)

The Governor's Budget estimates that the department will receive $250,000 in reimbursements during 1985–86. Subsequent information provided by the department, however, indicates that it will receive $303,000 in reimbursements during the budget year, or $53,000 (17.5 percent) more than what is shown in the Governor's Budget. According to the department, the increased reimbursements will result from a greater number of fingerprints being taken in the budget year and a higher level of fee collections.

The principal consequence of underbudgeting reimbursements is to overstate the amount from the Real Estate Fund needed to support the various programs operated by the department. Consequently, we recommend a $53,000 increase in reimbursements and a corresponding reduction in Item 2320-001-317.

Subdivision Program

We recommend a reduction of $227,000 and 10 vacant positions requested for the subdivision program, because the positions are not justified on a workload basis. (Reduce Item 2320-001-317 by $227,000.)

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 department's subdivision program prepares and publishes these public reports.

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. In addition to new filings, the department receives applications to amend or renew public reports.

Total staffing proposed for the subdivision program in the budget year is 98 positions. This is 12 positions, or 10.9 percent, less than the current-year staffing level of 110 positions. Of the 110 positions authorized in the

DEPARTMENT OF REAL ESTATE—Continued

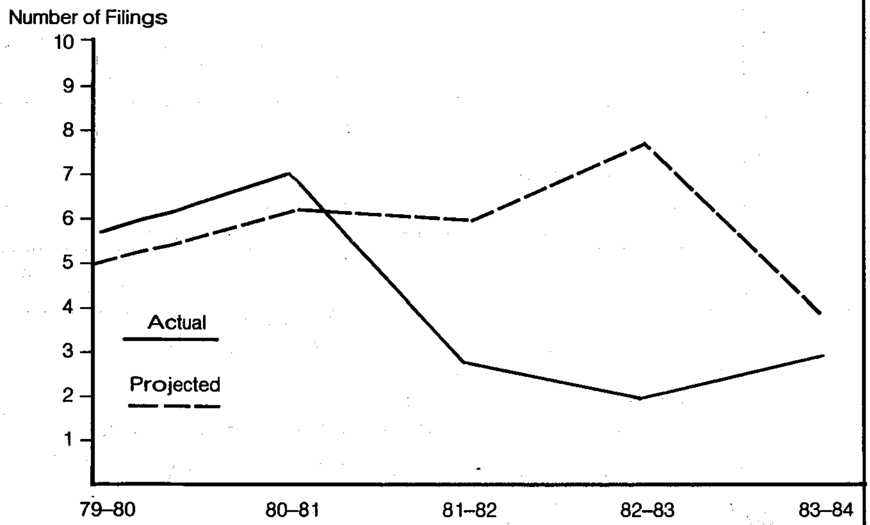
current year, 22 positions, or 20 percent, were vacant at the time this analysis was prepared. The vacancies include the 12 positions (2 permanent and 10 limited-term) which are proposed for deletion in the budget year.

Charts 1 and 2 display projected and actual subdivision filings and personnel-years for the period 1979–80 through 1983–84.

Chart 1

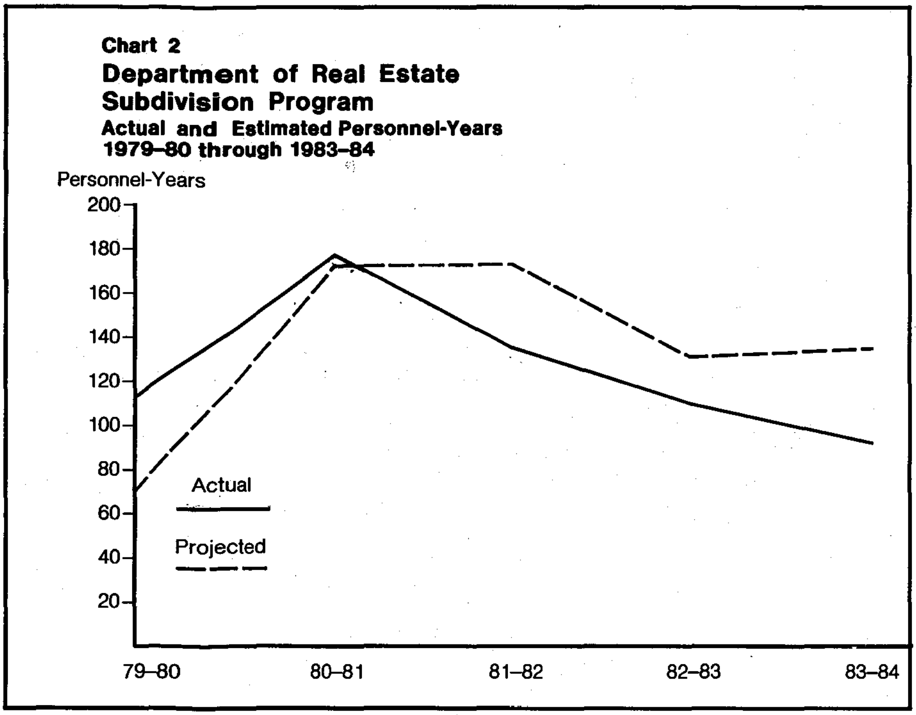
Department of Real Estate Subdivision Program

Actual and Projected Filings (in thousands) 1979–80 through 1983–84



The department projects that it will receive 2,810 subdivision filings in the budget year. This is 40 filings, or 1.4 percent less, than the number it expects in the current year and 95, or 3.3 percent less, than the number actually filed in 1983–84. In 1983–84, the department expended 80.9 personnel-years to process 2,905 subdivision filings. For the budget year, however, the department indicates it will need 91.7 personnel-years to process the 2,810 subdivision filings that are anticipated.

In view of the anticipated decline in subdivision filings in the budget year and the fact that the department was able to handle a heavier workload in the current year despite having 22 vacancies in program staff, we do not believe the number of positions requested in the budget is justified on a workload basis. Accordingly, we recommend that (1) *all* 22 of the vacant positions be deleted, rather than only the 12 positions proposed for deletion by the department, and (2) Item 2320-001-317 be reduced by $227,000.



Business, Transportation and Housing Agency
DEPARTMENT OF SAVINGS AND LOAN

Item 2340 from the Savings Association Special Regulatory Fund — Budget p. BTH 54

Requested 1985–86	$5,835,000
Estimated 1984–85	4,524,000
Actual 1983–84	3,473,000
Requested increase (excluding amount for salary increases) $1,311,000 (+29.0 percent)	
Total recommended reduction	60,000
Recommendation pending	1,076,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Supplemental Report Language. We recommend that during budget hearings, the department explain to the fiscal 295

DEPARTMENT OF SAVINGS AND LOAN—Continued

subcommittees why it did not fully respond to the Legislature's directive that it submit a report on the impact of deregulation on the savings and loan industry.

2. Regulatory Staff Increase. We withhold recommendation on $1,076,000 and 23 positions requested to increase the department's regulatory staff, pending receipt of additional information substantiating the request. 296
3. ***Consulting Funds. Reduce Item 2340-001-337 by $60,000.*** Recommend reduction because the proposed study is not specific and lacks adequate justification. 298

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan is responsible for regulating the activities and practices of the state-chartered savings and loan associations in order to protect the public's interests.

Savings and loan associations doing business in California have the option of being regulated by either the state or federal government. As of December 31, 1984, there were 148 state-chartered savings and loan associations. These associations had total assets of $110.2 billion. There were also 61 federally chartered savings and loan associations, with total assets of $148.9 billion. Deposit insurance is provided to both state-chartered and federally chartered savings and loan associations by the Federal Savings and Loan Insurance Corporation (FSLIC).

The department is supported from the Savings Association Special Regulatory Fund, whose revenues are derived primarily from an annual assessment on the asset base of individual associations. The assessment rate levied against assets is set annually by the commissioner, in consultation with the savings and loan industry, at a level deemed sufficient to finance the department's operating costs and provide a reasonable reserve for contingencies.

The department is headed by a commissioner who is appointed by the Governor. It has a headquarters in Los Angeles and a branch office in San Francisco. In the current year, the department is authorized 82 personnel-years.

OVERVIEW OF THE BUDGET REQUEST

Table 1 shows personnel-years and expenditures for the department in the past, current, and budget years.

Table 1
Department of Savings and Loan
Staffing and Expenditures, by Program
1983–84 through 1985–86
(dollars in thousands)

	Personnel-Years			*Expenditure*		
	Actual 1983–84	*Estimated 1984–85*	*Budgeted 1985–86*	*Actual 1983–84*	*Estimated 1984–85*	*Budgeted 1985–86*
Examination	32.6	45.0	58.3	$1,854	$2,502	$3,176
Appraisal	6.0	7.0	15.6	369	440	857
Licensing	3.0	4.0	5.0	247	329	402
Administration	21.9	26.0	29.7	1,034	1,253	1,400
Totals	63.5	82.0	108.6	$3,504	$4,524	$5,835
Reimbursements				−31	—	—
Net Totals				$3,473	$4,524	$5,835

The budget proposes an appropriation of $5,835,000 from the Savings Association Special Regulatory Fund for support of the department in 1985–86. This is $1,311,000, or 29.0 percent, above estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefit increases approved for the budget year.

Table 2 displays the adjustments to the department's budget for the current year and the changes proposed for 1985–86.

Table 2
Department of Savings and Loan
Proposed Budget Changes
(dollars in thousands)

	Savings Association Special Regulatory Fund
1984–85 Expenditures (Budget Act)	$4,260
Baseline adjustments 1984–85:	
1. Salary and health benefit adjustments	258
2. Reductions per Sections 4.10 and 4.20	−7
3. Carryover from Chapter 1146, Statutes of 1981	13
1984–85 Expenditures (Revised)	$4,524
Baseline adjustments, 1985–86:	
1. Full-year costs of 1984–85 salary and health benefit adjustments	$54
2. Increase to offset inflation	48
3. Reduction one-time equipment costs	−59
4. Pro rata adjustment	−81
5. Reduction—Chapter 1146, Statutes of 1981 (expires 12/31/84)	−13
Program change proposals:	
1. Examinations staffing increase	630
2. Appraisal staffing increase	446
3. Licensing and assistance staffing increase	90
4. Add two administrative positions	65
5. Replace telephone system	30
6. Financial Industry Study (BT&H agency)	60
7. Add one-time equipment purchase	41
1985–86 Expenditures (Proposed)	$5,835
Change from 1984–85:	
Amount	$1,311
Percent	29%

ANALYSIS AND RECOMMENDATIONS

Report is Not Responsive to Legislature's Directive

We recommend that during budget hearings, the department explain to the fiscal subcommittees why it did not fully respond to the Legislature's directive that it submit a report on the impact of deregulation on the savings and loan industry.

In our analysis of the department's budget for 1984–85, we discussed the effects of deregulation on the savings and loan industry. Specifically, we indicated that the phase-out of interest rate controls had increased competition for depositors' funds between different types of financial institutions, the results being a higher cost of funds to savings and loans, higher interest paid to depositors (large and small) and a general narrowing of savings and loan profits. Furthermore, we pointed out that deregulation

DEPARTMENT OF SAVINGS AND LOAN—Continued

had also introduced a new element of risk—equity risk—into the savings and loan equation by permitting savings and loans to assume an equity position in commercial ventures.

Recognizing the need for the Department of Savings and Loan to address the effects of deregulation on both the savings and loan industry and state regulatory programs, the Legislature adopted language in the *Supplemental Report of the 1984 Budget Act* which required the department to (1) identify significant federal and state legislation which aided in the deregulation of the savings and loan industry, and provide a summary of the effect that this legislation has had on the industry; (2) provide a general estimate of how widely state-chartered savings and loans are using their broadened investment authority; and (3) evaluate whether the deregulated environment had resulted in the need to redefine the department's role as a regulator, restructure the department, or altered its resource needs.

Our analysis indicates that the department's report adequately addresses both the federal and state legislation which brought about deregulation of the savings and loan industry and the extent to which new associations are using their broadened investment authorities. The report, however, fails to provide an adequate evaluation of the effects that deregulation has had and is having on the department's regulatory role, vis-a-vis the roles of the federal regulatory agencies. The department's report also fails to recommend policy and organizational changes that would provide for more-effective regulation of the savings and loan industry in future years.

In sum, we find the department's report simply proposes a continuation of the status quo at a higher staffing level. It provides the Legislature with neither adequate justification for the status quo or a clear-cut plan of action for the future.

Consequently, we recommend that during budget hearings, the department explain to the fiscal subcommittees why it did not fully respond to the Legislature's directive that it submit a report on the impact of deregulation on the savings and loan industry and the state's regulatory role toward this industry.

Proposed Regulatory Staff Increase

We withhold recommendation on the proposed augmentations of $1,076,000 and 23 field examiner and appraiser positions, pending receipt of additional workload and staffing information substantiating the proposal.

Currently, the department has 44 examiners and 7 appraisers. This staffing level includes 17 new examiner positions approved by the Legislature for 1984–85. Thus for 1984–85, the department was authorized a combined examination and appraisal staff of 51 positions.

Deficiency Authorization Proposed for the Current Year. During the current year, the Director of Finance notified the chairs of the Joint Legislative Budget Committee (JLBC) and the fiscal committees that he intended to approve a deficiency authorization for the Department of Savings and Loan, using authority contained in Section 27 of the 1984 Budget Act. This authorization increased the department's current year expenditure authority by $479,000—11.2 percent above the level approved by the Legislature, and thereby allowed the department to add 14 examiners to its field staff. This current-year deficiency augmentation, however, is not reflected in the Governor's Budget for 1985–86.

Budget Year Proposal. For 1985–86, the department requests $1,076,000 ($847,000 for personal services and $229,000 in operating expenses and equipment) from the Savings Association Special Regulatory Fund and *23 additional positions* for its regulatory program. This would increase the department's field examination and appraisal staff from 51 to 74 positions—an increase of 23 positions, or 45 percent, above the number authorized in the current year. According to the department, these additional positions will be used to intensify its examination and supervision of new and existing savings and loan associations.

Proposed Examiner Positions. Included in the department's request for 1985–86 is $630,000 to permanently establish the 14 examiner positions authorized by the Department of Finance in the current year under the authority granted by Section 27 of the 1984 Budget Act. The additional examiner positions would increase the department's regular ongoing examination staff from 44 to 58. They would also change the department's manager-to-staff ratio from 1:2.4 to 1:4.5. Even so, the department's manager-to-staff ratio would still be far higher than that of the Department of Banking. According to the State Personnel Board, the Banking Department's ratio—1:9—is more appropriate for financial regulatory activities.

The department maintains that its budget-year request is intended to accomplish two objectives: (1) accommodate an anticipated workload increase and (2) comply with the terms of the department's memorandum of understanding with the Federal Home Loan Bank Board (FHLBB). This memorandum, which was entered into on July 1, 1984, committed the state to provide sufficient staff resources to achieve a 50/50 ratio of state-to-federal examiners for the joint examination of state-licensed savings and loan associations. In recent years, the state has provided 22 percent of the field examiners and the federal government has provided 78 percent.

Proposed Appraiser Positions. In addition to its proposed increase in examination staff, the department requests $446,000 to fund nine additional appraisal positions. The addition would more than double—from 7 to 16—the department's current appraisal staff.

According to the department, the appraisers will work closely with the examination staff to pinpoint problem loans and investments. To accomplish this objective, the appraisers would review and analyze loan files and documents related to real estate transactions, search public records, inspect properties, interview property owners and real estate practitioners, prepare appraisal reports, make oral and written reports to top-level management of savings and loan associations and the department, and recommend specific supervisory action.

Budget Information is Inadequate. Our analysis indicates that the department's proposal to add 23 field examiner and appraiser positions in the budget year lacks both supporting information and workload data documenting the need for additional staff. Specifically, the department's request does not specify (1) how many new examiners and appraisers are needed to handle workload changes and (2) how many are needed to satisfy the terms of the memorandum of understanding with the Federal Home Loan Bank Board or other policy changes intended by the department. Moreover, the department's proposal does *not* (1) include any federal staffing data to provide an understanding of how the examination workload will be shared by the state and the federal government; (2) examine the possibility of converting some of its manager positions to field examiner positions thus bringing its very rich manager-to-staff ratio more

DEPARTMENT OF SAVINGS AND LOAN—Continued

in line with the Department of Banking's and reducing its need for new staff, (3) fully explain why nine appraisers are needed to recheck the work of private appraisers retained by the associations or (4) compare the cost of using contract appraisal services available from the Department of General Services with the cost of using in-house appraisers.

Recommendation. Given the inadequacies of the department's request for an increase in field staff in the budget year, we withhold recommendation on the department's request for $1,076,000 and 23 positions, pending receipt of additional information substantiating the proposal.

Consulting Funds Are Not Justified

We recommend a reduction of $60,000 for consulting funds because the proposed study is not specific and has not been adequately justified. (Reduce Item 2340-001-337 by $60,000.)

A total of $300,000 is included in the budgets of various agencies to fund an independent comprehensive review of the state's policy towards the regulation of financial service institutions in California. This review would be conducted by a private consultant, under contract to the Secretary of Business, Transportation and Housing. The funds would be used to finance the second phase of a two-phase effort which the agency plans to start in the current year.

At the time this analysis was prepared, agency staff advised us that the plan for Phase I had not been completed. The preliminary cost estimate for this phase, however, was approximately $100,000, with each of the agency's five financial regulatory departments (including the Department of Savings and Loan) expected to pay $20,000. Phase II—$300,000—would also be funded by the five regulatory departments, with each one providing $60,000.

Analyst's Review. It is evident that the changing market for financial services confronts the state with serious policy issues regarding (1) the relationships between state and federal regulatory authorities and the responsibilities of each, and (2) the effectiveness of the existing state regulatory structure. Depending on how these issues are resolved, major changes may be needed in the state's programs for regulating state licensed financial service institutions. *In The 1985–86 Budget: Perspectives and Issues,* we discuss these emerging issues at some length.

Our analysis clearly confirms the need for further study of the issues facing the state's financial regulatory programs. Nevertheless, we are unable to recommend approval of the request for funds to support the proposed contract because the proposal is not specific and lacks adequate justification.

Consistent with this recommendation, we also recommend deletion of the $60,000 requested in this item for the study. This issue and the specific reasons for our recommendation are discussed more fully in our analysis of the proposed budget for the Secretary for Business, Transportation and Housing (Item 0520-001-001).

CALIFORNIA TRANSPORTATION COMMISSION

Item 2600 from the State Transportation Fund — Budget p. BTH 58

Requested 1985–86	$1,106,000
Estimated 1984–85	1,093,000
Actual 1983–84	809,000
Requested increase (excluding amount for salary increases) $13,000 (+1.2 percent)	
Total recommended reduction	None

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2600-001-042—support	State Highway Account	$123,000
2600-001-046—support	Transportation Planning and Development Account	983,000
Total		$1,106,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Consultant Services. Recommend adoption of Budget Bill language requiring the commission to notify the Legislature at least 30 days prior to expending funds on specified consultant services. 300

GENERAL PROGRAM STATEMENT

The California Transportation Commission (CTC), was created by Ch 1106/77 (AB 402) to replace the California Highway Commission, the California Toll Bridge Authority, the Aeronautics Board, and the State Transportation Board. The commission consists of nine members, all appointed by the Governor.

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) submit to the Legislature an annual report on the policies and decisions adopted by the commission, the major project allocations made in the previous year, and significant transportation issues, and (6) evaluating the Department of Transportation's annual budget and the adequacy of current state transportation revenues.

In the current year, the commission has 11 authorized staff positions, including an Executive Director appointed by the commission, 6 professional staff and 4 clerical positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $1,106,000 in support of the California Transportation Commission in 1985–86—$123,000 from the State Highway Account and $983,000 from the Transportation Planning

CALIFORNIA TRANSPORTATION COMMISSION—Continued

and Development Account. The proposed budget is $13,000, or 1.2 percent, higher than estimated expenditures in the current year. This amount will increase by the amount of any salary or staff benefit increases approved for the budget year.

Table 1 shows the commission's support level and funding sources from 1983–84 through 1985–86.

Table 1
California Transportation Commission
Program Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in thousands)

Expenditures	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Change from 1984–85 to 1985–86* *Amount*	*Percent*
Administration	$809	$1,093	$1,106	$13	1.2%
Personnel-Years (PY)	10.3	11	11	—	—
Funding Sources					
State Highways Account	43	117	123	6	5.1
Transportation Planning and Development Account	766	976	983	7	0.7

The commission's 1985–86 budget request of $1,106,000 reflects two changes in operating expenses which result in a net reduction of $17,000 in the commission base level of support. These changes are (1) a $31,000 increase in travel expenses resulting from the enactment of Ch 1257/84, which expanded from five to eight the maximum number of commission meeting dates, and (2) a $48,000 reduction in consultant services.

The budget proposes to maintain staffing for the commission at the current year level of 11 positions.

ANALYSIS AND RECOMMENDATIONS

Consultant Services Expenditures Should Be Justified

We recommend the adoption of Budget Bill language requiring the commission to notify the fiscal committees and the Joint Legislative Budget Committee at least 30 days prior to expending any funds on specified consultant services.

The commission relies on contracted services with the Department of Transportation, as well as on external consultants, to perform various studies on transportation issues. For 1984–85, $234,000 has been authorized for external consultant services. According to the commission, $183,000 of this amount will be spent.

The budget is requesting $200,000 for these services in 1985–86. Specific justification has been provided for $30,000 of the $200,000 ($12,000 for transcript and equipment services, and $18,000 for federal legislation and information services). The remaining $170,000, however, had not been justified at the time this analysis was prepared.

In the past, the commission has maintained that it needs the flexibility to contract for consultant services in order to respond to unanticipated policy issues and legislative requests for information and studies.

We recognize that the commission needs a certain degree of flexibility. At the same time, however, we believe the Legislature is entitled to receive adequate justification for all significant consultant services expenditures before these expenditures occur. Accordingly, we recommend that the Legislature adopt the following Budget Bill language requiring the commission to notify the fiscal committees and the Joint Legislative Budget Committee not less than 30 days prior to spending any amount out of the $170,000, on contracts over $10,000, and to provide specified information regarding such contracts.

"The California Transportation Commission shall notify the chairpersons of the fiscal committees and the Joint Legislative Budget Committee not less than 30 days prior to expending any of the $170,000 appropriated for consulting and professional services if such expenditures are pursuant to a contract exceeding $10,000. This notification shall include a statement as to the objective of the contract, a summary discussion of the work to be performed, and the time requirements and various cost elements for the contracted services."

Business, Transportation and Housing Agency

SPECIAL TRANSPORTATION PROGRAMS

Item 2640 from the Transportation Planning and Development Account, State Transportation Fund — Budget p. BTH 59

Requested 1985–86	$64,800,000
Estimated 1984–85	75,000,000
Actual 1983–84	88,000,000
Requested decrease (excluding amount for salary increases) $10,200,000 (−14 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Special Transportation Programs item in the budget consists of appropriations to the Department of Transportation for two programs. The State Transportation Assistance (STA) program provides funds to local transportation agencies for the operation of public mass transit systems and, in rural areas, for construction and maintenance of local streets and roads. The Ridesharing and Alternative Transportation (RAT) program was created to provide for the establishment and support of ridesharing programs throughout the state.

In the past, appropriations for Special Transportation Programs were made to the Secretary of the Business, Transportation and Housing Agency. The Secretary, however, delegated responsibility for administering the program to the Department of Transportation. Chapter 579, Statutes of 1984, changed these provisions to require that funds for Special Transportation Programs be appropriated directly to the Department of Transportation.

SPECIAL TRANSPORTATION PROGRAMS—Continued

OVERVIEW OF THE BUDGET REQUEST

Existing law requires, and the proposed budget provides, that 60 percent of the sales tax revenues transferred to the Transportation Planning and Development (TP&D) account be appropriated for the STA program. The budget shows an estimated appropriation for STA of $64.8 million in 1985–86. The actual amount of this appropriation may be either greater or less than the estimate, depending upon the amount of sales tax revenues transferred to the TP&D account during the budget year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our analysis indicates that the budget request conforms to the statutory requirement that the STA program receive 60 percent of the retail sales tax revenues transferred to the TP&D account. On this basis, we recommend approval of the appropriation.

STA Appropriation Projected to Decline 82 Percent by 1989–90

The amount of retail sales tax revenue transferred to the TP&D account under current law is very unstable, and is expected to decline dramatically during the next five years. Retail sales tax transfers to the account equal the state's share of retail sales tax revenues collected from gasoline sales, less an annual payback to the General Fund for revenues lost when the Transportation Development Act (TDA), Ch 1400/71, shifted 0.25 percent of the state's retail sales tax rate to local transportation funds. The amount of this TDA payback depends upon the level of retail sales excluding gasoline.

During the period 1985–86 through 1989–90, nongasoline retail sales are expected to grow more rapidly than gasoline sales. Should this occur, retail sales tax transfers to the TP&D account would decline from $108 million in 1985–86 to $20 million by 1989–90—*a decline of 81 percent.* Since 60 percent of the retail sales tax transfer to the TP&D account is appropriated for the STA program, this would reduce the STA appropriation from $64.8 million to $12 million over the same period.

In the *Perspectives and Issues* document that accompanies this *Analysis,* we have recommended changes in the financing of the TP&D account which, if adopted, could stabilize and increase the amount of retail sales tax revenues received by the account, thereby maintaining the STA appropriation at a higher level than what existing law would provide. A more dependable level of funding for the TP&D account and the STA program would improve the ability of local agencies to implement short- and long-term plans for development and operation of transit systems. (Please see *Perspectives and Issues, Part Three)*

No Money for the RAT Fund

The Ridesharing and Alternative Transportation program is not funded in the 1985–86 budget.

When the program was established, the Ridesharing and Alternative Transportation (RAT) Fund was created to finance it. Chapter 502, Statutes of 1982, calls for the fund to receive annual transfers from the General Fund equal to the revenues gained as a result of limiting gas tax deductions taken by certain personal income taxpayers. (This transfer authority expires July 1, 1987.) Provisions of the 1983 Trailer Act, however, eliminated gas tax deductions for *all* income taxpayers. Therefore, the Franchise Tax Board concluded that there is no basis for estimating revenue gains under provisions of Ch 502/82 and, consequently, no funds have been transferred to the RAT Fund. Therefore, no expenditures from the RAT Fund are proposed for 1985–86.

Business, Transportation and Housing Agency

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY

Items 2660 and 2660-301 from various funds — Budget p. BTH 62

Requested 1985–86	$1,199,507,000
Estimated 1984–85	1,171,238,000
Actual 1983–84	981,571,000
Requested increase (excluding amount for salary increases) $28,269,000 (+2.4 percent)	
Total recommended reduction	14,255,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund [a]	Amount
2660-001-041—Aeronautics, support	Aeronautics Account	$1,964,000
2660-001-042—Highway, support	State Highway Account	743,758,000
Mass Transportation, support		119,000
2660-001-045—Highway, support	Bicycle Lane Account	10,000
2660-001-046—Mass Transportation, support	Transportation Planning and Development Account	24,782,000
Transportation Planning, support		8,606,000
2660-001-047—Mass Transportation, support	Abandoned Railroad Account	95,000
2660-101-041—Aeronautics, local assistance	Aeronautics Account	1,000,000
2660-101-042—Highway—local assistance	State Highway Account	31,000,000
Mass Transportation—local assistance		79,500,000
2660-101-045—Highway, local assistance	Bicycle Lane Account	400,000
2660-101-046—Mass Transportation, local assistance	Transportation Planning and Development Account	17,800,000
Transportation Planning, local assistance		2,032,000
2660-301-042—Highway, capital outlay	State Highway Account	185,900,000
Total, Budget Act Appropriations, State Funds		$1,096,966,000
Prior Appropriations		
Toll Bridge Funds—Highway, support	Toll Bridge Funds	$32,880,000
Statutory—Aeronautics, local assistance	General Fund	540,000
Statutory—Aeronautics, local assistance	Aeronautics Account	2,540,000
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	400,000
Budget Act of 1982—Highway, capital outlay	State Highway Account	1,000,000
Budget Act of 1983—Highway, capital outlay	State Highway Account	25,000,000
Budget Act of 1984—Highway, capital outlay	State Highway Account	75,639,000
Budget Act of 1983—Mass Transportation, capital outlay	Abandoned Railroad Account	2,342,000

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Toll Bridge Funds—Highway, capital outlay	Toll Bridge Funds	40,773,000
Total, Prior Appropriations, State Funds		$181,814,000
Minus, Balance Available in Subsequent Years		53,153,000
Minus, Unexpended Balance		26,120,000
Federal Funding		
2660-001-890—Support	Federal Funds	(126,861,000)
2660-101-890—Local Assistance	Federal Funds	(262,484,000)
2660-301-890—Capital Outlay	Federal Funds	(1,158,800,000)[b]
Total, All Expenditures, State Funds		$1,199,507,000

[a] All accounts are within the State Transportation Fund.
[b] Net of prior appropriations, previous balances, and reversions.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Budget Bill Format. Recommend the Budget Bill be amended to schedule department expenditures in the Highway Transportation program by program elements, in conformance with statutory requirements, so that the Legislature is able to control and monitor program expenditures more effectively. 318
2. Fund Transfer Authority. Recommend that Budget Bill language be changed so that the department's authority to transfer funds between program elements and expenditure categories is limited to emergency circumstances. 319
3. Reserves. Recommend adoption of Budget Bill language directing the department to revert unneeded capital outlay reserves at the end of each fiscal year, in order to give the Legislature greater flexibility and more control over expenditures. 320
4. Capital Outlay Staff Support. Recommend the department report to the fiscal committees, prior to budget hearings, on staffing needed to deliver (a) projects programmed in the proposed 1985 STIP and (b) projects that can be funded given the ceiling on federal obligational authority. 321
5. ***Staff Reduction. Recommend that 61 personnel-years proposed for deletion in Item 2660-001-042 be restored*** because it is less costly for the department to employ student assistants directly, than to contract for them. 323
6. ***State Architect Contract. Recommend that 29 personnel-years proposed for deletion be restored*** because transferring work to the Office of State Architecture will cost more. 323
7. ***Cash Overtime. Increase capital outlay support staffing by 200 personnel-years in Item 2660-001-042.*** Recommend increase in personnel-years and a corresponding reduction in cash overtime to reflect actual ongoing staff support needed for capital outlay project development and engineering. 324

8. Salary Savings. Recommend the department report to the fiscal committees, prior to budget hearings, on which positions will be held vacant in order to meet the salary savings requirement and what the impact of increased salary savings will be on the department's ability to deliver capital outlay projects and on its highway maintenance activities in 1985–86. 325
9. ***Right-of-Way Maintenance. Reduce Item 2660-001-042 by $1,125,000 from the State Highway Account.*** Recommend reduction because the department will not incur various operating expenses that are funded in its budget. 326
10. ***Maintenance. Reduce Item 2660-001-042 by $368,000 and restore 75 personnel-years.*** Recommend reduction because the department can use a less-costly method than outside contracting to accomplish this work. Further recommend that the proposal to contract out roadside rest area maintenance be denied because contracting out may not be feasible. 326
11. ***Road Equipment. Reduce Item 2660-001-042 by $1,778,000.*** Recommend reduction because the amount requested for vehicles and road equipment is overstated and not fully justified. 327
12. ***Equipment Rental. Reduce Item 2660-001-042 by $475,000.*** Recommend reduction to avoid double-budgeting. 328
13. Computer Acquisition and Application. Recommend adoption of supplemental report language directing the department to submit an annual five-year plan for office automation and computer applications. 328
14. Integrated Design System. Recommend adoption of supplemental report language directing the department to include specific information in its Post-Implementation Evaluation Reports on the statewide implementation of the computer-aided design and drafting system. 329
15. ***Computer Equipment Lease. Increase Item 2660-001-042 by $5 million.*** Recommend augmentation so that needed computer equipment can be purchased in the most cost-effective manner. Further recommend adoption of Budget Bill language prohibiting the expenditure of funds until the Office of Information Technology has reviewed a detailed cost-benefit analysis of options for acquiring the equipment, and notified the Legislature of its findings. (Future savings: $9.5 million.) 330
16. ***Word Processors. Reduce Item 2660-001-042 by $175,000.*** Recommend reduction because amount requested for word processors and a graphic workstation is overbudgeted. 331
17. ***Local Area Network. Reduce Item 2660-001-042 by $58,000.*** Recommend reduction because the department should not purchase equipment explicitly disapproved by the Office of Information Technology. 331
18. ***Record System. Reduce Item 2660-001-042 by $1.5 million.*** Recommend reduction because the proposal to purchase an automatic record system is premature. 332
19. ***Telecommunication Services. Reduce Item 2660-001-042 by*** 332

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

$515,000. Recommend reduction because the amount requested for telecommunication services is overbudgeted.

20. ***Leasing Authority. Reduce Item 2660-001-046 by $400,000.*** Recommend reduction because the department has no authority to implement joint development projects. Further recommend that the Legislature enact legislation to provide the department and CTC with guidelines to follow in leasing of state-owned nonhighway properties for commercial development. 336
21. ***Vehicle Handicapped Accessibility. Reduce Item 2660-001-046 by $350,000.*** Recommend reduction because cost-effectiveness of rail vehicle handicapped accessibility device research and development has not been demonstrated. 337
22. Staff Redirections. Recommend the department report to the fiscal committees, prior to budget hearings, on the effect of proposed staff redirections that are not reflected in the budgeted staffing levels. 338
23. ***Technical Budgeting Error. Reduce Item 2660-001-046 by $9,000.*** Recommend reduction to correct a technical budgeting error. 338
24. ***Distributed Data Processing. Reduce Item 2660-001-042 by $1,635,000.*** Recommend reduction because the proposal for distributed data processing project is still undefined and premature. 339
25. ***Office Leases. Reduce Item 2660-001-042 by $376,000.*** Recommend reduction because office lease expenses are overbudgeted. 340
26. ***Staff Benefits. Reduce Item 2660-001-042 by $7,589,000.*** Recommend reduction because staff benefits are overbudgeted. 340
27. ***Consultant Contracts. Reduce Item 2660-001-042 by $121,000.*** Recommend reduction because the amount requested for a consultant contract will not be needed. 341
28. ***Cost Recoveries. Reduce Item 2660-001-042 by $1.5 million.*** Recommend reduction because cost recoveries are underestimated. 341
29. ***Administrative Overhead. Reduce (a) Item 2660-001-041 by $9,000, (b) Item 2660-001-042 by $589,000, and (c) Item 2660-001-046 by $683,000.*** Recommend a total reduction of $1,281,000 because administrative overhead costs have been double-budgeted. 341
30. ***Higher Reversion. Increase reversion amount in Item 2660-495 by $4.5 million.*** Recommend increase to reflect more-recent estimate of unneeded reserves. 342

GENERAL PROGRAM STATEMENT

The Department of Transportation 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 has 15,521 authorized personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Expenditures

The budget proposes a total expenditure program (all fund sources) for the Department of Transportation in 1985–86 of $2,854,145,000. This is an increase of $229,637,000 or 8.8 percent, over estimated expenditures in the current year. Table 1 displays the expenditures and staffing levels for each of the department's five programs from 1983–84 through 1985–86.

Table 1
Department of Transportation
Staffing and Expenditures, by Program
1983–84 through 1985–86
(dollars in thousands)

	Personnel-Years			*Expenditures*		
Programs	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*
Aeronautics	22.0	31.8	31.6	$6,085	$7,006	$6,096
Highway Transportation	13,719.0	13,573.2	13,117.2	1,756,044	2,403,599	2,640,535
Mass Transportation	298.0	239.9	219.8	211,668	194,630	187,124
Transportation Planning	94.0	154.0	137.5	17,253	19,273	20,390
Administration (distributed) [a]	1701.0	1,522.1	1,472.0	(103,548)	(97,969)	(99,853)
Totals	15,834.0	15,521.0	14,978.1	$1,991,050	$2,624,508	$2,854,145
Change From Previous Year						
Amount	—	−313.0	−542.9	—	$633,458	$229,627
Percent	—	−2.0%	−3.5%	—	31.8%	8.8%

[a] All dollar expenditures are distributed to other programs; staffing levels are not distributed.

The department's proposed expenditures in the budget year will be financed with state and federal funds, as well as with reimbursements.

State funds. The budget proposes expenditures from state funds for Department of Transportation programs and activities totaling $1.2 billion in 1985–86. This is $28.3 million, or 2.4 percent, above estimated expenditures in the current year. This increase will grow by the cost of any salary or staff benefit increase that may be approved for the budget year. Of the amount proposed for expenditure, $1.1 billion would be appropriated in the 1985 Budget Bill, and $102 million would be funded from prior appropriations.

Federal funds. In addition, the department proposes to spend $1.5 billion in federal funds, including $1.1 billion for capital outlay and $400 million for support and local assistance. The total amount is $211.3 million, or 15.8 percent, over estimated expenditures from federal funds in the current year.

Reimbursements. The department's total expenditure program also

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

includes $106.5 million to be funded with reimbursements from other agencies or individuals.

Staffing

In 1985–86, the budget proposes to *decrease* staffing from the current-year level of 15,521 personnel-years to 14,978.1 personnel-years, a drop of 542.9 personnel-years, or 3.5 percent.

Significant Program Changes

Table 2 compares the department's proposed expenditures for 1985–86 to expenditures in the current year. The department's budget for 1985–86 proposes significant changes both in its activities and in the way these activities are performed.

Table 2

Department of Transportation
Proposed Budget Changes 1985–86
(dollars in thousands)

	Aeronautics Account	*State Highway Account*	*TP & D Account*	*Federal Funds*	*Reimbursements*	*Other Funds*	*Total*
1984–85 Expenditures (Authorized)	$6,313	$992,067	$76,126	$1,345,128	$115,744	$60,020	$2,595,398
1. Cost Changes	126	34,203	905	−8,252	650	1,478	29,110
2. Workload and Program Changes:							
A. Aeronautics							
(1) State Operations	25	—	—	25	—	—	50
(2) Local Assistance	−960	—	—	—	—	—	−960
Subtotals	−935	—	—	25	—	—	−910
B. Highways							
(1) State Operations	—	27,136	—	774	−789	422	27,543
(2) Local Assistance	—	2,000	—	−13,900	—	−50	−11,950
(3) Capital Outlay	—	−3,952	—	209,848	—	15,447	221,343
Subtotals	—	25,184	—	196,722	−789	15,819	236,936
C. Mass Transportation							
(1) State Operations	—	—	3,066	397	853	−7	4,309
(2) Local Assistance	—	14,631	−24,329	5,900	—	—	−3,798
(3) Capital Outlay	—	—	−3,300	6,325	−8,430	−2,612	−8,017
Subtotals	—	14,631	−24,563	12,622	−7,577	−2,619	−7,506
D. Transportation Planning							
(1) State Operations	—	—	752	—	−1,535	—	−783
(2) Local Assistance	—	—	—	1,900	—	—	1,900
Subtotals	—	—	752	1,900	−1,535	—	1,117
Total Proposed Workload and Program Changes	−935	39,815	−23,811	211,269	−9,901	−13,200	229,637
1985–86 Expenditures (Proposed)	$5,504	$1,066,085	$53,220	$1,548,145	$106,493	$74,698	$2,854,145
Change from 1984–85 Authorized Expenditures:							
Amount	−809	74,018	−22,906	203,017	−9,251	14,678	258,747
Percent	12.8%	7.5%	−30.1%	15.1%	−8.0%	24.5%	10.0%

Table 3
Department of Transportation
Proposed Staffing Reduction in 1985–86
(dollars in thousand)

	Staffing Reduction		*Proposed Increase in Contract Amount*
	Personnel-Years	*Amount*	
Highway Transportation			
Construction striping	−25.0	−$1,023	—[a]
Building design	−29.0	−1,217	$1,217
Historical inventory	−3.0	−127	127
Engineering student assistants	−50.0	−795	795
Geodetic survey	−5.0	−206	206
Toll collection	−7.0	−255	—
Toll bridge painting	−5.0	−165	165
Right-of-way and property maintenance	−65.0	−2,375	2,375
Accident investigation	−2.0	−80	—
Maintenance			
Roadbed	−1.0	−$33	'''
Roadside	−30.0	−990	—
Roadside rest and station maintenance	−56.0	−1,847	$1,814
Reimbursed work for others	−19.0	−884	—
Subtotals	−297.0	−$9,997	$6,699
Mass Transportation			
Ridesharing marketing	−3.0	−$115	$115
Union Station management	−4.0	−225	—
High-speed rail	−2.9	−412	—
Reimbursed work for others	−10.0	−458	—
Subtotals	−17.0	−$1,210	$115
Planning			
Reimbursed work for others	−12.0	−$477	—
Administration			
Public affairs	−3.0	−123	—
Financial and budget operation	−9.5	−285	—
Personnel management	−20.0	−677	—
Administrative services	−58.5[b]	−2,372	$961
Student assistance	−11.0	−164	164
Subtotals	−102.0	−$3,621	$1,125
Departmentwide			
Increase cash overtime	−12.0	−$130	—
Increase salary savings	−100.0	−2,860	—
Subtotals	−112.0	−$2,990	—
Total, All Programs	−542.9	−$18,295	$7,939

[a] Increase in unknown contract amount will be reflected as capital outlay expenditures and not support costs.
[b] Only 6.6 personnel-years are charged in the Administration program. The other 51.9 personnel-years are distributed to the other program elements in the Governor's Budget.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Staff Reduction. The budget proposes significant reductions in the department's staffing level. These reductions would be concentrated in the Highway Transportation and the Administration programs. Table 3 shows that, of the total 542.9 personnel-years proposed for elimination in 1985–86, 297 personnel-years (55 percent) will come from the Highway Transportation program, and 102 personnel-years (18.9 percent) will come from Administration. In addition, the budget proposes to reduce total staffing support by 112 personnel-years through the use of more cash overtime (12 personnel-years equivalent), and by increasing salary savings (100 personnel-years equivalent).

The reduction in Highway Transportation program support will actually be *greater* than what is shown in Table 3. In fact, the Governor's Budget shows a total reduction of 456 personnel-years in this program, when the reductions in staffing support are allocated. This is because the Highway Transportation program accounts for the bulk of the department's overall activities. Thus, most of the increase in salary savings and cash overtime will occur in the Highway Transportation program. In addition, because expenditures in the Administration program are charged back to the other functional programs, a reduction in Administration will further reduce expenditures in the Highway Transportation program.

Increase Contracting. The budget proposes to reduce support by 250 personnel-years through an increase in contracted work, at a cost of about $8 million. Some of the work to be contracted includes (1) design of office buildings (29 personnel-years), (2) maintenance of right-of-way properties (65 personnel-years), (3) maintenance of roadside rest areas (55 personnel-years), and (4) use of student assistants (61 personnel-years).

Reduced Work for Others. As Table 3 indicates, the department's proposed staff reduction also includes a reduction of 43.9 personnel-years for work which the department otherwise would perform for other state and local agencies on a reimbursement basis. In order to lower the department's staffing level, the budget, in effect, prevents the department from continuing to make its staff resources available to these other agencies. The reduction in reimbursed work will reduce the department's *expenditures* by approximately $2.2 million, but it will not reduce the department's *appropriation.*

Equipment Increase. To compensate for the proposed staff reduction, the department proposes to significantly increase its use of computers within its programs during 1985–86. Table 4 shows that the major equipment increases proposed for 1985–86 are primarily for office automation, computer and telecommunications equipment. In addition, the budget requests an increase for vehicle and road equipment of over $10.5 million.

Table 4
Department of Transportation
Proposed Increases in Equipment Purchases
1985–86
(dollars in thousands)

	Amount
Microcomputers, word processors and other office automation equipment	$7,148
Computer-aided design and drafting equipment	3,000
Computer equipment for distributed data processing system	1,635
Telecommunications equipment	609
Road equipment and tools	10,542
Total	$22,934

In addition to the overall staff reduction and the significant increase in equipment usage, the budget proposes various other changes in individual programs.

Highway Transportation. Significant increases in the Highway Transportation program include a $1 million increase in roadside mowing services by private contractors, and $842,000 for additional work in highway sign replacement and loop detector repairs, also to be contracted.

The budget does *not* request any additional staff for capital outlay support. Instead, the budget proposes a capital outlay support staffing level of 5,618 personnel-years, which is 160.2 personnel-years *less* than the level estimated for the current year.

Mass Transportation. The department proposes a reduction in the Transit Capital Improvement (TCI) program of $24,329,000 from the current-year level, due to an expected decline in revenues to the Transportation Planning and Development (TP&D) Account. The proposed 1985–86 funding level of $17,800,000 would fall $34,700,000 short of funding all projects programmed for the budget year in the 1984 State Transportation Improvement Program (STIP).

Under the proposed budget, the San Francisco Peninsula Commuter Rail Service would receive $22,050,000 for capital improvements, including $6,850,000 for station acquisition and improvements, $2,600,000 for right-of-way acquisition for parking facilities, $600,000 for initial design of a new San Jose terminal, and $12,000,000 for design and right-of-way acquisition for a new maintenance facility. The operating budget of the service would be increased by $1,937,000 to provide for operational improvements, station management and a study of potential joint development projects.

The budget also requests increases of $950,000 for rail marketing and $350,000 for developing handicapped accessibility devices for the Peninsula Commuter Service.

Administration. In the budget year, the department will be consolidating a number of its leased office areas, particularly in the San Francisco district, into one location. The budget requests an additional $3.1 million over current-year allocations to pay for the higher lease costs. Other significant increases in the Administration program include (1) an additional $1.3 million to pay for telecommunication services provided by the Department of General Services, (2) a $521,000 increase in training,

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

and (3) $105,000 to pay for vehicle emission inspections of the department's vehicles.

ANALYSIS AND RECOMMENDATIONS

Proposed Staffing Reductions are Ill-Conceived

The Governor's Budget for 1985–86 proposes significant reductions in the department's staff. These reductions, which amount to 543 personnel-years, will primarily affect the department's Highway Transportation program. These reductions would be achieved through (1) increases in cash overtime work, (2) contracting out work now performed by state employees, (3) a reduction in reimbursed services provided to other agencies, and (4) an increase in salary savings.

Many of the proposed reductions lack the kind of supporting information that the Legislature needs in order to evaluate their merit. In other cases, the feasibility of the proposed reduction has not been documented. In still other cases, such as the increase in the salary savings requirement, the proposal is nothing more than an arbitrary unallocated reduction, and does not give even a hint as to the likely impact of the reduction on program activities. Finally, in those cases where sufficient information has been provided to permit an evaluation of the proposed staff reduction, our review shows that the reductions would increase, not reduce, state costs.

In short, the proposals to reduce the number of departmental employees are generally ill-conceived and ill-defined.

STATE TRANSPORTATION IMPROVEMENT PROGRAM

The State Transportation Improvement Program (STIP) is the basic plan for all state and federally funded transportation improvements in California. The STIP is required by Chapter 1106, Statutes of 1977, which specifies that the California Transportation Commission (CTC) shall adopt and submit a five-year transportation plan 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 State Transportation Improvement Program which is submitted to the CTC in December. Regional Transportation Improvement Programs are also submitted to the CTC, which holds hearings on the plans, beginning in April. These hearings continue until the STIP is adopted by the CTC.

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.

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 most capital outlay projects, program development and capital outlay support activities of the department during the budget year also include planning and design work for improvements scheduled for years in and beyond the five-year STIP period.

1985 Fund Estimate

The California Transportation Commission adopted the 1985 Fund Estimate in November 1984, in order to provide funding targets for state and regional transportation agencies to use in preparing their transportation improvement programs for the five-year period 1985–86 through 1989–90. The Fund Estimate projects the condition of major funding sources for various transportation programs, assuming the continuation of existing law and/or current trends.

The 1985 Fund Estimate projects that over the five years, *there will not be sufficient state funds* to finance state transportation activities at the existing level, to match all available federal funds, and to meet all previously planned capital outlay expense commitments. From 1985–86 through 1989–90, the Fund Estimate projects a cumulative shortfall of $763 million in the State Highway Account and a shortfall of $109 million in the Transportation Planning and Development Account.

In *The 1985–86 Budget: Perspectives and Issues,* we review the adequacy of the current funding level for the state's transportation program. We also discuss some of the inherent problems in the existing funding structure and examine options which the Legislature could consider if it wishes to increase the amount of transportation funds. Based on our review, we recommend that legislation be enacted: (1) To link the generation of highway funds to the costs of maintaining and constructing highway facilities, (2) To raise fuel tax and fees prior to 1987–88, and (3) To restructure the TP&D Account funding mechanism and extend the gasoline retail sales tax to diesel fuel. We also recommend that the Legislature consider the adoption of a vehicle weight fee schedule based on vehicle laden weight and miles traveled.

Lump-Sum Appropriations for Most Capital Outlay Expenditures

The Legislature has delegated to the CTC the authority to allocate funds to specific highway and transit capital outlay projects and transit services. Consequently, the department's budget requests only lump-sum amounts for specific capital outlay categories, such as New Facilities, and Rehabilitation. The Legislature appropriates lump-sum amounts for these categories and the CTC in turn allocates the funds to eligible projects programmed in the STIP.

For 1985–86 the department is proposing an appropriation of $185,900,000 from the State Highway Account and $1,033 million from federal funds for the three elements of highway transportation capital outlay projects. No appropriation is requested for capital outlay expenditures in support of the Mass Transportation program.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Beginning in the budget year, the Legislature will no longer appropriate just a lump sum for *non*-transportation-related department office building projects. Chapter 268, Statutes of 1984, now requires the department to submit with its budget request a detailed description of each acquisition and construction project related to office buildings and maintenance facilities to the Legislature for review. Thus, for 1985–86, the Legislature will be reviewing each office building capital outlay project, and will be making appropriations for individual projects. (Our analysis of these projects begins on page 342.)

AERONAUTICS

The Aeronautics program contains three elements which are designed to improve the safety and efficiency of the California aviation system: (1) *Safety and Local Assistance,* (2) *Planning and Noise,* and (3) *Reimbursed Work for Others.*

The budget proposes an appropriation of $2,964,000 from the Aeronautics Account in the State Transportation Fund to support the program's activities in 1985–86. In addition, the program will receive statutory appropriations of $2,540,000 from the Aeronautics Account and $540,000 from the General Fund, which would bring total state funding for this program in 1985–86 to $6,044,000. This is $935,000, or 13 percent, less than the current-year program funding.

State operations expenditures are budgeted to increase by 1 percent (to $1,964,000), and local assistance is proposed to decrease by 19 percent (to $4,080,000) from current-year levels. The decrease in local assistance expenditures of $960,000 is consistent with the funding levels set forth by the CTC in the 1984 updated State Transportation Improvement Program. This reduction consists of $600,000 in funds appropriated from the Aeronautics Account in the current year for airport acquisition and development loans to local agencies, and $360,000 appropriated for airport acquisition and development grants to local agencies.

The department also proposes an expenditures of $52,000 in federal funds for airport inspections. This is an increase of $25,000 (93 percent) over the current-year authorized level; it does not represent an increase in program activities. The department indicates that past budgets substantially understated reimbursements for airport inspection work performed for the Federal Aviation Administration. The budget for 1985–86 attempts to provide a more accurate estimate of these federal reimbursements. Total expenditures proposed for the Aeronautics program, including expenditures financed by these reimbursements, are $6,096,000, or $910,000 (13 percent) less than estimated current-year expenditures.

For 1985–86, the budget proposes a reduction of 0.2 personnel-year and $6,000 due to increased salary savings, leaving a total budget-year staffing level of 31.6 personnel-years for the Aeronautics program.

HIGHWAY TRANSPORTATION

The Highway Transportation program consists of seven elements: (1) *Rehabilitation,* (2) *Operational Improvement,* (3) *Local Assistance,* (4) *Program Development,* (5) *New Facilities,* (6) *Operations,* and (7) *Maintenance.* Each element, in turn, is subdivided into several components.

The 1985–86 budget proposes expenditures of $2,640,535,000 for the Highway Transportation program. This is an increase of $236,936,000, or

9.9 percent, above estimated expenditures in the current year. Table 5 shows proposed expenditures and funding source for the Highway Transportation program in 1985–86. The budget also proposes a staffing level of 13,117.2 personnel-years in 1985–86 456.0 personnel-years than the estimated current-year level.

Compared to current-year estimated levels, expenditures for state operations are proposed to increase by $27.5 million (3.2 percent), and capital outlay expenditures are proposed to increase by $221.3 million (18 percent) in the budget year.

Table 5
Department of Transportation
Highway Transportation
Proposed Program Changes and Fund Sources
1985–86
(dollars in thousands)

	Personnel-Years	*State Operations*	*Local Assistance*	*Capital Outlay*	*Total*
1984–85 Expenditures (Estimated)	13,573.2	$874,136	$282,350	$1,247,113	$2,403,599
Workload and Program Changes:					
Rehabilitation	−61.8	1,369	—	−47,473	−46,104
Operational improvements	−50.9	1,655	—	3,007	4,662
Local assistance	−28.1	−767	−11,950	—	−12,717
Program development	−9.4	245	—	—	245
New facilities	−47.5	3,246	—	265,809	269,055
Operations	−84.0	1,133	—	—	1,133
Maintenance	−174.3	20,662	—	—	20,662
Total Program Changes	−456.0	$27,543	−$11,950	$221,343	$236,936
1985–86 Expenditures (Proposed)	13,117.2	$901,679	$270,400	$1,468,456 [a]	$2,640,535

[a] Includes $3,486,000 for office building projects.

Local assistance, on the other hand, is proposed at a level that is approximately $12 million (4.2 percent) *below* the current-year level.

The State Highway Account will finance $986.5 million (37 percent) of proposed expenditures for the Highway Transportation program. An additional $1,496.3 million (57 percent) will be financed from federal funds. The remaining $157.7 million (6 percent) will be financed from other state funds and reimbursements.

Rehabilitation

The Rehabilitation element includes primarily 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. This element also contains resources for the construction and improvement of district buildings and related facilities.

Excluding the amount requested for office building improvements, the department proposes total expenditures of $319.9 million for highway rehabilitation in 1985–86, of which $244.6 million is for *capital outlay* and $75.3 million is for *support.* The total amount requested is $46.1 million, or 12.6 percent, below current year estimated expenditures. The decrease reflects a reduction in highway capital outlay expenditures proposed in the budget year.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

The department is requesting a total of 1,055.1 personnel-years to support the rehabilitation element in 1985–86.

Operational Improvements

The Operational Improvements element encompasses activities and structural improvements designed to increase the capacity and efficiency of the existing highway system.

The budget proposes an expenditure of $286.2 million in 1985–86 for the Operational Improvements element, including $183.6 million for capital outlay purposes, and $102.5 million for support. The total amount requested is $4.7 million, or 1.7 percent above current-year estimated expenditures. The 1985–86 request includes an augmentation of approximately $3 million for capital outlay purposes.

The department is requesting a total of 1,866 personnel-years to support the operational improvements element.

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 in accordance with 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 $342.7 million in 1985–86, including $270.4 million in subventions, $54.9 million in capital outlay and $17.4 million for staff support. The total proposed expenditure level represents a decrease of $12.7 million, or 3.6 percent, from current-year expenditures. The decrease reflects (1) a proposed $884,000 decrease in the amount of reimbursed work that the department will be performing for other state and local agencies, (2) an anticipated reduction of approximately $14 million in federal funds for local assistance, and (3) an increase of $2 million in state subventions.

The department is requesting a total of 24.7 personnel-years to support the local assistance element.

Program Development

The Program Development element encompasses three components including (1) *research*—theoretical, applied, and environmental studies designed to improve the construction, maintenance, and safety of highways; (2) *system management*—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 $20 million in 1985–86 which is $245,000 (1.2 percent) above the estimated expenditure level in the current year. Staffing is proposed to be reduced to 312.4 personnel-years from the current level of 321.8 personnel-years.

New Facilities

The New Facilities element is *the largest*—in dollar terms—of the seven Highway Transportation program elements, and has two components: (1) *new highway construction*—new development, along with additions to or the upgrading of existing facilities; and (2) *new toll bridge construction*—additions to existing toll bridges or the construction of new and replacement facilities.

The budget proposes total expenditures of $1,159.5 million on new facilities construction in 1985–86. This is an increase of $269.1 million, or 30.2 percent, over the estimated current year level. Compared to actual expenditures in 1983–84, the proposed amount would represent an increase of $720.3 million (or 164 percent).

New highway construction will receive nearly all of the funds proposed for this element—a total of $1,150.5 million, with the remaining $8.9 million budgeted for toll bridge construction expenditures.

Of the amount requested for 1985–86, approximately $985.3 million will be spent on highway and toll bridge capital outlay projects, and the remaining $174.1 million will be spent on the support of 2,696.7 personnel-years of staff.

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. Expenditures in this element are proposed at $68.4 million in the budget year, up $1.1 million, or 1.7 percent, from the current-year level.

The budget requests a staffing level of 1,116.7 personnel-years for the Operations element in 1985–86—a reduction of 84 personnel-years from the current-year estimated level. This proposed reduction would be achieved through (1) contracting with the private sector for some right-of-way maintenance and real property maintenance work (65 personnel-years equivalent), (2) a one-time savings of seven personnel-years due to the installation of automatic toll collecting machines and a toll registration audit system, (3) contracting an equivalent of five personnel-years of bridge painting, and (4) various increases in salary savings.

Maintenance

The Maintenance element, which the department has designated as its highest priority, includes six components: (1) *roadbed*—resurfacing and repair of flexibile and rigid pavements; (2) *roadside*—litter removal, landscaping, vegetation control, roadside rests and minor damage repair; (3) *structures*—bridges, pumps, tunnels, tubes and vista points; (4) *traffic control and service facilities*—pavement markings, and electrical equipment; (5) *auxiliary services*—administration, training, maintenance stations and employee relations; and (6) *snow and major damage*—snow removal and emergency and maintenance work following major storms and other road damage.

Table 6 shows the expenditures and staffing level for the six maintenance components from 1983–84 through 1985–86. The budget proposes maintenance expenditures of $444.0 million in 1985–86, which is an increase of $20.7 million, or 4.9 percent, over the current-year estimated expenditure level. The proposed amount will support 5,822.5 personnel-years, which is 174.3 personnel-years lower than the current-year level.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Table 6
Department of Transportation
Staffing and Expenditures for Highway Maintenance
1983–84 through 1985–86
(dollars in millions)

	Personnel-Years			*Expenditures*		
Component	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–1986*
Roadbed	900.2	744.9	735.6	$73.9	$75.5	$79.1
Roadside	2,446.0	2,453.6	2,336.8	129.9	132.9	141.6
Structures	540.0	474.3	459.1	28.6	27.3	28.2
Traffic Control	798.5	778.8	766.1	84.8	87.5	91.6
Auxiliary Services	1,042.0	1,000.2	983.9	72.8	72.0	73.8
Snow and Major Damage	527.0	545.0	541.0	23.3	28.0	29.7
Totals	6,254.0	5,996.8	5,822.5	$413.3	$423.2	$444.0

The proposed reduction in staff support is the net result of (1) a reduction of 32 personnel-years proposed for roadside maintenance and maintenance station operation, (2) an increase in roadside rest area maintenance through contracting (55 personnel-year equivalent), (3) an increase in salary savings equivalent to 42.8 personnel-years, and (4) various increases in work on a cash overtime basis.

As noted above, part of the reduction in staff support would also be offset by contracting out work to the private sector.

Highway maintenance is the largest element in the Highway Transportation program, in terms of support expenditures and staffing. Maintenance accounts for 44 percent of all personnel-years and 49 percent of Highway Transportation program support expenditures in 1985–86. Maintenance activities receive *no* federal support. The budget projects that 98 percent of the maintenance element's total support will come from the State Highway Account, with the balance coming from the Toll Bridge Funds.

Format of the Budget Bill Weakens Legislative Control

We recommend that the Budget Bill be amended to schedule department expenditures by program elements, in conformance with statutory requirements, so that the Legislature's ability to control and monitor the use of available funds is enhanced.

The department is statutorily required to display its budget for use of funds in the State Highway Account on a program basis. The program elements must include: administration, program development, maintenance, operation, rehabilitation, operational improvements, new facilities, and local assistance. Current law also establishes the priorities which the department must reflect in budgeting State Highway Account funds for various programs.

In the past, the department's budget display has complied with these statutory requirements. As a result, the Legislature has been able to *control* the allocation of funds through the Budget Act, and to monitor the extent to which actual expenditures reflect the allocations of funds.

The 1985–86 Budget Bill fails to display the Highway Transportation expenditures by program elements, thus reducing the Legislature's ability to control and monitor the use of highway funds.

We therefore recommend that the Legislature amend the Budget Bill in order to schedule the department's expenditures by program element.

Ability to Transfer Funds Should Be Limited

We recommend that the Legislature adopt Budget Bill language limiting the department's authority to transfer funds between programs and program elements.

The department has the authority to transfer appropriated funds among various program activities. This authority stems from two sources:

1. The 1984 Budget Act authorizes the department to reallocate, within an appropriation schedule, up to 10 percent of the amount appropriated for any category or program.
2. Chapter 1106, Statutes of 1977, authorizes the department to transfer, among elements, up to 10 percent of the funds appropriated from the State Highway Account for any individual program or element. Such transfers must be approved by the CTC and the Department of Finance. The department is also required to notify the Joint Legislative Budget Committee of its intent to transfer funds.

During August 1984, the department proposed, and the California Transportation Commission approved, a transfer of up to $10 million from the capital outlay appropriation to support expenditures. The Department of Finance subsequently approved the transfer of a reduced amount—$8.6 million—and in January 1985 it notified the Legislature of its intent to effectuate the transfer. The purpose of the transfer was to provide funds to purchase various items of equipment.

We recognize that the department needs some flexibility to adjust the amounts budgeted for individual program elements. Nevertheless, we believe that transfers of the sort described above render the Legislature's actions on the department's annual budget meaningless. The transfer was not made to accommodate unanticipated circumstances and emergencies. Since the transfer initially was requested in August, less than two months into the current fiscal year, it would appear that the redirection of funds was discretionary. The flexibility given to the department clearly was not intended to permit restructuring of the Legislature's funding allocations to suit the department's preferences.

If, on the other hand, the transfer was proposed because of unforeseen circumstances, it suggests that the department needs to improve its planning and budgeting of equipment purchases, so that the Legislature can participate effectively in deciding how available funds are going to be used.

Other state departments do not enjoy the same degree of flexibility extended to the Department of Transportation, nor do they have the authority to transfer funds among capital outlay, support, and local assistance. We find no basis for giving the department this special flexibility to use in nonemergency situations.

For these reasons, we recommend that the department's authority to transfer funds among programs be limited. Specifically, we recommend that the Legislature amend the Budget Bill language under Items 2660-001-042, 2660-101-042, 2660-301-042, 2660-001-890, 2660-101-890, and 2660-301-890 so as to allow transfers between the capital outlay, support, and local assistance categories, *only* under emergency situations, and with the prior approval of the CTC and the Department of Finance.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

- For Item 2660-001-042,
  "Notwithstanding other provisions of law, up to 10 percent of any of the amounts scheduled within Item 2660-001-042, may be transferred to Item 2660-101-042 or Item 2660-301-042 only under emergency situations, and with the prior approval of the California Transportation Commission and the Department of Finance."
- For the other items, the same language is recommended, with the limitation to be applied to the appropriate items.

Highway Capital Outlay Expenditures

For 1985–86, the department is requesting $185.9 million from the State Highway Account for highway capital outlay purposes. This amount reflects the estimated cost of delivering all of the projects scheduled for 1985–86 in the 1984 STIP. The proposed amount is $57.2 million less than the current-year appropriation ($243.1 million).

Although the appropriation request for 1985–86 is less than the prior-year level, no significant change in *expenditures* is anticipated, as Table 7 shows. This reflects the fact that capital outlay funds are available for obligation for three years, allowing the department to spend unobligated amounts remaining from the 1983–84 and 1984–85 appropriations.

As the table indicates, expenditures for rehabilitation and operational improvements will decrease, while expenditures for new facilities construction will increase. The increase will go toward completion of the interstate system.

The department may request a budget amendment to alter the capital outlay appropriation, based on the proposed 1985 STIP.

Table 7
Department of Transportation
Highway Transportion
State-Funded Capital Outlay Expenditures
1983–84 through 1985–86
(dollars in millions)

				Change from 1984–85 to 1985–86	
Capital Outlay Elements	*1983–84*	*1984–85*	*1985–86*	*Amount*	*Percent*
Rehabilitation	$49.9	$58.9	$59.2	$0.3	0.5%
Operational improvements	19.3	34.5	29.4	–5.1	–14.8
New facilities	48.8	122.3	126.6	4.3	3.5
Totals	$118.0	$215.7	$215.2	–$0.5	–0.2%

Unneeded Capital Outlay Reserves Should Be Reverted

We recommend that the Legislature adopt Budget Bill language directing the department to revert any unencumbered balances no longer needed for capital outlay projects at the end of each fiscal year (Items 2660-301-042 and 2660-301-890).

The proposed appropriation for capital outlay—$185.9 million—is based on the estimated cost of projects scheduled in the 1984 STIP for delivery in 1985–86. Project cost estimates typically include a contingency factor of approximately 10 percent.

Actual costs often differ from the estimates as rights-of-way are acquired and construction contracts awarded. As part of its project scheduling and fiscal management function, the department monitors the amount that is underexpended or overexpended on each project throughout the year. Any amount freed-up in the course of the year can be made available for other projects and uses. Because capital outlay funds are available for three years, the department can keep freed-up funds for the entire three-year period, at the end of which any remaining unencumbered amounts automatically revert to the State Highway Account. The department has used these amounts in the past and current years to augment its support expenditures.

We see no reason why the department should be able to hang on to funds that are no longer needed for the capital outlay projects to which they were allocated. Allowing the department this luxury restricts the Legislature's flexibility and weakens its control of spending. Instead, any free reserves identified during the course of a year should, at the end of the year, be reverted to the State Highway Account for subsequent appropriation by the Legislature. Toward this end, we recommend that the Legislature adopt Budget Bill language directing the department to revert at the end of each fiscal year reserves no longer needed for capital outlay projects, and to identify in the Governor's Budget the amount reverted (according to the year for which the amount was appropriated). For Item 2660-301-042 and Item 2660-301-890 "the department shall revert, on June 30, 1986, any unencumbered balances no longer needed for capital outlay projects."

Adequacy of Capital Outlay Support Is Unknown

We recommend that, prior to budget hearings, the department submit to the fiscal subcommittees a report on the amount of staffing needed to deliver (1) highway capital projects programmed in the proposed 1985 STIP, and (2) those projects that can be funded, given the amount of federal obligational authority available.

Current-Year Staffing. The department currently is authorized 6,157 personnel-years to perform project development work in connection with highway projects. This level includes cash overtime equivalent to 300 personnel-years.

The current authorized level is below the staffing level that the department's automated personnel-years, project scheduling and cost analysis system (PYPSCAN) indicates is needed. The department maintains that it can achieve various efficiencies to deliver STIP projects with a staffing level that is less than the PYPSCAN level. On this basis, the department administratively reduced its staffing by 160 personnel-years, consisting of (1) a 65 personnel-year reduction for minor capital outlay projects, which are labor intensive, (2) a 38 personnel-year reduction for project study reports which are the first step in identifying future projects, and (3) a 57 personnel-year reduction for long-lead-time projects which would be funded beyond 1988–89.

Consultant Finds Current Level of Staff Support Is Not Adequate. During hearings on the 1983–84 budget, the Legislature questioned the department's ability to deliver projects programmed in the 1983 STIP (1983–84 through 1987–88). In response to this concern, the department contracted with an independent consultant to review its project delivery process and staffing level.

The consultant's report, completed in August 1984, found that:

- The department was devoting 36 percent more direct staff support to the delivery of 1983–84 projects than what was originally planned, while resources expended on major projects programmed for delivery from 1984–85 through 1987–88 were 32 percent below what was planned.

- The department attained 60 percent to 80 percent of the planned Phase I project development milestones, which are associated with the delivery of out-year projects (1984–85 through 1987–88); while the attainment of Phase II milestones (for delivery of 1983–84 projects) ranged from 80 percent to 100 percent of what was planned.

The study's findings indicate that the department tends to focus on current-year projects when allocating staff resources. This may be done in order to maximize federal assistance. Regardless of the reason, however, the result is a delay in future-year projects.

The study further estimates that, assuming no deferral of minor work, no change in project schedule and a continuation of current productivity, the department would need in 1984–85 427 personnel-years more than what it has been authorized in order to deliver all 1983 STIP projects.

The department essentially concurred with the finding, and indicated that it would (1) reduce work on minor programs by an additional 180 personnel-years, (2) redirect 55 personnel-years from other highway activities, (3) change the schedule on major projects to reduce staffing needs by 95 personnel-years, (4) reduce day labor, (5) reduce headquarters requests, (6) increase cash overtime by the equivalent of 95 personnel-years, and (7) make other unidentified adjustments and savings amounting to 52 personnel-years.

Budget-Year Request. The Governor's Budget proposes 5,918 personnel-years for capital outlay projects in 1985–86. The request includes 300 personnel-years to be achieved through overtime work. The proposed staffing level is 160 personnel-years *less* than the estimated level of current-year staffing.

The department indicates that it does not anticipate requesting any additional capital outlay support after the 1985 STIP is proposed in March (as it has done in past years). Instead, the department indicates that it will deliver the STIP projects with the reduced staffing level.

We question whether the requested level of staffing will be adequate to deliver all of the projects programmed in the STIP on a timely basis. As we indicated in the 1984–85 *Analysis,* however, it is not likely that all of these projects could be delivered in any event. This is because the methodology and assumptions used in the Fund Estimate tend to overestimate total available federal funds, thereby causing the volume of STIP projects to be overprogrammed. Thus, to the extent the estimated amount of federal funds is not forthcoming, a shortage of design and development staff would show up as fewer projects on the "shelf."

The Legislature needs to be kept informed of (1) the staffing level required to carry out all of the projects programmed for delivery in the proposed 1985 STIP, and (2) the staffing needed to (a) deliver projects using a more realistic estimate of federal obligational authority than the estimate on which the STIPs are built, and (b) develop an adequate volume of "shelf" projects. To assure that this happens, we recommend that prior to budget hearings, the department report to the fiscal committees on its staffing needs for project development.

Staff Reduction Will Increase State Cost

We recommend that the fiscal committees restore 61 personnel-years proposed for deletion and adopt Budget Bill language directing the department to employ student assistants directly, because hiring student assistants through contracts needlessly increases state costs without yielding any offsetting benefits (Item 2660-001-042).

The department employs student assistants from various universities and colleges to perform (1) engineering-related work, such as assisting engineering technicians, drafting, and material testing, and (2) administrative work such as accounting, personnel, and budgeting.

As part of its response to the Governor's directive that staff levels be reduced, the department is proposing to discontinue in 1985–86 its practice of *directly* hiring 61 personnel-years of student assistants for engineering and administrative work. Instead, it proposes to employ these same staff *indirectly* through a master contract with the California State University (CSU) system, at a cost of $959,000. The department indicates that the advantages of hiring student assistants through a master contract include:

- A reduction in the department's staff size,
- A reduction in its recruiting efforts,
- A guaranteed pool of student assistance support.

Our review shows that even if the department is able to reduce its recruiting and administrative efforts, there would be no corresponding savings to the state. The cost of recruiting would simply be shifted from one state agency to another (the State University system).

More importantly, the proposal is not cost-effective. The CSU system has indicated that if a contract is signed, it would charge the department for its overhead cost, in an amount equal to 25 percent of total direct cost. Thus, the $959,000 requested would not be sufficient to buy the same number of personnel-years. Under the contract, the department would receive approximately 20 percent fewer hours of student assistance, for what it is now paying.

In addition, the proposed contract would foreclose these employment opportunities to non-CSU students, including students from the community colleges.

Thus, the proposal does not offer either a less costly or a more efficient way of employing student assistants. For this reason, we recommend that the Legislature restore the 61 personnel-years in the department's budget, and that it adopt Budget Bill language directing the department to continue hiring student assistants directly.

Transferring Work to the State Architect Will Cost More

We recommend that the department's proposal to contract with the Office of State Architect (OSA) for work on building projects be denied, and 29 personnel-years be restored, because transferring work to the OSA will cost more.

The department is proposing to contract with the Office of State Architect (OSA) for various services, at a cost of $1,217,000. Under the contract, the OSA would:

- Consult on site and facility development projects,
- Design site development and facility projects, and provide specifications, and cost estimates, and
- Inspect contracted construction.

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Currently, department staff perform most of the site and facility development work with regard to the remodeling or expansion of the district offices and maintenance stations. Contracting with OSA would reduce departmental staff needs by 29.0 personnel-years.

We have the following concerns regarding this proposal:

1. ***The OSA may not be able to perform the work.*** Although the OSA has been advised of the department's intent to contract for work, OSA has not requested a corresponding adjustment to its staff support. Whenever OSA cannot handle all of its workload with its existing staff, it contracts with private architectural and engineering firms for these services, at a rate higher than that charged by OSA. Thus, there is no assurance that OSA will in fact be using its own staff to do work for the department.

2. ***The OSA charges exceed the department's staff costs.*** For 1985–86, OSA anticipates charging $46 per hour for professional staff services (not including clerical service). This rate exceeds what it would cost the department for the same service if it used its own staff. If OSA has to contract with private firms to perform the department's work, the hourly rate would be even higher. Thus, it appears that the $1,217,000 requested by the department would *not* be adequate to obtain the same level of services now provided by department staff.

For these reasons, we recommend that the department's proposal to contract with the Office of State Architect be denied, and the 29 personnel-years be restored.

Too Much Work Done by Cash Overtime

We recommend that 200 personnel-years be added and that a corresponding reduction be made in cash overtime, in order to provide engineering positions needed for capital outlay project development in the most efficient manner (Item 2660-001-042).

The department carries out a significant portion of its activities by working its employees overtime. This is particularly true in the case of highway maintenance which, in order to minimize traffic congestion, often is performed at night or on weekends. Overtime work is also authorized for snow removal and storm damage activities, as well as for construction activities where engineers often have to remain at construction sites after regular working hours.

For 1985–86, the budget proposes a total cash overtime level of approximately $22.6 million. Of this amount, an amount equivalent to 300 personnel-years of overtime is for capital outlay support—that is, engineering and design activities.

The authorized level of cash overtime was 100 personnel-years in 1982–83. In 1983–84, the department was authorized an additional 200 personnel-years worth of overtime and $7.5 million to work on emergency snow and storm damage rehabilitation projects. The Legislature approved the increase because the work was of an emergency, one-time nature, and thus did not warrant an increase in staff. The department, however, kept the overtime allowance at 300 personnel-years in 1984–85.

Obviously, cash overtime is appropriate whenever there are unanticipated increases in workload or when the workload is seasonal or of a one-time nature, and thus cannot be handled efficiently by hiring additional staff. Discussion with the department, however, suggest that these considerations do not apply, for the most part, to engineering design work.

Furthermore, cash overtime for this work often is paid at one-and-one-half times regular salary level (plus social security benefits wherever applicable), which tends to increase state costs relative to the use of regular staff. Thus, we do not think that the cash overtime should be used as an ongoing budget approach to meet program work requirements in the department. Consequently, we recommend that capital outlay staffing be increased by 200 personnel-years, and the cash overtime amount be reduced accordingly.

Salary Savings Increase Amounts to an Arbitrary "Unallocated" Staffing Cut

We recommend that the department report to the fiscal committees, at the time of budget hearings, on which positions will be held vacant in order to meet the salary savings requirement and what the impact of the vacancies will be on highway maintenance activities, as well as on the department's ability to deliver STIP projects.

Salary savings result when budgeted positions become vacant due to staff turnover, and cannot be filled right away. Thus, for a given year, an agency typically does not spend as much as it would if all authorized positions were filled at all times.

The department budgets for staff support by first determining the number of personnel-years needed to accomplish the necessary work, and then determining the number of positions that would be needed in order to assure this level of staffing (personnel-years), based on its salary savings experience in past years. Table 8 shows the actual personnel-years expended, authorized positions, and salary savings rates, for a five-year period.

Table 8

Department of Transportation

Authorized Positions Versus Personnel-Years Expended

1981–82 through 1985–86

	1981–82	*1982–83*	*1983–84*	*Estimated 1984–85*	*Projected 1985–86*
Authorized positions	15,823.6	15,832.2	16,324	16,235	15,775
Actual personnel-years	15,223.2	15,239.7	15,834	15,521	14,978
Personnel-years/Authorized position	96.2%	96.3%	97.0%	95.6%	94.9%
Salary savings percent	3.8%	3.7%	3.0%	4.4%	5.1%

In addition to proposing a 442.9 personnel-years reduction in the department's total staff to reflect various workload and efficiency adjustments, the budget is proposing an increase in the department's salary savings equal to 100 personnel-years. Of this amount, 97 personnel-years will come from the Highway Transportation program—approximately 42 personnel-years from capital outlay support and 43 personnel-years from highway maintenance.

Past experience does not support the budget's contention that salary savings resulting from normal vacancies and staff turnover will increase in 1985–86. It certainly gives no reason to project a 70 percent increase in the salary savings rates. Hence, we conclude that the budgeted increase in salary savings is nothing more than an arbitrary unallocated cut in the department's staffing. Ultimately, this arbitrary reduction in staffing will bring about a corresponding reduction in work performed. The budget, however, does not specify where this reduction will occur. To secure more information on the proposed increase in salary savings, we recommend that the department report to the fiscal committees, at the time of budget

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hearings, on which positions will be held vacant in order to meet the salary savings requirement and what the impact of the 100 personnel-years of salary savings will be on its ability to deliver highway capital outlay projects and on the highway maintenance program.

Right-of-Way Maintenance

We recommend a reduction of $1,125,000 from the State Highway Account because various operating expenses will not be needed. (Reduce Item 2660-001-042 by $1,125,000.)

The department proposed to reduce staff by 45 personnel-years in 1985–86 by contracting out maintenance work on unimproved properties, at a cost of $1,644,000. According to the department, these work activities consist primarily of weed abatement and trash removal on vacant, nonoperating rights-of-way. Most of the contracted effort—the equivalent of 41 personnel-years—will be for the Century Freeway project.

In the current year, the department allocated $2,330,000 and 46 personnel-years for the maintenance of nonoperating rights-of-way in the Century Freeway corridor. One-half of this amount is estimated to cover equipment expenses incurred in clearing and maintaining the rights-of-way. Our review shows that, if this maintenance work is contracted out, the department would no longer incur $1,125,000 in equipment-related costs. Thus, we recommend that operating expenses be reduced by that amount.

Contracting Out Maintenance Would Cost More and May Not Be Feasible

We recommend a reduction of $368,000 from the State Highway Account and restoration of 20 personnel-years because the department can use a less-costly method to accomplish the maintenance work. We further recommend denial of the request to contract out roadside rest area maintenance, and recommend 55 personnel-years be restored. (Reduce Item 2660-001-042 by $368,000.)

For 1985–86, the department is proposing (1) an increase of $1 million which would be used to contract for mowing of nonlandscaped areas, (2) a shift of $1,814,000 and the equivalent of 55 personnel-years to contracts for roadside rest area maintenance work, and (3) an increase of $842,000 for contracts providing for the repair of loop detectors and replacements of highway signs.

Contract Mowing Operations. In order to comply with the Governor's directive that the number of state employees be reduced in the current year, the department decreased by 20 personnel-years and $575,000 the amount of mowing done to achieve weed control in nonlandscaped areas. Instead, weed control will be accomplished by increased spraying and use of chemicals. The department now indicates that this method is not workable, and proposes in 1985–86 to restore the level of mowing activity to the 1983–84 level. Rather than restore the 20 positions deleted during the current year, the department proposes to contract out for this work at a cost of $1 million.

This proposal would needlessly increase state costs. The mowing work could be done using department staff at a cost of $632,000 in 1985–86. We can find no convincing reason why the department should spend nearly 60 percent more than it needs to for this work. Consequently, we recommend that 20 personnel-years be restored, and that the department's budget be reduced by $368,000.

Rest Area Maintenance. The budget also proposes to reduce the department's staff by 55 personnel-years and contract out maintenance of roadside rest areas, at a cost of $1,814,000. The department currently contracts for rest area maintenance work in two districts, at a cost of $150,000.

Because most roadside rest areas are located in remote areas, we doubt that contractors are available to perform this work throughout the state on a cost-effective basis. The department has not been able to demonstrate that it can contract out a significantly greater volume of this work than it now is doing. If, indeed, the department is not successful in contracting out this work, it would have to redirect staff from other activities to provide the service.

We also note that the budget proposal fails to address the number of contracts it would have to administer in order to replace 55 personnel-years of work. Nor does it address how the department would monitor services performed by the contractors, and the associated costs to the department of doing so.

In short, the department has failed to demonstrate that the proposal to eliminate 55 personnel-years of staffing and contract out roadside rest maintenance is feasible or cost-effective. For these reasons, we recommend that it be denied.

Vehicle and Road Equipment

We recommend that $1,778,000 requested from the State Highway Account for vehicles and road equipment be deleted because the request is overstated. (Reduce Item 2660-001-042 by $1,778,000.)

The department has a current road equipment inventory of over 13,300 vehicles, consisting of approximately 3,500 passenger vehicles, 5,600 trucks, and 4,200 construction and maintenance equipment items. Of the total inventory, approximately 11,800 vehicles and pieces of road equipment currently are in the working inventory. 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 inventory is replaced annually. In addition, the department increases the existing inventory of equipment when workload warrants such increases. For 1985–86, the budget indicates that $33,695,000 will be spent for the procurement of new vehicles and road equipment. This is $10.1 million more than the amount authorized in 1984–85.

Our review indicates the request is excessive, for the following reasons:

1. ***The cost of replacement equipment is overestimated.*** The department proposes to acquire a total of 1,212 items of equipment, including 851 for replacement purposes. Although the number of items to be replaced appears to be reasonable, the projected cost is 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 replacement will be $204,000 lower than the amount requested.

2. ***Some additional passenger vehicles requested are not justified.*** The department is requesting $7,146,000 for additional vehicles and road equipment, including 211 additional passenger vehicles—sedans and pickups—of which 157 are to accommodate increased construction activities undertaken by the department. Currently, 1,093 passenger vehicles are

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assigned to construction use. Our review shows that, although total construction of highway facilities will increase in dollar volume, there is no indication that the number of projects is going to increase substantially. Furthermore, even if there is an increase in the number of construction projects, projects don't drive vehicles; people do. As noted above, the department's budget projection for capital outlay support does not propose a significant increase in construction staff for 1985–86 and beyond. Consequently, we do not believe that the $1,403,000 requested for 157 additional vehicles is justified.

The remaining equipment proposed for acquisition in 1985–86, including passenger vehicles, trucks and various road equipment for maintenance and construction, appears to be needed. The cost estimate, however, is also too high by approximately $171,000.

Accordingly, we recommend a reduction of $1,778,000 in the amount requested for vehicles and equipment.

Equipment Rental Costs Will Decline

We recommend a reduction of $475,000 from the State Highway Account because the amount needed for leasing transportation equipment will decline in 1985–86. (Reduce Item 2660-001-042 by $475,000.)

The department uses county probationers, welfare recipients, and state prisoners to do some of its highway maintenance work. The department is responsible for transporting these workers to and from the job sites, and for providing work supervision. As the department has expanded its use of outside workers, it has had to rent additional passenger vans. In the current year, the department estimates that it will spend $951,000 to rent approximately 72 vans to transport outside workers.

In 1985–86, the department proposes to purchase 36 vans to transport these outside workers. Doing so will reduce the department's rental expenses accordingly. Based on rental expenses in the current year, we recommend that the amount budgeted for rental costs in 1985–86 be reduced by $475,000.

Computer Acquisition and Application Need Overall Planning

We recommend that the Legislature adopt supplemental report language directing the department to submit to the Legislature an annual five-year plan for its acqusition and use of office automation and computer systems.

In 1983–84, the department initiated a major effort to automate its office functions and increase its use of computers. In 1984–85 and 1985–86, it intends to implement statewide a computer-aided design and drafting (CADD) system. It also proposes to implement the first phase of a distributed data processing (DDP) system. For 1984–85, it plans to purchase over 370 microcomputers for various engineering and administrative uses.

The department's effort to increase its computer applications and office automation systems has been carried out on a rather ad hoc basis, without overall coordination. Although the department submits an annual Information Systems Plan (ISP) to the Office of Information Technology (OIT), the plan is often vague and lacks detail. In addition, the ISP does not consider the interrelationship of various proposed projects, and their impact on each other. Consequently, the budget usually requests funding for unspecified projects, and often is accompanied by little project detail or justification.

Due to this lack of adequate planning and budgeting, the department has in the past two years found it necessary to transfer funds from its capital outlay appropriations to its support budget in order to acquire computer equipment, including CADD pilot project equipment in 1983–84. In the current year, $8.6 million has been transferred to purchase microcomputers and other computer equipment.

Because the department intends to spend a significant amount on computerization and automation, we think the Legislature needs a coherent plan directing these efforts, in order to ensure that issues such as equipment redundancy, cost-benefits and staffing requirements are given appropriate consideration. We think such a plan also would provide the department with a better basis on which to formulate its plans and budgets.

To secure such a plan, we recommend that the Legislature adopt the following supplemental report language:

"The department shall submit to the Legislature annually a five-year plan for office automation and use of computers which includes: (1) a detailed description of the total computerization and automation efforts to be undertaken each year, (2) the component projects and how they fit together, (3) general description of the equipment configuration and personnel support needed for each component, and (4) the estimated cost and benefits of the component projects. The first report shall be submitted to the Legislature by December 31, 1985."

Integrated Design System Needs Monitoring

We recommend that the Legislature adopt supplemental report language directing the department to include specified information in its Post Implementation Evaluation Report on the computer-aided design and drafting system.

The department completed in December 1984 a pilot project for implementing the computer-aided design and drafting (CADD) system. This project facilitates the automation of project development and engineering activities.

In anticipation of the system's statewide implementation, $13,396,000 was appropriated for equipment purchase, site preparation, software maintenance and staff training in the current year. This amount can be expended, however, only after the department has submitted an amended feasibility study report (FSR) for the entire project, taking into account findings in the pilot project.

Preliminary results of the pilot project evaluation suggest that the use of the CADD system would significantly affect productivity and, consequently, future staffing needs. The pilot project, however, found that the specific engineering workstation chosen for the pilot project is not functional and the department is now proposing a more expensive workstation which it thinks would accommodate the department's needs. Because of this change in equipment configuration, the department will need additional funds to implement the CADD system statewide. For 1985-86, the department is requesting $2.5 million for a five-year lease purchase of this equipment.

The department indicates that it is also considering the subsequent expansion of the CADD system to other engineering and project development support functions, such as surveying, in 1986–87, and that it probably will request additional funding in subsequent years. These expansions were not part of the initial CADD project feasibility study report, but would be included in the amended report.

As the implementation of the system is phased in over time, we think the Legislature needs to be kept informed of the project's status in terms of the types of equipment needed, the proposed configurations of this equipment, the types of applications by functional units, and the costs and continued benefits expected from the project. The department already is required to submit post implementation evaluation reports (PIERS) on a regular basis to the Office of Information Technology and the Joint Legislative Budget Committee. Accordingly, to assure that the Legislature has the information it needs, we recommend that the department be required to include specified information in the PIERS on the CADD project. Adoption of the following supplemental report language would accomplish this:

> "The department shall include the following information in its post implementation evaluation reports on the computer-aided design and drafting (CADD) system project: (1) the equipment configurations, by district, (2) the cost of equipment including ongoing maintenance cost, (3) improvements in services and operating efficiencies provided by the systems, and (4) the level of personnel needed to support the systems."

Leasing Equipment Will Cost More

We recommend that (1) the appropriation from the State Highway Account be augmented by $5 million for the purchase of CADD equipment, and (2) the Legislature adopt Budget Bill language limiting expenditures for this equipment until the Office of Information Technology has determined whether lease-purchase or direct purchase of the equipment is in the state's best interest and has so advised the Legislature. (Future savings: $9.5 million.) (Augment Item 2660-001-042 by $5 million.)

The department is requesting $2.5 million to fund the lease-purchase of CADD equipment over a five-year period. This equipment includes approximately 186 engineering work stations and additional central processing units.

The department has indicated that it needs more expensive engineering workstations than originally envisioned in the CADD feasibility study report (FSR). The project expansion is contained in an amended feasibility study report that is subject to review and approval by the Office of Information Technology and the Joint Legislative Budget Committee, as required by the 1984 Budget Act.

The estimated total cost to purchase this equipment is about $7.5 million. In contrast, a five-year lease-purchase of the same equipment would cost about $12 million.

In order to determine the most cost-effective way of procuring equipment, the State Administrative Manual requires that departments perform a cost analysis comparing the cost of leasing with the cost of purchasing. Our review of the department's analysis shows that, using an interest rate of 10.5 percent, the five-year agreement would cost about $2 million more than direct purchase, in terms of present value.

The department maintains that a lease-purchase agreement would be more advantageous because it would require a smaller immediate outlay by the state, and consequently, leave more state funds to leverage federal funds for highway projects. Our analysis, however, shows that the discounted present value of total federal funds foregone if the equipment is acquired through a lease-purchase agreement would exceed the amount foregone if the equipment were purchased outright.

Accordingly, we recommend that the department's budget be augmented by $5 million in order to permit acquisition of the equipment in the most cost-effective manner. We further recommend that the Legislature adopt the following Budget Bill language requiring that project feasibility and lease versus purchase costs be determined prior to the expenditures of appropriated funds.

"Provided $7.5 million appropriated in this item can be expended for the procurement of computer-aided design and drafting (CADD) system equipment only after the Office of Information Technology (OIT) has approved the FSR for the 1985–86 phase of the CADD project, and reviewed a cost-benefit analysis of the lease-purchase versus purchase alternatives for the equipment, and has provided the Joint Legislative Budget Committee with this information and its recommendations. The amount spent shall not exceed the amount approved by OIT in its review."

Word Processor and Graphic Workstation Overbudgeted

We recommend that $175,000 requested from State Highway Account for wordprocessors and graphic workstations be deleted because the amount requested is overbudgeted. (Reduce Item 2660-001-042 by $175,000.)

The department is requesting $7,148,000 for office automation equipment, including $298,000 for wordprocessors and $75,000 for a graphics workstation. Discussions with the department indicate that $100,000 requested for wordprocessors has been double-budgeted and the $75,000 requested for the graphic workstation will not be needed because it has been included as part of the CADD equipment procurement in the current year. Accordingly, we recommend a reduction of $175,000.

Local Area Network Equipment Not Approved

We recommend a reduction of $58,000 from the State Highway Account because the department should not purchase equipment which has been explicitly disapproved by the Office of Information Technology (Item 2660-001-042).

The department is initiating a six-month pilot demonstration of a local area computer network (LAN) system in the current year. Equipment for this project will be leased. For 1985–86, the budget includes $58,000 for memory typewriters, which the department indicates will be needed when it expands the LAN project beyond the pilot stage.

Our review shows that the Office of Information Technology, in approving the pilot demonstration, explicitly disapproved the procurement of memory typewriters. In addition, it specified that any subsequent replacement *or expansion* of the LAN systems will require a separate feasibility study report and be subject to review and approval as a separate project. Thus, the department's request for $58,000 to purchase memory typewriters for the expansion of the project in 1985–86 is not justified. Accordingly, we recommend that this amount be deleted.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Record System Purchase Premature

We recommend that $1,500,000 requested from the State Highway Account for purchase of an automatic record system be deleted because the proposal is premature. (Reduce Item 2660-001-042 by $1,500,000.)

The department is requesting $1.5 million to procure an "automatic record system," which is a microfilm filing and data retrieval system. This would allow the department to store its inventory of records and plans.

Although the department may need such a system, our analysis indicates that the department has not conducted a feasibility study and a cost-benefit analysis of such a system. In addition, the cost of the whole system ($10 million to $15 million) will be significantly more than the requested amount. The department, however, failed to indicate the total cost of the equipment in its budget request.

Without an analysis of the costs and benefits of the system, and information as to the total cost of the system, we find the request for funds to be premature. We therefore recommend that the $1,500,000 be deleted.

Telecommunication Services Overbudgeted

We recommend that $515,000 requested from the State Highway Account for a telecommunication services contract be deleted because the amount is overbudgeted. (Reduce Item 2660-001-042 by $515,000.)

The department contracts with the Department of General Services for the maintenance and installation of its telecommunication and radio equipment. For 1985–86, the costs of these services is projected at $4,582,000. The Governor's Budget, however, includes $5,097,000 for these services, an amount which is $515,000 higher than will be needed. Accordingly, we recommend that this amount be deleted.

MASS TRANSPORTATION

The Mass Transportation program contains seven elements: (1) *Full Mobility Transportation,* (2) *Transit Operator Assistance,* (3) *Interregional and Intercity Public Transportation,* (4) *Transfer Facilities and Services,* (5) *Transportation Demonstration Projects,* (6) *Work for Others,* and (7) *Ridesharing.*

The budget proposes an appropriation of $122,296,000 in state funds for the Mass Transportation program. This includes $79,619,000 from the State Highway Account, $42,582,000 from the Transportation Planning and Development (TP&D) Account, and $95,000 from the Abandoned Railroad Account. The budget also proposes to spend $42,861,000 in federal funds and $21,967,000 in reimbursements, for a total expenditure level of $187,124,000. This is $7,506,000, or 3.9 percent, less than estimated current-year expenditures.

The budget proposes a reduction of 20.1 personnel-years in 1985–86, leaving a total staffing level of 219.8 personnel-years.

Full Mobility Transportation

Activities in the Full Mobility Transportation element are intended to improve the accessibility and service level of transportation systems used by the low mobility population (the elderly and the disabled). The budget proposes expenditures of $1,189,000 for this purpose in 1985–86. This is an increase of $16,000, or 1.3 percent, above estimated expenditures in 1984–

85. This includes a $6,000 increase for various equipment items, including $3,000 for purchase of a microcomputer.

The budget proposes to continue the current-year staffing level of 23.5 personnel-years for this program in 1985–86.

Transit Operator Assistance

Both financial and technical assistance are provided to operators under the Transit Operator Assistance element. Major assistance programs include (1) the *abandoned railroad rights-of-way program* and (2) *capital assistance provided to transit services* pursuant to Ch 262/82 and Ch 322/82. Transit development programs and administration of federal and state assistance functions are among the other assistance activities provided by the department under this element.

The department proposes expenditures of $114,593,000 for this element in 1985–86. This represents a decrease of $6,307,000, or 5.2 percent, from estimated current-year expenditures.

The proposed staffing level for 1985–86 of 48.9 personnel-years is 0.2 personnel-years below the current-year level for this element.

Transit Capital Assistance Request Will Not Fund the STIP

The budget includes lump-sum appropriations for two programs providing financial assistance to local agencies for the design and construction of mass transit facilities. The Transit Capital Improvement (TCI) program receives funds from the Transportation Planning and Development (TP&D) Account, while the Mass Transit Guideway program receives funds from the State Highway Account. Funds appropriated by the Legislature must be allocated to specific projects by the California Transportation Commission (CTC) before they can be spent.

The CTC allocates funds to projects identified in the STIP and in funding priority lists adopted by the commission. Table 9 shows the projects programmed in the 1984 STIP for funding in 1985–86 under the TCI and Guideway programs.

Table 9

Transit Capital Improvement (TCI) and Guideway Funding Programmed for 1985–86 in the 1984 STIP (dollars in millions)

Project	*TCI Program (TP&D)*	*Guideway Program (SHA)*
San Diego East Line	$7.4	—
Orange County-Santa Ana Corridor	10.3	—
Los Angeles Metro Rail	—	$72.0
Caltrans Peninsula Commute	2.9	—
Santa Clara-Guadalupe Corridor	11.3	6.5
BART Upgrade Existing System	11.1	1.0
San Francisco Muni Improvements	9.2	—
San Luis Obispo Station	0.3	—
Total STIP Programs	$52.5	$79.5
1985–86 Budget (Proposed)	$17.8	$79.5
Shortfall	$34.7	—

The $17,800,000 budgeted for the TCI program in 1985–86 is $24,329,000 less than the current-year funding level ($42,129,000) and $34,700,000 less

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

than the amount of funding needed to support all of the projects programmed for the budget year in the 1984 STIP.

As discussed earlier in this *Analysis,* under current law the amount of retail sales tax revenue transferred to the TP&D Account is very unstable and is expected to decline dramatically during the next five years (please see Item 2640). The proposed reduction in TCI funding is due to the projected decline in the amount of retail sales tax revenues that will be transferred to the TP&D Account—from $125 million in the current year to $108 million in 1985–86. Due to the sensitivity of TP&D Account revenues to small changes in the relative growth of gasoline versus nongasoline retail sales, there is significant risk that revenues could be even lower than what the budget estimates.

In light of the shortfall in TP&D Account revenues, the CTC is in the process of revising its priority list for funding TCI projects in the budget year. The commission is expected to adopt its new funding priorities in April, and present them to the Legislature as part of its review of the department's budget.

Interregional Public Transportation

Activities in the Interregional Public Transportation element include (1) *the support and improvement of intercity and commuter rail and bus passenger service,* (2) *the implementation of the State Bus Plan,* and (3) *the update and implementation of the State Rail Plan for freight service.*

This element proposes expenditures of $42,960,000 in 1985–86, an increase of $2,262,000, or 5.5 percent, over estimated expenditures in 1984–85.

The budget proposes a reduction of 1.7 personnel-years in 1985–86, resulting in a staffing level of 43.7 personnel-years.

After deducting one-time expenditures of $13,028,000 during the current year, the budget proposes what amounts to a net reduction of $1,028,000 in capital outlay expenditures in 1985–86 ($12 million).

These funds are requested for capital improvements to the San Francisco Peninsula Commuter Rail Service. Of this amount, $9,025,000 would come from federal funds, while the remaining $2,975,000 would be allocated to the department by the CTC from the TCI program. The capital outlay program includes funds for station acquisition and improvement, right-of-way acquisition for parking facilities, and design and right-of-way appraisal for a new rail car maintenance facility.

Other major changes proposed in the budget include an increase of $950,000 for rail marketing, $992,000 for a Peninsula Commuter San Francisco shuttle bus service and an information hotline, and $185,000 for additional auditing.

Farebox Ratio Waiver Request

As discussed in our report entitled *Intercity and Commuter Rail Services in California* (submitted to the Legislature in January 1985), Ch 1183/81 requires that fare revenues from the San Francisco Peninsula commuter Rail Service must equal at least 40 percent of operating costs for the service to be eligible for state subsidies. The statute provides, however, that this requirement may be waived for up to three years by the CTC.

In 1983–84, the Peninsula Commuter Service achieved a farebox ratio of 34.3 percent and was granted a waiver of the farebox requirement to allow funding of the service in 1984–85. The department has indicated it expects to achieve a farebox ratio of 36.9 percent in 1984–85 and has requested a second waiver of the farebox requirements to allow funding in 1985–86. The commission is scheduled to consider this request at its February meeting.

Transfer Facilities and Services

The department is authorized to construct, purchase or lease, improve and operate rail passenger facilities which provide intermodal passenger services. The department also is required to evaluate proposed transfer facilities.

The budget proposes expenditures of $14,703,000 for transfer facilities and services in 1985–86, which is $3,935,000, or 21 percent, less than estimated expenditures in the current year.

The proposed staffing level of 36.9 personnel-years reflects a reduction of four personnel-years from the current-year level.

The budget requests $10,050,000 for capital outlay expenditures. In 1985–86. After deducting one-time capital outlay costs of $14,427,000 from current-year expenditures, we find the amount requested in the budget to be $4,377,000 below the 1984–85 level of capital outlay expenditures. In the budget year, these expenditures include $8,800,000 in federal funds and $1,250,000 in TCI funds. The funds will be used to finance Peninsula Commuter Rail Service projects, including right-of-way acquisition for parking and maintenance facilities, and initial design for a new San Jose terminal.

Other major changes proposed in the budget include a reduction of $225,000 and four personnel-years due to the department's decision not to acquire the Los Angeles Union Station passenger terminal, a reduction of $150,000 reflecting completion of consulting work on Peninsula Commuter Service terminal studies, an increase of $360,000 for station management and operation, and an increase of $400,000 to initiate joint development projects at state-owned sites associated with the Peninsula Commuter Service.

Transportation Demonstration Projects

The Transportation Demonstration Projects element includes technical studies and demonstration projects undertaken by the department to improve transit equipment and services. The budget proposes to spend $840,000 for these projects in 1985–86, an increase of $430,000, or 105 percent, over estimated current-year expenditures. State funds will finance 68 percent ($552,000) of the proposed expenditures; federal funds and reimbursements will finance the balance.

The budget proposes to maintain the current-year staffing level of four personnel-years in 1985–86.

The major changes in this element proposed for the budget year include increases of $350,000 to develop handicapped accessibility devices for the Peninsula Commuter Rail Service rail cars, $70,000 for transit technical studies, and $21,000 for nonexpendable equipment.

Work For Others

The Work for Others element includes work the department performs at the request of local public agencies. The cost of this work, which is reimbursed by those requesting it, will amount to an estimated $2,526,000 in 1985–86. This is a decrease of $400,000, or 14 percent, from estimated

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

expenditures for reimbursed work in the current year. This decrease primarily reflects a proposed reduction of $458,000 and 11 personnel-years. This proposal would leave staffing for this element at 22.5 personnel-years in 1985–86—down one-third from the 1984–85 level.

Ridesharing

The Ridesharing element provides funds for projects and activities designed to increase the number of people who ride together in vehicles when commuting to work or taking recreational trips. Funds are used primarily to (1) match people traveling by motor vehicle to and from nearby locations and (2) encourage employers to establish ridesharing programs. The budget proposes to spend $10,313,000 in 1985–86 for activities designed to promote ridesharing, an increase of $428,000, or 4.3 percent, over estimated current-year expenditures.

The budget proposes a reduction of 3.2 personnel-years in this element, which would be made possible by contracting out marketing activities and reducing technical services, leaving a 1985–86 staffing level of 40.3 personnel-years.

Department Lacks Leasing Authority

We recommend that $400,000 requested from the Transportation Planning and Development Account for a consultant to implement joint development projects be deleted, because the department does not have authority to undertake such projects. (Reduce Item 2660-001-046 by $400,000). We further recommend that the Legislature enact legislation providing clear guidelines for the department and the California Transportation Commission to follow in leasing state-owned nonhighway properties for commercial development and uses.

The department plans to sell or lease land or air rights associated with its San Francisco Peninsula Commuter Rail Service properties. These properties include state-owned stations along the right-of-way of the rail service and property adjacent to the Transbay Terminal, which the department hopes to acquire for an extension of the Peninsula Commuter Service to a relocated San Francisco underground terminal.

In a study conducted for the department, a private consultant estimated that a prepaid, long-term lease of the land and air rights above the terminal could result in a one-time payment of between $100 million and $140 million.

The budget proposes to spend $400,000 on consultants to assist the department with the expeditious implementation of these joint development projects. The consultants will be asked to (1) estimate the value of land and air rights for each property, (2) request developer proposals, (3) evaluate proposals, (4) assist in negotiations, and (5) expedite project implementation. In the budget year, the consultants will be expected to complete the first two tasks.

Our analysis indicates that the department does not have clear authority to engage in the proposed joint development projects. As discussed in greater detail in last year's *Analysis,* current law allows the department to lease to public or private entities the use of areas above or below highways. In addition, the department is authorized to lease highway rights-of-way not currently needed for highway purposes.

The department owns other properties besides highway rights-of-way. These include office buildings, employee parking lots, maintenance stations, and rail stations. Because the department's proposal involves rail-related properties which are not within the highway rights-of-way, it is not clear that the department has the statutory authority to do what it proposes.

The department has recognized this uncertainty, and has indicated that it will seek additional authority in this area. Since the Legislature has not yet granted this authority, however, it would be premature to appropriate the funds requested for consultants.

In addition, we are concerned that in considering leases for commercial development of its properties, the department may not take into consideration alternative uses of these properties that would satisfy other state needs. For instance, the state may require additional office facilities and space in San Francisco, for which the planned property acquisitions adjacent to the Transbay Terminal could be used. Currently, there is no procedure to ensure that the state's overall needs are considered by the department and the CTC in deciding how department-owned property is to be used.

In summary, current law does not (1) explicitly grant the department and the CTC authority to lease for commercial development property that is not within the highway rights-of-way, (2) specify how overall state needs are to be taken into consideration when state property is leased for commercial development and use, or (3) specify when it is appropriate for the department to enter into commercial ventures involving nonhighway properties.

Because this type of lease arrangement may become more attractive and more prevalent as the department identifies other potential revenue-generating properties in its inventory, we recommend that the Legislature enact legislation providing clear guidelines for the department and the CTC to follow in making decisions regarding commercial development of state lands.

Rail Vehicle Handicapped Accessibility

We recommend that $350,000 requested from the Transportation Planning and Development Account for rail vehicle handicapped accessibility device research and development be deleted, because the department has not shown this to be a cost-effective method to improve transportation for handicapped travelers. (Reduce Item 2660-001-046 by $350,000.)

The department is acquiring 63 new rail cars for its San Francisco Peninsula Commuter Service. The budget proposes to pay consultants $350,000 to study alternative methods of providing handicapped accessibility to 21 of these new cars. The consultant will be asked to (1) identify alternative methods of providing accessibility, (2) develop, test, and evaluate equipment prototypes, and (3) make recommendations and issue a final report.

The department states that this activity is necessary because (1) state law requires that rapid transit vehicles be accessible to the handicapped and (2) handicapped accessibility equipment is not currently available from private manufacturers.

Our analysis indicates that existing law does not apply to the department's new rail vehicles. Although Section 4500 of the Government Code requires the purchase of accessible rapid transit equipment, it applies only when accessible equipment is available from at least two manufacturers. Consequently, there is no legal requirement for the department to develop the equipment.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

This does not mean, however, that accessibility considerations should be disregarded. Clearly, the department should endeavor to provide accessibility even if there is no statutory requirement to do so. In this case, however, the department has not examined whether equipping railcars with accessibility equipment is the most cost-effective means to improve the availability of transportation to the handicapped. Until such a determination has been made, it would be premature to undertake the project proposed in the budget. Consequently, we recommend a reduction of $350,000 in Item 2660-001-046.

Personnel Redirections Not Reflected in Budget

We recommend that during budget hearings, the department report to the fiscal committees on its intended staffing level for each element in the Mass Transportation program and identify the effects of proposed staffing revisions on each program element.

The department is proposing to redirect positions within the Mass Transportation program. These redirections, however, are not reflected in the staffing levels shown in the Governor's Budget for each of the Mass Transportation program elements. Therefore, the Legislature has no basis for assessing the proposed redirections. Accordingly, we recommend that the department provide the Legislature with the staffing level it proposes for each element in the Mass Transportation program and identify the effect of any staffing level revisions on the amounts budgeted under each program element.

Technical Budgeting Error

We recommend a reduction of $9,000 in the Transportation Planning and Development Account to correctly reflect the budget-year costs of completing terminal studies consulting contracts. (Reduce Item 2660-001-046 by $9,000.)

The department concurs with this recommendation.

TRANSPORTATION PLANNING

The Transportation Planning program is responsible for coordinating and improving the quality of statewide transportation planning in the state. The Transportation Planning program contains three elements: (1) *Statewide Planning,* (2) *Regional Planning,* and (3) *Work for Others.*

The budget proposes an appropriation of $10,638,000 from the TP&D Account for support of the planning program in 1985–86.

State operations are budgeted to increase by $752,000, or 9.6 percent (to $8,606,000), over estimated current-year expenditures. Local assistance expenditures are budgeted at the current-year level of $2,032,000. The budget also proposes to subvene $8,900,000 in federal funds to metropolitan planning organizations, and will spend $852,000 from reimbursements for planning assistance to regional planning agencies. Accordingly, the total proposed expenditure for the Transportation Planning program in 1985–86 is $20,390,000, which is $1,117,000, or 5.8 percent, greater than estimated current-year expenditures.

Program staff are budgeted at 137.5 personnel-years in 1985–86, which is 16.5 personnel-years, or 11 percent, less than the current-year levels of

154. This reflects reductions of (1) 3.4 personnel-years and $412,000 in reimbursed work due to cancellation of the Los Angeles-to-San Diego high-speed rail project, (2) $477,000 and 12 personnel-years, in other reimbursed work, and (3) $29,000 and 1.1 personnel-years due to increased salary savings.

ADMINISTRATION

The Administration program contains the business, legal, management and other technical services necessary to support the department. This program has four elements: (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) *Legal Services*, and (4) *External Costs*—tort liability payments, pro rata charges and Board of Control claims.

The budget proposes an expenditure level of $99.9 million for this element in 1985–86. This is an increase of $1.9 million, or 1.9 percent, over estimated current-year expenditures. The increase consists of (1) $1.7 million for computer equipment, (2) $371,000 for increased training expenses, (3) a $3.1 million increase in office lease expenses, and (4) $400,000 for a new federal funds billing system. It is offset by various staff reductions and reductions of one-time expenses incurred in 1984–85.

The budget proposes to reduce the staffing level for this program from 1,522.1 personnel-years in the current year to 1,472 personnel-years in 1985–86. The reduction of 50.1 personnel-years consists of (1) 20 personnel-years for personnel management, (2) 16.1 personnel-years for budget development, financial control, and administrative services, (3) three personnel-years for public affairs, and (4) 11 personnel-years of work by student assistants provided through a master contract with the California State University system.

In previous Governor's Budgets, the Administration program included all professional and technical services expenditures, most of which were distributed back to other program elements. The budget for 1985–86, however, displays professional and technical services, including such activities as the transportation laboratory, as part of the various program elements' expenditures.

Request for Distributed Data Processing Still Premature

We recommend that $1,635,000 requested from the State Highway Account to procure computers for the implementation of the distributed data processing be deleted because the proposal is still undefined and premature. (Reduce Item 2660-001-042 by $1,635,000.)

Current-Year Activity. In the current year, the department is using $2.7 million to implement the first phase of a distributed data processing (DDP) project statewide. This amount will be spent to purchase four minicomputers. In order to spend the funds on the DDP project, the department is required by the 1984 Budget Act to perform a detailed feasibility study report (FSR) addressing (1) the extent of potential equipment redundancy resulting from the department's implementation of various computer automation projects, (2) the equipment and the personnel needs of all districts as a whole, and (3) the impact of the DDP project on the financing and operation of the Teale Data Center.

At the time this analysis was prepared, the department had *not* submitted the required FSR for the statewide implementation of DDP. In fact,

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

the Office of Information Technology (OIT) had only approved a distributed data processing project limited to engineering applications in the department's Office of Structure Design. The OIT indicated that DDP for other purposes and in other offices would be subject to its review and approval, and would require a separate FSR.

Budget Year Request. The department requests $1,635,000 for 1985–86 in order to begin providing middle management and administrative personnel with a network of minicomputers. It appears that the computers would be used for activities other than engineering functions. The department has not been able to provide any detailed justification for the request. For instance, we do not know how many items of computer equipment the department proposes to acquire; where they would go; or how they fit into the department's overall DDP proposal.

Without a FSR for the statewide implementation of the project, the Legislature's concerns from last year regarding equipment redundancy, equipment and personnel needs, and the project's impact on Teale Data Center remain unresolved. Until these concerns have been addressed and the project's costs and benefits have been analyzed, the request for funding is premature. Thus, we recommend that the amount requested for these computers be deleted.

Expenses for Office Leases are Overbudgeted

We recommend a reduction of $376,000 from the State Highway Account because office leasing costs are overestimated. (Reduce Item 2660-001-042 by $376,000.)

The department is requesting $6,656,000 for 1985–86 to pay for office leases at various locations throughout the state. This is an increase of $3,150,000 over the current-year level. The primary reason for the increase in 1985–86 is that the department intends to consolidate space in the San Francisco district to replace a number of leased offices scattered around the downtown area.

Our review shows that the department overestimated the cost of one lease by $40,000. Accordingly, we recommend that this amount be deleted.

In addition, the department's request includes $336,000 to relocate its Los Angeles right-of-way staff from the district office building to leased space at a new location. The Department of General Services has indicated that the relocation proposal has been put on hold at the department's request, and it is now unlikely that the relocation will take place in 1985–86. Thus, we recommend that this $336,000 be deleted, as well.

Staff Benefits Overbudgeted

We recommend a reduction of $7,589,000 from the State Highway Account because staff benefits have been overbudgeted. (Reduce Item 2660-001-042 by $7,589,000.)

The department is requesting $136,846,000 for staff benefit payments in 1985–86, including $78,946,000 for retirement benefits. Our review shows that the department has budgeted for staff retirement at a rate higher than that provided by the Department of Finance guidelines. Applying the appropriate rate for retirement benefits, we estimate that the needed amount is $7,589,000 below the amount requested. Accordingly, we recommend that this amount be deleted from the budget.

Consultant Contract Will Expire

We recommend that $121,000 requested from the State Highway Account for a consultant contract be deleted because the amount will not be needed. (Reduce Item 2660-001-042 by $121,000.)

In the current year, the department has contracted with an independent consultant to study the feasibility of contracting out property maintenance services, at a cost of $100,000. This study is to be completed March 1, 1985. Thus, the study effort will not extend into 1985–86. The budget, however, includes $121,000 for this contract. Accordingly, we recommend that the amount be deleted.

Cost Recoveries Are Too Low

We recommend a reduction of $1.5 million in the State Highway Account to reflect a higher level of cost recoveries than the amount budgeted. (Reduce Item 2660-001-042 by $1.5 million.)

The department's operating expenses reflect the total anticipated cost of activities other than personnel costs, and includes expenditures on items such as vehicles, highway maintenance and construction material. The department is able to recover part of these costs, and thereby reduce the net costs to the state through (1) the receipt of payments for damages to the department's property caused by others, such as damage to road signs, and (2) recoveries for the sale of items such as excess material, salvaged items and equipment. These cost recoveries are treated as reimbursements and reduce the need for appropriated funds.

From 1980–81 through 1982–83, the department recovered an average of $6.8 million annually. The actual amount recovered in 1983–84 was $7.5 million. For the first six months of the current year, cost recoveries totaled $3.8 million.

The department's budget projects recoveries in 1985–86 at $5.5 million. Although the actual amount to be recovered is difficult to predict, we think that based on past history, the 1985–86 amount will be higher than what the budget reflects. This is particularly so, given the increased rate of equipment replacement planned for the current and budget years. We think a more accurate estimate of cost recoveries is $7.0 million. We therefore, recommend that the department's budget be reduced by $1 million to reflect these recoveries.

Administrative Overhead Overbudgeted

We recommend reductions of $9,000 in the Aeronautics Account, $589,000 in the State Highway Account, and $683,000 in the Transportation Planning and Development Account for a total reduction of $1,281,000, because the administrative costs that the request amounts would be used to fund are already funded from reimbursements. (Reduce Item 2660-001-041 by $9,000, Item 2660-001-042 by $589,000 and Item 2660-001-046 by $683,000.)

The department performs work for other public and private entities on a reimbursement basis. The State Administrative Manual requires that *all* costs of performing this work, including overhead costs, be reimbursed by the client requesting the work. To satisfy this requirement, the department prorates its administrative costs to its clients, based upon the number of direct labor hours required for the contract. These prorated administrative charges are included in the reimbursements received by the department for work for others.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Our analysis indicates that the department is requesting $9,000 from the Aeronautics Account, $589,000 from the State Highway Account, and $683,000 from the Transportation Planning and Development Account to fund the administrative costs of work performed for others under its Aeronautics, Highway Transportation, Mass Transportation, and Transportation Planning programs. Since these costs are to be fully reimbursed by the department's clients, the requested state funds are not necessary, nor are they consistent with the requirement that all costs of work for others be fully reimbursed. Therefore, we recommend reductions of $9,000 in the Aeronautics Account (Item 2660-001-041), $589,000 in the State Highway Account (Item 2660-001-042), and $683,000 in the Transportation Planning and Development Account (Item 2660-001-046), for a total reduction of $1,281,000.

Reversion Should Be Higher

We recommend an increase of $4.5 million in reversions from the Budget Act of 1983 because the department estimates that the additional amount would not be needed for encumbrance prior to June 30, 1985 (Item 2660-495).

The budget proposes that $25,985,000 from an appropriation made by the 1983 Budget Act for capital outlay projects be reverted because the amount will not be needed. Discussions with the department, however, indicate that a more-recent estimate shows that about $30.5 million in free reserves will be available for reversion on June 30, 1985, instead of the $25.9 million proposed in the Budget Bill. Accordingly, we recommend that the reversion amount in Item 2660-495 be increased by $4.5 million.

DEPARTMENT OF TRANSPORTATION—CAPITAL OUTLAY

Item 2660-311 from the State Highway Account, State Transportation Fund — Budget p. BTH 78

Requested 1985–86	$3,486,000
Recommended reduction	813,000
Recommendation pending	2,673,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Fire and Life Safety Major Projects. Withhold recommendation on $1,609,000 requested for three projects, pending receipt of (1) detailed cost information, (2) preliminary plans, and (3) status of fire code deficiencies. 343
2. *Minor Projects.* ***Reduce Item 2660-311-042(4) by $813,000.*** Recommend deletion of funds requested for seven projects which are either unjustified or inappropriately budgeted as capital outlay. Withhold recommendation on $1,064,000 requested for twelve projects, pending receipt of additional information. 343

ANALYSIS AND RECOMMENDATIONS

The budget proposes $3,486,000 from the State Highway Account, State Transportation Fund, for three major capital outlay projects and 19 minor projects for *administrative* facilities of the Department of Transportation (Caltrans). The department's proposals and our recommendations are presented below.

Fire and Life Safety Projects at Caltrans District Offices

We withhold recommendation on Items 2660-311-042 (1), (2), (3), $1,609,000 for correction of code deficiencies at Caltrans district offices at Redding, San Luis Obispo and San Diego, pending receipt of (1) detailed cost estimates, (2) copies of preliminary plans, and (3) information on the status of fire safety deficiencies in these offices.

The department requests $1,609,000 for three major capital outlay projects which involve modifications to Caltrans district offices in Redding, San Luis Obispo and San Diego. These projects are summarized below:

- ***Install Elevator and Update Fire Safety Standards, Redding ($482,000)*** Correct fire and life safety code deficiencies, mechanical defects and install an elevator for handicapped accessibility.
- ***Modify District Office for Fire Marshal, San Luis Obispo ($650,000)*** Correct fire and life safety code deficiencies.
- ***Fire Code Compliance, San Diego ($477,000)*** Correct fire and life safety code deficiencies and upgrade the mechanical and electrical systems.

These projects involve work to correct potential fire and life safety problems and provide access to mobility-impaired individuals. We agree that any work necessary to meet these code requirements should proceed. The information submitted to the Legislature, however, does not substantiate either the proposed level of work or the requested amount. Consequently, we withhold recommendation on this request, pending receipt of the following information:

- Detailed construction cost estimates, including costs for preliminary plans and working drawings.
- Copies of preliminary plans.
- Updated information on the status of fire code compliance. (The State Fire Marshal surveyed these offices over three years ago.)

Minor Capital Outlay

We recommend that Item 2660-311-042(4) be reduced by $813,000 to eliminate funding for seven minor projects which should either be financed from support funds or are not justified. We further withhold recommendation on $1,064,000 requested for twelve projects until additional information on these projects is available.

The budget proposes $1,877,000 from the State Highway Account, State Transportation Fund, for 19 minor capital outlay projects for the Department of Transportation. These projects and our recommendations are described below.

We recommend deletion of $813,000 requested for seven minor projects. Three projects, totaling $308,000, are maintenance items, and should be funded on a priority basis from the department's support budget. These projects are as follows:

DEPARTMENT OF TRANSPORTATION—CAPITAL OUTLAY—Continued

- Repair kitchen ventilation and floor, District Office Cafeteria, Marysville ($50,000).
- Complete the Replacement of HVAC System at the District Office, Phase II, San Bernardino ($243,000).
- Carpet 5th Floor Annex I East, Headquarters Building, Sacramento ($15,000).

In addition, there is no description of and/or no justification for four projects, totaling $505,000. These projects are:

- Modify District Office Computer Room to Accommodate New Equipment for Distributed Processing, Marysville ($150,000).
- Modify and Add A/C to 4th Floor of District Office, Los Angeles ($250,000).
- Acoustical Treatment in District Office Lobby, San Diego ($5,000).
- Upgrade A/C System at Transportation Laboratory, Sacramento ($100,000).

We withhold recommendation on $1,064,000 requested for twelve minor projects, pending receipt of (1) detailed cost information, and (2) additional information describing the work to be accomplished. Six of these projects, totaling $339,000, are as follows:

- Install Emergency Water Supply on Roof of District Office, Los Angeles ($100,000).
- Complete Phase II of Reconstruction of Computer Room in District Office, Los Angeles ($90,000).
- Install Solar Screens at District Office, San Bernardino ($50,000).
- Connect San Bernardino District Office to Geothermal Water Supply ($24,000).
- Install Solar Screens at District Office, San Diego ($25,000).
- Correct Handicap Ramp Problems and Employee After Hours Entrance and Exit, Headquarters Building, Sacramento ($50,000).

The remaining six projects ($725,000) involve fire and life safety modifications to the Caltrans Headquarters Building, Sacramento. If funded, this work should be budgeted as a single major capital project. The six projects are as follows:

- Rebuild Interim Corridor Walls of 2nd Floor Annex II with Fire Rated Materials—Headquarters Building—($80,000).
- Rebuild Corridor Walls on 5th Floor, Annex I (E and W) Headquarters. Building with Fire Rated Materials ($140,000).
- Rebuild Corridor and Office Walls on 3rd Floor, Annex I East and Annex II East of Headquarters Building with Fire Rated Materials—($40,000).
- Remove Walls and Corridors and Convert Area to Open Space, Rebuild Corridors on 5th Floor Annex II of Headquarters Building with Fire Related Materials—($140,000).
- Remove Walls and Rebuild Corridors and Walls 2nd Floor Annex I East and West of Headquarters Building with Fire Rated Materials—($125,000).
- Fire and Life Safety at Headquarters Equipment Shop ($200,000).

Supplemental Report Language

For purposes of project definition and control, we recommend that supplemental report language be adopted by the fiscal subcommittees which describes the scope of each of the capital outlay projects approved under this item.

Business, Transportation and Housing Agency
OFFICE OF TRAFFIC SAFETY

Item 2700 from various funds Budget p. BTH 84

Requested 1985–86	$801,000
Estimated 1984–85	499,000
Actual 1983–84	310,000
Requested increase (excluding amount for salary increases) $302,000 (+60.5 percent)	
Total recommended reduction	None

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2700-001-044—Support	State Transportation, Motor Vehicle Account	$251,000
2700-001-464—Support	First Offender Program Evaluation	550,000
2700-001-890—Support and state grants	Federal Trust	(6,995,000)
2700-101-890—Local assistance	Federal Trust	(4,663,000)
Total		$801,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Legal Counsel Position. Recommend reimbursements be reduced by $60,000 and legal counsel position be eliminated because (a) the Business, Transportation and Housing Agency cannot use the position in 1985–86 and (b) OTS does not require a full time legal counsel. 347

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 funds. 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.

The office is authorized 26.8 positions in the current year.

OFFICE OF TRAFFIC SAFETY—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $12,519,000 (all funds) to support state and local traffic safety activities and the administrative expenses of OTS in 1985–86. This represents a $1,793,000, or 12.5 percent, decline in expenditures from the estimated current-year level. This reduction, however, makes no allowance for the cost of any salary or staff benefit increase that may be approved for the budget year.

The amount budgeted consists of $11,658,000 in federal funds, $251,000 from the Motor Vehicle Account (MVA) in the State Transportation Fund, $550,000 from the First Offender Program Evaluation Fund, and $60,000 in reimbursements. The $251,000 requested from the MVA is $2,000, or about 0.8 percent, above the estimated level of expenditures from this source in the current year. In contrast, the $550,000 requested from the First Offender Program Evaluation Fund is $300,000, or 120 percent, more than current-year expenditures. The combined amount requested from these two state funding sources—$801,000—is $302,000, or 61 percent, more than the amount of state funds OTS is expected to spend in 1984–85.

Administrative Support. In the budget year, OTS proposes total program administration expenditures of $1,985,000, consisting of $1,124,000 (57 percent of the total) in federal funds and $861,000, (43 percent) in state funds. The state funds consist of $251,000 from the Motor Vehicle Account, $550,000 from the First Offender Program Evaluation Fund, and $60,000 in reimbursements. The total is $319,000, or 19 percent, more than estimated expenditures for administration in the current year. Nearly all of this increase—$300,000—is attributable to increased evaluation costs associated with the Driving Under the Influence (DUI) first offender programs. In accordance with Ch 1339/82, these costs are supported by a $5 fee assessed against participants in these programs.

Grants to State Agencies. Allocations to state agencies for traffic safety projects are proposed at $5,871,000 in 1985–86. This is $549,000, or 8.6 percent, less than the allocations for state projects in the current year. Projects funded in the current year include (1) specialized enforcement of the 55 MPH speed limit by the Department of the California Highway Patrol (CHP), (2) upgrading blood/alchohol testing facilities by the Department of Justice, and (3) posting of seat belt reminder signs by Caltrans at the exits of rest areas. Grants allocated to state projects in 1985–86 represent 50 percent of available federal funds.

Local Assistance. Federal regulations require that at least 40 percent of the funds provided to California be allocated to local agencies. 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. The budget proposes that local agencies receive $4,663,000, or 40 percent, of the funds available for traffic safety activities in 1985–86. This represents a reduction of $1.56 million from the 1984–85 level.

The federal government is expected to provide 100 percent of the $10,534,000 that the budget proposes for grants to state and local agencies.

Summary of Expenditures. Table 1 displays a summary of OTS expenditures for the prior, current, and budget years.

Table 1
Office of Traffic Safety
Summary of Expenditures
(1983–84 through 1985–86)
(dollars in thousands)

Funding Source	*Purpose*	*Actual 1983–84* [a]	*Estimated 1984–85* [b]	*Projected 1985–86*	*Percent Change*
Federal Trust Funds	Administration	$907	$1,110	$1,124	1.3%
	Grants to state agencies	6,012	6,420	5,871	−8.6
	Grants to local agencies	5,497	6,226	4,663	−25.1
Motor Vehicle Account	Administration	217	249	251	0.8
First Offender Program Evaluation Fund	DUI Evaluation	93	250	550	120.0
Reimbursements		61	57	60	5.3
Totals		$12,787	$14,312	$12,519	−12.5%

[a] Expenditures and encumbrances.
[b] Total amount available for expenditure.
Source: Office of Traffic Safety

ANALYSIS AND RECOMMENDATIONS

Legal Counsel Not Needed

We recommend deletion of $60,000 in reimbursements and elimination of the legal counsel position. (Reduce reimbursements to Item 2700-001-044 by $60,000.)

The OTS budget for 1985–86 includes $60,000 in reimbursements from the Business, Transportation and Housing Agency (BT & H). These funds are intended to cover the cost of one exempt legal counsel position borrowed by the agency and filled as a deputy secretary. The legal counsel position was administratively established by the OTS as an exempt position in 1983–84, but the position has never been used by OTS. During the current year, the BT&H agency is borrowing the position. In return, OTS is receiving a reimbursement of $57,000.

The 1984 Budget Act prohibits BT & H from expending any funds for borrowed exempt positions after February 1, 1985. The agency indicates that it intends to comply with this prohibition, and will not borrow the exempt position in 1985–86. (Instead, it will fund the position directly.) Furthermore, OTS has indicated that it does not require the services of a full time legal counsel in either the current or the budget year. On this basis, we recommend (1) the deletion of $60,000 in reimbursements and (2) the elimination of the legal counsel position.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 2720 from the State Transportation Fund — Budget p. BTH 87

Requested 1985–86	$423,121,000
Estimated 1984–85	409,097,000
Actual 1983–84	345,922,000
Requested increase (excluding amount for salary increases) $14,024,000 (+3.4 percent)	
Total recommended reduction	3,474,000
Recommendation pending	973,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2720-001-044—Support	State Transportation, Motor Vehicle Account	$390,658,000
2720-001-050—Support	State Transportation, CHP Law Enforcement Account	32,250,000
2720-001-890—Support	Federal Trust	213,000
Total		$423,121,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. AB 202 Report. Recommend that during budget hearings, the department explain why it has not submitted to the Legislature the comprehensive report on the AB 202 program required by the *Supplemental Report of the 1984 Budget Act.* 351
2. ***Cadet Training. Reduce Item 2720-001-050 by $133,000 and 4.0 personnel-years.*** Recommend reduction because the amount budgeted for cadet training is in excess of the patrol's needs. 353
3. ***Vehicle Purchase. Reduce Item 2720-001-044 by $381,000 and Item 2720-001-050 by $61,000.*** Recommend reduction because (a) motorcycle purchase costs are overstated and (b) the request to purchase additional sedans lacks adequate justification. 354
4. ***Rechargeable Flashlights. Reduce Item 2720-001-044 by $202,000.*** Recommend reduction because the proposal for 3,790 rechargeable flashlights lacks sufficient justification. Further recommend adoption of supplemental report language directing the CHP to conduct a pilot study of rechargeable flashlights and report its finding to the Legislature by March 1, 1986. 355
5. ***Soft Body Armor. Reduce Item 2720-001-044 by $100,000.*** Recommend reduction because the stepped-up replacement of soft-body armor in 1985–86 would be premature. 356
6. Los Angeles Helicopter. Recommend the Legislature defer action on the budget proposal to delete $316,000 and seven personnel-years budgeted for the CHP's Los Angeles helicopter until the CHP has secured a written agreement 357

with a local law enforcement agency providing for continuation of this service.

7. ***Airplanes. Reduce Item 2720-001-044 by $1,025,000.*** Recommend reduction because the department's proposal has not (a) established the need for four additional fixed-wing aircraft or (b) demonstrated the cost-effectiveness of the aircraft. 357
8. ***Scale Facility. Reduce Item 2720-001-044 by $33,000 and 0.6 personnel-years.*** Recommend reduction because construction of the Temecula scale facility will not be completed in 1985–86. 358
9. ***Operating Expenses and Equipment. Reduce Item 2720-001-044 by $186,000.*** Recommend reduction to eliminate operating expenses and equipment associated with positions proposed for elimination. 358
10. ***Reimbursements. Reduce Item 2720-001-044 by $363,000 and increase reimbursements by a corresponding amount.*** Recommend reduction because the budget understates reimbursements by $363,000. 359
11. Word Processing Equipment. Withhold recommendation on $657,000 proposed for word processing equipment, pending approval of the feasibility study report for this project. 359
12. ***Lease Costs. Reduce Item 2720-001-044 by $939,000.*** Recommend reduction because the cost of certain leases is overbudgeted. 360
13. ***Various Services and Equipment Purchases. Reduce Item 2720-001-044 by $51,000.*** Recommend reduction because various services and equipment are overbudgeted. 361

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 carry out 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 8 division commands, 98 area offices, several inspection and scale facilities, and 2 communication centers. All facilities are linked to headquarters by an extensive communications network.

The department has 7,756 authorized personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $426,641,000 by the Department of the California Highway Patrol in 1985–86. This is $14,024,000, or 3.4 percent, more than estimated total expenditures in the current year. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year. In the current year, the department is proposing, through a Section 27 deficiency authorization, to spend an additional $1,955,000 to cover increased costs resulting from collective bargaining.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Table 1 shows a summary of the department's expenditures, by program, for the prior, current, and budget years. Table 2 summarizes the major changes in the CHP's budget proposed for 1985–86.

Table 1
California Highway Patrol
Expenditures and Staffing, by Program
1983–84 through 1985–86
(dollars in thousands)

	Personnel-Years				Expenditures			
Program	Actual 1983–84	Estimated 1984–85	Budgeted 1985–86	Percent Change 1984–85 to 1985–86	Actual 1983–84	Estimated 1984–85	Budgeted 1985–86	Percent Change 1984–85 to 1985–86
Traffic Management	6,700.7	6,883.6	6,758.7	−1.8%	$321,785	$370,799	$383,653	3.5%
Regulation and Inspection	694.3	713.9	711.2	−0.4	24,267	33,965	34,803	2.5
Vehicle Ownership Security	154.1	158.5	157.6	−0.6	7,257	7,853	8,185	4.2
Administration [a]	(1,338.5)	(1,376)	(1,344.3)	(−2.3)	(70,915)	(83,195)	(83,510)	0.4
Totals	7,549.1	7,756	7,627.5	−1.7%	$353,309	$412,617	$426,641	3.4%
Reimbursements					−7,387	−3,520	−3,520	—
Total Net Expenditures					$345,922	$409,097	$423,121	3.4%

[a] Administrative costs and personnel-years are distributed to the other programs.

Table 2
California Highway Patrol
Proposed 1985–86 Budget Changes
(dollars in thousands)

	General Fund	Motor Vehicle Account	CHP Law Enforcement Account	Federal Funds	Totals
1984–85 Expenditures (Budget Act)	$484	$346,614	$30,554	$180	$377,832
Baseline adjustments, 1984–85					
1. Allocation for contingencies or emergencies	—	3,767	188	—	3,955
2. Employee compensation increase	32	24,413	2,887	—	27,332
3. Allocation to Board of Control	—	−30	—	—	−30
4. Federal contract increase	—	—	—	8	8
1984–85 Expenditures (Revised)	$516	$374,764	$33,629	$188	$409,097
Baseline adjustments, 1985–86					
1. Full-year cost of 1984–85 employee compensation adjustment	—	$1,555	−$16	—	$1,539
2. Elimination of one-time costs	−$516	−5,203	—	—	−5,719
3. Elimination of allocation for contingencies or emergencies	—	−3,767	−188	—	−3,955
4. Pro rata adjustments	—	−657	−64	—	−721
5. Price increases due to inflation	—	2,620	187	—	2,807
6. Collective bargaining adjustment	—	96	—	—	96
7. Full-year cost of expanding program	—	887	1,590	—	2,477
8. Estimated increase/federal contract	—	—	—	$25	25
Budget change proposals	—	20,363	−2,888	—	17,475
1985–86 Expenditures (Proposed)	—	$390,658	$32,250	$213	$423,121
Change from 1984–85:					
Amount	−$516	$15,864	−$1,379	$25	$14,024
Percent	−100%	4.2%	−4.1%	13.3%	3.4%

In the budget year, the department's programs will be funded from three sources. *First,* $390,658,000 is proposed from the Motor Vehicle Account, State Transportation Fund, for general support of the department. *Second,* $32,250,000 is proposed from the CHP Law Enforcement Account, State Transportation Fund, to support the additional officers authorized by Ch. 933/81 (AB 202). *Third,* $3,733,000 in reimbursements and federal funds is expected to be available for general support of the department during the budget year.

ANALYSIS AND RECOMMENDATIONS

TRAFFIC MANAGEMENT

The CHP traffic management program accounts for $383,653,000, or 90 percent, of proposed departmental expenditures in 1985–86. Approximately 86 percent of the department's uniformed personnel, and nearly one-half of its nonuniformed personnel, are employed in this program.

AB 202: Report Omits Important Information

We recommend that during budget hearings, the department explain why it failed to comply fully with provisions of the Supplemental Report of the 1984 Budget Act which directed it to submit to the Legislature a comprehensive report on the AB 202 program including (1) information on the program's cost-effectiveness, and (2) a proposed staffing formula.

The California Highway Patrol (CHP) currently is in the third year of hiring and deploying 670 additional traffic officers, in accordance with Chapter 933/81 (AB 202) which provided for enhanced highway law enforcement. The hiring phase of the program will be completed during the current year. The budget year, thus, will be the first full year in which all of the additional traffic officers will be deployed. To support these officers, the budget requests $32,250,000—4.1 percent less than estimated expenditures in the current year.

The Legislature intended that the AB 202 program be self-financed through a $1 surcharge added to vehicle registration fees and deposited in the CHP Law Enforcement Account. As shown in Table 3, total revenues are projected to slightly exceed total expenditures for the four-and-one-half year program. The table also shows that this surcharge in recent years has yielded annual revenues of approximately $20–$25 million. This amount is equal to about 80 percent of annual expenditures for this program.

The $1 surcharge on vehicle registration, will expire on December 31, 1985. The CHP, however, may use any balance remaining in the account until June 30, 1986, when the program is scheduled to terminate.

AB 202 Report. Recognizing a need for information on the cost-effectiveness of the AB 202 program, the Legislature adopted language in the *Supplemental Report of the 1984 Budget Act* requiring the CHP to report to the Legislature on its implementation of the program. Specifically, the language required the CHP to address in its report: (1) the cost and revenue associated with the program, (2) alternatives to the program, and (3) the rationale for its decision to seek or not seek continuation of the program beyond the scheduled expiration date of June 30, 1986. In addition, the language directed the CHP to respond to several issues raised by the Legislative Analyst in the *Analysis of the 1984–85 Budget Bill,* including (1) the feasibility of developing a formula for use in determining the level of staffing needed to carry out the CHP's mission and (2) the cost-effectiveness of the AB 202 program.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Table 3
California Highway Patrol
Revenue and Expenditures Under the AB 202 Program
1981–82 through 1985–86
(dollars in thousands)

	Revenues	*Expenditures*
1981–82	$10,099	—
1982–83	19,611	$7,042
1983–84	25,327	20,505
1984–85 (estimated)	25,000	33,629
1985–86 (projected)	13,500	32,250
Totals	$93,537	$93,426

The department submitted its report to the Legislature in December 1984. Among other things, the report found that between 1981 and 1984 the additional patrol officers appear to have brought about an increase in law enforcement activities and a reduction in some types of accidents. Specifically, the department projects that between 1981 and 1984:

- Total arrests will increase by 421,000, or 18.9 percent;
- Driving Under the Influence (DUI) arrests will increase by 19,600, or 14.9 percent;
- Verbal warnings will increase by 196,000, or 27.4 percent;
- Written warnings will increase by 65,500, or 18 percent;
- Motorist services will increase by 209,000, or 16.5 percent;
- DUI accidents will decrease by 1,523 or 6.5 percent;
- Property damage accidents will decrease by 2,867, or 3.2 percent;

Contrary to expectations, however, the report pointed out that most types of traffic accidents also increased during the same period as follows:

- Total accidents will *increase* by 2,839, or 1.8 percent;
- Injury accidents will *increase* by 5,685, or 8.5 percent;
- Fatal accidents will *increase* by 21 or 0.8 percent;

The department's report attributes the significant increase in DUI arrests and the decrease in DUI accidents since 1981 solely to the increased field strength made possible by the AB 202 program. Our analysis indicates, however, that other factors—particularly the CHP's statewide anti-DUI publicity campaign and increasing emphasis on DUI enforcement—probably were significant contributors to these trends.

Department Will Seek Continuation of Program. The department's report concludes that the AB 202 program has enhanced its ability to respond to accidents, provide more services to motorists, and make arrests. It attributes the increases in fatal and injury accidents since 1981 to increases in the numbers of vehicle miles of travel, registered vehicles, and licensed drivers, rather than to any shortcomings in the AB 202 program.

With regard to the feasibility of developing a formula for use in identifying an optimum number of CHP traffic officers, the department indicated that it attempted to construct such a formula in the past, but has found that there are numerous issues which must be addressed before a viable staffing formula can be developed. The department would favor a staffing formula that considered officer productivity, desired service levels, and the demands placed on the department by the increasing numbers of registered vehicles, licensed drivers, and vehicle miles of travel. In its report, the department indicates that it will give this matter further consideration in the future.

The department indicates that it will seek (1) continuation of the AB 202 program, (2) extension of the $1 surcharge on vehicle registrations, and (3) merger of the Law Enforcement Account into the Motor Vehicle Account. If approved by the Legislature, this would make the AB 202 program a permanent part of the CHP traffic management program, funded directly from the Motor Vehicle Account.

Information Is Inadequate. Our analysis indicates that the AB 202 program has increased law enforcement and motorist services on California's highways. Although the department's report adequately provides some of the information required by the supplemental report language, such as a means of reducing field positions should the program be eliminated, it does not provide sufficient information for the Legislature to objectively evaluate the cost-effectiveness of the program. Specifically, the patrol did not provide a comprehensive cost-benefit analysis of (1) the existing deployment of AB 202 officers and (2) alternative deployments and other means for improving traffic law enforcement. Moreover, the department has failed to provide the Legislature with (1) a formula to determine the staffing level necessary for the department to fulfill its traffic safety mission, and (2) a study of alternative approaches for funding the program. Lacking this information, it is not possible to determine whether the AB 202 program is cost-effective, nor whether the CHP's traffic management program is adequately staffed, or overstaffed.

Consequently, we recommend the department explain to the fiscal subcommittees at the time of budget hearings why it failed to fully comply with supplemental report language to the 1984 Budget Act which required it to submit to the Legislature a comprehensive report on the AB 202 program including (1) cost-effectiveness information and (2) a staffing formula for the department's field staff. This information is necessary to assist the Legislature in deciding whether to permanently continue and fund the additional CHP patrol officers or to let the AB 202 program sunset at the end of the budget year.

Cadet Training Costs Overstated

We recommend a reduction of $133,000 and 4.0 personnel-years requested for cadet training because the attrition rate for the AB 202 officers should be less than it is for other CHP officers, thereby reducing the number of replacements that will need training. (Reduce Item 2720-001-050 by $133,000.)

In the current year, the California Highway Patrol will complete the training and deployment of an additional 670 traffic officers pursuant to Ch 933/81 (AB 202). Accordingly, the department's budget for 1985–86 reflects a significant reduction in its cadet training expenditures.

In estimating the number of officers that will be lost through resignations, disability retirements and age retirements, the department assumes

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

that the attrition rate for AB 202 officers will be approximately the same as the attrition rate for non-AB 202 officers—about 3.6 percent.

Our analysis indicates, however, that the AB 202 program will not have as high an attrition rate, because all of the officers in the program are young and none of them will qualify for age retirement in 1985–86. The department indicates that approximately 16.6 percent of its normal attrition is due to age retirements. Therefore, we recommend that the cadet training requirements associated with the AB 202 officers be reduced by 16.6 percent, for a savings of $133,000 and 4.0 personnel-years.

Vehicle Purchases Overbudgeted

We recommend that $442,000 requested for vehicle purchases be deleted because (1) the amount budgeted for the purchase of motorcycles is overstated and (2) the purchase of 24 additional compact sedans has not been adequately justified. (Reduce Item 2720-001-044 by $381,000 and Item 2720-001-050 by $61,000.)

Enforcement vehicles used by the CHP are removed from service when they reach approximately 85,000 miles of service. Nonenforcement vehicles are replaced when they reach between 90,000 and 100,000 miles of service. Each year, the department must purchase new vehicles to replenish its fleet.

In the budget year, the department proposes to buy 1,326 assorted replacement vehicles at a net cost of $12,157,748. This is an increase of $1,984,011, or 16.3 percent, over the amount allocated for vehicle purchases in the current year. In addition, the department proposes to buy an *additional* 42 vehicles at a cost of $391,710. Thus, the budget proposes total expenditures for vehicles in 1985–86 of $12,549,458.

Our analysis indicates several problems with the department's request for new and replacement vehicles.

Replacement Motorcycles. The CHP proposes to buy 147 replacement motorcycles in 1985–86 at a total net cost of $728,238, or $4,954 per unit. This includes the actual cost of the motorcycle and sales tax, less average abatement for the vehicle to be replaced.

Out analysis indicates that, in preparing its request, the department assumed that motorcycles in the current year would cost approximately $4,683 per unit (including sales tax and abatement). Recently, however, the department awarded a contract for the purchase of 143 motorcycles, at an approximate net cost of $3,383 per motorcycle (including sales tax and abatement). If the department's estimate for 1985–86 is adjusted to reflect the recent purchase price plus estimated inflation, the net cost of buying 147 motorcycles becomes $527,730, or $3,590 per motorcycle (including sales tax and abatement). A further adjustment of $28,000 is needed because the department has understated the abatement value of the used motorcycles. This adjustment would result in a net cost of $499,730 for the motorcycles, or $3,400 per motorcycle.

Accordingly, we recommend a reduction of $229,000 in the amount budgeted for replacement of the 147 motorcycles.

Additional Motorcycles. The department also proposes to purchase 12 additional (that is, nonreplacement) motorcyles in the budget year, at a total net cost of $68,448, or $5,704 per unit. Here again, if the price paid by the department for replacement motorcycles during the current year is taken into account, the amount needed to buy these 12 motorcycles becomes $52,080, or $4,340 per unit. Accordingly, we recommend a reduction of $16,000 in the amount budgeted for additional motorcycles.

Replacement Compact Sedans. The department proposes to purchase 27 compact sedans, at a cost of $196,452 or $7,276 each (including sales tax and abatement). One of the replacement vehicles, however, is requested for a Multi-Disciplinary Accident Investigation Team (MAIT) that the department proposes to eliminate. Elimination of the team reduces the number of sedans needed by one. Accordingly, we recommend a reduction of $7,000 in the amount budgeted for replacement sedans.

Additional Compact Sedans. In addition, the department is proposing to purchase 24 compact sedans in the budget year, at a total cost of $190,224, or $7,926 per vehicle. These sedans are to be used by various department personnel throughout the state for nonenforcement purposes.

In support of its other proposals to purchase additional vehicles, the department has provided the Legislature with sufficient information to establish the need for the vehicles. In the case of this proposal, however, the department has *not* established the need for the new sedans. Lacking adequate justification for the additional vehicles, we have no basis on which to recommend approval of this request. Accordingly, we recommend deletion of $190,000 requested for the purchase of additional sedans.

Summary: Table 4 provides a summary of the CHP's request for replacement and additional vehicles and our recommendations.

Table 4
California Highway Patrol
Amounts Requested and Recommended
For Vehicle Replacement
1985–86

Category	*CHP's Request*	*Analyst's Recommendation*	*Recommended Reduction*
Replacement motorcycles	$728,238	$499,730	$228,508
Replacement compact sedans	196,456	188,530	7,926
Additional motorcycles	64,448	48,080	16,368
Additional compact sedans	190,224	—	190,224
Total Expenditures	$1,179,366	$736,340	$443,026

Purchase of Rechargeable Flashlights Is Premature

We recommend that the Legislature (1) reduce the amount requested for the purchase of rechargeable flashlights by $202,000, and (2) adopt supplemental report language directing the CHP to conduct a pilot study of rechargeable flashlights and report its findings to the Legislature by March 1, 1986. (Reduce Item 2720-001-044 by $202,000.)

The department is proposing to purchase 3,790 high intensity rechargeable flashlights at a cost of $225,127, or $59.40 per flashlight, above that currently spent on flashlights. These flashlights are intended to replace the five-cell plastic flashlights which currently are issued to patrol officers. According to the department, the rechargeable flashlights are anticipated to be more than twice as bright, and more durable than those now used.

We recognize the need to provide CHP officers with better safety equipment. Nevertheless, we conclude that purchase of the flashlights in 1985–86 is premature. The department has not submitted information

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

documenting the cost-effectiveness of the rechargeable flashlights. Nor has it undertaken field testing of the flashlights to establish their durability.

Rather than convert to the new flashlights in the budget year, we suggest that the department conduct a pilot study to determine:

- ***The cost of the rechargeable flashlights,*** including the actual purchase price, maintenance costs, and electricity consumption for the recharger units;
- ***The cost savings that would be achieved from discontinuing the use of five-cell flashlights,*** including the savings from battery replacement and flashlight repair, and
- ***The performance of the flashlights*** under actual field conditions, so as to ascertain flashlight durability.

Accordingly, we recommend that the Legislature (1) adopt supplemental report language directing the CHP to conduct a pilot study of the cost-effectiveness and performance of rechargeable flashlights and report its findings to the Legislature by March 1, 1986, and (2) reduce by $202,000 the amount budgeted in Item 2720-001-044 for replacement flashlights, leaving the CHP with $23,000, or approximately 10 percent of what was requested, to fund the pilot test in the budget year.

Soft Body Armor Replacement Is Premature

We recommend a reduction of $100,000 in order to delete funds requested for the replacements of undamaged soft body armor that still has a useful life of 3 or 4 more years. (Reduce Item 2720-001-044 by $100,000.)

The department began purchasing soft body armor for all traffic officers and sergeants in 1978. In the budget year, the department requests $169,840 to replace 975 soft body armor vests that currently are in use. The department's proposal has two parts. First, the department requests $69,840 to replace soft body armor that may be damaged in 1985–86. We recommend approval of this amount. Second, the department requests $100,000 to begin replacing, over a four-year period, all of the 5,621 soft body armor vests purchased in 1978.

Our analysis indicates that replacement of the soft body armor purchased in 1978 is premature. The Department of General Services (DGS) has determined that the soft body armor has a useful life of 11 years. The CHP agrees with the DGS's evaluation. Thus, vests purchased in 1978 should not require replacement until 1989. For this reason, we recommend that the Item 2720-001-044 be reduced by $100,000, so as to limit the replacement of body armor vests in 1985–86 to only those vests which are damaged.

FLIGHT OPERATIONS

The CHP has conducted air operations since 1969, when it first purchased helicopters to assist traffic management in Los Angeles and San Francisco. Since then, the department has expanded its air fleet to include (1) seven fixed-wing aircraft which are used in conjunction with ground units to enforce traffic laws and provide assistance to motorists, and (2) six helicopters, which are used for traffic management, regional law enforcement activities and search-and-rescue efforts.

Los Angeles Helicopter Grounded

We recommend the Legislature defer action on the CHP's proposal to delete $316,000 and seven personnel-years currently budgeted for the Los Angeles helicopter until the CHP has secured a written agreement with a local law enforcement agency in Los Angeles County that provides for continuation of services currently supplied by this helicopter.

The CHP currently operates a helicopter in the Los Angeles metropolitan area which it uses exclusively for traffic management purposes in connection with the area's 500 miles of busy freeways. This helicopter provides for (1) early detection of traffic accidents so that emergency vehicles can be dispatched quickly and traffic delays minimized, and (2) quick communication of traffic information to Caltrans and ground units operated by allied law enforcement agencies.

In the budget year, the CHP is proposing to eliminate the Los Angeles helicopter, for a savings of $316,401 and seven personnel-years. The CHP maintains that this helicopter is not needed since several allied law enforcement agencies have helicopters in the Los Angeles area that can take over the duties of the CHP's helicopter with no significant reduction in services.

To date, the CHP has not reached an agreement with any of the law enforcement agencies in the Los Angeles area providing for the continuation of the services currently provided by CHP's Los Angeles helicopter. Without such an agreement, the Legislature will have no assurance that the services now provided by the CHP in the Los Angeles area will be continued in 1985–86 and subsequent years. Accordingly, we recommend that the Legislature defer action on the CHP's request to delete $316,000 and seven personnel-years currently budgeted for the Los Angeles helicopter until the CHP secures written agreement with a local law enforcement agency in the Los Angeles area providing for the continuation of this service.

Number of CHP Airplanes Soars

We recommend that $1,025,000 requested for four new fixed-wing aircraft be deleted, because the department has not clearly established the need for the additional aircraft or demonstrated that the aircraft would be cost effective. (Reduce Item 2720-001-044 by $1,025,000.)

The CHP currently operates seven fixed-wing aircraft, which are located in the Northern, Valley, Central, Border, Coastal and Inland Divisions. Three of the aircraft are used as part of the federally funded highway maximum speed enforcement project, while the other four are used for traffic management, detection of traffic violators, and patrolling areas that are not patrolled adequately by ground units.

The department requests $1,025,014 in 1985–86 to purchase and operate four additional fixed-wing aircraft in the Inland, Border, Golden Gate, and Northern Divisions.

Our analysis indicates that the department has not clearly established the need for the additional airplanes, nor has it demonstrated that the additional aircraft would be cost effective.

One reason given by the department to justify purchase of the additional aircraft is that it would allow the elimination of 12 traffic officer positions, and thus contribute toward the Governor's work force reduction effort. The Governor's Budget, however, does not reflect the reduction of 12 CHP traffic officer positions.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

A second reason given by the department in support of its request is that the additional aircraft would permit increased aerial surveillance of certain highways throughout the state which presently have a low frequency of patrol by ground units. The supporting information provided by the department, however, is lacking in specifics and does not adequately explain why existing ground patrols on these low-traffic highways are not sufficient and must be augmented by aerial surveillance.

In the absence of information documenting the need for and cost-effectiveness of an expanded fixed-wing fleet, we cannot recommend that funds for this purpose be approved. For these reasons, we recommend a reduction of $1,025,000 from Item 2720-001-044 to delete funds requested for the purchase of four fixed-wing aircraft.

REGULATION AND INSPECTION

The regulation and inspection program is composed of six separate activities. These activities include inspection of commercial vehicles, school buses, special purpose vehicles, hazardous materials carriers, and farm labor vehicles. Department personnel also enforce payment of proper registration fees by vehicle owners and drivers.

Funding for the Temecula Scale Facility is Premature

We recommend a reduction of $33,000 and 0.6 personnel-years requested to support the Temecula Scale facility, because construction of the facility will not be completed in 1985–86. (Reduce Item 2720-001-044 by $33,000.)

The department requests $33,572 to staff and equip a new platform scale facility which is to be constructed by Caltrans at Temecula. The department assumes that the facility will be completed by April 1, 1986, and proposes to staff the facility for the last three months of 1985–86.

Our discussions with Caltrans, however, indicate that the scale facility will not be complete until late 1987. Therefore, we recommend deletion of the $33,000 and 0.6 personnel-years requested for this purpose in Item 2720-001-044.

ADMINISTRATIVE SUPPORT

The department's administrative support program consists of six elements—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 operating programs.

Operating Expenses and Equipment Overbudgeted

We recommend a reduction of $186,000 to correct for overbudgeted operating expenses and equipment associated with positions proposed for elimination. (Reduce Item 2720-001-044 by $186,000.)

In accordance with the Governor's state workforce reduction effort, the department is proposing to delete 43.4 personnel-years in 1985–86 for a reduction of $1,726,062. The positions to be eliminated include janitors, traffic officers, sergeants, lieutenants, and a deputy chief. According to the department, the reductions will result in increased organizational efficiencies.

Our analysis indicates that the proposed reduction in staffing is not accompanied by a corresponding reduction in related operating expenses and equipment costs. Accordingly, we recommend a reduction of $186,000 in Item 2720-001-044 to make the budget internally consistent.

Reimbursements Understated

We recommend a reduction of $363,000 and reimbursements be increased by a corresponding amount to reflect more accurately the amount of reimbursements expected in the budget year. (Reduce Item 2720-001-044 by $363,000.)

The California Highway Patrol estimates that it will receive $3,520,000 in reimbursements during the budget year. Our analysis, however, revealed that the level of reimbursements proposed in 1985–86 is understated by $363,000.

Table 5 shows that several federal grants received in the current and prior years through the Office of Traffic Safety (OTS) will be continued into the budget year. The department's budget, however, does not reflect these reimbursements.

Table 5
California Highway Patrol
Budget Reimbursements
1985–86

Project	*Project Period*	*Project Grant*	*Analyst's Projection of Funds Available 1985–86*
1. Upgrading Emergency Medical Services (EMS) capabilities of CHP regional helicopters	April 1, 1983 to December 31, 1985	$1,080,412	$196,000
2. CHP videotaped training and traffic safety	October 1, 1983 to June 30, 1986	421,601	153,000
3. Emergency incident management vehicles	April 1, 1983 to September 30, 1985	140,000	14,000
Total Reimbursement			$363,000

Accordingly, we recommend that reimbursements be increased by $363,000 and Item 2720-001-044 be reduced by a corresponding amount.

Word Processing Equipment

We withhold recommendation of $657,000 requested for word processing equipment, pending completion of the feasibility study report for this project.

The department requests $657,054 to purchase word processing equipment for 30 area offices across the state in 1985–86. The department indicates that, although clerical workload has been increasing, there has not been a commensurate increase in clerical staffing levels. In order to better handle the increased workload, the department proposes to purchase word processing equipment.

The department is required to submit to the state Office of Information

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Technology (OIT) a feasibility study report (FSR) on the proposed project. The FSR is to contain detailed information on the nature of the proposal, its costs and benefits, and the costs and benefits of feasible alternatives.

Our analysis indicates, however, that the department had not yet completed the feasibility study report (FSR) for this project. Lacking this information, we have no basis on which to determine if the department's proposal is adequately supported and cost-effective. Therefore, we withhold recommendation on $657,000 to purchase word processing equipment, pending completion and approval of the FSR.

Lease Costs Exceed Needs

We recommend a reduction of $939,000 requested for proposed lease costs in order to correct for overbudgeting. (Reduce Item 2720-001-044 by $939,000.)

The CHP proposes to spend $3,989,443 in 1985–86 to lease land, offices, and other facilities. This is an increase of $1,895,173, or 90.5 percent, above estimated expenditures for these purposes in the current year. The principal reason for this increase is the department's plan to lease 15 new build-to-suit facilities in the budget year. Because these facilities are specifically built to satisfy the department's needs, the associated lease costs tend to be higher than the costs of other facilities the department leases.

Based on our discussions with the Department of General Services, Division of Space Management (DSM), we found that the department will not be able to occupy 11 facilities until a date later than what the department originally assumed. In addition, in its request the department did not give consideration to reimbursements from the Department of Motor Vehicles (DMV) for two leased facilities that DMV shares with CHP.

Based upon our analysis, we recommend a reduction of $939,000 in Item 2720-001-044 to correct for overbudgeting. The details of our recommendation are given in Table 6.

Table 6
California Highway Patrol
Proposed Lease Costs
1985–86

Facility	*Amount Requested*	*Analyst's Recommended Amount*	*Recommended Reduction*
Blythe	$140,400	$74,400	$66,000
Border Division	224,490	103,390	121,100
Coalinga	132,000	71,885	60,115
Garberville	73,402	20,105	53,297
Glendale	176,227	112,445	63,782
Golden Gate Division (MAIT)	18,000	—	18,000
Inland Division	282,896	151,905	130,991
Madera	122,292	13,752	108,540
Tejon	125,000	12,000	113,000
Temecula	240,000	140,000	100,000
Ukiah	155,100	83,925	71,175
Blythe—DMV [a]	—	–12,000	12,000
Temecula—DMV [a]	—	–21,000	21,000
Totals	$1,689,807	$750,807	$939,000

[a] Department of Motor Vehicles

Technical Budgeting Issues

We recommend a reduction of $51,000 requested for various services and equipment purchases to correct for overbudgeting, as follows (Reduce Item 2720-001-044 by $51,000.):

Teale Data Center Services. The department is requesting $750,000 to reimburse the Teale Data Center for computer services in 1985–86. Supporting documentation from the department indicates, however, that only $723,000 in services will be required, making possible a reduction of $27,000.

Academy Pool Repair. The budget requests $12,000 for repairs to the swimming pool at the CHP Academy. The department has indicated, however, that it has found an alternative (no-cost) way to repair the pool, for a savings of $12,000.

Management Information System. The department is proposing $64,000 for procurement of additional management information system equipment. Our analysis indicates that the cost of the equipment would be $52,000, for a savings of $12,000.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY

Item 2720-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 97

Requested 1985–86	$4,916,000
Recommended approval	3,012,000
Recommended reduction	535,000
Recommendation pending	1,369,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Golden Gate Division Office and Communications Center. Withhold recommendation on Item 2720-301-044(2) pending review of preliminary plans. 362
2. ***Alterations and Property Acquisition—Stockton. Reduce Item 2720-301-044(5) by $263,000.*** Recommend deletion of requested funds because the department in the past has provided assurances that this work is not required. 363
3. Purchase of Leased Facility—Ontario. Withhold recommendation on Item 2720-301-044(7), purchase of leased facility, pending receipt of an appraisal and a new cost estimate. 363
4. Property Options and Appraisals. Recommend that the Legislature add Item 2720-495 to the Budget Bill in order to revert unencumbered funds previously appropriated for property appraisals and options. 364
5. ***Minor Projects. Reduce Item 2720-301-044(1) by $272,000.*** Recommend reduction in funding for seven projects which are not justified. 364

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes $4,916,000 from the Motor Vehicle Account, State Transportation Fund, for the Department of the California Highway Patrol's (CHP) 1985–86 capital outlay program. Included in the total is $3,996,000 for six major capital outlay projects, $880,000 for 23 minor projects and $40,000 for various property appraisals and purchase options for future office sites.

Golden Gate Division Office and Communications Center

We withhold recommendation on Item 2720-301-044(2), working drawings for the Golden Gate Division Office and Communications Center, pending review of preliminary plans.

The budget includes $177,000 under Item 2720-301-044(2) to prepare working drawings for the new Golden Gate Division Office and Communications Center, Vallejo. The proposed 34,720 square foot facility will consolidate the radio dispatch function currently housed at four offices and provide space for division headquarters.

The Legislature appropriated $706,000 for site acquisition and preliminary plans for this project in the 1982 Budget Act. Recently, the CHP acquired a five-acre site in Vallejo.

The CHP requested working drawing funds for this project in the 1984 Budget Bill. The Legislature, however, did not appropriate working drawing funds because the Office of State Architect (OSA) did not expect to start work on preliminary plans until spring 1984 and would require at least six months to complete the plans.

Preliminary plans for the Golden Gate project were transmitted to our office on January 23, 1985. This late submittal does not provide sufficient time for our review and comments to be included in this analysis. Consequently, we withhold recommendation on this item pending review of the preliminary plans. We will prepare a supplemental analysis of this proposal prior to budget hearings.

Purchase of Leased Facilities

We recommend approval of Items 2720-301-044(3), (4) and (6) for the purchase of leased facilities at Clear Lake/Kelseyville, Alturas and Mariposa.

The CHP is requesting $2,364,000 for the purchase of three area offices that currently are leased by the patrol. Table 1 summarizes the department's acquisition requests and the terms of the current leases.

Table 1
Department of the California Highway Patrol
Proposed Purchase of Leased Facilities

	Budget Request		*Present Annual*	*Lease Expiration*
Location	*Acquisition*	*Administrative*	*Rental*	*Date*
Clear Lake/Kelseyville	$680,000	$3,500	$93,324	3/31/99
Alturas	$974,000	$3,500	$141,980	1/31/99
Mariposa	$698,000	$3,500	$110,544	5/31/99

The amounts budgeted for the purchase of these facilities are based on contractual amounts in the lease agreements plus Department of General Services' administrative costs. Our review indicates that these three acquisitions will be financially beneficial to the state, and accordingly we recommend that the requested funds be approved.

Alterations and Property Acquisition—Stockton

We recommend deletion of Item 2720-301-044(5) because the department previously has assured the Legislature that the proposed modifications will not be required.

Item 2720-301-044(5) contains $263,000 for acquisition, preliminary plans, working drawings, and construction for building alterations to the Stockton field office. The request includes (1) $33,000 to acquire land near the office to provide additional parking and space for a new generator building and ground-mounted microwave tower, and (2) $230,000 to alter the office to provide additional staff space.

According to the CHP, the number of staff working in the field office (73) is 25 percent higher than what the facility was designed for, and as a result office space has become severely crowded and parking space is insufficient.

Our analysis indicates that modifications to this facility are not justified. When requesting funds for acquisition of the Stockton office *in 1983–84,* the department indicated that this facility was constructed for 75 traffic officers and would be adequate for occupancy by the patrol for at least 13 years after purchase. Consequently, it is not clear why, less than two years later, the Legislature is being requested to appropriate funds to remodel and expand this facility. On this basis, we recommend that the funds included for this item be deleted.

Purchase of Leased Facility—Ontario

We withhold recommendation on Item 2720-301-044(7), purchase of facilities in Ontario, pending receipt of additional information pertaining to the cost and scope of this project.

The patrol is requesting $1,180,000 in acquisition funds and $12,000 for Department of General Services (DGS) administrative costs in order to purchase the Ontario traffic officer facility. The facility was initially occupied in 1975 and has approximately five years remaining on the current lease. The state has an option to extend the lease for 10 years. The lease, however, does not contain a purchase option. The present value of projected rental costs over the next 15 years, excluding property value, is approximately $1,083,000.

Before the Legislature can substantiate the cost-effectiveness of this proposal, an appraisal of the property is needed to document the $1,180,000 purchase price.

The CHP was provided $35,000 to conduct property appraisals and to obtain purchase options for varous facilities to be included in the Governor's 1985–86 Budget. The CHP should use these funds to secure a property appraisal for the Ontario office from the DGS and obtain a purchase option before the Legislature is asked to appropriate funds for this acquisition. We withhold recommendation on this item, pending completion of these actions.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

Property Options and Appraisals

We recommend approval of Item 2720-301-044(8), property options and appraisals. We further recommend that the Legislature add Item 2720-495 to the Budget Bill in order to revert the unencumbered balance of funds previously appropriated for property appraisals and options.

Item 2720-301-044(8) would provide $40,000 for property appraisals and purchase options in various areas. Our analysis indicates that the availability of purchase appraisal and option funds can substantially reduce the time needed to acquire facilities for the patrol. Consequently, we recommend approval of this item.

The Legislature appropriated $35,000 in the 1984 Budget Act for the CHP to conduct property appraisals and secure options in various areas. These funds were to be used only for projects to be included in the Governor's Budget for 1985–86. Based upon the information submitted by the department, it appears that not all of these funds will be spent in the current year. Consequently, we recommend adoption of the following budget language to revert any unspent funds:

> "Item 2720-495 *Reversion, Department of the California Highway Patrol.* Notwithstanding any other provision of law, as of June 30, 1985, the undisbursed balance in excess of any unliquidated encumbrances and any such balance on deposit in the Architecture Revolving Fund for the appropriations provided in the following citation shall revert to the unappropriated surplus of fund from which the appropriation was made:
>
> 044—Motor Vehicle Account, State Transportation Fund
>
> (1) Item 2720-301-044(2) Budget Act of 1984—Property Options and Appraisals—Various Areas"

Minor Capital Outlay

We recommend that Item 2720-301-044(1), minor projects, be reduced by $272,000 to eliminate funding for seven projects which are not justified.

Item 2720-301-044(1) provides $880,000 for 23 minor capital outlay projects ($200,000 or less per project) for the CHP. We recommend approval of funding for 16 projects totaling $608,000. These projects would alter various facilities to improve efficiency, correct code deficiencies and modify building energy systems. The work ranges in cost from $2,000 to $65,000.

We recommend deletion of $272,000 requested for seven projects, as discussed below.

Security Projects. The budget requests $30,000 for four projects to provide additional security at various CHP facilities. These projects are:

—Building Security, Headquarters Building B ($10,000)
—Closed Circuit Television, L.A. Communications Center ($15,000)
—Fencing, Bridgeport ($3,000)
—Gun Vault Alarm, CHP Academy ($2,000)

The department has not provided adequate information to substantiate the existence of security problems at these facilities. We therefore, recommend that the projects be deleted.

Fire Alarm System, CHP Headquarters. The budget includes

$15,000 to provide a fire alarm system for Building A at the CHP Headquarters complex, Sacramento. The CHP has provided no information to indicate that such a system is warranted. The state's existing fire safety codes are intended to be the primary determinant of what is needed to promote fire safety. Yet, the patrol has not been able to demonstrate that installation of such a system is required by existing fire safety codes. Consequently, we recommend that the $15,000 be deleted.

Office Alterations, CHP Headquarters. The budget includes $30,000 to modify the second and third floors of the headquarters building to make more efficient use of office space. While the proposed work may be desirable, our analysis indicates that the request is premature. The CHP is conducting a study to evaluate the space needs for the headquarters functions. The results of this study may have an effect on the use of existing headquarters space. Modifications of the type proposed in the 1985–86 budget should be deferred until this study is available. On this basis, we recommend deletion of this project, for a reduction of $30,000.

Motorcycle Roadway. The budget contains $197,000 to construct a roadway for motorcycle skills training at the CHP Academy.

The department currently uses the Caltrans dynamic test area (located at the CHP Academy) to conduct a major portion of its training. It indicates, however, that Caltrans plans to increase its use of this area.

Motorcycle skills training is also provided at the Academy's defensive driving area network. The department maintains that it would be difficult to relocate *all* motorcycle skills training to this area because of the need to coordinate with the various other programs that use the defensive driving area. The department also indicates that there is a backlog of requests for motorcycle training for allied agencies who must wait up to eight months before receiving instruction.

Our analysis indicates that the need for this project has not been substantiated. The department has not adequately demonstrated that the necessary amount of motorcycle skills training cannot be provided under the current arrangements. We have received no information to indicate what portion of motorcycle training is conducted at the Caltrans dynamic test area, nor specifically how or why Caltrans plans to increase its use of this area. In addition, the department has not indicated what administrative solutions it has considered to address the scheduling conflicts at the defensive driving area network.

Finally, the department's claim that allied agencies are required to wait up to eight months for motorcycle skills training is not sufficient justification for constructing a new motorcycle roadway at state expense. Training for officers of allied agencies has always been provided on a space-available basis.

For these reasons, we recommend that the funds included for this project be deleted, for a savings of $197,000.

Overbudgeted Construction Funds

We recommend that the amounts approved for construction in Item 2720-301-044 be reduced by 3 percent to eliminate overbudgeting of construction costs.

The Governor's Budget requests $230,000 for the construction phase of capital outlay projects in 1985–86. Consistent with the state's budgetary practice, these amounts are based on an anticipated construction cost index for July 1, 1985. At the time the index was established for the budget year it was set at a reasonable level. Inflation, however, has not increased

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

as anticipated. Using the most recent indices, adjusted by the current expected inflationary increase of about ½ percent per month, construction costs in the budget are overstated by approximately 3 percent. We therefore recommend that any funds approved for construction under this item be reduced by 3 percent to eliminate overbudgeting.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

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 98

Requested 1985–86	$280,770,000
Estimated 1984–85	257,593,000
Actual 1983–84	218,865,000
Requested increase (excluding amount for salary increases) $23,177,000 (+9.0 percent)	
Total recommended reduction	783,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2740-001-001—Anatomical donor designation, petit jury selection	General	$68,000
2740-001-044—Departmental Operations	Motor Vehicle Account, State Transportation	195,096,000
2740-001-054—Support of New Motor Vehicle Board	New Motor Vehicle Board Account	760,000
2740-001-064—Departmental Operations	Motor Vehicle License Fee Account, Transportation Tax	80,689,000
2740-001-378—Bicycle Registration	State Bicycle License and Registration	29,000
2740-001-420—Departmental Operations	Vehicle Inspection	1,172,000
2740-001-516—Undocumented Vessel Registration	Harbors and Watercraft Revolving	2,956,000
2740-011-044—Reserve for Deficiencies	Motor Vehicle Account, State Transportation	(1,000,000)
Total		$280,770,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Budget Bill Formats. Recommend that the Budget Bill be amended to schedule expenditures by program element, 369

in order to provide the Legislature with expenditure control.

2. ***Computer Project. Reduce Item 2740-001-044 by $255,000.*** Recommend reduction because the department has not documented the need to purchase additional microcomputer equipment. 370
3. ***Technical Budgeting Issue. Reduce Item 2740-001-044 by $101,000.*** Recommend reduction to correct for overbudgeted personnel services. 370
4. ***Lease Funds. Reduce Item 2740-001-044 by $427,000.*** Recommend reduction because certain proposed lease costs exceed the department's needs. 370

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 160 field offices in 14 districts throughout California, as well as a headquarters facility in Sacramento. The department is authorized 7,322 personnel-years in 1984–85.

OVERVIEW OF THE BUDGET REQUEST

The budget requests appropriations of $280,770,000 from various state funds for support of the Department of Motor Vehicles in 1985–86. This is $23,177,000, or 9 percent, more than estimated expenditures from those funds 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 from reimbursements totaling $5,706,000 in 1985–86. These reimbursements result from the provisions of services by the department to other agencies and the public. The level of reimbursements shown in the budget for 1985–86 is $14,543,000, or 72 percent, below the 1984–85 level. The decrease is due not to a reduction in services provided by the department, but rather to an accounting change. The budget proposes to reclassify as revenues (rather than reimbursements) the fees paid by the public for information from the department's files. This accounting change would enable the department to legally charge more for the information than the department's actual costs of providing it. Accordingly, the reduction in reimbursements is offset by a corresponding increase in the department's requested appropriation from the Motor Vehicle Account (MVA).

The department's total expenditure in 1985–86, including expenditures of the remaining reimbursements, is proposed at $286,476,000.

The department proposes 7,155.6 personnel-years in 1985–86. This represents a net decrease of 166.8 personnel-years, or 2.3 percent, from the 7,322.4 personnel-years authorized in 1984–85.

Table 1 shows a summary of the department's staffing and expenditures, by program, for the prior, current, and budget years. Table 2 summarizes the major changes proposed for the DMV's budget in 1985–86.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 1
Department of Motor Vehicles
Staffing and Expenditures by Program
1983–84 through 1985–86
(dollars in thousands)

	Personnel-Years				*Expenditures*			
Program	*Actual 1983–84*	*Estimated 1984–85*	*Budgeted 1985–86*	*Percent Change 1984–85 to 1985–86*	*Actual 1983–84*	*Estimated 1984–85*	*Budgeted 1985–86*	*Percent Change 1984–85 to 1985–86*
Vehicle and Vessel Registration and Titling	3,888.6	3,959	3,851.1	−2.7	$132,980	$154,941	$159,473	2.9
Driver Licensing and Control and Personal Identification	2,756.2	2,942.6	2,884.6	−2.0	90,425	104,219	107,777	3.4
Occupational Licensing and Regulation	369.5	404.6	403.8	−0.2	14,207	17,770	18,300	3.0
New Motor Vehicle Board	10.9	16.2	16.1	−0.6	538	770	780	1.3
Administration	414.5	391.7	381.9	−2.5	42,881	56,313	66,097	17.4
Administrative Costs Distributed to Other Programs	−414.5	−391.7	−381.9		−42,648	−56,171	−65,951	
Total	7,025.2	7,322.4	7,155.6	−2.3	$238,383	$277,842	$286,476	3.1%
Reimbursements					−19,518	−20,249	−5,706	
Total					$218,865	$257,593	$280,770	

Table 2
Department of Motor Vehicles
Proposed Budget Changes
(dollars in thousands)

	Motor Vehicle Account	*Motor Vehicle License Fee Account*	*Other* [a]	*Total*
Adjusted base budget, 1984–85	$178,149	$75,352	$24,341	$277,842
Baseline Adjustments, 1985–86				
1. Net administrative adjustments	−9	−3	—	−12
2. Operating expense adjustment	1,225	506	67	1,798
3. Full year cost of 1984–85 employee compensation adjustment	692	286	38	1,016
4. Elimination of one-time cost	−644	—	—	−644
5. Pro rata adjustment	950	393	52	1,395
6. Allocation to Board of Control	2	—	—	2
Budget Change Propsals				
1. Net workload adjustment	134	3,249	−1,209	2,174
2. DMV automation	−3,607	−1,492	−198	−5,297
3. Common expiration	−4	−1	—	−5
4. Microcomputer project	183	72	—	255
5. Data base replacement	593	246	33	872
6. Inventory management system	−44	−18	−2	−64
7. Telecommunications	1,802	746	—	2,548
8. Dishonored checks	−83	−35	−5	−123
9. Reimbursements to revenue	12,400	—	−12,400	—
10. Micrographics	393	163	22	578

11. New statutes	4,220	1,745	21	5,986
12. Contracting for services	−177	−73	−10	−260
13. Phone-mail appointment system	729	302	40	1,071
14. 1985 legislative proposals	−64	−27	−4	−95
Subtotals	$196,840	$81,411	$10,786	$289,037
Unallocated Reduction	−1,744	−722	−95	−2,561
1985–86 Expenditures (Proposed)	$195,096	$80,689	$10,691	$286,476
Change from 1984–85:				
Amount	$16,947	$5,337	−$13,650	$8,634
Percent	9.5%	7.1%	−56.1%	3.1%

[a] Includes reimbursements.

Note: The department uses a proportionate benefit/proportionate cost formula to determine the expenditures from each account. Therefore, the expenditures listed here from each account are only estimates.

ANALYSIS AND RECOMMENDATIONS

DMV Automation Continues

The Department of Motor Vehicles is in the midst of a multi-phased program to fully automate the registration and licensing functions at most of its field office locations. Automation of the vehicle registration functions is expected to be completed in June 1985. Automation of drivers licensing functions is scheduled to be completed by March 1986.

The department's automation program is very complex and requires considerable technical expertise. Since the program began, it has encountered a series of unanticipated problems associated with the telecommunication interfacing of various functions and affairs of the department's statewide operations. Although the completion dates have slipped somewhat, we believe the DMV automation project is proceeding at a reasonable pace.

In 1985–86, the department is requesting a reduction of $2,896,000 and 175.3 personnel-years to reflect the results of automation. The department originally projected net savings of $4,400,000 in 1985–86. These savings were expected to result from automating 101 field offices. The department recently has revised the automation project to include the remaining 58 field offices which were not originally scheduled for automation. This will increase costs by $1,500,000 in 1985–86, thereby reducing net savings to about $2,900,000.

Budget Bill Formats

We recommend that the Budget Bill be amended to schedule expenditures by program element, in order to provide the Legislature with expenditure controls.

In past years, the Budget Bill has displayed the department's proposed expenditures *by program.* The program elements were: Vehicle and Vessel Registration and Titling, Drivers Licensing and Personal Identification, Occupational Licensing and Regulation, New Motor Vehicle Board, and Administration.

The 1985 Budget Bill, however, does not schedule the proposed expenditures by program elements. Thus, the Budget Bill, when enacted would not reflect the actions taken by the Legislature to establish funding priorities among the department's various program elements. This would seri-

DEPARTMENT OF MOTOR VEHICLES—Continued

ously weaken the Legislature's ability to control how the department uses the funds appropriated to it.

To avoid weakening legislative control of the department's expenditures, we recommend that the Legislature schedule the Department of Motor Vehicles' expenditures by program, as it has done in past years.

More Information Needed for Computer Project

We recommend that $255,000 requested for additional microcomputer equipment be deleted because the department has not documented the need for this equipment. (Reduce Item 2740-001-044 by $255,000.)

In 1985–86, the department is requesting $255,000 to purchase additional microcomputer hardware and software and a communication network.

The department is required to submit to the state Office of Information Technology (OIT) a feasibility study report on the proposed project. The FSR is to contain detailed information on the nature of the proposal, its costs and benefits, and the costs and benefits of feasible alternatives.

Our analysis indicates that the department has not yet completed the FSR for this project. Lacking this information, the Legislature has no basis on which to determine if the department's proposal warrants funding in 1985–86. Therefore, we recommend that Item 2740-001-044 be reduced by $255,000 to delete the requested funds.

Legislative Proposals

As part of its 1985–86 budget, the department is proposing a reduction of $95,245 and 4.8 personnel-years on the assumption that proposed legislation will be enacted. This legislation would (1) increase the responsibilities of courts with regard to issuing mandatory drivers' license suspension and revocation orders, and (2) decrease the courts and DMV's workload with regard to "failure to appear" notices.

New Employees Taken an Extra Step

We recommend a reduction of $101,000 to correct for overbudgeting. (Reduce Item 2740-001-044 by $101,000.)

In 1984, the Legislature enacted several statutes that require the Department of Motor Vehicles to provide additional services to the public. The department is requesting $6,628,404 and an increase of 196.6 personnel-years to implement these measures in 1985–86.

Our analysis indicates that the department's request would add the new staff positions at the *second* step of the respective salary ranges. This is contrary to guidelines established by the Department of Finance that require new positions to be budgeted at the *first* step of the appropriate pay range. Therefore, we recommend a reduction of $101,000 to correct for overbudgeted personnel services.

Lease Costs Exceed Needs

We recommend a reduction of $427,000 because proposed lease costs are overbudgeted. (Reduce Item 2740-001-044 by $427,000.)

The department is requesting $3,610,553 to cover the cost of leasing offices and other facilities at 84 locations in the budget year. In addition, DMV is proposing to share leasing costs with the California Highway Patrol (CHP) at six other facilities.

Based on our discussions with the Department of General Services, Division of Space Management (DSM), we found that funds are requested for five facilities that the department will not be able to occupy until a later date than assumed by the department in preparing its budget. In addition, the department incorrectly estimated the lease costs for three facilities that it will share with the CHP. These lease proposals are shown in Table 3.

Based upon our analysis, we recommend a reduction of $427,000 to correct for overbudgeting of lease costs.

Title 3
Department of Motor Vehicles
Proposed Lease Costs
1985–86

Facility	*Amount Requested*	*Analyst's Recommended Reduction*	*Amount Recommended*
Garberville	$15,380	−$13,100	$2,280
Manteca	60,000	−24,000	36,000
Petaluma	168,000	−155,040	12,960
Ukiah	35,550	−20,700	14,850
Ventura	180,000	−114,000	66,000
Blythe[a]	—	12,000	12,000
San Andreas[a]	37,860	−37,860	—
Temecula[a]	96,000	−75,000	21,000
	$592,790	−$427,700	$165,090

[a] Facilities shared with the California Highway Patrol.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY

Item 2740-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 115

Requested 1985–86	$5,006,000
Recommended approval	1,966,000
Recommended reduction	1,754,000
Recommended augmentation	40,000
Net recommended approval	2,006,000
Recommendation pending	1,286,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Standard Field Office Formula. Recommend that the standard formula used to determine the size of DMV field offices be readjusted because the department has not justified its claim that the public service area should be increased to accommodate modular work station furniture. 372
2. ***Pomona Field Office. Reduce Item 2740-301-036(3) by $1,583,000.*** Delete working drawing and construction funds because a site for the facility has not been purchased and preliminary plans have not been started. 374

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

3. Santa Maria Field Office—Addition. Withhold recommendation on Item 2740-301-044(7), pending receipt of an OSA cost estimate. 375
4. Santa Ana Field Office—Addition. Withhold recommendation on Item 2740-301-044(8), pending receipt of an OSA cost estimate. 375
5. DMV Headquarters Fire and Life Safety Modifications. Withhold recommendation on Item 2740-301-044(2), pending receipt of preliminary plans. 375
6. ***Property Options and Appraisals. Add $40,000 for property appraisals/options.*** Recommend that the Budget Bill be amended to allow expenditure of $40,000 for property appraisals and purchase options. Further recommend that the Legislature adopt control language specifying that these funds be used only for projects to be included in the 1986–87 Governor's Budget. 375
7. ***Minor Capital Outlay. Reduce Item 2740-301-044(1) by $171,000.*** Recommend reduction to delete funding for one project which is not justified, and to reduce funding for two projects which are over-budgeted. Further, withhold recommendation on $60,000 requested for one project, pending receipt of additional information. 376
8. Construction Costs. Recommend that the amounts approved for construction in Item 2740-301-042 be reduced by 3 percent to eliminate overbudgeting of construction costs. 377

ANALYSIS AND RECOMMENDATIONS

The budget proposes $5,006,000 under Item 2740-301-044 for the Department of Motor Vehicles' (DMV) capital outlay program. This amount includes $1,594,000 for acquisition and planning for three new DMV field offices, $1,583,000 for working drawings and construction for a new field office in Pomona, $1,226,000 for modifications to the DMV headquarters facility and field offices in Santa Maria and Santa Ana, and $603,000 for seven minor capital outlay projects.

Standard Space Formula Needs Further Refinement

We recommend that the standard formula used to determine the size of DMV field offices be readjusted because the department has not justified its claim that the public service area should be increased to accommodate modular work station furniture.

In the *Supplemental Report of the 1984 Budget Act,* the Legislature directed the Department of Motor Vehicles to reevaluate the space formula used to determine the appropriate size of DMV field offices. The Legislature intended that the reevaluation take into account recent changes in program requirements and management techniques.

The department's report was submitted to the Legislature in August 1984. The reevaluation resulted in the following changes to the standard space formula:

- The public service area (PSA) space needs were reduced 1.1 percent. (PSA includes the main open area that provides the public area, counter and space for DMV staff.)
- The parking space needs were decreased by 25 percent.

- The drive test stacking lane was decreased by 25 percent.

Public Service Area. The 1.1 percent reduction in the public service area represents the net effect of two changes. The department concluded that the registration-by-appointment program results in a 16.2 *decrease* in the amount of public service area needed, which is partially offset by a 15.1 percent *increase* in the amount of space needed to accommodate modular work station furniture that is being acquired in connection with office automation.

The department indicates that the registration-by-appointment program has reduced the number of "drop-in" registration customers and has evened the flow of daily registration transactions. This has reduced congestion in DMV field offices, thereby reducing the amount of public service area needed for each office. Our analysis indicates that the resulting 16.2 percent reduction in public service area is appropriate.

According to the department, the furniture conversion project has reduced staff work space, and has created other problems in staging/controlling customer work flow. The department, however, has provided no information to substantiate its contention that the new furniture causes these problems.

Our on-site review of the Carmichael DMV field office—which has installed various types of modular work stations—revealed no deficiencies in the existing amount of public service area. Interior work space and the number of work stations were adequate, and there was no evidence of problems in staging and controlling customer work flow. Our impression of the Carmichael facility was that the furniture improved the efficiency of both the work station and the service given to the customer. We have no reason to believe that the Carmichael office is unique.

In sum, we cannot substantiate the department's claim that public service area should be increased by 15.1 percent in order to accommodate modular furniture. We therefore recommend that the formula be modified to reflect the effect of the registration-by-appointment program on space needs but, that it not be revised on account of the conversion to modular furniture. This would result in a 16.2 percent reduction in the amount of space needed for the public service area in a DMV facility. For the typical new facility, the savings in capital costs from the reduced space standard would be approximately $62,000.

DMV Field Office Projects

Table 1

Department of Motor Vehicles Field Office Projects (dollars in thousands)

Project/Location	*Proposed Size* [a]	*Analyst's Recom-mendation* [a]	*Budget Bill Amount*	*Analyst's Recom-mendation*
(3) New Field Office—Pomona	11,000	10,200	$1,583	—
(4) New Field Office—Redding	10,000	9,280	518	$518
(5) New Field Office—San Gabriel	13,000	12,115	792	792
(6) New Field Office—Yuba City	8,400	7,865	284	284
(7) Construct Addition to Field Office—Santa Maria	1,670	940	245	pending
(8) Construct Addition to Field Office—Santa Ana	3,050	2,070	460	pending
Totals			$2,299	pending

[a] Net square feet.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

The budget includes a total of $2,299,000 for six capital outlay projects to construct or remodel DMV field offices statewide. These projects, together with our recommendations on each are listed in Table 1.

New Field Office—Pomona

We recommend deletion of Item 2740-301-044(3) working drawings and construction, Pomona field office, because a site for the facility has not been purchased and preliminary plans have not been started, for a reduction of $1,583,000.

Item 2740-301-044(3) requests $1,583,000 for working drawings ($73,000) and construction ($1,510,000) for a new DMV field office and parking facility in Pomona. The DMV proposes to construct an 11,000 net square foot field office, with 4,700 square feet of public service space and 85 parking spaces.

The proposed project reflects the DMV's *adjusted* space standard for field offices, discussed above.

Acquisition and preliminary planning funds were provided for the Pomona Field Office in the 1984 Budget Act. The DMV's schedule, however, does not anticipate that a site for the facility will be acquired until the end of the current fiscal year. Thus, preliminary plans have not been started, leaving the Legislature without the information it needs to determine the amount required for working drawings and construction. Under the circumstances, we cannot recommend approval of the request, and recommend deletion of the $1,583,000. We urge the DMV to expedite the site acquisition process and to work with the Office of State Architect to expedite completion of the preliminary plans in order to make them available for legislative review.

As discussed above, we recommend that the space standard for public service area (psa) be reduced by 16.2 percent. On this basis, the psa proposed for the Pomona Field Office should be reduced by 800 square feet. The preliminary plans should be developed to reflect this space reduction.

New Field Offices—Redding, San Gabriel, Yuba City

We recommend approval of Items 2740-301-044(4) (5) and (6), property acquisition and preliminary plans for new field offices in Redding, San Gabriel and Yuba City.

The department is requesting a total of $1,594,000 to acquire property and prepare preliminary plans for new DMV field offices at Redding, San Gabriel and Yuba City. The need for each of these projects is justified.

The department's proposal reflects the revised standards for land area, parking spaces, and building space resulting from its reevaluation of space needs. As discussed above, we recommend that the standard for public service area be reduced by 16.2 percent. Consistent with this recommendation, we believe the new buildings should be smaller than what the department proposes. Consequently, we recommend that preliminary plans for these projects be based on the lower standard, as shown in Table 1.

Addition to Field Offices—Santa Maria and Santa Ana

We withhold recommendation on Items 2740-301-044 (7) and (8), design and construction of additions to the Santa Maria and Santa Ana field offices, pending receipt of an OSA cost estimate.

The budget includes $705,000 for design and construction of additional building space at the field offices in Santa Maria ($245,000) and Santa Ana ($460,000). Consistent with our recommendation above, we recommend that the public service area allowance be reduced to comply with a lower standard. This would require a reduction of 730 square feet and 980 square feet from the additions at Santa Maria and Santa Ana, respectively.

Cost Estimates Not Available. The requested amounts for design and construction are not based on an evaluation by the Office of State Architect. Without this evaluation, the adequacy of the requested amounts cannot be substantiated. Therefore, we withhold recommendation on these items, pending receipt of the needed information.

DMV Headquarters—Fire and Life Safety Modifications

We withhold recommendation on Item 2740-301-044 (2), fire and life safety modifications to the DMV headquarters building, pending receipt of preliminary plans.

The budget requests $521,000 for fire and life safety modifications to the DMV's headquarters building in Sacramento. The work consists of removal and replacement of non-fire-rated partitions, doors, suspended ceiling system, fire dampers, smoke detectors and other related work. The Legislature appropriated $40,000 in the 1984 Budget Act for preliminary plans ($17,500) and working drawings ($22,500) for this project.

The approved OSA schedule showed that preliminary plans would be completed in October 1984. The most recent schedule from the Office of State Architect indicates that the plans were to be completed in December 1984. At the time this analysis was prepared, however, we had not received them. Consequently, we withhold recommendation on the project, pending receipt of the preliminary plans.

Budget Should Include Funds for Property Options and Appraisals

We recommend that the Budget Bill be amended to allow expenditure of $40,000 for property appraisals and purchase options. We further recommend that the Legislature adopt control language specifying that these funds be used only for projects to be included in the 1986–87 Governor's Budget.

The land acquisition phase of capital outlay projects for the DMV is often delayed because of the extended time required for site evaluation, site selection, negotiations, appraisals and settlements. The time needed for this process could be reduced if the department were able to secure an option to purchase a site prior to legislative approval of the budget. In addition, securing an option would establish the correct funding level for acquisition.

Funds for this purpose were appropriated to the Department of the California Highway Patrol (CHP) in the 1984 Budget Act and are proposed again in the patrol's budget for 1985–86. Our analysis indicates that the DMV acquisition program would benefit from a similar appropriation.

Consequently, we recommend that the Budget Bill be amended to include $40,000 for property appraisals and purchase options. (This is the

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

same amount proposed for these purposes under the CHP's item.) We further recommend that the Budget Bill be amended to include the following language specifying the use of these funds:

"The funds appropriated in category (9) shall be used only in connection with projects which are to be included in the budget submitted by the Governor for the 1986–87 fiscal year."

Minor Capital Outlay

We recommend that Item 2740-301-044(1) be reduced by $171,000 to delete funding for one project which is not justified, and to reduce funding for two projects which are overbudgeted. We withhold recommendation on $60,000 for one project, pending receipt of additional information.

The budget requests $603,000 for seven minor capital outlay projects. These projects are shown in Table 2.

Table 2
Department of Motor Vehicles
1985–86 Minor Capital Outlay Projects
(dollars in thousands)

Project Title	*Location*	*Budget Bill Amount*	*Analyst's Recommendation*
Improve Physical Security and Access Control....	Sacramento Headquarters	$153	—
Computer Room Modifications	Sacramento Headquarters	150	$150
Supplemental Air Conditioning....................	Sacramento Headquarters	60	pending
Enlarge Control Cashier Room	Fresno	8	8
Enlarge Restroom	Fullerton	25	17
Expand Stockroom	Culver City	43	33
Handicapped Compliance....................	Various	164	164
Total		$603	pending

We have concerns with the following projects:

Improve Physical Security System and Access Control. The department is requesting $153,000 to install a new security system at the DMV headquarters building in Sacramento. The project would (1) install a computerized system for 53 exterior access doors to control building entrances, (2) provide all employees with microchip badges to use in gaining entry to the building, (3) install and staff two reception areas to prevent unauthorized access, and (4) staff two shipping and receiving docks to secure them from unauthorized public access.

Upon completion of this project, the department plans to cancel a contract with the California State Police (CSP) that provides 12.6 personnel-years of coverage (1 police officer and 2 security guards 24 hours per day). The coverage is in addition to the 3.5 personnel-years of CSP coverage provided to the department through statewide pro rata. The DMV will continue to receive this service from the state police. The department estimates that this proposal will result in a $170,000 savings in 1985–86, and a $400,000 annual savings thereafter.

The department indicates that the new security system is needed because (1) the existing door security system is prone to breakdowns and parts are no longer available; (2) the CSP has not fulfilled its contractual obligations, and (3) the number of security incidents has increased over the past two years.

Our analysis indicates that this project is not justified. For example, security incident data submitted by the department indicates that approximately one-half of all incidents occur in the area *outside* the headquarters building. Typical examples of these incidents include traffic violations, auto thefts and/or burglaries, and suspicious individuals wandering or loitering near the building. The department's security proposal will not prevent any of these incidents. In addition, the installation of a computerized security door system will not prevent the recurrence of other security incidents cited by the department, such as fire alarms, threatening letters, and obscene phone calls. For these reasons, we recommend that this project be deleted.

Although it is not clear that the department has a security problem at its headquarters building, the DMV may wish to consider less costly means of controlling unauthorized access to the building. For example, our analysis indicates that the department could replace the outdated security door system with a new similarly sized system or relocate the public reception area to where visitors can be screened before entering the building. These modifications would increase the security of the headquarters building without the need to install the computerized door system, allowing the department to carry out its plans to cancel the contract with the state police.

Supplemental Air Conditioning. The department is requesting $60,000 to install additional air conditioning in the computer center on the fifth floor of the DMV headquarters building in Sacramento. Although supplemental air conditioning may be required as a result of installing additional computer equipment, the department has provided no information on what the additional heat load is, or the proposed size of the air conditioning equipment. Without this information, we have no basis upon which to determine the adequacy of the amount requested. Consequently, we withhold recommendation on funding for this project, pending receipt of clarifying information.

Technical Recommendations. The department has submitted requests for two projects—Enlarge Restroom, Fullerton ($25,000) and Expand Stockroom, Culver City ($43,000)—which include excess costs for architectural/engineering fees. In order to bring these costs in line with state guidelines, we recommend that these projects be reduced by $8,000 and $10,000, respectively.

Overbudgeted Construction Funds

We recommend that the amounts approved for construction in Item 2740-301-042 be reduced by 3 percent to eliminate overbudgeting of construction costs.

The Governor's Budget requests $2,671,000 for the construction phase of capital outlay projects in 1985–86. Consistent with the state's budgetary practice, these amounts are based on an anticipated construction cost index for July 1, 1985. At the time the index was established for the budget year it was set at a reasonable level. Inflation, however, has not increased as anticipated. Using the most recent indices, adjusted by the current expected inflationary increase of about ½ percent per month, construction costs in the budget are overstated by approximately 3 percent. We therefore recommend that any funds approved for construction under this item be reduced by 3 percent to eliminate overbudgeting.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

Business, Transportation and Housing Agency

STEPHEN P. TEALE DATA CENTER

Item 2780 from the Stephen P. Teale Data Center Revolving Fund — Budget p. BTH 117

Requested 1985–86	$51,681,000
Estimated 1984–85	45,227,000
Actual 1983–84	39,149,000
Requested increase (excluding amount for salary increases) $6,454,000 (+14 percent)	
Total recommended reduction	None
Recommendation pending	5,893,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. EDP Equipment. Withhold recommendation on $5,893,000 requested for EDP equipment, pending receipt of further information from the data center. 379

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Data Center is one of three consolidated data centers authorized by the Legislature. The center, which provides automated data processing services to 120 state governmental units, was established to provide centralized 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 clients.

The data center is authorized to have 329 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $51,681,000 by the data center in 1985–86. This is an increase of $6,454,000, or 14 percent, above the estimated expenditures in the current year. The increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

Table 1 summarizes the impact of changes in the data center's budget proposed for 1985–86.

Table 1
Stephen P. Teale Data Center
Proposed 1985–86 Budget Changes
(dollars in thousands)

	Stephen P. Teale Data Center Revolving Fund	*Reimbursements*	*Total*
1984–85 Expenditures (Revised)	$45,227	$35	$45,262
1. Workload adjustments			
Timeshare central processor replacement	20	—	20
Timeshare central processor upgrades	729	—	729
Equipment replacement and upgrades	2,233	—	2,233
Client equipment replacement and upgrades	1,293	—	1,293
Computer output microfilm	62	—	62
Other support	165	—	165
2. Cost Adjustments	–1,162	—	–1,162
3. Program Adjustments			
Merge project	3,114	—	3,114
1985–86 Expenditures (Proposed)	$51,681	$35	$51,716
Change from 1984–85:			
Amount	6,454	—	6,454
Percent	14	—	14

ANALYSIS AND RECOMMENDATIONS

The Teale Data Center currently operates data processing facilities at two sites (Isbell and First Avenue), and has administrative offices at a third location (F Street). In 1984–85, the administration approved deficiency funding of $2,440,500 for the data center so it could merge these three facilities at an expanded Isbell site. In justifying the merger, the center estimates a net cost avoidance of $4,460,000 and a reduction of 48 personnel-years during the three-year period 1984–85 through 1986–87. Moreover, the center indicates that, in subsequent years, annual savings of about $2,575,000 will result from the merger.

EDP Equipment Request Lacks Justification

We withhold recommendation on $5,893,000 requested for EDP equipment, pending the receipt of further information from the data center.

The budget proposes to shift $5,893,000 from EDP equipment rental and maintenance to EDP equipment procurement, in order to allow the center to exercise its purchase options on currently leased equipment where such purchases would reduce costs to the center.

Our analysis indicates, however, that the center's request provides for the purchase of new equipment not previously under lease. The need for these new items has not been adequately justified. The data center has indicated that it will provide additional information to support the request, and on this basis, we withhold recommendation at this time.

Business, Transportation and Housing Agency
CALIFORNIA HOUSING FINANCE AGENCY

Item 2790 from the California
Housing Finance Fund — Budget p. BTH 121

Preliminary 1985–86	($7,851,000) [a]
Estimated 1984–85	(7,626,000) [a]
Actual 1983–84	(5,932,000) [a]

Proposed increase (excluding amount for salary increases) $225,000 (+2.9 percent)

[a] Appropriation authority provided pursuant to Section 51000 of the Health and Safety Code.

GENERAL PROGRAM STATEMENT

The primary mission of the California Housing Finance Agency (CHFA) is to provide financing for the development and rehabilitation of housing for the state's low- and moderate-income residents. Funding for its programs is derived mainly 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 rental housing or (2) provide loans and insurance through private lenders to low- and moderate-income households for the purchase and/or rehabilitation of single-family housing units. 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.

The agency's direct operating expenses are covered by a combination of (1) service fees charged to borrowers and lenders, (2) interest earnings on loans made out of bond proceeds, and (3) interest earnings on investments made using agency funds.

The agency is governed by an 11-member board of directors, and has 131.5 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

Under the provisions of Section 51000, funding for the agency's support budget is *exempt* from the annual budget review process. In lieu of the regular legislative budgetary review, 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.

According to CHFA staff, board action on a *final* proposed budget for 1985–86 is not expected prior to April 1985. Unless the Legislature chooses to act on the CHFA budget, the Board of Directors will determine how the agency will allocate its funds for programs and administrative support in the budget year.

The agency's 1985–86 preliminary budget is displayed in the Governor's Budget (Items 0980 and 2790) for informational purposes only. It shows that the CHFA plans to spend $7,851,000 in 1985–86, an increase of $225,000, or 2.9 percent, over estimated current-year expenditures. The increase reflects baseline adjustments for the general salary increases granted during the current year and inflation adjustments for operating expenses and equipment during the budget year. The increase will grow by the amount of any salary or staff benefit increase approved in 1985–86 plus the amount of any augmentations approved by the CHFA Board of Directors in the final budget.

Table 1 summarizes the agency's operating budget for the three-year period ending June 30, 1986.

Table 1
California Housing Finance Agency
Preliminary Support Budget [1]
1983–84 through 1985–86
(dollars in thousands)

				Change, 1985–86 over 1984–85	
Personal Services	*Actual 1983–84*	*Estimated 1984–85*	*Preliminary 1985–86*	*Amount*	*Percent*
Salaries and Wages	$2,988	$4,174	$4,267	$93	2.2%
Staff Benefits	907	1,129	1,151	22	1.9
Subtotals, Personal Services	($3,895)	($5,303)	($5,418)	($115)	(2.2%)
Operating Expenses and Equipment					
Central Administrative Charges	$263	$235	$245	$10	4.3%
Interagency Services:					
Trustee Fees	160	250	260	10	0.4
Housing Bond Credit Committee	65	95	100	5	5.3
Rural Development Consultant (HCD)	14	30	30	—	—
Consulting and Professional Services	134	148	155	7	4.7
General Expense	190	170	178	8	4.7
Data Processing	214	195	205	10	5.1
Travel	350	335	352	17	5.1
Communications	205	268	281	13	4.9
Facilities Operation	304	392	415	23	5.9
Training	—	25	25	—	—
Insurance	80	150	157	7	4.7
Equipment	58	30	30	—	—
Subtotals, Operating Expenses and Equipment	($2,037)	($2,323)	($2,433)	($110)	(4.7%)
Totals	$5,932	$7,626	$7,851	$225	2.9%

[1] The CHFA's preliminary budget for 1985–86 reflects only baseline adjustments to estimated expenditures in the current year. It makes no allowance for salary increases in the budget year or budget changes that may be approved by the Board of Directors in adopting a final budget.