activities in 1987–88. This amount is an increase of $121,000, or 98 percent, above estimated current-year expenditures. The increase reflects full-year operations of the task force. The $244,000 consists of a General Fund appropriation of $122,000 in 1987–88 and the carry-over of $122,000 unexpended in 1986–87.

Our analysis indicates that the budget request is consistent with chaptered legislation; and, accordingly, we recommend its approval.

State and Consumer Services Agency
MUSEUM OF SCIENCE AND INDUSTRY

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

Requested 1987–88	$8,373,000
Estimated 1986–87	8,324,000
Actual 1985–86	8,653,000
Requested increase (excluding amount for salary increases) $49,000 (+0.6 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1100-001-001—Support	General	$8,354,000
Reimbursements	—	19,000
Total		$8,373,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Parking Operations. Recommend that the museum report at budget hearings on plans to build parking facilities in Exposition Park. 103
2. Museum Contracts. Recommend adoption of Budget Bill language requiring notification of the Legislature prior to approval of certain museum agreements. 104

GENERAL PROGRAM STATEMENT

The Museum of Science and Industry (MSI) is an educational, civic, and recreational center located in Exposition Park in Los Angeles. It is administered by a nine-member board of directors appointed by the Governor.

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

Associated with the Museum of Science and Industry is the Museum of Afro-American History and Culture (MAHC). The MAHC was established by the Legislature to preserve, collect, and display artifacts of Afro-American contributions to the arts, science, religion, education, literature, enter-

MUSEUM OF SCIENCE AND INDUSTRY—Continued

tainment, politics, sports, and history of California and the nation. The MAHC is governed by a seven-member advisory board.

The museum has 130.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $8,354,000 from the General Fund to support the Museum of Science and Industry and the Museum of Afro-American History and Culture in 1987–88. This is $49,000, or 0.6 percent, more than estimated current-year expenditures.

The General Fund request includes $1,265,000 for support of the Museum of Afro-American History and Culture in 1987–88. This is an increase of $21,000, or 1.7 percent, over estimated current-year expenditures.

In addition to the $8.4 million requested from the General Fund, the museum proposes to spend $19,000 in reimbursements and an estimated $1,035,000 to be provided by the California Museum Foundation of Los Angeles in 1987–88. Table 1 shows the museum's expenditures for the past, current, and budget years. This expenditure table has not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Table 1
Museum of Science and Industry
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Programs	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Education:							
Museum Operations	80.4	80.4	80.4	$5,042	$5,068	$5,237	3.3%
Science Workshop	—	—	—	35	60	60	—
Aerospace Science Museum	1.0	1.9	1.8	576	328	347	5.8
Afro-American Museum	8.1	6.7	8.0	1,208	865	910	5.2
Hall of Economics and Finance	4.0	4.7	4.7	196	278	278	—
Subtotals, Education	(93.5)	(93.7)	(94.9)	($7,057)	($6,599)	($6,832)	(3.5%)
Administration:							
Administrative Services	22.4	23.5	23.5	$921	$1,046	$1,008	−3.6%
Parking Lot Operations	13.4	6.4	4.0	397	300	262	−12.7
Afro-American Museum	6.1	7.2	7.2	278	379	355	−6.3
Subtotals, Administration	(41.9)	(37.1)	(34.7)	($1,596)	($1,725)	($1,625)	(−5.8%)
Special Adjustment	—	—	—	—	—	−84	—
Totals	135.4	130.8	129.6	$8,653	$8,324	$8,373	0.6%
Funding Sources							
General Fund				*$8,634*	*$8,305*	*$8,354*	*0.6%*
Reimbursements				*19*	*19*	*19*	—
Foundation				*(1,506)*	*(1,178)*	*(1,400)*	*(18.8)*

The $49,000 net increase in General Fund expenditures proposed for 1987–88 reflects baseline adjustments needed to maintain the museum's current level of activity, several workload changes, and the 1 percent

General Fund "special adjustment" reduction. These changes are detailed in Table 2.

Table 2
Museum of Science and Industry
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund
1986–87 Expenditures (Revised)	$8,305
Baseline Adjustments	
State Police Contract	66
TV Surveillance Center Maintenance Contract	70
One Time Study, Latino History Museum	−50
Miscellaneous Adjustments	−37
Subtotal, Baseline Adjustments	($49)
Workload Changes	
Contract for Security Staff, TV Surveillance Center	70
Exhibit Technicians, Afro-American Museum	52
Elimination of Temporary Help, Parking Operations	−38
Subtotal, Workload Changes	($84)
Special Adjustment	
1 Percent General Fund Reduction	−84
1987–88 Expenditures (Proposed)	$8,354
Change from 1986–87:	
Amount	$49
Percent	0.6%

ANALYSIS AND RECOMMENDATIONS

Museum Pursuing New Parking Facilities in Exposition Park

We recommend that the museum report at budget hearings on its plans to finance and construct parking facilities in Exposition Park.

In September 1986, the museum signed a "net revenue" parking operations contract with the Los Angeles Memorial Coliseum Commission to operate those parking lots in Exposition Park which are not directly related to the museum's facilities. Under this arrangement, the commission pays the state a fixed annual amount of $575,000 in parking lot revenues, and retains all revenues above this amount to cover its costs and profit. The contract allows the commission to set all parking rates and fees, and expresses the intent of the parties that parking revenues will be used "for the specific purpose of assisting in the funding of new parking facilities" in Exposition Park. At the time this analysis was prepared, the museum was conferring with commission and local officials to plan for the financing and construction of aboveground and/or underground parking garages in Exposition Park, including the issuing by the commission of $75 million in revenue bonds.

To date, the Legislature has not been informed of the museum's plans to construct these parking facilities. Furthermore, it is unclear as to how the museum intends to involve the Legislature in the decision-making process on these new facilities. Accordingly, we recommend that the museum report to the Legislature at budget hearings on the status of its parking facilities plan.

MUSEUM OF SCIENCE AND INDUSTRY—Continued

Budget Act Provision Should Be Restored

We recommend that the Legislature amend the Budget Bill to include language contained in previous budget acts, requiring the museum to report on proposed contracts.

In every year from 1983 to 1985, the Budget Act included language which required legislative notification prior to the approval of certain museum agreements. The Governor vetoed this language from the 1986 Budget Bill, apparently to avoid legislative review of the "net revenue" contract proposed for museum parking lots. It is unclear to us what authority the Governor used to eliminate the provision, since it in no way involves an "item of appropriation." In any case, we believe the language provides necessary legislative oversight of contracts developed during the year. Consequently, we recommend that the Legislature restore the prior years' Budget Bill language by adding the following provision:

2. The Director of General Services may not approve a contract, permit, or lease agreement by the museum (excluding those for museum exhibits), which reduces state revenues or increases state costs by $25,000 or more, unless, not sooner than 30 days prior to giving his or her approval, the director submits in writing to the Chairperson of the Joint Legislative Budget Committee notification of the director's intent to approve such contract, permit, or lease, or not sooner than such lesser time as the chairperson may in each instance determine.

State and Consumer Services Agency

DEPARTMENT OF CONSUMER AFFAIRS

Items 1120–1655 from various funds — Budget p. SCS 4

Requested 1987–88	$123,468,000
Estimated 1986–87	121,276,000
Actual 1985–86	109,442,000
Requested increase (excluding amount for salary increases) $2,192,000 (+1.8 percent)	
Total recommended reduction	None
Recommendation pending	2,815,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1120-001-704—Board of Accountancy	Accountancy	$3,287,000
1130-004-706—Board of Architectural Examiners	Architectural Examiners	2,233,000
1140-006-001—State Athletic Commission	General	670,000
1140-006-492—State Athletic Commission	Boxer's Neurological Examination Account	152,000
1150-008-128—Bureau of Automotive Repair	Automotive Repair	7,581,000
1150-008-420—Bureau of Automotive Repair	Vehicle Inspection	26,778,000
1160-010-713—Board of Barber Examiners	Barber Examiners	819,000

1170-012-773—Board of Behavioral Science Examiners	Behavioral Science Examiners	1,275,000
1180-014-717—Cemetery Board	Cemetery	287,000
1200-016-157—Bureau of Collection and Investigative Services	Collection Agency	656,000
1210-018-769—Bureau of Collection and Investigative Services	Private Investigator and Adjuster	2,897,000
1230-020-735—Contractors' State License Board	Contractors' License	23,331,000
1240-022-738—Board of Cosmetology	Cosmetology Contingent	3,031,000
1260-024-741—Board of Dental Examiners	State Dentistry	2,565,000
1270-026-380—Board of Dental Examiners	Dental Auxiliary	663,000
1280-028-325—Bureau of Electronic and Appliance Repair	Electronic and Appliance Repair	1,147,000
1300-030-180—Bureau of Personnel Services	Personnel Services	659,000
1330-036-750—Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	430,000
1340-038-205—Board of Registration for Geologists and Geophysicists	Geology and Geophysics	218,000
1350-040-001—State Board of Guide Dogs for the Blind	General	30,000
1360-001-753—Bureau of Home Furnishings	Bureau of Home Furnishings Fund, Dry Cleaning Account	36,000
1360-042-752—Bureau of Home Furnishings	Bureau of Home Furnishings	2,194,000
1370-044-757—Board of Landscape Architects	Board of Landscape Architects	329,000
1390-046-758—Board of Medical Quality Assurance	Contingent Fund of the Board of Medical Quality Assurance	14,603,000
1390-047-175—Board of Medical Quality Assurance	Dispensing Opticians	161,000
1400-048-108—Board of Medical Quality Assurance	Acupuncturists	477,000
1410-050-208—Board of Medical Quality Assurance	Hearing Aid Dispensers	263,000
1420-052-759—Board of Medical Quality Assurance	Physical Therapy	360,000
1430-054-280—Board of Medical Quality Assurance	Physicians Assistant	329,000
1440-056-295—Board of Medical Quality Assurance	Podiatry	613,000
1450-058-310—Board of Medical Quality Assurance	Psychology	770,000
1455-059-319—Board of Medical Quality Assurance	Respiratory Care	560,000
1460-060-376—Board of Medical Quality Assurance	Speech Pathology and Audiology Examining Committee	225,000
1470-062-260—Board of Examiners of Nursing Home Administrators	Nursing Home Administrator's State License Examining Board	315,000
1480-064-763—Board of Optometry	State Optometry	386,000
1490-066-767—Board of Pharmacy	Pharmacy Board Contingent	2,786,000
1495-067-297—Polygraph Examiners Board	Polygraph Examiners	105,000
1500-068-770—Board of Registration for Professional Engineers and Land Surveyors	Professional Engineers and Land Surveyors	3,260,000

DEPARTMENT OF CONSUMER AFFAIRS—Continued

1510-070-761—Board of Registered Nursing	Board of Registered Nursing	5,331,000
1520-072-771—Certified Shorthand Reporters Board	Certified Shorthand Reporters	267,000
1530-074-399—Structural Pest Control Board	Structural Pest Control Education and Enforcement	92,000
1530-074-775—Structural Pest Control Board	Structural Pest Control	2,100,000
1540-076-406—Tax Preparers Program	Tax Preparers	319,000
1560-078-777—Board of Examiners in Veterinary Medicine	Veterinary Examiners' Contingent	620,000
1570-080-118—Board of Examiners in Veterinary Medicine	Animal Health Technician Examining Committee	97,000
1590-082-779—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account	2,164,000
1600-084-780—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Psychiatric Technicians Account	532,000
1640-086-001—Division of Consumer Services	General	1,360,000
1655-090-702—Administrative Services	Consumer Affairs	1,875,000
1655-090-702—Division of Consumer Services	Distributed	(760,000)
1655-090-702—Administrative Services	Distributed	(11,155,000)
Total Budget Act Appropriations		$121,238,000
Statutory Appropriations		
Board of Accountancy	Accountancy	65,000
Certified Shorthand Reporters Board	Transcript Reimbursement	250,000
Total, Statutory Appropriations		$315,000
Reimbursements		1,915,000
Total, All Expenditures		$123,468,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Division of Technology. Withhold recommendation on $1,530,000 requested for computer services, pending a decision by the Department of Finance on continuation of funding for the department's advanced computer project. 108
2. Potential Fund Deficiencies. Recommend that by March 15, 1987 three boards (please see Table 3 for a listing of these boards) report to the fiscal committees on the steps they are taking to assure sufficient reserves in their respective funds. 111
3. Excessive Fund Surpluses. Recommend that by March 15, 1987 the Board of Optometry and the Structural Pest Control Board report to the fiscal committees on their plans for reducing the reserves in their respective funds to more reasonable levels. 111
4. Board Eliminations. Recommend enactment of legislation eliminating five licensing boards, one program, and one council within the Department of Consumer Affairs because either they do not serve a viable purpose or better organizational effectiveness could be achieved by merger with another agency. 112
5. Contractors' State License Board. Withhold recommendation on $310,000 requested for relocation of the board's offices, and telephone equipment pending review of the 117

project by the Department of General Services and further information from the board as to the costs and benefits of the telephone equipment. (Item 1230-020-735)

6. Contractors' State License Board. Withhold recommendation on the $975,000 requested for the industry expert program, pending receipt of the evaluation report from the board. (Item 1230-020-735) 118
7. Contractors' State License Board. Recommend that the board submit a progress report to the fiscal subcommittees by April 1, 1987 on its amnesty program. (Item 1230-020-735) 118

GENERAL PROGRAM STATEMENT

The Department of Consumer Affairs was established by the Consumer Affairs Act (Ch 1394/70) as the state agency responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices.

The department has five major components: (1) 40 regulatory agencies, which include boards, bureaus, programs, committees and commissions; (2) the Division of Administration; (3) the Division of Technology; (4) the Division of Investigation; and (5) the Division of Consumer Services. Each of the department's constituent licensing agencies is statutorily independent of the department's control. Only five bureaus and one program are under the direct statutory control of the director.

Each of the 40 agencies within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices. Each entity seeks to accomplish its objective through licensure and the enforcement of laws, rules and regulations.

The Division of Administration provides centralized fiscal, personnel, legal, and building maintenance support services, on a pro rata basis, to all of the constituent agencies.

The Division of Technology provides data processing services to the constituent agencies on a distributed cost basis.

The Division of Investigation provides investigative and inspection services to most constituent agencies. A few boards and bureaus, however, have their own inspectors and investigators.

The Division of Consumer Services is responsible for statewide consumer protection activities, which include research and advertising compliance, representation and intervention, and consumer education and information. This division also prepares consumer protection legislation.

The department is authorized 1,631.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $123,468,000 from various funds, including reimbursements, for support of the department and its constituent agencies in 1987–88. This is $2,192,000, or 1.8 percent, above estimated expenditures from these funds in the current year. The current-year expenditures have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures. Such an adjustment would be minimal because General Fund support represents less than 2 percent of the department's and its constituent agencies' support.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Of the $123,468,000 that the department proposes to spend in 1987–88, $15,407,000 would be used to support departmental activities. This amount consists of $2,146,000 for the support of the Division of Consumer Services, $6,494,000 for the Division of Administration, $3,362,000 for the Division of Investigation, $1,530,000 for the Division of Technology, and $1,875,000 for building and maintenance costs. The remaining $108,061,000 would be spent for support of the various boards and bureaus. Table 1 presents the department's total expenditures, by division, during the three-year period ending 1987–88.

Table 1
Department of Consumer Affairs
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			Expenditures			
Division	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Percent Change From 1986–87
Consumer Services	35.9	37.0	38.0	$1,977	$2,296	$2,146	−6.5%
Administration	122.0	121.0	124.0	6,244	6,344	6,494	2.3
Investigation	64.1	62.7	62.7	3,676	3,491	3,362	−3.6
Technology	22.9	24.5	23.3	2,111	2,514	1,530	−39.1
Building and Maintenance	—	—	—	1,603	1,647	1,875	13.8
Totals	244.9	245.2	248.0	$15,611	$16,292	$15,407	−5.4
Funding Sources:							
General Fund				*$1,227*	*$1,316*	*$1,360*	*3.3%*
Consumer Affairs Fund				*1,603*	*1,647*	*1,875*	*13.8*
Dry Cleaning Account				—	*200*	—	—
Distributed to other programs				*12,514*	*12,872*	*11,915*	*−7.4*
Reimbursements				*267*	*257*	*257*	—

ANALYSIS AND RECOMMENDATIONS

DIVISION OF ADMINISTRATION

Departmentwide Computer System

We withhold recommendation on $1,530,000 requested by the Department of Consumer Affairs to operate its existing computer system, pending a decision by the Department of Finance on continuation of funding for the department's advanced computer project.

In 1985–86, the Legislature approved the department's proposal to implement, in four phases, an advanced computer system to provide greatly increased data processing services to all of the department's constituent agencies. A total of $1,544,000 has been appropriated over two years to the department for completion of Phase I of the project. Implementation of this system has been a long-term goal of the Legislature.

Each fiscal year, the Legislature also appropriates funds to the department to provide data processing services to some of its constituent agencies, using the existing computer system until the advanced computer system is fully implemented. For 1987–88, the department is requesting $1,530,000 to provide such services.

Phase I of the new computer system, which was started in 1985–86, would automate the license issuance and renewal processes. Completion of this phase was anticipated by June 1987. Phase II, which originally was scheduled for completion by June 30, 1988 at an estimated cost of $2.2 million would automate the application processing and enforcement tracking efforts of the department.

In the current year, the new project has experienced modifications and schedule delays due to loss of staff, contract approval delays, and redirection of funds to cover increased data center programming and conversion costs. The completion of Phase I has been delayed six months, and estimated system costs have increased by $92,000. Moreover, the completion of Phase II has been delayed two years to June 1990. As an added concern, the estimated annual operating costs of Phase II have increased by $558,000. The completion date of Phase III also has slipped, but no estimate of this date is now available. In addition, it appears that the department has decided to cancel its plan for implementing Phase IV, the special-needs phase.

Faced with major slippages and increased costs, the Department of Finance has not included funds for continuation of the advanced computer project in the department's 1987–88 budget request, pending a decision whether to abandon implementation of the project or to make major modifications and move ahead with it.

Clearly the project is at a major decision point. Consequently, we withhold recommendation on the department's request for $1,530,000 to provide computer services with the existing computer system to its constitutent agencies, subject to the Department of Finance's determination of whether to abandon the new project or make modifications and proceed with its implementation.

BOARDS AND BUREAUS

Boards, Bureaus and Committees Whose Budgets Contain No Significant Issues

Our analysis indicates that the proposed 1987–88 budgets for a number of boards, bureaus, and committees raise no significant fiscal issues that warrant separate write-ups in this analysis. Many of these entities have requested increases that simply offset the effects of inflation on their current programs. Others have requested additional funding for program and workload increases which our review show to be justified. Table 2 displays staffing and expenditures for those boards, bureaus, and committees whose budgets we recommend be approved as submitted. This table also reflects the following major budget adjustments.

- *Board of Architectural Examiners.* A $531,000, or 31 percent, increase over current-year expenditures primarily due to the development of a new licensing exam.
- *Board of Behavioral Science Examiners.* A $181,000, or 16 percent, increase over current-year expenditures primarily due to the development of a new licensing exam.
- *Bureau of Collections and Investigative Services—Collection Agencies.* A $205,000 or 24 percent, reduction from current-year expenditures due to one-time costs in the current year for the locksmith program and the handling of certain enforcement cases.
- *Board of Dental Examiners.* A $362,000, or 16 percent, increase over current-year expenditures primarily due to an exam evaluation study and increased workload.
- *Hearing Aid Dispensers Committee.* A $64,000, or 32 percent, in-

DEPARTMENT OF CONSUMER AFFAIRS—Continued

crease over current-year expenditures due to increased workload.

- ***Polygraph Examiners Board.*** A $34,000, or 48 percent, increase over current-year expenditures due to restricted expenditures in the current year because of lack of fee revenue.

Based on our review, we recommend that the Legislature approve the budgets proposed for the boards, bureaus, and committees listed in Table 2.

Table 2
Department of Consumer Affairs
Boards, Bureaus, and Committees
Recommend Approval as Budgeted
1987–88
(dollars in thousands)

		Personnel-Years			Expenditures[a]			
Item Number	*Description*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
1120	Board of Accountancy	29.4	27.3	27.3	$2,558	$3,016	$3,371	11.8%
1130	Board of Architectural Examiners	20.6	15.9	19.4	1,602	1,707	2,238	31.1
1140	State Athletic Commission	11.2	13.1	13.1	621	812	829	2.1
1170	Board of Behavioral Science Examiners	13.4	16.1	17.2	880	1,120	1,301	16.2
	Bureau of Collection and Investigative Services:							
1200	Collection Agencies	9.3	10.8	11.2	568	868	663	−23.6
1210	Private Investigators	44.0	45.8	45.8	3,446	3,872	3,965	2.4
1260	Board of Dental Examiners[b]	30.6	29.8	31.7	2,146	2,261	2,623	16.0
1270	Board of Dental Examiners—Dental Auxiliary[b]	9.6	8.3	8.3	599	636	667	4.9
1280	Bureau of Electronic and Appliance Repair	15.0	14.5	14.5	1,063	1,117	1,147	2.7
1300	Bureau of Personnel Services[b]	7.4	7.3	7.3	596	642	659	2.6
1360	Bureau of Home Furnishings	26.7	28.5	31.7	1,808	2,026	2,230	10.1
1390	Board of Medical Quality Assurance	174.4	178.2	183.8	13,478	14,167	14,716	3.9
1390	Dispensing Opticians	1.0	1.0	1.0	103	165	161	−2.4
1400	Acupuncturists	4.6	7.5	7.5	347	446	484	8.5
1410	Hearing Aid Dispensers	2.3	2.2	3.3	160	203	267	31.5
1420	Physical Therapy	3.1	3.1	3.7	329	339	380	12.1
1430	Physicians Assistant	3.9	3.3	3.3	265	314	332	5.7
1440	Podiatry	3.9	3.6	3.6	525	580	617	6.4
1450	Psychology	7.6	7.7	7.7	871	899	787	−12.5
1455	Respiratory Care	6.4	5.7	5.7	609	620	586	−5.5
1460	Speech Pathology & Audiology Examining Committee	3.4	3.1	3.1	193	207	235	13.5
1470	Board of Examiners of Nursing Home Administrators	3.5	3.5	3.5	269	300	316	5.3
1480	Board of Optometry[c]	4.2	4.4	4.4	349	386	392	1.6
1490	Board of Pharmacy	33.1	33.3	31.6	2,555	2,810	2,830	.7
1495	Polygraph Examiners Board	1.5	1.8	1.5	100	71	105	47.9
1500	Board of Registration for Professional Engineers	43.9	33.9	37.1	2,669	3,450	3,264	−5.4
1510	Board of Registered Nursing	61.1	59.0	52.7	4,961	5,170	5,414	4.7
1520	Certified Shorthand Reporters Board	3.8	3.4	3.6	455	492	518	5.3

1530	Structural Pest Control Board [c]	26.4	26.5	27.0	1,744	2,130	2,194	3.0
	Board of Examiners in Veterinary Medicine:							
1560	Veterinarians	4.9	3.9	3.9	614	619	632	2.1
1570	Animal Health Technicians	3.9	1.4	1.4	94	95	97	2.1
	Board of Vocational Nurse and Psychiatric Technician Examiners:							
1590	Vocational Nurse	24.5	25.2	25.6	2,129	2,137	2,180	2.0
1600	Psychiatric Technician	3.1	3.9	3.9	463	488	532	9.0

[a] Includes reimbursements.
[b] Faces potential fund balance problem in 1987–88.
[c] Will have a large fund surplus in 1987–88.

Potential Fund Deficiencies

We recommend that by March 15, 1987 specified boards and bureaus report to the fiscal committees on the steps they are taking to assure sufficient reserves in their respective funds.

Generally, special funds that derive revenues from licensing activities should maintain a reserve equal to about three months' operating expenses (25 percent of annual expenditures). Our analysis indicates that some of the special funds established for the various boards and bureaus are likely to have fund balances during 1987–88 that fail to meet this standard and, in some cases, a fund deficit is reported.

Table 3
Department of Consumer Affairs
Boards and Bureaus With Fund Deficiencies or Potential Fund Deficiencies in 1987–88
(dollars in thousands)

Item Number	*Board/Bureau*	*Fund Balance 1986–87*	*Fund Balance 1987–88*	*Total Proposed Expenditures [a] 1987–88*	*1987–88 Fund Balance as a Percent of Total 1987–88 Expenditures*
1260-024-741	Dental Examiners [b]	$155	−$76	$2,565	—
1270-026-380	Dental Auxiliary [b]	130	−24	663	—
1300-030-180	Bureau of Personnel Services	422	45	659	6.8%

[a] Total expenditures are net of reimbursements.
[b] Currently, some of the board's fees are set at less than the statutory maximum, and the board is currently in the process of increasing fees through the regulatory process to avoid the deficit.

Table 3 shows the fund conditions for those boards and bureaus that do not appear to have adequate reserves. We recommend that these boards and bureaus report to the fiscal committees on steps they are taking to assure that the balances in their funds will be sufficient to meet their cash flow needs during 1987–88.

Excessive Fund Surpluses

We recommend that by March 15, 1987 the Board of Optometry (Item 1480-064-763) and the Structural Pest Control Board (Item 1530-074-775) report to the fiscal committees on their plans for reducing the reserves in their respective funds to more reasonable levels.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Section 128.5 of the Business and Professions Code states that at the end of any fiscal year, no agency within the Department of Consumer Affairs shall have unencumbered reserves in an amount which equals or exceeds the agency's operating budget for the next two fiscal years. Our analysis indicates that the following funds will have reserves on June 30, 1987 which exceed projected disbursements for two years:

- The Board of Optometry (excess reserve of $81,000).
- The Structural Pest Control Board (excess reserve of $3.9 million in the Structural Pest Control Fund and $283,000 in the Structural Pest Control Education and Enforcement Fund).

Accordingly, we recommend that the Board of Optometry and the Structural Pest Control Board report to the fiscal committees by March 15, 1987 on their plans for reducing the excessive reserves in their funds.

Elimination of Licensing Boards

We recommend enactment of legislation eliminating five licensing boards, one program, and one council within the Department of Consumer Affairs because either they do not serve a viable purpose or better organizational effectiveness could be achieved by merger with another agency.

During the last session, the Legislature abolished the Board of Dry Cleaning and Fabric Care and transferred its responsibility for registering dry cleaning plants to the Bureau of Home Furnishings. The board was eliminated because (1) it had taken only minimal disciplinary actions and (2) it could be eliminated with only minimal harm to the public, given that consumers had recourse through the small claims courts or Better Business Bureaus.

Our analysis indicates that the following seven agencies (five boards, one program, and one council) should be eliminated because either they do not serve a viable purpose or better organizational and cost effectiveness could be achieved by merging their functions and activities into another agency. In each case, our analysis concludes that abolishing the agency would have minimal, if any, impact on the public health, safety or welfare.

Four of the agencies could be eliminated with no transfer of functions to other state agencies, while the other three have functions which should be transferred to another governmental agency currently performing similar functions.

The Following Boards Could be Eliminated

Board of Registration for Geologists and Geophysicists. The board, which was created in 1969, regulates about 5,700 geologists, engineering geologists, and geophysicists. For 1987–88, the board is requesting a support appropriation of $218,000 from the Geology and Geophysics Fund, whose revenues are derived from licensing fees.

About 77 percent of the current licensees were grandfathered in, and therefore, were not required to take the board's examination. Thus, only a minority of the licensees have been tested for competency.

In 1985–86, the board received only 54 complaints of which 46, or 85 percent, were related to unlicensed activity. The board has revoked only one license for breach of contract in the past 18 years. A second revocation was dismissed by an administrative law judge. One case is currently pending suspension or revocation.

It appears that there would be minimal, if any, impact on public health, safety, and welfare if the board were eliminated. Most of the licensees are either directly employed or retained by large land developers, civil engineering firms, oil and mining firms, and governmental agencies having adequate capabilities to assess competency and seek redress through the courts and other channels. Only on occasion do small private property owners retain the services of geologists and geophysicists. They, too, can seek redress through the courts when necessary.

Elimination of the board should result in special fund savings of about $218,000 annually. Additionally, a reserve of about $340,000 could be transferred to the General Fund.

Board of Landscape Architects. The board, which was created in 1954, regulates about 2,000 landscape architects. For 1987–88, the board is requesting a support appropriation of $329,000 from the Board of Landscape Architects Fund, whose revenues are derived from licensing fees.

Although it appears that the board insures a minimum level of competency by administering exams to all of its licensees, it exempts a broad range of professionals such as architects, engineers, contractors, and landscape designers of irrigation and golf course projects.

In our report entitled *A Review of the Board of Landscape Architects and Examiners* dated March 1983, we concluded that the Landscape Architects Law has not resulted in effective consumer protection and is unnecessary. Licensed landscape architects deal primarily with business and public organizations having a high degree of expertise and sophistication to evaluate a prospective landscape architect on the basis of education, experience, reputation and prior work.

The board generally receives only a small number of complaints each year—114 in 1984–85. Over 60 percent of these complaints are outside the board's jurisdiction and generally are referred to the Contractors' State License Board. Over half of the remaining complaints primarily involve unlicensed activities. Only minimal disciplinary actions—two suspensions and one revocation—have been taken over the last three years. No fines have been collected.

It appears that the board's regulatory program could be eliminated without undue harm to the public at large, the direct consumers of landscape services, or the profession of landscape architecture. In the absence of state regulation, the profession could continue to examine and certify its members. Moreover, large businesses and government agencies could continue to provide public safety features within landscaped areas of large shopping centers, industrial projects, and public park and school projects.

Elimination of the board should result in special fund savings of about $329,000 annually. Additionally, a fund reserve of up to $40,000 could be transferred to the General Fund upon termination of the board.

Tax Preparers Program. The program, which was initially created in 1974, repealed in 1982, and reenacted with major changes in 1983, regulates about 27,600 tax preparers and tax interviewers. The program is requesting $334,000 from the Tax Preparers Fund and reimbursements for support of its operations in 1987–88.

The program's registration requirements consist of posting a $2,000 bond, possessing a high school education, and having two years of experience or passage of a 60-hour training course. Applicants are not required to take an examination. According to the program, about 80 percent of the registrants have qualified on the basis of experience. The program ex-

DEPARTMENT OF CONSUMER AFFAIRS—Continued

empts a number of individuals and their employees from registration such as lawyers, certified public accountants, Internal Revenue Service agents, and employees of various financial institutions.

Formal complaints to the program are normally very low—335 in 1985–86. This may be due to lack of consumer awareness of the program's existence. Typically, the complaints involve fee disputes, delayed returns, and no returns having been prepared after a fee has been paid. Most of these complaints result from lack of communication. The program has not published any consumer pamphlets.

Audits by the Internal Revenue Service (IRS) or Franchise Tax Board (FTB) bring tax preparer errors to light. Usually the consumer complains to the program about paying penalties and interest as a result of these errors. The program has no authority to recover penalties and interest paid by the consumer when registered preparers make errors on the returns. Although the program's disciplinary actions have resulted in five misdemeanor citations issued by district attorneys for unregistered practice in 1985–86, it has not revoked or suspended any registrations.

Our analysis indicates that the tax preparers program could be eliminated without undue harm to the public. Most tax preparers are well qualified. However, state registration of some tax preparers may be misleading to the public because it provides the appearance of legitimate expertise without requiring the passage of a state examination. Clearly, tax audits by the IRS and the FTB appear to provide more effective regulatory control over tax preparers by means of penalty assessments than does the program. Moreover, when contractual disputes arise between consumers and tax preparers, the court system appears to offer a better avenue for seeking redress.

Elimination of the program should result in a special fund savings of about $334,000 annually. Additionally, a fund reserve of about $300,000 could be transferred to the General Fund.

Consumer Advisory Council. In the 1986 Budget Act, the Legislature defunded the council in the current year because (1) it was not meeting its statutory requirements to make recommendations to the department and the Governor to provide for improved consumer protection and (2) the Legislature questioned whether the appointees on the council represented recognized consumer groups, as required by law. The Governor's Budget does not contain funding for this council in 1987–88.

Our analysis indicates that the council should be statutorily abolished. The Department of Consumer Affair's Division of Consumer Services provides similar services, such as conducting studies of consumer issues, providing liaison services to consumer groups, and reviewing, developing and advocating legislation.

The Following Boards Could be Merged into Other Agencies

Merge Cemetery Board into Board of Funeral Directors and Embalmers. The Cemetery Board, which was created in 1950, regulates about 2,333 salesmen, brokers, cemeteries and crematories. For 1987–88, the board is requesting $287,000 from the Cemetery Fund for support of its operations. About 90 percent of the board's licensees are salesmen and brokers.

Our analysis indicates that the board's enforcement program is weak, given that over the last three years it has not revoked or suspended a single license. This appears to be partially due to the board's lack of authority to pursue cases involving unprofessional conduct.

The Board of Funeral Directors and Embalmers regulates about 5,000 embalmers, funeral directors and establishments. For 1987–88, the board is requesting $434,000 from the Funeral Directors and Embalmers Fund and reimbursements for support of its operations.

In recent years, there has been a trend for cemeteries to go into the funeral business and for funeral directors to go into the crematory business. Both boards perform audits on trusts and, in some cases, perform audits at the same business location when that business is licensed by both boards. This is evident in that about 20 percent of the complaints submitted to the Cemetery Board involve licensees of the Board of Funeral Directors and Embalmers.

Our analysis indicates that the Cemetery Board should be eliminated and its regulatory functions reassigned to the Board of Funeral Directors and Embalmers because the latter board is larger, more effectively organized and has an aggressive enforcement program.

In addition, merging both boards would allow consumers and licensees to deal with one board rather than two. Merger of the two boards should result in a special fund savings of about $65,000 annually. The fees paid by licensees should be adjusted to reflect the merger.

Merge Barber Board into Board of Cosmetology. The Board of Barber Examiners, which was created in 1940, regulates about 30,000 barbers, shops, and schools. For 1987–88, the board is requesting $820,000 from the Board of Barber Examiners Fund and reimbursements for support of its operations. The board receives about 100 complaints annually and, over the last three years, has revoked three licenses and suspended 215 licenses. The average suspension is up to five days.

The Board of Cosmetology, which was created in 1940, regulates about 300,000 cosmetologists, electrologists, manicurists, shops, and schools. For 1987–88, the board is requesting $3 million from the Board of Cosmetology Contingent Fund and reimbursements for support of its operations. On average, the board receives about 1,000 complaints annually. The board has revoked 23 licenses and suspended 43 licenses over the last three years. The average suspension is up to 20 days.

Both of these boards regulate the hair design industry. The primary differences are that barbers perform shaves and cosmetologists provide manicures and pedicures. In recent years, there are definite trends for individual cosmetologists and barbers and associated shops to be dual licensed. According to the Board of Barber Examiners, there are approximately 1,000 cosmetology shops that are also licensed as barber shops. This results in overlapping regulatory inspections of dual-licensed shops.

By merging both boards, it appears that regulation of the hair design industry could be streamlined through the issuance of one hair design license with certifications in specialized areas such as shaving, manicuring and pedicuring. Thus, separate licensing procedures and overlapping inspections and enforcement actions could be eliminated.

Our analysis indicates that the Board of Barber Examiners should be merged into the Board of Cosmetology because the Board of Cosmetology is larger and better organized. Moreover, the Board of Cosmetology has two field offices and its staff is three times larger than the Barber Board's.

Merger of the two boards should result in an annual savings of about $256,000. Additionally, the fees paid by licensees should be adjusted to reflect the merger.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Merge Board of Guide Dogs for the Blind into Department of Rehabilitation. The Board of Guide Dogs for the Blind, which was created in 1948, regulates about 44 instructors and schools. The board is requesting $30,000 from the General Fund for support of its operations in 1987–88 (0.3 personnel-year). Given that fee revenues are about $265 annually, the board is financed primarily from the General Fund. According to the board, its role is to regulate instructors and schools, provide a forum for schools and consumers, mediate complaints, provide public relations for ensuring guide-dog accessibility to public places, and publicize the "White Cane Law" which covers the rights of the blind and disabled. No licenses have been revoked over the last three years.

The Department of Rehabilitation (DOR), which was created in 1970, helps individuals with disabilities to reach social and economic independence. The department is requesting $191 million from the General Fund, federal funds, reimbursements and other sources for support of its operations in 1987–88. One of the department's primary objectives is to advocate the rights and opportunities of the disabled.

Our analysis indicates that the Board of Guide Dogs for the Blind could be transferred to the Department of Rehabilitation because the department also provides services to the blind. Moreover, the activities of the board are currently directed by one individual who serves as (1) the department's program manager for the Services for the Blind program, (2) the board's executive secretary, and (3) a member of the board. This individual occupies a full-time position which is funded in the department's budget. In addition, the department currently subsidizes the board's operations by providing office space for the board's staff.

Because rehabilitative services offered by the department are supported in part by federal funds, there appears to be a possibility that it could receive partial federal funding for rehabilitation clients using the board's licensed school's services. The board has never pursued federal funding to cover its support costs.

As an added advantage, the existing board could be established as an advisory board in the department to continue its role as a forum for schools and consumers, provide public relation services for guide-dog accessibility to public places, and publicize the "White Cane Law".

Merger of the board and the department could result in potential minor General Fund savings, to the extent that federal funds are received to provide services to the blind.

BUREAU OF AUTOMOTIVE REPAIR

We recommend approval.

The Bureau of Automotive Repair (BAR) is responsible for (1) the registration of automotive repair dealers, (2) the licensing of official lamp and brake inspection stations, (3) the protection of consumers through a program of inspection and complaint handling, and (4) a major automobile exhaust emissions inspection program that is designed to reduce the level of pollutants emitted by motor vehicles registered in federally designated nonattainment areas in California.

The bureau is requesting $34,364,000 for support of its programs in 1987–88. This is a net decrease of $830,000 from current-year expenditures. Specifically, the budget requests $7,586,000 from the Automotive Repair Fund and reimbursements for support of the automotive repair program and $26,778,000 from the Vehicle Inspection Fund for support of the Biennial Vehicle Inspection Program (BVIP) in 1987–88. The budget proposes a decrease of $1,017,000, or 3.7 percent, below current-year expenditures in the BVIP, primarily due to reductions in contractual services.

Better Automotive Repair Program

Chapter 815, Statutes of 1982 (SB 1232), required the Bureau of Automotive Repair in the Department of Consumer Affairs, starting July 1, 1983, to establish the Better Automotive Repair Program (BARP). In passing this measure, however, the Legislature limited the program to a 36-month pilot study project to determine the feasibility of providing for voluntary certification of automotive repair garages on a statewide basis. The study area was to include such portions of Sacramento, Placer, Yolo, San Joaquin, Yuba, and Sutter Counties as the bureau designated necessary to evaluate the effectiveness of the program. The bureau was directed to place emphasis on incorporating the more heavily populated areas in the study area.

In enacting this measure, it was the Legislature's intent that the program assist motorists in selecting competent automotive repair garages through a system which is simple, accurate and regularly updated. Additionally, such a system was to provide for complaint handling and binding arbitration in order to ensure (1) that the motoring public is in fact receiving quality services and (2) that disputes are resolved fairly and on a timely basis. The pilot project and the program are scheduled to sunset on December 31, 1987.

Chapter 815, as amended by Chapter 703, Statutes of 1985, also directed the Legislative Analyst to submit an evaluation of the pilot project to the Legislature. The report will be forthcoming in February 1987.

CONTRACTORS' STATE LICENSE BOARD

The Contractors' State License Board (CSLB) is responsible for licensing and regulating individuals in the construction industry. The budget requests a total of $23,383,000 from the Contractors' License Fund and reimbursements for support of the board in 1987–88. This is a net increase of $886,000, or 3.9 percent, over estimated expenditures in the current year. This net increase includes (1) $1.1 million for personal services, primarily as a result of the one-time costs in the budget year for the contractor licensing amnesty program and (2) a decrease of $215,000 for operating expenses and equipment.

Headquarters and District Offices

We withhold recommendation on $310,000 requested for relocation of the board's headquarters and Sacramento area offices and telephone equipment, pending review of the project by the Department of General Services and further information from the board as to the costs and benefits of the telephone equipment. (Item 1230-020-735)

The CSLB is requesting $310,000 for telecommunication equipment ($197,000) and increased rental expense ($113,000) to relocate its headquarters, northern regional office and Sacramento district office. Under the proposal, the space which is currently occupied by the board would be increased by 13,500 square feet, or 41 percent. This proposal has not been reviewed and approved by the Space Management Division within the Department of General Services as required by law.

In addition, the board is proposing to purchase new phone equipment at the new location. Although it appears that the board would benefit from

DEPARTMENT OF CONSUMER AFFAIRS—Continued

purchasing this equipment, it has not provided sufficient information on the costs and benefits of purchasing the equipment.

Accordingly, we withhold our recommendation on the amount requested pending the review and approval of the proposal by the Space Management Division and receipt of information from the board as to the costs and benefits of the telephone equipment.

Industry Expert Program

We withhold our recommendation on $975,000 requested for the industry expert program, pending receipt of an evaluation report from the board. (Item 1230-020-735)

The CSLB established an industry expert program in 1986 to assist in handling consumer complaints. Under this program, the board recruits experienced, licensed contractors to conduct field inspections of consumer complaints pertaining to workmanship.

In the 1986 Budget Act, the Legislature appropriated $975,000 for this program and adopted supplemental report language requiring the board to submit a program evaluation report to the Legislature by March 15, 1987. We withhold recommendation on the $975,000 requested for this program in 1987–88, pending receipt of the board's report.

Amnesty Program

We recommend that the Contractors State License Board submit a progress report to the fiscal subcommittees by April 1, 1987 on its amnesty program. (Item 1230-020-735)

Chapter 995/86 established an amnesty period from January 1, 1987 to January 1, 1988, in which contracting experience acquired in an unlicensed status may be used to qualify for licensure. The board anticipates that 46,000 individuals will submit applications over the one-year period. Although the board proposes expenditures for increased workload under this program in 1987–88, it has made no projection of program revenues. Therefore, we recommend that the board submit a progress report to the fiscal subcommittees by April 1, 1987 on (1) the number of applicants applying monthly, (2) the revenue collected since January 1, 1987, and (3) the total revenue anticipated from the program.

State and Consumer Services Agency

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Item 1700 from the General Fund and Federal Trust Fund — Budget p. SCS 82

Requested 1987–88	$10,329,000
Estimated 1986–87	10,433,000
Actual 1985–86	9,939,000
Requested decrease (excluding amount for salary increases) $104,000 (−1.0 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1700-001-001—Support	General	$10,329,000
1700-001-890—Support	Federal Trust	($2,066,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Relocation of Legal Staff. Recommend that the Legislature provide separate appropriations for the different legal activities of the department and adopt Budget Bill language restricting the use of the appropriations. 120

GENERAL PROGRAM STATEMENT

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

The department consists of two divisions:

- *The Enforcement Division* is responsible for investigating and enforcing the state's antidiscrimination statutes relating to employment, housing and public accommodations.
- *The Administrative Services Division* provides administrative support to the department, including accounting, budget, personnel and legal services. This division is also responsible for the development of policy, educational programs, and legislative affairs.

The department has 248.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests an appropriation of $10,329,000 from the General Fund for support of the Department of Fair Employment and Housing (DFEH) in 1987–88. The budget is $104,000, or 1 percent, less than estimated current-year expenditures, with the reduction due entirely to the "special adjustment" applied to all General Fund support budgets. The budget proposes total expenditures (including federal funds) of $12,395,000 in 1987–88, a decrease of $104,000, or 0.8 percent. Federal support is proposed at $2,066,000—the same amount estimated for 1986–87.

Table 1 presents a summary of the department's expenditures, by pro-

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

gram and funding source, for the three-year period ending June 30, 1988.

Table 1
Department of Fair Employment and Housing
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Enforcement	209.4	216.3	216.3	$10,154	$10,906	$10,906	—
Administrative Services	31.1	32.1	32.1	1,855	1,593	1,593	—
Special Adjustment	—	—	—	—	—	−104	—
Totals	240.5	248.4	248.4	$12,009	$12,499	$12,395	−0.8%
Funding Sources							
General Fund				*$9,939*	*$10,433*	*$10,329*	*−1.0%*
Federal Trust Fund				*2,066*	*2,066*	*2,066*	—
Reimbursements				*4*	—	—	—

Table 1 indicates that the General Fund appropriation finances approximately 83 percent of the department's expenditures, while the Federal Trust Fund appropriation supports about 17 percent. The federal support of the state's antidiscrimination activity in employment is linked to an ongoing "work-sharing agreement" between DFEH and the federal Equal Employment Opportunity Commission (EEOC). Under this agreement, the federal government reimburses DFEH for processing cases which, although filed with the state, are subject to the jurisdiction of EEOC. The reimbursement covers only those cases which are filed pursuant to federal law. In 1986–87 the reimbursement rate is $400 per EEOC case.

The department also maintains a work-sharing agreement with the federal Department of Housing and Urban Development (HUD) under similar terms for enforcement of fair housing standards. HUD provides reimbursements for housing-related enforcement at the rate of $600 per case.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The DFEH's proposed expenditures appear to be warranted, and we recommend approval.

DFEH Violates Legislature's Directives on Legal Staff

We recommend that the Legislature provide separate appropriations for the different operations of the department, and add Budget Bill language restricting the use of these appropriations.

During budget hearings on both the 1985 and 1986 Budget Bills, the DFEH proposed to move its San Francisco legal office to Sacramento. Both times, the Legislature denied the department's request. In 1985, the Legislature adopted supplemental report language expressing its intent that the San Francisco field office not be transferred, and the department complied with that language. In 1986, the Legislature responded to DFEH's renewed request to move the San Francisco office and to close its employment discrimination clinic at Boalt Hall School of Law in Berkeley, by adopting separate appropriation items in the 1986 Budget Act. These separate items set aside specific amounts which could be used only for legal staff expenses in San Francisco, Los Angeles and Berkeley, respectively.

In spite of this language, the department moved its San Francisco legal office to Sacramento in July 1986, and has been using funds budgeted for the San Francisco legal office to fund a Sacramento legal office. In addition, DFEH closed the Boalt Hall clinic in August 1986; however, to date it has not used the funds budgeted for this purpose on other activities. The department's actions have resulted in a Superior Court suit brought by the Association of California State Attorneys and Administrative Law Judges (ACSA) challenging the legality of the San Francisco office relocation. A decision in that case may be announced this spring.

Our review of these actions indicates that the administration has disregarded the 1986 Budget Act and the Legislature's clear expression of its intent on this matter. In order to implement the wishes of the Legislature, we recommend that the 1987 Budget Bill be amended to provide, once again, separate appropriations for the various operations of the department. In addition, we recommend that the following Budget Bill language be added to make it particularly clear that the amounts budgeted for legal staff in San Francisco, Los Angeles and Berkeley are to be used only for those purposes and in those locations.

1700-001-001—For support of DFEH $9,293,000

1. None of the funds appropriated by this item shall be encumbered for transfer to any legal services operation in any legal office or discrimination clinic.

1700-011-001—For the support of DFEH, Los Angeles legal office $580,000

1. These monies shall be spent only in Los Angeles for legal staff and support of legal staff.

1700-021-001—For the support of DFEH, San Francisco legal office $383,000

1. These monies shall be spent only in San Francisco for legal staff and support of legal staff.

1700-031-001—For the support of DFEH, Boalt Hall Employment Discrimination Clinic $73,000

1. These monies shall be spent only at the University of California at Berkeley for the employment discrimination clinic at Boalt Hall School of Law.

State and Consumer Services Agency

FAIR EMPLOYMENT AND HOUSING COMMISSION

Item 1705 from the General Fund — Budget p. SCS 84

Requested 1987–88	$813,000
Estimated 1986–87	804,000
Actual 1985–86	770,000
Requested increase (excluding amount for salary increases) $9,000 (+1.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Fair Employment and Housing Commission establishes overall policies for implementing the state's antidiscrimination statutes. State law prohibits discrimination in employment, housing, and public accommodations based on race, religious creed, color, national origin, ancestry, sex, marital status, physical handicap, medical condition, and age.

The commission is composed of seven members appointed by the Governor to four-year terms. The FEHC's primary responsibility is to hear formal accusations of discrimination filed with the Department of Fair Employment and Housing, and to issue decisions in these cases. The FEHC also: (1) assists the Attorney General when commission decisions are appealed to the superior and appellate courts, (2) conducts fact-finding hearings on selected matters involving illegal discriminatory activity (3) promulgates regulations and standards to implement the state's antidiscrimination statutes, and (4) prepares and submits legal briefs in cases involving issues related to the commission's jurisdiction.

The commission has 12.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $813,000 from the General Fund to support the Fair Employment and Housing Commission (FEHC) in 1987–88. This amount is $9,000, or 1.1 percent, greater than estimated current-year expenditures. The increase is the net result of an augmentation of $17,000 to pay for increased per diem authorized by Ch 278/85, and an $8,000 unallocated reduction (the 1 percent "special adjustment").

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The FEHC's proposed expenditures appear to be warranted.

State and Consumer Services Agency

OFFICE OF THE STATE FIRE MARSHAL

Item 1710 from the General Fund and various funds — Budget p. SCS 85

Requested 1987–88	$10,197,000
Estimated 1986–87	9,551,000
Actual 1985–86	8,824,000
Requested increase (excluding amount for salary increases) $646,000 (+6.8 percent)	
Total recommended increase	1,300,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1710-001-001—SFM, support	General	$2,938,000
1710-001-198—SFM, support	California Fire and Arson Training	1,382,000
1710-001-199—SFM, support	California Fireworks Licensing	344,000
1710-001-209—SFM, support	Hazardous Liquid Pipeline Safety	1,075,000
Reimbursements		4,458,000
Total		$10,197,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Public Building Fire Inspections. Increase by $1.3 million.*** Recommend augmentation of $1.3 million and reduction of reimbursements by a corresponding amount to sustain the State Fire Marshal's program of inspecting public assembly buildings. 125

GENERAL PROGRAM STATEMENTS

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

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

The office is authorized to 151.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $10,197,000 for support of the Office of the State Fire Marshal (OSFM) in 1987–88. This is an increase of $646,000, or 6.8 percent, over estimated current-year expenditures. As Table 1 shows, General Fund expenditures will account for $2,938,000 of the total, with the remaining $7,259,000 to come from three special funds and reimbursements. The budget includes a $140,000 allowance for non-receipt of revenues in the California Fire and Arson Training Fund. The

OFFICE OF THE STATE FIRE MARSHAL—Continued

State Fire Marshal is considering raising program fees to offset this amount. Any additional revenues will be used to conduct additional fire and arson training classes.

Table 1
Office of the State Fire Marshal
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*CFATF*[a]	*HLPF*[b]	*CFLF*[c]	*Reimburse-ments*	*Total*
1986–87 Expenditures	$4,296	$1,172	$776	$312	$2,995	$9,551
Baseline Adjustments						
• Special Adjustment	−30	—	—	—	—	−30
• Salary and Benefit and Miscellaneous Adjustments	19	—	3	—	7	29
• Prior year balance (Ch 1529/85)	−25	—	—	—	—	−25
• Prior year balance (Ch 863/86)	—	—	−137	—	—	−137
• Allowance for non receipt of revenues	—	140	—	—	—	140
Proposed Program Changes:						
• Implementation of Inter-State Pipeline Program	−89	—	433	—	—	344
• Increase hospital plan checking	−19	—	—	—	84	65
• Increase school plan checking	−16	—	—	—	72	56
• Expand rural fire fighting training program	−16	70	—	—	—	54
• Contract for study of data processing needs	100	—	—	—	—	100
• Add position to analyze firework and arson evidence	18	—	—	32	—	50
• Redirect funding public building inspection	−1,300	—	—	—	1,300	0
Totals	$2,938	$1,382	$1,075	$344	$4,458	$10,197
Change from 1986–87						
Amount	$1,358	$210	$299	$32	$1,463	$646
Percent	−31.6%	17.9%	38.5%	10.3%	48.8%	6.8%

[a] California Fire and Arson Training Fund.
[b] Hazardous Liquid Pipeline Safety Fund.
[c] California Fireworks Licensing Fund.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of six budget changes not discussed elsewhere in this analysis. The first four changes expand programs operating on a reimbursement basis. These changes result in *savings* to the General Fund because the General Fund's share of the office's overall administrative costs is decreased proportionately. The next two budget proposals expand General Fund supported activities and thus result in *costs* to the General Fund.

- Add 2.8 personnel-years and $433,000 to the Pipeline program to implement Ch 863/86 which requires the OSFM to inspect interstate pipelines. (General Fund savings: $89,000).
- Add, on a limited term basis, 0.9 personnel-years and $84,000 to meet increased hospital plan checking workload. This cost is reimbursed by contract with the Office of Statewide Health Planning and Development. (General Fund savings: $19,000).

- Add, on a limited term basis, 0.9 personnel-years and $72,000 to meet expanded school plan checking workload. This is reimbursed by contract with the Office of the State Architect. (General Fund savings: $16,000).
- Expand the rural fire fighting training program by adding 0.9 personnel-years and $70,000. Funding is provided from fee revenue to be deposited in the Fire and Arson Training Fund under provisions of Ch 1412/86. (General Fund saving: $16,000).
- Increase budget by $100,000, on a one-time basis, to enable the department to contract for a study evaluating the OSFM's overall data processing need. (General Fund cost: $100,000).
- Add one contract position to analyze fireworks and arson evidence. Establishing this position at the OSFM will be less costly than establishing the position at the Department of Justice. (General Fund cost: $18,000).

Fire Inspections of Public Buildings May Be Unfunded

We recommend an increase of $1.3 million from the General Fund and a corresponding decrease of $1.3 million in reimbursements to permit the State Fire Marshal to continue inspecting public buildings as required by the Health and Safety Code. (Increase Item 1710-001-001 by $1.3 million and decrease reimbursements by $1.3 million.)

Section 13145 of the Health and Safety Code requires the chief of any city or county fire department or district to enforce building standards and regulations in "public buildings" in his or her jurisdiction. The code requires the Office of the State Fire Marshal to provide this enforcement in areas not covered by legally organized fire departments and districts. The Office of the State Fire Marshal has identifed 2,700 public buildings which fall under its responsibility. Generally, these buildings are restaurants, night clubs, churches and schools located in rural areas.

Currently, most California cities, counties, and districts charge fees for their enforcement/inspection services. The Office of the State Fire Marshal, however, is not authorized to collect fees to cover its costs. The budget document states that the "State Fire Marshal will introduce legislation in 1987–88 to establish a fee setting process for public building fire inspections." On this basis, the budget proposes a $1.3 million *reduction* in General Fund support and a corresponding $1.3 million *increase* in reimbursements for this program. (The $1.3 million level of expenditures proposed for the budget year is the same as in the current year.)

The concept of shifting the costs of the State Fire Marshal's public building inspections from the General Fund to building owners has merit. This is a policy issue that must be addressed by the Legislature at the time the necessary legislation is considered. In order to ensure public safety, we believe that the inspection program should be sustained in its current form pending enactment of the enabling legislation. Consequently, we recommend that the Legislature increase General Fund support for this program (Item 1710-001-001) by $1.3 million and decrease reimbursements by $1.3 million. Legislation to authorize a fee setting process could also adjust the State Fire Marshal's budget to account for the anticipated fee revenue.

FRANCHISE TAX BOARD

Item 1730 from the General Fund and various special funds. Budget p. SCS 88

Requested 1987–88	$147,029,000
Estimated 1986–87	142,700,000
Actual 1985–86	127,304,000
Requested increase (excluding amount for salary increases) $4,329,000 (+3.0 percent)	
Total recommended increase	911,000
Recommendation pending	880,000
Estimated potential revenue gain from recommendations	18,300,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1730-001-001—Support	General	$142,148,000
8640-001-001—Support	General (Political Reform Act)	1,044,000
1730-001-200—Support	Fish and Game Preservation	17,000
1730-001-800—Support	U.S. Olympic Committee	17,000
1730-001-803—Support	State Children's Trust	18,000
1730-001-905—Support	California Election Campaign	15,000
1730-001-983—Support	California Seniors	16,000
Reimbursements	—	3,754,000
Total		$147,029,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Special Adjustment. Augment Item 1730-001-001 by $1,436,000.*** Recommend augmentation to offset funding reduction made pursuant to the administration's Special Adjustment. (Potential increase in General Fund revenue of $11.6 million in 1987–88.) 131
2. ***Audit Program. Augment Item 1730-001-001 by $531,000.*** Recommend addition of 14.8 personnel-years and $531,000 in order to perform cost beneficial audits of tax returns. (Potential increase in General Fund revenue of $1.9 million in 1987–88.) 132
3. ***Return Estimates. Reduce Item 1730-001-001 by $101,000.*** Recommend deletion due to revised estimates of income tax returns to be processed. 134
4. Telephone Information Center. Withhold recommendation on $880,000 proposed to handle telephone calls from taxpayers, pending review of the FTB's feasibility study report on the use of automated systems as a means of responding to taxpayer inquiries. 135

5. ***Contract Work Program. Augment Item 1730-001-001 by $572,000 and reduce reimbursements by $1,442,000.*** Recommend augmentation to compensate for the amount of FTB's General Fund overhead costs that will not be covered by reimbursements. Recommend reduction in reimbursements to reflect the level of contract work that the board will perform in 1987–88. (Potential increase in General Fund revenue of $4.8 million in 1987–88.) 136
6. ***Unitary Legislation Lobbying Contract. Reduce Item 1730-001-001 by $85,000.*** Recommend deletion because proposed expenditures are not justified. 138

GENERAL PROGRAM STATEMENT

The Franchise Tax Board (FTB) is responsible for administering California's Personal Income Tax (PIT), Bank and Corporation (B&C) tax, Senior Citizens Property Tax Assistance program, and the Political Reform Act audit program. The board consists of the Director of Finance, the chairman of the State Board of Equalization, and the State Controller.

An executive officer is charged with administering the FTB's day-to-day operations, subject to supervision and direction from the board. The FTB is authorized 3,154 personnel-years in the current year.

The PIT and B&C tax programs administered by the board account for over 55 percent of total General Fund revenues. In 1987–88, these programs are projected to produce $17.9 billion, including $13.2 billion in PIT revenue and $4.7 billion in B&C tax revenue. Approximately $17.1 billion of these revenues are accounted for by voluntary self-assessments by taxpayers, while the remaining $800 million will be raised from assessments issued by the board's audit, collections, and filing enforcement programs.

OVERVIEW OF THE BUDGET REQUEST

Total expenditures by the Franchise Tax Board are proposed at $147,029,000 for the budget year, which is $4,329,000, or 3.0 percent, more than current-year expenditures. The budget request includes funding for 3,254 personnel-years in 1987–88. This is 100 personnel-years (3.2 percent) more than the number authorized for the current year.

The budget proposes an appropriation of $142,148,000 from the General Fund, which is an increase of $4,280,000, or 3.1 percent, over estimated General Fund expenditures for the current year. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year. The budget has been reduced by $1,436,000, which is approximately 1 percent of the General Fund support, as a Special Adjustment.

During 1987–88, the board also expects to receive $3,754,000 in reimbursements from other agencies, $1,044,000 as a transfer from the Political Reform Act (Item 8640), and $83,000 from various special funds. The expenditure tables which follow have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Table 1 summarizes the level of expenditure and personnel-years for each of the FTB's major programs in the prior, current, and budget years.

FRANCHISE TAX BOARD—Continued

Table 1
Franchise Tax Board
Program Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–1988*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Personal Income Tax	1,923	2,067	2,175	$86,196	$97,311	$102,356	5.2%
Bank & Corporation Tax	730	724	718	35,081	38,912	39,551	1.6
Homeowners and Renters Assistance	42	40	38	1,811	1,813	1,826	0.7
Political Reform Act	20	17	17	1,034	1,029	1,044	1.5
Contract Work	88	90	90	3,182	3,635	3,688	1.5
Administration (Distributed)	215	216	216	(10,564)	(11,870)	(11,870)	—
Special Adjustment						−1,436	
Totals	3,018	3,154	3,254	$127,304	$142,700	$147,029	3.0%
Funding Sources							
General Fund	*2,910*	*3,042*	*3,142*	*$122,887*	*$137,868*	*$142,148*	*3.1%*
Reimbursements	*88*	*90*	*90*	*3,342*	*3,701*	*3,754*	*1.4*
Political Reform Act (General Fund)	*20*	*17*	*17*	*1,034*	*1,041*	*1,044*	*0.3*
Fish and Game Fund	—	*1*	*1*	*10*	*17*	*17*	—
U.S. Olympic Committee Fund	—	*1*	*1*	*4*	*17*	*17*	—
State Childrens' Trust Fund	—	*1*	*1*	*11*	*18*	*18*	—
Federal Trust Fund	—	—	—	*3*	*7*	—	—
California Election Campaign Fund	—	*1*	*1*	*6*	*15*	*15*	—
California Senior's Fund	—	*1*	*1*	*7*	*16*	*16*	—

Expenditures by Program. As Table 1 shows, the PIT program accounts for the largest single portion of the board's budget (70 percent of the total budget request). Most of the remaining expenditures are attributable to the B&C tax program (27 percent). The FTB's activities under the Political Reform Act (PRA) and Homeowners and Renters Assistance (HRA) programs account for a relatively small amount (less than 2 percent) of its total budget. In addition to the funding for these mandated programs, a portion of the FTB budget (3 percent) is used for support of services which the board provides on a contractual basis to other agencies.

Source of Funds. Table 1 also shows that nearly all of the FTB budget (about 97 percent) is supported directly from the General Fund. These funds are used for the PIT, B&C and HRA programs. The funding for the board's PRA audit program is provided under a separate budget item (Item 8640). Expenditures for contract work are paid from reimbursements charged to other government agencies. In addition, the FTB budget includes funding from the California Election Campaign Fund, the U.S. Olympic Committee Fund, the California Seniors Fund, the Fish and Game Fund, and the State Children's Trust Fund. These funds are provided to the board in order to cover its costs of processing voluntary contributions made by taxpayers to special programs supported by these funds.

General Fund Expenditures. Table 2 shows how much the FTB plans to spend from the General Fund for various functions.

About two-thirds of the board's General Fund budget is for two essential FTB functions—processing and auditing tax returns. As Table 2 shows, 32 percent of the FTB's General Fund budget is for return processing and taxpayer assistance and 36 percent is for audits. About 23 percent is for collecting delinquent taxes (collections function) and 8.6 percent is for programs to make sure that individuals and businesses file tax returns (filing enforcement).

Table 2 also shows the relative importance of the various functions for each of the board's three major programs. Return processing and taxpayer assistance accounts for nearly 36 percent of total General Fund expenditures under the PIT program, but only 21 percent of expenditures under the B&C program. In contrast, audit activities account for 53 percent of expenditures under the B&C program but only 30 percent of expenditures under the PIT program.

Proposed Changes to the Budget. Table 3 identifies the changes that account for the proposed increase of $4,329,000 in the FTB's budget. It shows that about one-half of the budget increase ($2.2 million, or 50 percent) consists of *baseline adjustments* for the costs of merit salary adjustments, staff benefit increases, the full-year costs of programs started in the current year, and other miscellaneous changes. For purposes of this table, we have included $2,039,000 of the proposed increase in audit funding as costs of merit salary and staff benefit adjustments, in order to reflect the actual purpose and ultimate use of these funds.

The second largest category of budget increases are due to *program changes,* including augmentations of about $2 million for additional enforcement activities (tax collections and filing enforcement) and $133,000 for additional audits. The sum of the program changes identified in Table 3 ($2,095,000) is $2,039,000 *less* than the total amount of augmentations shown in the budget document (page SCS 89) for audit and collection activities ($4,134,000). The difference arises because we have reflected $2,039,000 of the proposed increase for "maintaining the level of audit and collections activities" as costs of the merit salary adjustments and staff benefit increases, as mentioned above.

The other significant changes to the FTB's budget are an increase of $1,359,000 for *workload adjustments,* which reflects the added costs of processing an increased number of (1) state tax returns filed in 1987–88, (2) telephone calls made to the board's toll-free information center, and (3) correspondence from taxpayers in response to audit or collection actions. In addition, the budget provides a net increase of $144,000 for data processing equipment and software so that the board's various information systems can accommodate the ongoing increases in workload.

Table 2
Franchise Tax Board
Program Functions Supported by the General Fund
1987–88
(dollars in thousands)

Function:	*PIT Program* Budgeted Expenditures	*PIT Program* Percent of Total	*B&C Program* Budgeted Expenditures	*B&C Program* Percent of Total	*HRA Program* Budgeted Expenditures	*HRA Program* Percent of Total	*Total* Budgeted Expenditures	*Total* Percent of Total
Processing/Taxpayer Assistance	$36,372	35.6%	$8,398	21.2%	$1,826	100.0%	$46,596	32.4%
Audit	30,173	29.5	20,992	53.1	—	—	51,165	35.6
Collections	24,758	24.2	7,730	19.6	—	—	32,488	22.6
Filing Enforcement	10,970	10.7	1,320	3.3	—	—	12,290	8.6
Exempt Corporations	—	—	1,111	2.8	—	—	1,111	0.8
Administration (Distributed)	(8,088)	—	(3,153)	—	(166)	—	(11,407)	—
Totals	$102,273	100.0%	$39,551	100.0%	$1,826	100.0%	$143,650 [a]	100.0%
Percent of General Fund Expenditures	71.2%		27.5%		1.3%		100.0%	

[a] This amount is $1,502,000 higher than the General Fund appropriation ($142,148,000) because it does not reflect $66,000 in reimbursements from the contract work program for general administrative expenses and the $1,436,000 (1 percent) special adjustment reduction.

Table 3
Franchise Tax Board
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*Reimbursements, Transfers, and Special Funds*	*Total*
1986–87 Current Year Estimated	$137,868 [a]	$4,832	$142,700
Baseline Adjustments			
Personal Services			
Merit Salary Adjustment [b]	1,791	62	1,853
Staff Benefit Adjustment [b]	180	6	186
Other	18	−19	−1
Full Year Costs	129	—	129
Subtotal, Baseline Adjustments	$2,118	$49	$2,167
Workload Adjustments			
Return Processing and Taxpayer Assistance	1,359	—	1,359
Information Systems Improvements and Maintenance	144	—	144
Subtotal, Baseline Adjustments	$1,503	—	$1,503
Program Changes			
Audit Workplan [b]	133	—	133
Enforcement Workplan	1,962	—	1,962
Subtotal, Program Changes	$2,095	—	$2,095
Special Adjustment	−1,436	—	−1,436
1987–88 Budget Request	$142,148	$4,881	$147,029
Change from 1986–87			
Amount	$4,280	$49	$4,329
Percent	3.1%	1.0%	3.0%

[a] Excludes amount funded under the Political Reform Act ($1,041,000). This funding is included as a transfer.
[b] Source: Franchise Tax Board baseline adjustment budget document.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following proposed budget changes that are not discussed elsewhere in this analysis:

- An increase of $1,962,000 for the FTB to perform additional tax collection and filing enforcement activities, which will produce revenues of $17.1 million in 1987–88 and $26.5 million annually thereafter.
- A net increase of $144,000, consisting of an increase of $1,181,000 for equipment and software for improving and maintaining the board's data processing capabilities, offset by $1,037,000 in savings for various items of operating expenses and equipment.

Special Adjustment Threatens Revenue Collections or Public Services

We recommend that the Legislature augment the FTB's budget by $1,436,000 to offset the funding reductions made pursuant to the administration's Special Adjustment. (Increase Item 1730-001-001 by $1,436,000).

For the budget year, the administration has reduced the General Fund budget requests of most state agencies by 1 percent as a Special Adjustment. In the past, the FTB was exempted from certain across-the-board reductions, on the basis that the reductions likely would be taken out of the board's revenue generating programs, such as audits and collections. However, the board has received no such exemption for 1987–88, and its General Fund budget request has been reduced by 1 percent, or $1,436,000.

FRANCHISE TAX BOARD—Continued

At the time this *Analysis* was prepared, neither the FTB nor the Department of Finance had prepared a specific plan for implementing the proposed reduction. However, since the FTB has a small range of discretionary programs, it appears that the board's primary option for accommodating the funding shortfall would be to reduce audit activities. On the other hand, if the board is not allowed to redirect funds away from the audit program (in order to maintain revenues), it instead may have to cut back on the level of services provided to the public through its taxpayer assistance programs, particularly the toll-free Telephone Information Center. Given the adverse consequences of program reductions in either one or both areas, we do not believe that the reduction is justified.

Audit Reduction Would Shortchange General Fund. If the board's audit program absorbs the full \$1.4 million reduction, approximately 4,000 audits will not be conducted and \$11.6 million in audit recoveries would be foregone. Clearly, from a fiscal standpoint, it makes little sense for the General Fund to give up more than *eight times* in revenue than what it saves in administrative costs. We also note that the Department of Finance's estimate of personal income tax revenue reflects the full attainment of the FTB's audit goals. To the extent that the funding for the audit program is reduced due to the Special Adjustment reduction, the board's audit recoveries will fall below the level anticipated in the department's General Fund revenue projections.

Telephone Service Would Fall Below Budgeted Levels. If instead the full reduction is absorbed by the FTB's Telephone Information Center, the level of service (in terms of percentage of calls answered) would drop from the budgeted level of 62 percent to 51 percent. This translates into an estimated 1,890,000 phone calls from taxpayers needing assistance which will not be answered. For the past and current years, the Legislature has augmented the board's budget by a total of \$800,000 so that the FTB could provide a greater level of service, but the Governor deleted \$450,000 of the additional funds. Thus, the reduction could amount to another funding reduction by the administration, which would make it even more difficult for taxpayers to have their questions answered or their accounts resolved.

Our recommendation to augment the board's budget is not to suggest that it is impossible for the board to absorb any portion of the funding reductions without adverse revenue or program consequences. A small portion of the reduction may in fact be absorbed in this fashion. Given the magnitude of the reductions, however, the board clearly will be forced to reduce its programs and, more-than likely, its revenue producing capacity, to accommodate the loss of funds.

Under these circumstances, we believe the reduction makes little sense from an overall fiscal or policy perspective. Accordingly, we recommend that the Legislature augment the FTB's budget by the \$1,436,000 to restore the Special Adjustment funding.

Audit "Augmentation" Backfills for Budget Reduction

We recommend that the FTB's budget be augmented by 14.8 personnel-years and \$531,000 so that the board can perform all audit cases with an incremental revenue-to-cost ratio of \$5 to \$1 or greater. (Increase Item 1730-001-001 by \$531,000).

The budget proposes an augmentation of \$2,172,000 for support of tax audit activities at the board, which the administration claims will generate $16.2 million in net revenues to the General Fund in 1987–88. Our analysis indicates, however, that only a fraction of this amount represents new funding for tax audits. The Department of Finance—for the second year in a row—is representing that its "augmentation" of the budget will increase audit revenue collections, when in reality the funds must be used to backfill for reductions elsewhere in the board's budget. In fact, even with this so called "augmentation," the FTB's funding level will not be sufficient to achieve the level of audit coverage that has been authorized by the Legislature.

Funding Will Cover Merit Salary Adjustments and Staff Benefit Increases. The budget does not directly provide funding for the FTB to pay for an estimated $3,058,000 in cost increases for merit salary adjustments (MSAs), staff benefits, and operating expenses and equipment (OE&E). This reflects the administration's policy requiring that state agencies shall "absorb" these costs. The FTB plans to pay for the OE&E portion ($1,019,000) by redirecting funds within its OE&E schedule. However, unlike other departments, the board's costs for MSAs and staff benefits increases ($2,039,000) will *not* have to be absorbed through reductions in specific programs. Rather, the FTB will have adequate funding to pay these costs through the administration's request to "augment" the board's audit program by $2,172,000.

Real Augmentation is $133,000. In reality, the budget is augmented by $133,000 for four audit positions, which will generate additional audit recoveries of $665,000 in 1987–88 and $1.4 million annually thereafter. Therefore, most of the $16.2 million in net revenue attributed by the administration to the $2.2 million audit augmentation is *not* additional General Fund revenue. Rather, $15.5 million of this amount represents the revenue that would have been *foregone* in 1987–88 if the administration had not provided the necessary funds to the FTB to cover the costs for MSAs and staff benefit adjustments. In this sense, the augmentation mainly restores the portion of the General Fund's revenue base which was "lost" when the administration declined to fund MSAs and staff benefit adjustments.

Audit Plan Shows Unbudgeted Audit Cases with an Incremental Revenue-to-Cost Ratio of Greater than $5 to $1. The proposed "augmentation" for 1987–88 of $2.2 million brings the FTB's total funding level for the audit program to $51.2 million. This will allow the board to conduct approximately two million audits and levy net assessments of $593 million. According to the FTB's audit plan, the total funding level will allow the board to perform all audits of returns that yield at least $5 in revenue for each $1 in audit cost. The Legislature and Governor generally have accepted the $5 to $1 revenue-to-cost level of audit effort because it covers a significant portion of the board's audit cases without raising the possibility of excessive enforcement and harassment of taxpayers.

However, the $5 to $1 ratio in the 1987–88 budget is based on *total program* costs, which includes fixed overhead costs and other cost elements which do *not* increase as the number of audits increases. When such fixed expenses are taken out of the cost calculations, we find that the board actually is budgeted to audit all returns that yield at least $7.60—not $5—for each *additional* $1 it spends for audits. The Legislature's policy, however, is to fund the audit program on the basis of *incremental* costs to *incremental* revenue. This allows a comparison to be made, on the margin, between expected revenue and the actual cost incurred for each

FRANCHISE TAX BOARD—Continued

additional audit. The FTB's audit plan shows that it could perform an additional 20,480 audits that have an incremental revenue-to-cost ratio of greater than $5 to $1. Given the Legislature's policy to fund the audit program at this level, we recommend that the board's budget be augmented by 14.8 personnel-years and $531,000 so that these audits could be conducted. We estimate that these resources will generate additional General Fund revenue of approximately $1.9 million in 1987–88 and $3.9 million annually thereafter.

Revised Estimates Indicate Lower Workload Growth

We recommend the deletion of $101,000 requested for workload growth, based on revised return estimates. (Reduce Item 1730-001-001 by $101,000).

The 1987–88 budget for FTB requests an increase of $1,359,000 to accommodate the expected workload growth for various return processing, taxpayer assistance, and other tax administrative activities. This amount consists of increases of $880,000 for the board's toll-free Telephone Information Center and $714,000 for processing returns and other tax documents, offset by decreases of $235,000 due to savings from various technological improvements.

The amount included in the FTB budget for workload growth is based, in part, on the estimated volume of tax returns to be received and processed during the budget year. As shown in Table 4, the board projects that it will process approximately 13.8 million returns during 1987–88. This represents an increase of 351,000 returns, or 2.6 percent, over the estimated volume for the current year.

Table 4
Franchise Tax Board
Tax Return Volumes
1985–86 through 1987–88
(Number of returns in thousands)

	Number of Returns			*Change from 1986–87*	
Type of Returns	*1985–86 Actual*	*1986–87 Estimated*	*1987–88 Projected*	*Number*	*Percent*
Personal Income Tax	12,140	12,609	12,950	341	2.7%
Bank and Corporation	498	527	554	27	5.1
Homeowners and Renters	308	282	265	−17	−6.0
Totals	12,946	13,418	13,769	351	2.6%

The FTB's projections are based primarily on estimates of various economic and demographic variables that are believed to affect the total volume of returns filed by California taxpayers. Given the timing of the budget process, the board had to develop these projections using economic data available during July 1986. Since then, however, the economic outlook has changed, and current projections for certain variables differ from those used by FTB to estimate tax return volumes.

Based on more recent economic data, it appears that the number of tax returns filed will be lower than the estimate used to develop the FTB's budget request. Using the economic data contained in the budget document, we estimate that 13,654,000 returns will be filed in 1987–88, which is 115,000 returns *less* than the board's projections. This difference is due to a revised projection of changes in unemployment, which is one of the factors used to estimate tax return volumes. Previous economic data indicated that unemployment would drop between 1986 and 1987, but now it is expected to rise, due to overall sluggishness in the economy. Given the lower estimate of return volumes for the budget year, the proposed increase in funding for workload growth is overstated by 4.5 personnel years and $101,000. Accordingly, we recommend that the board's budget request be reduced by these amounts.

Taxpayer Services Program

We withhold recommendation on $880,000 requested to handle increased workload for the FTB's Telephone Information Center, pending review of the board's feasibility study report on the use of an automated system of recorded tax information to respond to taxpayer inquiries.

The FTB maintains an extensive program for providing assistance and services to taxpayers. The three principal components of the program are: (1) telephone assistance provided on a statewide toll-free basis from the Telephone Information Center in Sacramento; (2) written assistance from a correspondence unit (also in Sacramento); and (3) walk-in counter assistance at 16 districts located throughout the state.

Most Services Provided by Telephone. Table 5 provides workload information for the board's taxpayer services program for the past, current, and budget years. As the table shows, the Telephone Information Center is the largest component of the program, with over 60 percent of the requests for assistance handled by telephone. In the budget year, the center expects to respond to 2.3 million phone calls, which is an increase of approximately 432,000 phone calls (23.3 percent) over the current year amount. The board attributes the large increase to its stepped-up audits and collections activities, which have led to increases in the level of contacts with taxpayers.

Table 5
Franchise Tax Board
Taxpayer Services Program
Volume and Type of Contacts
1985–86 through 1987–88

Type of Contacts	*1985–86 Actual*	*1986–87 Estimated*	*1987–88 Projected*	*Percent Change from 1986–87*
Telephone Assistance	1,627,900	1,855,700	2,287,500	23.3%
Written Correspondence	866,200	696,200	718,200	3.2
Field Office Contacts	552,000	569,800	578,700	1.6
Totals	3,046,100	3,121,700	3,584,400	14.8%

"Access Rate" Used to Measure Program Performance. Despite the large number of telephone contacts, the volume of calls answered is below the number of calls actually placed. The level of service provided by the center is measured by calculating the percentage of calls answered, or the "access rate."

In the *Supplemental Report of the 1986 Budget Act*, the Legislature adopted language which directed the Department of Finance to include, in the budget document, the access rate as a performance measure for the Information Center. This language, which we recommended, was adopted because the access rate allows a comparison to be made between the

FRANCHISE TAX BOARD—Continued

volume of calls answered and the number of calls attempted by taxpayers. It also provides a summary measure of how the budgeted level of assistance compares to the demand for the service. Previously, the performance measure displayed in the budget document was the total number of calls answered. This measure, however, is useful only for judging the program's workload.

As the budget shows, the funding level proposed for 1987–88 will enable the FTB to respond to *62 percent* of the estimated 3.7 million calls that will be attempted. This is up from the 49 percent rate in 1985–86, but still below the 65 percent access rate at which the program was budgeted in previous years. The decline in service level generally has occurred because telephone charges have increased without a corresponding increase in the level of funding.

Funding Levels for Information Center. The Legislature augmented the FTB's 1986–87 budget by $700,000 so that the Information Center could operate at a 65 percent service level. The Governor reduced this amount by one-half ($350,000), which lowered the budgeted service level to 62 percent. For 1987–88, the budget proposes an increase of $880,000 for this program. The additional funding will enable the program to maintain a 62 percent service level, given the board's most recent estimate of the number of calls (3.7 million) that will be attempted in 1987–88.

Feasibility Study Report on Automated Telephone System. Based on our recommendation in last year's *Analysis*, the Legislature also adopted language in the *Supplemental Report of the 1986 Budget Act* directing the FTB to prepare a feasibility study report (FSR) on the use of automated systems to respond to taxpayer inquiries. The language was adopted because a similar system operated by the federal Internal Revenue Service, the "Tele-Tax" service, has been shown to reduce its costs of handling phone requests for tax information and assistance. The board has not yet completed the FSR, but its preliminary findings indicate that automating portions of its telephone assistance program could improve productivity and lower costs. We believe that the information in the report would provide a reasonable basis for evaluating the appropriate level of funding for the Telephone Information Center. Accordingly, we withhold recommendation on the additional $880,000 proposed for the program in 1987–88, pending receipt of this report.

Discontinued Contract Work Leaves Hole in Budget

We recommend an augmentation of $572,000 to cover the amount of General Fund overhead costs that will not be funded from reimbursements. We further recommend that reimbursements be reduced by $1,442,000 to more accurately reflect the level of contract work that the board is likely to perform in 1987–88 for other agencies. (Increase Item 1730-001-001 by $572,000 and reduce reimbursements by $1,442,000).

The FTB requires an extensive information processing and data entry system in order to handle the large volumes of returns and other tax documents that are processed during the tax filing season, which runs from January through June. At other times, when there is less tax-related workload, the board provides data processing services to other state agencies as a means of maximizing the use of its facilities and personnel. These costs are recovered through reimbursements from the agencies that receive the services. Such reimbursements, in turn, allow the amount of the board's fixed overhead which must be borne by the General Fund to be reduced accordingly.

The budget shows that the board will receive reimbursements of $3,701,000 in 1986–87 and $3,754,000 in 1987–88. However, our analysis indicates that the actual level of reimbursements will be *far below* the amount estimated for both the current and budget years. This is because three major contracts have not been renewed and another will not generate the amount of reimbursements assumed in the budget. These four contracts and their associated reimbursements, fixed overhead and incremental costs for 1987–88 are displayed in Table 6.

Table 6
Franchise Tax Board
Fiscal Impact of Discontinued and Reduced Contract Work
1987–88

Agency	*Incremental Costs*	*Fixed Overhead Costs*	*Total Reduction in Reimbursements* [a]
Discontinued Contract Work:			
Office of Economic Opportunity	$557,000	$319,400	$876,400
State Lottery Commission	150,300	54,000	204,300
Department of Health Services	131,800	64,100	195,900
Subtotal, Discontinued Contracts	$839,100	$437,500	$1,276,600
Reduced Contract Work:			
Department of Consumer Affairs			
Budgeted Level	$93,000	$407,400	$500,400
Expected Level	62,000	273,000	335,000
Difference	$31,000	$134,400	$165,400
Totals	$870,100	$571,900	$1,442,000

[a] These are the amounts of reimbursements that the board does not expect to receive due to discontinued or reduced contract work.

As Table 6 shows, the largest unfunded contract is with the Department of Economic Opportunity, which had contracted with the board to process applications for the Home Energy Assistance program. This contract was discontinued at the end of 1985–86. The contract with the State Lottery Commission, which also ended in 1985–86, provided for the board to process, on a one-time basis, the applications of retailers for lottery sales outlets. The Department of Health Services, which has used the FTB for key data entry, also does not plan to renew its contract. In fact, this department has requested an augmentation in its own 1987–88 budget request to perform the work in-house. Finally, the Department of Consumer Affairs contract will be $165,400 less than the budgeted amount of reimbursements, due to expected changes in the scope of services provided by the FTB.

Given the contract work reductions shown in Table 6, the level of reimbursements in the board's budget is overstated by $1,442,000. The "incremental costs" portion of this amount ($870,100) has no direct impact on the board's General Fund budget, because these are the additional reimbursable costs for salaries and other variable expenses that the board would have incurred to perform the contract work. However, the "fixed overhead costs" ($571,900) is the amount of departmental overhead charged to the contract work program that otherwise would be borne by

FRANCHISE TAX BOARD—Continued

the General Fund. Thus, because the amount of reimbursements will be less, the board's *General Fund* overhead costs will be approximately $572,000 *greater* than the amount of funds included in the budget for this purpose.

Unless additional funds are provided or savings are found elsewhere in the FTB budget, the board will have to make reductions in other program areas that are supported by the General Fund. Most likely, the unfunded overhead costs would be paid through a redirection from the audit program, since the board's primary discretionary authority is in the compliance area. We estimate that if audits are foregone in order to pay for the board's fixed overhead costs, audit recoveries could be reduced by $4.9 million. Thus, from a fiscal standpoint, it makes little sense for the budget not to provide the FTB with enough funds to cover its departmental overhead. We note that the 1984–85 *Governor's Budget* included a General Fund augmentation of $222,000 to cover a similar hole in the budget left by contract work reductions. Accordingly, we recommend an augmentation of $572,000 to the FTB budget to ensure that the board has adequate funds to cover its fixed overhead costs. We further recommend that reimbursements be reduced by $1,442,000 to more accurately reflect the amount of reimbursements that the FTB is likely to receive in 1987–88 for contract work.

No Ongoing Need for Washington Lobbyist on Unitary Issue

We recommend that funds for external consultants be reduced by $85,000 because the proposed expenditure is not justified. (Reduce Item 1730-001-001 by $85,000).

The FTB's budget includes $85,000 in order to continue a contract with a Washington, DC-based lobbyist, who represents the board on matters relating to the unitary method of taxing multinational corporations. The board believes the contract with this consultant gives it the capability to respond to attempts at the federal level to restrict the state's use of the method. However, given the passage of Ch 660/86 (SB 85), which substantially revised California's unitary method, it is not clear whether the board has a need to retain its Washington representative.

Legislative Action Diffuses Federal Pressures. Chapter 660 allows multinational corporations to elect to exclude their foreign operations from the worldwide combination method of unitary apportionment. Corporations that choose the alternative approach, the "water's edge" method, are required to combine only their domestic activities and certain other operations for apportionment purposes. The measure was enacted, in part, because legislation was being considered at the federal level to require states to give corporations the option of using the water's edge method.

The board's consultant was retained to help the FTB advocate against such legislation. The enactment of Chapter 660, though, makes it less likely that the federal government will act to restrict the use of this method. We are aware that certain foreign governments and multinational corporations are not completely satisfied with the new California law. Nonetheless, it does not appear that federal legislation, if any, would receive the same level of attention as before, since Chapter 660 addresses the Congress' main concerns about California's use of the method.

No Justification for Same Level of Funding. The budget also shows essentially the same of level expenditures on this contract for the past and current years ($82,000 and $85,000, respectively). This funding level presumably reflected the potential magnitude of the effects of federal water's edge legislation on California prior to the enactment of Chapter 660. Now that California allows this method, the likely impacts of any future federal legislation would be less onerous than what they would have been if Chapter 660 had not been approved. However, despite this change, the budgeted level for this contract has not been reduced accordingly.

Finally, it is possible for the board to have its views on unitary issues represented through other channels. For example, the Department of Finance maintains an office and full-time staff in Washington, DC to represent the state on a range of fiscal and policy matters. Since the Director of Finance is one of the three members of the FTB, the board's views on this issue could be made known to federal policymakers through the department's representatives. Moreover, the board belongs and pays dues to the Multistate Tax Commission, a national tax organization, which often has advocated the states' positions on such matters.

For these reasons, we do not believe there is an ongoing need for the FTB to have a Washington representative on the unitary issue. Accordingly, we recommend that the $85,000 included in the board's budget for this purpose be deleted.

State and Consumer Services Agency

DEPARTMENT OF GENERAL SERVICES

Item 1760 from the various funds — Budget p. SCS 99

Requested 1987–88	$385,658,000
Estimated 1986–87	394,832,000
Actual 1985–86	344,560,000
Requested decrease (excluding amount for salary increases) $9,174,000 (−2.3 percent)	
Total recommended reduction	2,183,000
Recommended increased revenues to General Fund	17,400,000
Recommendation pending	5,499,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1760-001-001—Departmentwide. For direct support of department operations.	General	$8,584,000
1760-001-002—Departmentwide. For maintaining and improving properties (1) acquired under the Property Acquisition Law or (2) declared surplus prior to disposition by the state.	General (Property Acquisition Law Account)	1,511,000
1760-001-003—Departmentwide. For maintaining, protecting, and administering state parking facilities.	General (Motor Vehicle Parking Facilities Moneys Account)	2,770,000

DEPARTMENT OF GENERAL SERVICES—Continued

1760-001-006—Office of State Architect. For verifying that plans of structures purchased with state funds are accessible for use by the physically handicapped.	General (Access for Handicapped Account)	513,000
1760-001-022—Office of Telecommunications. For support of Emergency Telephone Number program.	General (State Emergency Telephone Number Account)	894,000
1760-001-026—Departmentwide. For payment of claims and operating expenses resulting from the Motor Vehicle Liability Self-Insurance program, as authorized by Chapter 1079, Statutes of 1978.	General (State Motor Vehicle Insurance Account)	9,601,000
1760-001-120—Office of State Architect. For direct support of school plan checking services.	Architecture Public Building (School Building Program Account)	3,648,000
1760-001-122—Office of State Architect. For support of hospital plan checking.	Architecture Public Building (Hospital Plan Checking Account)	3,917,000
1760-001-344—Office of Local Assistance. For support of State School building Lease-Purchase program.	State School Building Lease-Purchase	6,592,000
1760-001-397—Office of California State Police. For state police training activities.	California State Police	42,000
1760-001-450—Departmentwide. For support to test and certify gas valves.	Seismic Gas Valve Certification	75,000
1760-001-465—Departmentwide. For support of energy assessment programs.	General (Energy Resources Program Account)	1,195,000
1760-001-602—Office of State Architect. For support of operations.	Architecture Revolving	13,468,000
1760-001-666—Departmentwide. For provision of goods and services to agencies.	Service Revolving	272,712,000
1760-001-688—Office of Procurement. For support of Surplus Personal Property program.	Surplus Personal Property Revolving	1,975,000
1760-001-739—Office of Local Assistance. For support of State School Building Aid program.	State School Building Aid	485,000
1760-001-862—Office of Local Assistance. For support of Latch Key Program, as authorized by Chapter 1026, Statutes of 1985.	Child Care Facilities	170,000
1760-001-863—Office of Local Assistance. For support of child care programs, as authorized by Chapter 1440, Statutes of 1985.	Child Care Capital Outlay	93,000
1760-001-961—Office of Local Assistance. For support of State School Deferred Maintenance program.	State School Deferred Maintenance	300,000
1760-011-602—Departmentwide. For support of activities other than the Offices of State Architect and State Printing	Architecture Revolving	1,120,000
1760-011-666—Departmentwide. Authorizes funds appropriated for purchase of automobiles or reproduction equipment to be used to augment the Service Revolving Fund, which finances the department's carpool and reproduction services.	Service Revolving	N/A
1760-101-022—Office of Telecommunications. For reimbursement of local costs of implementing Emergency Telephone Number program, as authorized by Chapter 443, Statutes of 1976.	General (State Emergency Telephone Number Account)	55,993,000
Total		$385,658,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Office of Project Development and Management. Recommend that the Legislature adopt supplemental report language requiring the department, beginning July 1, 1987, to provide the Legislature a quarterly report detailing the Office of Project Development and Management's progress in assuming responsibility for the state's capital outlay program. 149
2. ***Office of State Architect. Reduce Item 1760-001-602 by $145,000 and Item 1760-001-666 by $192,000 in the Office of Telecommunications budget.*** Recommend deletion of $337,000 requested for inspection of equipment replacement in existing buildings because services are not needed. 152
3. ***Office of State Architect. Reduce Item 1760-001-602 by $431,000 and 8.6 personnel-years.*** Recommend reduction in level of funds requested for inspection services relating to the new prison at San Diego because the prison will be completed in the current year. 152
4. Office of State Architect. Recommend that the Director of the Department of General Services report to the Legislature, prior to budget hearings, on procedures that will be utilized to insure that unencumbered balances in the Architectural Revolving Fund are returned to the fund of origin in accordance with Government Code Section 14959. 153
5. Office of Buildings and Grounds. Withhold recommendation on $404,000 from the Building Rental Account requested for 12 special repair projects to state office buildings, pending receipt of additional information. 155
6. ***Office of Buildings and Grounds. Reduce Item 1760-001-666 by $716,000 and increase Item 1760-301-036 by $233,000 from the Special Account for Capital Outlay.*** Recommend funds requested to renovate the Archives building be deleted because the project should be budgeted, at a lesser amount, under the department's capital outlay program. 156
7. ***Office of Buildings and Grounds. Reduce Item 1760-001-666 by $87,000 and increase Item 1760-301-036 by $87,000 from the Special Account for Capital Outlay.*** Recommend deletion of funds requested to remodel OB1 because the project should be budgeted under the department's capital outlay program. 156
8. ***Office of Buildings and Grounds. Reduce Item 1760-001-666 by $153,000.*** Recommend funds for four projects be eliminated because the department has not substantiated the need for, or cost of, the projects. 157
9. Real Estate and Design Services. Recommend the Legislature adopt supplemental report language directing the department to report its progress in developing the statewide inventory of real property required by Ch 907/1986. 157

DEPARTMENT OF GENERAL SERVICES—Continued

10. Real Estate and Design Services. Recommend the Legislature revise the Government Code by deleting the requirement for the department to report annually on rug and carpet purchases. 158
11. Office of Energy Assessment. Withhold recommendation on $1,195,000 from the Energy Resources Program Account (Item 1760-001-465), pending receipt of an income and expense report. 158
12. Office of Local Assistance. Recommend that, during budget hearings, the Office of Local Assistance explain to the Legislature why the report specified by the Legislature in the *Supplemental Report of the 1986 Budget Act* does not contain the data requested. 161
13. Office of Local Assistance. Recommend that, prior to budget hearings, the Office of Local Assistance report to the Legislature on staffing requirements in the office in order to expedite the School Age Community Child Care Services program. 161
14. Division of Telecommunications. Withhold recommendation on $3.9 million from the Service Revolving Fund (Item 1760-001-666) proposed for a state long-distance phone network, pending receipt of a strategic plan. 163
15. Division of Telecommunications. Recommend adoption of supplemental report language providing for the integration of telecommunications planning and budgeting. 163
16. ***Division of Telecommunications. Increase Item 1760-001-666 by $157,000.*** Recommend increase to add three planning and policy positions. 164
17. Office of Insurance and Risk Management. Create new Budget Bill Item (1760-001-026) to provide legislative control over support costs. 164
18. ***Office of Insurance and Risk Management. Reduce Item 1760-001-026 by $101,000.*** Recommend reduction because the savings from a proposed automation system should finance a portion of future automation costs. 165
19. ***Office of Procurement. Reduce Item 1760-001-666 by $285,000 and 5.6 personnel-years.*** Recommend reduction because available workload measures do not indicate a need for additional staff. 166
20. Office of Procurement. Recommend adoption of supplemental report language requiring the department to report meaningful workload measures and standards to the Legislature. 166
21. ***Technical Issues. Reduce Item 1760-001-666 by $73,000.*** Recommend reduction to account for overbudgeting. 167
22. Emergency Telephone Number Program. Adopt Budget Bill language to require that the "911" account revert, prior to the end of the budget year, all General Fund monies transferred to it for cash-flow purposes in 1987–88 . 168
23. ***Emergency Telephone Number Program. Reduce the General Fund transfer by $17.4 million.*** Recommend reduction, and accompanying budget bill language, to bet- 168

ter reflect the amount of funding needed for a permanent transfer to the "911" account in 1987–88. This has the effect of increasing General Fund revenues by $17.4 million.

GENERAL PROGRAM STATEMENT

The Department of General Services (DGS) was created by statute in 1963 to increase the overall efficiency and economy of state government operations. It does this by: (1) providing support services on a centralized basis to operating departments; (2) performing management and support functions as assigned by the Governor and as specified by statute; and (3) establishing and enforcing statewide adminstrative policies and procedures.

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

The department is authorized 4,167.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $385,658,000 from various funds to support activities of the Department of General Services in 1987–88. This is $9.2 million, or 2.3 percent, less than estimated current-year expenditures.

The expenditure tables which follow have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Departmental Expenditures by Program

The programs with the largest proposed budget-year expenditures are Telecommunications ($116.6 million), Buildings and Grounds ($57.5 million), Building Rental ($44.7 million), Procurement ($40.3 million), and State Printing ($38.3 million). Table 1 presents the total expenditures of the department, by program element, during the three-year period ending with 1987–88.

As Table 1 indicates, there are two major changes in proposed program expenditures. First, the $10.4 million reduction in executive program expenditures reflects higher-than-normal expenses in 1986–87 to pay a federal audit disallowance. Without this expenditure, the proposed decrease in spending for this program is less than six-tenths of a percent. Second, the budget proposes an increase of $5.1 million in telecommunications, which is due primarily to increased state assistance for local emergency telephone systems.

Funding Sources for Departmental Expenditures

The department is funded by two types of appropriations. The department's *direct support appropriations* are for specific purposes (such as maintenance and security for the Capitol complex). Its *revolving fund appropriations*, on the other hand, permit the department to expend specified revenues. These revenues, "earned" by providing services and products to client agencies, are budgeted initially for operating expenses

DEPARTMENT OF GENERAL SERVICES—Continued

Table 1
Department of General Services
Distribution of Program Expenditures
1985–86 through 1987–88
(dollars in thousands)

Program	*Actual 1985–86*	*Est. 1986–87*	*Proposed 1987–88*	*Change from 1986–87 Amount*	*Change from 1986–87 Percent*
Administration					
Administrative services	$3,338	$3,689	$3,396	−$293	−7.9%
Executive	1,621	11,977	1,621	−10,356	−86.5
Fiscal services	5,487	5,492	5,467	−25	−0.5
Subtotals, Administration	($10,446)	($21,158)	($10,484)	(−$10,674)	(−50.4%)
Property Management Services:					
Architectural consulting and construction services	$19,768	$23,216	$22,116	−$1,100	−4.7%
Building rental	43,524	44,635	44,712	77	0.2
Building standards	409	495	470	−25	−5.1
Building and grounds	55,297	58,231	57,540	−691	−1.2
Energy assessments	1,809	3,150	3,129	−21	−0.7
Project development and management	1,025	1,866	2,018	152	8.1
Local assistance	4,378	6,432	7,692	1,260	19.6
Real estate and design services	7,683	8,516	7,902	−614	−7.2
Subtotals, Property Management Services	($133,893)	($146,541)	($145,579)	(−$962)	(−0.7%)
Statewide Support Services:					
Administrative hearings	$4,873	$5,415	$5,421	$6	0.1%
Fleet administration	20,690	23,097	21,943	−1,154	−5.0
Insurance and risk management	7,179	11,115	10,517	−598	−5.4
Legal services	1,247	1,310	1,292	−18	−1.4
Management technology and planning	7,160	7,535	7,302	−233	−3.1
Procurement	42,558	40,556	40,335	−221	−0.5
Records management	2,031	2,337	2,707	370	15.8
Small and minority business	1,314	1,351	1,336	−15	−1.1
State police	20,555	23,474	22,551	−923	−3.9
State printing	36,859	37,786	38,270	484	1.3
Support services	13,067	13,785	13,812	27	0.2
Telecommunications	99,298	111,485	116,595	5,110	4.6
Subtotals, Statewide Support Services	($256,831)	($279,246)	($282,081)	($2,835)	(1.0%)
Emergency Telephone Number Program (Local Assistance)	($46,101)	($49,907)	($55,993)	($6,086)	(12.2%)
Totals, All Programs	$401,170	$446,945	$438,144	−$8,801	−2.0%
Special Adjustment	—	—	−87	−87	—
Distribution of Intrafund Services	56,610	52,113	52,399	286	0.5
Totals, Net Expenditures	$344,560	$394,832	$385,658	−$9,174	−2.3%

within the support budgets of the state agencies. The DGS receives the revenues when the client agencies purchase goods and services. The department pays its personnel costs and operating expenses by using the "spending authority" provided by its revolving fund appropriations.

Table 2 presents a summary of the department's total expenditures, by source of fund, for the prior, current, and budget years. The table indicates that 22 percent of the department's costs are funded by direct support, with the balance—78 percent—supported from "earned" revenues.

Table 2
Department of General Services
Total Expenditures, By Source of Funds
1985–86 through 1987–88
(dollars in thousands)

Funding Source	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent of Total 1987–88*
Direct Support:				
General Fund	$8,958	$10,651	−$1,763	−0.5%
General Fund (Special Accounts)	56,547	63,122	71,282	18.5
Architecture Public Building Fund	5,217	7,509	7,565	2.0
State School Building Lease-Purchase Fund	3,406	5,251	6,592	1.7
Energy Resources Programs Account	1,108	—	1,195	0.3
State School Building Aid Fund	595	557	485	0.1
State School Deferred Maintenance Fund	319	348	300	0.1
Various Special Funds	62	292	380	0.1
Subtotals, Direct Support	($76,212)	($87,730)	($86,036)	(22.3%)
Revolving Funds:				
Architecture Revolving Fund	$12,684	$15,607	$14,588	3.8%
Service Revolving Fund	253,791	289,581	283,059	73.4
Surplus Personal Property Revolving Fund	1,873	1,914	1,975	0.5
Subtotals, Revolving Funds	($268,348)	($307,102)	($299,622)	(77.7%)
Total Expenditures	$344,560	$394,832	$385,658	100.0%

Table 2 shows a *negative* expenditure (−$1.7 million) from the General Fund in 1987–88. This is the *net* effect of a proposed budget-year appropriation of $8,584,000 *less* a budget-year loan repayment of $10,347,000 from the Service Revolving Fund (SRF) to the General Fund. Chapter 1366/86 authorized the loan to the SRF in the current year in order to pay a federal audit disallowance. The proposed General Fund appropriation will pay for maintenance and security within the Capitol complex, a small portion of the architectural consulting and local assistance programs, security for the Governor, and the costs of printing the Governor's Budget.

Program Distribution of Departmental Personnel

Table 3 identifies the allocation of staff among departmental functions for the prior, current and budget years. As displayed in the table, 4,190.9 personnel-years are proposed for the budget year—a net increase of 23.6 personnel-years (0.6 percent) over the current-year level. About 45 percent of the department's staff are budgeted in property management services, and about 50 percent in statewide support services, with the balance in administration.

Proposed Budget-Year Changes

Table 4 shows the changes in the proposed 1987–88 budget resulting from baseline adjustments, workload changes, and program changes.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 3
Department of General Services
Distribution of Personnel-Years, By Program
1985–86 through 1987–88

Program	*Personnel-Years* *Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent of Total 1987–88*
Administration:				
Administrative services	72.5	71.8	68.9	1.6%
Executive	20.0	22.8	22.8	0.5
Fiscal Services	127.7	129.3	129.3	3.1
Subtotals, Administration	(220.2)	(223.,9)	(221.0)	(5.3%)
Property Management Services:				
Architectural consulting and construction services	271.7	350.0	319.4	7.6%
Building standards	6.6	6.7	6.7	0.2
Building and grounds	1,209.2	1,237.2	1,234.0	29.4
Energy assessments	12.2	10.8	10.8	0.3
Project development and management	14.7	27.5	31.1	0.7
Local assistance	91.7	116.2	161.6	3.9
Real estate and design services	123.0	122.9	124.6	3.0
Subtotals, Property Management Services	(1,729.1)	(1,871.3)	(1,888.2)	(45.0%)
Statewide Support Services:				
Administrative hearings	58.4	65.2	65.2	1.6%
Fleet administration	148.2	149.9	148.5	3.5
Insurance and risk management	21.1	22.1	23.6	0.6
Legal services	19.1	19.5	19.5	0.5
Management technology and planning	132.8	134.7	133.3	3.2
Procurement	260.2	276.9	279.4	6.7
Records management	36.2	38.7	41.5	1.0
Small and minority business	20.9	20.9	20.9	0.5
State police	367.6	396.9	401.6	9.6
State printing	429.8	410.2	408.3	9.7
Support services	200.1	195.5	195.5	4.7
Telecommunications	320.0	341.6	344.4	8.2
Subtotals, Statewide Support Services	(2,014.4)	(2,072.1)	(2,081.7)	(49.6%)
Totals, All Programs	3,963.7	4,167.3	4,190.9	100.0%

Table 4
Department of General Services
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*Special Funds*	*Revolving Funds*	*Total*
1986–87 Expenditures (Revised)	$10,651	$77,079	$307,102	$394,832
Baseline Adjustments				
Funding restoration adjustment	$9,457	$2,902	−$12,359	—
Pro rata charges	—	−149	−1,155	−1,304
Chapter 1366 loan repayment	−20,694	—	10,347	−10,347
Miscellaneous adjustments	−1,162	−9,923	−16,560	−27,645
Special adjustment	−87	—	—	−87
Subtotal, Baseline Adjustments	(−$12,486)	(−$7,170)	(−$19,727)	(−$39,383)

Workload Changes				
Emergency Telephone Number Program	—	$6,086	—	$6,086
Office of Fleet Administration:				
Legislative vehicles	—	—	222	222
Office of Insurance and Risk Management:				
Self insurance	—	133	151	284
Vehicle liability payments	—	2,206	—	2,206
Office automotion	—	132	27	159
Office of Procurement:				
Staffing	—	—	438	438
Office of Records Management:				
Records relocation	—	—	327	327
Office of the State Architect:				
Structural safety/school plan checking	—	1,493	—	1,493
Essential services	—	—	337	337
Facilities operation	—	83	281	364
Prison inspection	—	—	1,503	1,503
Office of Buildings and Grounds:				
Special repairs	72	—	3,435	3,507
Office of State Printing:				
Operating expenses	—	—	1,024	1,024
Production	—	—	−76	−76
Office of Telecommunications:				
Staffing	—	—	87	87
Microwave equipment	—	—	2,090	2,090
Subtotals, Workload Changes	($72)	($10,133)	($9,846)	($20,051)
Program Changes				
Office of Fleet Administration:				
Parking lots	—	$475	—	$475
Office of Local Assistance:				
Child care/latchkey	—	228	—	228
Lease-purchase	—	4,795	—	4,795
Office of Real Estate Services:				
Property inventory	—	783	—	783
Office of Telecommunications:				
Fiber optics cable	—	—	3,877	3,877
Subtotals, Program Changes	(—)	($6,281)	($3,877)	($10,158)
1987–88 Expenditures (Proposed)	−$1,763	$86,323	$301,098	$385,658
Change from 1987–88:				
Amount	−$12,414	$9,244	−$6,004	−$9,174
Percent	−116.6%	12.0%	−2.0%	−2.3%

The budget does not include additional funding for merit salary adjustments or inflation adjustments to operating expenses and equipment. We estimate that the department will absorb $1.8 million in such costs. The department intends to finance these costs through higher salary savings.

ANALYSIS AND RECOMMENDATIONS

ADMINISTRATION

The administration program supports the department's line programs through its management, fiscal, and personnel functions. In addition, the program provides accounting, budgeting, and personnel services to several small state entities on a reimbursable basis. For all these activities, the budget proposes an appropriation of $10.5 million (representing about 2.7 percent of the department's budget).

DEPARTMENT OF GENERAL SERVICES—Continued

DGS Accommodates Governor's Veto by Financing $12.4 Million Shortfall

Current law provides DGS with continuous appropriation authority to spend funds deposited in the Service Revolving Fund (SRF) and its other revolving funds. Consequently, the department does not need annual Budget Act appropriations from the Legislature to spend the revenues deposited in these funds. The Legislature, however, traditionally has made "in-lieu" appropriations in the annual Budget Acts in order to control the spending authority given the department.

In the 1986 Budget Act, the Governor vetoed most of DGS' *in-lieu* appropriations and certain *direct* appropriations (such as a $9.5 million General Fund appropriation), requiring the department to rely on its continuous appropriation authority to finance its programs. At the time of the veto, the department estimated that the continuously appropriated funds would not have revenues adequate to support all the appropriations eliminated from the Budget Act, resulting in a $12.4 million "shortfall."

The department basically had two options to finance the shortfall: (1) request current-year deficiencies from those funds not supported by continuous appropriations, or (2) use surplus revenues and forced savings in its other funds. The department decided on the latter course. Specifically, it plans to:

- ***Tap the Building Rental Account Surplus.*** Government Code Section 16422 requires that any year-end surplus in the account be returned to the General Fund. For several years, however, the department did not make these required transfers. As a result, the department began 1986–87 with a $4.5 million unauthorized surplus in the Building Rental Account. These funds will be used in the current year to finance goods and services which would have been funded by a portion of the direct appropriations vetoed by the Governor.

  The 1987 Budget Bill includes language (approved by the Legislature in 1986 and vetoed by the Governor) that should result in the transfer of any future surplus in the Building Rental account to the General Fund.
- ***Tap the Procurement Fee Surplus.*** The DGS indicates that because the 1986–87 procurement volume will be *higher* than was estimated when the procurement fees were set, procurement activity will generate about $3 million in excess fee revenues in the current year. Rather than rebate the fees, the DGS will use the surplus to finance a portion of the shortfall. Failure to rebate the fees will: (1) reduce the amount of funds available to state agencies for other activities, thereby reducing state service level and (2) shift the funding of costs historically supported by the General Fund to non-General Fund sources.
- ***Force Savings in Other Areas.*** The DGS expects to finance the remaining $4.9 million by reducing services and improving efficiencies. The department was unable to provide any detail as to how it will save this amount.

Governor Proposes to Extend Continuous Appropriation Authority

The Governor's Budget proposes to restore the in-lieu and direct appropriations in the 1987 Budget Bill. However, the budget also proposes to keep the department's underlying continuous appropriation authority for its revolving funds. This is accomplished through Section 30.00 of the

Budget Bill, which proposes to extend until July 1, 1988, the sunset date for all continuous appropriations. We will discuss our concerns with this proposal in our analysis of Section 30.00.

PROPERTY MANAGEMENT SERVICES

OFFICE OF PROJECT DEVELOPMENT AND MANAGEMENT

Changes in the State's Capital Outlay Project Delivery System

We recommend that the Legislature adopt supplemental report language specifying that the Office of Project Development and Management (OPDM) provide to the Legislature a quarterly report, with the first report due July 1, 1987, detailing OPDM's progress in assuming responsibility for the state's capital outlay program.

Recent History. Until the current fiscal year, the Office of State Architect (OSA) had overall responsibility for the capital outlay project delivery system. The OSA's duties included budget package preparation, project design, architectural/engineering (A/E) services consultant selection, bidding and awarding construction contracts, construction supervision/inspection, overall project management and scheduling, and insuring that projects were completed as approved by the Legislature.

Under OSA, the capital outlay program was not proceeding in either a timely or cost effective manner. Projects included in the budget were often submitted to the Legislature with inadequate scope, cost, and scheduling information. Many projects approved by the Legislature were, more often than not, either over the budget or delayed or both. In short, OSA's management did not insure effective, efficient, or timely project delivery.

As a result, the Legislature included language in the 1985 and 1986 Budget Bills—subsequently vetoed by the Governor—to alter the existing system. The language specified that a separate capital outlay project control unit be formed within the Department of General Services (in 1985, the unit would have been in the Department of Finance) to manage the program and to contract for A/E services—with either OSA or private consultants—based on (1) the workload requirements of OSA and (2) the competitive fee and scheduling arrangements offered by OSA and private consultants. The Legislature's action was specifically designed to (1) increase accountability in the existing project delivery system, and (2) provide incentives for OSA to complete projects on schedule and within the budget.

Department Forms New Unit. In March 1986, the Director of the Department General Services (DGS) began to reorganize project management responsibilities by combining (1) the long-range planning and environmental review functions of the Office of Facilities Planning and Development with (2) the project management activities envisioned by the Legislature, to form the Office of Project Development and Management (OPDM). In effect, this reorganization was patterned after changes proposed by the Legislature and should result in the desired improvements in the capital outlay process.

Under the new system, OPDM is the state's capital outlay project manager and is the principal contact agency for departments proposing or completing projects. Departments are required to contract with OPDM, rather than the OSA, for budget package preparation, A/E services, and project management/control. The OPDM contracts with OSA or private consultants for A/E services and is directly responsible for project results. To accomplish this, OPDM assigns a project director who is responsible for

DEPARTMENT OF GENERAL SERVICES—Continued

(1) communicating with the client department, the A/E service provider, and the Department of Finance, (2) project scheduling, (3) project review and administration, and (4) maintaining the approved scope/cost of the project.

The transition of responsibility from OSA to OPDM will be phased in gradually in order to minimize disruption of projects under design or construction. According to the department's schedule, all projects will be managed by OPDM by fiscal year 1988–89.

The budget requests $2,018,000 for support of the office's activities in 1987–88. This is an increase of $152,000, or 8 percent over estimated current-year expenditures. The proposed increase reflects a full year of staffing and operating costs.

OPDM's First Report Card. The OPDM was implemented by DGS in July 1986. During its first months of operation, OPDM indicates that several implementation issues have arisen:

- The state does not currently have a personnel classification specializing in project management. Thus, the office has had difficulty attracting and hiring individuals uniquely qualified as project managers. The OPDM indicates that the state Department of Personnel Administration has recently *tentatively* approved a new classification entitled project director.
- Departments were not advised of, or were confused about, OPDM's role as the state's project manager. The OPDM and the Department of Finance recently conducted a seminar with departments to clarify the office's role.
- The OPDM does not currently have an automated management information system to monitor and control project costs and scheduling. However, the office is currently preparing a feasibility study report for a project management system.

Despite these problems, preliminary indications are that the management change has moved the capital outlay process in the direction anticipated by the Legislature. To provide assurances to the Legislature that the transition schedule is met and that changes necessary to further improve the system are implemented (or identified, if legislative action is required), we recommend that OPDM provide the Legislature a quarterly status report. The report should include, at a minimum:

- a review of the office's budget package workload, including the number of packages completed, respectively, by private consultants and OSA, the cost for each budget package, delays in completing packages, and the reasons for the delays;
- the status of projects currently managed by OPDM, including project names, schedules, and compliance with the cost and scope approved by the Legislature in supplemental language;
- the status of the schedule for assuming project management responsibilities, detailing any problems encountered that may delay the schedule;
- specific measures to be taken by OPDM, along with recommended changes in the capital outlay process, that will improve the project delivery system; and
- details of the proposed automated management information system and the progress in bringing this system on line.

Accordingly, we recommend that the Legislature adopt the following supplemental report language:

"Office of Project Development and Management. The Office of Project Development and Management (OPDM) shall report to the Legislature on a quarterly basis, beginning July 1, 1987, on the office's workload and the status of budget packages and projects managed by OPDM. The report shall include, at a minimum, information on (1) the office's budget package workload, including the number of packages completed by private consultants and OSA, the cost for each budget package, delays in completing packages, and the reasons for the delays; (2) the status of projects currently managed by OPDM, including project name, whether the project is assigned to OSA or a private consultant, schedules, and compliance with the cost and scope approved by the Legislature in the Budget Act or the Supplemental Report to the Budget Act; (3) the status of the schedule for assuming project management responsibilities, detailing any problems encountered that may delay the schedule; (4) specific measures to be taken by OPDM, along with recommended changes in the capital outlay process, that will improve the project delivery system; and (5) the status of the office's automated management information system. The reporting requirement for items (3) through (5) shall end with the March 1, 1989 report.

OFFICE OF STATE ARCHITECT

The Office of State Architect (OSA) provides two basic services. First, OSA provides architectural/engineering (A/E) services and construction inspection services for all state construction projects, as required by law. Second, OSA provides plan checking and inspection services pursuant to (a) the Physicially Handicapped Building Access law, (b) the Field Act for school buildings (earthquake safety), (c) hospital seismic safety, and (d) the Essential Services Building Act (state-owned or leased fire stations, police stations, and emergency communication centers).

The budget proposes a total of $22,116,000 for support of the office's activities in 1987–88. This is a net decrease of $1,100,000, or 4.7 percent, below estimated current-year expenditures. The proposed reduction reflects (a) a decrease of $4,639,000 for 82 limited-term personnel-years that expire in the current year—of these 44.8 are reestablished in the budget year (discussed below) and 37.2 associated with completion of several prisons are allowed to expire, (b) an increase of $61,000 for administrative adjustments, such as salary savings and departmental overhead, in the current-year budget, and (c) an increase of $3,478,000 included in four budget change proposals.

The four budget proposals include $3.5 million and 51.4 personnel-years as follows:

- $364,000 for additional leasing costs at new facilities,
- $1,493,000 (24.7 personnel-years) on a two-year, limited term basis for increased workload in structural safety ($1,399,000 and 22.8 personnel-years) and handicapped access ($94,000 and 1.9 personnel-years) plan checking and construction inspection,
- $145,000 (2.8 personnel-years) to provide structural safety inspections for Office of Telecommunications facilities, and
- $1,476,000 (23.9 personnel-years) on a one-year limited term basis for the OSA construction inspection services connected with the Department of Corrections prison construction program.

DEPARTMENT OF GENERAL SERVICES—Continued

We recommend approval of the following changes in the OSA budget that are not discussed elsewhere in the analysis:

- An increase of $364,000 for additional leasing costs, and
- An increase of $1,493,000 (24.7 personnel-years) for increased workload in structural safety and handicapped access plan checking and construction inspection.

Inspections of Radio Replacement Work Not Needed

We recommend deletion of $337,000 proposed for inspection of equipment replacements. (Reduce Item 1760-001-602 by $145,000 and Item 1760-001-666 by $192,000.)

The budget requests a total $337,000 (2.8 personnel years)—$145,000 from the Architectural Revolving Fund and $192,000 from the Service Revolving Fund—to provide structural safety inspections of Office of Telecommunications facilities pursuant to the Essential Services Buildings Seismic Safety Act of 1986 (Ch 1521/86).

The OSA proposes to (1) inspect 620 state-owned buildings or remote radio sites containing radio/microwave equipment over a 10-year period, and (2) review and certify that 926 items of fixed radio/microwave equipment installed annually comply with the Essential Services Building Act.

The Essential Services Building Act specifies that the following facilities are subject to its provisions:

- construction or alterations projects in which a contract is entered into after July 1, 1986, and
- construction or alterations projects for which drawings and specifications are prepared after January 1, 1986.

These provisions require inspection and design reviews only when a new facility is *designed or constructed,* but not when equipment is replaced. The OSA's proposal, however, would extend these services to *equipment replacements* in *existing* buildings. Equipment replacement generally involves components which are small enough to be handled and mounted by one person and, therefore, should not affect the structural systems of communications facilities. Thus, there should be no need for these inspections.

Consequently, we recommend deletion of the $337,000 requested for this purpose under Item 1760-001-602 ($145,000) and Item 1760-001-666 ($192,000).

Prison Construction Program Inspection Services Overbudgeted

We recommend deletion of 8.6 personnel-years requested for construction inspection services connected with the new prison in San Diego because construction will be completed in the current year. (Reduce Item 1760-001-602 by $431,000.)

The budget requests $1,476,000 (23.9 personnel-years) under Item 1760-001-602 on a one-year, limited term basis for OSA construction inspection services connected with the Department of Corrections (CDC) prison construction program. The proposal would provide inspection services for four prisons currently under construction.

The CDC's schedule for these prisons, as submitted in support of the CDC's 1987–88 budget, indicates the following completion dates:

- Amador County (Ione)—September 1987.
- Kings County (Avenal)—December 1987.
- San Diego—March 1987.
- Corcoran—November 1988.

Thus, according to the CDC's schedule, construction inspection services will not be required for the San Diego prison during the 1987–88 fiscal year because construction will be completed. On this basis, the amount requested is overbudgeted for services related to the San Diego project.

Consequently, we recommend that Item 1760-001-602 be reduced by $431,000 and 8.6 personnel-years.

DGS Should Present Plan for Reverting Project Balances

We recommend that the Director of the DGS report to the Legislature, prior to budget hearings, on procedures that will be utilized to insure that the unencumbered balances in the Architectural Revolving Fund for (1) completed projects and (2) inactive or deferred projects are returned to the fund of origin in accordance with Government Code Section 14959.

Government Code Section 14959 directs the Department of General Services (DGS) to transfer any unencumbered balance of project funds remaining in the Architectural Revolving Fund (ARF) to the fund from which the project appropriation was made within (1) three months after a project has been completed, or (2) within three years from the time the amount was transferred or deposited in the ARF—*whichever is earlier.* Thus, the department is required to return funds for completed projects and projects that are inactive or deferred. Otherwise, these funds would remain unavailable for appropriation by the Legislature for other priority needs.

Under current arrangements, the DGS Office of Fiscal Services annually reviews appropriations contained in the ARF for compliance with Government Code Section 14959 and prepares a list of appropriations eligible for return. The office then requests that OSA determine, based on its project knowledge, which of the listed appropriations contained in the ARF should be returned to the fund of origin. This process is not resulting in the return of funds as required by law because OSA has no incentive to return funds from the ARF.

Pursuant to provisions in the *Supplemental Report of the 1977 Budget Act,* DGS reports annually on the fund balance of the ARF and the status of appropriations that are three-years old or are for completed projects. The department's 1986 report, dated October 23, 1986, identified 28 projects ($1,311,000) subject to Section 14959. Among these projects, 19 ($636,000) are being closed from the accounts, two ($11,000) were extended by the Department of Finance, three ($654,000) are ongoing, and four ($10,000) have unencumbered funds which are being returned. The accuracy of the report, however, is questionable.

For example, a total of $13,979,000 approved for the Van Nuys State Building was transferred to the ARF between October 1977 and October 1981. The building was completed and occupied in September 1984. Under provisions in the Government Code, the unencumbered balance should have been returned to the fund of origin no later than October 1984. The transfer of funds, however, has not occurred. Moreover, even though the building has been occupied for more than two years, the DGS report to the Legislature neither lists the project nor identifies the funds remaining in the ARF. According to DGS documents, $258,000 was used to award a contract that was bid as late as January 1986 for alterations and additions not included in the original project. Finally, a department financial statement, dated November 6, 1986, indicates that $171,000 is still remaining in the ARF.

DEPARTMENT OF GENERAL SERVICES—Continued

The OPDM has the major role in managing the state's approved capital outlay program. Therefore, responsibility for cost control and accounting rests with OPDM. In view of this, we recommend that the Director of DGS report to the Legislature, prior to budget hearings, on procedures that will be utilized by OPDM, to insure that project fund balances are returned to the fund of origin in accordance with Government Code Section 14959. The Director should indicate specifically how OPDM will monitor the timely return of funds and what criteria it will use to determine whether remaining balances are encumbered.

OFFICE OF BUILDINGS AND GROUNDS

The Office of Buildings and Grounds (OBG) is responsible for maintaining state office buildings and grounds under the jurisdiction of the Department of General Services. In addition, the office provides custodial and maintenance services, as requested, in buildings owned by other agencies.

The budget proposes total expenditures of $57.5 million for support of OBG in 1987–88. This is a decrease of $691,000 or 1.2 percent, below estimated current-year expenditures. This decrease reflects, primarily, reductions in OBG's administrative costs and equipment purchases (principally, office automation equipment).

Special Repairs

The budget includes $4 million for 52 special repair projects to be undertaken by the OBG during the budget year. Special repairs are those which continue the usability of a facility at its original designed level of service (in contrast, capital outlay projects include new construction, alterations and extensions or betterments of existing structures). The amount proposed for special repairs exceeds by $3.5 million the office's normal annual special repair budget of approximately $544,000.

A. Projects for Which We Recommend Approval

Table 1
Department of General Services
Office of Buildings and Grounds
1987–88 Special Repair Projects
Projects for Which We Recommend Approval
(dollars in thousands)

Type of Project	*Number of Projects*	*Department Request and Analyst Recommendation*
1. Elevator Repairs	4	$1,772
2. Heating, Air Conditioning Ventilation Repairs	11	378
3. Roof Repairs and Replacement	3	281
4. Infrastructure Studies	2	83
5. Electrical Load Test and Repairs	8	68
6. Plumbing Tests and Repairs	1	3
7. Miscellaneous	5	105
Totals	34	$2,690

We recommend approval of $2,690,000 in Item 1760-001-666 requested for 34 projects outlined in Table 1.

Our review of the 34 special repair projects shown in Table 1 indicates that each repair is necessary to ensure the viability of a state building or the safety and comfort of its occupants. Seven of these projects are to remedy apparent *design or construction* errors in relatively new state buildings. These corrective measures are necessary and should proceed. The need for this work, however, again raises the issue of why the state, rather than the responsible architectural/engineering firm or construction contractor, should pay for this work. In reviewing similar requests in the past, the Legislature has funded several corrective measures, but directed the department to pursue this liability issue. The department, however, has not followed the Legislature's directives. As a result of the department's inaction, we see no alternative other than to finance these needed repairs through the Building Rental Account.

B. Projects for Which We Withhold Recommendation

We withhold recommendation on $404,000 in Item 1760-001-666 requested for 12 projects outlined in Table 2, pending receipt of information substantiating the projects' cost estimates.

The department has not provided sufficient information to justify the cost of 12 projects. Ordinarily, information on these proposed projects is provided sufficiently in advance of the preparation of the *Analysis*. This timeline permits our office to review OBG's proposals and request additional information, if necessary.

This year, however, the special repair proposals were submitted much later than usual, and 12 of the proposals lacked basic information to substantiate the cost estimates. Consequently, we withhold our recommendation to the Legislature, pending receipt of this information.

Table 2

Department of General Services
Office of Buildings and Grounds
1987–88 Special Repair Projects
Projects for Which We Withhold Recommendation
(dollar in thousands)

Type of Project	*Building*	*Amount*
1. Renew Heating and Air Conditioning System	Scampini	$50
2. Condensate Tank With Pump Set	1020 N Street	15
3. Fan Systems Upgrade	1025 P Street	10
4. Replace Main Cooling Tower	San Diego	40
5. Retube and Replace Fire Brick in Boiler	Fresno	15
6. Roof Repair	Redding	10
7. Replace Flex Collars, Install Rainshields	Santa Rosa	11
8. Caulking Expansion Joints	Santa Ana	28
9. Ground Fault Interrupter	Stockton	15
10. Hydro Testing Dry Stand Pipes	Region I	25
11. Paint Building Exterior	San Bernardino	150
12. Switch Gear Repairs	State Garage	35
Total		$404

C. Projects for Which We Recommend Deletion

We recommend deletion of funds for six projects totaling $956,000, as summarized in Table 3, because (1) the project should be funded as a capital outlay request or (2) sufficient information defining the need for and cost of the project is lacking.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 3
Department of General Services
Office of Buildings and Grounds
1987–88 Special Repairs Projects
Projects for Which We Recommend Deletion
(dollars in thousands)

Category	*Building*	*Amount*
1. Environmental Upgrade	Archives	$716
2. Fire/Life Safety	OB 1	87
3. Fire/Life Safety	State Capitol Annex	30
4. Replacement of Water Pipes	State Garage	15
5. Carpet	Stockton	9
6. Reseal Window Areas	Oakland	99
Total		$956

Archives Building Renovation

We recommend deletion of $716,000 requested for renovating the Archives Building, because the project is more appropriately financed as a capital outlay project. (Reduce Item 1760-001-666 by $716,000 and increase Item 1760-301-036 by $233,000.)

The department proposes a $716,000 remodeling project for the state Archives Building. The work includes installing fire sprinklers, a halon fire suppression system, security screens on the windows and two new heating/cooling systems. The primary purpose of the remodeling is to protect the historic state documents which are kept in the building.

We have two concerns with this project. First, the proposed work *improves,* rather than repairs, the Archives Building. Consequently, this project should be funded as a capital outlay project from the Special Account for Capital Outlay, rather than from the Building Rental Account. Second, we recommend that the Legislature approve those building improvements that will *protect* the archival materials.

Based on the department's data, the elements of the proposal that are necessary to achieve this goal are the fire sprinklers, the halon system and the upgrading of the archival vault air conditioning. The estimated cost of this work is $233,000. The balance of the proposal—to add a heating/cooling system on the second and third floors and security screens on the windows—has not been substantiated as a requirement to protect the archival material. This work is estimated to cost $483,000.

Accordingly, we recommend that the Legislature (1) reduce the cost of the project by $483,000 to eliminate the second and third floor heating/cooling system and the window screens and (2) fund the balance of the project ($233,000) under the department's capital outlay programs (Item 1760-301-036).

Fire/Life Safety Project Should Be Funded As a Capital Outlay Request

We recommend that the Fire/Life Safety Improvements in Office Building One (OB1) be financed as a capital outlay project. (Reduce Item 1760-001-666 by $87,000 and increase Item 1760-301-036 by $87,000.)

The department requests $87,000 to make fire/life safety improvements to OB1. Specifically, the department proposes to add sprinklers to the basement and elevator shaft and replace corridor ceilings with fire resistive materials. The work entails remodeling and improving the existing building. Work of this type is necessary, but should not be financed through the Building Rental Account. Consequently, we recommend that the budget for special repairs be reduced by $87,000 and that this project be financed as a minor capital outlay project under Item 1760-301-036.

Four Projects Not Justified

We recommend deletion of $153,000 for four special repair projects under Item 1760-001-666, because the department has not substantiated need for, or cost of, the projects. (Reduce Item 1760-001-666 by $153,000.)

The department requests $153,000 to complete the following projects: $30,000 for fire/life safety improvements to the Capitol Annex, $15,000 to replace water pipes in the State Garage, $9,000 to install carpeting in the Stockton Office Building and $99,000 to reseal window areas in the Oakland Office Building. In each case, the department has failed to provide information to substantiate the need for, or cost, of the project. Consequently, we recommend that funds for these projects be deleted.

OFFICE OF REAL ESTATE AND DESIGN SERVICES

On July 1, 1986 two offices within the Department of General Services, the Office of Real Estate Services and the Office of Space Management, merged to become the Office of Real Estate and Design Services (OREDS). This merger put two common Department of General Services functions into a single office. The Real Estate Services component acts as the state's agent in acquiring, appraising, selling/transferring property, identifying surplus state property and managing state property which has been acquired, but which is being held until it is needed by a state department. Space Management Services is responsible for providing well-planned, functional and economical quarters in state owned and leased facilities to accommodate agencies' space needs.

This merger reflects an attempt by the department to improve its organizational efficiency. The separate offices were essentially two real estate offices with areas of overlapping responsibilities. This created functional as well as administrative inefficiencies. Combining the two functions into one office should result in improved services at a lower cost.

Statewide Inventory of Real Property

We recommend that the Legislature adopt Supplemental Report Language requiring the department to report to the Legislature, by November 1, 1987 on the status of the statewide real property inventory.

The budget proposes an increase of 2.8 personnel-years and $783,000 to the office to develop a statewide inventory of real property, as required by Chapter 907, Statutes of 1986 (AB 3932). This inventory is to include, among other items, the location, size, use, projected use, purchase price, purchase date and current value of each state landholding, and should improve the state's ability to manage its assets. Funding for this program comes from the proceeds of leases covering surplus property. The additional staff and funding proposed to develop the inventory are justified and we recommend approval.

The statewide inventory, which is due to the Legislature by January 1, 1989, represents a major undertaking. In order for the Legislature to monitor the development of the inventory and to learn, in advance, of any difficulties the office may experience in meeting the requirements of Ch 907/86, we recommend the Legislature adopt the following Supplemental

DEPARTMENT OF GENERAL SERVICES—Continued

Report Language:

"The Director of General Services shall report to the chair of the fiscal committee of each house and the Chair of the Joint Legislative Budget Committee by March 1, 1988 on (1) the status of the development of the statewide property inventory and (2) any difficulties the department is experiencing in obtaining the necessary information."

Report Not Needed

We recommend that the Legislature revise Government Code Section 13332.08(a) to delete the annual report requirement on rugs and carpets purchased for state facilities.

Government Code Section 13332.08(a) places restrictions on the purchase of rugs and carpeting for state offices and requires the Department of General Services, which is responsible for exercising the controls, to furnish a detailed report annually to the Joint Legislative Budget Committee on all such purchases. This reporting requirement was established over 20 years ago. Over the years, we have found no problems with the reported purchases, and no concerns have been raised by other agencies. We believe that while the restrictions should remain in place, the report is no longer needed. Accordingly, we recommend that the Legislature delete the reporting requirement from Government Code 13332.08(a) as follows:

"(a) No funds shall be used, either directly or by supplementing any other appropriation, to purchase rugs or carpets for any state office except for offices used by elective officers, the President of the University of California, a chancellor of the University of California, the Chancellor of the California State University, a president of a state university or college, department heads, and for other facilities or areas under the control of the agencies financed by the Budget Act in accordance with standards issued by the Director of General Services. ~~The Director of General Services shall furnish a detailed report annually to the Joint Legislative Budget Committee of all rugs or carpets purchased for state facilities under this section.~~

Approval of the Director of General Services shall be obtained prior to procurement and installation of rugs or carpets. The Director of General Services may authorize the use of carpeting in other specialized facilities not meeting the established standards no sooner than 30 days after notification in writing of the proposal with justification therefor to the Joint Legislative Budget Committee."

OFFICE OF ENERGY ASSESSMENTS

The Office of Energy Assessments (OEA) is responsible for improving the efficiency of state operations by developing cost-efficient energy programs. The budget proposes $3,129,000 for support of the office in 1987–88, consisting of $870,000 from the Energy Resources Program Account in the General Fund and $2,259,000 from the Service Revolving Fund. This is $21,000 below estimated current-year expenditures.

We withhold recommendation on the budget proposal for the Office of Energy Assessment, Item 1760-001-465, pending receipt of an income and expense report.

Over the years, OEA has had markedly deficient accounting practices. As a result, it has been impossible to determine whether the costs of the office's activities in arranging third-party financed energy projects were appropriately supported by fees charged to the third parties—or whether these costs were inappropriately charged to the Energy Resources Program Account in the General Fund.

The Budget Bill contains language requiring OEA to submit an annual accounting of its income and expenses to the legislative fiscal committees. This report is to be prepared in a manner consistent with generally accepted accounting principles and is due September 30 of each year.

This language is virtually identical to language which the Legislature *included* in the 1985 Budget Bill, as submitted to the Governor, but which the Governor *deleted* in signing the Budget Act. As a result of this veto, the department did *not* provide income and expense information in September 1986.

Lacking this important information on OEA's finances, we are unable to analyze the office's proposed budget. We have discussed this issue with the department and it has agreed to submit a preliminary report prior to budget hearings. Pending receipt of this income and expense information, we withhold our recommendation on Item 1760-001-465.

Energy Efficiency Revenue Bond Program

The Energy Efficiency Revenue Bond Program was created by Ch 1523/82 (SB 701). The expressed legislative intent in creating the program, was to create a "mix of financing options for the development of cost saving state energy projects". Prior to the program, departments generally financed energy projects through capital outlay, the support budget or agreements with third-party investors.

Under the energy bond program, the State Public Works Board (PWB) is authorized to issue, over a ten-year period, up to $500 million in revenue bonds to finance energy projects. The bonds are to be repaid from the savings which result from the energy improvements. Any savings in excess of the amount needed to repay the bonds is shared, on a 50-50 basis, by the department undertaking the energy improvement and the General Fund.

Bond sale. On June 1, 1986 the State Treasurer sold, on behalf of PWB, the initial revenue bonds ($66,455,000) for this program. When the Treasurer sold the bonds (and, in fact, to this date), PWB could not identify the projects to be financed with these funds or what the costs would be.

The PWB and the State Treasurer decided to sell the bonds in June of 1986, rather than wait until complete project information was available, because of the pending tax reform in Congress. Under the federal law applicable at the time the bonds were sold, the state could keep any "arbitrage" it earned by temporarily investing the tax exempt revenue bond funds at higher, taxable rates. This "arbitrage" provision was sharply curtailed by the new tax law. (Please see Part III of the *Perspectives and Issues* for a discussion of the tax law.) While the June 1986 bond sale has enabled the state to earn "arbitrage" on the $66 million, our analysis indicates that the lack of information at the time of the bond sale regarding the appropriate bond maturity schedule for the energy projects has resulted in some energy projects being financed at very high rates (up to 15 percent).

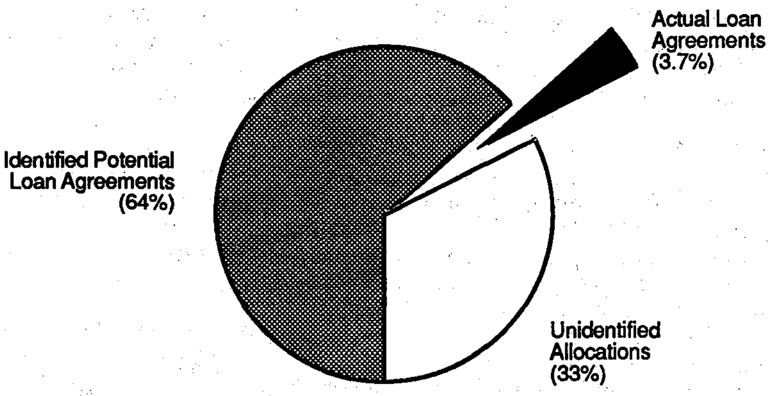
Use of funds. Chart 1 shows the Office of Energy Assessment's actual and projected use of the bond funds. As chart 1 illustrates, the PWB has concluded loan agreements with departments totaling only $2.5 million or 3.7 percent of the bond funds. The remaining $64 million or 96 percent of the June 1986 bond proceeds has yet to be allocated. In addition,

DEPARTMENT OF GENERAL SERVICES—Continued

there is no proposed allocation for $21.7 million (33 percent of the proceeds).

Chart 1

Energy Efficiency Revenue Bonds Actual and Projected Use of Funds (Total=$66,455,000)



OFFICE OF LOCAL ASSISTANCE

The Office of Local Assistance (OLA) is the administrative arm of the State Allocation Board. It is primarily responsible for administering a series of programs which provide funding to local school districts for the acquisition and development of school sites, construction, reconstruction, or maintenance of school buildings and the placement of portable classrooms and child care facilities.

The budget requests $7,692,000 for OLA in 1987–88. This amount is a net increase of $1,260,000 or 20 percent, above estimated 1986–87 expenditures. The increase reflects (a) $228,000 (5.7 personnel-years) to administer child care services programs, (b) $4,795,000 (107.3 personnel-years) to meet increased workload generated by school district applications under the lease-purchase program, and (c) a decrease of $2,962,000 to reflect the expiration of 67.6 limited-term personnel years established in the 1985–86 (46 PYs) and 1986–87 (21.6 PYs) fiscal years, (d) a decrease of $580,000 to reflect one-time automation costs, and (e) a decrease of $221,000 in administrative adjustments such as salary savings and departmental overhead.

Office's Report to Legislature Arrives Late and is Deficient

We recommend that the department explain to the Legislature, during budget hearings, why the report specified in supplemental report language adopted by the Legislature in the 1986 Budget Act does not contain the specific data requested by the Legislature.

The *Supplemental Report of the 1986 Budget Act* contains language directing OLA to report to the Legislature no later than November 1, 1986 on the actual time elapsed between the submittal of applications and the date school facilities are in use. Specifically, the report is to detail the time attributable to OLA processing, including waiting time and actual processing time required by the school district, the Office of State Architect, or the Department of Education's School Facilities Planning Unit. Moreover, the report is to identify delays in each phase of each program and specify ways to reduce delays and streamline the applications process. Finally, the department is to develop time-frame objectives for elapsed time between the application submittal and use of the facility for each phase of each program.

Thus, the final report was to outline typical time frames, including milestones and potential bottlenecks, which occur in each phase of each program in the school facilities application process. This information would highlight reasons for delays and indicate to what extent delays occur in school districts and in each of the responsible state agencies, and would facilitate efforts to streamline the process.

On January 4, 1986, more than two months after the date specified by the Legislature, the department submitted its report. Despite the lateness of the submittal, the report falls short of the Legislature's request. For example, the report fails to:

- detail the time attributable to each of the principal agencies involved in the school facilities process, including waiting time and actual processing time,
- report on the delays in each phase of each program,
- specify ways to reduce delays and streamline the applications process, and
- develop time-frame objectives for elapsed time of application processing for each phase of each program.

In summary, the report provided by the department was not what the Legislature requested.

Given the Legislature's interest in expediting the delivery of school facilities, we recommend that the department explain to the Legislature, during budget hearings, why the department's submittal did provide the data requested by the Legislature.

Administration Should Expedite Implementation of the School Age Community Child Care Services Program

We recommend that OLA report to the Legislature on staffing requirements to implement the School Age Community Child Care Services program if the Department of Education staff is increased, in order to expedite the program.

Authorizing Legislation. Chapter 1026, Statutes of 1985, appropriated $36.5 million for the purchase of relocatable facilities, renovations, and administrative costs associated with the School Age Community Child Care Services program. The measure (1) directs the Superintendent of Public Instruction to determine the eligibility of child care agencies for

DEPARTMENT OF GENERAL SERVICES—Continued

facilities, and (2) requires the State Allocation Board subsequently to acquire, provide, and lease relocatable facilities to, and approve renovations for, qualifying agencies. Within the amount appropriated, $350,000 is available to the State Allocation Board to administer these programs. The Legislature approved this measure as urgency legislation, and indicated its intent that the program be expedited.

OLA's Implementation Contingent on Department of Education Staffing. In the current year, OLA will spend $97,000 (2.6 personnel-years) from the State Child Care Facilities Fund to initiate part of the School Age Community Child Care Services program authorized by Ch 1026/85. The 1987–88 request would provide $145,000 (3.8 personnel-years) from the amount appropriated by Chapter 1026 to continue this effort. Based on this staffing level, at least two years will be required to process the applications submitted by the Department of Education.

In our analysis of the Department of Education's budget (Item 6100-196-001), we recommend an increase in the number of staff responsible for approving these applications. The additional staff should enable the Department of Education to submit nearly all approved applications to OLA no later than January 1, 1988. In this case, OLA's proposed staffing levels may not be sufficient to process the approved applications expeditiously.

Consequently, we recommend that OLA report to the Legislature, prior to budget hearings, on OLA staffing requirements—based on our recommendation to increase Department of Education staff—in order to assure that all approved applications are processed by OLA in the budget year.

STATEWIDE SUPPORT SERVICES

The statewide support services program consists of 12 program elements. These elements, and the expenditures and staffing proposed for each, are listed in Tables 1 and 3, respectively.

DIVISION OF TELECOMMUNICATIONS

The Division of Telecommunications (DT) provides state agencies with a variety of services which facilitate communications between state personnel and facilities through the use of telephone, teletype, and microwave radio technologies. The budget proposes expenditures of $116.6 million (which includes $56.0 million in local assistance expenditures related to the Emergency Telephone Number program) and authorization for 344 personnel-years.

Recent Legislation Strengthens State Telecommunications Planning

Chapter 1499, Statutes of 1986, formally established within the Division of Telecommunications (DT) a policy and planning unit. This measure requires the unit to: (1) develop annual strategic plans and tactical plans for telecommunications, (2) provide advice and assistance to state agencies in their selection of telecommunications systems, (3) coordinate plans, policies and operational requirements for other departments, and (4) provide management oversight of statewide telecommunications systems developments.

Chapter 1499 also requires the planning unit to prepare a report by March 31, 1987 describing actions taken by the division to advocate and plan the advantageous use of telecommunications systems in state government, and directs DT to augment its staff with experts in policy and planning, telecommunications systems and engineering.

In prior years, we have expressed concerns about the adequacy of the State's telecommunications planning effort (please see, for instance, *The 1986–87 Budget: Perspectives and Issues,* p. 232). Chapter 1499 addresses these concerns by clarifying DT's statewide telecommunications role, and by strengthening the planning function within the division.

Major Telecommunications Projects Undertaken in Current Year

In the current year, DT is involved in two major telcommunications projects:

State Long Distance Network. In 1985–86, the Department of Water Resources (DWR) allowed MCI (a long-distance telephone company) to use the right-of-way along the California Aqueduct for a fiber optic telecommunications project. In return, DWR obtained ownership of six fiber strands as partial payment for the right-of-way. The DT then purchased from DWR two surplus strands for use in the state's telecommunications network, at a cost of about $600,000. The cost was financed under the division's existing spending authority.

In the budget year, DT requests $3.9 million from the Service Revolving Fund to complete the installation of this long distance network. The money would be used to purchased microwave and other equipment in order to link the fiber optic lines along the aqueduct with local phone systems in Sacramento and Los Angeles. The division estimates that the network initially will carry about half of the voice traffic between Los Angeles and Sacramento.

Sacramento Local Loop Project. The DT also is pursuing a project initiated by the Health and Welfare Data Center to connect state-owned buildings in downtown Sacramento with a fiber optic cable network. This system currently is out for bid and is expected to be operational by June 1987. The initial phase of the network is limited to data communications between Health and Welfare Agency buildings and the Data Center. Ultimately, all state voice and data activity within the state buildings could be placed on this network, saving the state substantial money. The system, which will cost up to $400,000, was initiated administratively in the current year.

Improved Planning Will Provide Greater Legislative Control and Oversight

We withhold recommendation on $3.9 million from the Service Revolving Fund (Item 1760-001-666) proposed for a long distance telephone network, pending receipt of the division's strategic report due March 31, 1987.

We further recommend that the Legislature adopt supplemental report language to integrate telecommunications planning and budgeting.

Our analysis of the two telecommunications projects undertaken in the current year indicates that both are likely to result in significantly lower state costs. These projects, however, tend to commit the state to a particular long-run strategy. That is, the projects can be viewed as part of a larger plan that involves the state's developing its *own* communications network independent of the public "switched network" operated by private, local and long distance telephone companies. Such a strategy would have a serious impact on future state costs and on costs paid by users of the private telephone network.

Our analysis indicates that the state probably should be developing its own network. The DT, however, is taking such actions without strategic and tactical plans to guide it, and without involvement from the Legisla-

DEPARTMENT OF GENERAL SERVICES—Continued

ture. As described above, both current-year fiber optics projects undertaken by DT were handled without reference to an overall plan, and without specific legislative approval.

In order to address these concerns, we make the following recommendations. First, we withhold recommendation on the $3.9 million request for completion of the long distance network, pending receipt of the division's strategic plan due March 31, 1987.

Second, in order to integrate the planning process and the budgeting process, we recommend that the Legislature adopt the following supplemental report language:

> It is the intent of the Legislature that the Division of Telecommunications within the Department of General Services submit its annual strategic and tactical plans, as required by Ch 1499/86, at the time the Governor's Budget is presented each year. The tactical plan should include: any new and/or significant telecommunications projects being developed at the time and those proposed for the subsequent budget year, and (2) the methods proposed to finance such projects.

Budget Fails to Augment Telecommunications Planning Staff

We recommend an augmentation of $157,000 and three personnel-years in order to add three positions to the DT policy and planning unit. (Increase Item 1760-001-666 by $157,000).

As noted above, Ch 1499/86 *requires* DGS to augment DT staff with additional policy and planning personnel. The budget, however, proposes no new personnel for the unit. The division will have nine positions dedicated to this function: six authorized planning and policy positions, and three positions to be redirected from within the division.

In the past, we have been concerned that the division did not have the personnel necessary to plan and direct the state's telecommunications activities (please see *The 1986–87 Budget: Perspectives and Issues,* p. 238). Our review indicates that the planning workload is still in excess of the resources which would be dedicated to this activity in the budget year. The division still does not have an adequate number of people to: (1) develop strategic and tactical telecommunications plans, (2) estimate the costs incurred by agencies for telecommunication equipment and services, and (3) monitor and participate in legislative and regulatory activities conducted at the state and federal levels.

While we cannot determine precisely the number of additional people needed to address this unmet workload, our analysis suggests that at this time it would be appropriate to add at least three more positions to the planning unit. Accordingly, we recommend an augmentation of $157,000 from the Service Revolving Fund (Item 1760-001-666) in order to provide three additional staff support positions.

OFFICE OF INSURANCE AND RISK MANAGEMENT

Budget Should Include an In-Lieu Appropriation for OIRM's Operating Expenses

We recommend that the Legislature establish a new Budget Bill Item (1760-001-026) to provide an in-lieu appropriation for the support expenses associated with the department's insurance program.

The Office of Insurance and Risk Management (OIRM) provides risk-management services to the state and local agencies. The Governor proposes $9.6 million from the State Motor Vehicle Insurance Account (SMVIA) to fund both a portion of OIRM's operating expenses and all vehicle liability payments. In past years, the Budget Act has included an item appropriating funds for these expenses, but for 1987–88, the Governor proposes to use the SMVIA's underlying continuous appropriation authority to pay these costs.

Our analysis indicates that it is appropriate for DGS to use its continuous appropriation authority for liability payments because the Legislature has little control over these payments. That is, once an insurance adjustment is determined, the state is obligated to make the payment. Unlike liability payments, however, the office's operating expenses *can* be controlled by the Legislature. Accordingly, these expenditures should be subject to annual budget review and appropriation.

We therefore recommend that the Legislature establish a new Budget Bill Item, 1760-001-026, to appropriate funds from the SMVIA for support expenses associated with the insurance program. We also recommend the following Budget Bill language to clarify the use of the SMVIA continuous appropriation in the budget year.

1760-001-026—For support of the Department of General Services for activities other than the Office of State Printing, for transfer to Item 1760-001-666, payable from the State Motor Vehicle Insurance Account, General Fund........ $2,669,000

1. Notwithstanding Government Code Section 16379, the department shall expend funds in support of the Office of Insurance and Risk Management in 1987–88 only from this item. This restriction does not apply to actual payment of vehicle liability claims.

Automation Project for Self-Insurance Unit Should be Self-Financing

We recommend deletion of $101,000 because savings resulting from a proposed automation system should finance most of the costs. (Reduce Item 1760-001-026 by $101,000.)

The OIRM plans to purchase a word-processing and database-management system, in two phases, at a total cost of $204,000. To acquire and maintain the first phase of this system, the department proposes a budget-year augmentation of $159,000. Presumably, the remaining $55,000 would be requested in 1988–89. The department justifies its automation proposal on the grounds that, within five years, the equipment would generate savings sufficient to cover the system's costs (one-time and ongoing). Savings would not begin to accrue, however, until after staff have been fully trained and are experienced with the equipment, beginning in 1988–89.

We believe that the automation proposal would be cost-effective, but are concerned that if the state pays the entire cost of the system "up front," there would be no incentives for the office to realize the offsetting savings in the future. In order to ensure that the office has a stake in the successful implementation of this project, we recommend that it finance the total cost of the project ($204,000) over a five-year financing period. Consequently, the OIRM would need only $58,000 in the buget year, an amount sufficient to cover the first payment of a five-year installment plan. In future years, the office would realize sufficient savings to make the out-year payments.

We therefore recommend that Item 1760-001-026 be reduced from

DEPARTMENT OF GENERAL SERVICES—Continued

$159,000 to $58,000 in order to provide only the funds necessary to initiate this project, for a savings of $101,000.

OFFICE OF PROCUREMENT

The Office of Procurement (OP) purchases equipment and supplies on behalf of most state agencies, and provides various services relating to the storage and distribution of materials needed in the operation of state programs. The budget proposes an appropriation of $40.3 million and 279.4 personnel-years for support of the office in 1987–88.

Procurement Improves Efficiency

In the current year, OP has taken two significant actions to improve the efficiency of its operations. First, the office began implementation of several recommendations made by a private management consulting firm. Specifically, it has begun reorganizing staff responsibilities, adjusting work priorities, and automating many procurement functions. The office will continue implementation throughout the budget year. The department's efforts have just begun to bear fruit, and it appears that the office will become even more efficient once its reorganization and automation projects are completed. Second, legislation enacted in 1986, Chapter 636 (SB 1644), is expected to reduce (by up to 40 percent) the workload associated with the formal bid process. Chapter 636 provides for greater delegation of procurement authority to individual agencies, thereby reducing workload in OP.

Additional Staff Unwarranted

We recommend deletion of 5.6 personnel-years and $285,000 from the Office of Procurement because the office has not justified a need for additional staffing. (Reduce Item 1760-001-666 by $285,000.)

We further recommend that the Legislature adopt supplemental report language requiring the Director of General Services to report meaningful workload measures and standards.

The budget proposes to increase OP's budget by $285,000 for the purpose of hiring additional purchasing agents and clerical support (5.6 personnel-years). The OP argues that the additional staff are needed because of increased workload. We have two concerns with this proposal.

Workload Information Is Inadequate. At the time we analyzed its budget, the office could provide only rough estimates of its various workloads. These estimates did not provide a strong basis for analyzing the office's resource needs. For instance, the office was unable to provide information on:

- How the department manages its workload *between units* within the Office of Procurement.
- What units within the Office of Procurement will experience *higher* or *lower* workload in the budget year, and
- How the Office of Procurement achieves its *productivity standards.*

Budget Proposals Do Not Account for Efficiency Gains. The request for additional professional and support positions isolate two areas (procurement work for corrections and data processing) where the department appears to be experiencing workload growth. However, we cannot determine if the workload growth in these two areas is *offset by workload reductions in other areas.* Indeed, based on rough estimates provided by the department, *total* procurement workload appears likely to *fall* from the current to the budget year.

Given the many unanswered questions regarding this request, we cannot recommend that the Legislature approve the proposed augmentation. Consequently, we recommend that the Legislature delete 6 positions (5.6 personnel years), and reduce the department's spending authority by $285,000 (Item 1760-001-666).

We further recommend that the Legislature adopt the following supplemental report language, requiring the Department of General Services to report meaningful workload measures and standards for use in budgeting resources for the Office of Procurement:

> The Director of General Services shall report to the Chairpersons of the fiscal committees in both houses and the Joint Legislative Budget Committee, no later than December 15, 1987, the following measures and standards for the Office of Procurement: (1) *workload measures,* which provide information on the level of annual work, by activity, and (2) *workload standards,* which provide productivity or "work" rates for procurement staff, by activity. The workload standards shall correspond to the workload measures, and be disaggregated to provide useful information for budgeting purposes. These measures and standards shall be reported by unit within the Office of Procurement.

Technical Budgeting Issues

We recommend a reduction of $73,000 to eliminate overbudgeting. (Reduce Item 1760-001-666 by $73,000.)

Our analysis of the budget proposal indicates that the department has overestimated its operating expenses by $73,000, for two reasons.

- ***The Office of State Printing (OSP) Overestimated Operating Expenses by $26,000.*** Our analysis of OSP's operating expenses indicates that it has overbudgeted postage and interest charges by $26,000.
- ***The Office of Procurement (OP) Overstated Private Shipping Costs by $47,000.*** The budget proposes to replace two existing diesel trucks with larger ones, at a cost of $147,000. Given the greater capacity of the new trucks, OP will ship less freight through private carriers, resulting in reduced shipping costs of about $87,000. The budget however, reflects only $40,000 of these savings.

EMERGENCY TELEPHONE NUMBER PROGRAM—LOCAL ASSISTANCE

The Emergency Telephone Number System is a network of centralized public safety answering points. The network, contacted by dialing 911, provides immediate access to emergency services.

Local agencies install and operate the network, and are reimbursed for their costs by the state through the Emergency Telephone Number Network ("911") Account. In the budget year, several counties will install new equipment to upgrade the existing network. The department has estimated that these network-enhancement costs, together with the costs associated with the existing network, will total nearly $57 million in 1987–88.

The "911" account is supported by revenues from a surcharge (currently set at 0.5 percent) levied on local telephone bills. In recent years, annual expenditures from the account have exceeded revenues. The shortfalls have been covered by partial repayments of loans made by the "911"

DEPARTMENT OF GENERAL SERVICES—Continued

account to the General Fund in 1982 and 1983. In total, the General Fund borrowed $68.8 million, and will have repaid $28.2 million by the end of the current year.

"911" Account Has Two Funding Problems

The "911" account has had—and still faces—two major funding problems:

- *Temporary Cashflow Needs.* The surcharge revenues are remitted to the state on a quarterly basis. Because the department must reimburse local agencies on a monthly basis, the amount of revenue in the "911" account is sometimes insufficient to meet the expenditures. Throughout the year, therefore, the department must borrow funds to meet its temporary cashflow deficiencies. These cashflow deficiencies do *not* represent a *permanent* need, however. In fact, any funds which the account borrows for cashflow purposes can be repaid within the same fiscal year.
- *Annual Revenue Deficit.* As noted above, annual revenues to the "911" account have been far less than annual expenditures, resulting in yearly deficits. In the last two years, General Fund loan repayments have made up the shortfalls.

Proposed Budget-Year Transfer Far In Excess of Needs

We recommend that the Legislature amend the Budget Bill (Item 1760-101-001) to provide short-term General Fund loan authority for the "911" account. We further recommend that the Legislature establish a new Budget Bill Item (1760-201-001) in order to provide the "911" account with a year-end, General Fund transfer of $6 million (General Fund savings of $17.4 million in 1987–88).

The budget proposes to transfer $23.4 million from the General Fund to the "911" account in 1987–88. We have two problems with this amount. First, it is based on the account's cashflow (or "intra-year") needs, as opposed to the account's annual, year-end deficit needs. Second, the budget figure is based on old expenditure and revenue data, that we have since updated.

Our calculations indicate that the "911" account faces a budget-year *cashflow* need of up to $16 million (again, this is a short-term problem that is not necessarily related to an annual deficit), and a year-end *deficit* of $6 million.

In order to address these two, separate problems, we recommend first that the Legislature amend Item 1760-101-001, as follows, to provide short-term General Fund loan authority to the "911" account during 1987–88. This provision basically has no fiscal impact on the General Fund:

1760-101-001—For transfer to the State Emergency Telephone Number Account upon written approval of the Department of Finance to provide operating funds for support of the Emergency Telephone Number Program on a monthly basis, as needed, for cashflow purposes, with all monies transferred during 1987–88 to be reverted to the General Fund prior to June 30, 1988($16,000,000)

In addition, we recommend that the Legislature establish the following Budget Bill item, providing a $6 million General Fund transfer to the "911" account to cover the projected, year-end deficit in the account. This transfer would be in lieu of the $23.4 million transfer proposed in the budget, resulting in a 1987–88 General Fund savings of $17.4 million.

1760-201-001—For transfer to the State Emergency Telephone Number Account upon written approval of the Department of Finance to provide operating funds for support of the Emergency Telephone Number Program on June 15, 1988, as needed, to eliminate a negative year-end balance in the State Emergency Telephone Number Account ....($6,000,000).

The $6 million transfer is based on the budget proposal to increase the "911" surcharge rate from its current 0.5 percent to the maximum 0.75 percent rate on January 1, 1988. This increase will raise about $5 million in additional revenue in the budget year. Consequently, if DGS decides *not* to raise the rate, the Legislature would need to increase the transfer by $5 million (to $11 million).

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY

Items 1760-301 from and 1760-495 to the General Fund, Special Account for Capital Outlay — Budget p. SCS 118

Requested 1987–88	$41,454,000
Recommended reduction	1,063,000
Recommendation pending	40,391,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Site 7A and 7B—Sacramento. Reduce Item 1760-301-036(1) by $1,000,000.*** Recommend deletion of partial demolition and preliminary plans because the project is not justified. 170
2. Previously Funded Projects. Recommend that the Department of Finance, prior to budget hearings, report on the status of previously funded building projects. 171
3. ***Statewide Space Planning. Reduce Item 1760-301-036(2) by $63,000.*** Recommended deletion because the request is premature. 172
4. Hazardous Materials Programs. Withhold recommendation on Items 1760-301-036(3), (4), and (5), for the PCB Program ($9,763,000), Underground Tanks ($18,238,000), and Asbestos Abatement ($12,390,000), respectively, pending receipt of information concerning priorities, project descriptions, cost estimates and schedules for remediating hazardous conditions in each of these programs. 172
5. Hazardous Materials Programs. Recommend that the department submit to the Legislature, prior to budget hearings, an integrated priority list of all projects proposed under the Hazardous Materials Programs. 173

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes $41,454,000 from the General Fund, Special Account for Capital Outlay, for five major capital outlay projects for the Department of General Services (DGS). Table 1 summarizes the department's requests, along with our recommendations.

Table 1
Department of General Services
1987–88 Capital Outlay Program
(dollars in thousands)

Sub-Item	*Project*	*Location*	*Phase*[a]	*Budget Bill Amount*	*Analyst's Recom-mendation*	*Est. Future Cost*
(1)	New State Building Site 7A/7B	Sacramento	pd	$1,000	—	unknown
(2)	Space Planning	Los Angeles	p	63	—	—
(3)	PCB Program	Statewide	spwc	9,763	pending	unknown
(4)	Underground Tank Program	Statewide	spwc	18,238	pending	unknown
(5)	Asbestos Abatement	Statewide	spwc	12,390	pending	unknown
	Totals			$41,454	pending	unknown

[a] Phase symbols indicate: p = preliminary plans; w = working drawings; c = construction; d = demolition; and s = studies.

New Office Building Again Proposed for Planning

We recommend deletion of $1 million for partial demolition and partial preliminary plans for a new office building because no information has been submitted to describe or justify the proposed project or to substantiate the requested amount. (Reduce Item 1760-301-036(1) by $1 million.)

The budget proposes $1 million for partial demolition and partial preliminary plans for a new state office building. The Governor's Budget indicates that these funds will provide for ". . . partial demolition of Site 7B and *partial* preliminary plans for Sites 7A and 7B *with priority consideration* for construction of a facility to house the State Archives collection" (emphasis added). The 1985 Capital Area Plan designates the block bounded by 10th, 11th, O, and P Streets as Site 7. This block currently includes the State Archives Building and the state building occupied by the Department of Finance plus surface parking on the westerly one-half block. The department has provided no information designating the location of Site 7A or Site 7B. We understand that the current Site 7 includes the "Site 1D" building site, that was funded for preliminary plans in the 1984 Budget Act. Thus, it is not clear exactly what development will take place at Site 7 under the department's proposal.

In any case, the department has not submitted a project description, budget estimate, or a justification for the proposal. Based on discussions with Department of Finance (DOF) staff, the proposal includes (1) relocation of DOF to leased space, (2) the demolition of the state-owned office building at 1025 P Street which currently houses DOF and (3) the development of preliminary plans for a new building at this site. No information however, has been submitted to substantiate either the proposal or the requested amount. Therefore, we recommend deletion of the requested $1 million.

State Archives Study. We note that in November 1985 DGS completed a study addressing facility needs of the State Archives and the Secretary of State. Chapter 1519, Statutes of 1984, appropriated $100,000 from the General Fund for a feasibility study to assess the needs, costs, and appropriate location for a new facility or conversion of an existing facility to house the California State Archives for the next 50 years. The study concludes that facilities should be constructed to provide a total of 205,000 to 229,000 gross square feet (gsf) for the State Archives (76,000 to 100,000 gsf) and the Secretary of State (129,000 gsf). The study identifies an estimated $40.3 million future cost for the facility. The project described in the study, however, was to be constructed in a different site configuration than the proposed project. Based on available information, it does not appear that the proposal responds to the study's findings.

Administration Should Report on Projects Previously Approved by the Legislature

We recommend that the DOF report to the Legislature, prior to budget hearings, on the status of projects previously funded for preliminary plans and the administration's plans for completing the projects.

As shown in Table 2, the Legislature has appropriated $1.9 million to plan four new buildings in Sacramento, and $171,000 to plan a major renovation project in San Francisco. The estimated future cost to complete these approved projects is over $100 million. The administration, however, has not moved forward with these projects. Moreover, the Legislature included $622,000 in the 1985 Budget Bill to develop working drawings for the State Library and Board of Control building (Site 5). These funds were vetoed. In his veto message the Governor indicated that:

> "It is inappropriate to construct another state facility containing general office space in downtown Sacramento when growth in the state's workforce has been halted and the Sacramento area has an apparent abundance of office space available for lease. The Department of General Services should evaluate these concerns in the context of programming future space needs for the State Library, one of the proposed tenants for Site 5."

Table 2

State Building Projects Previously Funded for Preliminary Plans in the 1984 and 1985 Budget Acts (dollars in thousands)

Budget Year	*Project Name*	*Square Feet*	*Amount Appropriated*	*Estimated Cost to Complete*[a]
1984–85	Site 4/Sacramento	391,935	$500	$46,205
	Site 1-D/Sacramento	92,000	87	11,985
	Site 5/Sacramento	139,398	525	16,781
	State Building Backfill/San Francisco	105,000	171	3,438
1985–86	Franchise Tax Board, Phase II/Sacramento	385,000	841	26,528
Totals		1,113,000	$2,124	$104,937

[a] Based on amounts in the Supplemental Reports to the 1984 and 1985 Budget Acts.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

It is not clear why the administration is now requesting funds to demolish a state office building and plan yet another new building when other previously funded projects are not proceeding.

Thus, we recommend that DOF report to the Legislature, prior to budget hearings, on the status of the previously approved projects and what the administration's plan is for completing them.

Statewide Space Planning

We recommend deletion of $63,000 for space planning at the proposed new Los Angeles State Building because the request is premature. (Reduce Item 1760-301-036(2) by $63,000.)

The department requests $63,000 (1,070 hours) for space planning services for the new Los Angeles State Building. Space planning services include area calculations for billing purposes and space assignments. These are typical activities associated with the occupancy of new building projects. The department indicates that, based on the current schedule for completing the project, the building will be occupied in 1990. Since the department could easily perform this activity during the 1988–89 fiscal year, the request for space planning is premature. Consequently. we recommend deletion of the requested amount.

Program to Mitigate Hazardous Conditions

We withhold recommendation on Items 1760-301-036(3), (4), and (5), $40,391,000 for the PCB Program ($9,763,000), Underground Tanks program ($18,238,000), and Asbestos Abatement ($12,390,000), pending receipt of information concerning priorities, project descriptions, cost estimates and schedules for remediating hazardous conditions in each of these programs.

The department's 1987–88 major capital outlay program includes $40,391,000 for three programs to mitigate hazardous conditions—PCBs ($9,763,000), Underground Tanks ($18,238,000), and Asbestos Abatement ($12,390,000). Table 3 provides a summary of the current year effort and the budget year proposal.

The department's proposal does not (1) identify specific projects for remediation, (2) set priorities or (3) establish schedules for undertaking the work. The department has indicated that the surveys, sampling and testing for each program will be completed by March 1, 1987. At that time the Legislature will receive (1) the results of the work, (2) a priority list for each program, (3) cost estimates and (4) a description of the hazardous conditions. Until this information has been submitted to the Legislature, we have no basis on which to make a recommendation. Therefore, we withhold recommendation on the requested amounts for these programs.

Underground Tanks Program. The *Supplemental Report of the 1986 Budget Act* (as adopted by Assembly Concurrent Resolution 158) specifies that $6 million of the amount appropriated for the underground tanks program should not be spent until authorized by separate legislation. The Legislature also adopted Budget Bill language specifying the same restriction. The Governor vetoed the Budget Bill language.

Table 3
Program to Mitigate Hazardous Conditions in State-Owned Facilities—1986–87 and 1987–88 (dollars in thousands)

Program	*Estimated 1986–87*	*Proposed 1987–88*
PCBs:		
• Replace/dispose leaking equipment	$6,233	$7,277
• Design related to future replacement	332	401
• Sample	382	—
• Survey	600	—
• Immediate remediation of survey identified hazardous conditions	—	962
• Replace/dispose non-mandated item	—	673
• Staff support	(450) [a]	450
Subtotals	$7,547	$9,763
Underground Tanks:		
• Testing	$810	$747
• Removal of product/abandon tanks	545	—
• Clean-up/replace tanks	7,200	2,200
• Site/plume investigations	640	—
• Install permanent monitoring	—	9,000
• Replace tanks over 40 years old	—	5,750
• Contingency	85	50
• Support	382	475
Subtotals	$9,662	$18,222
Asbestos:		
• Survey—24 hour living units	$1,000	—
• Survey—office buildings	230	—
• Survey—balance of state buildings	—	$2,400
• Emergency abatement	846	2,150
• Other abatement	—	7,500
• Support	200	340
Subtotals	$2,276	$12,390
Totals, All Programs	$19,485	$40,375

[a] Included above.

The department, however, plans to spend *all* funds appropriated in the 1986 Budget Act. The department's general approach in spending these funds appears reasonable. Leaking tanks in sensitive groundwater areas will be remediated first at an estimated cost of $3.4 million. The balance of the funds will be used to mitigate hazardous materials from leaking tanks and piping.

Highest Potential Risk Hazards Should be Mitigated First

We recommend that the department submit to the Legislature, prior to budget hearings, an integrated priority list of all proposed projects under the Hazardous Materials Programs.

Since 1981, the Legislature has appropriated a total of $28.7 million to mitigate potential health hazards posed by PCB-filled items of electrical equipment, leaking underground storage tanks, and asbestos fibers. Of this amount, the Legislature appropriated $3.4 million in the 1986 Budget Act to identify, characterize, and set priorities for remediation work, as follows:

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

- PCB's—$982,000 to survey and sample electrical equipment in eight departments and sample 1,350 items of equipment statewide.
- Underground Tanks—$1,176,000 to test all known state-owned tanks.
- Asbestos Abatement—$1,230,000 to survey 36 state-owned buildings/ 24-hour living units at state institutions.

As mentioned earlier, the department will submit a report on the results of these activities by March 1, 1987. The department's plan is to develop a *separate priority list for each program* based on the potential hazard and risk of contamination. Work in each program will then proceed independently based on these priority lists.

Our analysis indicates that an integrated priority list of hazardous PCB, underground tank and asbestos conditions should be developed. An integrated list would insure that all known hazardous conditions are assessed and the most hazardous are remediated first. While it may be necessary to initially develop a priority list within each program, the financing of corrective work should insure that the most hazardous conditions are addressed *first* regardless of the type of hazard. The DGS's plan, however, represents three separate programs rather than one program which focuses on eliminating hazardous conditions irrespective of the contaminant. For example, the PCB proposal includes $673,000 to replace transformers that the EPA considers of such low priority that replacement is not necessary at this time. The underground tank proposal includes $5.8 million to remove tanks that are simply over 40 years old even though there may be no leaks or other hazardous condition. These funds may be spent in a more effective way by integrating the priority lists and financing the highest risk hazard regardless of the contaminant.

To insure that any funds appropriated for 1987–88 will be spent to mitigate highest risk conditions, we recommend that the department develop and submit to the Legislature, prior to budget hearings, an integrated priority list for remediation regardless of the contaminant. The listing should specify the criteria for setting priorities and include an assessment of the hazard and potential risk associated with each project.

Reversion—Item 1760-495

We recommend approval.

The Budget Bill, under Item 1760-495, would revert the $18,000 appropriated in the 1985 Budget Act for a project to remedy errors in the design of the State Office Building in San Jose. The appropriation provided for preliminary plans, working drawings and construction to install window washing fasteners at the state building.

The department indicates that the project was completed in April 1986 using $12,600 from the Building Rental Account. Thus, the $18,000 appropriated from the Special Account for Capital Outlay is not needed. We recommend approval of the proposed reversion.

Supplemental Report Language

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

State and Consumer Services Agency

STATE PERSONNEL BOARD

Item 1880 from the General Fund — Budget p. SCS 120

Requested 1987–88	$24,284,000
Estimated 1986–87	24,445,000
Actual 1985–86	25,098,000
Requested decrease (excluding amount for salary increases) $161,000 (−0.7 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1880-001-001—Support	General	$20,762,000
Reimbursements	—	3,522,000
Total		$24,284,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Board Members' Compensation. Recommend enactment of legislation to pay board members a per diem rather than a set salary. (General Fund savings: $140,000 annually.) 177

GENERAL PROGRAM STATEMENT

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

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

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

The board is authorized 299.1 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $24,284,000 for support of the State Personnel Board in 1987–88. This is $161,000, or 0.7 percent, less than the estimated expenditures for the current year. The proposed expenditures consist of an appropriation of $20,762,000 from the General Fund and $3,522,000 in reimbursements. The General Fund amount is $203,000, or 1 percent, less than estimated expenditures for the current year. This decrease results primarily from the 1 percent General Fund "Special Adjustment" reduction of $210,000. Reimbursements are estimated to be

STATE PERSONNEL BOARD—Continued

$42,000 over estimated current-year amounts due to an additional position proposed for psychological screening of peace officer applicants.

Table 1 summarizes expenditures and personnel-years for each of the board's programs, for the past, current, and budget years. The baseline adjustments and workload changes proposed for the budget year are displayed in Table 2.

These expenditure tables have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Table 1
State Personnel Board
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program:	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Merit System Administration	206.8	178.0	177.4	$21,271	$20,865	$20,914	0.2%
Appeals	44.5	42.4	42.1	2,532	2,635	2,635	—
Local Government Services	—	—	—	996	842	842	—
Administrative Services	99.9	78.7	78.0	4,103	4,305	4,305	—
Distributed Administrative Services	(99.9)	(78.7)	(78.0)	−3,804	−4,202	−4,202	—
Special Adjustment	—	—	—	—	—	−210	—
Totals	351.2	299.1	297.5	$25,098	$24,445	$24,284	−0.7%
Funding Sources							
General Fund				*$21,692*	*$20,965*	*$20,762*	*−1.0%*
Reimbursements				*3,406*	*3,480*	*3,522*	*1.2*

Table 2
State Personnel Board
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*Reimbursements*	*Total*
1986–87 Expenditures (Revised)	$20,965	$3,480	$24,445
Baseline Adjustments			
Operating Expenses	10	—	10
Other Adjustments	−3	—	−3
Subtotals, Baseline Adjustments	(7)	(—)	(7)
Workload Changes			
Increase in Merit System Administration Program, Psychological Screening (1 Position)	—	42	42
Special Adjustment			
1 Percent General Fund Reduction	−210	—	−210
1986–87 Expenditures (Proposed)	$20,762	$3,522	$24,284
Change from 1985–86:			
Amount	−$203	$42	−$161
Percent	−1.0%	1.2%	−0.7%

ANALYSIS AND RECOMMENDATIONS

Board Members' Compensation Inconsistent With Current Duties

We recommend that legislation be enacted to pay board members a per diem rate rather than a set salary, for a potential savings to the General Fund of $140,000.

Each of the five board members currently receives an annual salary of $24,153. Related staff benefits bring total state costs for the five board members to approximately $154,000 per year. In recent years, the board's responsibilities have decreased significantly, owing to (a) the two reorganization plans which transferred authority for salary setting, personnel administration, and classification to the DPA, and (b) the advent of collective bargaining. At present, the board usually meets only two times a month to hear employee appeals and other personnel matters.

Many other state boards and commissions (such as the Public Employees' Retirement System Board of Administration) pay their members per diems only. Because there appears to be no significant distinction between the demands placed on members of the Personnel Board and those placed on other part-time boards, we recommend that legislation be enacted providing Personnel Board members with a $100 per diem plus necessary expenses, in lieu of salary. Based on the number of meetings held by the board, the annual per diem costs would be about $14,000, resulting in a net General Fund savings of approximately $140,000 per year.

State and Consumer Services Agency

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Item 1900 from various funds Budget p. SCS 125

Requested 1987–88	$42,730,000
Estimated 1986–87	44,914,000
Actual 1985–86	35,708,000
Requested decrease (excluding amount for salary increases) $2,184,000 (−4.9 percent)	
Total recommended reduction	$270,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1900-001-001—Social Security Administration	General	$70,000
1900-001-815—Retirement Administration	Judges' Retirement	224,000
1900-001-820—Retirement Administration	Legislators' Retirement	134,000
1900-001-830—Retirement Administration	Public Employees' Retirement	37,921,000
1900-001-950—Health Benefit Administration	Public Employees' Contingency Reserve	3,105,000
Ch 674/84—Current-Year Balance Available for Retirement	Public Employees' Retirement	127,000
Chapter 114/85—Retirement Administration		3,000
Reimbursements		1,086,000
Total		$42,730,000

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Personal Computer Strategy. Recommend adoption of supplemental report language requiring the system to report to the Legislature on its personal computer strategy.	180
2. ***Information Processing Equipment. Reduce Item 1900-001-830 by $270,000.*** Recommend reduction because the proposed personal computers are premature.	180

GENERAL PROGRAM STATEMENT

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

The PERS also administers the coverage and reporting aspects of the Federal Old Age Survivors, Disability and Health Insurance (Social Security) programs. The Health Insurance program is mandatory for state employees and is available to those local public workers whose employers elect such coverage.

The system administers a number of alternative retirement plans, through which the state and contracting agencies provide their employees with a variety of benefits. The costs of these benefits are paid from employer and employee contributions equal to specified percentages of each participating employee's salary. These contributions are designed to finance the long-term, actuarial cost of the various benefits provided.

The PERS' health benefits program offers state employees and other public employees a number of basic and major medical plans, on a premium basis.

The PERS is managed by a 13-member Board of Administration. Members are appointed, elected by specified membership groups, or assigned by statute. In the current year, the PERS is authorized 708.4 personnel-years.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $42,730,000 (including $1,086,000 in reimbursements) from various funds for the administrative support of the PERS in 1987–88. This is $2.2 million, or 4.9 percent, less than current-year expenditures.

In Table 1, we summarize the prior, current, and budget year expenditures. As displayed in the table, the Governor proposes $793,000 to finance the system's Social Security program. However, the budget document indicates that this funding level is subject to change as part of the May revision process. The change may be necessary to accommodate the programmatic impact of recent changes in federal requirements.

Table 1
Public Employees' Retirement System
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Program	Expenditures: Actual 1985–86	Est. 1986–87	Prop. 1987–88	Change From 1986–87: Amount	Percent
Retirement	$31,411	$39,808	$37,612	–$2,196	–5.5%
Social Security	698	831	793	–38	–4.6
Health Benefits	2,857	3,119	3,182	63	2.0
PERS System Redesign Project	742	1,156	1,144	–12	–1.0
Administration (Distributed to other programs)	(17,196)	(23,536)	(20,846)	(–2,690)	(–11.4)
Special Adjustment	—	—	–1	–1	—
Totals, Net Adjustments	$35,708	$44,914	$42,730	–$2,184	–4.9%
Funding Sources					
General Fund	*$64*	*$109*	*$70*	*–$39*	*–35.8%*
Judges' Retirement Fund	*187*	*229*	*224*	*–5*	*–2.2*
Legislators' Retirement Fund	*118*	*141*	*134*	*–7*	*–5.0*
Public Employees' Retirement Fund	*31,570*	*40,250*	*38,051*	*–2,199*	*–5.5*
Public Employees' Contingency Reserve Fund	*2,741*	*3,041*	*3,105*	*64*	*2.1*
Volunteer Firefighters' Length of Service Award Fund	*—*	*58*	*60*	*2*	*3.4*
Reimbursements	*1,028*	*1,086*	*1,086*	*—*	*—*
Personnel-years	709.4	708.4	712.8	4.4	0.6%

Table 2 summarizes the significant changes proposed in the PERS budget in 1987–88. It shows a baseline reduction of $2.9 million, which results from: (1) the elimination of one-time, current-year expenditures, and (2) the expected opening of the system's new data center, known as the PERS production facility. This facility will allow PERS to do much of its data processing in-house, thereby reducing the system's reliance on the Teale Data Center. The costs associated with the production facility will be financed with the funds that would have been spent on processing at Teale. Because the in-house costs are lower than Teale processing charges, the system expects to save $900,000 annually in data processing costs.

The budget does not include additional funding for merit salary adjustments or inflationary adjustments to operating expenses and equipment. We estimate that the system will absorb $730,000 in such costs.

ANALYSIS AND RECOMMENDATIONS

INFORMATION TECHNOLOGY AT THE PERS

The PERS relies heavily on automation equipment to fulfill its twin responsibilities of (a) accounting for contributions made by employers and active members, and (b) making benefit payments to retired members.

Over time, the number and complexity of the PERS mainframe computer programs has increased, thereby increasing the amount of work for the PERS data processing division. To meet the growing workload responsibilities, the PERS has:

- Installed a new mainframe computer, thereby allowing staff to use faster and more efficient computers,

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Table 2
Public Employees' Retirement System
Proposed 1987–88 Budget Changes
(dollars in thousands)

	All Funds
1986–87 Expenditures (Revised)	$44,914
Baseline Adjustments	
Increased Salary Savings Requirement	−$227
Pro Rata Charges	747
Adjustments for One-time Expenditures	−2,079
Miscellaneous	−405
Transfer Funding from Teale Data Center to PERS Production Facility	−900
Subtotal, Baseline Adjustments	(−$2,864)
Workload Changes	
Actuarial Reports	$20
Compliance with Federal Legislation (Health Benefits)	36
Subtotal, Workload Changes	($56)
Program Changes	
Automated Audit	$75
Service Level Survey	70
Consulting Contracts	150
Increased Retirement Services	35
Office Automation and Other Data Processing Expenditures	295
Subtotal, Program Changes	($625)
Special Adjustment	*−$1*
1987–88 Expenditures (Proposed)	$42,730
Change from 1986–87:	
Amount	$2,184
Percent	4.9%

- Nearly completed a long-term project for reconfiguring the system's basic data files, thereby reducing the amount of necessary programming, and
- Acquired 64 personal computers (PCs) to reduce the amount of programming which must be done by the data processing staff.

The PERS Needs a PC Strategy

We recommend that the Legislature adopt supplemental report language requiring the system to report to the Legislature on its personal computer strategy.

We further recommend that the Legislature delete $270,000 from the PERS' equipment and consulting services appropriation because the procurement of additional PCs is premature. (Reduce Item 1900-001-830 by $270,000.)

The PERS data-processing staff assert that PCs are a cost-efficient means for accommodating increased workload and service levels. Because the staff believe that the PCs have the flexibility and power to fill a large portion of the system's processing needs, the system has installed 64 PCs and plans additional purchases. Fifteen of the existing PCs are used by data-processing staff, while the balance (49) are used by the program staff.

Lack of Strategy Reduces Value of Existing PCs. Our review indicates that the system has no comprehensive strategy for procuring the

PCs, developing applications, or providing support for the PCs once they are installed. Without such a strategy, PERS cannot optimize its use of PCs. For example, the system currently provides PC support to the program staff through an information center (IC) staffed with 2.5 positions, thereby providing a support staff-to-PC ratio of 2.5:49, or 1:20. Our analysis indicates that the PERS needs more intensive support because of the inexperience of the users, the diversity of PERS' PC applications, and the number of applications which must be developed. The system's failure to commit to a PC strategy has caused PERS to understaff its IC. Indeed, according to PERS staff, the current level of IC support:

- ***Limits the Development of PC Applications.*** By failing to provide enough staff, PERS is unable to (a) develop efficient and effective computer applications, and (b) provide sufficient training and consulting on computer applications. As a result, the understaffing limits the full development of PC applications, and delays the decentralization of automation technology.
- ***Reduces the Return on PC Investments.*** Individual users cannot make the proper decisions about PC compatability and networking. Yet, such decisions are critical to preventing redundant purchases or extraordinary expenses. Thus, by failing to commit sufficient staff to make these decisions, PERS cannot ensure that the state's investment in automation technology will provide its highest return.
- ***Compromises the Integrity of the PERS Databases.*** Without sufficient oversight from the information center, the introduction of PC-based automation technology can reduce the security of the information in the member and employer databases. Should individual PERS units exercise their ability to access these databases, the employer and member accounts can be altered. Such alterations would compromise the integrity of the databases.

Thus, by failing to commit to a PC strategy, the PERS not only hampers its ability to optimize the use of its investments, it may jeopardize the security of its databases. We therefore recommend that the Legislature adopt the following supplemental report language requiring PERS to develop a PC strategy:

> No later than December 1, 1987, the Board of Administration of the Public Employees' Retirement System shall report to the Chairperson of the Joint Legislative Budget Committee and to the chairpersons of the two fiscal committees the following: (1) a policy for maintaining the security of the PERS' databases, (2) a policy for developing and implementing local area networks, (3) the staffing requirements of the PERS' information center, (4) standards for measuring the performance of existing PCs, and (5) a 3-year planning schedule for developing the PC-based applications.

Evaluation of the Budget Proposals. The budget proposes an augmentation of $270,000 for the procurement of an additional 24 PCs (two for data processing staff and 22 for program staff). Our analysis indicates that, without an acceptable PC strategy, these procurements are premature for the following reasons:

- ***The proposals may duplicate the hardware and software already part of the PERS' automation system.*** If so, rather than acquiring additional equipment, the existing systems should be more intensively used.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

- ***The proposed procurements may not best serve the system's long-term PC needs.*** The system expects to acquire additional automation equipment in future fiscal years. Such future procurements must interact with the equipment proposed in the budget. Without a clear understanding of the specifications of those future procurements, we are unable to evaluate whether the budget-year proposals are the most appropriate and cost-efficient purchases at this time.
- ***The proposed procurements will aggravate existing support problems.*** Because the budget proposes no increases in IC staff support, if the purchases were approved, the support staff-to-PC ratio would fall to a 1:28 ratio. This ratio is unacceptable by all industry standards.

Because PERS cannot document the need for its proposed purchases and because the procurements would further aggravate the existing support problem, we recommend the deletion of funding for the PCs and consulting services (for a reduction of $270,000).

State and Consumer Services Agency
STATE TEACHERS' RETIREMENT SYSTEM

Items 1920 from and 1920-495 to the State Teachers' Retirement Fund and other funds — Budget p. SCS 131

Requested 1987–88	$19,200,000
Estimated 1986–87	20,780,000
Actual 1985–86	14,858,000
Requested decrease (excluding amount for salary increases) $1,580,000 (−7.6 percent)	
Total recommended reduction	126,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1920-001-835—Retirement administration	State Teachers' Retirement	$18,802,000
Education Code Section 24701—COLA administration	State Teachers' Retirement (Retirees' Purchasing Power Protection Account)	97,000
1920-001-963—Annuity—administration	Teacher Tax-Sheltered Annuity	62,000
Reimbursements	—	239,000
Total		$19,200,000
1920-495—Reversion	State Teachers' Retirement	($41,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Employer Based Services (EBS). Recommend that $50,000 in overbudgeted funds be redirected from the EBS program to implement a market research program to determine member information needs. 186

2. ***Videotape Development. Reduce Item 1920-001-835 by $126,000.*** Recommend deletion of funds budgeted for development of employer training videotapes because the need has not been demonstrated. 186
3. Workload Standards. Recommend adoption of supplemental report language requiring STRS to develop workload standards and measures. 187

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for providing retirement benefits to public school teachers. Currently, the STRS serves over 406,000 active and retired members. The system is managed by the State Teachers' Retirement Board, and is under the administrative jurisdiction of the State and Consumer Services Agency.

The primary responsibilities of the STRS include: (1) maintaining a fiscally sound plan for funding approved benefits, (2) providing authorized benefits to members and their beneficiaries in a timely manner, and (3) furnishing pertinent information to teachers, school districts, and other interested groups. In addition to having overall management responsibility for the STRS, the board has the authority to review applications for benefits provided by the system.

Our analysis of funding requirements for the *benefits* provided through the STRS appears under Item 6300—"Contributions to the State Teachers' Retirement Fund." This analysis (Item 1920) covers funding requirements for the *support* of the system.

The STRS is authorized 311 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $19,200,000 from the State Teachers' Retirement Fund (STRF), two other special funds, and reimbursements for administrative support of the STRS in 1987–88. This is a decrease of $1,580,000, or 7.6 percent, from estimated current-year expenditures.

Total STRS expenditures, by program, for the past, current, and budget years are shown in Table 1. As the table indicates, the largest programs of the system, in terms of budget-year expenditures, are member services ($4.5 million), fiscal and audit services ($4.0 million) and data processing ($3.1 million). Table 1 also indicates that the STRS proposes to fund 306.3 personnel-years in the budget year—a net decrease of 5 personnel-years from the current-year level.

Table 2 summarizes the major changes proposed in the STRS budget for 1987–88. The table indicates that various *baseline adjustments* account for most of the proposed budget changes. The most significant baseline adjustment is a $2.1 million decrease in statewide pro rata charges. This reduction is due to: (1) a significant overestimate of pro rata charges in the past year, which was credited to the fund in the budget year; and (2) decreases in workload performed on behalf of the STRS by the State Controller, the State Legislature and the State Treasurer.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

Table 1
State Teachers' Retirement System
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Program	*Actual 1985–86*	*Estimated 1986–87*	*Proposed 1987–88*	*Change From 1986–87 Amount*	*Change From 1986–87 Percent*
Administration:					
Accounting	$1,214	$1,291	$1,454	$163	12.6%
Executive Office	836	755	670	−85	−11.3
Finance & Administration	99	309	456	147	47.6
Administrative Services	—	742	659	−83	−11.2
Fiscal & Audit Services	—	6,361	3,991	−2,370	−37.3
Legal Office	622	705	777	72	10.2
Management Services	2,975	—	—	—	—
Program and Policy	329	235	295	60	25.5
Subtotals, Administration	($6,075)	($10,398)	($8,302)	(−$2,096)	(−20.2%)
Investment Services	$445	$440	$456	$16	3.6%
Operations:					
Administration	$515	$661	$559	−$102	−15.4%
Data Processing	2,369	3,201	3,065	−136	−4.2
External Operations	1,481	1,742	2,282	540	31.0
Member Services	3,973	4,338	4,536	198	4.6
Subtotals, Operations	($8,338)	($9,942)	($10,442)	($500)	(5.0%)
Total Expenditures	$14,858	$20,780	$19,200	(−$1,580)	−7.6%
Funding Sources					
Teachers' Retirement Fund	*$14,529*	*$20,479*	*$18,899*	*−$1,580*	*−7.7%*
Retirees' Purchasing Power Protection Account, STRF	*97*	*97*	*97*	—	—
Teacher Tax-Sheltered Annuity Fund	*51*	*62*	*62*	—	—
Reimbursements	*278*	*239*	*239*	—	—
Personnel-years	291.7	311.3	306.3	−5.0	−1.6%

Table 2
State Teachers' Retirement System
Proposed 1987–88 Budget Changes
(dollars in thousands)

	STRF [a]	*Reimbursements*	*Totals*
1986–87 Expenditures (Revised)	$20,541	$239	$20,780
Baseline Adjustments			
Pro rata charges	−$2,137	—	−$2,137
One-time Expenditures:			
Member services (EBS, mailing, videotape)	−425	—	−425
Data processing (emergency backup)	−145	—	−145
Court decision (Probe)	−207	—	−207
Legislation	−74	—	−74
Miscellaneous adjustments	−59	—	−59
Subtotals, Baseline Adjustments	(−$3,047)	—	(−$3,047)
Workload Changes			
Member services (information telephones)	$270	—	$270

Business services	23	—	23
Legal	33	—	33
Subtotals, Workload Changes	($326)	—	($326)
Program Changes			
Client information	$287	—	$287
Employer based services	854	—	854
Subtotals, Program Changes	($1,141)	—	($1,141)
1987–88 Expenditures (Proposed)	$18,961	$239	$19,200
Change from 1986–87:			
Amount	–$1,580	—	$1,580
Percent	–7.7%	—	–7.6%

[a] Includes expenditures from the Retiree's Purchasing Power Protection Account and the Teacher Tax-Sheltered Annuity Fund.

MEMBER SERVICES

Study Results Recently Released

Chapter 1532, Statutes of 1985 (Elder), directed the Legislative Analyst to contract with an outside expert to study STRS member service programs and survey the STRS membership regarding its feelings about these programs. Price-Waterhouse (PW) was awarded the contract, and it delivered its report in December 1986. The contractor found that retirees are very satisfied with STRS member services, and active members are generally satisfied with such services. The survey did uncover some dissatisfaction among disabilitants and survivors.

Other key findings of the report include:

- STRS is providing innovative "leading edge" member information programs (such as video programs, "teletalk," and computer-based calculation tools),
- STRS, however, does not have good information regarding the specific information needs of its members,
- STRS does not need to pursue a field office strategy at this time, and
- The Employer-Based Services program should be limited to those areas having a high concentration of active members.

STRS Requests Expansion of Member Services

The STRS is in the second year of a multiyear program to increase the level of service it provides to both its active and retired members. An important element of this program is improvement in the way STRS communicates with and responds to inquiries from its members. The STRS has developed several strategies to accomplish this goal, including: (1) an employer-based individual and group counseling service, (2) a client information program that includes member mailings (newsletters, annual statements and warrant stub messages), videotapes, an interactive telephone inquiry system, and brochures, (3) telephone and correspondence units to respond to member inquiries, and (4) microcomputer programs that allow members to do "what if" benefit calculations.

For 1987–88, the system requests the following augmentations to its budget in support of expanded member service activities:

- $854,000 for phase two of its Employer-Based Services (EBS) program,
- $151,000 for videotape productions (including $126,000 for new videotapes and $25,000 to update an existing one),

STATE TEACHERS' RETIREMENT SYSTEM—Continued

- $270,000 for expanded telecommunications facilities,
- $105,000 for member mailings, and
- $31,000 for Production Office staff augmentation.

A. Redirect EBS Monies to Market Research

We recommend that $50,000 in overbudget funds be redirected from the EBS program to develop an ongoing "market" research program.

The budget requests $854,000 to continue development of the EBS program. Under this program, the STRS contracts with county Offices of Education to provide personnel who are trained and supervised by the system. These personnel provide both individual and group counseling to STRS members. The proposed augmentation would continue funding for the current-year operation (eight counselors serving seven counties), and expand the program to most other counties by adding seven positions.

Generally, the PW report found the EBS program to be a reasonable method of providing direct service to members. Its major qualification was that the program was appropriate only in areas with high concentrations of active members. Given the PW findings, we recommend approval of the proposed expansion of the EBS program. The STRS, however, has overbudgeted by $50,000 the salaries, benefits and administrative support required for the county positions.

Rather than recommending a reduction of $50,000, however, we believe the funds should be redirected toward an unmet need cited by PW. In its report, PW reviewed the diverse informational programs now provided by the STRS, but noted that the system performs no "needs analysis" to determine the appropriate level and mix of information services. The report suggests that the STRS conduct market-based research in order to identify unmet needs, service overlaps and ineffective programs. We concur with the PW findings and recommend that the Legislature redirect the $50,000 overbudgeted in the EBS program to evaluation and research efforts.

B. Videotape Productions

We recommend a reduction of $126,000 because STRS has not demonstrated that it needs to show videotapes to county employees during training. (Reduce Item 1920-001-835 by $126,000.)

At the end of the current year, STRS will have three videotapes available to members to explain the STRS benefit program. The budget requests $126,000 to cover the cost of producing and distributing training videotapes to county offices of education. These training videotapes would be shown to county employees who assist STRS in the collection of member data (for example, salary, sick leave, and service credit information). Currently, STRS provides a two-day training session to all county employees and provides manuals and workbooks explaining in detail the information STRS requires and the form in which to provide it. This training is directed toward county employees who work in bookkeeping and payroll accounting units.

We have two concerns with this proposal. First, STRS has no definite plans as to the number or content of these training tapes. Second, the tapes apparently would provide only a general overview of STRS procedures. As such, we do not see how they would add to the information provided by the *existing* training.

As STRS has not demonstrated the need for these training videotapes, we recommend that Item 1920-001-835 be reduced by $126,000.

C. Telephone Services Expanding

We recommend approval.

The budget requests the following augmentations to the STRS telephone services program:

- $139,000 to increase from three to seven the number of toll free phone lines available to STRS members,
- $71,000 for three additional positions in the telephone unit, and
- $60,000 for a new, more fully featured switchboard in the telephone unit.

The increased resources appear to be needed to handle the incoming member calls. The STRS, however, cannot now provide data on: (1) the volume of calls rejected because of busy signals, (2) the patterns of calls by time of day and throughout the year, and (3) the total demand for this service. The proposed new switchboard has features which would not only help the system handle calls more efficiently but also provide some of the above data.

Accordingly, we recommend approval of the proposed funding for telephone services.

GENERAL ADMINISTRATIVE

Workload Information is Inadequate

We recommend that the Legislature adopt supplemental report language requiring the STRS to report meaningful workload measures and standards.

As we discuss above, the STRS has not developed workload or demand indicators that are helpful in evaluating their telecommunications budget proposal. These deficiencies extend across the entire agency. We were, for example, unable to determine the time STRS believes it *should* take to (1) process a service retirement application, (2) enter information about a member into the computer, (3) answer the typical piece of member correspondence, or (4) process investment transactions. STRS could only provide rough estimates of its various workloads.

The lack of STRS workload standards, which Price-Waterhouse also cited in its study, makes it extremely difficult to analyze STRS' annual budget requests. We therefore recommend that the Legislature adopt the following supplemental report language requiring the STRS to report meaningful workload measures and standards for use in budgeting its resources:

> The STRS shall report to the Chairpersons of the fiscal committees and Joint Legislative Budget Committee, no later than December 15, 1987, the following standards and measures for the STRS: (1) *workload standards,* which provide productivity or "work" rates for STRS staff, by activity, and (2) *workload measures,* which provide information on the level of annual work and demand for services, by activity. The workload standards shall correspond to the workload measures, and be disaggregated enough to provide useful information for budgeting purposes. These standards and measures shall be reported by unit within the STRS.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

Reversion (Item 1920-495)

We recommend approval.

Chapter 1532, Statutes of 1985, authorized school districts to "pick up" the employee portion of retirement plan contributions for the purpose of deferring federal and state taxes, and appropriated $250,000 from the STRF for the costs of implementing this program. The system completed implementation by the end of the 1985–86 fiscal year, having spent only $209,000 of the amount appropriated. Consequently, the proposed reversion of the unexpended portion of the funds ($41,000) is appropriate.

State and Consumer Services Agency

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA

Items 1960–1970 from the General Fund and various special funds — Budget p. SCS 136

Requested 1987–88	$49,182,000
Estimated 1986–87	48,641,000
Actual 1985–86	43,789,000
Requested increase (excluding amount for salary increases) $541,000 (+1.1 percent)	
Total recommended reduction	None
Recommendation pending	1,248,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1960-001-001—Support	General	$2,557,000
1960-001-592—Support	Cal-Vet Farm and Home	966,000
1960-101-001—Local Assistance	General	1,000,000
1970-011-001—Veterans' Home	General	21,858,000
1970-011-890—Veterans' Home	Federal Trust	(12,670,000)
Reimbursements		6,902,000
Total, Budget Bill Appropriations		$33,283,000
Continuing Appropriation—Support	Cal-Vet Farm and Home	15,731,000
Continuing Appropriation—Support	Cal-Guard Farm and Home	168,000
Total		$49,182,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Educational Assistance. Recommend restoration of Budget Bill language prohibiting educational assistance for dependents of non-California veterans. 191
2. Cal-Guard Loan Program. Recommend that the Depart- 192

ment of Veterans Affairs and the Military Department report to the fiscal committees on the status of the Cal-Guard loan program.

3. Medi-Cal Expenditures. Withhold recommendation on $1,248,000 in Medi-Cal reimbursements pending receipt of information detailing the proposed expenditures and funding mix. 193

GENERAL PROGRAM STATEMENT

The Department of Veterans Affairs provides services to California veterans and their dependents, and to eligible members of the California National Guard, through five programs:

1. ***Cal-Vet Farm and Home Loan.*** This program provides low-interest farm and home loans to qualifying veterans, using proceeds from the sale of general obligation and revenue bonds.
2. ***Veterans Claims and Rights.*** This program assists eligible veterans and their dependents in obtaining federal and state benefits by providing claims representation, county subventions, and direct educational assistance to qualifying veterans' dependents.
3. ***The Veterans' Home.*** The Home provides approximately 1,350 California war veterans with several levels of medical care, rehabilitation services, and residential services.
4. ***Cal-Guard Farm and Home Loan.*** This program provides low-interest farm and home loans to qualifying National Guard members, using proceeds from the sale of revenue bonds.
5. ***Administration.*** This program provides for the implementation of policies established by the California Veterans Board and the department director.

The department is authorized 1,245.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $49.2 million from various state funds for support of the Department of Veterans Affairs and the Veterans' Home of California in 1987–88. This is an increase of $541,000, or about 1.1 percent, above estimated current-year expenditures.

Table 1 provides a summary, by fiscal year and funding source, of all expenditures, including expenditures for loans, debt service, and taxes in the Cal-Vet and Cal-Guard loan programs. As shown in the table, the budget proposes total expenditures of about $1.2 billion in 1987–88. This is an increase of $101 million, or 9.2 percent, over estimated current-year expenditures from all sources. The increase reflects the following changes:

- A decrease of $252,000, or 1 percent, in *General Fund* support for departmental administration and the Veterans' Home. This primarily reflects a budget reduction of $247,000, which is approximately 1 percent of General Fund support, as a Special Adjustment. Of the adjustment, $221,000 is reduced from the Veterans' Home budget and the remainder is reduced from departmental administration.
- A net increase of $100 million in *special funds.* This includes an increase of about $101 million, or 9.6 percent, in the Cal-Vet loan program, primarily to reflect increased costs and new loan activity. The special fund request also reflects a decrease of $148,000, or 3 percent, in the Cal-Guard loan program because of a workload reduction resulting from a decision to not accept new loans. (The Cal-

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued

Guard program is discussed in more detail below.)

- A net decrease in *federal funds* of $186,000, or 1.4 percent, primarily reflects a reduction in the amount of Medicare coverage available for members at the Veterans' Home. The department advises that this reduction will be offset by an increase in Medi-Cal coverage. (We discuss this funding shift for medical coverage in more detail below.) The net change in federal support also reflects increased expenditures for medical care equipment needed to furnish a new hospital addition project and a newly renovated hospital wing.
- An increase in *reimbursements* of $770,000, or 13 percent, primarily reflects increased expenditures from Medi-Cal reimbursements.

Table 1
Department of Veterns Affairs
Summary of Expenditures and Funding Sources
1985–86 through 1987–88
(dollars in thousands)

Funding Sources	*Act. 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
General Fund				
Departmental Administration	$2,184	$2,652	$2,557	−3.6%
Veterans Service Offices	1,000	1,000	1,000	—
Veterans' Home	21,207	22,015	21,858	−0.7
Totals, General Fund	$24,391	$25,667	$25,415	−1.0
Cal-Vet Farm and Home Fund				
Loan Program Administration	$15,114	$16,609	$16,697	0.5
Loans, Debt Service, Taxes	991,107	1,029,109	1,129,611	9.8
Totals, Cal-Vet Fund	$1,006,221	$1,045,718	$1,146,308	9.6
Cal-Guard Farm and Home Fund				
Loan Program Administration	$265	$233	$168	−27.9
Loans, Debt Service, Taxes	13,681	4,643	4,560	−1.8
Totals, Cal-Guard Fund	$13,946	$4,876	$4,728	−3.0
Federal Trust Fund—Veterans' Home	$12,009	$12,856	$12,670	−1.4
Reimbursements				
Departmental Administration	$122	$146	$146	—
Veterans' Home	3,897	5,986	6,756	12.9
Totals, Reimbursements	$4,019	$6,132	$6,902	12.6
Totals, Expenditures	$1,060,586	$1,095,249	$1,196,023	9.2%

Table 2 summarizes the department's expenditures, by program, for the past, current, and budget years. The budget proposes an increase of $88,-000, or 0.5 percent, in the amount spent to administer the *Cal-Vet* program and an increase of about $101 million, or 9.8 percent, in loans, debt service, and taxes.

In addition, the budget proposes a decrease in departmental support ($65,000) and a decline in loans, debt service, and taxes ($83,000) under the *Cal-Guard* loan program. These changes primarily reflect a workload decrease resulting from the decision to discontinue accepting new loans for this program.

The budget also proposes a net increase of $439,000, or 1.1 percent, in expenditures for the *Veterans' Home.* The change results from a combination of increases and decreases including (1) the purchase of new medical equipment at a cost of $1.2 million, (2) a reduction of $630,000 to reflect one-time current-year costs that are not being continued into the budget year, and (3) an unspecified Special Adjustment of $221,000.

Table 2
Department of Veterans Affairs
Program Summary
1985–86 through 1987–88
(dollars in thousands)

Expenditures	*Act. 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Cal-Vet Farm and Home Loan				
Administration	$15,114	$16,609	$16,697	0.5%
Loans, Debt Service and Taxes	991,107	1,029,109	1,129,611	9.8
Cal-Guard Farm and Home Loan				
Administration	265	233	168	−27.9
Loans, Debt Service, and Taxes	13,681	4,643	4,560	−1.8
Veterans Claims and Rights	2,655	3,040	2,933	−3.5
Veterans' Home	37,764	41,615	42,054	1.1
Administration (distributed)	(1,598)	(1,784)	(1,796)	0.7
Totals	$1,060,586	$1,095,249	$1,196,023	9.2%
Personnel-years				
Cal-Vet Farm and Home Loan	265.1	279.6	279.6	—
Veterans Claims and Rights	33.9	36.2	35.6	−1.7%
Veterans' Home	928.9	925.8	927.6	0.2
Cal-Guard Farm and Home Loan	4.2	4.2	3.3	−21.4
Administration (distributed)	(32.9)	(35.2)	(35.2)	—
Totals	1,232.1	1,245.8	1,246.1	—

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following significant budget changes not discussed later in this analysis:

- Increased equipment purchases to furnish a new 56 bed hospital addition and a newly remodeled skilled nursing facility at a cost of $1,165,000 ($408,000 from the General Fund and $757,000 for the Federal Trust Fund).
- Full year funding to administer a new Alcohol, Drug and Post-Traumatic Stress Outreach program established by Ch 1267/86, for an increase of $95,000 from the General Fund.
- Increased loan activity in the Cal-Vet loan program at a cost of $100,590,000 from the Veterans Farm and Home Building Fund.

Educational Assistance to Dependents of Non-California Veterans

We recommend that the Legislature restore provisions of the Budget Bill which prohibit expenditures for financial assistance for the education of dependents of non-California veterans (Item 1960-001-001).

In accordance with Sections 890–899 of the Military and Veterans Code, the department provides educational grants for the dependents of veterans who were killed or totally disabled as a result of active military service, and dependents of servicemen currently listed as missing in action. High school students receive $50 per month for living expenses, and full-time

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued

college, business, or trade school students receive $100 per month. In addition, the program provides financial assistance for tuition and certain fees. The budget includes $353,000 from the General Fund for this program in 1987–88.

In order to be eligible for educational benefits, the statutes require that an individual must be a native of California or a resident of California for five of the last nine years. There is no requirement, however, that the person be a dependent of a *veteran* who is or was a native or resident of California.

In 1979, we recommended that educational assistance to dependents of non-California veterans be eliminated, because it was the only program operated by the department which provided assistance to *non-California* veterans or their dependents. As a result, the Legislature added language to the Budget Act to prohibit the expenditure of funds under this program for dependents of non-California veterans, unless they were receiving assistance before 1979–80. Subsequently, the Legislature annually included the same language in the Budget Act.

For 1987–88, the administration proposes to eliminate this Budget Bill language. The Department of Finance advises that the language was proposed for deletion based on representations by the Department of Veterans Affairs that deletion of the language would not affect current policy for determining program eligibility.

Our analysis indicates, however, that without the Budget Bill language, dependents of non-California veterans could become eligible for educational asistance for the first time since 1979. In order to restore recent legislative policy and to ensure that state funds are not used to provide assistance for dependents of non-California veterans, we recommend that the Legislature adopt the following Budget Bill language:

1. Expenditures pursuant to Schedule (c) are for educational assistance to veterans' dependents, Department of Veterans Affairs, to be expended under the provisions of Sections 890 through 899 of the Military and Veterans Code provided, that no funds appropriated by this item, except as specified, may be expended to provide financial assistance for the education of dependents of non-California veterans killed or totally disabled as a result of active military service and of non-California servicemen currently missing in action.
2. This restriction shall not apply to dependents receiving such financial assistance in, or prior to, fiscal year 1978–79. Provided further, that "non-California veteran" means persons not meeting the requirements of Section 980 of the Military and Veterans Code.

Cal-Guard Farm and Home Loan Program is Put on Hold

We recommend that, prior to the budget hearings, the Department of Veterans Affairs and the Military Department report to the fiscal committees on the status of the Cal-Guard Farm and Home Loan Program, specifically identifying any problems with the current program and recommendations for improving it.

Chapter 1274, Statutes of 1978, established the California National Guard Members' Farm and Home Purchase program effective January 1, 1979. This program, similar to the Cal-Vet loan program, was established to provide low-interest farm and home loans to members of the National

Guard who had served at least one year of a regular enlistment period. Chapter 1274 states that legislative intent is to provide this program as an enlistment inducement to guard members.

The Military Department has the statutory responsibility to administer the program, but has assigned most of that responsibility to the Department of Veterans Affairs. The Military Department, however, retained the responsibility for determining member eligibility and selling bonds. Chapter 1274 authorized the Military Department to sell up to $100 million in revenue bonds. The department has issued $40 million in revenue bonds with annual interest rates ranging from 8.5 percent to 12 percent. Thus, the law authorizes the sale of $60 million in bonds which have not yet been issued.

The budget proposes expenditures of $4,728,000 in 1987–88 from the California National Guard Members Farm and Home Building Fund for loan administration, debt service, and taxes. This is $58,000 and one position *less* than the amount proposed for expenditure in the current year. This reduction reflects a decision to stop accepting new applications for loans effective July 1, 1986 because funds from *previous* bond sales are no longer available.

The Military Department advises that it has decided not to sell additional bonds because of the lack of participation by guard members in the program. According to the department, this lack of interest occurred because the department had to set interest rates on loans to members at levels that were not competitive with the market. The department claims that this was caused by an unfavorable bond market, the many restrictions placed on revenue bond income by federal law, and poor economic conditions. However, neither the Military Department nor the Department of Veterans Affairs could provide any report or analysis of the various factors supporting the decision to stop issuing new loans.

The administration's decision to stop providing new loans to members of the National Guard effectively terminates a benefit that is authorized by statute. In order to ensure that the Legislature has the information it needs to understand the problems with the program and take corrective action, if necessary, we recommend that, prior to the budget hearings, the Department of Veterans Affairs and the Military Department report to the Legislature on the status of the Cal-Guard loan program, specifically including an identification and analysis of the problems with the current program and recommendations for making it more workable.

Inadequate Explanation for Medi-Cal Expenditures

We withhold recommendation on a request to expend $1,248,000 in Medi-Cal reimbursements pending receipt of additional information providing the detail of, and the justification for, the proposed expenditures and funding mix (Item 1970-011-011).

The budget proposes to implement a new Medi-Cal reimbursement program in order to offset the General Fund costs of providing medical care to veterans residing at the home. The department indicates that it has initiated the program in the current year by administratively establishing a Medi-Cal coordinator position and a clerical position. These positions were added to establish and operate a record keeping system, patient movement tracking system, billing system, treatment authorization request system, and treatment review system. The budget estimates that increased reimbursements from Medi-Cal will be $573,000 in the current year and $1,248,000 in the budget year as the result of the staff's activities.

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued

Budget documents submitted to support this proposal indicate that the department's objective is to maximize all available funding sources in order to offset General Fund costs. For the budget year, the department anticipates that the amount of federal Medicare payments will decline and support from Medi-Cal reimbursements will increase. While the proposed objective is commendable, the department was unable to provide us with any detail to support its funding projections or to demonstrate how these projected reimbursements would affect the department's need for General Fund support in 1987–88.

Accordingly, we are unable to evaluate either the appropriateness of the level of medical services budgeted for the Veterans' Home or the funding mix proposed for the budget year. Therefore, we withhold recommendation on 2 positions and $1.2 million pending receipt of the details of the funding projections and the spending plan on which the budget request is based.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY

Items 1970-301 from and 1970-495 to the General Fund, Special Account for Capital Outlay and the Federal Trust Fund — Budget p. SCS 146

Requested 1987–88	$9,402,000
Recommended approval	8,058,000
Recommended reduction	1,118,000
Recommendation pending	226,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Withhold recommendation on two major projects and $226,000 (please see Table 2, page 196 for a listing of the projects) pending receipt of additional information. 196
2. ***Remodel Wards 2, 3E, and Administration. Reduce Item 1970-301-036(6) by $124,000 and Item 1970-301-890(4) by $275,000.*** Recommend a $399,000 reduction to delete unnecessary work and reduce the project cost to the amount previously approved by the Legislature. 197
3. ***Remodel Section E (Domiciliary). Reduce Item 1970-301-036(8) by $159,000 and Item 1970-301-890(5) by $342,000.*** Recommend a $501,000 reduction to reduce the project cost to the amount approved by the Legislature and the State Public Works Board. 198
4. ***Remodel Annex I. Reduce Item 1970-301-036(10) by $14,000.*** Recommend a reduction in the cost to prepare preliminary plans to reflect a reduction in the estimated future construction cost. (Future savings: $614,000.) 198

5. ***Main Kitchen Renovation (Cook-Chill). Reduce Item 1970-301-036(11) by $75,000.*** Recommend deletion because the need for the project has not been substantiated. 199
6. ***Remodel Hospital Wards 1, 2, 3D. Reduce Item 1970-301-036(12) by $129,000.*** Recommend a reduction because the project should be designed based on a lower future cost and only preliminary plans should be funded at this time. (Future savings: $734,000). 200

ANALYSIS AND RECOMMENDATIONS

The budget requests $9,402,000 from the General Fund, Special Account for Capital Outlay ($3,767,000), and the Federal Trust Fund ($5,635,000) for 12 major capital outlay projects.

The Department of Veterans Affairs' facility in Yountville provides long-term care to qualified California veterans. In 1979, the department prepared a master plan for correcting identified code and certification deficiencies at the Veterans' Home and renovating the facilities. For the most part, the department's budget request conforms to the remodeling schedule and projects specified in the master plan. For an overview of the Master Plan, please see our *Analysis of the 1986–87 Budget Bill,* page 218.

Major Capital Outlay

A. Projects Recommended for Approval

We recommend approval of $1,012,000 under Items 1970-301-036(1), (2), (3), (4), and (7), and $798,000 under Items 1970-301-890(1), (2) and (3) for four major capital outlay projects. (Future estimated costs are $3,194,-000.)

We recommend approval of the $1,810,000 requested in state ($1,012,-000) and federal ($798,000) funds for working drawings, construction and equipment for four projects. Table 1 summarizes the budget proposal and shows the estimated future costs for these projects.

Table 1
Department of Veterans Affairs
1987–88 Capital Outlay Program
Projects Recommended for Approval
Items 1970-301-036 and 1970-301-890
(dollars in thousands)

Project Title	*Number of Remodeled Beds*	*Phase* [a]	*Budget Bill Amount State*	*Budget Bill Amount Federal*	*Est. Future Cost* [b]
Remodel Section F	—	e	$50	$93	—
Renovate Hospital Support Services	—	c	284	700	—
Remodel Section B (ICF)	—	e	4	5	—
Primary Electrical Service	—	c	514	—	—
Remodel Annex II (ICF)	102	w	160	—	$3,194
Totals	102		$1,012	$798	$3,194

[a] Phase symbols indicate: w = working drawings; c = construction; and e = equipment.
[b] Department estimate of total cost (state and federal).

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

B. Projects for Which Recommendation is Withheld

We withhold recommendation on $226,000 requested under Items 1970-301-036(5), and (9) pending receipt of additional information.

These projects, along with our reasons for withholding recommendation on them, are identified in Table 2.

Table 2
Department of Veterans Affairs
1987–88 Capital Outlay Projects for Which the Legislative Analyst is Withholding Recommendation
Item 1970-301-036
(dollars in thousands)

Project Title	*Phase* [a]	*Budget Bill Amount*	*Est. Future Cost* [b]	*Reason for Withholding Recommendation*
Remodel Hospital Wards 1, 2 and 3B..	w	$106	$1,954	Pending receipt of revised preliminary plans with estimated costs in line with the project and cost previously recognized by the Legislature.
Remodel Hospital Wards 1, 2 and 3C..	w	120	2,284	Pending receipt of revised preliminary plans with costs in line with the project and cost previously recognized by the Legislature.
Totals		$226	$4,238	

[a] Phase symbols indicate: w = working drawings.
[b] Department estimate of total cost (state and federal).

C. Recommended Reductions/Deletions

Our analysis indicates that five major capital outlay projects proposed by the department at $7,366,000 ($2,529,000 state funds and $4,837,000 federal funds) should be deleted/reduced from the Budget Bill. These projects, together with our recommendations on each, are summarized in Table 3 and discussed below.

Table 3
Department of Veterans Affairs
1987–88 Major Capital Outlay
Legislative Analyst's Recommended Changes
Items 1970-301-036 and 1970-301-890
(dollars in thousands)

Project Title	*Phase* [a]	*Budget Bill Amount*		*Analyst's Recommendation*
		State	*Federal*	
Remodel Hospital Wards 2, 3E and Administration	c	1,188	2,645	3,434 [b]
Remodel Section E (Domiciliary)	c	1,020	2,192	2,711 [b]
Remodel Annex I (ICF)	p	83	—	69
Main Kitchen Renovation (Cook-Chill) ..	p	75	—	—
Remodel Hospital Wards 1, 2, 3D	pw	163	—	34
Totals		$2,529	$4,837	$6,248

[a] Phase symbols indicate: p = preliminary plans; w = working drawings and c = construction.
[b] Total amount (state and federal).

Remodel Wards 2, 3E, and Administration

We recommend a reduction of $399,000 to delete unnecessary work and reduce the project cost to the amount previously approved by the Legislature. (Reduce Item 1970-301-036(6) and Item 1970-301-890(4) by $124,000 and $275,000 respectively.)

The budget includes $3,833,000 from state ($1,188,000) and federal ($2,-645,000) funds to remodel Wards 2, 3E, and Administration. The Legislature appropriated $46,000 in the 1985 Budget Act to develop preliminary plans for this project. The Legislature subsequently appropriated $175,000 in the 1986 Budget Act for working drawings, even though preliminary plans had not been completed. Last year the administration indicated to the Legislature that (1) preliminary plans would be completed by June 1, 1986, (2) working drawings would begin by September 1, 1986, and (3) the project would be delayed by one year if funds were not appropriated in the 1986 Budget Act. Thus, language in the *Supplemental Report of the 1986 Budget Act* specified that working drawings for the project were to begin no later than September 1, 1986 and the estimated construction contract cost was to be $2,913,000.

On October 10, 1986, the Director of Finance advised the Joint Legislative Budget Committee and the fiscal committees that the total estimated project *contract* cost, *based on preliminary plans completed in September 1986,* exceeded the amount approved by the Legislature by $312,400 (11 percent). In addition, the cost for designing and administering the project was to be increased by $134,000. Thus, the total project cost increased by $446,000. The director noted that the increased cost was due to additional work in the corridors, including the heating, ventilation, and air conditioning (HVAC) system that was not part of the approved project. The majority of the additional work includes the installation of an HVAC system in administrative areas of the hospital. These areas were not included because such work was not necessary to meet code/licensing requirements for skilled nursing facilities.

The Chairman of the Joint Legislative Budget Committee advised the Director of Finance on November 4, 1986 that the department (1) should *not* proceed with the proposed additional work and (2) proceed with the approved project without further delay.

Notwithstanding the Chairman's response, the proposed project *includes* the additional corridor work and the total estimated *project* cost is now $4,068,000, or $490,000 (13.4 percent) more than the amount approved by the Legislature.

This project was requested and approved on the basis that the work was necessary to correct code/licensing deficiencies. Moreover, the proposal to include the additional work which is not code/licensing related—after the project was approved by the Legislature—was not concurred with by the Joint Legislative Budget Committee. We understand that working drawings for this project have begun and are scheduled for completion in April 1987. The additional corridor work, however, can easily be removed from the working drawings without additional cost or further delay to the project.

We recommend therefore that the project cost be reduced to reflect the project as previously approved by the Legislature. On this basis, the total

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

amount requested for construction should be reduced by $399,000—$124,000 state funds under Item 1970-301-036(6) and $275,000 federal funds under Item 1970-301-890(4).

Remodel Section E (Domiciliary)

We recommend a reduction of $501,000 to reduce the project cost to the amount approved by the Legislature and the State Public Works Board. (Reduce Items 1970-301-036(8) and 1970-301-890(5) by $159,000 and $342,000, respectively.)

The budget requests $3,212,000 in state ($1,020,000) and federal ($2,192,000) funds for the construction phase of Section E. The 1983 Budget Act appropriated $75,000 for preliminary plans and the 1985 Budget Act appropriated $68,000 for working drawings.

The amount included in the budget exceeds the estimated project cost recognized by the Legislature in 1985 by $501,000 (18 percent), adjusted for inflation. Moreover, upon submitting completed preliminary plans to the State Public Works Board on July 31, 1985, the Department of Finance certified to the Legislature that the scope and cost of the project had not changed.

The department has not provided any information concerning why the cost of the project has increased since preliminary plans were approved in July 1985. Lacking any basis for the $501,000 increase, we recommend that the budget amount be reduced to the cost approved by both the Legislature and the Public Works Board. Thus, we recommend that Item 1970-301-036(8) be reduced by $159,000 and Item 1970-301-890(5) be reduced by $342,000.

Remodel Annex I

We recommend a reduction of $14,000 in the cost to prepare preliminary plans to reflect a reduced estimated future construction cost. (Reduce Item 1970-301-036(10) by $14,000. Future savings: $614,000.)

The budget includes $83,000 to prepare preliminary plans for a project to remodel Annex I. The total estimated project cost is $3,892,000, and includes: (1) $12,000 previously allocated for planning, (2) estimated future costs of $203,000 for working drawings and (3) $3,594,000 for construction.

The proposal would renovate approximately 35,440 gross square feet (gsf) of open nursing wards to correct fire and life safety code deficiencies and provide environmental improvements. After renovations, the facility will provide semi-private rooms (two members per room) for 102 Home members.

Our review of this project indicates that the anticipated contract cost of $89 per gsf is excessive. The Budget Bill also includes $160,000 to prepare working drawings for Annex II at the Home. The estimated contract cost for Annex II is $75 per gsf. This estimated cost is based on completed preliminary plans and therefore should represent a reasonable assessment of renovation cost. The two annex structures are similar and the renovation work is of the same nature. Consequently, the costs should be similar. Under the department's proposal, however, renovation of Annex I will cost $319,000 more than Annex II even though it is 2,000 gsf smaller than Annex II. The department has been unable to explain the nearly 19 percent higher cost for the Annex I project.

The project, however, is needed and planning should proceed in the budget year. Therefore, we recommend approval of preliminary plans for a *reduced* total project cost of $3,264,000, a savings of $628,000 from the department's estimate. This reduced amount would allow for renovation at the same level as the department proposes for Annex II. Based on this reduced total project cost, we recommend approval of $69,000 to prepare preliminary plans for the proposed project—a reduction of $14,000 in the Budget Bill amount and a future savings of $614,000.

Main Kitchen Renovation (Cook-Chill)

We recommend deletion of $75,000 under Item 1970-301-036(11) for preliminary plans because the need for the project has not been substantiated and its costs are excessive.

The budget includes $75,000 to prepare preliminary plans for a project to remodel the main kitchen and dining room building for a "cook-chill" food preparation system. The estimated future project cost is $4,991,000. The department indicates that the project would (1) upgrade the facilities to comply with health and safety requirements for food service, and (2) convert the conventional food preparation system to a cook-chill system.

A cook-chill system allows meals to be prepared up to five days before they are served thus resulting in food preparation and cooking during a five day work week, instead of a seven day work week. After being cooked, the food is rapidly chilled (not frozen) and held at the chilled temperature until served. When served, the food is heated in portable cabinets (rethermalizers). According to the department, the system should result in a reduced staffing level for food service activities and improved food quality.

Cost of Project is Excessive. Our analysis indicates that even if conversion to a cook-chill system is warranted, the cost of the proposed project is excessive. During the 1985–86 fiscal year, the Department of Developmental Services (DDS) began to implement a cook-chill system of food preparation at eight Developmental Centers statewide serving approximately 7,000 clients. The DDS proposal included acquisition/installation of the necessary equipment, training, and a one year service warranty for approximately $1,746,000. Moreover, the DDS system was implemented without any substantial alterations to the physical plant.

The proposal for the home involves one institution serving approximately 1,700 members compared to eight centers serving 7,000 clients under the DDS. It is not clear why the cost to provide the cook-chill system at the Home should be nearly three times more costly than the entire system of Developmental Centers.

Department Has Not Provided Requested Information on Proposal. In discussions with the department at the Veterans' Home in October 1986, we requested that the department provide additional detailed information regarding the cook-chill system. We requested:

- a recent history of menus,
- the number of tray and cafeteria meals served at the home,
- the staff changes that would occur as a result of cook-chill, and
- a justification for the type and amount of equipment requested.

At the time of this analysis, this information had not been provided.

A cook-chill system, if properly implemented, should result in staff reductions. The DDS, as part of its proposal for cook-chill, reduced staff by 55 positions (5.9 percent) at six institutions. It is not clear, based on our

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review of cook-chill systems at two developmental centers, whether the staff reduction taken by the DDS was too much or too little. The department should attempt to ascertain from the DDS's experience, what effects a cook-chill system will have on operations at the Home.

Consequently, in view of the lack of information regarding the need for the project and the apparent excess cost to provide a cook-chill system at the Home, we recommend deletion of the $75,000 for preliminary plans under Item 1970-301-036(11).

Remodel Hospital Wards 1, 2, 3D

We recommend a reduction of $129,000 because the project should be designed based on a lower future cost and only preliminary plans should be funded at this time. (Reduce Item 1970-301-036(12) by $129,000. Future savings: $734,000.)

The budget includes $163,000 to prepare preliminary plans and working drawings to remodel hospital ward D. The estimated future cost of the project is $2,015,000.

The project would correct fire/life safety deficiencies and provide environmental improvements to wards 1, 2, 3D. After renovations, the facility will accommodate 66 skilled nursing facility patients.

It is appropriate *only* to fund preliminary plans at this time. This is because of a new capital outlay policy recently articulated by the administration. Specifically, the administration intends to proceed with projects without regard to the legislatively approved cost whenever design funds are available but construction funds have not been appropriated. Thus, if the project's cost, which was based on preliminary plans, exceeds the cost recognized by the Legislature when it approved the project, the administration will proceed with working drawings if funds already have been appropriated for that purpose. Therefore, in order to ensure legislative control, we recommend that $34,000 be provided only for preliminary plans. Based on the department's schedule, the project would be delayed no more than three months and the delay would not affect other projects in the Home's Master Plan.

Reversion—Item 1970-495

We recommend approval.

The Budget Bill includes a reversion of the unencumbered balance of the appropriation provided by Ch 1046/85. The department estimates that $1,000 will be reverted under this item.

The Legislature appropriated $300,000 from the General Fund in Chapter 1046 to the Department of Veterans Affairs to prepare cost estimates and an implementation plan for a second Veterans Home in southern California. The legislation specified that the report be submitted to the Legislature no later than August 15, 1986.

The department indicates that the report will be completed by January 28, 1987.

Consequently, we recommend approval of the proposal to revert the balance of the appropriation.

Supplemental Report Language

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