

GOVERNOR'S OFFICEItem 0500 from the General
Fund

Budget p. LJE 19

Requested 1988-89.....	\$7,593,000
Estimated 1987-88	6,973,000
Actual 1986-87	6,163,000
Requested increase (excluding amount for salary increases) \$620,000 (+8.9 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Constitution grants the executive power of the state to the Governor, who is responsible for administering and enforcing state law. The Governor is elected to a four-year term, and receives an annual salary of \$85,000.

The Governor's Office has 84 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$7,593,000 from the General Fund for support of the Governor's Office in 1988-89. The proposed amount is \$620,000, or 8.9 percent, greater than estimated current-year expenditures. Table 1 provides a summary of the budget for the Governor's Office in the past, current, and budget years.

Table 1
Governor's Office
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Percent</i>
	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>Change</i>
<i>Expenditures</i>				<i>From</i>
				<i>1987-88</i>
Personal services	\$3,978	\$4,176	\$4,354	4.3%
Operating expenses and equipment.....	1,546	1,622	1,684	3.8
Special items of expense.....	639	1,175	1,555	32.3
Totals.....	\$6,163	\$6,973	\$7,593	8.9%

Most of the increase (\$380,000) requested for 1988-89 is proposed for expansion of two overseas trade offices in London and Tokyo, as well as start-up and half-year operational costs of a trade office in Mexico City. In addition, \$178,000 is requested to cover increases in personal services and \$62,000 is requested for increases in operating expenses and equipment.

Overseas Offices. According to the Governor's staff, the Tokyo and London offices were opened in January 1987. The Mexico City office is scheduled to become operational by January 1989. The offices are designed to promote state exports, establish agricultural markets, and attract more foreign investment and tourists to California. A total of \$1.1

GOVERNOR'S OFFICE—Continued

million is estimated to be expended on the London and Tokyo offices in the current year.

Governor's Office
SECRETARY FOR STATE AND CONSUMER SERVICES

Item 0510 from the General
Fund

Budget p. LJE 20

Requested 1988-89.....	\$783,000
Estimated 1987-88	752,000
Actual 1986-87	679,000
Requested increase (excluding amount for salary increases) \$31,000 (+4.1 percent)	
Total recommended reduction	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0510-001-001—Support	General	\$773,000
Reimbursements	—	<u>10,000</u>
Total		\$783,000

GENERAL PROGRAM STATEMENT

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

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

The agency has 11.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$773,000 from the General Fund for support of the State and Consumer Services Agency in 1988-89. Total agency expenditures in 1988-89, including expenditures from reimbursements, are budgeted at \$783,000, an increase of \$31,000, or 4.1 percent, over total current-year expenditures. This amount includes an increase of \$15,000 for personal services costs and \$16,000 for operating expenses.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our analysis indicates that the proposed expenditures for the agency appear to be warranted.

Governor's Office
SECRETARY FOR BUSINESS, TRANSPORTATION AND
HOUSING

Item 0520 from various funds

Budget p. LJE 21

Requested 1988-89	\$1,679,000
Estimated 1987-88	1,879,000
Actual 1986-87	1,460,000
Requested decrease \$200,000 (excluding amount for salary increases) (-10.6 percent)	
Total recommended reduction	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0520-001-001—Support	General	\$406,000
0520-001-044—Support	Motor Vehicle Account	639,000
Ch 251/87	General	200,000
Reimbursements	—	434,000
Total		\$1,679,000

GENERAL PROGRAM STATEMENT

The Secretary for Business, Transportation and Housing, one of five agency secretaries in the Governor's cabinet, supervises the activities of the following 14 departments and administrative bodies:

Business and Regulatory Agencies

Alcoholic Beverage Control
 State Banking
 Corporations
 Commerce
 Insurance
 Real Estate
 Savings and Loan
 Stephen P. Teale Consolidated Data Center

Transportation Agencies

California Highway Patrol
 Motor Vehicles
 Transportation
 Traffic Safety

Housing Agencies

Housing and Community Development
 California Housing Finance Agency

The agency has 19 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes total expenditures of \$1,679,000 to support the agency's activities in 1988-89. This is \$200,000, or 11 percent, less than estimated total expenditures in 1987-88. The proposed expenditures would be funded, in part, from two appropriations totaling \$1,045,000, including \$406,000 from the General Fund, and \$639,000 from the Motor Vehicle Account in the State Transportation Fund. In addition, the agency anticipates expenditures of \$434,000 to be fully reimbursed. Another \$200,000 in expenditures will be funded out of a current year appropriation.

The reduction in proposed expenditures is the result of primarily two changes. First, Ch 251/87 appropriated \$700,000 from the General Fund to the Secretary to enable California to participate in the 1988 World Exposition in Brisbane, Australia from May through October 1988. The agency anticipates that \$500,000 will be expended in the current year, and

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING—**Continued**

\$200,000 in the budget year. Second, the budget requests \$31,000 from the General Fund to establish a centralized interactive telephone referral system to assist small and minority business in their operation. Chapter 882, Statutes of 1987, authorizes the Small Business Advocate within the agency to establish such a referral system.

Our review indicates that the proposed expenditures for the agency appear to be warranted.

Governor's Office**SECRETARY FOR HEALTH AND WELFARE**

Item 0530 from the General
Fund

Budget p. LJE 23

Requested 1988-89.....	\$2,168,000
Estimated 1987-88	3,884,000
Actual 1986-87	1,759,000
Requested decrease (excluding amount for salary increases) \$1,716,000 (-44.2 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0530-001-001—Support	General	\$1,786,000
Reimbursements	—	382,000
Total		\$2,168,000

GENERAL PROGRAM STATEMENT

The Secretary for the Health and Welfare Agency (HWA) is directly responsible to the Governor for general policy formulation in the health and human services area. The Secretary is also responsible for the operations and fiscal management of the following departments and offices:

Aging	Mental Health
Alcohol and Drug Programs	Office of Statewide Health Planning and
Developmental Services	Development
Emergency Medical Services, Authority and	Rehabilitation
Commission	Social Services
Employment Development	Health and Welfare Agency Data Center
Health Services	

The HWA is the lead agency in the implementation of the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65) and of the federal Immigration Reform and Control Act of 1986 (IRCA). The HWA is also conducting a study of various funding options for long-term care services. The report is scheduled for completion on September 1, 1988.

The agency has 29.0 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes the expenditure of \$2,168,000 from the General Fund and reimbursements to support the Secretary for Health and Welfare in 1988-89. Table 1 presents a summary of program expenditures and funding sources for the agency during the past, current, and budget years.

Table 1
Secretary for Health and Welfare
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Percent Change From</i>
<i>Program</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1987-88</i>
Secretary's office	\$1,759	\$3,227	\$1,764	-45.3%
Proposition 65 implementation	—	407	404	-0.7
Long-term care financing study	—	250	—	-100.0
Totals	\$1,759	\$3,884	\$2,168	-44.2%
<i>Funding Sources</i>				
General Fund	\$1,421	\$3,434	\$1,786	-48.0%
Reimbursements	338	450	382	-15.1

Table 2 identifies the changes in the Secretary's proposed budget for 1988-89. The table shows that the budget proposal represents a decrease of \$1,716,000, or 44.2 percent, from estimated current-year expenditures. This decrease is primarily due to the elimination of one-time funding provided in the 1987 Budget Act for the agency to (1) contract with legalization service providers in order to increase the number of legalization applications submitted under IRCA (\$1.5 million) and (2) prepare the Long-Term Care Financing Study (\$250,000).

Table 2
Secretary for Health and Welfare
Proposed Budget Changes
1988-89
(dollars in thousands)

	<i>General Fund</i>	<i>Reimburse- ments</i>	<i>Totals</i>
1987-88 expenditures (revised)	\$3,434	\$450	\$3,884
<i>Cost adjustments</i>			
Employee compensation adjustment	25	6	31
Inflation adjustments to OE&E	13	2	15
Subtotals, cost adjustments	(\$38)	(\$8)	(\$46)
<i>Proposed changes</i>			
IRCA	-1,500	—	-1,500
Long-term care financing study	-175	-75	-250
Proposition 65 equipment reduction	-11	-1	-12
Subtotals, proposed changes	(-\$1,686)	(-\$76)	(-\$1,762)
1988-89 expenditures (proposed)	\$1,786	\$382	\$2,168
Change from 1987-88:			
Amount	-\$1,648	-\$68	-\$1,716
Percent	48.0%	-15.1%	-44.2%

SECRETARY FOR HEALTH AND WELFARE AGENCY— REAPPROPRIATION

Item 0530-490 from the General
Fund

Budget p. LJE 23

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reappropriates General Fund support for the Secretary for Health and Welfare Agency (HWA) to conduct a study of the various funding options for long-term care services. The item contains Budget Bill language that allows the HWA to carry forward into 1988-89 any support funds for the study that are not expended in the current year. The 1987 Budget Act appropriated \$250,000 to the agency in order to conduct the Long-Term Care Financing study. The agency anticipates that it will spend approximately \$190,000 for the study during 1987-88. The agency proposes to use the remaining \$60,000 for publication costs and other contingencies in 1988-89. We recommend approval of the reappropriation.

Governor's Office

SECRETARY FOR RESOURCES

Item 0540 from the General
Fund and Environmental
License Plate Fund

Budget p. LJE 24

Requested 1988-89	\$1,396,000
Estimated 1987-88	1,384,000
Actual 1986-87	1,491,000
Requested increase (excluding amount for salary increases) \$12,000 (+0.9 percent)	
Total recommended reduction	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0540-001-001—Agency support	General	\$1,288,000
0540-001-140—CTRPA activities	Environmental License Plate	75,000
Reimbursements	—	33,000
Total		\$1,396,000

GENERAL PROGRAM STATEMENT

The Secretary for Resources heads the Resources Agency. As a member of the Governor's cabinet the Secretary is responsible directly to the Governor for the management, preservation, and enhancement of California's natural, recreational, and wildlife resources. The Resources Agency is composed of the following departments and organizations:

Conservation
Fish and Game
Forestry and Fire Protection
Parks and Recreation
Boating and Waterways
Water Resources
Air Resources Board
State Lands Commission
Colorado River Board

California Conservation Corps
Energy Resources Conservation and
Development Commission
Santa Monica Mountains Conservancy
State Coastal Conservancy
California Tahoe Conservancy
California Coastal Commission
State Water Resources Control Board
California Waste Management Board

In practice, however, the Air Resources Board, the California Waste Management Board, and the State Water Resources Control Board report to the administratively established Environmental Affairs Agency, rather than to the Resources Agency.

The Secretary also (1) serves as an ex-officio member of various commissions and conservancies, (2) administers the Environmental License Plate Fund, and (3) issues the state's guidelines for the preparation of environmental impact reports (EIRs) and designates the classes of activities exempted from the preparation of EIRs.

The Secretary's office has 19.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes the expenditure of \$1,396,000 for the Secretary for Resources in 1988-89. This amount consists of (1) \$1,288,000 from the General Fund for direct support costs, (2) \$75,000 from the Environmental License Plate Fund to carry out the agency's responsibilities as the successor to the deactivated California Tahoe Regional Planning Agency, and (3) \$33,000 in reimbursements. This is \$12,000, or 0.9 percent, higher than estimated total current-year expenditures.

The proposed increase in expenditures reflects only minor cost adjustments to the Secretary's budget.

The proposed budget appears reasonable and we recommend approval.

Governor's Office
SECRETARY FOR YOUTH AND ADULT CORRECTIONAL
AGENCY

Item 0550 from the General
Fund

Budget p. LJE 26

Requested 1988-89	\$1,009,000
Estimated 1987-88	1,037,000
Actual 1986-87	778,000
Requested decrease (excluding amount for salary increases) \$28,000 (-2.7 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The Secretary for the Youth and Adult Correctional Agency coordinates the activities of and provides policy direction to the Departments of Corrections and the Youth Authority, Board of Prison Terms, Youthful Offender Parole Board, Board of Corrections, Prison Industry Authority, and Narcotic Addict Evaluation Authority. The agency has 12.3 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes \$1 million from the General Fund for support of the Youth and Adult Correctional Agency in 1988-89. This is a decrease of \$28,000, or 2.7 percent, below estimated current-year expenditures. The net reduction results from a onetime appropriation of \$50,000 in the current year to fund consulting services for the Blue Ribbon Commission on Inmate Population Management, which is offset by price increases and merit salary adjustments.

The Blue Ribbon Commission on Inmate Population Management, established by Ch 1255/87 (SB 279), is charged with conducting a comprehensive review of the state's correctional system. Specifically, the commission is required to examine population projections for the state's prisons, evaluate the costs of incarceration, study alternatives to incarceration, and make various recommendations to the Governor and the Legislature. A preliminary report is due one year following the first meeting of the commission which has not yet been held. The enabling legislation, however, does not specify a date for the final report.

Support for the commission's operations in 1988-89 will be absorbed by the departments that report to the Youth and Adult Correctional Agency. At the time this analysis was prepared, the Youth and Adult Correctional Agency was not able to specify the number of staff that will be redirected to support the operations of the commission. The agency advises that a staffing plan will be available after the commission has held its first meeting.

OFFICE OF CALIFORNIA-MEXICO AFFAIRS

Item 0580 from the General
Fund

Budget p. LJE 27

Requested 1988-89.....	\$273,000
Estimated 1987-88	262,000
Actual 1986-87	256,000
Requested increase (excluding amount for salary increases) \$11,000 (+4.2 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The Office of California-Mexico Affairs (OCMA), established by Ch 1197/82, consolidated two previous state agencies: the Commission of the Californias and the Southwest Border Regional Conference. Chapter 1197 consolidated the purposes, staff, and resources of the two predecessor agencies into two organizational units within OCMA.

The primary function of the 18-member Commission of the Californias is the promotion of economic, cultural and educational relations with the regional Mexican governments in Baja California and Baja California Sur. The Governor serves as chairman of the California delegation to the commission; the Lieutenant Governor serves as vice-chairman.

The OCMA provides staff support for California's participation in the Southwest Border Regional Conference. The conference is composed of the Governors of California, Texas, Arizona, and New Mexico, and representatives of six Mexican border states. Its purpose is to promote international cooperation in economic, cultural, and environmental exchange across the U.S.-Mexican border.

The office currently has 3.9 personnel-years.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes General Fund expenditures of \$273,000 to support the activities of the OCMA in 1988-89, an increase of \$11,000, or 4.2 percent, from the current year. The proposed increase reflects an additional \$9,000 for personal services costs and a net increase of \$2,000 in operating expenses.

The OCMA's proposed expenditures appear to be warranted.

CALIFORNIA STATE WORLD TRADE COMMISSION

Item 0585 from the General
Fund and various funds

Budget p. LJE 26

Requested 1988-89.....	\$2,211,000
Estimated 1987-88	1,862,000
Actual 1986-87	1,367,000
Requested increase (excluding amount for salary increases) \$349,000 (+18.7 percent)	
Total recommended reduction	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0585-001-001-Transfer to California State World Trade Commission Fund	General	(\$1,827,000)
0585-001-981-Support	California State World Trade Commission	1,847,000
0585-011-001-Transfer to California Export Finance Fund	General	(1,000,000)
0585-011-981-Transfer to California Export Promotion Account	California State World Trade Commission	(25,000)
Statutory Appropriation-Support	Export Finance	104,000
Statutory Appropriation-Support	Export Promotion Account	260,000
Total		<u>\$2,211,000</u>

GENERAL PROGRAM STATEMENT

The California State World Trade Commission has several responsibilities in the area of international trade. These include: (1) coordinating activities designed toward expanding international trade; (2) addressing policies that affect California's ability to trade internationally; (3) providing research in international trade; (4) administering programs designed to increase the availability of funds used to finance the overseas sales of California products, and; (5) coordinating meeting arrangements, research and inquiries on behalf of foreign visitors who come to California. The 11-member commission is composed of government and business leaders, and is chaired by an appointee of the Governor. The commission has 12.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$2,211,000 from various funds to support the programs of the commission during 1988-89. This amount is \$349,000, or 19 percent above estimated current year expenditures. This increase reflects a \$306,000 increase for program changes and an increase of \$43,000 for salaries, benefits and other baseline adjustments.

Table 1
California State World Trade Commission
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	Actual 1986-87	Estimated 1987-88	Proposed 1988-89	Change From 1987-88	
				Amount	Percent
State World Trade Commission.....	\$967	\$1,395	\$1,671	\$276	19.8%
Export Finance Office	400	467	540	73	15.6
Totals	\$1,367	\$1,862	\$2,211	\$349	18.7%
Funding Sources					
General Fund.....	\$1,222	\$1,550	\$2,827	\$1,277	82.4%
Special Account for Capital Outlay	—	-1,000	—	— ^a	— ^a
Export Finance Fund.....	—	-948	-896	— ^a	— ^a
Export Promotion Account.....	—	231	260	29	12.6
California State World Trade Commission Fund	145	29	20	9	31.0
Personnel-Years.....	8.3	12.3	16.9	4.6	37.4%

^a Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes the following program changes for 1988-89: (1) \$50,000 and 1.4 personnel-years to fund increased workload in the Export Finance Office; (2) \$71,000 for increases in operating expenses for trade show participation and travel; (3) \$50,000 and 2.9 personnel-years for the trade show program; (4) \$146,000 and 1.9 personnel-years to continue operation of the International Visitors Office established by the Governor in October 1987; (5) \$40,000 to conduct trade research studies; and (6) \$50,000 to expand trading and investment opportunities for minority/women-owned small businesses.

In addition, the budget proposes to transfer \$1 million from the General Fund to the Export Finance Fund in order to fund additional export loan guarantees. This amount is not reflected as an expenditure in the commission's budget, on the basis that it will be used to fund additional loan guarantee reserves.

The commission's proposed expenditures appear reasonable, and we recommend approval.

CALIFORNIA STATE WORLD TRADE COMMISSION— REVERSION

Item 0585-495 to the General
Fund

Budget p. LJE 29

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1151, Statutes of 1986, required the California State World Trade Commission to review, analyze and catalogue all significant agricultural trade barriers imposed by nations covered by the General

CALIFORNIA STATE WORLD TRADE COMMISSION—REVERSION— Continued

Agreement on Tariffs and Trade. The commission was required to report its findings and recommendations to the Governor, Lieutenant Governor, Secretary of State, Senate Rules Committee and Speaker of the Assembly by June 30, 1987. The commission completed its report on July 31, 1987. Because it did not need the entire \$50,000 appropriated by Ch. 1151 to complete the report, the budget requests that the balance (\$1,000) revert to the General Fund. We recommend approval.

Governor's Office OFFICE OF PLANNING AND RESEARCH

Item 0650 from the General
Fund

Budget p. LJE 33

Requested 1988-89.....	\$8,940,000
Estimated 1987-88	16,590,000
Actual 1986-87	4,858,000
Requested decrease (excluding amount for salary increases) \$7,650,000 (—46 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0650-001-001—Support	General	\$3,811,000
0650-001-890—Support	Federal Trust	200,000
0650-101-431—Local assistance	Local Agency Technical Assistance Account	500,000
Reimbursements	—	64,000
Chapters 1338 and 1339, Statutes of 1986	Petroleum Violation Escrow Account (Federal)	2,819,000
Chapter 1343, Statutes of 1986	Local Jurisdiction Energy Assistance Account (Federal)	1,546,000
Total		\$8,940,000

GENERAL PROGRAM STATEMENT

The Governor's Office of Planning and Research (OPR), assists the Governor by conducting research and making policy recommendations on a wide range of matters. In addition, it has statutory responsibilities related to state and local land use issues, environmental and federal project review procedures, and permit assistance.

The OPR has 80 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes the expenditure of \$8.9 million (all funds) for support of OPR in 1988-89. This is a decrease of \$7.6 million, or 46 percent, below estimated current-year expenditures. This decrease is almost entirely the result of reduced expenditures of federal funds in the Petroleum Violation Escrow Account (PVEA).

Last year the Legislature appropriated \$6 million from PVEA to OPR on a one-time basis for transfer to the Department of Commerce (\$3 million) and the State Assistance Fund for Energy, California Business and Industrial Development Corporation (SAFE-BIDCO) (\$3 million). These one-time transfers are proposed in the current year only. Therefore, the 1988-89 budget reflects a \$6 million decrease.

Moreover, in 1986, the Legislature appropriated \$11 million from the PVEA to OPR for the following three programs: (1) small business energy accounting (Ch 1338/86—\$4 million), (2) Native American community energy services (Ch 1339/86—\$3 million), and (3) schools energy management centers (Ch 1343/86—\$4 million). The OPR proposes to expend these amounts, over a three-year period, from 1987-88 through 1989-90, thus accounting for the remaining decrease in federal funds during the budget year.

Table 1 shows the budget for OPR by program and funding source for 1986-87 through 1988-89. The table shows that no change in personnel-years is proposed for 1988-89.

Table 1
Office of Planning and Research
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

<i>Program</i>	<i>Actual 1986-87</i>	<i>Est. 1987-88</i>	<i>Prop. 1988-89</i>	<i>Percent Change from 1987-88</i>
Education planning and policy	\$292	\$478	\$380	-20.5%
Local government affairs	804	770	798	3.6
Permit assistance	1,001	1,582	1,621	2.5
Energy extension service	1,144	12,226	4,565	-62.7
Community relations	697	652	663	1.7
Executive office and support services	920	882	913	3.5
Totals	\$4,858	\$16,590	\$8,940	-46.1%
Funding Sources				
General Fund	\$3,585	\$3,692	\$3,811	3.2%
Local Agency Technical Assistance Account	—	500	500	—
Local Jurisdiction Energy Assistance Account (federal-PVEA) ^a	—	2,158	1,546	-28.4
PVEA funds (federal)	721	9,868	2,819	-71.4
Federal Trust Fund	418	200	200	—
Reimbursements	134	172	64	-62.8
Personnel-Years	78.1	80	80	—

^aThe Local Jurisdiction Energy Assistance Account was established in 1986-87 and \$4 million was transferred to the account from federal PVEA funds.

Our review indicates that the proposed expenditures for the office appear to be warranted.

Governor's Office
OFFICE OF EMERGENCY SERVICES

Item 0690 from the General
 Fund and various other funds

Budget p. LJE 38

Requested 1988-89.....	\$61,122,000
Estimated 1987-88	129,375,000
Actual 1986-87	68,875,000
Requested decrease (excluding amount for salary increases) \$68,253,000 (—52.8 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0690-001-001—Support	General	\$10,460,000
0690-001-014—Support	Hazardous Waste Control Account	181,000
0690-001-029—Support	Nuclear Planning Assessment Special Fund	500,000
0690-001-890—Support	Federal Trust	4,559,000
0690-101-029—Local assistance fixed nuclear power plant planning	Nuclear Planning Assessment Special Fund	600,000
0690-101-890—Local assistance emergency mutual aid	Federal Trust	38,013,000
Continuous appropriation—local assistance	Public Facilities Account, Natural Disaster Assistance	2,345,000
Continuous appropriation—local assistance	Street and Highway Account, Natural Disaster Assistance	2,671,000
Reimbursements		1,793,000
Total, All Funds		\$61,122,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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|---|--|
| <p>1. Toxic Chemical Program Implementation Problems. We recommend that the Office of Emergency Services (OES) report to the fiscal committees, prior to budget hearings, on how it intends to support the Superfund Amendments and Reauthorization Act of 1986 (SARA) in 1988-89. We also recommend the enactment of legislation that would authorize OES to collect the necessary fees from regulated businesses to cover the state and local costs of the implementation of SARA.</p> <p>2. Disaster Relief Program. Recommend that the OES report to the fiscal committees, prior to budget hearings, on the status of the disaster relief provided during the 1987-88 First Extraordinary Session.</p> | <p><i>Analysis</i>
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GENERAL PROGRAM STATEMENT

The Office of Emergency Services (OES) coordinates emergency activities necessary to save lives and reduce losses from natural or other disasters. These responsibilities are administered through four pro-

grams—Mutual Aid Response, Plans and Preparedness, Disaster Assistance, and Administration/Executive.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$61.1 million in 1988-89. This is \$68.3 million, or 53 percent, less than estimated expenditures in the current year.

The budget proposes expenditure of \$18.5 million in state funds in 1988-89, which is \$68.3 million, or 79 percent less than estimated state expenditures in the current year.

The decline in expenditures proposed for 1988-89 is primarily due to an unusually high one-time disaster assistance expenditure in the current year. Expenditures for southern California earthquake relief amount to \$61.8 million consisting of \$19.1 million for state operations and \$42.7 million for local assistance. If the proposed budget for 1988-89 is adjusted to eliminate the effects of these one-time changes in disaster assistance funding, the level of expenditures is \$7.2 million, or 11 percent, lower than estimated current-year expenditures.

It is important to note that the amount of disaster assistance budgeted for 1988-89 is an *estimate*. The actual level of expenditure in the budget year will depend on the cost of repairing damage caused by natural disasters.

Expenditures for OES support and local assistance are summarized in Table 1.

Table 1
Office of Emergency Services
Funding Sources
1986-87 through 1988-89
(dollars in thousands)

<i>Category/Source of Funds</i>	<i>Actual 1986-87</i>	<i>Est. 1987-88</i>	<i>Prop. 1988-89</i>	<i>Percent Change from 1987-88</i>
State Operations				
General Fund	\$8,738	\$30,095	\$10,460	-65.2%
Federal funds	3,634	4,467	4,559	2.0
Nuclear Planning Assessment	287	500	500	—
Hazardous Waste Control	76	323	181	-44.0
Reimbursements	540	1,011	1,793	77.3
Subtotals	(\$13,275)	(\$36,396)	(\$17,493)	(-52.0%)
Local Assistance				
General Fund	\$5,210	\$45,857	—	—
Federal funds	37,528	38,013	\$38,013	—
Nuclear Planning Assessment	583	600	600	—
Natural Disaster Assistance Fund:				
Public Facilities Account	1,010	2,345	2,345	—
Street and Highway Account	14,855	2,671	2,671	—
1986 Flood Disaster Account	-3,493	3,493	—	-100.0%
1983 Natural Disaster Account	—	—	—	—
Southern California Earthquake Account ..	—	(42,700) ^a	—	-100.0
Subtotals	(\$55,600)	(\$92,979)	(\$43,629)	(-53.1%)
Totals	\$68,875	\$129,375	\$61,122	-52.8%

^a Transfer from the General Fund

OFFICE OF EMERGENCY SERVICES—Continued

As Table 1 illustrates, the costs of state operations are proposed to decrease by \$18.9 million, or 52 percent, in the budget year. This decrease is primarily the result of a \$19.1 million decline in General Fund expenditures due to the one-time repair and replacement of public buildings, and buildings and equipment on university and college campuses damaged in the October 1987 earthquake.

The 53 percent reduction in local assistance in 1988-89 also reflects the high level of disaster relief expenditures in the current year associated with the October 1987 earthquake.

Table 2 provides a summary of OES expenditures and personnel by program. The office has 202.3 personnel-years in the current year.

Table 2
Office of Emergency Services
Program Summary
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Percent Change from</i>
	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1987-88</i>
<i>Program Expenditures</i>				
Fire and rescue	\$2,870	\$4,176	\$2,950	-29.4%
Law enforcement	724	684	828	21.1
Emergency communication systems	2,025	2,227	2,316	4.0
Plans and preparedness	1,339	1,576	1,477	-6.3
Earthquake preparedness	1,421	2,253	2,125	-5.7
Training	1,662	2,823	2,883	2.1
Hazardous materials and radiological planning ..	1,918	2,595	3,218	24.0
Technical assistance	1,449	1,467	1,531	4.4
Disaster assistance	55,467	111,574	43,794	-60.7
Administration (distributed)	(1,631)	(1,656)	(-1,687)	1.9
Totals	\$68,875	\$129,375	\$61,122	-52.8%
<i>Personnel-Years</i>				
Fire and rescue	25.0	25.0	25.0	—%
Law enforcement	5.8	5.8	6.7	15.5
Emergency communication systems	15.3	16.7	16.7	—
Plans and preparedness	19.5	19.5	19.5	—
Earthquake preparedness	10.7	18.1	21.5	18.8
Training	22.7	27.5	31.5	14.5
Hazardous materials and radiological planning ..	17.8	29.2	42.5	45.5
Technical assistance	17.7	18.6	18.6	—
Disaster assistance	12.9	12.9	12.9	—
Administration (distributed)	29.0	29.0	29.0	—
Totals	176.4	202.3	223.9	10.7%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following program changes which are not discussed elsewhere in this analysis:

- An augmentation of \$469,000 from the General Fund for equipment, and facilities operations and repair.
- An increase of \$171,000 from General Fund for three positions to implement Ch 1243/87, which extends the Southern California Earthquake Preparedness Project into San Diego and Imperial Counties.

- An increase of \$406,000 in federal funds for four positions in the federally supported hazardous materials training programs and the Regional Calibration Laboratory.
- An increase of \$200,000 in reimbursements from nuclear power plants for the implementation of Ch 450/87.
- An increase of \$146,000 in reimbursements from the California Specialized Training Institute for two positions to fulfill the requirements of Ch 1503/86, which requires OES to develop specified curriculum and standards for hazardous substance emergency response.

Legislation Needed to Implement Toxic Chemical Program

We recommend that the Office of Emergency Services (OES) report to the fiscal committees, prior to budget hearings, on (1) how it intends to fund the provisions of Title III of the Superfund Amendments and Reauthorization Act of 1986, given that OES does not have the legal authority to collect the reimbursements which the budget anticipates will be received in 1988-89 to support the program, and (2) an alternative financing proposal in the event that legislation is not enacted to authorize the collection of reimbursements for support of the program.

We further recommend enactment of legislation that would authorize OES to collect the necessary fees from regulated businesses to cover the state and local costs of the implementation of SARA.

The budget proposes expenditure of \$1.1 million in reimbursements to support the requirements of federal Title III of the Superfund Amendments and Reauthorization Act of 1986 (SARA) in 1988-89. These reimbursements are anticipated to come from fees assessed on the businesses that are regulated under the provisions of Title III. However, our analysis indicates that Title III does not contain any funding or any revenue-generating fee structure for reimbursement of the costs of implementation. Further, existing state law does not allow OES to collect the fees proposed for support of the implementation of Title III.

Requirements of Title III. Title III of SARA generally establishes the public's right to know about the use or release of certain toxic chemicals by regulated businesses in a particular area. Title III mandates that each state (1) develop a statewide emergency response commission (2) provide for the development of district (or regional) emergency response plans in the event of a serious chemical spill or release, and (3) provide for the coordination of access to information from regulated businesses. Businesses that use or store any of the 402 acutely hazardous chemicals—as defined by the federal Environmental Protection Agency—are required to file information about these chemicals and any accidental or intentional releases with the local planning committee. The local planning committee then reports this information back to the statewide emergency response commission.

Current-Year Implementation. In fulfillment of these requirements the administration has formed the required emergency response commission, designated the local planning districts, and selected members for the local planning committees. The state's emergency response commission is called the Chemical Emergency Planning and Response Commission (CEPRC). It is responsible for coordinating and reviewing the information collection and emergency planning activities of the local planning committees.

OFFICE OF EMERGENCY SERVICES—Continued

The CEPRC is comprised of executive personnel from the following departments: California Highway Patrol, Health Services, Food and Agriculture, Fish and Game, State Water Resources Control Board, and the State Fire Marshal. The OES is the lead agency on the commission. Support for the commission in the current year is from reimbursements from member departments.

Plans for Budget Year Implementation. OES advises that it plans to support the activities of the CEPRC in 1988-89 through assessment of fees on regulated businesses. In order to assess these fees, however, legislation must be enacted to give OES the authority to assess and collect them. At the time this analysis was prepared no such legislation had been drafted or introduced. Further, OES did not have a contingency plan for support of this program in the event that legislation was not enacted as needed.

Concerns With the Budget Proposal. While we understand the need to implement Title III to ensure state compliance with federal law, we are concerned with OES's proposal for three reasons. First, the budget proposal is premature because legislation has not yet been enacted to allow OES to collect the fees necessary for implementation.

Second, the federal law clearly requires participation of local governments in the programs under Title III. The local planning committees are responsible for collection and storage of the information filed by the regulated businesses as well as the dissemination of this information to the public. While the budget proposal to implement Title III includes an amount estimated as necessary to support the state's activities, OES indicates that it has not considered the costs that will be incurred by local governments for participation on the local committees. Because local participation is critical to Title III, OES should determine the amount of funding that will be necessary to support local participation in Title III and build those costs into any proposed fee structure.

Third, there may be areas of duplication between Title III and the toxic reporting program California currently has in effect. The state program mandates local control and implementation, whereas, the federal program mandates state control through the CEPRC and implementation through the development of emergency response plans at the district, or regional level. The state program also emphasizes the establishment of minimum standards for hazardous materials planning by businesses, county and some city governments.

Although the state's program is significantly different from Title III, there are some activities that may be duplicated by the implementation of both programs. These include: notification of releases; specified lists of emergency response equipment; some rescue and planning procedures; and the proposed fee assessment. The budget proposal for Title III did not fully consider these areas of possible overlap. At the time this analysis was prepared, OES was aware of the possibility of overlap and was beginning to look for ways to avoid duplication as well as combine some of the requirements of current state law and Title III without weakening either program. If OES can find efficiencies in this way, the cost of implementing Title III may be less than the amount anticipated in the budget proposal.

Because OES lacks the authority to assess fees that are budgeted for 1988-89, we recommend that OES report to the fiscal committees, prior to budget hearings, on how it intends to support the requirements of Title

III of SARA. Because of the state's responsibility in the area of toxic chemical regulation and public safety, the report to the fiscal committees should also include an alternative financing plan for the support of Title III in the event that legislation authorizing the collection of fees is not enacted.

We also recommend that the Office of Emergency Services seek enactment of legislation to bring the state into compliance with federal law. Specifically, this legislation should (1) authorize OES to assess and collect the necessary fees, (2) consider the costs of local governments for their participation in Title III, and (3) consider combining selected elements of the existing state program in this area with the federal program.

Disaster Assistance for Earthquake and Forest Fire Relief

We recommend that the Office of Emergency Services report to the fiscal committees, prior to budget hearings, on the status of the disaster relief provided during the First Extraordinary Session of 1987.

In November 1987 the Governor called an Extraordinary Session of the Legislature in order to enact legislation that would address the losses incurred by state and local agencies, as well as private citizens, due to the forest fires and the southern California earthquake of October 1987. In response to this action the Legislature passed, and the Governor signed, seven pieces of legislation which appropriated \$88.8 million in disaster assistance. The following is a brief description of the statutes enacted during the session.

Chapter 1x continuously appropriates \$15.3 million to the 1987 Higher Education Earthquake Account for allocation to the Trustees of the California State University (\$13.5 million) and to the Board of Governors of the California Community Colleges (\$1.8 million) for relief assistance for losses or expenses related to earthquake activity that began on October 1, 1987.

Chapter 2x appropriated a total of \$17.5 million to the Department of Social Services (\$10 million) for a supplement to the federal Individual and Family Grant Program (IFGP) and to the Department of Housing and Community Development (\$7.5 million) to make deferred-payment loans available for owner-occupied/single family dwellings that suffered damage due to the October earthquake. Any funds for the IFGP that are unencumbered by July 1, 1988 are to revert to the loan program.

Chapter 3x appropriated to the OES for allocation by local governments "an amount sufficient to award grants" to eligible nonprofit agencies that incurred damage in the October earthquake. This statute also allows taxpayers to deduct losses from the 1987 forest fires and residential losses from the earthquake from their personal income tax for 1987. These losses may be carried forward to each of the five taxable years succeeding the year of the loss if the loss exceeds the taxable income of the taxpayer in the loss year.

Chapter 4x appropriated \$7.5 million to the Department of Housing and Community Development to make deferred-payment loans available for damage suffered by rental housing and to provide relocation assistance to displaced tenants.

Chapter 5x amended existing tax law to exclude interest income on any bond issued by the state or local governments as an item of tax preference for purposes of calculating the alternative minimum tax on individuals,

OFFICE OF EMERGENCY SERVICES—Continued

banks, and corporations. Chapter 5x expressed the Legislature's intent to facilitate the sale of bonds for the construction and reconstruction of housing and public facilities which were damaged or destroyed during the earthquake and aftershocks of October 1987 in Los Angeles and Orange Counties.

Chapter 6x allows eligible taxpayers who experienced damage due to the earthquake or fires of 1987 to apply for a deferral of the payment of specified property taxes in 1987-88. The chapter appropriates \$2 million to cover any loss incurred by the affected counties due to the provisions of this chapter. Chapter 6x also requires counties which have received deferral claims to remit to the State Controller, by December 1, 1988 the amount equal to the allocation previously received, less the amount of the property tax revenue lost in 1987-88 as a result of reduced assessments of property which was damaged or destroyed by the forest fires or the October earthquake of 1987.

Chapter 7x established the Southern California Earthquake Account and appropriated to it \$46.5 million. Of this amount, \$34.5 million is for assistance to local agencies; \$1.8 million is for assistance to state agencies; \$4.2 million is allocated to the Superintendent of Public Instruction to match federal funds provided to public school districts or county offices of education; and another \$6 million is to go to the Superintendent of Public Instruction for an additional allocation to public school districts or county offices of education. The chapter specifies that these funds will be available for expenditure until June 30, 1990.

Legislature Should be Informed of Status of Relief Efforts

Based on the magnitude and complexity of the new earthquake and forest fire relief programs, and due to the state's recent experience in providing disaster assistance in response to the 1986 northern California floods, in our judgment it would be useful for the administration to report to the Legislature on the current status of the relief programs. Specifically, for the 1986 floods over \$40 million of the \$115 million provided for disaster relief was not spent, and was reverted to the General Fund by the 1987 Budget Act. Moreover, the administration of some of the relief programs was determined by the Auditor General to be out of compliance with the provisions and intent of the law.

In a situation that was similar to that which occurred during the floods of 1986, the estimates of damages and losses incurred due to the earthquake of 1987 were preliminary when the Extraordinary Session was held. At that time, OES understandably was unable to compile accurate data on the number of people displaced by the earthquake, the amount of personal and property damage to residents of the area, or the amount of damage to public buildings and facilities. An accurate assessment of damage takes many months to develop.

Accordingly, we recommend that OES report to the fiscal committees, prior to budget hearings on the implementation status of the programs that were created or augmented because of the damages incurred from the forest fires and the earthquake of 1987. Specifically, this report should include the most recent estimate of the amount of state funds that will be necessary to assist in the recovery from the effects of the forest fires and earthquakes of 1987, the amount of expenditures in each of the programs to date, the amount of federal funds available, an updated estimate of

damages incurred, the number of applicants for the various programs, and an explanation of any delays or problems in program implementation.

OFFICE OF EMERGENCY SERVICES—CAPITAL OUTLAY

Item 0690-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. LJE 50

Requested 1988-89.....	\$150,000
Recommended reduction.....	56,000

ANALYSIS AND RECOMMENDATIONS

Fire and Life Safety Modifications: Headquarters Building

We recommend a reduction of \$56,000 to reduce the project cost to the amount estimated by the Office of the State Architect (OSA).

The budget proposes \$150,000 from the Special Account for Capital Outlay (SAFCO) for two projects at the headquarters building of the Office of Emergency Services: (1) construction of individual direct exiting, and (2) installation of smoke detector/automatic fan shutdown devices. The OSA has estimated that these projects should cost \$94,000.

Our analysis indicates, and the Office of Emergency Services agrees, that the OSA estimate covers all elements of the proposed projects. We understand that the Department of Finance received the OSA estimate too late to change the \$150,000 figure shown in the budget.

OFFICE OF THE LIEUTENANT GOVERNOR

Item 0750 from the General
Fund

Budget p. LJE 50

Requested 1988-89.....	\$1,567,000
Estimated 1987-88	1,538,000
Actual 1986-87	1,501,000
Requested increase (excluding amount for salary increases) \$29,000 (+1.9 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0750-001-001—Support	General	\$1,497,000
Reimbursements		70,000
Total		\$1,567,000

OFFICE OF THE LIEUTENANT GOVERNOR—Continued**GENERAL PROGRAM STATEMENT**

The Lieutenant Governor assumes the responsibilities of chief executive in the absence of the Governor. He also serves as the presiding officer of the Senate, voting only in the case of a tie vote. In addition, the Lieutenant Governor serves on numerous commissions and boards, and performs special tasks as assigned by the Governor.

The Lieutenant Governor's office has 23 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$1,567,000 (\$1,497,000 from the General Fund and \$70,000 from reimbursements) for the support of the Lieutenant Governor's Office during 1988-89. This is an increase of \$29,000, or 1.9 percent, over estimated current-year expenditures. The proposed increase reflects a total of \$55,000 for increased personal services costs, which is partially offset by a net reduction of \$26,000 in operating expenses. The budget proposes to add a half-time accountant position to provide fiscal services currently contracted for with the Department of General Services.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our analysis indicates that the expenditures proposed for the office are reasonable.

DEPARTMENT OF JUSTICE

Item 0820 from the General
Fund and various funds

Budget p. LJE 51

Requested 1988-89.....	\$236,574,000
Estimated 1987-88	230,466,000
Actual 1986-87	209,655,000
Requested increase (excluding amount for salary increases) \$6,108,000 (+2.7 percent)	
Total recommended reduction.....	420,000
Recommendation pending	1,900,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0820-001-001—Support	General	\$158,226,000
0820-001-012—Antitrust	Attorney General's Anti-Trust Account, General	429,000
0820-001-014—Toxic substance	Hazardous Waste Control Ac- count, General	969,000
0820-001-017—Fingerprints	Fingerprint Fees, General	12,499,000
0820-001-044—Data center support	Motor Vehicle Account, State Transportation	14,643,000

0820-001-455—Toxic substance	Hazardous Substance Account, General	723,000
0820-001-460—Handgun control	Dealers' Record of Sale Special Account, General	901,000
0820-001-469—Law enforcement	Narcotics Assistance and Relinquishment by Criminal Offender, General	482,000
0820-001-477—Gaming registration	Gaming Registration Fee Account, General	286,000
0820-001-890—Support	Federal Trust	8,540,000
0820-001-942—Support	Federal Asset Forfeiture Account, Special Deposit	659,000
0820-101-001—Local assistance	General	1,310,000
0810-101-469—Local assistance	Narcotics Assistance and Relinquishment by Criminal Offender, General	500,000
Political Reform Act	—	318,000
Reimbursements	—	36,089,000
Total		\$236,574,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Public Rights Workload. Recommend that the department report during budget hearings on its ability to deal with major litigation generated by *Atlantic Richfield Co. vs. State Lands Commission et al.* within its existing resources. 52
2. Reimbursement for Legal Work in Conflict of Interest Cases. Recommend enactment of legislation providing for the reimbursement of legal work performed by the Attorney General on behalf of district attorneys who are disqualified from handling local cases due to conflicts of interest. 53
3. Genetic Identification Program. Recommend supplemental language directing the department to provide Legislature with specified reports on DNA Identification Program. 55
4. Facilities Proposal. Withhold recommendation on \$1.9 million requested for facilities operations pending receipt and review of additional information about the department's proposal. 56
5. *Technical Recommendation. Reduce Item 0820-001-017 by \$397,000 and Item 0820-001-001 by \$23,000.* Recommend a reduction to eliminate overbudgeting. 58

GENERAL PROGRAM STATEMENT

Under the direction of the Attorney General, the Department of Justice enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies. Its functions presently are carried out through six programs—Executive and Administration, Special Programs, Civil Law, Criminal Law, Public Rights, and Law Enforcement.

On July 1, 1988, the department plans to reorganize its existing programs by abolishing Special Programs and establishing Executive Programs. In addition, various units will be redirected among the Executive and Administration, Executive, and Criminal Programs.

The department's legal programs are staffed with approximately 813 personnel-years of attorneys, paralegals, auditors, and related support

DEPARTMENT OF JUSTICE—Continued

personnel. The Civil Law Division provides legal representation for most state agencies, boards, and commissions. The Criminal Law Division represents the state in all criminal matters before the appellate and supreme courts. The Public Rights Division provides legal services in the areas of Civil Rights and Charitable Trust, Natural Resources, Environmental Law, Antitrust, Land Law, and Consumer Law.

The law enforcement support program is the department's largest and has a staff of approximately 1,911 personnel-years. It (1) provides investigative assistance to local law enforcement agencies, (2) operates a system of criminalistics laboratories throughout the state, (3) maintains centralized criminal history records and fingerprint files, and (4) operates a 24-hour-a-day communications center which provides criminal record information to law enforcement agencies throughout the state.

The department has a total of 3,458.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$236.6 million from the General Fund, various special funds, federal funds and reimbursements for the Department of Justice in 1988-89. This is \$6.1 million, or 2.7 percent, more than estimated current-year expenditures.

The proposed General Fund appropriations for the department in 1988-89 total \$159.9 million. This represents an increase of \$1.8 million, or 1.1 percent, above estimated current-year expenditures.

Table 1 summarizes the department's spending program for 1988-89, by fund source, and Table 2 presents a summary of the department's total expenditures, by program.

Table 1
Department of Justice
Funding Source Summary
1986-87 through 1988-89
(dollars in thousands)

<i>Funding Source</i>	<i>Actual 1986-87</i>	<i>Est. 1987-88</i>	<i>Prop. 1988-89</i>	<i>Percent Change From 1987-88</i>
General Fund	\$149,202	\$158,050	\$159,854	1.1%
Attorney General's Anti-Trust Account	376	413	429	3.9
Hazardous Waste Control Account	591	935	969	3.6
Fingerprint Fees Account	10,014	11,614	12,499	7.6
Motor Vehicle Account (State Transportation Fund)	13,019	14,247	14,643	2.8
Hazardous Substance Account	525	685	723	5.5
Dealers' Record of Sale Account	814	887	901	1.6
NARCO Fund Account	437	975	982	0.7
Gaming Registration Account	302	498	286	-42.6
Federal Trust Fund	6,924	8,421	8,540	1.4
Federal Asset Forfeiture Account, Special De- posit Fund	—	724	659	-9.0
Reimbursements	27,451	33,017	36,089	9.3
Total Funding	\$209,655	\$230,466	\$236,574	2.7%

Table 2
Department of Justice
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>			<i>Percent Increase From 1987-88</i>
	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	
	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	
Executive/Administration ^a	583.1	668.5	682.4	(\$39,489)	(\$43,493)	(\$45,810)	5.3%
Special Programs ^b	48.4	66.4	—	5,897	6,846	—	-100.0
Executive Programs ^c	—	—	45.5	—	—	4,231	— ^d
Civil Law	237.1	265.3	278.0	29,853	35,055	37,866	8.0
Criminal Law	332.7	384.2	422.6	32,145	38,046	43,230	13.6
Public Rights	142.7	163.3	168.3	18,185	20,099	20,759	3.3
Law Enforcement	1,733.9	1,910.8	1,991.9	123,575	130,420	130,488	0.1
Totals	3,077.9	3,458.5	3,588.7	\$209,655	\$230,466	\$236,574	2.7%

^a Amounts in parenthesis are distributed to other programs.

^b Program will be abolished on July 1, 1988.

^c Program will be established on July 1, 1988.

^d Not a meaningful figure.

Table 3 identifies (by funding source) the changes in the department's expenditure levels proposed for 1988-89.

Table 3
Department of Justice
Proposed 1987-88 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Special Funds ^a</i>	<i>Federal Funds</i>	<i>Reimbursements</i>	<i>Total</i>
1987-88 Expenditures (Revised)	\$158,050	\$30,978	\$8,421	\$33,017	\$230,466
<i>Workload Changes</i>					
Non-Criminal identification staffing	—	\$995	—	—	\$995
Criminal identification staffing	\$1,363	—	—	—	1,363
Government law workload	2,407	—	—	\$471	2,878
Correctional law workload	1,043	—	—	—	1,043
Investigation staffing	221	—	—	—	221
Tort section workload	454	—	—	—	454
Consumer law workload	209	—	—	—	209
Charitable trust workload	252	—	—	—	252
Medi-Cal fraud workload	28	—	84	—	112
Health, education, and welfare	46	—	—	1,317	1,363
Missing/unidentified persons	192	—	—	—	192
Bureau of Justice Information Services	100	—	—	—	100
Civil rights workload	121	—	—	—	121
Nursing home abuse	245	—	734	—	979
Limited term programs	-1,543	-37	—	-147	-1,727
Subtotals	(\$5,138)	(\$958)	(\$818)	(\$1,641)	(\$8,555)
<i>Cost Adjustments</i>					
One-time cost reductions	-\$8,512	-\$1,651	-\$840	-\$1,581	-\$12,584
Expiring legislation	-242	—	—	—	-242
Full-year cost adjustments	281	—	—	854	1,135
Price increase	1,035	229	32	118	1,414
Employee compensation	2,019	405	109	430	2,963
Other base adjustments	-71	-16	—	-34	-121
Subtotals	(-\$5,490)	(-\$1,033)	(-\$699)	(-\$213)	(-\$7,435)

DEPARTMENT OF JUSTICE—Continued*Program Adjustments*

Cal-ID telecommunications.....	\$212	\$208	—	—	\$420
Modular work stations	—	498	—	—	498
Automation feasibility study	—	374	—	—	374
Cal-ID training	145	—	—	—	145
Source document automation	—	150	—	—	150
Criminalistics Institute.....	991	—	—	—	991
Data center contract maintenance.....	79	96	—	—	175
Parent Locator Service	—	—	—	\$162	162
Triplicate prescription	—	—	—	1,431	1,431
Automated child abuse	292	—	—	—	292
Law library	50	—	—	—	50
Special prosecutions staff	63	—	—	—	63
Gaming registration unit	105	-210	—	—	-105
Attorney ratio increase	146	15	—	51	212
Master plan & utilization study	73	57	—	—	130
Subtotals	(\$2,156)	(\$1,188)	(\$0)	(\$1,644)	(\$4,988)
1988-89 Expenditures (Proposed).....	\$159,854	\$32,091	\$8,540	\$36,089	\$236,574
Changes from 1987-88					
Amount.....	\$1,804	\$1,113	\$119	\$3,072	\$6,108
Percentage	1.1%	3.6%	1.4%	9.3%	2.7%

* Includes special accounts in the General Fund.

LEGAL DIVISIONS

For 1988-89, the department's legal divisions request a net increase of \$8.7 million (\$6.3 million from the General Fund, and the remainder from federal funds, special funds, and reimbursements) over estimated current-year expenditures. Workload driven augmentations total approximately \$7.4 million and are offset by \$1.7 million in reductions due to limited-term programs which are not continued into the budget year. We recommend approval of the following significant requests which are not discussed elsewhere:

- An increase of \$3.3 million from the General Fund and reimbursements in the Civil Law Division for workload increases in the State Government Section, and for continuation of the Stringfellow tort litigation.
- A total of \$1.1 million from the General Fund and federal funds for the Medi-Cal Fraud Section of the Criminal Law Division. This increase is due to additional workload, and the implementation of the Nursing Home Abuse Program, which was established by Ch 637/87 (SB 526).
- An additional \$582,000 from the General Fund for the Public Rights Division for workload increases in the Consumer Law, and Charitable Trust/Civil Rights Enforcement Sections.
- Augmentations, totaling \$211,000 to increase by 10 percent the number of Deputy Attorney General positions in the highest classification range.

Major Litigation Workload Not Addressed in Budget

We recommend that the department report to the Legislature during budget hearings on its ability to deal with the significant litigation

generated by the claim filed by the Atlantic Richfield Company against the State Lands Commission et al., within its existing resources.

In September 1987, the Atlantic Richfield Company (ARCO) filed a claim against the state in Los Angeles Superior Court based on the State Lands Commission's denial of ARCO's plan to develop five state oil and gas leases in Santa Barbara County. The commission's decision was based on the assertion that development would have an adverse environmental impact, including potential damage to the University of California marine research facilities, and negative visual impact. Please see our analysis of Item 3560 for further discussion of this case.

The amount of ARCO's claim totals \$793 million, plus interest at a rate of \$54,795 per day commencing on May 27, 1987. According to ARCO, the amount claimed represents the extent of its damages if the project were to be permanently blocked. The interest of \$54,795 per day is ARCO's valuation of the daily cost it incurs for the delay in the development of the five leases.

The department advises that the nature of this litigation is complex and likely will require significant attorney and external consultant services. Our review, however, indicates that no additional funding is proposed in the 1988-89 Governor's Budget to deal with this litigation.

While the state's liability in this legal action is uncertain, in our judgment the magnitude of the claim suggests that the state should pursue an active and comprehensive defense. Accordingly, we recommend that the department report to the Legislature during budget hearings on its ability to defend the state against the potential liability arising from this litigation within its existing resources.

Bifurcated Reimbursement System Needs Revision

We recommend the enactment of legislation to require that counties reimburse the state for legal work performed by the Attorney General on behalf of district attorneys who are disqualified from handling local cases due to conflicts of interest.

Background. Under California law, district attorneys are responsible for prosecuting persons who commit public offenses, on behalf of the people of each county. However, there are several circumstances in which the state Attorney General takes over prosecutorial responsibilities for counties. First, the department performs legal work for counties in cases where state intervention is necessary to ensure that the law is being adequately enforced. For example, the department advises that in 1977 and 1986, it intervened in Sierra County when the county was left without a prosecutor due to the resignation of Sierra County's District Attorney. In such cases, the county reimburses the department for the costs of prosecution.

Second, current law specifies that the Attorney General is authorized to employ special counsel to conduct local prosecutions if a district attorney is disqualified from prosecuting criminal cases within the county. Generally, district attorneys are disqualified from prosecuting criminal cases because of conflicts of interest. Some conflicts of interest occur in situations such as when an employee in the district attorney's office is charged with a crime, or when the county prosecuting attorney had a defense practice prior to employment in the district attorney's office. In such conflict of interest cases, the law requires the state to pay for the costs of the legal work. In practice, the department performs the

DEPARTMENT OF JUSTICE—Continued

legal work and the state pays for the costs of prosecution through its annual appropriations for support of the department.

State Pays More Than \$1 Million On Conflict Cases Annually. According to the department, over the last three-year period, it has incurred General Fund costs of approximately \$4.5 million to perform legal work in conflict of interest cases. Table 4 shows the number of trials and investigations handled by the state, and the costs the state has incurred for these cases from 1984-85 through 1986-87. The number of trials and investigations shown in Table 4 are not mutually exclusive. An investigation may become a trial if criminal charges are filed. In this situation, the same case may be shown as both a trial and an investigation.

Table 4
Department of Justice
Number of District Attorney Conflict of Interest Cases
1984-85 through 1986-87
(dollars in millions)

	<i>Investigations</i>	<i>Trials</i>	<i>General Fund Cost to the Department</i>
1984-85.....	85	206	\$1.4
1985-86.....	91	182	1.3
1986-87.....	96	244	1.8
Totals	272	632	\$4.5

State Reimbursement Policy Should be Reconsidered. We are concerned about the inconsistencies of the present system for paying for prosecution costs. While the state may recover its costs from counties for certain legal work it performs on their behalf, the state must pay for legal work that is the responsibility of the counties in conflict of interest cases. Moreover, it is unclear why the state should bear the cost of prosecuting an employee of a district attorney's office if he or she is accused of a crime, while the county would bear the costs of prosecuting an employee of any other county office or any other person convicted of a crime in the county.

In our judgment, it would be appropriate to modify the law to develop a more consistent reimbursement policy by specifying that counties must reimburse the state for all or a portion of the costs of performing legal work in conflict of interest cases. Since these cases would be prosecuted by a district attorney under normal circumstances, attorney fees for what is essentially a county responsibility would be recovered by the state. Based on the trend in the last three years, this recommendation could result in a General Fund savings of more than \$1 million annually, depending on the actual statutory changes adopted.

Accordingly, we recommend that the Legislature enact legislation requiring counties to reimburse the state for the legal work it performs in conflict of interest cases, as they do for other legal work performed by the state on their behalf.

DIVISION OF LAW ENFORCEMENT

The Division of Law Enforcement requests a net increase of \$68,000 over estimated current-year expenditures for 1988-89. Workload driven augmentations total \$2.9 million, while program adjustments result in

increases totaling \$4.8 million. The increase in the division's budget appears much lower than it would otherwise be because of one-time current-year reductions totaling \$5.5 million related to the California Identification System (Cal-ID) project, and over \$2 million in equipment purchases.

We recommend approval of the following significant program changes which are not discussed elsewhere:

- A \$1.4 million General Fund increase for workload changes in the Criminal Identification program of the Bureau of Criminal Identification and Information.
- A total of \$565,000 requested from the General Fund and the Fingerprint Fees Account in the General Fund for Cal-ID telecommunication lines and training.
- A one-time augmentation of \$1.4 million in reimbursements for implementation of a new procedure to eliminate fraudulent uses of triplicate prescription blanks. Triplicate prescriptions are used for highly addictive drugs.
- A \$374,000 increase from the Fingerprint Fees Account in the General Fund for a feasibility study on eliminating the manual processing of data and for controlling the document flow in the Automated Criminal History System.
- An additional \$292,000 from the General Fund to accelerate the automation of the Automated Child Abuse System.

Report to Legislature Needed on Genetic Identification Technology

We recommend the adoption of supplemental report language directing the department to submit for legislative review specified reports which it plans to prepare on genetic identification technology.

The department requests \$80,000 from the General Fund to enable its California Criminalistics Institute (CCI) to conduct a feasibility study and written reports examining existing Deoxyribonucleic Acid (DNA) genetic identification technology. This institute is authorized by Chapter 1040, Statutes of 1986, to facilitate a comprehensive and coordinated approach to meet the high technology forensic needs of crime laboratories, and provide statewide upgrading of advanced laboratory services incorporating new and developing technologies.

DNA identification is often referred to as "genetic fingerprinting." While this label suggests that the technology is similar to fingerprint identification, DNA analysis reveals more information than any fingerprint. The genetic material can identify an individual and additionally disclose the individual's hair color, eye color, race, gender, and propensity for diseases.

There are many unresolved issues about the use of this technology in forensics as well as in other areas, such as medicine and insurance. Questions about the confidentiality of data and individuals' right to refuse to participate in "genetic fingerprinting" have not yet been resolved. It is our understanding that presently, this technology is being applied to civil paternity and maternity suits, but has not been tested for admissibility as evidence in criminal proceedings.

The amount requested by the department includes \$52,000 for travel out-of-state and out-of-country to learn and to evaluate different techniques and products for DNA analysis. In addition, the department requests \$28,000 for a programmer to prepare and to maintain the Expert

DEPARTMENT OF JUSTICE—Continued

System-Artificial Intelligence programs in the evaluation/implementation phase, and later in the ongoing production phase. The department intends to formulate statewide long-term scientific, fiscal, and legislative proposals for implementation beginning in 1989-90.

Department's Reporting Plans. In the budget request, the department emphasizes that the program's objective is to explore DNA technology from a forensic perspective and not to conduct research. It believes that the technique has the potential to have a major impact in sexual assault cases since DNA analysis would enable law enforcement personnel to obtain a positive identification in cases where a suspect has already been identified.

The department states that a written report will be made to the Attorney General and his DNA identification advisory board in June 1989. Meanwhile, quarterly reports in September 1988 and January 1989 are planned to keep the Attorney General informed of the program's activities. The following is a list of issues the department has identified for inclusion in the reports: (1) additional research, if needed, (2) appropriate analytical techniques, (3) standardization of methodology for data sharing and exploration of a centralized data bank, (4) validation of techniques for legal acceptance into courts of law, (5) appropriate staffing levels and site selection for DNA testing, (6) funding requirements, (7) relevant legislation, and (8) proposed implementation schedule.

Reporting Requirements Should Be Extended. Given the broad policy implications of this technology and the potentially major costs the state could incur in later years to implement a DNA identification program, we recommend that the department provide its written reports to the Legislature as well. Accordingly, we recommend that the Legislature adopt the following supplemental report language:

The department shall submit to the appropriate legislative policy and fiscal committees, and the Joint Legislative Budget Committee, the written reports on the DNA Identification Program which it intends to submit to the Attorney General and his DNA identification advisory board. Quarterly reports shall be submitted in September 1988 and January 1989, and a final report shall be submitted by June 1989.

Rent Increase Proposal Warrants Further Review

We recommend that, prior to budget hearings, the department report to the fiscal subcommittees on (1) its plan for financing \$1.9 million of new facilities operations proposals with the \$285,000 budgeted for that purpose, and (2) its comprehensive plan for expanding the space available for its crime laboratory system. Pending our review of this information, we withhold recommendation on \$1.9 million of the amount requested from various funds for facilities operations.

The department requests \$14.2 million from various funds for facilities operations in 1988-89. This is an increase of \$285,000 above estimated current-year expenditures. To support this request, the department submitted information to the Legislature that indicates it is requesting \$1.9 million more for facilities operations in the budget year than it estimates it will spend in the current year, or *\$1.6 million greater than the amount included in the 1988-89 Budget Bill.*

Department Intends to Redirect Funds to Finance Facilities Operations. The department indicates that the unfunded portion of the increase for facilities operations (over \$1.3 million) will have to be absorbed in other areas of the budget. The department, however, was unable to identify which budgeted expenditures it intends to reduce in order to finance its facilities proposals. We are concerned that the department is unable to identify the source of the funds it intends to use for this purpose, and question how an increase of this magnitude can be absorbed without affecting the operations of other legislatively-approved activities. Moreover, if it is unable to accomplish the redirection, the department may have to request a deficiency appropriation in the budget year.

In order to ensure that the Legislature receives the information it needs to oversee the expenditure of funds appropriated for support of departmental operations, we recommend that prior to budget hearings, the department report to the Legislature of its specific plans to absorb the increased costs.

Laboratory Space Needs Remain To Be Justified. The department's supporting documents indicate that the largest portion (\$792,000) of the \$1.9 million increase is needed for expansion of the DOJ's 12 crime laboratories. These laboratories, which are operated by the Bureau of Forensic Services, provide various services to law enforcement agencies, district attorneys, and the courts. These services include examination of evidence, analysis of documents for authenticity, analysis of latent fingerprints, photographic support at crime scenes, and analysis of controlled substances and blood alcohol.

The department advises that there is a need for additional space in laboratories throughout the state. Our analysis indicates, however, that the department has not presented adequate justification to support this request. In addition, in October 1987, the Department of General Services (DGS) submitted a request to the Legislature to lease additional laboratory space for a crime laboratory in Salinas, pursuant to Government Code Section 13332.10. The Chairman of the Joint Legislative Budget Committee raised a number of concerns about the request and asked DGS to assist the Department of Justice in reporting to the Legislature, prior to budget hearings, on the space needs of all the crime laboratories. At the time this analysis was prepared, the information was not available.

Analyst's Recommendation. In our judgment, in order to assess the department's request, additional data is needed to determine: (1) how the department will absorb a large increase in facilities operations costs within existing resources, and (2) whether the proposed laboratory relocations and space needs are justified. Consequently, we recommend that the department report to the fiscal subcommittees, prior to budget hearings, on how it intends to absorb the proposed increase in facilities operations costs, and on its comprehensive plan for expanding the space available to its crime laboratory system.

The report should identify the specific programs which will be affected if the costs of facilities operations have to be absorbed, detailed descriptions of the existing and proposed space allocations of the crime labs, the plans to meet the space needs in 1988-89 and beyond, and the alternatives the department considered to meet its space needs.

DEPARTMENT OF JUSTICE—Continued**Technical Budgeting Issues**

We recommend a reduction of \$420,000 to eliminate overbudgeting as follows (reduce Item 0820-001-017 by \$397,000 and reduce Item 0820-001-001 by \$23,000):

- The department requests \$995,000 from the Fingerprint Fees Account for workload growth in the Non-Criminal Identification Program. This request is overbudgeted for two reasons. First, it includes \$255,000 for equipment that already was purchased in the current year. Second, the department plans to reclassify downwards 15.5 positions by October 1988 due to the changing nature of the workload, which will result in a savings of \$142,000 for salaries. The budget does not account for this savings. Thus, we recommend that Item 0820-001-017 be reduced by a total of \$397,000.
- The department requests \$23,000 from the General Fund (1) for equipment that was purchased in the current year, and (2) for furniture that can be purchased for less than the amount budgeted. Consequently, we recommend a General Fund reduction of \$23,000 from Item 0820-001-001.

DEPARTMENT OF JUSTICE—CAPITAL OUTLAY

Item 0820-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. LJE 76

Requested 1988-89	\$761,000
Recommended approval	424,000
Recommendation pending	337,000

(1) Redding—Forensic Services Laboratory

We withhold recommendation on the amount requested for alterations to the Forensic Services Laboratory in Redding pending receipt of a detailed cost estimate, preliminary plans and project schedule.

The budget requests \$337,000 for construction funds for remodeling and expanding the Forensic Services Laboratory in Redding. The Legislature appropriated \$30,000 in the 1987 Budget Act for preliminary plans and working drawings for this project. Data submitted by the department in the Governor's 1987-88 Budget indicated that preliminary plans would be completed by September 1987. The Legislature adopted supplemental report language in the 1987 Budget Act stating its intent that these plans be completed no later than November 1, 1987. The department now indicates that preliminary plans will not be ready until late February or March 1988. Consequently, the department is unable at this time to provide a detailed cost estimate based on those plans. In addition, the department has not provided a schedule for working drawings or construction. Without the above information, we have no basis for recommending any amount for appropriation and thus withhold recommendation on the \$337,000 requested under Item 0820-301-036.

(2) **Sacramento—California Criminalistics Institute, Alterations and Renovations**

We recommend approval.

The budget requests \$348,000 for construction funds for alterations to 1,100 square feet at the department's building at 4949 Broadway in Sacramento. The alterations are needed to provide training and laboratory facilities for the California Criminalistics Institute established by Ch 1040/86 (SB 2390). Chapter 1040 appropriated initial funding for the institute, \$175,000 of which was allocated by the department for the alteration project. The 1987 Budget Act appropriated \$67,000 for working drawings. With the budget request, the total amount of funding proposed for the alteration project is \$590,000, which is equal to the estimated total project cost prepared by the Department of General Services, Office of Project Development and Management.

(3) **Minor projects**

We recommend approval.

We recommend approval of the \$76,000 requested in Item 0820-301-036 for the installation of a back-up water supply at the department's 4949 Broadway building in Sacramento. The back-up supply is needed to insure continuous operation of the air conditioning system used to cool the rooms which house computer operations for the California Law Enforcement Telecommunications System and the Criminal Justice Information System.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which defines the scope and cost elements of each of the projects approved under this item. This would be consistent with actions taken by the Legislature in prior years.

DEPARTMENT OF JUSTICE—REVERSION

Item 0820-495 to the General
Fund

Budget p. LJE 69

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reverts the unencumbered balance remaining from appropriations in six pieces of legislation. The Department of Justice estimates that the amount of the reversion will total about \$400,000. The department indicates that the funds are not needed for various reasons, such as a program has expired, expenses were less than the amount appropriated, or the reversion represents the repayment of a loan.

Table 1 specifies the legislation and the amounts proposed for reversion.

DEPARTMENT OF JUSTICE—REVERSION—Continued

Table 1
Estimated Amounts for Reversion

<i>Funding Authority</i>	<i>Description</i>	<i>Amount</i>
Ch 580/78, amended by Ch 476/82	Pilot project to promote burglary prevention and education activities.	\$20,000
Ch 1609/84	Reporting of domestic violence-related calls to the Governor, the Legislature, and the public.	—
Ch 1613/84	Automation of Child Abuse Registry.	23,000
Ch 1396/85	Reporting of sex, drug, and violent crimes to employers.	19,000
Ch 1028/86	Controlled substances precursor regulatory system.	105,000
Ch 1039/86	Money laundering program.	240,000
Total		\$407,000

STATE CONTROLLER

Item 0840 from the General
Fund

Budget p. LJE 77

Requested 1988-89	\$86,148,000
Estimated 1987-88	88,534,000
Actual 1986-87	78,345,000
Requested decrease (excluding amount for salary increases) \$2,386,000 (—2.7 percent)	
Total recommended reduction	None
Recommendation pending	91,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0840-001-001-Support	General	\$61,570,000
0840-001-041-Support	Aeronautics Account, State Transportation	206,000
0840-001-061-Support	Motor Vehicle Fuel Account, Transportation Tax	2,365,000
0840-001-344-Support	State School Building Lease- Purchase	168,000
0840-001-739-Support	State School Building Aid	364,000
0840-001-890-Support	Federal Trust	1,163,000
0840-001-903-Support	Assessment	136,000
0840-001-942-Support	Bank of America Unclaimed Property Litigation	950,000
0840-001-988-Support	Retail Sales Tax	151,000
Reimbursements	—	19,075,000
Total		\$86,148,000

Analysis
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SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. Mandated Cost Unit. Withhold recommendation on \$91,000 and 1.9 personnel-years requested for the Mandated Cost Unit, pending receipt of a plan to reform the unit's audit procedures.

2. Trial Court Audits, Recommend that the Controller present, 65
at the time of budget hearings, an audit plan which focuses
on county collections of court revenues.

GENERAL PROGRAM STATEMENT

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

The Controller has 1,322.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$86,148,000 for support of the Controller's Office in 1988-89. This amount consists of \$65,910,000 from the General Fund and various special funds, \$1,163,000 in federal funds and \$19,075,000 in reimbursements. The proposed expenditure level represents a decrease of \$2,386,000, or 2.7 percent, below estimated current year expenditures. The decline in expenditures is primarily due to the one-time expenditure of \$4.7 million to process taxpayer rebates in 1987-88.

Table 1 identifies the proposed level of expenditures and personnel-years for each of the major programs administered by the Controller's Office in the prior, current and budget years.

Table 1
State Controller's Office
Program Summary
1986-87 through 1988-89
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	
Fiscal control	922.2	1,089.3	1,128.1	\$58,716	\$69,602	\$66,627	-4.3%
Tax administration	57.4	60.6	60.5	3,089	2,805	2,798	-0.2
Administration							
Distributed to other programs ..	(67.1)	(67.1)	(67.1)	(2,635)	(2,635)	(2,635)	—
Undistributed	272.3	172.3	177.0	16,540	16,127	16,723	3.7
Totals	1,251.9	1,322.2	1,365.6	\$78,345	\$88,534	\$86,148	-2.7%
Funding Sources							
General Fund	—	—	—	\$56,317	\$64,088	\$61,570	-3.9%
Motor Vehicle Fuel Account,							
Transportation Tax Fund	—	—	—	2,381	2,381	2,365	-0.7
Federal Trust Fund	—	—	—	1,062	1,140	1,163	2.0
Bank of America							
Unclaimed Property Litigation							
Fund	—	—	—	133	1,988	950	-52.2

STATE CONTROLLER—Continued

<i>State School Building Aid Fund..</i>	—	—	—	354	360	364	1.1
<i>Aeronautics Account, State Transportation Fund</i>	—	—	—	170	210	206	-1.9
<i>State School Building Lease Purchase Fund.....</i>	—	—	—	—	92	168	82.6
<i>Retail Sales Tax Fund.....</i>	—	—	—	148	150	151	0.7
<i>Assessment Fund</i>	—	—	—	149	144	136	-5.6
<i>Natural Disaster Assistance—Public Facilities</i>	—	—	—	924	—	—	—
<i>Natural Disaster Assistance—Streets and Highways</i>	—	—	—	616	—	—	—
<i>Reimbursements.....</i>	—	—	—	16,091	17,981	19,075	6.1

Table 2 identifies significant changes in the Controller's proposed budget for 1988-89.

Table 2
State Controller's Office
Proposed 1988-89 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>All Other Funds</i>	<i>Reimbursements</i>	<i>Total</i>
1987-88 Expenditures (Revised)	\$64,088	\$6,465	\$17,981	\$88,534
Baseline Adjustments:				
Expiration of limited-term positions.....	-1,702	-1,988	-710	-4,400
Tax rebate (Ch 915/87)	-4,698	—	—	-4,698
Pro rata adjustment	—	-69	—	-69
Tax Reform Act	—	—	-18	-18
Price increase	698	23	95	816
Employee compensation	683	47	195	925
Subtotal, Baseline Adjustments.....	(-\$5,019)	(-\$1,987)	(-\$438)	(-\$7,444)
Program Changes:				
Master custodian	—	—	155	155
Local reimbursement claims workload	91	—	—	91
Financial reports and apportionments.....	—	75	—	75
Certificate of Achievement	51	—	—	51
Office automation staff	276	—	—	276
Interagency Offset Program	—	—	86	86
One-time rent savings	-211	—	—	-211
Single Audit Program	—	—	134	134
Federal disaster audits	—	—	751	751
Personnel/payroll software modification	1,085	—	—	1,085
Flexible Benefits Program	—	—	42	42
MIRS	—	—	89	89
CSU deduction	—	—	64	64
Vision care	—	—	211	211
Computer systems maintenance.....	183	—	—	183
Howard Hughes estate	127	—	—	127
Bank of America case	—	950	—	950
Trial court audits	899	—	—	899
Subtotal, Program Changes.....	(\$2,501)	(\$1,025)	(\$1,532)	(\$5,058)
1988-89 Expenditures (proposed)	\$61,570	\$5,503	\$19,075	\$86,148
Change from 1987-88:				
Amount	-\$2,518	-\$962	\$1,094	-\$2,386
Percent	-3.9%	-14.9%	6.1%	-2.7%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following program changes proposed for 1988-89 which are not discussed elsewhere in this analysis:

- **Federal Disaster Assistance Audits.** The budget requests \$751,000 from reimbursements to reinstate 16 expiring positions to provide audit coverage required by the Federal Emergency Management Agency (FEMA) and the Governor's Office of Emergency Services (OES).
- **Personnel/Payroll Software Modification.** The budget requests \$1.1 million from the General Fund and seven positions to continue work on the California Personnel/Payroll System (CAPPS).
- **Bank of America Settlement.** The budget requests \$950,000 and 11 positions to continue a court-mandated effort to locate the owners of unclaimed property turned over to the state by the Bank of America.

Mandated Cost Unit

The Mandated Cost Unit within the Accounting Division processes two types of local government reimbursement claims. First, the unit processes mandated cost claims for state-mandated local programs. Second, the unit pays out claims to local governments for other local reimbursement programs which are *not* state-mandated local programs, such as payments to counties for the defense of indigents. The budget proposes an increase of \$91,000 and 1.9 personnel-years in the Mandated Cost Unit to process projected increases in workload.

Backlogs on the Rise. In recent years, the Mandated Cost Unit has not been able to process all of the claims it receives by the end of each fiscal year. Claims not processed in the year they are received are "carried over" to be processed in the next fiscal year, resulting in a "backlog" of claims to be processed. Table 3 shows the number of claims received and processed by the unit, and the resulting number of backlogged claims, between 1984-85 and 1988-89.

Table 3
Mandated Cost Unit
Claims and Backlogs^a
1984-85 through 1988-89

	<i>Actual</i> 1984-85	<i>Actual</i> 1985-86	<i>Actual</i> 1986-87	<i>Estimated</i> 1987-88	<i>Estimated</i> 1988-89
Claims Received:					
Mandated cost claims	8,572	9,696	13,912	13,893	27,484
Local reimbursement claims	8,201	9,136	12,004	14,345	14,430
Total claims received	16,773	18,832	25,916	28,238	41,914
Claims processed	-16,773	-17,420	-21,321	-23,807	-23,883
Backlogged claims	—	1,412	6,007	10,438	28,469
Backlog adjusted for proposed staffing increase	—	—	—	—	(27,506)

^a Source: State Controller's Office.

As Table 3 illustrates, the Mandated Cost Unit began experiencing claim backlogs in the 1985-86 fiscal year, and the backlog has been growing steadily. By the end of the 1988-89 fiscal year, the Controller's Office estimates that the number of backlogged claims will grow to 28,469 under present staffing levels. This figure reflects the office's estimate that

STATE CONTROLLER—Continued

the unit will receive almost double the number of mandated cost claims in 1988-89 than it received in 1987-88.

Table 3 also illustrates that the additional 1.9 personnel-years requested will make only a marginal difference on the backlog level. Based on the Controller's workload standards, the Mandated Cost Unit would need an additional 56 *personnel-years* to completely wipe out the anticipated claims backlog in 1988-89. A staffing increase of this size would more than triple the size of the Mandated Cost Unit.

Our experience with the Mandated Cost Unit's workload projections in previous years leads us to question the accuracy of the projected increase in mandate claims for 1988-89. For example, at this time last year, the Mandated Cost Unit estimated it would receive 35,000 claims in 1987-88. As Table 3 illustrates, the unit now expects to receive only 28,000 claims in the current year. Nonetheless, the data still indicate that a significant processing problem exists. The delays which result from the current system have led to complaints from local government representatives, because payments are withheld until their claims are processed. This complicates the budgeting processes of these governments, many of whom operate with little or no reserve funds.

Audit Process Needs Reform

We withhold recommendation on \$91,000 and 1.9 personnel-years requested for the Mandated Cost Unit. We further recommend that the Controller present, at the time of budget hearings, a plan to reform the unit's audit procedures.

In our view, the delays in payment currently being experienced by local agencies are a cause for concern, as they tend to (1) increase county fiscal pressures and (2) reduce the credibility of the state's effort to comply with the State Constitution's mandated cost reimbursement requirement. However, our analysis indicates that it would be more efficient for the Controller to reduce backlogged claims by reforming its audit procedure, rather than by increasing staff. By the Controller's estimate, each state-mandated local program claim requires approximately 3.5 hours to process, while the other local reimbursement programs require only 23 minutes per claim. The primary reason for this discrepancy is that the Controller performs a thorough desk audit on 100 percent of the claims received for state-mandated local programs prior to paying these claims. By contrast, the Controller only performs these desk audits for a fraction of the other reimbursement programs, either because the amount due to local governments is specified in law or because another state agency verifies the amount due to local governments.

An examination of the audit procedures used by some other state agencies to verify claims which are then paid by the State Controller indicates that claims are desk-audited only on an exception basis. For example, the Medi-Cal program pays out over \$5 billion per year in provider claims to hospitals, clinics and doctors. For purpose of deciding which claims to audit, the Department of Health Services (DHS) develops a standardized billing pattern for specific types of provider services. If a claim falls within the acceptable billing pattern, it is not audited. If a claim falls outside of the pattern, it is subject to audit. This procedure allows the DHS to control costs within a reasonable level of audit resources.

Controller Needs to Develop Audit Plan. The Mandated Cost Unit could reduce the amount of time required per claim by implementing a similar audit process. For example, if a reimbursement claim falls within an acceptable range of a prior year's audited claim — say 5 percent — the claim could be paid without the lengthy desk audit. If the claim falls outside the acceptable range, it could be subject to further review and possible audit. Such an audit process could potentially allow the Controller to eliminate the backlogs without a staffing increase. For example, if this procedure had been implemented in the current year, and if it resulted in only 50 percent of the claims being audited, all of its current year claims and the entire backlog would have been eliminated.

In summary, the backlog problem within the Mandated Cost Unit reflects the existence of a cumbersome audit process rather than a lack of staffing. Based on our review of audit procedures used elsewhere in state government, we believe that it is possible to reduce the audit coverage level without a resulting dramatic increase in overpayments to local agencies, if the audit effort is targeted to identify such claims.

In order to determine the staffing level that would be necessary with such a revised system in place, we recommend that the Controller present, at the time of budget hearings, a plan to reform the Mandated Cost Unit's audit procedures. This plan should include a review of the past year claims to determine the extent of annual deviation in reimbursement levels, and a recommendation as to the appropriate staffing level. On this basis, we withhold recommendation on the \$91,000 and 1.9 personnel-years requested, pending receipt and review of this plan.

Trial Court Audits

We recommend that the Controller present, at the time of budget hearings, an audit plan for the Trial Court Funding Program which focuses on county collections of court revenues.

The budget requests \$1 million and 22 personnel-years to administer the Trial Court Funding Program, as required by Ch 1607/85 and Ch 1211/87. Briefly, these laws provide for the state to assume primary responsibility for funding the operations of the municipal, justice and superior courts. The state will subvene to participating counties (known as option counties) block grants of approximately \$500,000 per judicial position and assume most of the costs for municipal court judges' salaries. As a condition of receiving the block grants, participating counties will be required to remit to the state various court-generated revenues (i.e., court filing fees, fines and forfeitures).

New Administrative Responsibilities. The Trial Court Funding Program imposes several additional duties and responsibilities on the State Controller. Beginning in 1988-89, the Controller's staff will perform the following activities: (a) pay the block grants to option counties quarterly; (b) receive the remittances from option counties; (c) adjust the state and local appropriations limits; (d) promulgate rules, regulations and record-keeping requirements for the participating counties; and (e) audit the counties to ensure their financial compliance with the provisions of the program.

There are two components to the Controller's audit responsibilities. First, the Controller must perform base year audits (1984-85) of county court expenditures and revenue collections. These base year audits were specified in Ch 1607/85, in order to ensure that option counties continue

STATE CONTROLLER—Continued

to comply with its maintenance of effort requirements. In addition, Chapter 1607 requires that each option county annually transmit to the state no less than the amount of court-generated revenues collected in 1984-85 or the amount collected in the first year of participation in the program, whichever is greater. Second, the Controller must perform annual financial compliance audits to ensure that counties devote their block grants to allowable court expenditures and that counties remit to the state all of their court-generated revenues.

Controller Emphasizing Base-Year Audits. In documents accompanying the budget request, the Controller's Office indicates that it intends to devote 16.5 of the 22 personnel-years requested in 1988-89 to perform base-year audits. By contrast, only one personnel-year would be devoted to auditing the court revenues that counties return to the state in 1988-89. The remaining 4.5 personnel-years will perform the other required functions, such as developing rules and regulations and paying out the block grants. According to the Controller, Chapter 1607 requires the base year audits to be conducted in order to verify the 1984-85 service levels, and the financial compliance audits will receive more attention as the base year audits are completed.

Our analysis indicates that the court revenue collections should receive a higher audit priority than the base-year audits. We conclude this because we can foresee that the option counties will have less incentive to maintain their court revenue collection efforts in 1988-89 and beyond, since they will no longer receive the direct benefit of these revenues. For example, many counties currently fund efforts to collect delinquent court fines. These efforts are generally cost-effective, in terms of the extra revenue collected. However, once a county "opts in" to the Trial Court Funding Program, it is not likely to have the same incentive to use its own funds to support an effort which will be, in essence, generating revenues for the state. To the extent that county court revenue collections decline, the state's costs for funding the trial courts increases, on a dollar-for-dollar basis. As a consequence, the state needs to maintain a strong audit presence in the area of current court revenue collections.

In contrast, the base-year audits are not as instrumental to protecting the state's financial interests. On the expenditure side, these audits will allow the state to ensure that the counties maintain certain court services at their proportionate 1984-85 levels. However, even if these audits uncover violations of the "maintenance of effort" requirements, it is not clear that the Controller has any authority to impose sanctions on the offending counties.

On the revenue side, the base year audits will allow the Controller to ensure that counties remit to the state an amount of court revenues greater than or equal to their 1984-85 levels. However, our analysis indicates that all of the counties will remit a greater amount of court revenues to the state in their first year of participation than they collected in 1984-85 because revenues have grown since then. Thereafter, the counties will be required to maintain collections at the level of their first year of participation, rather than their 1984-85 levels, and the base year revenue audits will become more or less irrelevant. A more realistic effort to ensure against the state's financial risk, in our view, would focus on the possibilities that the counties might either reduce their collection efforts or fail to remit all of their court revenues to the state. These factors

would be uncovered by the proposed annual compliance audits.

Our analysis indicates the budget contains a reasonable level of funding and staffing for the Controller to administer the Trial Court Funding Program in 1988-89. However, we take exception to the Controller's emphasis on the 1984-85 base year audits over the financial compliance audits for 1988-89. In particular, our analysis indicates that the court revenue component of the annual financial compliance audits for 1988-89 should be emphasized. Therefore, we recommend that the Controller present, at the time of budget hearings, an audit plan which focuses on county court revenue collections for 1988-89.

STATE BOARD OF EQUALIZATION

Item 0860 from the General
Fund and various funds

Budget p. LJE 86

Requested 1988-89.....	\$155,618,000
Estimated 1987-88	146,272,000
Actual 1986-87	139,060,000
Requested increase (excluding amount for salary increases) \$9,346,000 (+6.4 percent)	
Total recommended reduction.....	3,917,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0860-001-001—Support	General	\$109,416,000
0860-001-022—Support	Emergency Telephone Number Special Account	370,000
0860-001-061—Support	Motor Vehicle Account, Trans- portation Tax	4,682,000
0860-001-086—Support	Cigarette Tax Fund	1,658,000
0860-001-465—Support	Energy Resources Programs Account	80,000
0860-001-965—Support	Timber Tax	2,022,000
Reimbursements	—	37,390,000
Total		\$155,618,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Sales and Use Tax Audit Program. Reduce Item 0860-001-001 by \$4,284,000.* Recommend reduction because increased sales and use tax audit activities are not justified at this time. 72
2. *Funding for Transportation District Tax Workload. Augment Item 0860-001-001 by \$269,000.* Recommend augmentation to recognize workload and operating expenses associated with administration of the San Diego Regional Transportation Commission transactions and use tax. 75
3. *Sales Tax Reimbursements. Reduce Item 0860-001-001 by \$4.3 million and increase reimbursements by the same amount.* Recommend reduction to reflect additional reim- 76

STATE BOARD OF EQUALIZATION—Continued

- bursements for administration of local sales and use taxes.
4. Information Systems Planning. Recommend that the board report, at the time of budget hearings, on the implementation of their Strategic Information Systems Planning effort. Further recommend that the Legislature adopt supplemental report language requiring the Board of Equalization to prepare and submit to the Office of Information Technology, by October 1, 1988, a plan for the reconfiguration of the board's existing mainframe computer systems structure. 77

GENERAL PROGRAM STATEMENT

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

Responsibilities of the Board

About 92 percent of the board's staff is devoted to the administration of state and local taxes and several other business taxes. Activities involved in the administration of these taxes include registering taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. The board also has constitutional and statutory responsibilities regarding the administration of local property taxes, and about 8 percent of its staff is engaged in those activities.

Administration of Business Taxes. The board administers and collects the state's 4.75 percent sales and use tax, the local 1.25 percent sales and use tax, and a 0.5 percent transactions and use tax for nine local districts. The board either has or shares responsibility for the administration of five state excise taxes: (1) the alcoholic beverage tax, (2) the cigarette tax, (3) the motor vehicle fuel license tax (gasoline tax) (4) the use fuel tax (diesel tax), and (5) the insurance tax.

The board also administers (1) the private car tax, which is imposed on privately owned railroad cars, (2) the energy resources surcharge on the consumption of electricity, which is used to support the State Energy Commission, (3) a telephone surcharge, which is used to fund the 911 emergency telephone system program, and (4) a pair of taxes on the generation and disposal of hazardous substances.

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

Table 1 summarizes the revenues collected by the board under its tax programs.

Table 1
State and Local Revenues
Collected by the Board of Equalization ^a
1986-87 through 1988-89
(dollars in millions)

	<i>Actual</i> 1986-87	<i>Estimated</i> 1987-88	<i>Projected</i> 1988-89	<i>Change</i> <i>From 1987-88</i>	
				<i>Amount</i>	<i>Percent</i>
State sales and use tax.....	\$10,904	\$11,520	\$12,324	\$804	7.0%
Local sales and use tax.....	3,466	3,743	4,085	342	9.1
Alcoholic beverage tax.....	131	130	129	-1	-0.8
State cigarette tax.....	179	177	176	-1	-0.6
Local cigarette tax.....	76	75	74	-1	-1.3
Motor vehicle fuel tax (gasoline).....	1,108	1,122	1,148	26	2.3
Use fuel tax (diesel).....	142	148	152	4	2.7
Insurance tax.....	1,009	1,100	1,225	125	11.4
Private railroad car tax.....	3	3	3	- ^b	- ^b
Energy resources surcharge.....	35	36	37	1	2.8
Emergency telephone users' surcharge ...	37	40	44	4	10.0
Hazardous substance taxes.....	41	56	64	8	14.7
Universal telephone service ^c	48	15	—	- ^c	- ^c
Timber yield tax.....	14	15	15	- ^b	- ^b
Totals ^d	\$17,195	\$18,180	\$19,475	\$1,312	7.2%

^a Sources: Department of Finance and Board of Equalization.

^b Change of less than \$500,000.

^c The Universal Telephone Service Tax was repealed by Ch 163/87.

^d Detail may not add to totals due to rounding.

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

The board has 2,940.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures, including reimbursements, of \$155.6 million to support the Board of Equalization in 1988-89. This is an increase of \$9.3 million or 6.4 percent, above estimated current year expenditures.

The budget proposes a total of 3,092.1 personnel-years in 1988-89, an increase of 151.9 above the number authorized in the current year.

Table 2 summarizes the number of personnel-years and expenditures associated with each of the board's programs in the prior, current and budget years.

STATE BOARD OF EQUALIZATION—Continued

Table 2
Board of Equalization
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent
	Esti-			Esti-			Change
	Actual	mated	Proposed	Actual	mated	Proposed	From
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1987-88
County Assessment Standards	84.0	101.1	101.5	\$4,902	\$5,813	\$6,048	4.0%
State Assessed Property	93.3	95.4	92.9	4,871	5,189	5,293	2.0
Timber Tax	34.2	34.5	33.8	1,932	2,004	2,022	0.9
Sales and Use Tax	2,425.0	2,506.0	2,661.2	115,957	121,782	130,283	7.0
Hazardous Substance Tax	38.7	40.7	42.8	1,680	1,580	1,810	14.6
Alcoholic Beverage Tax	30.7	26.7	26.7	1,201	1,276	1,324	3.8
Cigarette Tax	9.1	9.1	9.1	2,001	2,023	2,074	2.5
Motor Vehicle Fuel License Tax ..	13.7	11.3	11.0	712	719	732	1.8
Use Fuel Tax	85.4	82.9	80.9	3,812	3,858	3,950	2.4
Energy Resources Surcharge	1.6	1.6	1.5	75	78	80	2.6
Emergency Telephone Users Sur- charge	3.0	3.9	6.7	151	179	370	106.7
Insurance Tax	2.6	2.6	2.6	127	136	141	3.7
Universal Telephone Service Tax ..	3.3	3.0	—	170	190	—	-100.0
Appeals from other Governmen- tal Programs	21.5	21.4	21.4	1,105	1,197	1,244	3.9
Administration (undistributed) ...	1.2	—	—	364	248	247	-0.4
Totals	2,847.3	2,940.2	3,092.1	\$139,060	\$146,272	\$155,618	6.4%
Funding Sources							
General Fund				\$96,353	\$100,238	\$109,416	9.2%
Hazardous Waste Control Account				585	—	—	—
State Emergency Telephone Number Special Account				151	179	370	106.7
Motor Vehicle Fuel Account				4,524	4,577	4,682	2.3
Motor Vehicle License Fee Account				1,388	—	—	—
Cigarette Tax Fund				—	1,649	1,658	0.5
Universal Telephone Service Fund				170	190	—	-100.0
Energy Resources Programs Account				75	78	80	2.6
Timber Tax Fund				1,932	2,004	2,022	0.9
Mobilehome-Manufactured Home Revolving Fund				—	64	—	-100.0
Reimbursements				33,882	37,293	37,390	0.3

Table 3 summarizes all of the proposed changes to the budget.

Table 3
Board of Equalization
Proposed 1988-89 Budget Changes
(dollars in thousands)

	Changes	Totals
1987-88 Expenditures (Revised)		\$146,272
Baseline Adjustments:		
Full-year funding of employee compensation increases	\$2,373	
Price increases for operating expenses	676	
Elimination of one-time reimbursements	-134	
Elimination of Universal Telephone Service Tax Program	-191	
Total, Baseline Adjustments		\$2,724

Limited-Term Activities:

One-time costs reflected in 1987-88 base	
Computer assisted retrieval (CAR) system	-177
Computer replacement	-84
Other equipment	-73
Mobilehomes taxation study (SB 1722)	-64

Total, Limited-Term Activities..... -\$398

Program Changes:

Maintain audit activity	1,327
Increase sales and use tax audit activity	4,284
Return processing workload growth	365
Taxpayer registration workload growth	309
Administration of transportation authority taxes	239
Hazardous waste fees appeal and hearing workload	198
Increased emergency telephone tax audit activity	191
San Bernardino district office	70
Update assessors' handbooks	37

Total, Program Changes..... \$7,020

1988-89 Expenditures (proposed)..... \$155,618

Change from 1987-88:

Amount \$9,346
Percent 6.4%

ANALYSIS AND RECOMMENDATIONS

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

- **Taxpayer registration workload.** The budget proposes an appropriation of \$309,000 from the General Fund to accommodate workload growth in taxpayer registration.
- **Return Processing Workload.** The budget proposes an increase of \$365,000 from the General Fund to accommodate the impact of workload growth on tax return processing.
- **Emergency Telephone Surcharge Program.** The budget proposes an appropriation of \$191,000 from the Emergency Telephone Number Special Account to provide additional audit coverage of telephone service suppliers.
- **Hazardous Waste Fees Appeal and Hearing Workload.** The budget proposes \$198,000, funded by reimbursements, to process petition and hearing workload associated with collection of hazardous waste fees.

SALES AND USE TAX PROGRAM: AUDIT ACTIVITIES

The purpose of the sales and use tax audit program is to ensure that taxpayers neither underpay nor overpay sales and use taxes. This is accomplished through the selective review of taxpayer accounts. The board's system of selecting accounts for audit is designed to ensure that its audit resources are allocated to the most productive accounts. To achieve this goal, the board selects eligible accounts according to the amount of net assessments in excess of costs which an audit of the accounts in each group might be expected to produce. Once the accounts are selected, the board places the highest priority on auditing those accounts for which the expected net assessment exceeds by the greatest amount the cost of performing the audits. Because the board is currently auditing the most productive accounts, any increase in audit staffing levels will produce an incrementally lower amount of revenues per auditor than is currently collected.

STATE BOARD OF EQUALIZATION—Continued

Budgeting For Auditors: Balancing Staffing Levels With Revenue Needs. Because additional audit staff must be assigned to work accounts that are less productive at the margin, the Legislature has directed the board to justify any requests for additional audit staff on the basis that the *incremental* increase in revenues produced by these auditors exceeds their costs. Language to this effect has been included in the board's budget in the 1981 through 1986 Budget Acts. It was not included in the 1987 Budget Act with the understanding by the fiscal subcommittees that its intent would continue to be reflected as state policy.

In theory, the addition of new audit positions can be justified until the increase in revenues they produce *just barely* covers the cost of the additional auditors. In other words, as long as the benefit-to-cost ratio exceeds 1 to 1, the additional staff could be considered cost-effective. However, in the past we have recommended that additional auditors not be authorized to this level for the following reasons:

- Measures of cost-effectiveness are subject to statistical error and it is difficult to determine with accuracy the point at which the direct costs of additional auditors begin to exceed the revenues they bring in. As a result, the additional auditors could inadvertently result in a *net cost* to the state.
- There are many costs associated with auditing that cannot be quantified, such as the cost to taxpayers of complying with an audit. Because these costs are not reflected in the measure of audit cost-effectiveness, the measure overstates the actual "benefit" of the auditors by an unknown amount. In order to compensate for these unknown costs, we have previously recommended that the Legislature stop allocating additional funds for audit purposes while the benefit-cost ratio is still well above the 1-to-1 level.
- Finally, a high level of audit coverage may lead to negative relations between the board and taxpayers and complaints of taxpayer harassment.

The Legislature has acknowledged the need for a more restrictive cost-effectiveness criterion by generally requiring audit staff increases to have an incremental benefit-to-cost ratio of no less than 5 to 1. This criterion has been used in consideration of audit resource requests from the Franchise Tax Board as well as the Board of Equalization. However, in the 1986 and 1987 Budget Acts, the Legislature approved additional audit staff for the Board of Equalization that were cost-effective at slightly higher than the 4-to-1 level. We recommended approval of these additional positions at that time on the basis that the board's audit staff had been reduced through redirection over the past five years, and that the increase in audit activities might improve the level of voluntary compliance.

Additional Auditors Not Justified At This Time

We recommend a reduction of \$4,284,000 for increased sales and use tax audit activities because an increase in audit resources is not justified at this time. (Reduce Item 0860-001-001 by \$4,284,000.)

The budget proposes an appropriation of \$5,611,000 and 162 personnel-years to "maintain sales tax audit activities" in 1988-89. Of this amount, we estimate that \$1.3 million (35.3 personnel-years) is required to maintain

audit activities at their current level by reducing salary savings requirements. The remainder of the proposed augmentation, \$4.3 million and 126.7 personnel-years, is intended to increase the total number of taxpayer accounts audited. The board's budget presentation indicates that the \$5.6 million augmentation will result in a \$30 million revenue gain, for a total benefit-cost ratio of approximately 5 to 1.

Maintaining Audit Positions at Current Level is Justified. Of the total \$5.6 million proposed augmentation, \$1.3 million (35.3 personnel-years) is required to maintain audit activities at their current level. In accordance with the administration's policy for 1988-89, the board's budget was reduced to eliminate funding for merit salary adjustments (MSAs). In order to accommodate this cost, the board will be required to increase salary savings in its discretionary programs, such as auditing and collections. The board estimates that this would result in a reduction of 35.3 audit personnel-years. The Governor's Budget provides the funds required to "make whole" the audit element. According to the board's Budget Change Proposal (BCP), this portion of the augmentation will increase state revenues by \$7.3 million.

Our analysis indicates that the provision of \$1.3 million to offset the MSA requirement will not, as the Department of Finance claims, lead to an increase in revenues over the current year. Rather, this "augmentation" precludes the *reduction* in revenue collections which would otherwise result from the redirection of dollars budgeted for audit activities to fund MSA increases. We estimate that, in the absence of this offset, state General Fund revenues would be reduced by approximately \$6.9 million. This potential revenue reduction exceeds the cost of providing for MSAs by a factor of 5 to 1 and, consequently, we recommend approval of this amount.

New Audit Positions Fail Cost-Effectiveness Test. The remainder of the proposed \$5.6 million augmentation (\$4.3 million and 126.7 personnel-years) is intended to increase the total number of taxpayer accounts audited. This augmentation includes 123 field audit personnel-years and 3.7 personnel-years for headquarters support activities. The board estimates that these additional audit resources will increase General Fund revenues by \$22.8 million, for a total benefit-cost ratio of 5.3 to 1. This estimate assumes that each auditor added will result in additional revenues of \$116 per hour, and will cost \$22 per hour.

Our analysis indicates however, that the board's estimate overstates the benefit-to-cost ratio of the proposed positions. First, the board's estimate of the hourly costs is *too low*, because it excludes the costs of providing supervision for the new positions. According to the board, auditors generally work in supervised teams requiring one supervisor for every 14 auditors. Thus, of the total 123 audit personnel-years, approximately nine will be used for supervision, rather than for direct audit activities. Taking the costs of supervision into account, we estimate that the proposed auditors will cost \$24 per hour.

Second, our analysis indicates that the board's estimate of the amount of tax collections to be produced by these auditors is *too high*. The \$116 figure used by the board is based on outdated audit data, and does not take into account the 97 additional field audit positions received in the prior two years. Furthermore, this estimate assumes that *all* of the additional auditors will bring in revenues at this level. As discussed above,

STATE BOARD OF EQUALIZATION—Continued

however, each addition to the audit staff produces a lower amount of sales and use tax revenues.

We estimate that the amount of revenue to be produced by the \$4.3 million augmentation is only \$11 million. This estimate is based on audit data for the years 1983-84 through 1985-86, adjusted for the effects of inflation and tax rate changes, increases in field auditor personnel-years received in 1986-87 and 1987-88, and the removal of accounts that already receive 100 percent audit coverage. Based on these data, we estimate that the additional auditors will increase state revenues by approximately \$64 per audit-hour on the average. In combination with the \$24 per hour cost presented earlier, this indicates that the additional auditors will have a benefit-cost ratio of only 3 to 1.

Furthermore, it should be noted that the board has not yet evaluated the productivity of the new auditors received in 1986-87 and 1987-88. This is because the accounts selected for audit during those years have not yet been completed. Although we have estimated the effect of these new auditors, their actual impact will not be known until later this year. It is anticipated that the evaluation of the new auditors' productivity will have a significant impact on the estimated benefit-cost ratio for additional audit staff. In our view, the board should evaluate the marginal productivity of these auditors before it requests further increases in audit resources.

Other Revenue Strategies Deserve Review. Our analysis indicates that other strategies for increasing state revenue collections might prove more fruitful than increasing the board's audit staff. For example, the dollar value of delinquent accounts grew at an average annual rate of 19 percent between 1983-84 and 1986-87. As we have noted in past *Analyses*, the board's growing inventory of accounts receivable delays the Legislature's timely use of revenues, and makes it more unlikely that some of these accounts ever will be collected. In 1986-87, an estimated \$22.8 million in delinquent accounts were written off, an increase of 58 percent over the prior year.

Despite this continuing growth in uncollected accounts, the board's collections program has not received any increase in resources since 1982-83. We cannot make recommendations regarding the resources required in this program, however, because the board has not yet fulfilled a legislative directive to assess potential strategies for improving the productivity of collection activities. In our view, the board should improve the *collection* of accounts receivable before it focuses additional resources toward *generating* such accounts.

In sum, the proposed increase in audit resources is not consistent with legislative policy, even at the 4-to-1 level authorized in last year's budget. Moreover, the board has not yet evaluated the new auditors received in prior years, or assessed alternative approaches to improving revenue collection. Consideration of these issues will provide a better basis for making decisions on the allocation of resources for tax administration. Consequently, we recommend a reduction of \$4,284,000.

SALES AND USE TAX PROGRAM: LOCAL TAXES

Current law authorizes cities and counties to impose a local combined sales and use tax of 1.25 percent. In addition, nine transit or transportation districts in 10 counties rely on a one-half cent "transactions and use tax"

to fund mass transit or transportation projects. Under current law, the Board of Equalization is responsible for collecting and distributing the various local sales and use taxes. The state sales and use tax and all local taxes are reported by taxpayers to the board on a single form. Based on the reported information, the board allocates the revenues collected between the various local governments.

Last year, the Legislature extended statewide authority for imposition of the transactions and use tax. Chapter 786, Statutes of 1987, permits counties, with voter approval, to impose a retail transactions and use tax of up to 1 percent for transportation or transit purposes. Chapter 1257, Statutes of 1987, authorizes counties with populations under 350,000 to impose a transactions and use tax for general purposes. Given the scarcity of alternative funding sources, we expect that a growing number of local governments will rely on the transactions and use tax as a source of revenue in coming years.

Transportation Tax Workload Increases

We recommend an augmentation of \$269,000 (7.6 personnel-years) from the General Fund to recognize the workload and operating expenses associated with administration of the San Diego Regional Transportation Commission's new transactions and use tax. (Increase Item 0860-001-001 by \$269,000).

In November 1986, voters in Alameda and Fresno Counties approved one-half-cent transactions and use taxes to finance highway improvements in their counties. These taxes became effective April 1, 1987 and July 1, 1987, respectively. The budget proposes an increase of \$239,000 (5.7 personnel-years) to process the workload associated with these taxes.

Administration of new transit district taxes increases the workload processed by the board's Return Review, Local Tax and Accounting Units. The Return Review Unit is responsible for desk auditing of tax returns to ensure arithmetic accuracy and correct reporting of district taxes. The workload requirements of this unit increase with the addition of a new taxing jurisdiction due to the increased time required to review the return, and due to the need to prepare additional billings and correspondence resulting from increased taxpayer error. The Local Tax and Accounting Units face additional workload associated with the proper reconciliation of allocation errors and account maintenance. In addition, under an existing interagency agreement with the Department of Motor Vehicles (DMV), the Board of Equalization is required to pay an additional charge to DMV for the collection of use tax on vehicle changes of ownership occurring in transit or transportation districts. Payment of this additional charge will increase the board's operating expenses by \$74,000. Our analysis indicates that the proposal to provide these resources is reasonable and, consequently, we recommend approval.

Our analysis indicates, however, that the budget ignores the additional workload associated with the San Diego Regional Transportation Commission's new transactions and use tax. In November 1987, the voters of San Diego County approved this tax for the purposes of funding specific highway improvements, effective April 1, 1988. Based on information from the board, we estimate that processing the additional workload associated with this tax in the Return Review, Accounting and Local Tax Units will require 7.6 personnel-years, at a cost of \$219,000. Payments to DMV for use tax collection activities will increase the board's operating

STATE BOARD OF EQUALIZATION—Continued

expenses by an additional \$50,000. The larger costs for administration of San Diego's new tax reflect the large volume of transactions generated in San Diego County.

If the board does not receive the staff resources and funding to address the additional workload resulting from the administration of the San Diego Regional Transportation District, these resources will be diverted from discretionary revenue-producing activities elsewhere in the board. We estimate that this diversion of resources will reduce state revenues by a factor of approximately 5 to 1. Consistent with the Legislature's past policy of acknowledging the workload increases associated with new transit districts and to avoid the diversion of resources from revenue-generating activities, we recommend that Item 0860-001-001 be augmented by \$269,000 (7.6 personnel-years).

Local Tax Reimbursements Understated

We recommend a General Fund reduction of \$4.3 million to reflect additional reimbursements from local agencies. (Reduce Item 0860-001-001 by \$4.3 million and increase reimbursements by a corresponding amount.)

Before the board subvenes sales and use tax revenues to local agencies, it deducts an amount to cover a portion of its administrative costs. This amount is equal to a fixed percentage of the *revenues* produced by the tax. Specifically, the board charges cities and counties an amount equal to 0.82 percent of local sales and use tax revenues, while local transit and transportation districts generally are charged an amount equal to 1.64 percent of their tax revenues.

The budget estimates that the amount of local revenues withheld from local agencies (reflected as a reimbursement in the board's budget) will total \$35,151,000 in 1988-89, *exactly the same amount as reflected in the current year budget*. This figure is based on May 1987 estimates of 1987-88 sales tax revenues. According to the Department of Finance, at the time the budget was prepared there was no information available to support an increase in reimbursements for the budget year.

However, based on the department's January forecast of state sales and use tax revenues, our analysis indicates that the board will receive an additional \$4.3 million in reimbursements from local agencies. Of this amount, approximately \$2.9 million is attributable to the estimated growth in local sales and use tax collections for the budget year. The remaining \$1.4 million represents reimbursements from the new San Diego Regional Transportation Commission discussed above.

Because the board uses the money from reimbursements to offset its costs for administering the sales and use tax program, its reliance on the General Fund should decrease in direct proportion to the expected increase in reimbursements resulting from the growth in the sales tax base and the increased transportation tax collections. On this basis, we recommend that Item 0860-001-001 be reduced by \$4.3 million, and that reimbursements be increased by a corresponding amount.

ADMINISTRATION PROGRAM

Information Processing Bottlenecks at the Board

We recommend that the board report, by the time budget hearings are held, on the current status of its Information Systems Planning Team and present a detailed timeline for implementation of the Strategic Information Systems Plan. We further recommend that the Legislature adopt supplemental report language requiring the Board of Equalization to prepare and submit to the Office of Information Technology, by October 1, 1988, a plan for the reconfiguration of the board's existing mainframe computer systems structure.

As we noted in the *Analysis of the 1986-87 Budget Bill* (please see page 87), additional information processing equipment is needed to improve the board's overall administrative performance. For example, greater use of information processing could improve audit selection and compliance efforts by (1) improving data capture and retrieval, (2) providing inventory and assignment controls, and (3) reducing the number of forms processed manually. In addition, we believe that significant efficiencies could be gained through greater use of computers for information sharing both among board offices and program units, as well as between the board and other agencies.

Although a number of automation projects were proposed in the 1986-87 Governor's Budget, our analysis indicated that these were premature at the time. It was not possible to evaluate the proposals because the board did not have a comprehensive plan to guide the development and evaluation of information processing systems. In order to facilitate information processing at the board, the Legislature adopted language in the 1986-87 Budget Bill requiring the board to develop by March 1, 1987 a comprehensive information systems planning document. This document was required to evaluate the board's existing information systems, identify and set priorities for potential information systems projects, and establish policies for implementing these projects.

The board submitted its Strategic Information Systems Plan (SISP) on March 18, 1987. Our review of this document indicates that it provides a valuable blueprint for the development of information processing projects at the board. The SISP identifies a number of key problems related to the board's information planning systems; for example, paperwork is excessive and systems lack integration. In addition, SISP makes a number of recommendations to improve information management and identifies 32 projects to implement these recommendations. We commend the board's accomplishments in developing this plan.

Board Has Not Implemented Planning Effort. We are concerned, however, about the board's lack of progress in implementing SISP. The operational aspects of the SISP implementation will be the responsibility of the Information Systems Planning Team (ISPT). Although SISP was approved by the Office of Information Technology (OIT) prior to the start of the current fiscal year, the board has not yet established the planning team required to implement it. According to the board, the delay in establishing ISPT is primarily due to turnover in administrative leadership, difficulty in finding qualified candidates for the team leader position, and diversion of efforts to address problems with the mainframe computer procurement.

In our view, these factors do not satisfactorily explain the delays in team implementation. For example, the board states that it has had

STATE BOARD OF EQUALIZATION—Continued

difficulty filling the team leader position because the board established the position at a Staff Services Manager I level. Given that SISP stresses the importance of establishing this position as a Staff Services Manager II, it is not clear why the board chose to establish this position at the lower level. The board currently is in the process of reestablishing the position at the higher level, which has lead to further delays in implementation of the plan. Moreover, the board currently does not have a projected timeline for implementation of SISP.

Given the current status of ISPT, and the time required to develop Feasibility Study Reports, it appears that the team will not be able to develop information projects to propose for funding prior to the 1990-91 budget cycle. We believe that continuing delays in the implementation of SISP will hinder the ability of the board to make progress on its automation program. Consequently, we recommend that the board submit, by the time of hearings, a report on the current status of ISPT and a detailed timeline for implementation of SISP.

Board Replaces New Mainframe Computer. In the 1985 Budget Act, the Legislature approved procurement of a Burroughs B7900 model mainframe computer. The B7900 replaced the board's then existing computers, two Sperry 90/80s, which had become inadequate due to workload increases. The B7900 was selected as a result of a procurement process which required over three years and 13 amendments to the Request for Proposals. The total five-year cost of the computer was \$15.7 million.

On June 5, 1987, less than one year after installation and prior to the computer becoming fully operational, the board submitted a Feasibility Study Report (FSR) to replace the B7900 computer with a Burroughs A-15-FX model computer. According to the FSR, this replacement was necessary because the operating system of the B7900 "presents memory management constraints which make it impossible to meet the board's current and projected workloads." These memory management constraints involved the size and use of shared memory within the B7900 system.

This memory management problem resulted from the structure of the board's computer applications. In converting to the B7900, the board continued to use its existing, outdated systems structure, rather than restructuring its applications to operate optimally on the B7900. The board decided to maintain the existing systems structure because this was considerably less costly than restructuring applications for the new computer environment. The board did not foresee the restrictions imposed by the global memory limitation at the time this decision was made. By the time conversion was 75 percent complete, however, the overcrowding of global memory posed a serious impediment to the successful function of the B7900.

In response to the board's request to replace the B7900, OIT required that the board contract with an outside consultant to evaluate the problems with the B7900 computer and identify alternative solutions to the board's difficulties. The consultant found that the board's applications could be reasonably configured to work within the memory constraints of the B7900. However, the consultant pointed out that restructuring applications would require increased staff effort and outside expertise, and would effectively halt the current conversion effort.

Based on the consultant's report and input from the board, OIT determined that it would be most cost-effective to upgrade to the Burroughs A-15-FX computer, which did not pose the global memory limitations of the B7900. Because the A-15-FX is fully compatible with the B7900, the upgrade would allow the board to transfer its applications directly to the A-15-FX from the B7900 without interrupting the current conversion effort. Consequently, on December 17, 1987 OIT approved the replacement at an additional cost of \$2 million. This cost will be accommodated without any cost increase in the current or budget years by extending the five-year B7900 procurement contract an additional 60 months.

Based on available cost data, we are unable to determine whether the A-15-FX upgrade was the most cost-effective means of solving the board's immediate problems with data processing. However, we are concerned about this solution because it leaves the board with an outdated, inefficient systems structure. Because the A-15-FX has more available memory than the B7900, the inefficiencies inherent in the board's existing systems do not pose obvious problems at the current time. However, these inefficiencies will limit the operating capacity of the board's replacement computer. In the long run, more efficient operation of the A-15-FX, for example, through increased reliance on data base management systems, would enable the board to absorb increasing computing workload over a longer period without seeking additional operating capacity. In addition, improved systems technology would allow the board greater flexibility in designing new applications.

At the current time, however, we do not have precise information concerning the costs of reconfiguring the board's computer system to a data base system. Furthermore, we believe that reconfiguration of the board's operating system should be developed within the context of the Strategic Information Systems Plan. This will ensure that the board does not undertake duplicative work, and that new applications incorporate the most current system technology. However, at the current time, reconfiguration of the existing systems structure is not identified as a potential project by SISP. To ensure that the board addresses reconfiguration of the existing systems structure in its information planning efforts, we recommend adoption of the following supplemental report language:

Board of Equalization Information Planning

The board shall incorporate into its Strategic Information Planning Document a project to restructure the existing mainframe computer systems structure for optimal performance. On or before October 1, 1988, the board shall submit to the Office of Information Technology for approval an Applications Project Profile (APP) for incorporation into its Strategic Information Systems Plan. The APP shall describe the reconfiguration project, identify the benefits associated with the project, and provide a detailed summary of program costs. In addition, the APP shall describe how implementation of this project will be coordinated with other high-priority projects identified in the SISP.

STATE BOARD OF EQUALIZATION—CAPITAL OUTLAY

Item 0860-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. LJE 105

Requested 1988-89.....	\$190,000
Recommended approval.....	190,000

ANALYSIS AND RECOMMENDATIONS

We recommend approval of \$190,000 requested for alterations to the board's district office in San Bernardino.

The budget requests \$190,000 for alterations to the board's San Bernardino office. The alterations will provide additional office space and comply with fire and life safety requirements.

SECRETARY OF STATE

Item 0890 from the General
Fund

Budget p. LJE 105

Requested 1988-89.....	\$25,978,000
Estimated 1987-88	27,267,000
Actual 1986-87	21,308,000
Requested decrease (excluding amount for salary increases) \$1,289,000 (—4.7 percent)	
Total recommended reduction.....	177,000
Recommendation pending	2,000,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0890-001-001—Support	General	\$23,297,000
Transfer from Political Reform Act (Item 8640)—Support	General	650,000
Reimbursements	—	2,031,000
Total		\$25,978,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. Teale Data Center Charges. Withhold recommendation on \$2 million requested for increased Teale Data Center charges pending receipt and analysis of updated information. 82
2. *Facilities Operation. Reduce Item 0890-001-001 by \$177,000.* 83
Recommend reduction to correct for overbudgeted operating expenses.

GENERAL PROGRAM STATEMENT

The Secretary of State has statutory responsibility for examining and filing for the public record specified financial statements and corporate-

related documents. The Secretary also administers and enforces election law and campaign disclosure requirements. In addition, the Secretary appoints notaries public and manages the state archival function. The activities necessary to carry out these responsibilities are conducted in seven program units: (1) Corporate Filing; (2) Elections; (3) Political Reform; (4) Uniform Commercial Code; (5) Notary Public; (6) Archives; and (7) Limited Partnerships.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$25,978,000 for support of the Secretary of State in 1988-89. This is \$1,289,000, or 4.7 percent, below the current year level. The proposed expenditures consist of an appropriation of \$23,297,000 from the General Fund, reimbursements of \$2,031,000 from special handling fees, and \$650,000 under the Political Reform Act. The Secretary of State has 365.6 personnel-years in the current year. Table 1 displays the Secretary of State's staffing and funding for the prior, current and budget years. Table 2 shows the proposed budget changes for 1988-89.

Table 1
Secretary of State
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1987-88
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	
Corporate filing	115.2	118.5	122.3	\$7,478	\$7,215	\$7,721	7.0%
Limited partnership.....	21.5	23.8	23.8	1,104	1,139	1,219	7.0
Elections.....	16.4	15.1	15.1	5,444	7,649	8,244	7.8
Political reform.....	17.0	17.3	20.1	838	836	1,042	24.6
Uniform Commercial Code.....	60.1	69.0	62.5	2,464	6,184	2,900	-53.1
Notary public.....	13.9	13.9	13.9	1,469	1,365	1,543	13.0
Archives.....	20.0	18.3	20.2	1,537	1,534	1,608	4.8
Administration (undistributed)...	15.6	14.7	14.7	6,611	9,420	9,977	5.9
Administration (distributed).....	74.2	75.0	76.9	(5,637)	(8,075)	(8,276)	2.5
Totals.....	353.9	365.6	369.5	\$21,308	\$27,267	\$25,978	-4.7%
Funding Sources							
General Fund.....				\$18,610	\$24,596	\$23,297	-5.3%
Transfer from Political Reform Act (General Fund)				624	635	650	2.4
Reimbursements.....				2,074	2,036	2,031	-0.2

SECRETARY OF STATE—Continued

Table 2
Secretary of State
Proposed 1988-89 Budget Changes
(dollars in thousands)

1987-88 Expenditures (revised)	<i>All Funds</i> \$27,267
Baseline Adjustments:	
Delete optical disk one-time costs	-3,155
Delete one-time study costs	-21
Add salary and benefit increases	183
Add price increase	273
Subtotal, Baseline Adjustments	(-\$2,720)
Program Changes:	
Teale Data Center charges	\$156
Corporate status telephone inquiries	90
Corporate filing overtime	25
Political reform workload	80
Political reform feasibility study	30
Uniform Commercial Code workload	180
Notary public examinations	99
Archives workload	61
Archives office space	25
Increased security expense	24
Data processing workload	95
Increased rent	366
Office automation equipment	150
Increased equipment base	50
Subtotal, Program Changes	(\$1,431)
1988-89 Expenditures (Proposed)	\$25,978
Change from 1987-88	
Amount	-\$1,289
Percent	-4.7%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following program changes which are not discussed elsewhere in this analysis:

- **Security (\$104,000).** These funds would be used to reimburse the State Police for security provided to the Secretary of State.
- **Uniform Commercial Code Workload (\$180,000).** These funds would be used to extend six limited-term positions for six months and establish an additional six limited-term positions for eight months.
- **Office Automation Equipment (\$150,000).** These funds would be used to microfilm records in the Elections Division, upgrade the computer system in the Fiscal Office, and purchase additional office automation equipment.

Updated Information on Teale Data Center Charges Expected

We withhold recommendation on \$2 million requested in Item 0890-001-001 for Teale Data Center charges, pending receipt of updated information.

The Secretary of State's Office implemented a new on-line Corporate Automation System in March 1987, after a series of delays and programming problems. According to the Feasibility Study Report (FSR), prepared in June 1985, the new system is intended to provide the public

and government agencies with more accurate and timely corporate status information than was previously provided through manual efforts. It was anticipated that the system would generate savings from the avoidance of additional staff costs and reducing the time spent responding to public complaints. The FSR projected that, over the first four years of operation, savings of \$1.3 million would be realized compared to the costs of the former manual system.

To date, the Corporate Automation System has not provided the benefits anticipated in the FSR. Mandated levels of service are not being met within the three-day turnaround (excluding telephone inquiries) considered to be the maximum acceptable level of delay in providing these services. In addition, workload demands have continued to increase; office space and equipment needs have continued to rise; and the level of public complaints continues to be high.

Cost Overruns. Partially as a result of design changes made during development of the system, its operating costs have significantly exceeded the amount anticipated when the FSR was approved. Additional funding of \$156,000 for these higher costs was requested and approved in the 1987 Budget Act. In December 1987, the Secretary of State submitted a deficiency authorization request to the Department of Finance in the amount of \$1,844,000 for Teale Data Center (TDC) charges. The budget requests \$2 million for these additional costs in 1988-89, or \$156,000 more than requested for the current year deficiency.

Because of the discrepancy between planned and actual system costs, the Secretary of State's Office was required by the Office of Information Technology (OIT) to prepare a Special Project Report (SPR). This report, which was prepared for the office by Arthur Anderson and Company, explains the cost deviations from the approved FSR and recommends corrective actions that could be taken to improve the system's cost performance. The office intends to implement some of these recommendations in the current year.

TDC Charges Overstated. The additional \$2 million requested in the budget for TDC charges is based on billing information for the months of July and August 1987. However, since that time, TDC has made several improvements to the system which have resulted in reduced costs. The amount of TDC charges incurred by the office in November and December 1987 reflect these reduced costs, and indicate that the office will not need the full amount of the current year deficiency request. If the corrective actions to be implemented by the office this year are effective, its cost for TDC charges should decline even further.

During the next few months, actual billing information and refined estimates from the office regarding the timing and impact of further improvements to the system will provide a better basis for estimating the amount of funds that will be needed by the Secretary of State in 1988-89 for TDC charges. Therefore, we withhold recommendation on the \$2 million requested in the budget for TDC charges, pending receipt and review of this additional information.

Facilities Operations is Overbudgeted

We recommend a reduction of \$177,000 to correct for overbudgeted operating expenses. (Reduce Item 0890-001-001 by \$177,000.)

The budget proposes \$366,000 to fund increased costs associated with leased office space. Based upon a renegotiated lease agreement, however,

SECRETARY OF STATE—Continued

additional costs will be \$189,000 in the budget year. Accordingly, we recommend a reduction of \$177,000 to correct for overbudgeting.

STATE TREASURER

Item 0950 from the General
Fund

Budget p. LJE 104

Requested 1988-89.....	\$12,078,000
Estimated 1987-88	12,020,000
Actual 1986-87	9,727,000
Requested increase (excluding amount for salary increases) \$58,000 (+0.5 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The State Treasurer has a number of different responsibilities related to the management of the state's financial assets. His specific responsibilities include:

- Providing custody for all money and securities belonging to or held by the state;
- Investing temporarily idle funds;
- Paying warrants and checks drawn by the State Controller;
- Preparing, selling, and redeeming the state's general obligation and revenue bonds; and
- Preventing the issuance of unsound securities by irrigation, water storage, and certain other districts.

The State Treasurer has 203.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$12,078,000 from the General Fund and reimbursements to support the State Treasurer's Office in 1988-89. This amount is \$58,000, or 0.5 percent, more than estimated total expenditures for the current year.

The budget request consists of \$6,207,000 from the General Fund, a decrease of \$200,000, or 3.1 percent; and \$5,871,000 in reimbursements, an increase of \$258,000, or 4.6 percent. Table 1 shows the expenditures and personnel-years for each of the major programs administered by the State Treasurer's Office during the prior, current, and budget years.

Table 1
State Treasurer Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1987-88
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	
Investment Services.....	8.5	8.7	8.7	\$574	\$729	\$738	1.2%
Cash Management.....	17.3	18.1	18.1	1,050	1,246	1,288	3.4
Trust Services.....	59.2	66.8	66.8	3,728	4,578	4,738	3.5
District Securities Division.....	7.8	6.8	6.8	481	515	530	2.9
Centralized Banking Services ^a ...	—	—	42.0	—	—	3,544	— ^b
Administration (net).....	83.5	102.8	55.8	3,894	4,952	1,240	-75.0
Totals.....	176.3	203.2	198.2	\$9,727	\$12,020	\$12,078	0.5%
Funding Sources							
General Fund.....	—	—	—	\$4,987	\$6,407	\$6,207	-3.1%
Reimbursements.....	—	—	—	4,740	5,613	5,871	4.6

^a This program is included under Administration in years prior to 1988-89.

^b Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes a net increase of \$58,000 in the budget of the State Treasurer's Office for 1988-89. This amount reflects a baseline reduction of \$205,000 and two proposed program changes. First, the budget includes a \$164,000 increase in funding to pay the costs of a new interagency agreement with the State Controller. This agreement provides for the development of a new bond sale tracking system, funded by increased reimbursements, to facilitate compliance with the federal Tax Reform Act of 1986. The total cost of the interagency agreement in 1988-89 will be \$351,000. Second, the budget includes a \$99,000 increase for additional office space to relieve overcrowding.

Our analysis indicates that the proposed expenditures for the State Treasurer's Office are reasonable.

CALIFORNIA DEBT ADVISORY COMMISSION

Item 0956 from the California
 Debt Advisory Commission
 Fund

Budget p. LJE 107

Requested 1988-89.....	\$1,080,000
Estimated 1987-88.....	1,041,000
Actual 1986-87.....	1,956,000
Requested increase (excluding amount for salary increases) \$39,000 (+3.8 percent)	
Total recommended reduction.....	None

CALIFORNIA DEBT ADVISORY COMMISSION—Continued**GENERAL PROGRAM STATEMENT**

The California Debt Advisory Commission (CDAC) was established by Ch 1088/81 to provide advisory assistance to state agencies and local governments in the areas of debt issuance and management. The commission has nine members, including the State Treasurer (who serves as chairperson), the Governor or Director of Finance, the Controller, two local government finance officers appointed by the State Treasurer, two members of the Assembly, and two members of the Senate.

The general activities of the CDAC are supported by notification fees imposed on the issuance of bonds. Under the terms of Ch 293/83, the fees are paid by the lead underwriter or purchaser of the bonds. Currently, the fee is set at one-eightieth (1/80) of 1 percent of the principal amount of the bond issue, up to a maximum fee of \$2,500. Short-term debt (such as tax and revenue anticipation notes) is subject to a fixed fee of \$125 per issue, while debt issues of less than \$1 million are exempt from the fee requirement. The revenues from the fees are deposited into the CDAC fund.

The commission has 11 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$1,080,000 from the California Debt Advisory Commission Fund for support of the commission in 1988-89. This is \$39,000, or 3.8 percent, more than estimated expenditures in the current year.

The primary change in the commission's budget for 1988-89 is the addition of one position and \$56,000 to meet increased workload in the area of reporting and certification of local housing bond issues. This increase is partially offset by the reduction of one-time equipment and report costs.

Our analysis indicates that the proposed expenditures for the commission are reasonable.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Item 0959 from the California

Debt Limit Allocation

Committee Fund

Budget p. LJE 109

Requested 1988-89	\$222,000
Estimated 1987-88	171,000
Actual 1986-87	142,000
Requested increase (excluding amount for salary increases) \$51,000 (+29.8 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Debt Limit Allocation Committee (CDLAC) was established in 1984, and reauthorized in 1986, through proclamations by the Governor, in order to ensure the state's compliance with the federal Tax Reform Acts of 1984 and 1986. Chapter 943, Statutes of 1987, provides continuing authority for the committee's operation.

The Tax Reform Acts of 1984 and 1986 limit the amount of tax-exempt "private activity" bonds which may be issued in a state during a given year. "Private activity bonds" generally include bonds issued for private industrial and commercial development projects, single and multi-family housing, for-profit hospitals and educational facilities, and student loans. Under the Tax Reform Act of 1986, the volume of these bonds that may be issued by each state after 1987 is limited to \$50 per resident, or \$150 million, whichever is greater. In 1988, California's ceiling is estimated to be \$1.3 billion. The committee is responsible for allocating the ceiling amount among state and local agencies.

In addition, the CDLAC reviews (1) requests for transferring portions of the state's allocation to local authorities and (2) applications by state agencies to receive an allocation of the state's portion of the bond limit.

The committee is composed of the State Treasurer (Chairman), the Governor (or, in his absence, the Director of Finance) and the State Controller. The committee has two personnel-years in the current year, and also receives administrative support from the State Treasurer's Office.

Pursuant to Ch 943/87, the committee will begin to charge fees in 1988 to the lead underwriter of bond issues. These fees will be deposited in the CDLAC fund and will be used to support the activities of the committee in 1988-89 and future years.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$222,000 from the California Debt Limit Allocation Committee Fund for support of CDLAC during 1988-89. This is an increase of \$51,000, or 30 percent, above estimated expenditures for the current year. The increase in CDLAC's budget reflects the combined effects of: (1) a \$30,000 increase in the amount paid by CDLAC to the State Treasurer's Office for support services; (2) an additional \$14,000 for increased costs associated with bond ceiling allocations under federal tax reform; (3) salary and price increases totaling \$4,000; and (4) a \$3,000 increase in the amount provided for retirement benefits. Our analysis indicates that the proposed expenditures for the committee are reasonable.

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Item 0965 from the Industrial
Development Fund

Budget p. LJE 110

Requested 1988-89.....	\$362,000
Estimated 1987-88.....	355,000
Actual 1986-87.....	267,000
Requested increase (excluding amount for salary increases) \$7,000 (+2.0 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Common Reserve Funds. Recommend adoption of legislation authorizing the commission to transfer monies from the Industrial Development Fund into common reserve funds.

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GENERAL PROGRAM STATEMENT

The California Industrial Development Financing Advisory Commission (CIDFAC) was created by Ch 1358/80 for the purpose of evaluating industrial development bonds (IDBs) which are issued by local development authorities. The proceeds of the bonds assist private businesses with the construction or purchase of certain industrial facilities. Current state and federal regulations provide a tax-exemption for the interest on IDBs, which allows businesses to obtain financing for qualified projects at rates below conventional financing. These bonds are subject to the state's volume cap for "private activity" bonds, which may restrict the level of IDBs issued in 1988. Chapter 816, Statutes of 1986, increased from \$250 million to \$350 million, the maximum amount of federally tax-exempt IDBs which may be issued per year. Chapter 1109, Statutes of 1987, authorizes the issuance of an additional \$350 million in bonds which are federally taxable, but not taxable by the state. The commission sunsets January 1, 1990.

The CIDFAC is responsible for reviewing all proposed IDB issues to ensure that they comply with disclosure regulations, have proper security, and satisfy certain public policy requirements. The commission consists of the State Treasurer, the State Controller, the Director of Finance, the Director of the Department of Commerce, and the Commissioner of Corporations. It is staffed with four personnel-years in the current year.

The commission's activities are funded from fees that are charged to the applicants which submit IDB issues for review. Beginning in 1988, the commission advises that it will reduce its fee from \$2,500 to \$1,250 for each application, plus an amount equal to one-quarter (down from one-half) of 1 percent of the total face value of the proposed issue. The fee revenues, which are estimated to total \$250,000 in 1988-89, are deposited into the Industrial Development Fund.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$362,000 from the Industrial Development Fund for support of the CIDFAC in 1988-89. This is an

increase of \$7,000, or 2 percent, over estimated current-year expenditures, and is attributable to salary and price increases.

ANALYSIS AND RECOMMENDATIONS

Legislation Needed to Establish Common Reserve Funds

We recommend the adoption of legislation that would authorize the commission to transfer a portion of the surplus in the Industrial Development Fund into common reserve funds.

Government Code Section 91560 expresses legislative intent that the commission establish common reserve funds to assist small businesses in securing bonds. It authorizes the commission to levy fees on bond issues for this purpose once it has adopted regulations for the operation of the common reserve funds.

Rather than levy new fees for the establishment of common reserve funds, the commission proposes to use a portion of the existing surplus in the Industrial Development Fund (estimated at \$3 million for 1987-88). However, current law does not provide the commission with any authority to transfer the surplus funds to these common reserve funds.

Because the Legislature has expressed its intent that the commission establish these common reserve funds, we recommend that legislation be adopted authorizing the commission to transfer its surplus funds as necessary for this purpose.

Business, Transportation and Housing Agency
CALIFORNIA MORTGAGE BOND AND TAX CREDIT
ALLOCATION COMMITTEE

Item 0968 from the General
Fund, Mortgage Bond and
Tax Credit Allocation Fee
Account

Budget p. LJE 121

Requested 1988-89.....	\$120,000
Estimated 1987-88	116,000
Actual 1986-87	13,000
Requested increase \$4,000 (+3.5 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Mortgage Bond and Tax Credit Allocation Committee was established by Ch 1097/81 to assure that the state complies with the requirements of the Federal Mortgage Subsidy Bond Tax Act of 1980. The committee is responsible for allocating to state and local entities the amount of tax-exempt mortgage revenue bonds that may be issued in California to finance loans on owner-occupied and multifamily rental housing. In addition, the committee allocates state and federal tax credits to developers of qualified low-income rental projects.

CALIFORNIA MORTGAGE BOND AND TAX CREDIT ALLOCATION COMMITTEE—Continued

Chapter 658, Statutes of 1987, renamed the committee from the California Mortgage Bond Allocation Committee and appropriated \$100,000 from the Mortgage Bond and Tax Credit Allocation Fee Account, in the General Fund, to implement a new *federal* tax credit program for low-income housing. Chapter 1139, Statutes of 1987, subsequently delegated to the committee the responsibility for implementing a *state* tax credit program to supplement the federal program.

The seven-member committee is composed of the State Treasurer who acts as the chairperson, the Governor (or in the Governor's absence, the Director of Finance), the State Controller, the Director of the Department of Housing and Community Development, the Executive Director of the California Housing Finance Agency, and two representatives of local government. The committee receives staff assistance from personnel in the Treasurer's office.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$120,000 from the Mortgage Bond and Tax Credit Allocation Fee Account in the General Fund for support of the committee in 1988-89. This is \$4,000, or 3.5 percent, more than estimated current year expenditures.

The committee's budget is supported entirely by application fees deposited in the Mortgage Bond and Tax Credit Allocation Fee Account. These fees, currently set at \$300 per application, are collected from state and local entities which seek authorization to issue bonds. In addition, the committee collects fees from developers who apply for federal tax credits.

Our analysis indicates that the expenditures proposed for the committee are reasonable.

CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY

Item 0971 from the California
Alternative Energy Authority
Fund

Budget p. LJE 122

Requested 1988-89	\$149,000
Estimated 1987-88	146,000
Actual 1986-87	66,000
Requested increase (excluding amount for salary increases \$3,000) (+2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Alternative Energy Source Financing Authority (CAESFA) was created by Chapter 908, Statutes of 1980, for the purpose of issuing up to \$200 million of revenue bonds to finance alternative

energy projects undertaken by private businesses. Interest earned on the bonds is exempt from state and federal income taxes, provided that the projects comply with various federal requirements. Alternative energy sources include geothermal, solar, biomass, wind, cogeneration, and small hydroelectric projects, as well as energy conservation projects that reduce the use of fossil and nuclear fuels. As of December 31, 1987 the authority had about \$117 million in bonds outstanding, with \$83 million in remaining authorization.

The authority consists of five state officers: the State Treasurer, who is chairman, the Director of Finance, the Chairman of the Energy Commission, the President of the Public Utilities Commission, and the State Controller. Ongoing support is provided from the California Alternative Energy Authority Fund (CAEAF), which derives its revenue from application and other fees paid to the authority. CAESFA has two personnel-years.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$149,000 from the CAEAF for support of the authority in 1988-89. This is an increase of \$3,000 from the current year budget and results from increased salary and expense costs.

The requested appropriation is entirely from fees collected by the authority and from surplus remaining in the CAEAF. Ultimately, funding is available only to the extent that the authority receives fees from project proponents (currently fees cover only about 20 percent of the total budget request). The proposed 1988-89 expenditure is within the scope of the program previously approved by the Legislature.

The federal Tax Reform Act of 1986 generally restricts the size and type of projects that the authority can finance with federally tax-exempt bonds. In addition, the remaining \$83 million in bond authority is subject to the state's private activity bond ceiling established by the tax reform act. Currently, the authority is evaluating program alternatives, including the possibility of issuing bonds exempt only from state tax, because changes in the tax law have reduced interest in CAESFA financing.

**CALIFORNIA TASK FORCE TO PROMOTE SELF-ESTEEM AND
PERSONAL AND SOCIAL RESPONSIBILITY**

Item 0994 from the General
Fund

Budget p. LJE 127

Requested 1988-89	\$252,000
Estimated 1987-88	232,000
Actual 1986-87	105,000
Requested increase (excluding amount for salary increases) \$20,000 (+8.6 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

Chapter 1065, Statutes of 1986 (AB 3659), established the California Task Force to Promote Self-Esteem and Personal and Social Responsibil-

CALIFORNIA TASK FORCE TO PROMOTE SELF-ESTEEM AND PERSONAL AND SOCIAL RESPONSIBILITY—Continued

ity. The task force consists of 25 members and is directed to study and make findings concerning the relationships between healthy self-esteem, personal responsibility, and social problems. The task force is mandated to submit progress reports to the Legislature on January 15, 1988 and 1989 and a final report on or before January 15, 1990. The initial report was submitted as scheduled. The task force sunsets on July 1, 1990.

The task force has two personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of \$252,000 for support of task force activities in 1988-89. This amount is an increase of \$20,000, or 8.6 percent, above estimated current-year expenditures. The increase in the task force budget largely reflects (1) an increase in operating expenses of \$14,000 and (2) the reclassification of an administrative position.

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 1988-89	\$9,086,000
Estimated 1987-88	8,612,000
Actual 1986-87	8,039,000
Requested increase (excluding amount for salary increases) \$474,000 (+5.5 percent)	
Total recommended reduction	\$118,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1100-001-001—Support	General	\$8,969,000
Reimbursements	—	117,000
Total		\$9,086,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | <i>Analysis
page</i> |
|---|--------------------------|
| 1. Compliance With Budget Act Language. Recommend that the museum and the Department of General Services report at budget hearings on why the Legislature was not informed prior to the approval of a new parking contract. | 94 |
| 2. Parking Operations. Reduce reimbursements by \$98,000. Recommend reduction because the museum has not justified how the funds will be spent. | 95 |
| 3. Working Drawings. Reduce Item 1100-001-001 by \$20,000. Recommend reduction because project is undefined. Working drawings should be budgeted as a capital outlay project. | 96 |