

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

because construction cannot begin at this project until construction at Wards 1, 2, 3C begins in 1989-90. (Reduce Items 1970-301-036(8) and 1970-301-036(6) by \$783,000 and \$1,736,000, respectively.)

Items 1970-301-036(8) and 1970-301-890(6) provide \$2,637,000 for working drawings and construction to remodel Wards 1, 2, 3D. Information received from the department, however, indicates that construction at the D Wards and at the C Wards must be undertaken as a single project. Neither ward complex, by itself, has a sufficient number of beds to qualify for federal construction funds. Construction at the D Wards, therefore, must be delayed until 1989-90, along with construction at the C Wards. This factor, combined with the need to have working drawings 80 percent complete by June 15, 1988, assure that federal funds will not be available for construction in the budget year.

Consequently, we recommend deletion of construction funds for this project in Item 1970-301-036(8) (\$783,000) and Item 1970-301-890(6) (\$1,736,000). We recommend retention of \$118,000 in Item 1970-301-036(8) for preparation of working drawings, so that this project will qualify for federal construction funds in 1989-90.

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.

Business, Transportation and Housing Agency
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 2100 from the General
Fund

Budget p. BTH 1

Requested 1988-89.....	\$22,579,000
Estimated 1987-88	21,799,000
Actual 1986-87	18,043,000
Requested increase (excluding amount for salary increases) \$780,000 (+3.6 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

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

It maintains 25 district and branch offices throughout the state, as well as a headquarters in Sacramento. The department has 419.2 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes total expenditures of \$22.6 million for support of the ABC in the budget year. This amount includes an appropriation of \$21.7 million from the General Fund and \$852,000 in reimbursements. The total amount provided for support of the ABC is \$780,000, or 3.6 percent, above estimated current-year expenditures. This amount reflects an increase in operating expenses and equipment of \$200,000, and an increase in personal services of \$580,000 due to the full-year costs of salary adjustments provided in the current year.

Table 1 provides a summary of expenditures and personnel-years for the department's three programs.

Table 1
Department of Alcoholic Beverage Control
Program Summary
1986-87 through 1988-89
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>			<i>Percent</i>
	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Change</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>	<i>From</i>
Licensing	195.3	205.4	205.4	\$11,726	\$12,027	\$12,252	1.9%
Compliance	107.2	171.0	173.0	6,317	9,772	10,327	5.7%
Administration (distributed)	42.8	42.8	42.8	(2,180)	(2,407)	(2,452)	1.9%
Totals	345.3	419.2	421.2	\$18,043	\$21,799	\$22,579	3.6%

General Fund Revenues Projected to Increase

The ABC is supported by the General Fund and produces revenue for the General Fund. It collects license fees and various fees and charges,

Table 2
Department of Alcoholic Beverage Control
License Fees and Miscellaneous General Fund Revenues
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>From</i>
Out-of-state beer certificates	\$11	\$11	\$11	—
Original license fees	3,110	3,204	3,304	3.1%
Transfer fees	4,755	4,200	4,200	—
Special fees	344	344	344	—
Service charges	179	200	200	—
Annual Fees	17,862	18,081	18,326	1.4
Offers in Compromise	2,491	2,500	2,700	8.0
Ten percent surcharge on annual fees	1,721	1,741	1,765	1.4
Caterer's authorization, permits, and manager's certificates	599	500	500	—
Surcharge on annual fees for administrative hearings	689	792	861	8.7
Modification of conditions	18	18	18	—
Penalty assessments	278	290	290	—
Miscellaneous income	5	—	—	—
Sale of documents	1	—	—	—
Totals	\$32,063	\$31,881	\$32,519	2.0%

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

according to schedules established by statute. All money collected by the department is deposited in or transferred to the General Fund.

Table 2 provides a summary of actual, estimated, and proposed revenues by fiscal year. As shown in the table, the department estimates that its activities will generate revenues to the General Fund of \$32.5 million in 1988-89. This is an increase of \$638,000, or 2 percent, over estimated current-year revenues. The increase is largely attributable to the projected growth in the number of active licenses.

Business, Transportation and Housing Agency
ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 2120 from the Alcoholic
 Beverage Control Appeals
 Fund

Budget p. BTH 4

Requested 1988-89.....	\$416,000
Estimated 1987-88	401,000
Actual 1986-87	347,000
Requested increase (excluding amount for salary increases) \$15,000 (+3.7 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

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

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

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$416,000 from the Alcoholic Beverage Control Appeals Fund for support of the board in 1988-89. This amount is \$15,000, or 3.7 percent, more than estimated current-year expenditures. The proposed change results from a \$7,000 increase in personal services, which reflects the full-year cost of a salary adjustment provided in the current year, and \$8,000 for increased costs of operating expenses and equipment.

STATE BANKING DEPARTMENT

Item 2140 from various funds

Budget p. BTH 5

Requested 1988-89	\$11,787,000
Estimated 1987-88	11,474,000
Actual 1986-87	10,018,000
Requested increase (excluding amount for salary increases) \$313,000 (+2.7 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2140-001-136—Support	State Banking	\$11,433,000
2140-001-240—Administration of local agency security	Local Agency Deposit Security	254,000
Reimbursements		100,000
Total		\$11,787,000

GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from losses that may result when a bank or trust company fails. Banks have the option of being federally or state chartered. Only state chartered banks are subject to regulation by this department.

In addition, the department is responsible for (1) regulating companies which sell domestic or international money orders; (2) licensing and regulating Business and Industrial Development Corporations (BIDCOs); and (3) certifying securities as legal investments for public agencies in California.

The programs of the department are supported by revenues from (1) annual assessment of institutions licensed by the department, (2) various other license and examination fees, and (3) sale of publications.

The department is administered by the Superintendent of Banks, who is appointed by the Governor. In the current year, it has a staff of 182 personnel-years.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$11,433,000 from the State Banking Fund and \$254,000 from the Local Agency Deposit Security Fund for support of the State Banking Department in 1988-89. In addition, the department anticipates reimbursements of \$100,000 during the budget year from fees charged for examining institutions under its supervision, and the sale of publications. Including reimbursements, the budget proposes total expenditures of \$11,787,000 in 1988-89, which is \$313,000, or 2.7 percent, more than the estimated current-year expenditures from these sources.

Table 1 shows expenditures and personnel-years for the department's activities in the past, current, and budget years. Table 2 summarizes the budget changes proposed for 1988-89.

STATE BANKING DEPARTMENT—Continued

Table 1

**State Banking Department
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	
Licensing and supervision of banks and trust companies...	160.1	168.5	174.7	\$9,581	\$10,863	\$11,128	2.4%
Payment instruments	4.0	4.8	4.9	209	275	306	11.3
Certification of securities	0.2	0.2	0.2	9	12	14	16.7
Supervision of California Business and Industrial Development Corporations	1.7	2.2	2.2	61	82	85	3.6
Administration of local agency se- curity	3.2	6.0	6.0	158	242	254	4.9
Departmental administration	(37.8)	(40.5)	(43.7)	(2,682)	(3,960)	(3,430)	-13.4
Totals	169.2	181.7	188.0	\$10,018	\$11,474	\$11,787	2.7%
Funding Sources							
State Banking Fund				\$9,690	\$11,132	\$11,433	2.7%
Local Agency Deposit Security Fund				158	242	254	4.9
Reimbursements				170	100	100	—

Table 2

**State Banking Department
Proposed 1988-89 Budget Changes
(dollars in thousands)**

	State Banking Fund	Local Agency Deposit Security Fund	Reimburse- ments	All Funds
1987-88 Expenditures (Revised)	\$11,132	\$242	\$100	\$11,474
Baseline Adjustments				
Cost-of-living salary adjustment	285	5	—	290
Correct underbudgeted staff benefits	217	5	—	222
Salary adjustments for examiners	440	—	—	440
One-time funding of office automation system and other equipment	-969	—	—	-969
Reduced data processing costs	-120	—	—	-120
Increased pro rata charges	140	2	—	142
Subtotals, Baseline Adjustments	(-\$7)	(\$12)	—	(\$5)
Workload Changes	\$129	—	—	\$129
Program Changes				
Additional training funds	100	—	—	100
White-collar crime investigators	79	—	—	79
Subtotals, Program Changes	(\$179)	(—)	(—)	(\$179)
1988-89 Expenditures (Proposed)	\$11,433	\$254	\$100	\$11,787
Change from 1987-88:				
Amount	\$301	12	—	\$313
Percent	2.7%	4.9%	—	2.7%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this budget request, including the following significant proposed changes:

- *Baseline adjustments* for (1) special salary increments for bank examiners (\$440,000) and (2) correcting underbudgeted staff benefits (\$222,000); and
- *Program change proposal* for additional training funds for the department's examiners and attorneys, so that they will be better prepared for changes in the financial marketplace caused by deregulation (\$100,000).

Examiner Turnover Problem Relieved

In the 1987-88 *Analysis* (please see pages 206-209), we called attention to the problem of high turnover among bank examiners, identified the probable causes and recommended that certain administrative steps be taken by the Departments of Banking and Personnel Administration to ease the problem. The *Supplemental Report of the 1987 Budget Act* required the State Banking Department to report on the implementation of the approved administrative steps and the extent to which these steps helped alleviate the department's turnover problem. In addition, the Department of Personnel Administration was mandated to conduct a specified, comparative salary and benefits survey on state examiners and report its findings and recommendations to the Legislature by November 1, 1987.

The State Banking Department reported that the administrative steps approved by the Legislature—which essentially provided more autonomy and flexibility to the department to hire and promote examiners—reduced examiner resignations from 24 in 1986 to 4 in 1987. However, the department indicated that it may still face examiner recruitment and retention problems in the future, because of the higher salaries and benefits offered to examiners by its federal counterparts.

The Department of Personnel Administration (DPA) reported that it took the following actions to relieve the examiner turnover problem: (1) authorized "deep class" and "modified classification review" for examiner positions to provide more autonomy and flexibility to the State Department of Banking for hiring and promoting examiners in these positions; (2) increased the entry level salary for examiners to help their recruitment; (3) negotiated a combined salary increase of 8.75 percent for examiners, effective January 1, 1988; and (4) initiated talks with appropriate employee representatives to modify the salary ranges for examiner classes, which would provide outstanding examiners more rapid advancement and, thus, help the employers to retain them.

The DPA report asserted that it was "virtually impossible" to compare benefit packages provided by the surveyed employers, but concluded that—with the actions stated above—the state will be "... in a very competitive posture in attracting and retaining qualified Examiner personnel." The report did not provide recommendations—as required by supplemental report language—to ensure that the state remains competitive for recruiting and retaining qualified examiners.

Our analysis indicates that the experience during the current and budget years will determine whether the actions taken by the DPA and the State Banking Department will bring about a permanent improve-

STATE BANKING DEPARTMENT—Continued

ment in the examiner turnover problem. This is because it will take that long for recently hired or promoted examiners to reach the level of expertise of departed employees.

DEPARTMENT OF CORPORATIONS

Item 2180 from the General
Fund

Budget p. BTH 11

Requested 1988-89	\$20,906,000
Estimated 1987-88	18,869,000
Actual 1986-87	18,171,000
Requested increase (excluding amount for salary increases) \$2,037,000 (+10.8 percent)	
Total recommended reduction	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2180-001-001—Support	General	\$9,729,000
Reimbursements	—	11,177,000
Total		\$20,906,000

GENERAL PROGRAM STATEMENT

The Department of Corporations is responsible for protecting the public from unfair business practices and the fraudulent or improper sale of financial products and services. The department fulfills this responsibility through three major programs: (1) investment, (2) lender-fiduciary, and (3) health care service plans. The cost of administering the department is prorated among these programs.

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

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

The *Health Care Service Plan program* is responsible for regulating health plans under the Knox-Keene Health Care Service Plan Act of 1975, and for administering the charitable trust statutes, as they relate to health care service plans.

The cost of the Investment program is financed by the General Fund. The costs of the other two programs are fully reimbursed from assessments of the entities regulated by these programs.

The department has 341.7 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$20,906,000 in 1988-89 which is \$2,037,000, or 11 percent, above the estimated total expenditures in the

current year. Of the total expenditures, \$9,729,000 is from the General Fund. In addition, the department expects to receive reimbursements of \$11,177,000 from licenses and fees charged for examining the financial records of licensees.

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

Program	<i>Personnel-Years</i>			<i>Expenditures</i>			<i>Percent</i>
	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Change</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>	<i>From</i>
Investment	166.7	169.6	182.2	\$9,036	\$8,968	\$9,558	6.6%
Lender-fiduciary	129.8	132.6	129.4	6,635	7,537	7,883	4.6
Health care service plan	41.4	39.5	44.1	2,500	2,364	3,465	46.4
Administration (distributed)	(17.4)	(17.5)	(17.5)	(935)	(970)	(986)	1.6
Totals	337.9	341.7	355.7	\$18,171	\$18,869	\$20,906	10.8%
Funding Sources							
General Fund				\$8,651	\$9,011	\$9,729	7.9%
Reimbursements				9,520	9,858	11,177	13.4

Table 2
Department of Corporations
Proposed 1988-89 Budget Changes
(dollars in thousands)

	<i>General</i>	<i>Reimburse-</i>	<i>Total</i>
	<i>Fund</i>	<i>ments</i>	
1987-88 Expenditures (Revised)	\$9,011	\$9,858	\$18,869
<i>Baseline Adjustments</i>			
Cost-of-living salary adjustments	139	133	272
Salary adjustment for examiners	—	190	190
Adjustment for underbudgeted operating ex-			
penses	190	—	190
Investment program funding adjustment	348	—348	—
Price increases	41	39	80
Subtotals, Baseline Adjustments	(\$718)	(\$14)	(\$732)
<i>Workload Changes</i>			
Increased broker-dealer examinations	—	\$245	\$245
Auditing new health plans	—	784	784
Additional staff for medical surveys	—	180	180
Subtotals, Workload Changes	—	(\$1,209)	(\$1,209)
<i>Program Changes</i>			
Appraiser and clerical staff for Lender-Fiduciary			
program	—	\$96	\$96
1988-89 Expenditures (Proposed)	\$9,729	\$11,177	\$20,906
Change from 1987-88:			
Amount	\$718	\$1,319	\$2,037
Percent	7.9%	13.4%	10.8%

DEPARTMENT OF CORPORATIONS—Continued

The department estimates that its programs will generate revenues of \$13,269,000 from assessments, licenses and fees for the General Fund in 1988-89. These General Fund revenues (\$13.3 million) will exceed the General Fund costs (\$9.7 million) of operating the department by \$3.6 million. Thus, the department anticipates that net General Fund revenues will be generated from its assessments, licenses and fees during 1988-89.

Table 1 shows the personnel and budget requirements of the department for the past, current and budget years. Table 2 summarizes the significant budget changes proposed for 1988-89.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this budget request, including the following significant proposed changes:

- *Baseline adjustments* for (1) salary increases (\$462,000); (2) under-budgeted operating expenses (\$190,000); and (3) accounting changes to correct underbudgeting of General Fund support for the Investment program (\$348,000);
- *Workload changes* for (1) increased broker-dealer examinations (\$245,000); (2) auditing new health plans (\$784,000); and (3) additional staff to conduct medical surveys (\$180,000); and
- *Program change* providing additional appraiser and clerical staff for the Lender-Fiduciary program (\$96,000).

Examiner Turnover Problem Relieved

In the 1987-88 *Analysis* (please see pages 213-215), we called attention to the problem of high turnover among Department of Corporations examiners, identified the probable causes and recommended that certain administrative steps be taken by the Departments of Personnel Administration (DPA) and Corporations to ease the problem. The *Supplemental Report of the 1987 Budget Act* required the Department of Corporations to report on the implementation of the approved administrative steps and the extent to which these steps helped to alleviate the department's turnover problem. In addition, the DPA was mandated to conduct a specified, comparative salary and benefits survey on state examiners and report its findings and recommendations to the Legislature by November 1, 1987.

The Department of Corporations reported that the administrative steps which were approved by the Legislature (which essentially provided more autonomy and flexibility to the department to hire and promote examiners) reduced examiner turnover from 9 in 1986 to 3 in 1987. Upon completing its mandated salary survey, the DPA reported that state examiners compared favorably for salaries and benefits with the salaries and benefits received by examiners of other large industrial states. Thus, DPA concluded that further salary adjustments were not warranted at this time.

Our analysis indicates that the experience during the current and budget years will determine whether the collective actions taken by the DPA and the Department of Corporations will bring about a permanent improvement in the examiner turnover problem. This is because it will take that long for the recently hired or promoted examiners to reach the levels of tenure and expertise where most of the turnovers occurred in the past.

DEPARTMENT OF COMMERCE

Item 2200 from the General
Fund and various funds

Budget p. BTH 19

Requested 1988-89.....	\$59,078,000
Estimated 1987-88	40,207,000
Actual 1986-87	21,995,000
Requested increase (excluding amount for salary increases) \$18,871,000 (+46.9 percent)	
Total recommended reduction.....	31,500,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2200-001-001—Support	General	\$16,122,000
2200-001-123—Support	Rural Economic Development	22,000
2200-001-535—Support	California Main Street Program	(252,000)
2200-001-922—Support	Economic Development Grant and Loan	75,000
2200-101-036—Local assistance	Special Account for Capital Outlay	21,000,000
2200-101-123—Local assistance	Rural Economic Development	10,000,000
Statutory Appropriation—Local assistance	Rural Economic Development	7,586,000
2200-101-147—For transfer to Special Account for Capital Outlay	Unitary	(21,000,000)
2200-101-890—For transfer to Rural Economic Development Fund	Federal Trust	(10,000,000)
2200-101-922—Local assistance	Economic Development Grant and Loan	3,200,000
Reimbursements	—	1,073,000
Total		\$59,078,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Sematech Proposal. Delete Items 2200-101-036 and 2200-101-147.* Recommend deletion of \$21 million proposed to support Sematech facility because California was not chosen as the site for the project. 190
2. *Rural Infrastructure Loans. Delete Items 2200-101-123 and 2200-101-890.* Recommend deletion of \$10 million requested to fund infrastructure loans to rural communities because the need for additional funds in 1988-89 has not been demonstrated. 190
3. *Marketing Programs. Reduce Item 2200-001-001 by \$500,000.* Recommend that \$500,000 requested as a special cost-of-living adjustment for marketing programs instead be allocated by the Legislature for other higher-priority programs. 191
4. *Infrastructure Financing. Delete Item 2200-001-922 and add Item 2200-001-147 in the amount of \$75,000.* Recommend \$75,000 requested from the Economic Development Grant and Loan Fund to develop regulations for infrastructure financing program be provided instead from the Cali- 192

DEPARTMENT OF COMMERCE—Continued

fornia Unitary Fund. Further recommend the adoption of Budget Bill language prohibiting expenditure of the funds until the California Development Review Panel has provided the department with specific instructions regarding the development of regulations.

GENERAL PROGRAM STATEMENT

The principal mission of the Department of Commerce is to promote business development in the state. Its specific responsibilities include:

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

The department is headed by a director who is appointed by the Governor. In addition, the department receives guidance from a 21-member advisory council representing a cross section of the state's economy. The department has 105.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Total expenditures of \$59,078,000 are proposed for support of the department in 1988-89. This is an increase of \$18,871,000, or 47 percent, above estimated current year expenditures. The budget proposes an appropriation of \$16,122,000 from the General Fund in 1988-89. This is \$917,000, or 6 percent, more than estimated General Fund expenditures for the current year.

The largest change in the department's proposed budget for 1988-89 is the appropriation of \$21 million from the Special Account for Capital Outlay for support of Sematech, a nonprofit organization that plans to research techniques to improve the manufacture of semiconductors. The budget also proposes to provide an additional \$10 million from Petroleum Violations Escrow Account monies in 1988-89 for the Rural Economic Development Infrastructure Program. The department's proposed budget also will receive support from the Economic Development Grant and Loan Fund (\$3,275,000) and reimbursements (\$1,073,000).

Table 1 displays the department's expenditures for the past, current and budget years by program. Table 2 shows the proposed changes in the department's expenditures for 1988-89 by fund.

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

Program	<i>Personnel-Years</i>			<i>Expenditures</i>			<i>Percent Change From</i>
	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1987-88
Business development.....	18.5	19.0	19.9	\$2,987	\$3,282	\$3,400	3.6%
California Film Commission.....	5.0	6.5	7.4	462	633	780	23.2
Marketing and communications..	5.6	6.2	6.2	411	441	492	11.6
Tourism.....	10.1	9.5	11.4	7,850	7,804	8,329	6.7
Local development.....	14.3	19.2	13.3	4,373	25,079	42,984	71.4
Small business.....	9.6	10.5	13.3	4,942	2,191	2,292	4.6
Economic research.....	9.4	8.5	8.5	970	777	801	3.1
Administration (distributed).....	23.2	26.5	28.4	(1,262)	(1,526)	(1,656)	8.5
Totals.....	95.7	105.9	108.4	\$21,995	\$40,207	\$59,078	46.9%
Funding Sources							
General Fund.....				\$18,302	\$15,205	\$16,122	6.0%
Rural Economic Development Fund.....				364	13,000	7,608	-41.5
Special Account for Capital Outlay.....				—	—	21,000	^a
Federal Trust Fund.....				542	7,550	10,000	32.5
Small Business Expansion Fund.....				187	—	—	—
Economic Development Grant and Loan Fund.....				1,948	3,200	3,275	2.3
Reimbursements.....				652	1,252	1,073	-14.3

^a Not a meaningful figure.

Table 2
Department of Commerce
Proposed 1988-89 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Federal Funds</i>	<i>Special Account for Capital Outlay</i>	<i>Rural Economic Develop- ment Fund</i>	<i>Economic Develop- ment Grant and Loan Fund</i>	<i>Reim- burse- ments</i>	<i>All Funds</i>
1987-88 Expenditures.....	\$15,205	\$7,550	—	\$13,000	\$3,200	\$1,252	\$40,207
Baseline Adjustments:							
Job Training (JTPA) grants....	—	—	—	—	—	-220	-220
Community Development							
Block Grants.....	—	—	—	—	—	-12	-12
Federal planning grants.....	—	-142	—	—	—	—	-142
Plant closure assistance (SSED).....	—	-408	—	—	—	—	-408
Rural economic development..	—	-7,000	—	-5,414	—	—	-12,414
Foreign language brochures....	-200	—	—	—	—	—	-200
Data processing equipment....	-50	—	—	—	—	—	-50
Employee compensation and benefits.....	111	—	—	—	—	—	111
Operating expense price in- crease.....	280	—	—	—	—	—	280

DEPARTMENT OF COMMERCE—Continued

Program Changes:

Marketing inflation adjustments	500	—	—	—	—	—	500
Foreign investment inquiries...	45	—	—	—	—	—	45
Cooperative motion picture marketing.....	100	—	—	—	—	—	100
Tourism workload.....	46	—	—	—	—	—	46
Local development grant and loan activity.....	30	—	—	—	—	—	30
Infrastructure financing regulations.....	—	—	—	—	75	—	75
Sematech proposal.....	—	—	\$21,000	—	—	—	21,000
Rural economic development ..	—	10,000	—	—	—	—	10,000
Small business energy improvement loans ..	—	—	—	—	—	53	53
Administrative services workload.....	55	—	—	22	—	—	77
1988-89 Budget Request	\$16,122	\$10,000	\$21,000	\$7,608	\$3,275	\$1,073	\$59,078
Change from 1987-88							
Amount.....	\$917	\$2,450	\$21,000	-\$5,392	\$75	-\$179	\$18,871
Percent.....	6%	32.5%	—	-41.5%	2.3%	-14.3%	46.9%

^a Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS**Sematech Funding No Longer Needed**

We recommend deletion of \$21 million proposed for support of Sematech, because California was not chosen as the site for the project. (Delete Items 2200-101-036 and 2200-101-147.)

Sematech is a nonprofit organization, formed by a consortium of U.S.-owned semiconductor companies, that will perform research into manufacturing technologies. The department's proposed budget includes a \$21 million appropriation from the Special Account for Capital Outlay to fund the first year of a five-year, \$125 million proposal made by the state in the hope of inducing Sematech to locate its facilities in California. The funds would be used along with federal and private funds for support of Sematech's operations and facilities.

On January 6, 1987 Sematech announced that it had selected a site in Austin, Texas. As a result, the proposed funding will not be needed, and we recommend that it be removed from the budget.

Rural Infrastructure Loan Funds Adequate For Now

We recommend deletion of \$10 million in additional funding for rural infrastructure loans because the need for increased funding in 1988-89 has not been demonstrated. (Delete Items 2200-101-123 and 2200-101-890.)

The Rural Economic Development Infrastructure Program (REDIP) was created by Ch 1147/86 (SB 2117). This program is intended to provide assistance to rural areas in financing infrastructure improvements. These improvements may help the area to retain, expand or attract businesses, thereby creating jobs and improving local economic conditions. Chapter 1147 also created the Rural Economic Development Infrastructure Panel to oversee the program, review applications, and to make the final decisions on the distribution of grant and loan funds. The Department of Commerce provides the administrative support for the panel.

The budget requests that \$10 million be transferred from the Petroleum Violations Escrow Account (PVEA) to the Rural Economic Development Grant and Loan Fund to support additional grants and loans. These funds are in addition to \$20 million provided for this purpose in the current year. The Governor's Budget anticipates that all but \$7.6 million of the current year funding will be committed by the end of 1987-88.

Limited Number of Applicants. According to information provided by the department, there are 18 potential applicants for the existing pool of loan funds. Not all of these parties have yet submitted a formal application for funding, but the department believes that they are likely to do so within the first three months of 1988. The total amount of funding sought by these parties amounts to \$15.3 million, but the amount which will ultimately be committed on their behalf is likely to be less. This is because some of the requests exceed the \$1 million preferred maximum amount established by the REDIP panel, and others may be denied or provided with an amount lower than they requested. For example, Chapter 1147 requires that the panel consider the probability that a requested loan will be repaid, and some of the applications may not provide sufficient security to be approved.

With respect to other potential applicants, the department indicates that it expects other candidates to come forward as other potential projects are identified. Typically, the department first works with the local community's economic development planning group to prepare an overall strategy for the community's efforts. A portion of this effort relates to the identification of potential infrastructure improvement projects. Once a project is identified, the community must locate an actual business participant willing to commit to the project, and develop the actual financial parameters for it. In most cases, this process requires a significant amount of time to complete.

The department has not identified any specific candidates that are likely to apply for funding in the budget year. Given that the department has been working with local communities in the development of their planning strategies since the legislation was enacted, and is not now aware of any other projects that are being put together, we conclude that it is highly unlikely that any significant number of additional projects could be planned and funded prior to the end of the budget year. Because the department is unable to demonstrate a need for funds beyond those which are now available, we recommend that further funding for the program await the identification of additional applicants. Because all of the currently available funds will not have been committed in the current year, adoption of this recommendation would still leave the department with some capacity to allocate funds for additional projects in 1988-89.

Special COLA Raises Question of Priorities

We recommend that \$500,000 requested as a special cost-of-living adjustment for the tourism and business marketing programs instead be allocated by the Legislature to those programs it considers to be of higher priority. (Reduce Item 2200-001-001 by \$500,000.)

The budget requests \$500,000 to fund a special cost-of-living adjustment (COLA) for the department's tourism and business marketing programs. This amount is in addition to the 2.5 percent general price increase included in the department's budget. The department asserts that these

DEPARTMENT OF COMMERCE—Continued

programs are in need of additional funds because the cost of television, radio and print advertising has increased at a faster rate than the program's budget for the last two years. As a result, the amount of funds available to the department has less purchasing power, and the level of advertising is declining as a result.

We do not disagree with the department's assertion that recent inflation has exceeded the increase in funding for these programs in the last two years. However, the same is true for most other programs which rely on state funding, many of which provide vital public services. Some of these programs, such as the Foster Care and Medically Indigent Services Programs, do not even receive the benefit of the 2.5 percent general price increase provided all state agencies, because the programs are operated by local agencies. These programs have also experienced a loss of purchasing power in the last two years, with the consequence that persons who are reliant on various public programs are receiving a continually decreasing level of service. Because the funds requested by the department could be used by the Legislature to address what it considers to be the higher-priority needs of other state-funded programs, we recommend that the extra funds requested by the department not be approved.

Regulation Development Should Await Panel's Guidance

We recommend the adoption of Budget Bill language prohibiting the department from expending funds for the development of regulations related to infrastructure financing until it has received specific instructions from the California Development Review Panel. We further recommend that \$75,000 requested from the Economic Development Grant and Loan Fund to contract for the development of these regulations be provided instead from the California Unitary Fund. (Delete Item 2200-001-922 and add Item 2200-001-147 in the amount of \$75,000).

Chapter 660, Statutes of 1986 provides for the establishment of the Economic Development Review Panel. Once established, the panel is to use funds appropriated to it by the Legislature from the California Unitary Fund to assist economic development projects in need of infrastructure financing. At the time of this analysis, all of the members of the panel had not yet been named.

The California Unitary Fund was created as the depository for "election fees" paid by multinational corporations choosing the "water's edge" method, as opposed to the unitary method, of determining their bank and corporation tax liability. The Governor's Budget assumes that the fund will receive \$10 million in election fee revenues late in the 1988-89 fiscal year. The budget does not propose any appropriation of these funds for allocation by the panel.

The department's budget requests \$75,000 from the Economic Development Grant and Loan Fund to contract for the development of regulations to implement Chapter 660's infrastructure financing program. However, the only duty assigned to the department by Chapter 660 is to provide all necessary staffing for the panel. The *panel* is charged with the responsibility for developing regulations for the program, and for ensuring that certain conditions are met by loan applicants prior to the allocation of funds. While we do not disagree that costs will be

incurred in developing policies and regulations, it would be appropriate for the department to await the panel's input. Accordingly, we recommend adoption of the following Budget Bill language:

The funds appropriated in this item shall not be available for expenditure by the department until the California Development Review Panel has provided the department with specific instructions related to the development of regulations.

In addition, we are concerned about the source of funds proposed in the budget to cover these costs. The Economic Development Grant and Loan Fund provides a source of funds for making grants or loans to public and private agencies for public works and economic development projects. The statutory authorization (Section 15327 of the Government Code) provides that the funds may be used only for these purposes; it does not authorize the department to defray its administrative costs from this source. Thus, in our view, it would be more appropriate to fund the administrative costs of this program from the California Unitary Fund, because it is the funding source for the infrastructure financing program's costs. Accordingly, we further recommend that the \$75,000 requested to fund the development of regulations for the program instead be provided from the California Unitary Fund.

Business, Transportation and Housing Agency
DEPARTMENT OF HOUSING AND COMMUNITY
DEVELOPMENT

Item 2240 from the General
 Fund and various special
 funds

Budget p. BTH 30

Requested 1988-89	\$120,246,000
Estimated 1987-88	130,231,000
Actual 1986-87	104,420,000
Requested decrease (excluding amount for salary increases) \$9,985,000 (-7.7 percent)	
Total recommended reduction	622,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2240-001-001—Support	General	\$6,348,000
2240-001-245—Support	Mobilehome Park Revolving	2,636,000
2240-001-259—Support	1987 Southern California Earth- quake Account	52,000
2240-001-451—Support	Manufactured Home License Fee Account	1,831,000
2240-001-530—Support	Mobilehome Park Purchase	240,000
2240-001-635—Support	Rural Predevelopment Loan	176,000
2240-001-648—Support	Mobilehome-Manufactured Home Revolving	11,622,000
2240-001-813—Support	Self-Help Housing	161,000

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT— Continued

2240-001-843—Support	California Housing Trust	(53,000)
2240-001-844—Support	Farm Labor Housing Rehabilitation Loan Account	33,000
2240-001-890—Support	Federal Trust	1,242,000
2240-001-929—Support	Housing Rehabilitation Loan	573,000
2240-001-936—Support	Homeownership Assistance	211,000
2240-001-938—Support	Rental Housing Construction	614,000
2240-001-980—Support	Urban Predevelopment Loan	220,000
2240-001-984—Support	Rural Communities Facilities	93,000
2240-001-985—Support	Emergency Housing Assistance	133,000
Ch 2x/87	Estimated Savings	52,000
	Mobilehome Park Revolving	-622,000
Subtotals, Support		(25,615,000)
2240-101-001—Local assistance	General	\$6,900,000
2240-101-530—Local assistance	Mobilehome Park Purchase	2,000,000 ^a
2240-101-635—Local assistance	Rural Predevelopment Loan	1,800,000 ^a
2240-101-813—Local assistance	Self-Help Housing	2,600,000 ^a
2240-101-843—Local assistance	California Housing Trust	(10,000,000)
2240-101-844—Local assistance	Farm Labor Housing Rehabilitation Loan Account	500,000
2240-101-890—Local assistance	Federal Trust	56,600,000
2240-101-927—Local assistance	Farmworker Housing Grant	300,000 ^b
2240-101-929—Local assistance	Housing Rehabilitation Loan	5,690,000 ^a
2240-101-936—Local assistance	Homeownership Assistance	204,000 ^a
2240-101-938—Local assistance	Rental Housing Construction	1,845,000 ^a
2240-101-942—Local assistance	Special Deposit—Office of Migrant Services Account	1,015,000 ^a
2240-101-942—Local assistance	Special Deposit Fund—Senior Shared Housing	500,000 ^a
2240-101-972—Local assistance	Mobilehome Recovery	500,000 ^a
2240-101-980—Local assistance	Urban Predevelopment Loan	3,000,000 ^a
2240-101-984—Local assistance	Rural Communities Facilities	108,000
2240-101-985—Local assistance	Emergency Housing Assistance	4,500,000 ^a
Subtotal, Local assistance		(\$88,062,000)
Reimbursements		\$6,569,000
Total Funding		\$120,246,000

^a Spending authority is provided through a statutory continuous appropriation.

^b A total of \$2.8 million is appropriated from this fund of which \$2.5 million is included in the General Fund appropriation.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | <i>Analysis
page</i> |
|--|--------------------------|
| 1. Earthquake Disaster Relief. We recommend that the department report at the time of budget hearings on the status of its earthquake disaster-relief efforts. | 197 |
| 2. Earthquake Disaster Relief. We recommend that 10 proposed positions be approved on a two-year, limited-term basis. | 199 |
| 3. Homeless Relief Pilot Project. We recommend that the department report to the fiscal committees on its expenditure plan for implementing the Homeless Relief Pilot Project. | 200 |

4. Emergency Shelter Program. We recommend that the Legislature adopt supplemental report language requiring the department to submit a report which assesses the effectiveness of the program. 201
5. Emergency Shelter Program. We recommend that the Legislature adopt Budget Bill language requiring the department to: (a) expedite the processing of ESP grants and (b) report on various program implementation problems. 202
6. Century Freeway. We recommend that the department report during budget hearings on why this project has fallen behind schedule. 203
7. *Technical Budgeting. Reduce various items by \$622,000.* We recommend a reduction of \$622,000 from the Mobilehome Park Revolving Fund to eliminate overbudgeting. 204

GENERAL PROGRAM STATEMENT

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

- To protect the public from the inadequate construction, manufacture, repair, or rehabilitation of residential buildings;
- To promote, provide, and assist in the availability of safe, sanitary, and affordable housing; and
- To identify and define problems in housing, and devise appropriate solutions to these problems.

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

The department has 557.1 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$120,246,000 from various sources, including federal funds and reimbursements, for support of the Department of Housing and Community Development (HCD) in 1988-89. This is \$10 million, or 7.7 percent, below estimated current-year expenditures. Excluding federal funds, expenditures in 1988-89 are budgeted at \$62.4 million, which is \$23.2 million, or 27 percent, below estimated current-year expenditures.

Table 1 presents a summary of departmental expenditures, by program and funding source, for the three-year period ending June 30, 1989. As indicated in the table, the department is supported by the General Fund (11 percent), special funds (35 percent), federal funds (48 percent), and reimbursements (6 percent).

The department anticipates receiving approximately \$58 million in federal funds in the budget year. About one-half of this funding, \$26 million, is for the Small Cities portion of the federal Community Development Block Grant program. The HCD first assumed statewide management of the program in October 1982.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT— Continued

Table 1
Department of Housing and Community Development
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
Codes and Standards.....	243.3	253.0	251.1	\$16,911	\$17,167	\$17,589	2.5%
Community Affairs.....	171.8	167.0	172.2	86,321	111,799	101,352	-9.3
Housing Policy Development.....	21.0	22.9	22.9	1,188	1,265	1,305	3.2
Administration.....	105.6	114.2	113.2	(6,151)	(7,131)	(7,372)	(3.4)
Totals.....	541.7	557.1	559.4	\$104,420	\$130,231	\$120,246	-7.7%
Funding Sources							
General Fund.....				\$12,386	\$29,043	\$13,248	-54.4%
Mobilehome Park Revolving Fund.....				2,042	2,026	2,014	-0.6
1987 Southern California Earthquake Account.....				—	52	52	— ^a
Manufactured Home License Fee Account.....				1,812	1,825	1,831	0.3
Mobilehome Park Purchase Fund.....				4,172	4,231	2,240	-47.1
Rural Predevelopment Loan Fund.....				2,069	1,968	1,976	.4
Mobilehome-Manufactured Home Revolving Fund.....				11,366	11,477	11,622	1.3
Self-Help Housing Fund.....				3,248	2,457	2,761	12.4
California Housing Trust Fund ^b				(10,000)	(10,000)	(10,000)	—
Farm Labor Rehabilitation Loan Account.....				27	1,507	533	-64.6
Farmworker Housing Grant Fund.....				195	776	300	-61.3
Housing Rehabilitation Loan Fund.....				4,962	5,532	6,315	14.2
Homeownership Assistance Fund.....				922	2,661	415	-84.4
Rental Housing Construction Fund.....				6,739	3,857	2,459	-36.2
Special Deposit Fund—Office of Migrant Services Account.....				941	990	1,015	2.5
Special Deposit Fund—Senior Shared Housing.....				509	500	500	—
Urban Predevelopment Loan Fund.....				2,243	3,216	3,220	0.1
Rural Communities Facilities Fund.....				12	318	201	-36.8
Mobilehome Recovery Fund.....				42	250	500	100.0
Emergency Housing and Assistance Fund.....				3,984	6,183	4,633	-25.1
Reimbursements.....				6,239	6,850	6,569	-4.1
Subtotals, State Funds.....				(\$63,910)	(\$85,615)	(\$62,404)	(-27.1%)
Federal Trust Fund.....				\$40,510	\$44,616	\$57,842	29.6%
Totals, All Funds.....				\$104,420	\$130,231	\$120,246	-7.7%

^a Not a meaningful figure.

^b Monies appropriated from this fund are transferred to other HCD funds, from which they are counted as expenditures.

Proposed Budget-Year Changes

Table 2 summarizes the major changes in the department's proposed budget for 1988-89. The most significant adjustment to estimated current-year expenditures is a \$15 million reduction in General Fund expenditures. This decrease reflects a one-time appropriation of \$15 million in 1987-88 to assist victims of the October 1987 earthquakes in the Los Angeles-Whittier Narrows area. Workload changes include proposals to spend an additional \$13 million in federal funds. One-half of this amount is proposed for the development of seasonal housing and facilities for migrant farm laborers.

Table 2
Department of Housing and Community Development
Proposed 1988-89 Budget Changes
(dollars in thousands)

	<i>General</i>	<i>Special</i>	<i>Federal</i>	<i>Reimburse- ments</i>	<i>Total</i>
1987-88 Expenditures (Revised)	\$29,043	\$49,722	\$44,616	\$6,850	\$130,231
<i>Baseline Adjustments</i>					
Price increase	\$43	\$113	\$8	\$42	\$206
Employee compensation	91	237	17	87	432
One-time appropriations:					
Los Angeles area earthquake funds	-15,000	—	—	—	-15,000
Telephone installation	-23	-64	-5	-4	-96
Century Freeway	—	—	—	-441	-441
Development of migrant centers	-1,400	—	—	—	-1,400
Purchase copiers and mailing machine	29	156	2	13	200
Miscellaneous	-18	-170	20	—	-168
Subtotals, Baseline Adjustments	(-\$16,278)	(\$272)	(\$42)	(-\$303)	(-\$16,267)
<i>Workload Changes</i>					
Staffing Increases/Decreases:					
Office of Migrant Services	\$55	—	—	—	\$55
Legal affairs office	8	\$19	\$1	\$7	35
Deferred Payment Program loan officer	—	53	—	—	53
Federal Shelter Program loan officer	54	—	—	—	54
Rental housing construction	—	54	—	—	54
Occupational licensing (redirection)	—	7	—	—	7
Accounting office	16	44	3	15	78
Data processing	—	-164	—	—	-164
Federal Funds:					
Community development block grants-small cities	—	—	4,080	—	4,080
Development of migrant centers	—	—	6,600	—	6,600
Housing Assistance Program (Section 8)	—	—	2,500	—	2,500
Loan and Grant Programs:					
Rental housing construction	—	-1,464	—	—	-1,464
Mobilehome park assistance	—	-1,750	—	—	-1,750
Emergency shelter	—	-1,430	—	—	-1,430
Other	—	-1,124	—	—	-1,124
Loan Repayments	—	-1,756	—	—	-1,756
Subtotals, Workload Changes	(\$133)	(-\$7,511)	(\$13,184)	(\$22)	(\$5,828)
<i>Program Changes</i>					
Los Angeles area earthquake assistance	\$350	\$104	—	—	\$454
Subtotals, Program Changes	(\$350)	(\$104)	—	—	(\$454)
1988-89 Expenditures (Proposed)	\$13,248	\$42,587	\$57,842	\$6,569	\$120,246
Change from 1987-88:					
Amount	-\$15,795	-\$7,135	\$13,226	-\$281	-\$9,985
Percent	-54.4%	-14.3%	29.6%	-4.1%	-7.7%

ANALYSIS AND RECOMMENDATIONS

Status of HCD's Earthquake Disaster-Relief Efforts Is Uncertain

We recommend that the Department of Housing and Community Development (HCD) report during budget hearings on various issues relating to the status of its earthquake disaster-relief efforts.

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—
Continued**

During the First Extraordinary Session held in November 1987, the Legislature enacted two measures, Ch 4x/87 and Ch 2x/87, to provide assistance to victims of the earthquakes in the Los Angeles-Whittier Narrows area. Both measures modified and appropriated funds to existing HCD housing programs. These existing programs are administered by local agencies under the supervision of HCD.

Chapter 4x/87 appropriated \$7,500,000 from the Special Fund for Economic Uncertainties for loans and grants (\$7,250,000) and for state administrative costs (\$250,000). The purpose of the loans was to enable owners of *rental housing units* to reconstruct and rehabilitate units damaged in the earthquakes; the grants were to assist households who were displaced from rental housing units due to the earthquakes or reconstruction efforts. In addition, the measure gave HCD the authority to limit the amount of rent that owners may charge for properties rehabilitated with program funds. Finally, the act allows HCD to provide funds to local public entities and to nonprofit corporations for their administration of the loan and grant programs.

Chapter 2x/87 appropriated \$17,500,000 from the Special Fund for Economic Uncertainties as follows:

- \$7,250,000 for deferred-payment loans to reconstruct and rehabilitate *owner-occupied, single-family dwellings* damaged in the earthquakes.
- \$250,000 to HCD for administrative costs.
- \$10,000,000 to the Department of Social Services (DSS) for grants of up to \$10,000 to assist eligible individuals and families who incurred personal and real property damage. Any funds not encumbered by July 1, 1988 will be transferred to HCD for additional loans.

Unlike Ch 4x/87, this measure did not specifically provide money for local administrative costs.

At the time this analysis was prepared, HCD had not yet implemented the disaster-relief programs. The department advises that before it can do so, it must establish various guidelines and procedures, and negotiate agreements with 34 local agencies to administer the loans and grants. However, according to the department, a number of the local entities may decline to administer the programs specified in Ch 2x/87 because that measure does not specifically authorize funds for their administrative costs. The department's interpretation of the measure is that it provides funds for state, but not local, administrative costs. If local entities decline to administer the program, HCD would act by default as the direct lender, which could increase its workload and General Fund costs.

In addition, DSS anticipates that only \$1 million of the \$10 million available to it for individual and family grants will be encumbered in the current year. This is because fewer people have applied for assistance and the amount of assistance requested has been less than DSS originally estimated. Consequently, pursuant to the provisions of Chapter 2x, HCD may receive as much as \$9 million in *additional* funds from DSS.

The Legislature needs information on the status of HCD's earthquake disaster-relief efforts in order to enact any necessary changes in the programs. Consequently, we recommend that HCD report during budget hearings on (1) the number of applications it has received and

approved for grants and for each loan program, and (2) the number of local entities that have agreed to act as lenders and grantors for the programs.

Proposed Disaster-Relief Positions Should Be Limited Term

We recommend approval of 10 positions requested to provide disaster relief to the victims of the October 1987 earthquakes in the Los Angeles-Whittier Narrows area. We further recommend that the positions be authorized only for two years because the workload requirements will diminish after the funds have been disbursed.

The budget proposes a total of \$454,000 to continue 10 positions, established administratively in the current year, to expedite the administration of the \$15 million in disaster-relief housing funds (discussed earlier) for victims of the October 1987 earthquakes. Funding for these positions would be derived from the General Fund (\$350,000), the 1987 Southern California Earthquake Account (\$52,000) and the Deferred Payment Loan Rehabilitation Fund (\$52,000).

Based on information submitted by the department, the positions are justified on a workload basis, and we recommend that they be approved. Our analysis indicates, however, that the positions should not be approved on a permanent basis. The department's authority to encumber the funds appropriated to it by Ch 4x/87 and Ch 2x/87 will expire on January 1, 1990 and on January 1, 1991, respectively. After these dates, HCD's workload requirements will diminish, and its continued workload will depend on the number of loans outstanding. Since that number is not now known, the department cannot justify any of the 10 positions on a permanent basis. Consequently, we recommend that these positions be limited to two years.

Housing Trust Fund

Chapter 1584, Statutes of 1985, appropriated \$20 million in tidelands oil revenues to the California Housing Trust Fund (HTF) each year for three years starting in 1986-87. The funds were appropriated for housing programs serving low- and very low-income households. The measure specifies that at least 20 percent of the HTF must be used to address the needs of rural areas. In addition, the measure specifies that 5 percent of the HTF be allocated in 1986-87 and 1987-88 to the Farm Labor Housing Rehabilitation Loan Program. Because tidelands oil revenues have been lower than originally anticipated, the administration has proposed in the prior two years—and again in the budget year—to allocate \$10 million, rather than \$20 million, to the HTF.

Table 3 shows the department's proposed allocation of HTF monies and its actual allocations in the previous two years.

The department's proposed allocation generally conforms with the Legislature's interest in recent years in providing services to the homeless through grants to emergency shelters and in maintaining the stock of low- and very-low income housing through loans to rehabilitate residential hotels and motels and other low-income rental housing. Accordingly, of the \$10 million in HTF funds available, HCD's budget proposal provides between \$6.5 million and \$8 million for these purposes.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT— Continued

Table 3
Housing Trust Fund Allocations
1986-87 through 1988-89
(dollars in thousands)

<i>Grant Programs</i>	<i>Purpose of Funds</i>	<i>Actual 1986-87</i>	<i>Estimated 1987-88</i>	<i>Proposed 1988-89</i>	<i>Total</i>
Emergency Shelter	Rehab. and operate shelters	\$4,000	\$4,000	\$4,000	\$12,000
Senior Citizens' Shared Housing	Assist seniors in finding roommates	500	500	500	1,500
Rural Communities Facilities	Resolve domestic water and wastewater problems	—	500	—	500
<i>Loan Programs</i>					
Special User Housing Rehabilitation	Rehab. residential group homes, hotels and motels	2,500	2,500	2,500	7,500
Deferred Payment Rehabilitation	Rehab. single-family and rental units	—	—	1,500	1,500
Self-Help Housing ^a	Rehab. and build homes for families who provide labor	2,000	2,000	1,000	5,000
Farm Labor Housing Rehabilitation	Rehab. farmworker rental housing	1,000	500	500	2,000
Totals		\$10,000	\$10,000	\$10,000	\$30,000

^a Technical assistance grants are provided also by the Self-Help Program.

Homeless Relief Pilot Project Not Yet Off The Ground

We recommend that the department report to the fiscal committees during budget hearings on its expenditure plan for implementing the Homeless Relief Pilot Project as required by Ch 1484/86.

Chapter 1484, Statutes of 1986 (AB 2939), requires the HCD to implement a two-year Homeless Relief Pilot Project in San Diego County. The purpose of the pilot project is to coordinate and centralize the delivery of state and local services for homeless persons. The legislation authorizes HCD to: (1) promulgate rules and regulations for the project, (2) recommend a comprehensive plan for the delivery of services, (3) approve a local homeless plan, and (4) allocate funds for the provision of homeless services. The measure further requires the department to report to the Legislature by March 1, 1988 on the results of the pilot project. As approved by the Legislature, Assembly Bill 2939 would have appropriated \$3 million from the General Fund to HCD to implement the program in the first year.

Prior to signing this measure, the Governor vetoed the \$3 million appropriation, indicating that the budget already contained sufficient money for homeless and related housing programs. Presumably, the Governor intended that the pilot project should be established out of current resources available to the department.

Our analysis indicates, however, that the department has not proceeded to implement the program. The HCD has not redirected existing funds, or proposed that the project be funded from other sources, such as the \$10 million Housing Trust Fund, in the budget year. Moreover, no new funding is proposed in the 1988-89 budget to initiate this pilot project.

Because HCD has not acted, the Legislature has no information on whether the mix of services and means of service delivery contemplated

by the pilot project would be effective in finding permanent solutions to the state's homeless problem. Consequently, we recommend that the department report to the fiscal committees during budget hearings on its expenditure plan for implementing the homeless pilot project as required by Ch 1484/86.

Emergency Shelter Program Needs Evaluating

We recommend that the Legislature adopt supplemental report language requiring the Department of Housing and Community Development to submit a report which assesses the effectiveness of the Emergency Shelter Program.

The Emergency Shelter Program (ESP), established in 1983, awards grants to local government agencies and nonprofit corporations to provide temporary shelter to homeless individuals and families. These grants may be used to acquire or rehabilitate facilities, to pay operating expenses and program staff salaries, and provide one-time rent assistance to prevent eviction and homelessness. In addition, up to 5 percent of the grant awards may be used for administrative expenses. The ESP shelters provide up to 180 days of stay to the elderly, disabled and mentally-ill homeless and 60 days of stay to all other homeless individuals.

The ESP has three primary goals: (1) to encourage the provision of shelter at the lowest cost possible, (2) to encourage people to move from shelters to a self-supporting environment as soon as possible, and (3) to encourage the provision of shelters at the lowest cost and as quickly as possible.

Insufficient Data Exists to Evaluate the ESP. Our review of the literature regarding the homeless problem and conversations with shelter providers indicate that a number of homeless persons are not securing permanent alternatives to homelessness. Instead, these persons go from shelters to the streets, and back again to shelters. These assertions cannot be substantiated or refuted by statistical data because HCD does not collect such data on the homeless clients it serves. Consequently, the Legislature has no information on the effectiveness of the ESP in encouraging people to move from shelters to a self-supporting environment, or why shelter programs may be failing to assist people in becoming self-supporting.

The HCD itself recognized the importance of developing information on the homeless in its April 1985 report entitled *A Study of the Issues and the Characteristics of the Homeless Population in California*. In that report, HCD concluded that:

- There is no current, reliable count of the number of homeless people in California.
- There is no comprehensive information on the characteristics of the homeless population in California.
- There is no reliable information on the causes of homelessness and on the proportion of the homeless population to which they apply.
- The state should explore means to collect additional data on the nature of homelessness and make available information on services for the homeless to service providers.

Consequently, we recommend that the Legislature adopt supplemental report language as follows:

The Department of Housing and Community Development shall submit a report to the Chairpersons of the fiscal committees and the

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—
Continued**

Joint Legislative Budget Committee no later than October 1, 1989 which assesses the effectiveness of the Emergency Shelter Program. In preparing this report, the department shall gather such information from its providers that will enable it (1) to assess the causes of homelessness, and (2) to evaluate whether the providers are successful in providing the resources that enable homeless persons to become self-supporting. Further, to the extent that the providers are not successful in meeting this goal, HCD should assess whether that failure reflects a performance problem with the provider, or whether the necessary resources are not available in the community.

Problems in Disbursing Emergency Shelter Program Funds

We recommend that the Legislature enact Budget Bill language requiring HCD to expedite the processing of ESP grants. In addition, we recommend that the Legislature enact Budget Bill language requiring HCD to report on the extent to which grantees are having difficulty returning signed contracts and expending funds.

In the 1987 Budget Act, the Legislature adopted Budget Bill language stipulating deadlines within which the department was required to process its contracts for allocating Emergency Shelter Program funds. (The 1987 Budget Act also contained language that established various requirements for the distribution and use of funds and for the grant-award process. These requirements were incorporated in statute in 1987.)

Specifically, the language regarding contract deadlines allows HCD 30 days after approving a grant award to submit a proposed contract to the grantee. The grantee is allowed 45 days to sign and return the contract to the department, which then has 15 days to sign. The language was adopted primarily because HCD had been allowing grantees as long as 18 months, after it made the grant awards, to return signed contracts. This language, however, is not proposed in the 1988 Budget Bill.

The HCD advises that the Budget Bill language imposing deadlines on its contract processing may encourage grantees to sign their contracts before they are ready to provide services. To the extent that this occurs, funds are needlessly encumbered and not available for other grant applicants who may be ready to provide housing services. The HCD further advises that some grantees may need longer than the 45 days allowed to sign their contracts. In the past, some grantees have not promptly returned signed contracts because they experienced delays in securing local approvals for a shelter site. Other grantees have had difficulty securing the remaining funding needed for the project. The HCD, however, has no data on the number of such occurrences or other reasons for the delays in returning signed contracts.

According to HCD, there are approximately 75,000 homeless persons and 17,000 existing shelter beds in the state. Thus, it is important that HCD award ESP funds to create new shelter beds and support existing shelter beds in an expeditious manner, while tolerating *reasonable* delays. Consequently, we recommend that the Legislature adopt Budget Bill language in Item 2240-101-985 as follows:

Provisions:

1. Within 30 days of the award of a grant of money from funds appropriated from Item 2240-101-985, the department shall submit a

proposed contract to the grantee for approval and execution. The grantee shall have 45 days thereafter to approve and execute the proposed contract and return it to the department, which shall have 15 days after receipt from the grantee to execute the contract.

2. The department may allow the grantee an additional 30 days to return the signed contract if the department can reasonably determine and document that the grantee is likely to return a signed contract within the additional time.
3. If the grantee fails to return the signed contract in the time allowed, the department shall have 15 days to award the funds to a qualified grant applicant, who proposes to serve homeless persons in the same region as the original grantee.
4. The department shall report to the Legislature by December 31, 1988 on the extent to which, and reasons why, grantees are having difficulty in returning signed contracts in a timely manner and expending the funds.

Century Freeway Housing Program Is Behind Schedule

We recommend that the department report during budget hearings on (1) why it has failed to meet its housing-production schedules for the Century Freeway Housing Program, and (2) its plan for addressing this problem.

The Century Freeway Housing Program implements the Amended Consent Decree which settled the *Keith v. Volpe* litigation involving tenants displaced by the construction of the Century Freeway linking the Los Angeles International Airport to the City of Norwalk. Under the decree, HCD must develop and manage a comprehensive program of relocation, rehabilitation, and/or replacement of housing units which have been, or will be, displaced by freeway construction. The decree sets as a goal the replacement of 3,700 units by 1990.

Table 4 shows HCD's annual projections, from 1986 through 1988, of housing units to be produced.

Table 4
Century Freeway Housing Program
Housing Unit Production Levels
As Estimated in 1986 through 1988

	Yearly Production			Cumulative Production		
	1986	1987	1988	1986	1987	1988
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
1984-85	282 ^a	282	282	351 ^a	351	351
1985-86	282	233 ^a	233	633	584 ^a	584
1986-87	788	540	400 ^a	1,421	1,124	984 ^a
1987-88	708	899	522 ^b	2,129	2,023	1,506
1988-89	670	395	494	2,799	2,418	2,000
1989-90	532	602	129	3,331	3,020	2,129
1990-91	—	334	817	—	3,354	2,946

^a Actuals.

^b As of September 1987, the HCD produced 73 units.

The table shows that the department has not maintained the two previous construction schedules it presented to the Legislature. For example, in 1986 HCD estimated that it would complete 3,300 units by the end of 1989-90. The department now estimates that only 2,100 units

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT— Continued

will be completed by the end of that year. It appears, therefore, that the department will not meet the goal set forth by the Consent Decree to replace 3,700 housing units by 1990.

In addition, HCD has moved slowly in selling and renting the units that have been completed. As of September 1987, HCD had completed 1,057 units, of which 30 percent were neither rented nor sold.

The Legislature needs to be informed on the apparent problems in managing this program. We recommend, therefore, that the department report during budget hearings on: (1) why it has repeatedly fallen behind the housing-production schedules presented to the Legislature, (2) why 30 percent of the completed units have been neither sold nor rented, and (3) the department's plans for addressing these problems.

Technical Recommendations

We recommend a reduction of \$622,000 from the Mobilehome Park Revolving Fund to eliminate overbudgeting.

Overbudgeted Appropriation From Mobilehome Park Revolving Fund. The budget proposes an appropriation authority of \$2,636,000 from the Mobilehome Park Revolving Fund. The Governor's Budget, however, indicates that the department plans to spend only \$2,014,000 from the fund in 1988-89. Consequently, we recommend deletion of \$622,000 in excess appropriation authority from the fund.

Business, Transportation and Housing Agency CALIFORNIA HOUSING FINANCE AGENCY

Item 2260 from the California
Housing Finance Fund

Budget p. BTH 49

Requested 1988-89.....	(\$8,991,000) ^a
Estimated 1987-88	(8,957,000) ^a
Actual 1986-87	(7,781,000) ^a
Requested increase (excluding amount for salary increases) \$34,000 (+0.4 percent)	
Total recommended reduction.....	None

^a Appropriation authority provided pursuant to Section 51000 of the Health and Safety Code.

GENERAL PROGRAM STATEMENT

The primary mission of the California Housing Finance Agency (CHFA) is to provide financing for the development and rehabilitation of housing for the state's low- and moderate-income residents. Funding for its programs is derived mainly from the sale of tax-exempt revenue bonds and notes, the proceeds from which are used to (1) make direct loans to developers of multifamily rental housing or (2) provide loans and insurance through private lenders to low- and moderate-income households for the purchase and/or rehabilitation of single family housing

units. Bond proceeds are deposited in the California Housing Finance Fund and are continuously appropriated to the agency by Section 51000 of the Health and Safety Code.

The agency's direct operating expenses are covered by a combination of (1) service fees charged to borrowers and lenders, (2) interest earnings on loans made out of bond proceeds, and (3) interest earnings on investments made using agency funds.

The agency is governed by an 11-member Board of Directors, and has 131.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Under the provisions of Section 51000, funding for the agency's support budget is *exempt* from the annual budget review process. In lieu of the regular legislative budgetary review, Section 50913 of the Health and Safety Code requires CHFA to submit to the Business, Transportation and Housing Agency, the Director of Finance, and the Joint Legislative Budget Committee, on or before December 1, a *preliminary* budget for the ensuing fiscal year.

According to CHFA staff, board action on a final proposed budget for 1988-89 is not expected until March 1988. The agency's 1988-89 preliminary budget is displayed in the Governor's Budget for informational purposes only. It shows that the CHFA plans to spend \$8,991,000 in 1988-89, an increase of \$34,000, or 0.4 percent, over estimated current-year expenditures. The proposed amount reflects an increase in personal services costs (\$93,000) and statewide pro rata charges (\$41,000). These increases are partially offset by a reduction of \$100,000 in interagency consultant and professional services contracts.

Business, Transportation and Housing Agency DEPARTMENT OF INSURANCE

Item 2290 from the Insurance
Fund

Budget p. BTH 50

Requested 1988-89.....	\$33,035,000
Estimated 1987-88	29,040,000
Actual 1986-87	26,154,000
Requested increase (excluding amount for salary increases) \$3,995,000 (+13.8 percent)	
Total recommended reduction.....	None
Recommendation pending	1,309,000

DEPARTMENT OF INSURANCE—Continued
1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2290-001-217—Support	Insurance	\$32,960,000
2290-002-217—Advisory panel	Insurance	75,000
Total		\$33,035,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	<i>Analysis page</i>
1. Health Insurance Counseling and Advocacy Program (HI-CAP) Expansion. Withhold recommendation on \$1,100,000 proposed to expand funding for the program, pending receipt of required cost-effectiveness information.	208
2. Personal Computer Acquisition. Withhold recommendation on \$209,000 proposed for purchase of personal computers, pending receipt of specified information.	208

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business that is regulated entirely by the states, rather than by the federal government. In California, the Department of Insurance is responsible for regulating the activities of insurance and title companies, as well as insurance agents and brokers in order to protect the policyholders. Currently, there are about 1,800 insurers generating total premiums of about \$45 billion in California.

The department carries out its responsibilities through three major programs: (1) regulation, (2) fraud control, and (3) tax collection and audit. The cost of administering the department is prorated among these programs. Under the Regulation program, the department: (1) examines the qualification, business conduct and financial records of insurers, agents and brokers to prevent incompetence, discrimination and fraud in the business; (2) investigates complaints against insurers and licensees, as well as enforces the law and regulations against violators; and (3) provides insurance-related information and assistance to the public.

The department also investigates insurance fraud under the Fraud Control program, and collects, as well as audits, various insurance taxes from insurance companies and brokers under the Tax Collection program.

Operations of the department are financed entirely from the Insurance Fund which generates its revenues from various fees levied on insurance companies, brokers and agents.

The department has 454.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an expenditure of \$33 million from the Insurance Fund to support the department in 1988-89. This is an increase of \$4 million, or 13.8 percent, over the estimated current-year expenditures.

Table 1 shows the staffing and expenditures for the department's programs during the three-year period ending June 30, 1989. Table 2 summarizes the significant changes proposed for the budget year.

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

Program	Personnel-Years			Expenditures ^a			Percent
	Actual	Est.	Prop.	Actual	Est.	Prop.	Change
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	From 1987-88
Regulation	418.9	423.9	458.1	\$24,950	\$27,259	\$30,985	13.7%
Fraud Control	18.6	26.0	26.0	964	1,595	1,786	12.0
Tax Collection and Audit	2.8	5.0	5.9	240	186	264	41.9
Administration (distributed)	(93.8)	(93.0)	(100.6)	(4,921)	(5,836)	(6,571)	12.6
Totals	440.3	454.9	490.0	\$26,154	\$29,040	\$33,035	13.8%

^a All expenditures are from the Insurance Fund.

Table 2
Department of Insurance
Proposed 1988-89 Budget Changes
(dollars in thousands)

1987-88 Expenditures (Revised)	\$29,040
<i>Baseline Changes</i>	
Cost-of-living salary adjustments	637
One-time funding of on-line computer system	-320
One-time expenditures mandated by legislation	-255
Price increases	247
Increased pro rata charges	361
Subtotals, Baseline Adjustments	(\$670)
<i>Workload Changes</i>	
Increased regulatory and administrative staff	\$433
Additional examiners and consumer services staff	1,430
Staff increase for insurance tax collection	40
Staff for expected increase in toll-free calls	105
Subtotals, Workload Changes	(\$2,008)
<i>Program Changes</i>	
Increased funding for Health Insurance Counseling and Advocacy program in the Department of Aging	\$1,100
Collection of automobile insurance statistics	217
Subtotals, Program Changes	(\$1,317)
1988-89 Expenditures (Proposed)	\$33,035
Changes from 1987-88:	
Amount	\$3,995
Percent	13.8%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following significant changes which are not discussed elsewhere in this *Analysis*:

- *Baseline changes* for (1) cost-of-living salary adjustments (\$637,000), (2) adjustments for one-time funding of a new, on-line computer system and one-time expenditures mandated by new laws (-\$575,000), and (3) increased pro rata charges (\$361,000);

DEPARTMENT OF INSURANCE—Continued

- *Workload changes* which increase the size of regulatory and administrative staff of the department to handle the actual and anticipated growth in workload (\$2,008,000); and
- *Program change* to expand the collection and reporting of specified automobile insurance data, as required by Ch 815/87 (AB 1686) (\$217,000).

Cost-Effectiveness Information Needed on HICAP

We withhold recommendation on \$1.1 million requested from the Insurance Fund to finance a proposed expansion in the Department of Aging's Health Insurance Counseling and Advocacy Program, pending receipt of required cost-effectiveness information.

The budget proposes to increase by \$1.1 million (from \$1,544,000 in 1987-88 to \$2,644,000 in 1988-89) a current interagency agreement between the Departments of Insurance and Aging. The purpose of the increase is to expand the Department of Aging's Health Insurance Counseling and Advocacy Program (HICAP) to all counties of the state. According to the Department of Aging, the expansion was to be accomplished during 1987-88, but was delayed.

In the 1987-88 *Analysis* (please see pages 239-240 in Item 2290 and pages 521-522 in Item 4170), we pointed out that the budget proposed to (1) expand the HICAP program from a pilot project covering 31 counties to a statewide project and (2) change the funding source from the General Fund to the Insurance Fund.

The 1987 Budget Act included the funds requested for expansion of the program (\$1,544,000 from the Insurance Fund). The Budget Act also included control language which provided that, in order to receive funding for the HICAP beyond February 1, 1988, the Department of Aging was required to submit a report to the Legislature and the Insurance Commissioner by February 1, 1988, containing specified information including (1) an update on program implementation, (2) how the program is publicized, and (3) cost-savings to the persons assisted by the program. In addition, the *Supplemental Report of the 1987 Budget Act* required the Department of Aging to provide the Legislature with specified information on program performance and cost-effectiveness in the statutorily required annual report on the program, due in January 1988. At the time this analysis was prepared, the Department of Aging had not provided the information required by the Budget Act and the *Supplemental Report of the 1987 Budget Act* and informed the Legislature that submission of the annual report will be delayed. Without this information, we do not have an analytical basis on which to make a recommendation regarding the expansion of this program. Therefore, we withhold recommendation on the proposed expansion of HICAP, pending receipt of this information in order to assist the Legislature in determining how to implement this program in a cost-effective manner.

For a discussion of the Department of Aging's proposal to expand HICAP, please see Item 4170 in this *Analysis*.

Proposed Personal Computers Need to be Justified

We withhold recommendation on the proposed expenditure of \$209,000 from the Insurance Fund for 32 personal computers, pending

submission of required information by the Department of Insurance to justify their need.

The Department of Insurance proposes to acquire 32 personal computers and associated software at a total cost of \$209,000 in an ongoing effort to expand the use of computer technology throughout the department. This proposed acquisition is in addition to 12 computers purchased in 1986-87 and 14 added during 1987-88.

Our analysis of this proposal indicates that it is not properly justified for the following reasons:

1. ***Needs Assessment and Justification Have Not Been Provided.*** At the time this analysis was prepared, the department was unable to produce any written documentation assessing and justifying the need for these computers. In addition, the proposed computers have not been included in the department's latest Information Management Annual Plan submitted to the Office of Information Technology (OIT), as required of those departments who have been delegated the responsibility to establish their own personal computer policies.

2. ***No Information on Allocation of Existing Computers.*** By the end of 1987-88, the department will have allocated 26 personal computers to its staff. At the time this analysis was prepared, however, there was no information available as to the allocation, use and cost-effectiveness of these computers. Such information is necessary in order to (1) evaluate computer usage, (2) determine subsequent needs, and (3) prevent duplicative, or ineffective, allocation of hardware and software.

We recognize the need to increase the use of computer technology in state departments—especially in those departments which process and analyze a large and increasing volume of information, such as the Department of Insurance. However, in the absence of the information identified above, we are unable to recommend approval of this proposal. Thus, we withhold recommendation on this request, pending the department's submittal of the specified, missing information prior to budget hearings.

**Business, Transportation and Housing Agency
DEPARTMENT OF REAL ESTATE**

Item 2320 from the Real Estate
Fund

Budget p. BTH 55

Requested 1988-89	\$24,119,000
Estimated 1987-88	23,118,000
Actual 1986-87	22,161,000
Requested increase (excluding amount for salary increases) \$1,001,000 (+4.3 percent)	
Total recommended reduction.....	251,000

DEPARTMENT OF REAL ESTATE—Continued 1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2320-001-317—Support	Real Estate	\$23,571,000
Reimbursements	—	548,000
Total		\$24,119,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | |
|--|-------------------------|
| 1. <i>Salary Savings. Reduce Item 2320-001-317 by \$251,000.</i> | Analysis
page
211 |
| Recommend increase in salary savings to reflect prior years' experience. | |

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for enforcing the Real Estate Law, and for regulating offerings of subdivided property, real property securities, and certain other real estate transactions in order to protect the public.

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

The department has 365.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$24,119,000 in 1988-89. This is \$1,001,000, or 4.3 percent, more than the estimated current-year expenditures from these sources. The proposed expenditures consist of \$23,571,000 from the Real Estate Fund and \$548,000 from reimbursements.

Table 1
Department of Real Estate
Budget 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	
Licensing and education	90.6	91.1	92.8	\$5,528	\$5,921	\$6,105	3.1%
Regulatory and recovery	175.9	181.0	181.5	11,787	11,842	12,402	4.7
Subdivisions	86.1	93.4	96.1	4,846	5,355	5,612	4.8
Administration (distributed)	(57.3)	(59.1)	(61.0)	(3,966)	(4,379)	(4,655)	6.3
Totals	352.6	365.5	370.4	\$22,161	\$23,118	\$24,119	4.3%
Funding Sources							
Real Estate Fund				\$21,434	\$22,570	\$23,571	4.4%
Reimbursements				727	548	548	—

Table 1 shows the budget requirements for the department during the three-year period ending June 30, 1989. Table 2 summarizes the significant changes proposed for the budget year.

Table 2
Department of Real Estate
Proposed 1988-89 Budget Changes
(dollars in thousands)

1987-88 Expenditures (Revised)	\$23,118 ^a
<i>Baseline Changes</i>	
One-time expenditures for equipment	-379
Cost-of-living salary adjustments	438
Increased pro rata charges	128
Price increases	120
Subtotals, Baseline Changes	(\$307)
<i>Workload Changes</i>	
Increased Attorney General services	\$184
Workload-related data processing needs	65
Subdivision program workload due to Ch 1042/87	58
Subtotals, Workload Changes	(\$307)
<i>Program Changes</i>	
Upgrading of data processing system	\$159
Equipment replacement and maintenance	100
Funding of education and research projects	128
Subtotals, Program Changes	(\$387)
1988-89 Expenditures (Proposed)	\$24,119 ^b
Change from 1987-88:	
Amount	\$1,001
Percent	4.3%

^a Includes \$22,570,000 from the Real Estate Fund and \$548,000 from reimbursements.

^b Includes \$23,571,000 from the Real Estate Fund and \$548,000 from reimbursements.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following significant changes which are not discussed elsewhere in this *Analysis*:

- *Baseline changes* for (1) one-time expenditures for data processing equipment during 1987-88 (-\$379,000), (2) cost-of-living salary adjustments (\$438,000), (3) price increases (\$120,000), and (4) increased pro rata charges (\$128,000);
- *Workload changes* in (1) Attorney General services (\$184,000), and (2) the Subdivision program (\$123,000); and
- *Program changes* for (1) upgrading the department's data processing system (\$159,000), (2) equipment replacement and maintenance (\$100,000), and (3) funding of selected real estate education and research projects (\$128,000).

Underbudgeted Salary Savings Result in Overbudgeted Personal Services

We recommend a reduction of \$251,000 to correct for underbudgeted salary savings and overbudgeted personal services. (Reduce Item 2320-001-317 by \$251,000.)

The budget proposes \$359,000 in salary savings for the department in 1988-89. Salary savings result from employee turnover, delays in filling

DEPARTMENT OF REAL ESTATE—Continued

positions, and filling vacated positions at, or close to, the minimum step of the salary range. Based on the \$12,082,000 proposed for salaries and wages, the amount budgeted for salary savings equates to a rate of 3.0 percent in 1988-89.

Our analysis indicates that this 3.0 percent rate is substantially below the actual salary savings rate realized by the department during the last several years. Table 3 compares the estimated salary savings and rates with the actual salary savings and rates experienced during each of the last five years.

Table 3
Department of Real Estate
Estimated Versus Actual Salary Savings and Rates
1982-83 through 1986-87
(dollars in thousands)

	<i>Salaries and Wages</i>		<i>Salary Savings Amount</i>			<i>Salary Savings Rate^b</i>	
	<i>Esti- mated</i>	<i>Actual</i>	<i>Esti- mated</i>	<i>Actual</i>	<i>Excess^a</i>	<i>Esti- mated</i>	<i>Actual</i>
1982-83	\$9,340	\$7,933	\$560	\$1,407	\$847	6.0%	15.1%
1983-84	9,371	7,801	552	1,570	1,018	5.9	16.8
1984-85	10,219	9,129	374	1,090	716	3.7	10.7
1985-86	10,766	9,823	364	943	579	3.4	8.9
1986-87	11,150	10,637	354	513	159	3.2	4.6

^a Actual salary savings minus estimated salary savings.

^b Salary savings amount divided by the estimated salaries and wages figure.

Table 3 shows that, during the 1982-83 through 1986-87 period, the Department of Real Estate consistently underbudgeted its salary savings, resulting in substantial excess salary savings at the end of each year. These amounts were either used by the department (with Department of Finance approval) to cover expenditures in other areas of the budget, or reverted at the end of the year to the Real Estate Fund.

The 3.0 percent proposed salary savings rate for 1988-89 is 1.6 percent below the lowest salary savings rate of 4.6 percent experienced by the department during the five-year period shown in Table 3.

In order to properly budget for the department's personnel needs, we recommend increasing the amount budgeted for salary savings in 1988-89 to 4.6 percent of total salaries and wages budgeted. This would increase salary savings by \$197,000 above the \$359,000 budgeted and would result in a corresponding \$54,000 reduction in staff benefit-costs, for a total reduction of \$251,000 in budgeted personal services.

DEPARTMENT OF SAVINGS AND LOAN

Item 2340 from the Savings
Association Special Regulatory
Fund

Budget p. BTH 60

Requested 1988-89	\$9,323,000
Estimated 1987-88	9,114,000
Actual 1986-87	7,096,000
Requested increase (excluding amount for salary increases) \$209,000 (+2.3 percent)	
Total recommended reduction	115,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2340-001-337—Support	Savings Association Special Regulatory	\$9,276,000
Reimbursements	—	47,000
Total		\$9,323,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
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1. *Investigator Staffing. Reduce Item 2340-001-337 by \$115,000.* Recommend reduction because one of the three proposed positions is not justified on a workload basis and the other two positions are overbudgeted. 215

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan is responsible for regulating the activities and examining the financial records of the state-licensed savings and loan associations in order to protect the savings and investments of the public.

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

The department has 138 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$9,323,000 for support of the department in 1988-89. This is \$209,000, or 2.3 percent, more than the estimated current-year expenditures. This includes \$9,276,000 from the Savings Association Special Regulatory Fund and reimbursements of \$47,000.

Table 1 shows personnel-years and expenditures for the department in the past, current, and budget years. Table 2 identifies the major budget-year changes.

DEPARTMENT OF SAVINGS AND LOAN—Continued**Table 1**

**Department of Savings and Loan
Budget Summary
1986-87 through 1988-89
(dollars in thousands)**

<i>Program</i>	<i>Personnel-Years</i>			<i>Expenditures</i>			<i>Percent Change</i>
	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>From</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>	<i>1987-88</i>
Examination	70.6	80.3	83.1	\$3,976	\$5,359	\$5,540	3.4%
Appraisal	17.6	20.2	20.2	1,094	1,445	1,426	-1.3
Licensing	5.0	4.7	4.7	465	513	556	8.4
Administration	31.5	33.1	35.0	1,561	1,797	1,801	0.2
Totals	124.7	138.3	143.0	\$7,096	\$9,114	\$9,323	2.3%
Funding Sources							
Savings Association Special Regulatory Fund				\$7,070	\$9,067	\$9,276	2.3%
Reimbursements				26	47	47	—

Table 2

**Department of Savings and Loan
Proposed 1988-89 Budget Changes
(dollars in thousands)**

	<i>Savings Association Special Regulatory Fund</i>
1987-88 Expenditures (Revised)	\$9,114
<i>Baseline Adjustments</i>	
Cost-of-living salary adjustments	129
One-time cost of office automation system	-637
Special salary adjustments for examiners	120
Inflationary adjustments for operating costs	139
Increased pro rata charges	85
Subtotals, Baseline Adjustments	(-\$164)
<i>Program Changes</i>	
Office automation support staff	\$102
Computerized appraisal data	25
Investigator positions	196
Increased funding for Attorney General's services	50
Subtotals, Program Changes	(\$373)
1988-89 Expenditures (Proposed)	\$9,323
Change from 1987-88:	
Amount	\$209
Percent	2.3%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following proposed changes which are not discussed elsewhere in this *Analysis*:

- *Baseline adjustments* for (1) the one-time cost of implementing the department's office automation system during 1987-88 (-\$637,000) and (2) increased costs for salaries and operating expenses (\$388,000); and
- *Program changes* for (1) technical support staff to assist with implementation and operation of the department's office automation

system (\$102,000); and (2) increased funding for Attorney General costs and for a computerized appraisal data system (\$75,000).

Request for Investigators Is Excessive

We recommend the deletion of one of the three proposed investigator positions and \$115,000 because (1) the department has not justified the need for the position on a workload basis and (2) the remaining two investigator positions are overbudgeted. (Reduce Item 2340-001-337 by \$115,000).

The budget proposes three investigator positions and \$196,000 from the Savings Association Special Regulatory Fund to investigate potential violations of the law and regulations by employees, directors or shareholders of state-chartered savings and loan associations.

Currently, the Department of Savings and Loan has no investigators and, up until recently, there appeared to be no need for them. In recent years, however, the department's examiners have encountered an increasing number of questionable activities by employees and directors of institutions under examination which call for more in-depth legal investigation. Because examiners do not have the necessary investigative skills and available time, the department is requesting three new investigators to assist them in examining improper activities and detect "white collar" crimes.

Our analysis of the information submitted by the department in support of this request indicates the following problems.

Inflated Workload Projections. The department's request for three investigators assumes that these new employees will review 12 cases annually, requiring 55 days of investigative work per case. The department indicates that this workload estimate represents its "best guess" since it has not had prior experience with such investigators. Based on our review, we conclude that the department's workload projection for investigators is excessive because it assumes that the three investigators will have to work full time to review *all* 12 cases. Our analysis indicates that part of the projected workload attributed to the investigators is, in fact, examiner workload. In addition, we note that the State Banking Department—which also is proposing to add investigators for the same purpose as the Department of Savings and Loan—is requesting two investigators to review twice the number of financial institutions reviewed by the Department of Savings and Loan. Accordingly, we believe that two investigators will be sufficient for the Department of Savings and Loan to handle the emerging investigative workload during the budget year.

New Civil Service Classification Not Justified. The Department of Savings and Loan proposes to budget the three investigator positions in a new civil service classification of "financial institutions investigator" at a total cost of \$65,000 per position. By contrast, the State Banking Department is proposing to use the existing civil service class of "senior special investigator" to perform essentially the same function as the Savings and Loan investigator, at a cost of \$40,000 per position, or \$25,000 (38 percent) less than the proposed cost of a savings and loan investigator. The Department of Savings and Loan provided no analytical basis to justify the use of a higher-paid, new class of investigators to do the same work as the lower-salaried banking investigators. In addition to being more cost-effective, the use of the established "senior special investigator" (as opposed to a new classification not yet approved by the

DEPARTMENT OF SAVINGS AND LOAN—Continued

Department of Personnel Administration) would permit the Department of Savings and Loan to fill these new positions faster than proposing a new class and with experienced investigators. This is an important consideration, given the recognized need for immediate investigative expertise in the department.

In view of the above information, we recommend that (1) the Department of Savings and Loan's request for three investigator positions be reduced to two positions (savings of \$65,000) and (2) these two positions be funded at the same civil service classification (senior special investigator) as the proposed investigators for the State Banking Department (savings of \$50,000), resulting in combined savings of \$115,000.

Examiner Turnover Problem Relieved

In the 1987-88 *Analysis* (please see pages 247-249), we called attention to the problem of high turnover among Savings and Loan examiners and appraisers, identified the probable causes and recommended that certain administrative steps be taken by the Departments of Personnel Administration (DPA) and Savings and Loan to ease the problem. The *Supplemental Report of the 1987 Budget Act* required the Department of Savings and Loan to report on the implementation of the approved administrative steps and the extent to which these steps helped to alleviate the department's turnover problem. In addition, the DPA was mandated to conduct a specified, comparative salary and benefits survey on state examiners and report its findings and recommendations to the Legislature by November 1, 1987.

The Department of Savings and Loan reported that the administrative steps, which essentially provided more autonomy and flexibility to the department to hire and promote examiners and were approved by the Legislature, reduced examiner turnover from 11 in 1986 to 2 in 1987. However, the department's appraisers—who were also included in the above-mentioned Budget Act requirement—did not receive the same benefits as those provided to the examiners. According to the DPA, the Department of Savings and Loan did not identify any recruitment or retention problems for the appraisers that justified providing them with the same benefits as the examiners. For a summary of the DPA report, please see Item 2140 of this *Analysis*.

CALIFORNIA TRANSPORTATION COMMISSION

Item 2600 from the State
Transportation Fund

Budget p. BTH 63

Requested 1988-89	\$1,393,000
Estimated 1987-88	1,217,000
Actual 1986-87	1,170,000
Requested increase (excluding amount	
for salary increases) \$176,000 (+14.5 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2600-001-042—Support	State Highway Account	\$142,000
2600-001-046—Support	Transportation Planning and Development Account	1,251,000
Total		\$1,393,000

GENERAL PROGRAM STATEMENT

The California Transportation Commission (CTC) was created by Ch 1106/77 to replace the California Highway Commission, the California Toll Bridge Authority, the Aeronautics Board, and the State Transportation Board. The commission consists of nine part-time members, all appointed by the Governor. In addition, one member each from the Senate and the Assembly serve as ex-officio members of the commission.

The commission's major responsibilities include: (1) adopting a five-year State Transportation Improvement Program (STIP), (2) determining which transportation projects to fund from annual appropriations, (3) adopting and issuing one-year and five-year transportation revenue estimates for use by regional transportation planning agencies in developing regional transportation programs, (4) recommending funding priorities to the Legislature under the state's Mass Transportation program, (5) submitting to the Legislature an annual report on the policies and decisions adopted by the commission, the major project allocations made in the previous year, and significant transportation issues, and (6) evaluating the Department of Transportation's annual budget and the adequacy of current state transportation revenues.

The commission has 12 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes total expenditures of \$1,393,000 for support of the commission's activities in 1988-89. This amount is \$176,000, or 15 percent, more than estimated expenditures for the current year. Funding will include \$142,000 from the State Highway Account, and \$1,251,000 from the Transportation Planning and Development Account in the State Transportation Fund.

The proposed increase of \$176,000 results from the following: (1) an increase of \$68,000 in assessment to the commission for support of various state administrative services including the Legislature, State Controller, and the Department of Finance, (2) an increase of \$78,000 for salaries, additional operating expenses, and a study on office automation, and (3) various cost increases.

Our review shows that the proposed expenditures for the commission's support are warranted.

Business, Transportation and Housing Agency
SPECIAL TRANSPORTATION PROGRAMS

Item 2640 from the
 Transportation Planning and
 Development Account, State
 Transportation Fund

Budget p. BTH 64

Requested 1988-89	\$2,000,000
Estimated 1987-88	2,000,000
Actual 1986-87	5,942,000
Requested increase: None	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. Recommend that the Legislature amend this item to conform to actions taken in Item 2660 regarding the Transportation Planning and Development Account.

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GENERAL PROGRAM STATEMENT

The Special Transportation Programs item consists of a single element—the State Transportation Assistance (STA) program. The STA program provides capital and operating assistance to local transportation agencies for public mass transit systems and, under specified conditions, for construction and maintenance of local streets and roads.

ANALYSIS AND RECOMMENDATIONS

We recommend that the Legislature amend this item of the Budget Bill (Item 2640) to conform to the actions it takes on the TP and D Account funding under Item 2660.

The budget requests an appropriation of \$2 million from the Transportation Planning and Development (TP and D) Account in 1988-89 for the STA program. This equals the current-year funding level for the program.

The budget proposes changes to the current funding level of the TP and D Account and the programs it supports. Our analysis of all changes proposed to the funding of the TP and D Account programs—including those affecting the STA program—are discussed under the Department of Transportation item in this *Analysis*. (Please see Item 2660.) As a result, we recommend that the Legislature take up this item when it considers Item 2660 and that it conform this item to its decision on the larger issue of funding for the TP and D Account.

Business, Transportation, and Housing Agency
DEPARTMENT OF TRANSPORTATION—SUPPORT AND
CAPITAL OUTLAY

Items 2660 and 2660-301 from
various funds

Budget p. BTH 66

Requested 1988-89	\$3,538,524,000
Estimated 1987-88	3,165,033,000
Actual 1986-87	2,552,868,000
Requested increase (excluding amount for salary increases) \$373,491,000 (+11.8 percent)	
Total recommended reduction	57,685,000
Recommendation pending	9,324,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund ^a	Amount
2660-001-041—Aeronautics, support	Aeronautics Account	\$2,523,000
2660-001-042—Highway and Mass Transportation, support	State Highway Account	1,106,593,000
2660-001-045—Highway, support	Bicycle Lane Account	10,000
2660-001-046—Mass Transportation and Transportation Planning, support	Transportation Planning & Development Account	31,240,000
2660-001-047—Mass Transportation, support	Abandoned Railroad Account	56,000
2660-012-853—Highway, support	Petroleum Violation Escrow Account	500,000
2660-101-041—Aeronautics, local assistance	Aeronautics Account	200,000
2660-101-042—Highway and Mass Transportation, local assistance	State Highway Account	63,920,000
2660-101-045—Highway, local assistance	Bicycle Lane Account	692,000
2660-101-046—Mass Transportation and Transportation Planning, local assistance	Transportation Planning & Development Account	34,000,000
2660-112-853—Highway, local assistance	Petroleum Violation Escrow Account	5,000,000
2660-301-042—Highway, capital outlay	State Highway Account	257,201,000
2660-301-046—Mass transportation, capital outlay	Transportation Planning & Development Account	10,000,000
Total, Budget Act Appropriations, State Funds		\$1,511,935,000
2660-001-890—Support	Federal	\$199,062,000
2660-101-890—Local assistance	Federal	271,984,000
2660-301-890—Capital outlay	Federal	1,119,331,000
Total, Budget Act Appropriations, Federal Funds		\$1,590,377,000
Prior Appropriations		
Statutory—Highway, support	Toll Bridge	\$39,679,000
Statutory—Aeronautics, local assistance	General	540,000
Statutory—Aeronautics, local assistance	Aeronautics Account	2,650,000
Statutory—Highways, local assistance	Highway Construction Revolving Account	25,000,000
Budget Act of 1982—Highway, capital outlay	State Highway Account	1,000,000
Budget Act of 1983—Highway, capital outlay	State Highway Account	2,000,000
Budget Act of 1985—Highway, capital outlay	State Highway Account	6,000,000
Budget Act of 1986—Highway, capital outlay	State Highway Account	11,277,000

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Budget Act of 1987—Highway, capital outlay	State Highway Account	28,096,000
Budget Act of 1987—Mass Transportation, capital outlay	Special Account for Capital Outlay	400,000
Statutory—Highway, capital outlay	Toll Bridge	24,802,000
Total, Prior Appropriations, State Funds		\$141,444,000
Budget Act of 1983—Highways, capital outlay	Federal	\$4,000,000
Budget Act of 1984—Highways, capital outlay	Federal	10,000,000
Budget Act of 1985—Highways, capital outlay	Federal	10,000,000
Budget Act of 1986—Highways, capital outlay	Federal	107,613,000
Budget Act of 1987—Highways, capital outlay	Federal	330,206,000
Total, Prior Appropriations, Federal Funds		\$461,819,000
Minus, Transfer to General Fund	—	540,000
Minus, Balance Available in Subsequent Years	—	598,962,000
Reimbursements	—	432,451,000
Total, All Expenditures		\$3,538,524,000

^a All accounts are within the State Transportation Fund, except for the Petroleum Violation Escrow Account and the Special Account for Capital Outlay in the General Fund.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Capital Outlay Projects. Recommend adoption of supplemental report language directing the department to submit, as part of its budget documentation, a list of all major projects to be advertised for construction during the budget year. 232
2. Minor Capital Outlay Projects. Recommend adoption of supplemental report language directing the department to specify, as part of the annual budget documentation, the minor capital outlay projects which it plans to deliver in the budget year. 233
3. Capital Outlay Appropriations. Recommend adoption of Budget Bill language to make capital outlay appropriations in 1988-89 available for encumbrance over two years, instead of three. Further recommend the enactment of legislation making future highway capital outlay appropriations available for two years. 234
4. Increased Highway Capacity Improvements. We make no recommendation on the department's request for 138 personnel-years and \$7.2 million to increase the level of highway capacity improvements. Further recommend that if the Legislature approves the resources for the capacity improvement program, that it adopt Budget Bill language requiring that these resources be contingent upon the California Transportation Commission adopting these projects in the State Transportation Improvement Program. 238
5. Priority of Project Delivery. Recommend that the Legislature adopt supplemental report language specifying its priorities for delivering highway projects funded by state and other sources. 239
6. Departmental Contracting Efforts. Recommend that the Legislature adopt supplemental report language requiring the department to submit (a) a list of projects and specific 240

- activities to be contracted and (b) criteria for determining what work is to be accomplished by contract.
7. **Department Costs For Consultant Work. Reduce Item 2660-001-042 by \$17 million.** Recommend reduction because actual contracting data indicates the department has over-budgeted the amount needed to fund project engineering and design work performed by private consultants. 242
 8. "Fast-Tracking" of Highway Projects. Recommend that the department submit to the Legislature, prior to budget hearings, its plan to fast-track highway projects. Further recommend that the Legislature adopt supplemental report language requiring the department to report on the status of fast-tracked projects. 243
 9. Fast-Track Strategy. Recommend that the Legislature adopt supplemental report language requiring the department to provide project engineers with more control over project resources as one of its fast-track strategies. 244
 10. Local Sales Tax Measure Projects. Recommend that the Legislature adopt supplemental report language requiring the department to submit annually, with its budget documentation, a list of projects and activities to be performed on highway projects funded by local sales tax measures. 245
 11. **Costs of New Staff Overbudgeted. Reduce Item 2660-001-042 by \$1,670,000.** Recommend reduction because the department has budgeted for a higher level of engineering staff than is warranted based on past experience. 246
 12. **Hazardous Waste Investigations. Reduce Item 2660-001-042 by \$1.7 million.** Recommend reduction because the department's hazardous waste investigation plan indicates these funds will not be needed in the budget year. 247
 13. Transportation Demand Reduction. Recommend adoption of supplemental report language directing the department to submit a report evaluating the effectiveness of Transportation Management Association development efforts. 248
 14. Transportation Planning and Development (TP and D) Account. Recommend that the Legislature review, during budget hearings, the administration's proposal to reduce transfers to the TP and D Account below current statutory levels. 250
 15. Los Angeles-San Diego Corridor. Recommend adoption of Budget Bill language specifying the purposes for which rail capital improvement funds are available. 255
 16. Rail Budget. Recommend the department provide additional information to the Legislature on its rail service budget request by March 15. 256
 17. Transportation Planning Demonstration Project. Recommend adoption of supplemental report language directing the department to submit a report evaluating the effectiveness of a demonstration project on advanced transportation planning. 258
 18. **Computer Usage. Reduce Item 2660-001-042 by \$717,000.** Recommend reduction because the installation of extensive 259

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued**

- computer equipment in a new district office is premature and overbudgeted.
- | | |
|--|-----|
| 19. Productivity Increase. Recommend the adoption of supplemental report language requiring the department to submit a report evaluating the effectiveness of an increased use of computer technology for highway project development in the Orange County office. | 260 |
| 20. <i>New District Office Lease. Reduce Item 2660-001-042 by \$877,000.</i> Recommend reduction because the amount of space to be leased for the Orange County office is overestimated. | 260 |
| 21. Staff Relocation. Recommend that the Legislature adopt Budget Bill language to restrict the use of \$2.8 million in the State Highway Account for staff relocation only. | 261 |
| 22. <i>Technical Adjustments. Reduce various items by \$35,721,000.</i> Recommend reductions because funds are overbudgeted. | 261 |
| 23. Pending Recommendation. Withhold recommendation on \$9,324,000, pending further information on highway operations maintenance workload and the Caltrain operating contract. | 262 |

GENERAL PROGRAM STATEMENT

The Department of Transportation is responsible for planning, coordinating, and implementing the development and operation of the state's transportation system. These responsibilities are carried out in five programs. Three programs—Highway Transportation, Mass Transportation, and Aeronautics—concentrate on specific transportation modes. Transportation Planning seeks to improve the planning for all travel modes, and Administration encompasses management of the department. Expenditures for the Administration program are prorated among the four operating programs.

The department is authorized 15,489 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$3.5 billion by the Department of Transportation in 1988-89. This is \$373.5 million, or 12 percent, more than estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the department, by program, from 1986-87 through 1988-89.

Table 1
Department of Transportation
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	
Aeronautics.....*	27.0	30.2	30.2	\$5,435	\$5,984	\$5,780	-3.4%
Highway transportation.....	13,059.4	13,645.6	14,712.5	2,329,009	2,918,947	3,315,413	13.6
Mass transportation.....	162.4	186.0	150.8	198,630	217,386	194,076	-10.7
Transportation planning.....	118.6	126.3	135.3	19,794	22,716	23,255	2.4
Administration (distributed) ...	1,457.9	1,500.9	1,616.2	(130,185)	(144,762)	(172,995)	19.5
Totals	14,825.3	15,489.0	16,645.0	\$2,552,868	\$3,165,033	\$3,538,524	11.8%
Funding Sources							
State Funds.....				\$1,377,376	\$1,402,415	\$1,464,736	4.4%
Federal Funds.....				994,168	1,352,190	1,641,337	21.4
Reimbursements.....				181,324	410,428	432,451	5.4

Table 2
Department of Transportation
Proposed 1988-89 Budget Changes
(dollars in thousands)

	Transportation Planning and			Federal Funds	Reimburse- ments	Other Funds	Total
	Aeronau- tics Account	State Highway Account	Develop- ment Account				
1987-88 Expenditures (Revised)	\$5,053	\$1,206,387	\$45,532	\$1,352,190	\$410,428	\$145,443	\$3,165,033
Baseline Adjustments.....	\$58	\$10,273	\$480	\$6,183	\$5,518	-\$20,893	\$1,619
Workload and Program Changes							
Aeronautics							
• State operations.....	—	—	—	350	—	—	350
• Local assistance.....	-278	—	—	—	—	—	-278
Highways							
• State operations.....	—	148,369	—	32,643	5,486	2,053	188,551
• Local assistance.....	—	—	—	15,850	—	5,000	20,850
• Capital outlay.....	—	-105,278	—	206,460	-17,449	-29,492	54,240
Mass transportation							
• State operations.....	—	—	-296	-9,754	-3,365	—	-13,415
• Local assistance.....	—	—	13,915	—	—	—	13,915
• Capital outlay.....	—	—	—	37,415	31,833	10,000	79,248
Transportation planning							
• State operations.....	—	198	164	—	—	—	362
Administration							
• State operations.....	—	28,035	—	—	—	13	28,049
Subtotals, Workload and Program Changes	(-\$278)	(\$71,324)	(\$13,783)	(\$282,964)	(\$16,505)	(-\$12,426)	(\$371,872)
1988-89 Expenditures (Proposed)	\$4,833	\$1,287,984	\$59,795	\$1,641,337	\$432,451	\$112,124	\$3,538,524
Change from 1987-88:							
Amount	-\$220	\$81,597	\$14,263	\$289,147	\$22,023	-\$33,319	\$373,491
Percent.....	-4.4%	6.8%	31.3%	21.4%	5.4%	-22.9%	11.8%

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY— Continued

Significant Program Changes

Table 2 compares the department's proposed expenditures from various funding sources in 1988-89 with expenditures in the current year. The bulk of the increases would be in the Highway Transportation program.

The major changes proposed in the Department of Transportation's budget are discussed in the review of each of the department's programs. Table 3 summarizes the major changes in proposed activities, by program.

Table 3
Department of Transportation
Summary of Major Changes
1988-89
(dollars in thousands)

	<i>Amount</i>	<i>Personnel-Years</i>
<i>Highway Transportation</i>		
Staff increase for project delivery	\$107,153	572.0
Staff for engineering of locally funded project	25,075	304.0
Traffic management and congestion reduction	17,132	85.0
Maintenance workload	8,590	53.0
Research and development	5,683	4.4
Smart corridor demonstration project	4,500	—
Communication equipment	3,911	—
Toll collection	548	17.5
Hazardous waste and underground tanks	418	6.2
<i>Mass Transportation</i>		
Intercity rail capital improvement	20,000	—
Peninsula Commuter Service	51,398	—
Transbay transit terminal rehabilitation	6,100	—
Local rail assistance	2,000	—
<i>Planning</i>		
Advanced system development	382	10.0
<i>Administration</i>		
Orange County district office	13,459	60.0
Accounting workload	1,126	21.0
Cash management system implementation	225	5.2
Legal workload and tort payment	10,415	10.0
Various automation activities	8,959	10.8
Facilities operations	1,082	—
Printing and reproduction	76	1.9

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following proposed budget changes that are not discussed elsewhere in this *Analysis*.

- \$23.2 million and 89.4 personnel-years to increase staff for traffic operation activities, test advanced highway technologies and implement a SMART roadway demonstration project.
- \$10.5 million and 65 personnel-years for various maintenance activities.
- \$10.4 million and 10 personnel-years to address the increase in tort workload and tort payments.

- \$2.9 million to implement various computerization and other automation efforts and continue the computer-aided design and drafting system implementation.
- \$2 million for local rail service assistance.
- \$873,000 and 21 personnel-years for additional accounting workload and for strengthening the department's internal accounting controls.
- \$548,000 and 17.5 personnel-years to address the increase in toll traffic on Bay Area bridges.

Overview of Analysis

Our review of the Department of Transportation's 1988-89 budget concentrates on two areas: (1) the availability of funds for the state highway transportation program and (2) the capability of the department to develop and deliver highway capital outlay projects.

Transportation Funding. Our review shows that the 1988 State Transportation Improvement Program (STIP) will be *underfunded* by about \$1.6 billion (page 227). The state will need an additional \$1.6 billion during the next five years in order to (1) fund all noncapital outlay activities such as highway maintenance, operations, and design and engineering staff support, (2) match federal funds, and (3) pay for the costs of all scheduled capital outlay activities. More importantly, our review shows that after 1988-89, there will not be sufficient State Highway Account revenues to cover annual noncapital outlay expenditures and match federal funds at the same time (page 228). Consequently, the Legislature and the administration will need to consider additional revenue sources or curb expenditures in order to avoid a deficit in the State Highway Account in 1989-90.

Highway Project Delivery. The department is requesting a significant increase in staff and contracting resources of 1,484 personnel-years in 1988-89 to deliver STIP projects, projects funded by local sales tax measures, and an additional amount of unspecified projects to expand the highway system's capacity. Our review shows that a staffing increase is warranted. In the past several years, the department's arbitrarily constrained staffing levels have contributed to the delivery of substantially fewer capital outlay projects than scheduled in the STIP (page 236). We believe that the requested staff increase will begin to enhance the department's project delivery capability, enabling it to reduce a backlog of delayed projects and to work towards having a more even flow of projects which are ready for delivery in future years.

Despite this significant increase in personnel resources, the department's ability to increase its capital outlay delivery efforts in the *short* run is still questionable because of the following factors:

- The department's ability to contract out significant levels of work is yet largely undemonstrated. There is little indication that the department can successfully contract out the full 1,211 personnel-years of work proposed for 1988-89 (page 240).
- The addition of almost 900 new engineering staff within the budget year could raise recruiting, hiring and training problems as well as other operational problems, which will initially reduce the productivity of these staff.
- The department's ability to implement new strategies to accelerate project delivery and shorten delivery time remains to be tested (page 243).

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued**

Because of the above factors, and because projects typically take several years to design and develop before they are ready for construction, an increase in staff resources in 1988-89 will likely not result in a significant increase in capital outlay activities until 1990-91 or later.

HIGHWAY TRANSPORTATION FUNDING

California finances its highway transportation program primarily with a combination of federal and state funds. Federal funds are derived from an excise tax on gasoline and are used mainly to pay for highway capital outlay expenditures. These funds also pay for about 30 percent of the support of engineering staff used to design and develop highway capital outlay projects.

State Highway Account funds—derived mainly from the state gas tax (9 cents per gallon) and truck weight fees—are used to pay for noncapital outlay activities. Specifically, current law requires that these funds be used first for highway maintenance and operations. Other noncapital outlay activities supported by state funds include engineering staff support, departmental administration, and local assistance. In addition to these noncapital outlay expenditures, State Highway Account money also is used to match federal funds available to California. Current law requires that the state seek the maximum amount of federal funds available each year.

Our review shows that the Legislature will need to address two significant fiscal issues in 1988-89. First, the state will need an additional \$1.6 billion in order to fully fund highway activity scheduled during the five-year 1988 STIP period. This amount will cover a projected shortfall of \$1 billion in federal funds, and about \$600 million in state funds. More importantly, the State Highway Account will not have sufficient funds by 1989-90 to pay for the existing level of noncapital outlay expenditures such as highway maintenance and operations. Although pending legislation would provide additional highway funding through the sale of bonds, the state's policy, in general, has been to use bond funds for capital outlay expenditures. Consequently, additional state revenues still will be needed to pay for all noncapital outlay expenditures. In order to avoid a deficit in the account, state revenues must be increased, or the *current* services level of expenditures must be reduced.

Second, the Legislature will need to provide direction to the department and the California Transportation Commission on the formulation of a state highway policy and program after the federal interstate program expires in 1992, in order to ensure that its priorities are reflected in any forthcoming state proposal. To do so, the Legislature should begin its consideration and debate on the shape of the state's future transportation program.

1988 STIP Will Be Underfunded

As required by law, the California Transportation Commission has adopted a Fund Estimate for the five-year period from 1988-89 through 1992-93. The Fund Estimate projects the amount of state and federal resources available to the state for its transportation program, including highways, mass transportation, and toll bridges. It also projects (1) the levels of noncapital outlay expenditures including expenditures for

highway maintenance and operations, engineering and design staff support, local assistance, and department administration, (2) commitments of capital outlay expenditures made in previous STIPs, and (3) any remaining resources available for funding additional capital outlay projects during the five-year period.

Table 4 summarizes the resources and expenditures for the two major highway transportation fund sources—the State Highway Account and federal highway funds—projected in the 1988 Fund Estimate.

Table 4
Fund Estimate for the 1988 STIP
1988-89 through 1992-93
(dollars in millions)

	<i>Total Resources</i>	<i>Expenditures</i>			<i>Balance</i>
		<i>Support and Local Assistance</i>	<i>Capital Outlay</i>	<i>Total</i>	
State Highway Account	\$6,026 ^a	\$5,618	\$970 ^b	\$6,588	—\$562
Federal highway funds	5,670	1,946	4,724	6,670	—1,000
Totals	\$11,696	\$7,564	\$5,694	\$13,258	—\$1,562

^a Includes \$216 million in balances carried over from previous years.

^b Includes \$467 million to match federal funds.

Table 4 shows that total highway expenditures over the five-year period are projected to be \$13.3 billion, while total federal and state resources are estimated at \$11.7 billion—\$1.6 billion short of projected expenditures. *Therefore, to support the level of highway program activities projected in the 1988 Fund Estimate, the state will require additional revenues of about \$1.6 billion.*

No Growth in Highway Capital Outlay Program

The 1988 Fund Estimate shows that capital outlay expenditures will total \$5.7 billion over the five-year period and will cover only the costs of highway capital outlay projects which have already been scheduled for construction in previous STIPs. Consequently, an expansion of project activities by scheduling more projects for delivery in the 1988 STIP would increase the funding gap. For instance, the department is proposing in the budget to sustain highway capacity improvement projects at a level of about \$1 billion annually. For the 1988 STIP period, this would entail an increase of about \$420 million in project activities—bringing the funding shortfall to almost \$2 billion.

The 1988 Fund Estimate also assumes that noncapital outlay expenses—such as highway maintenance, operations, and departmental administration—will remain at the 1988-89 level, adjusted for inflationary cost increases. Consequently, any increase in these activities in future years beyond the inflation-adjusted level will worsen the funding shortfall.

State Revenues Insufficient to Pay for Noncapital Outlay Expenditures— No Funds to Match Federal Dollars

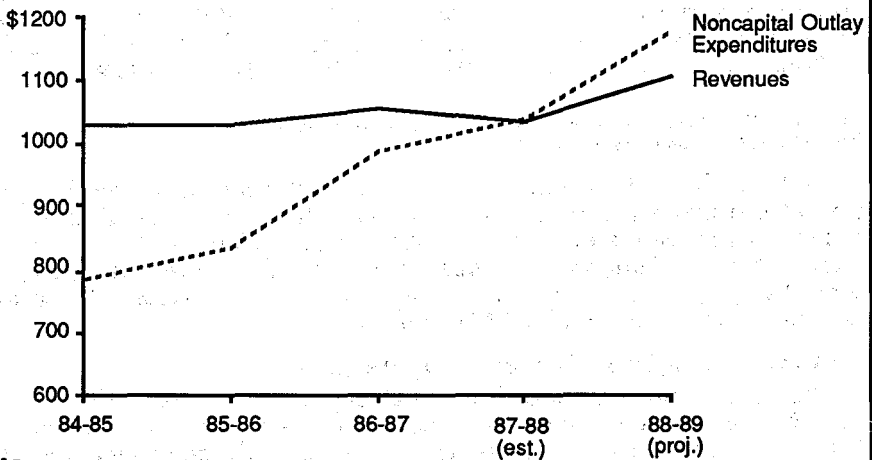
Not only will the state be short of funds for capital outlay activities during the five-year period, there will not be sufficient funds for noncapital outlay activities, which are funded primarily by the State Highway Account. Chart 1 shows that noncapital outlay expenditures will outstrip State Highway Account revenues *by the budget year*. Conse-

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

quently, if state funds are used first for these noncapital outlay expenditures, there will be no state funds to match available federal funds. Chart 1 also shows that if revenues into the account continue to grow at a rate below that of expenditures, the gap between noncapital outlay expenditures and State Highway Account revenues will widen.

Chart 1

**State Highway Account
Noncapital Outlay Expenditures vs. Revenues
1984-85 through 1988-89* (in millions)**

**Additional State Revenues Will be Needed by 1989-90**

While noncapital outlay expenditures are estimated to exhaust all State Highway Account revenues in the budget year, *the account has, in fact, been running an annual deficit since 1986-87*, as shown in Table 5. Given the administration's proposal to expend about \$1.3 billion from the account in 1988-89, the annual deficit will be \$186 million at the end of the budget year. (This deficit will grow by the amount of any employee compensation increase approved in the budget.) Deficit spending has been financed by a sizable reserve in the account—about \$629 million at the beginning of 1986-87. However, this reserve has been drawn down rather rapidly, and the budget projects a year-end balance of about \$30 million by June 30, 1989.

Table 5
Revenues and Expenditures from the State Highway Account
1984-85 through 1988-89
(dollars in millions)

	1984-85	1985-86	1986-87	Est. 1987-88	Prop. 1988-89	Percent Increase Over Period
Revenues.....	\$1,029.6	\$1,028.1	\$1,053.6	\$1,034.9	\$1,109.1	7.7%
Expenditures.....	908.6	983.3	1,289.5	1,211.9	1,295.3	42.6
Capital outlay.....	(126.9)	(149.9)	(301.8)	(208.8)	(119.1)	—
Noncapital.....	(781.7)	(833.4)	(987.7)	(1,003.1)	(1,176.2) ^a	—
Surplus/deficit (—).....	\$121.0	\$44.8	—\$235.9	—\$177.0	—\$186.2 ^a	—
Year-end balance.....	\$584.1 ^b	\$628.9	\$393.0	\$216.0	\$29.8 ^a	—

^a Does not include any amount for additional employee compensation which the budget proposes.

^b Includes reserves in account prior to 1984-85.

Table 5 also shows that since 1984-85, total State Highway Account revenues have grown by 7.7 percent, while total expenditures, including capital outlay and noncapital outlay, have grown by about 43 percent. Given the small reserve projected to be in the account at the end of 1988-89, *there will not be sufficient funds in the State Highway Account to support, in 1989-90, a highway transportation program which is similar in size to that proposed for 1988-89.* If the state is to sustain a highway program of that magnitude, the Legislature and the administration will need to consider increasing revenues. Alternatively, the Legislature and the administration will need to control expenditures in order to prevent a negative balance in the State Highway Account.

Currently pending legislation, including AB 671 (Katz) and SB 176 (Deddeh), would provide the state with authority to issue bonds for highway capital outlay improvements. *Even if such bond funding is authorized by the Legislature and the voters, however, this will not solve the department's funding problem.* This is because the pending proposals, consistent with the state's historical practice, would use these monies only for capital outlay purposes. Our review shows that additional revenue enhancements will still be necessary to provide funds for noncapital outlay expenditures because of the shortages in the State Highway Account.

Availability of Federal Funds Uncertain

Unlike State Highway Account funds, federal highway funds are used mainly for capital outlay purposes. Federal funds also can be used for certain design and engineering expenditures. The 1988 STIP Fund Estimate projects the amount of available federal funds that California can expect to receive based on the amounts authorized in the Federal Highway Act. However, California may not receive its full share of federal dollars because federal budget constraints may reduce the amount the state can expend to below the authorized level.

Two other conditions add to the future uncertainty of federal funds. First, the current federal act authorizing the federal highway program will expire in 1991-92. Second, the interstate system is due to be completed by 1993, and federal funds for the interstate completion program will expire in 1992-93. Until the federal program is more defined, the uncertainty of federal funds after 1991-92 will make planning and

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

programming of highway capital outlay activities in future STIPs increasingly difficult.

Future Federal Program to be Determined

Although the federal program will not expire for another four years, efforts have already begun to determine the role of the federal government in the "post-interstate" period. Several options have been identified and discussed. These include:

- **Turn back to California its share of the federal gas tax revenues.** Returning all of the federal gas tax to the states would eliminate the federal highway program. Consequently, there would be minimal federal restrictions on how funds are used by the states. This would allow the state to have greater flexibility in the use of the funds, as well as greater control over the size of the highway program because it would not be subject to federal budget constraints.
- **Reduce federal program to one of repairing the Interstate System.** This would entail returning the bulk of the federal gas tax revenue to the states, while the federal program and its funding would be reduced to a level sufficient to keep the interstate system in good repair.
- **Restructure federal program into block grants.** This would redefine the existing federal program elements including the interstate rehabilitation, primary system, secondary system, and various demonstration projects, into broader categories, and potentially relax the restrictions on how funds must be used. The fragmentation resulting from the earmarking of money for specific demonstration projects also could be reduced.
- **Redefine a system of national highways which the federal government would fund.** This system may encompass routes in the interstate system and other routes, such as those in the primary system, which are considered to be of national importance. The federal gas tax would then be adjusted accordingly, depending on the federal role in funding this new system.

Legislature Should Provide Direction for Post-Interstate Program

We believe that while Caltrans and the California Transportation Commission (CTC) should play an important part in the formulation of a policy and program most advantageous to California, *the Legislature ought to provide direction for that policy's formulation.* The Legislature's direction is essential for several reasons. First, such a policy would establish California's position and define the goals on which the state should concentrate its efforts in order to impact the final form of the federal program. Second, it would provide some direction to the CTC and Caltrans in setting project priorities and the allocation of funds in future STIPs prior to a final federal program being enacted. Third, the future federal program would in turn affect the state's own highway program and funding needs in the post-interstate period.

HIGHWAY TRANSPORTATION

Of the total 1988-89 expenditures proposed in the department's budget, \$3.3 billion (94 percent) is proposed for the Highway Transportation

program. This is an increase of \$396 million, or 14 percent, above estimated expenditures in the current year. The budget proposes to increase staffing for the program by 1,067 personnel-years (PYs).

Table 6 shows the proposed changes in expenditures and funding sources for the Highway Transportation program in 1988-89. The State Highway Account will finance \$1.3 billion (38 percent) of the total proposed expenditures, and the federal government will fund an additional \$1.6 billion (48 percent). The remaining \$480 million (14 percent) will come from other state funds and reimbursements.

Table 6
Department of Transportation
Highway Transportation
Proposed Program Changes and Fund Sources
1988-89
(dollars in thousands)

	<i>Personnel- Years</i>	<i>Expenditures</i>			
		<i>State Opera- tions</i>	<i>Local Assistance</i>	<i>Capital Outlay</i>	<i>Total</i>
1987-88 Expenditures (Estimated).....	13,645.6	\$1,152,387	\$275,438	\$1,491,122	\$2,918,947
Proposed Changes					
Rehabilitation	48.9	37,015	—	-7,948	29,067
Operational improvements	-2.4	37,487	—	210,357	247,844
Local assistance7	276	30,754	50,000	81,030
Program development	8.7	2,437	—	—	2,437
New facilities	801.2	69,440	—	-101,274	-31,834
Operations	140.4	35,016	5,000	—	40,016
Maintenance	69.4	27,906	—	—	27,906
Subtotals (proposed changes)	(1,066.9)	(\$209,577)	(\$35,754)	(\$151,135)	(\$396,466)
1988-89 Expenditures (proposed)	14,712.5	\$1,361,964	\$311,192	\$1,642,257	\$3,315,413
Funding Sources					
State Highway Account		\$1,106,210	\$32,000	\$117,471	\$1,255,681
Federal funds		193,619	253,500	1,132,876	1,579,995
Other state funds		40,189	25,692	25,202	91,083
Reimbursements		21,946	—	366,708	388,654

Table 6 shows that about one-half—or \$1.6 billion—of the expenditures for the highway transportation program are for capital outlay. The department's highway capital outlay activities are in three programs—rehabilitation, which extends the service life of the highway system; operational improvements, which increase the capacity and efficiency of the system; and new facilities, which add new mileage to the system. Staff in these three elements design, engineer, and manage the construction of highway projects scheduled for delivery according to the STIP.

State operations, the second largest expenditure category in the highway program, includes staff salaries, benefits, and operating expenses. Table 6 shows the department proposes to spend \$1.4 billion for these costs in the budget year. This is about \$210 million (18 percent) more than estimated current-year expenditures.

Under the local assistance program, the department performs fully reimbursed design and construction oversight work for local agencies. The budget proposes \$311 million for these activities in 1988-89, as shown in Table 6.

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued****Highway Capital Outlay**

The Legislature has delegated to the California Transportation Commission (CTC) the authority to allocate funds for specific highway capital outlay projects according to the STIP. Consequently, the Legislature annually appropriates a lump sum amount for highway capital outlay purposes, based mainly on the estimated costs of all projects to be delivered in the budget year. To determine whether the lump sum request is warranted, the Legislature relies on the STIP document to provide information on the location, type and costs of projects to be delivered. This information is subsequently used to evaluate the department's performance in delivering these projects.

Each appropriation for highway capital outlay purposes is available for encumbrance during a three-year period. Annually, the department projects how much out of each (of the three) outstanding appropriations it will spend in the budget year, by estimating the projects it will award for construction.

For 1988-89, the department is requesting a total *appropriation* for capital outlay purposes of \$1.4 billion—\$257 million in State Highway Account funds and \$1.2 billion in federal funds. Together with proposed expenditures from toll bridge funds and reimbursements, the department proposes a total highway capital outlay expenditure program of \$1.6 billion in the budget year.

Accounting of Capital Outlay Expenditures Will be Changed

The department is in the process of developing an alternative system of financing and accounting for capital outlay projects. Under the alternative system, the department will continue to encumber the full amounts of contracts to be funded by federal funds, but for the state-funded portion of capital outlay expenditures, it will encumber only those amounts necessary to cover expected payments due *during* the fiscal year. This represents a significant change from the current practice of setting aside the full amount of any construction contract when it is awarded, regardless of the year in which payment is due. The department indicates that the current system has resulted in sizable encumbrances, the payment of which may stretch out over several years, thereby causing large cash balances to accumulate in the State Highway Account. By "split financing" the state funded portion of capital outlay expenditures, the department will be able to utilize State Highway Account funds more efficiently by financing a larger number of projects at any one time, *if projects are ready for construction*.

Fewer Projects to be Advertised than Shown in the STIP

We recommend the adoption of supplemental report language directing the department to submit, as part of its budget documentation, a list of all major projects which it anticipates to be advertised for construction during the budget year.

In addition to the change in the project financing system, the department also proposes to change the method it uses to budget for capital outlay purposes. Beginning in 1988-89, the department is requesting an amount of funds sufficient to cover the costs of only those projects which it anticipates will be advertised for construction during the budget

year. Until now, the annual amount appropriated by the Legislature covered projects programmed in the budget year of the STIP. This presumed the department was capable of advertising all projects in the year they were scheduled for delivery. In reality, the department is not able to do so, and indicates that it *will not* be able to advertise all the projects which the STIP has scheduled for delivery in 1988-89. Consequently, the department will no longer use the STIP as a work delivery commitment document and a basis for making budget requests.

While this is a significant departure from current practice, we believe the proposed change represents the department's attempt to more realistically plan and budget for its capital outlay activities. However, as a result of this change, the Legislature will no longer have a document with project information on which to evaluate the department's request for (1) highway capital outlay funding and (2) the amount of capital outlay support staff. We think the Legislature should be informed of what projects, among those programmed in the STIP, the department expects to advertise for construction during the budget year. In order to make this information available to the Legislature, we recommend the adoption of supplemental report language that requires the department to submit that list of projects as part of the annual budget documentation. This list of projects subsequently should be incorporated as an appendix in the 1988 STIP document.

The following supplemental report language is consistent with this recommendation.

The Department of Transportation shall provide, as part of its annual budget documentation, a list of projects it expects to advertise in the budget year. This list should identify the year in which each project is programmed for delivery according to the STIP. The list will be used to justify the capital outlay appropriation request in the budget, and shall be incorporated as an appendix to the annual STIP adopted by the California Transportation Commission.

Minor Capital Outlay Projects Should Also be Identified

We recommend that the Legislature adopt supplemental report language directing the department to specify, as part of the annual budget documentation, the minor capital outlay projects which it plans to deliver in the budget year.

STIP Information is Not Complete. Currently, the STIP identifies all projects with construction and right-of-way acquisition costs estimated to be over \$250,000 which are scheduled for construction during the five-year period. Projects costing less than \$250,000 are not specifically identified. Instead, the CTC sets aside certain amounts of funds in the STIP for these projects, at the recommendation of the department. The rationale for this approach is that minor projects typically do not need to be identified and programmed very far in advance, as compared to larger, major projects. In addition, they require less time in planning, engineering, and design, and the need for these projects often arises with relatively short notice in response to unforeseen needs on the highway system.

More Information is Needed. While we recognize it is unrealistic for the department to identify in the STIP all minor projects for each year of the five years in the STIP period, we think that the bulk of such projects to be constructed during the budget year ought to be known and

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

identified by the time the budget is proposed. For instance, the 1988 STIP Fund Estimate shows about \$56 million being reserved for minor projects for 1988-89. However, there is no information available to the Legislature to determine (1) what projects this amount will buy, (2) whether the amount is justified, and (3) what amount of staff resources is necessary to deliver these projects.

Accordingly, we recommend that the Legislature adopt supplemental report language that requires the department to provide such information as part of its annual budget request. The following supplemental report language is consistent with this recommendation.

The Department of Transportation shall provide a list of minor highway capital outlay projects it plans to advertise in the budget year, as part of its annual budget documentation. This list of projects shall be incorporated as an appendix to the annual State Transportation Improvement Program document.

Appropriations Should Have Shorter Life

We recommend that the Legislature adopt Budget Bill language to make capital outlay appropriations in 1988-89 available for encumbrance over two years, instead of three. Accordingly, we further recommend that the Legislature enact legislation making future highway capital outlay appropriations available for two years.

Because the department will encumber funds according to what it expects to pay out during any year, appropriations no longer need to be available for encumbrance over three years, as is the current practice. Shortening the time for which appropriations can be encumbered would free up, at an earlier time, appropriated funds which are no longer needed for encumbrance due to projects being deleted or changed. This would allow the Legislature to allocate the money sooner for other purposes. In addition, it would reduce the department's task of tracking past appropriations. However, to allow for the overlapping of state and federal fiscal years (which governs the availability of federal funds), we think appropriations should be available for encumbrance over two years.

Accordingly, we recommend the adoption of the following Budget Bill language for Item 2660-301-042 and Item 2660-301-890 which provides for a two-year encumbrance of funds:

Provided that the amount appropriated in this item is available for encumbrance over two years, and liquidation over two years. Any unencumbered funds after two years shall revert to the account.

We further recommend that the Legislature enact legislation to make future capital outlay appropriations available for encumbrance for two years instead of three.

Highway Capital Outlay Support

For 1988-89, the budget proposes a significant increase in staff and support resources to develop and deliver highway capital outlay projects. In total, the budget requests resources to support 8,650 personnel-years of work—an increase of 1,484 personnel-years over the amount available for the current year. Table 7 shows that the department proposes to achieve the 8,650 personnel-years (PYs) of engineering and design work by: (1)

using 7,013 personnel-years of state staff, (2) contracting for 1,211 personnel-years equivalent of services, (3) accomplishing 293 personnel-years equivalent of work through cash overtime, and (4) contracting for student assistants for 133 personnel-years of work.

Table 7
Department of Transportation
Personnel Resources for
Capital Outlay Support
1987-88 and 1988-89

<i>Resources</i>	<i>1987-88 Authorized</i>	<i>1988-89 Proposed</i>	<i>Proposed Change</i>
State staff.....	6,137	7,013	876
Contracts	669	1,211	542
Cash overtime.....	250	293	43
Student assistants.....	110	133	23
Totals.....	7,166	8,650	1,484

Significant Staff Increase Follows Years of Arbitrary Restraints

The budget request represents the second consecutive year of significant increase in capital outlay support effort proposed by the department. This follows a period of relatively constant staffing levels from 1983-84 through 1986-87, as shown in Chart 2.

Chart 2 also compares the staffing levels requested by the department since 1983-84 with the levels estimated to be needed to deliver the proposed amounts of capital outlay activities. The chart shows, as we pointed out in past *Analyses*, that the department has arbitrarily restrained its request for capital outlay support staff. Instead of budgeting staff support based on historical experience, with reasonable adjustments to reflect the likely impact of technological and other process changes, the department requested significantly lower staffing levels and made large adjustments for various unsubstantiated efficiencies. Consequently, it was questionable whether those proposed staffing levels were adequate to deliver the proposed amount of capital outlay projects in the respective years.

Project Delivery Suffers Because of Insufficient Staff

Lack of adequate staff is one reason that the department has not been able to deliver all planned capital outlay projects. Chart 3 shows, in part, the impact of the arbitrarily lowered levels of staff on the department's ability to deliver capital outlay projects. The chart shows that the state has *budgeted* an increasing amount of capital outlay projects for construction because of the large infusion of funds resulting from the increase in both federal and state fuel excise tax revenue beginning in 1983-84. However, support resources did not increase commensurately to accommodate the rise in workload. Consequently, *actual* capital outlay expenditures were far lower than the planned levels, as Chart 3 shows.

Although the department was not able to deliver the budgeted level of capital outlay projects, it was able to increase actual capital outlay expenditures from 1983-84 through 1985-86, as shown in Chart 3. Our

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY— Continued

Chart 2

Capital Outlay Support Budgeted vs. Department's Estimated Need 1983-84 through 1988-89

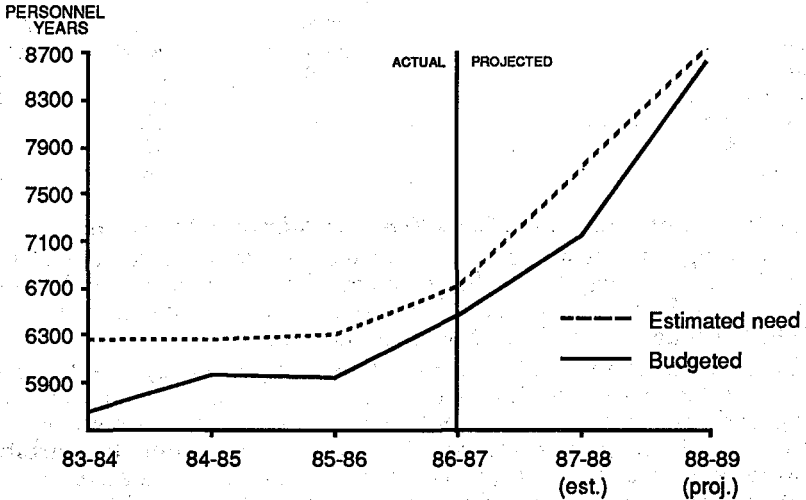
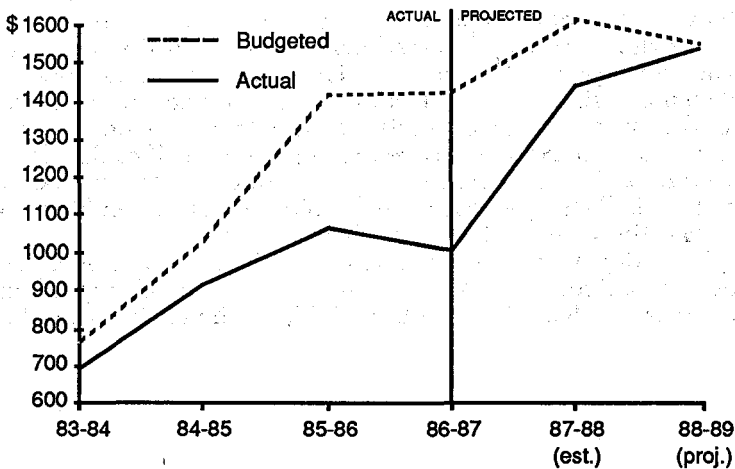


Chart 3

Highway Capital Outlay Expenditures Budgeted vs. Actual 1983-84 through 1988-89 (in millions)



review indicates that this increase was accomplished primarily by concentrating staff resources on the delivery of projects in the short, immediate term. However, capital outlay projects often require five to seven or more years to develop and design in order to be ready for construction. By redirecting staff resources from working on projects for delivery in later years to working on projects which will be delivered immediately, the flow of ready projects will inevitably drop. This was likely the case in 1986-87, when total capital outlay expenditures fell to \$1,008 million from a previous total of \$1,065 million in 1985-86.

Project Delivery Will Not Recover Instantaneously

To avert a continued decline in capital outlay activity, the department has begun to increase its staff resources in the current year. With this increase in staff and contracting out for services, the department anticipates to deliver \$1.4 billion in capital outlay activities in 1987-88. However, the department's estimate appears to be optimistic. Based on the amount of funds encumbered from July through December of the current year (\$467 million), the capital outlay activity level for 1987-88 will likely be substantially less.

There are two reasons why the level of capital outlay activity may not increase significantly in the short run. First, because of the relatively long time necessary to get projects ready for construction, the lack of projects being designed and developed on an even flow basis in prior years means that the increased capital outlay support efforts in the current and budget years will not increase the number of projects which are ready for construction until a few years to come.

Second, the department may not realize all of the staff resources that are budgeted. As regards contract resources, the department estimates it will achieve just 190 contract personnel-years of the 695 personnel-years budgeted during 1986-87 and 1987-88.

As regards the hiring of new state staff, the department's predictions seem particularly optimistic. Specifically, the department anticipates that all of the new staff will be hired and on board by the start of 1988-89. The department believes this is possible because it intends to begin hiring these staff during the current year. This may not be possible for the following reasons:

- **Administrative and Scheduling Problems.** Since the department will hire hundreds of new staff in a relatively short period of time, it may encounter administrative and scheduling problems associated with processing employment applications, scheduling interviews and conducting tests for these personnel, which will hamper its ability to bring these staff on board by July 1, 1988.
- **Normal Attrition Will Require Hiring of Additional Staff.** To backfill for staff vacancies due to attrition, the department estimates that it will need to hire about 100 new staff *per month* during the budget year. Consequently, in addition to about 900 new hires, the department also will have to fill about 1,200 more positions departmentwide in order to compensate for staff lost due to attrition.

Even if the department successfully fills all of these positions, it will likely obtain *less* than the budgeted PYs in staff effort due to operational and training problems associated with these staff. Since the majority of new hires will be junior civil engineers—the entry level engineering classification—these staff will be required to go through a 12- to 18-month

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

rotational training program. The new staff's productivity level will not be the same as experienced staff while they are in training.

Department Proposes to Increase Level of Highway Capacity Improvements

We make no recommendation on the department's request for 138 PYs and \$7.2 million to increase its highway capacity improvement program because this is a policy decision that should be made by the Legislature. We further recommend that if the Legislature approves the personnel resources for the capacity improvement program, that it also adopt Budget Bill language requiring that these resources be provided contingent upon the CTC adopting these projects in the 1988 STIP.

For the budget year, the department proposes an additional 876 state personnel-years (PYs) to design and engineer highway capital outlay projects. Of this amount, about 138 PYs (\$7.2 million) are being requested in order to begin development work on about \$420 million worth of additional highway projects. According to the department, this will enable it to maintain an annual billion dollar highway capacity improvement program throughout the current STIP period (1988-89 through 1992-93). These highway improvements will provide for new highway lanes and various operational improvements, such as high occupancy vehicle (HOV) lanes which increase the capacity of the existing system.

Although the department has proposed a billion dollar capacity improvement program, our review indicates it has yet to identify the specific projects to which the additional staff will be assigned. The department indicates, however, that it will identify these projects in its Proposed-STIP, which will be available in March 1988.

In our view, the desired level of funding for highway capacity improvements is a policy decision that should be decided by the Legislature. In deciding whether the department should initiate such a program, we believe the Legislature should consider the following two factors: (1) how will the capacity improvement program be funded, and (2) what type of projects does the Legislature wish to fund?

How Will the Capacity Improvement Program Be Funded? We have pointed out elsewhere in this *Analysis* that currently the state does not have enough funding to construct all of the projects programmed in the STIP. Specifically, there are about \$1.6 billion worth of highway capital outlay projects for which there is no funding identified. This funding shortfall could be even larger because noncapital outlay costs may be higher than assumed by the department. For instance, the fund estimate assumes that noncapital outlay expenditures will increase about 4 percent annually. The budget, however, indicates these expenses have increased by 10 percent between 1985-86 and 1988-89. In addition, the state has not received, in recent years, the maximum amount of federal funds it anticipated. The department's proposal to increase capacity would increase the funding shortfall in the STIP by \$420 million, for a total shortfall of \$2 billion. In order to sustain such a level of capacity improvements, additional revenues will need to be found.

What Type of Projects Does the Legislature Wish to Fund? The department's proposal is based on its claim that there was a billion dollars worth of capacity improvement projects in the 1986 STIP and that this

historical experience is a good indicator of future requirements. Using prior experience as the basis for establishing the level of the capacity improvement program assumes that the relative amounts of funds spent on highway capacity improvements versus highway rehabilitation and maintenance were the correct amounts in the past and the future. Since the state's highways are getting older, however, it may take more resources in the future to maintain these roads. The proposal also does not recognize that different types of improvements may be required to address transportation problems in the future. For example, the department indicates that because of environmental, right-of-way and other considerations it may be too costly in the future to build new highways in many urban areas. Given these constraints, the Legislature may wish to consider other alternatives (such as transportation management strategies), in combination with capacity improvements, in order to reduce congestion.

Analyst's Recommendation. In summary, we believe that the desired levels of funding for highway capacity improvements is a policy decision that the Legislature ought to decide. In doing so, it should consider how the improvements will be funded and what types of projects should be included in the program.

We recommend that the department provide to the Legislature by March 15, a list of projects that comprise the \$420 million in proposed capacity improvements. We further recommend that if the Legislature approves the requested personnel resources, it also adopt Budget Bill language requiring that the 138 PYs and \$7.2 million proposed for the capacity improvement program be approved contingent upon these projects being adopted in the STIP. The following Budget Bill language is consistent with this recommendation.

Of the amount appropriated in this item, 138 personnel-years and \$7.2 million shall be provided contingent upon the California Transportation Commission adopting \$420 million in highway capacity improvement projects in the 1988 STIP.

Legislature Should Specify Project Delivery Priorities

We recommend that the Legislature adopt supplemental report language specifying its priorities for the delivery of state-funded highway projects programmed in the STIP and state highway projects funded from other sources.

Traditionally, improvements on the state highway system have been funded primarily from state and federal sources. However, over the past few years, highway improvements funded from other sources have increased significantly. Most notably, counties have enacted local sales tax measures to fund highway improvements. Since 1985-86, four counties (Santa Clara, Alameda, Fresno and San Diego) have adopted local sales tax measures to fund highway and other transportation improvements. We estimate that in total these counties will provide about \$2.5 billion in improvements on the state highway system over the next 10 to 20 years. In addition to sales tax measures, numerous improvements to the state system also are being proposed by private developers and other local agencies.

For the budget year, the department proposes a total of 1,016 PYs including contract staff to perform work funded by nonstate sources. This includes about 756 PYs for local sales tax measures and about 260 PYs for

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work on projects funded by private developers and other local sources. This is in addition to staff proposed to deliver state-funded highway projects programmed in the STIP and to maintain a highway capacity improvement program of about \$1 billion annually throughout the current STIP period.

Due to the magnitude of the department's proposed increase of capital outlay support staff, it is unlikely that all these new staff will be hired by the start of 1988-89. Consequently, to the degree that these staff are not on board by the beginning of 1988-89, the department will have to determine which projects are of higher priority and allocate existing resources accordingly. For instance, the department will have to decide if a project programmed in the STIP should take priority over projects which are being funded by local or private funds.

In order to ensure that high priority projects are not delayed, the Legislature should provide direction to the department as to what work it believes to be of the highest priority. We believe that the department's first priority should be to deliver state-funded projects programmed in the STIP. The department should next concentrate on highway projects funded from other sources. In our view, STIP projects should be considered *higher* priority work for the department because it is responsible for delivering the STIP, as programmed. In addition, STIP projects are programmed within each funding category, based on their relative *statewide* priority. Although we recognize that projects funded by local sales tax measures also improve the state's highway system, work on these projects can be performed by local agencies under current law.

Accordingly, in order to ensure that high priority projects of statewide significance are not delayed, we recommend that the Legislature adopt supplemental report language providing the department with priorities for delivering highway projects. The following supplemental report language is consistent with this recommendation.

It is the intent of the Legislature that in the event that the department does not have adequate personnel resources to deliver all projects, it shall deliver highway projects according to the following priorities. The department shall give first priority to designing and engineering highway projects of statewide significance which are programmed in the STIP. The department shall give next priority to designing and engineering projects funded from nonstate funding sources.

Departmental Contracting Efforts Need Improvement

We recommend the adoption of supplemental report language requiring the department to: (1) submit annually, as part of its budget documentation, a list of projects and activities for which it will contract for capital outlay support services and (2) submit to the Legislature by October 1, 1988, specific criteria for determining what project work will be accomplished by contractors.

During the last two years (1986-87 and 1987-88), the Legislature has appropriated a total of \$55 million to the department in order to contract for the equivalent of 695 PYs worth of engineering, design, and other project work necessary to deliver state-funded highway capital outlay projects. In general, such work was performed previously by departmental staff. In requesting these funds, the department argued that contract-

ing would increase its ability to deliver projects on time. Our review of the department's contracting experience suggests that to date this has not been the case. For example, the department currently estimates that it will realize only about 190 PYs, or 27 percent, of the work planned over the two-year period.

Our review indicates that a variety of factors contributed to the department's inability to contract for engineering services, including the following.

Lack of Administrative Support. One of the reasons the department failed to achieve its goal was the lack of administrative support within the department for contracting out efforts. For instance, although the Legislature authorized funds for contracting in 1986-87, it took the department over a year—until 1987-88—to formally establish a centralized unit in headquarters to direct the contracting efforts.

Discussions with the department indicate that the formation of similar contracting units in the districts has taken even longer. In fact, the department only recently allocated positions to some districts to establish contracting units. Even so, at the time this analysis was prepared, the department had not yet filled all of the positions allocated to the districts for administering consultant contracts for engineering services.

Department of Finance Slow to Approve Contracts. In addition, the Department of Finance (DOF) initially was slow to approve direct contracting with private consultants. The department indicates that, in some instances, it took DOF over a year to approve its request to contract various projects. The DOF indicates that approval of the department's initial requests to contract were delayed because it had not developed procedures and guidelines for assessing these requests. Subsequently, DOF has developed such procedures. As a result, the amount of time required by DOF to approve contracts may be reduced in the future.

No Criteria for Determining Work to be Contracted. Although the headquarters contracting unit is responsible for setting guidelines and providing technical support to the department's district offices, it has yet to establish specific criteria regarding what type of work the department should contract out and under what circumstances. Rather, the department indicates that project engineers in the districts use their judgment to determine what work is best obtained through contract. Our review indicates that this results in confusion over what activities should be done by contractors. For instance, while the department indicates that small amounts of work usually are not done cost-effectively by contract, our review found that the department has proposed to contract for as little as one-half a personnel-year worth of work. Moreover, the department has not made an assessment of what work is most cost-effective to obtain through contract.

Lack of Planning. Due to the lack of clear criteria, the department does not have a plan that identifies which projects and specific activities are to be done by contract. For example, in the current year, the department did not begin to advertise the bulk of contract work until November—five months after the start of the fiscal year. Given the lead time required to hire a contractor (currently estimated from six to nine months), the department should begin advertising this work early so that the consultant can commence work at the beginning of the fiscal year.

Analyst's Recommendation. In order to improve the department's ability to contract for engineering services, we recommend the adoption

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of supplemental report language requiring the department to (1) submit, as part of its budget documentation, a list of projects and activities to be performed by contractors and (2) develop criteria to be used in determining what project work should be done by contractors.

The following supplemental report language is consistent with this recommendation.

The Department of Transportation shall submit annually, as part of its budget documentation, a list of projects and specific activities that are proposed to be contracted in the budget year. This list shall be used as the basis for justifying the department's request for contract funds and for measuring the department's performance. The list shall identify each project for which consultants will be used, the specific activities to be performed by consultants, the personnel-year equivalent of work proposed to be contracted, the estimated cost of this work, the proposed method of contracting (directly with the contractor or through a local governmental entity), and the estimated date by which this work is to begin.

The Department of Transportation shall submit to the chairpersons of the fiscal committees and the Joint Legislative Budget Committee by October 30, 1988, specific criteria for determining what types of projects and specific activities will be performed by consultants. This criteria shall consider the cost-effectiveness of contracting out such work.

Cost Estimate of Consultant Work is Too High

We recommend a reduction of \$17 million from the State Highway Account because the department has overbudgeted the amount needed to fund work performed by consultants. (Reduce Item 2660-001-042 by \$17 million).

For the budget year, the department proposes about \$109 million to contract with private consultants to perform engineering, designing, and other project work in order to deliver state-funded highway projects scheduled in the 1988 STIP. This is an increase of about \$75 million over the \$34 million authorized for contracting in the current year.

The \$109 million will provide the equivalent of 905 PYs for engineering services, or more than double the 425 PY equivalents in contracting effort planned in the current year.

The department's request assumes a cost of about \$120,000 per PY. Based on our review of 24 consultant contracts executed to date, we are unable to substantiate the department's estimate. Table 8 shows that actual contracts executed from funds available in 1986-87 have averaged about \$87,700 per PY equivalent. In the current year, the department estimates the cost per contract PY to be about \$94,600—an increase of 7.9 percent over actual costs in 1986-87. For the budget year, the department's projected contracting cost per PY assumes an increase of 27 percent, more than three times the percentage increase from the previous year. At the time this analysis was prepared, the department was unable to provide any information justifying this increase.

Table 8
Department of Transportation
Private Consultant Contract Costs
Per Equivalent Personnel-Year

	<i>Actual</i>	<i>Est.</i>	<i>Proj.</i>
	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>
Amount Contracted (in thousands)	\$8,016 ^a	\$40,969 ^b	\$109,000
Personnel-year Equivalents	91.4	433.3	905
Cost per Personnel-year	\$87,700	\$94,600	\$120,400
Percent Change	—	7.9%	27.3%

^a Only includes those contracts for which data were available. The department indicates additional contracts will be executed from funds encumbered in 1986-87.

^b The department anticipates that contracts executed in the current year will exceed the authorized funding level of \$34 million. If this occurs, the department indicates some contracts will be financed from funds to be appropriated in the 1988-89 year.

In summary, our analysis indicates that both actual and estimated costs for consultant services have been significantly less than the department's projected costs for the budget year. Although we are unable to estimate the exact costs of contracting in the budget year, we believe these costs are likely to increase at the rate experienced in the current year. Thus, using a cost increase of 8 percent, our analysis indicates that the department's costs to contract will be about \$102,000 per equivalent PY in the budget year. Based on this estimate, we believe that the department will need about \$92 million, or \$17 million *less* than currently proposed in order to contract for the same number of staff (905 PYs). Accordingly, we recommend the department's request be reduced by \$17 million because the department has been unable to substantiate its cost projections and our review indicates these costs are likely to be lower.

Department Plans to Test the "Fast-Tracking" of Highway Projects

We recommend that the department submit to the fiscal committees, prior to budget hearings, its plan to test the "fast-tracking" of selected highway capital outlay projects. We also recommend that the Legislature adopt supplemental report language requiring the department to submit, beginning December 1, 1988, a report on the status of the fast-track projects.

The budget proposes 8 PYs and \$449,000 to monitor and evaluate a "fast-track" program to test various ways of expediting the delivery of highway capital outlay projects. In the current year, the department convened a task force to develop such a program. According to the department, the goal of this program is to speed up the delivery of projects by as much as 15 percent through the use of various strategies.

The department estimates that about 80 projects with a total cost of about \$500 million will be subject to testing under its fast-track program. Departmental staff will monitor these projects to determine whether a particular strategy resulted in the project being delivered faster than normally expected. If a strategy proves successful, the department will use it to expedite the delivery of other highway projects.

While the idea of identifying strategies to expedite the delivery of projects has merit and should be tested, we believe the Legislature needs additional information regarding the following:

- A list of the projects which will be fast-tracked,

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- A description of the specific strategies which will be used to expedite the delivery of these projects, and
- The department's plan to evaluate the program in order to determine whether fast-track strategies accelerated the delivery of projects.

The department advises that it is in the process of developing a plan which will address these issues. Accordingly, we recommend that the department submit to the Legislature, prior to budget hearings, its plan for the fast-track program, including a list of projects, the strategies to be used on these projects and the department's methodology for determining whether these strategies are successful. Moreover, in order that the Legislature can continue to evaluate the merits of the fast-track program, we recommend that the department report on the status of these projects.

The following supplemental report language is consistent with this recommendation:

The Department of Transportation shall report to the chairpersons of the fiscal committees and the Joint Legislative Budget Committee, beginning December 1, 1988, and every six months thereafter, on the status of each fast-tracked project. This report shall identify the normal delivery schedule for these projects, the actual delivery schedule under fast-tracking, the normal personnel-year and other resources estimated for each project, and the actual amount expended under fast-tracking. For each fast-track strategy, the report shall assess whether the strategy enabled the project to be delivered faster than normally expected and shall identify those strategies that will be extended to other projects.

The report also shall identify any projects that were either added to, or deleted from, the list of projects to be fast-tracked.

A Fast-Track Strategy to Test

We recommend that the Legislature adopt supplemental report language requiring the department to test, as one of the strategies in its fast-track program, providing project engineers with more control over project resources.

As discussed above, at the time this analysis was prepared, the department had not selected the strategies to test in its fast-track program. Based on our review, we believe that one strategy which deserves testing is to provide project engineers with more control over the resources necessary to deliver projects.

Currently, the project engineer—along with a design squad of assistant engineers, engineering technicians and draftpersons—has the day-to-day responsibility for project delivery. The project engineer, however, does not have direct control over all the resources needed to meet delivery schedules. For example, the project engineer may require various services such as environmental planning, materials testing and right-of-way, in order to complete a project. If these services are not provided when required, the project may not be delivered on schedule.

Although the department indicates that giving the project engineer direct control over projects is generally not cost-effective, it has not conducted a test to determine the advantages and disadvantages of such

an approach. We believe that the department's plan to test ways to expedite the delivery of highway projects provides such an opportunity. Therefore, we recommend the adoption of supplemental report language requiring the department to test, as part of its fast-track program, a strategy which provides project engineers with more direct control over the services necessary for delivering highway projects. The following supplemental report language is consistent with this recommendation.

The Department of Transportation shall test, as part of its fast-track program, a strategy which provides the project engineer with more direct control over the resources required to deliver highway capital outlay projects. In conducting this test, the department shall determine the advantages and disadvantages of such a strategy.

Department Should Identify Work to be Performed on Projects Funded By Local Tax Measures

We recommend that the department provide the Legislature, by March 15, 1988, with specific information regarding its estimated workload for highway projects funded from local sales tax measures. We further recommend that the Legislature adopt supplemental report language requiring the department to submit annually, with its budget documentation, a list of projects and activities to be completed for local sales tax funded highway projects.

For the budget year, the department proposes a *total* of 756 state PYs and contract staff to perform preliminary engineering and environmental review work on state highway projects funded from local sales tax measures. This includes:

- 384 PYs and contract staff (\$25.4 million) to work on projects funded by local sales tax measures adopted by Santa Clara, Alameda, and Fresno Counties, and
- 372 PYs and contract staff (\$25 million) for a sales tax measure which has been adopted by San Diego County and sales tax measures in six other counties proposed for the June 1988 election.

The department indicates that the personnel needs for projects in Santa Clara, Alameda and Fresno Counties were derived by using a statistical model which is based on historical experience *and* other factors which the department has yet to identify. Personnel needs for the proposed six sales tax measures, plus San Diego, were based on a different methodology which, in part, included the estimated total cost of the projects. At the time this analysis was prepared, the department was unable to tell us how it estimated the total project costs for measures proposed for the June election and the other factors which it used to estimate the personnel needs for projects in Santa Clara, Alameda and Fresno Counties. Consequently, we are unable to determine whether the department is requesting the appropriate level of staffing to work on these projects. Accordingly, we recommend that the department provide such information to the Legislature by March 15.

In addition to the above information, we believe the department also should provide annually, as part of its budget documentation, a workplan identifying each project and specific activities which it proposes to accomplish in the budget year for each county which has adopted a local sales tax measure. Such information would be used to justify the department's request for staff for these measures, as well as to inform the

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Legislature as to what specific work is being performed for each local sales tax county. Although such information may not be available for measures which are currently proposed for the June 1988 election, we believe the department should provide this information for local sales tax measures which have been adopted for Santa Clara, Alameda and Fresno Counties.

Accordingly, we recommend that the Legislature adopt supplemental report language requiring the department to provide annually, with its budget documentation, a list of projects and specific activities to be performed for counties which enact local sales tax measures for state highway improvements. The following supplemental report language is consistent with this recommendation.

The Department of Transportation shall submit annually, as part of its budget documentation, a list of projects and specific activities which it proposes to accomplish during the budget year for each county which has adopted a local sales tax measure for improvements on the state highway system.

Department has Overbudgeted Costs of New Staff

We recommend a reduction of \$1,670,000 in the State Highway Account because the department has budgeted for a significantly higher level of staff classification than warranted based on past experience. (Reduce Item 2660-001-042 by \$1,670,000.)

For the budget year, the department proposes to increase by 876 PYs (922 positions) the amount of regular and temporary state staff to deliver capital outlay projects. Of these positions, about 51 percent will be filled by higher level engineering classifications (supervising, senior and associate engineers). The remaining positions will be filled by lower engineering classifications (assistant and junior civil engineers and engineering technicians) and administrative personnel.

The department indicates that it based this mix of engineering classifications on the current ratio of these classifications. Our analysis indicates, however, that the engineering classifications proposed by the department are not consistent with actual experience over the past three years. Table 9 shows that based on past experience, the department's proposal for the budget year *overestimates* the ratio of senior and associate engineers and *underestimates* the need for assistant engineers and engineering technicians. For example, senior engineers historically have comprised about 5 percent to 6 percent of all engineers in the department. The department's request, however, contains 15 percent senior engineers—a threefold increase over prior experience.

According to the department, the need for higher level engineering staff has increased in order to (1) supervise contracts with private consultants and (2) provide oversight on highway projects funded from local sales tax measures. We agree that the department's need for higher level engineering staff will increase in the budget year. We also recognize that prior experience is not a precise indicator of staffing needs. Nevertheless, the department has not been able to provide us with data justifying a mix of engineering classifications that departs so significantly from prior experience.

Table 9
Department of Transportation
Percent of Engineering Positions by Classification (District Only)*
Budget Year Compared to Past Actual
1984-85 through 1988-89

<i>Engineering Classifications</i>	<i>Prop. 1988-89</i>	<i>Average Actual 1984-85 through 1986-87</i>
Senior	15.8%	5.4%
Associate	38.1	23.1
Assistant	27.9	50.3
Junior Civil	8.3	3.4
Engineering Technician	9.9	17.8
Totals	100.0%	100.0%

* Figures do not include engineering classifications for right-of-way engineers.

Based on historical experience and recognizing the new responsibilities of the department to oversee contracts and local sales tax measure work, we believe that the following mix of engineering staff is more appropriate: senior (8 percent), associate (29 percent), assistant (45 percent), junior civil (8 percent), and engineering technicians (10 percent). Given this distribution of engineering staff, we estimate the department has overbudgeted by \$1.7 million the amount for salaries and benefits in the budget year. Accordingly, we recommend a reduction of this amount to reflect more accurately the amount of funds needed for salaries and benefits in the budget year. Adoption of this recommendation would not affect the number of positions authorized for the department in the budget year.

Funding for Hazardous Waste Investigations

We recommend a reduction of \$1.7 million from the State Highway Account because the department's hazardous waste investigation plan indicates that these funds will not be needed in 1988-89. We further recommend that the Legislature adopt Budget Bill language requiring that funds appropriated for investigating hazardous waste be used only for that purpose. (Reduce Item 2660-001-042 by \$1.7 million.)

For the budget year, the department proposes \$5 million to hire private consultants to investigate hazardous waste materials on highway rights-of-way. The department indicates that these investigations are needed in order to determine the nature and extent to which hazardous wastes exist on properties which the department has acquired, or is considering to acquire.

Based on its hazardous waste investigation plan, the department anticipates that it will need approximately \$2.3 million to perform all *planned* investigations in 1988-89. Although this is *less* than one-half the amount requested (\$5 million), the department maintains that the full amount is needed because of unforeseen investigations which may occur in the budget year. Our review of the department's past expenditure for hazardous waste investigation indicates that the full amount will not be needed. For example, of the \$5 million provided in 1986-87, the department was able to spend only \$2.5 million. In the current year, the department only had spent \$650,000 as of November 1987.

We believe that the department should budget fully for those projects which it has identified for investigation. In addition, we believe it is

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prudent for the department to budget an amount for unforeseen investigations. Because investigation costs vary widely, there is no precise way of determining such an amount. Nevertheless, we believe a contingency of \$1 million would adequately cover any unforeseen investigations. This amount, plus the \$2.3 million for planned investigations, would provide the department with \$3.3 million to investigate hazardous wastes in 1988-89.

Accordingly, we recommend that the department's request for \$5 million be reduced by \$1.7 million, thereby providing the department with \$3.3 million for hazardous waste investigation. In addition, because the department indicates that these funds are needed for investigation of hazardous waste, we recommend that the Legislature adopt Budget Bill language restricting these funds to this use only. The following Budget Bill language is consistent with this recommendation.

Of the amounts appropriated in this item, \$3.3 million is only for the investigation of hazardous waste on highway rights-of-way. Any funds appropriated, but not encumbered for such purposes by June 30, 1989, shall be reverted.

Increased Emphasis on Transportation Demand Reduction

We recommend that the Legislature adopt supplemental report language requiring the department to report by December 1, 1990 on the effectiveness of its efforts to promote the development of Transportation Management Associations.

The department is requesting an increase of \$4.1 million for commute management (ridesharing and related activities) in 1988-89. This is 40 percent more than estimated current-year expenditures of \$10.4 million.

Table 10 summarizes commute management budget changes proposed by the department.

Table 10
Proposed 1988-89 Commute Management Budget Changes
(dollars in thousands)

Activity	Federal	PVEA	Total
Increased client outreach	\$1,196	—	\$1,196
Increased planning and program administration	679	—	679
Marketing	—	1,000	1,000
Public education	400	—	400
Transportation management association develop- ment	825	—	825
Totals.....	\$3,100	\$1,000	\$4,100

The increases requested for client outreach (\$1.2 million) and planning and programming (\$679,000) would provide additional resources for current ridesharing activities carried out through district staff and regional ridesharing contractors. In addition, the department requests a one-time increase of \$1 million in Petroleum Violation Escrow Account (PVEA) funds to hire a consultant to (1) develop a statewide rideshare marketing plan, (2) assist the department and ridesharing contractors to implement measures to improve marketing efforts consistent with the plan, and (3) evaluate the results. The department also proposes an increase of \$400,000 annually to conduct public education to increase acceptance of high occupancy vehicle lanes and ramp meters.

Transportation Management Association (TMA) Development. The administration requests a permanent increase of \$825,000 to begin new activities to encourage the development of transportation management associations. Transportation management associations (TMAs) are voluntary associations of employers which are formed to jointly take action to reduce local congestion through various activities, including preferential carpool parking at job sites and company-sponsored vanpools. The department indicates that there are currently about 10 such associations in the state.

The department proposes (1) funding 20 TMA coordinators for six months at \$30,000 each and (2) conducting 90 workshops statewide to inform businesses of the benefits of TMAs. Each TMA coordinator would be selected based on responses to a department request for proposals and would work with employers to create a new TMA.

We believe that the TMA development proposal has merit and should be funded. To provide a basis for subsequent review of this effort, however, we recommend that the Legislature adopt supplemental report language requiring the department submit a report by December 30, 1990 on TMA development activities actually undertaken, the number of TMAs formed as a result of those activities, and the transportation or other impacts of actions taken by those TMAs. The following supplemental report language is consistent with this recommendation.

The department shall submit a report to the chairpersons of the fiscal committees and the Joint Legislative Budget Committee by December 30, 1990 on (1) Transportation Management Association (TMA) development activities actually undertaken, (2) the number, location, and membership of TMAs formed as a result of those activities, and (3) the transportation or other impacts of measures implemented by those TMAs.

MASS TRANSPORTATION

The Mass Transportation program consists of seven program elements: (1) *Full Mobility Transportation*, (2) *Transit Operator Assistance*, (3) *Interregional Public Transportation*, (4) *Transfer Facilities and Services*, (5) *Transportation Demonstration Projects*, (6) *Work for Others*, and (7) *Ridesharing*. Table 11 summarizes the proposed funding of the Mass Transportation program by expenditure category—state operations, local assistance, and capital outlay—and by program element.

The budget proposes total 1988-89 expenditures of \$194 million for the Mass Transportation program, including \$38 million for state operations, \$77 million for local assistance and \$79 million for capital outlay projects. This is \$23 million (11 percent) less than estimated current-year expenditures. The budget proposes a staffing level of 150.8 personnel-years for the program—35.2 personnel-years (19 percent) less than the current year. This reduction reflects the transfer of Ridesharing activities—35.2 PYs and \$10.4 million—from the Mass Transportation to the Highway program.

After adjusting for the transfer of the ridesharing activities, the budget proposes an increase in state operations expenditures of \$21,000 in 1988-89. Local assistance expenditures would decrease by \$20.2 million (21 percent) and capital outlay expenditures would increase by \$7.3 million (10 percent) relative to estimated current-year expenditures.

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Table 11
Department of Transportation
Mass Transportation
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Expenditure Category	Personnel-Years			Expenditures			Percent Change From 1987-88
	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Actual 1986-87	Est. 1987-88	Prop. 1988-89	
<i>State Operations</i>							
Full mobility transportation	21.6	23.0	23.0	\$1,278	\$1,223	\$1,248	2.0%
Transit operator assistance.....	33.7	43.5	43.6	2,409	3,648	2,783	-23.7
Interregional public transportation.....	41.9	42.3	42.3	28,280	27,777	28,569	2.9
Transfer facilities and services	24.2	30.0	30.0	2,784	3,280	3,325	1.4
Transportation demonstration projects.....	2.1	5.1	5.1	559	498	508	2.0
Work for others	3.5	6.8	6.8	217	1,770	1,784	0.8
Ridesharing.....	35.4	35.3	—	7,134	10,378	—	—
Subtotals	162.4	186.0	150.8	(\$42,661)	(\$48,574)	(\$38,217)	(-21.3%)
<i>Local Assistance</i>							
Transit operator assistance				\$147,719	\$96,826	\$76,611	-20.9%
Transfer facilities and services				500	—	—	—
Subtotals				(\$148,219)	(\$96,826)	(\$76,611)	(-20.9%)
<i>Capital Outlay</i>							
Interregional public transportation				\$2,789	\$49,178	\$73,148	48.7%
Transfer facilities and services				4,961	22,808	6,100	-73.3
Subtotals				(\$7,750)	(\$71,986)	(\$79,248)	(10.1%)
Totals				\$198,630	\$217,386	\$194,076	-10.7%
<i>Funding Sources</i>							
<i>State Funds</i>				\$160,133	\$105,940	\$95,535	-9.8%
<i>Federal Funds</i>				27,052	76,459	55,519	-27.4
<i>Reimbursements</i>				11,445	34,987	43,022	23.0

Proposed Funding of Mass Transportation Programs Requires Review

We recommend that, during budget hearings, the Legislature review the administration's proposal to reduce the retail sales tax transfer to the TP and D Account below the current statutorily required level.

Current law requires the transfer of retail sales tax revenue to the Transportation Planning and Development (TP and D) Account in annual amounts determined by statutory formula. Under the formula, the amount of the transfer can be no less than the amount of revenue derived from the sales tax on diesel fuel. The amount could be more if, for example, gasoline sales are significantly higher than currently anticipated.

The administration is proposing language in the Budget Bill to cap the transfer of retail sales tax revenue to the TP and D Account at \$48.6 million. The Department of Finance (DOF) estimates that, under current law, \$64 million would be transferred to the account in 1988-89—

\$15.4 million *more* than under the budget proposal. Retail sales tax revenues not deposited in the TP and D Account are deposited in the General Fund.

When combined with other transfers and revenues, total resources available in the TP and D Account would be about \$66.6 million in 1988-89. Of this amount, \$49.9 million would support mass transportation programs as shown in Table 12.

There is precedent, in each of the last two Budget Acts, for capping the amount of sales tax transfers to the TP and D Account. We have no analytical basis on which to recommend to the Legislature whether to include such a provision in this year's Budget Bill, or at what level to cap the transfer to the TP and D Account if such a provision is included. This is a policy decision that the Legislature must make based on the priority it attaches to programs funded from the TP and D Account versus the General Fund. Consequently, we recommend that, at the time of budget hearings, the Legislature review the administration's proposal to reduce the retail sales tax transfer to the TP and D Account to \$48.6 million, from the current statutory level of \$64 million, in 1988-89.

To assist the Legislature in its deliberations, Table 12 summarizes funding for the mass transportation program by activity. The following sections provide further discussion of the administration's proposals regarding mass transportation programs supported by the TP and D Account.

Table 12
Department of Transportation
Mass Transportation
1988-89 Budget Summary By Activity and Fund Source
(dollars in thousands)

Activity	TP and D Account	State Highway Account	Aban- doned Railroad Account	Federal Funds	Reimburse- ments	PVEA	Total
<i>State Operations</i>							
Caltrain	\$11,154	—	—	\$1,906	\$8,118	—	\$21,178
Amtrak services	7,488	—	—	—	—	—	7,488
Other support	4,625	\$185	\$56	1,614	3,071	—	9,551
Subtotals	(\$23,267)	(\$185)	(\$56)	(\$3,520)	(\$11,189)	(—)	(\$38,217)
<i>Local Assistance</i>							
STA	\$2,000	—	—	—	—	—	\$2,000
TCI	24,662	—	—	—	—	\$5,445	30,107
Art. XIX Guideways	—	\$31,920	—	—	—	—	31,920
Federal Assistance	—	—	—	\$14,584	—	—	14,584
Subtotals	(\$26,662)	(\$31,920)	(—)	(\$14,584)	(—)	(\$5,445)	(\$78,611)
<i>Capital Outlay</i>							
Caltrain	—	—	—	\$25,915	\$25,233	—	\$51,148
Amtrak Services	—	—	—	5,000	5,000	\$10,000	20,000
Transbay Terminal	—	—	—	5,100	1,000	—	6,100
Rail Assistance	—	—	—	1,400	600	—	2,000
Subtotals	(—)	(—)	(—)	(\$37,415)	(\$31,833)	(\$10,000)	(\$79,248)
Totals	\$49,929	\$32,105	\$56	\$55,519	\$43,022	\$15,445	\$196,076

State Transportation Assistance (STA). The State Transportation Assistance (STA) program provides capital and operating assistance to local transportation agencies for public mass transit systems and, under

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specified conditions, for construction and maintenance of local streets and roads. Amounts appropriated in the budget are apportioned among various areas of the state based on a statutory formula. The apportioned funds are allocated to eligible claimants by regional transportation planning agencies (RTPAs).

Current law requires that 60 percent of sales tax revenues transferred annually to the TP and D Account be allocated to the STA program. As shown in Table 12, the budget requests an appropriation of \$2 million from the TP and D Account for the STA program, which is \$36.4 million less than required by statute.

Transit Capital Improvements (TCI) Program. The primary beneficiary of the proposed reduction in STA funding is the Transit Capital Improvements (TCI) program. Amounts appropriated by the Legislature for the TCI program are allocated by the California Transportation Commission (CTC) based upon its ranking of applicant projects. Projects in the following five categories are eligible for TCI grants: (1) rail transit, (2) intermodal facilities—stations at which transfers are made between transportation modes, (3) abandoned railroad rights-of-way acquisition, (4) grade separation, and (5) bus rehabilitation.

The budget requests \$30.1 million in 1988-89 for the TCI program, including \$24.7 million from the TP and D Account and \$5.4 million in Petroleum Violation Escrow Account (PVEA) funds. This is \$17.1 million, or 132 percent, more than the \$13 million in new appropriations for the TCI program in 1987-88.

Other Programs. The budget also proposes total TP and D Account expenditures of \$18.6 million in 1988-89 to fund operation of the San Francisco Peninsula Commuter Service (Caltrain) and the state's share of operating costs on the San Diegan and San Joaquin Amtrak services.

The state's portion of Caltrain capital improvement expenditures (\$20.1 million) and Transbay Terminal improvements (\$1 million) proposed in the budget are shown in Table 12, along with local funds, as reimbursements. Because these reimbursements actually come from the TP and D Account through the TCI program, the Legislature's decision on the appropriate level of TCI funding could affect these proposed capital improvements. Finally, the budget proposes \$4.6 million in funding from the TP and D Account for support of other mass transportation programs.

Proposed Caltrain Capital Outlay Contingent on Joint Powers Agreement

The administration has indicated that it will no longer administer the Peninsula Commuter Service (Caltrain) after the present contract with the railroad expires on June 30, 1990. The administration further indicates that the Department of Transportation, while supporting the formation of a joint powers agency (JPA) to manage the service, will not be a member of such an agency.

While Santa Clara, San Mateo and San Francisco County transit agencies have formed a board to conduct planning, environmental and right-of-way activities prior to an agreement to assume Caltrain operation, they have not yet agreed to form a JPA to operate the service after

the current contract expires. Chapter 1328, Statutes of 1987, appropriated \$250,000 from the TP and D Account to support the board's current activities.

Budget Request. As shown in Table 13, the department is requesting \$51 million for Caltrain capital improvements for 1988-89. The Budget Bill contains language, however, which limits the amount of state funds available for Caltrain capital improvements *prior to formation of a JPA*. Under the language, \$8.6 million of maintenance, rehabilitation and safety projects could begin prior to formation of a JPA. Funding for these projects would consist of \$2.1 million of state funds (TP and D Account) and \$6.5 million of federal funds.

The balance of the Caltrain capital outlay request—\$42.6 million—would be available only after a JPA was formed to assume responsibility to operate the service.

In addition to the amounts shown in Table 13, the department proposes \$250,000 to study transition issues related to future JPA management of the Caltrain service.

Table 13
Peninsula Commuter Service
Proposed Capital Outlay Projects^a
1988-89 through 1991-92
(dollars in thousands)

Activity	1988-89				Total Project 1988-89 through 1991-92			
	TP&D	Federal	Local	Total	TP&D	Federal	Local	Total
Funds available prior to formation of a Joint Powers Agency								
Track rehabilitation	\$630	\$2,520	—	\$3,150	\$1,330	\$5,320	—	\$6,650
Station rehabilitation	500	—	—	500	2,000	—	—	2,000
Station boarding areas	229	915	—	1,144	229	915	—	1,144
Tower consolidation	752	3,010	—	3,762	1,626	6,506	—	8,132
Subtotals	(\$2,111)	(\$6,445)	(—)	(\$8,556)	(\$5,185)	(\$12,741)	(—)	(\$17,926)
Funds Subject to JPA Operations Agreement								
Right-of-way purchase	\$10,000 ^b	—	—	\$10,000 ^b	\$10,000 ^b	— ^b	— ^b	\$10,000 ^b
Maintenance facility	1,500	\$9,000	\$1,500	12,000	7,754	\$30,994	\$7,754	46,502
San Jose terminal	5,400	4,800	3,000	13,200	5,400	4,800	3,000	13,200
Station acquisition	609	3,653	609	4,871	609	3,653	609	4,871
Station improvements	504	2,018	—	2,522	2,756	11,026	—	13,782
Subtotals	(\$18,013)	(\$19,471)	(\$5,109)	(\$42,593)	(\$26,519)	(\$50,473)	(\$11,363)	(\$88,355)
Totals	\$20,124	\$25,916	\$5,109	\$51,149	\$31,704	\$63,214	\$11,363	\$106,281

^aThe 1988-89 amounts are based upon the *Governor's Budget*. Later year amounts are from applications submitted to the California Transportation Commission.

^bAdditional amounts to be determined based on negotiations with current owner and with other potential funding partners.

The amounts requested for capital improvements in 1988-89 are part of a multiyear program. As shown in Table 13, the total cost to complete these projects is estimated at \$106 million, not including future-year additional costs to purchase the Caltrain right-of-way.

Purchase of the Caltrain right-of-way is proposed in order to allow the JPA to competitively procure the services of an operator for passenger service on the line. According to a consultant report completed for the department in June 1987, the savings from such an arrangement are

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estimated at about \$6 million, annually. The department estimates the cost to purchase the Caltrain right-of-way at about \$46 million. Others indicate right-of-way costs may be several times that amount.

Amounts Subject to CTC Allocation. The amount of state funds from the TP and D Account provided to Caltrain in 1988-89 will depend on decisions made by the California Transportation Commission (CTC). This is because under current law, the Legislature appropriates TP and D Account funds for allocation by the CTC under the Transit Capital Improvements (TCI) program. The department must apply to the CTC, and compete with transit operators, for a share of these funds for Caltrain projects. The CTC is required to adopt its priority list by April 1.

Federal funds for support of Caltrain are appropriated in the Budget Bill and are subject to federal grant approval.

Improvements in Los Angeles-San Diego (LOSSAN) Rail Corridor Proposed

Chapter 1313, Statutes of 1985, created the Los Angeles-San Diego (LOSSAN) State Rail Corridor Study Group to recommend a program of incremental improvements to passenger rail service between San Diego and Los Angeles. The goal of the improvements is to reduce running times on existing passenger service, and to facilitate the addition of new or expanded service in the LOSSAN corridor. The study group submitted its final report to the Legislature on June 30, 1987. The report recommends a \$246 million capital improvement program in the LOSSAN corridor.

The LOSSAN rail corridor runs generally parallel to Interstate 5 between Los Angeles and San Diego. The rail line has the potential to be developed to carry additional intercity and commuter traffic, thus relieving a portion of demand on the highway and air transportation systems in the corridor.

Currently, Amtrak operates eight daily intercity round-trips on the LOSSAN corridor with the state paying 65 percent of the operating deficit on four of these trains. The LOSSAN report anticipates initiation of two new commuter services in the corridor, from Oceanside to San Diego and from Orange County to Los Angeles. In November 1987, San Diego County voters approved a special 1/2 percent sales tax for transportation purposes, including support of the Oceanside to San Diego service.

The report indicates that initiation of the two new commuter services is subject to creation of appropriate local institutions to operate the services. Furthermore, the report indicates that acquisition of the railroad right-of-way between Fullerton and San Diego may be necessary prior to initiation of the Oceanside to San Diego service.

The report also anticipates addition of a ninth and tenth intercity Amtrak train as patronage warrants, sometime between 1990 and 2000.

Table 14 summarizes the capital improvement program recommended by the LOSSAN study group to (1) improve the current Amtrak service, and (2) provide facilities and equipment necessary to institute commuter service and eventually expand Amtrak service to 10 daily round-trips.

Table 14
Los Angeles-San Diego Rail Corridor
Capital Improvement Program ^a
(1986 constant dollars in thousands)

<i>Improvements</i>	<i>State</i>	<i>Federal</i>	<i>Other</i>	<i>Total</i>
Phase I:				
• Improve current 8 train Amtrak service.....	\$19,230	\$14,855	\$7,725	\$41,810
• Rail replacement and upgrade.....	18,900	18,900	4,200	42,000
• New commuter rail service.....	31,775	—	31,775	63,550
• Other station and track improvements.....	7,860	15,150	7,860	30,870
Subtotals.....	(\$77,765)	(\$48,905)	(\$51,560)	(\$178,230)
Phase II:				
• Expand to 10 train Amtrak service.....	\$22,020	\$22,020	—	\$44,040
• Other projects.....	12,050	8,600	3,450	24,100
Subtotals.....	(\$34,070)	(\$30,620)	(\$3,450)	(\$68,140)
Totals.....	\$111,835	\$79,525	\$55,010	\$246,370

^a Distribution of costs between state, federal and other categories as tentatively identified in LOSSAN study.

The study group's recommended program of improvements totals \$246 million in constant 1986 dollars. Of that amount, about \$112 million is anticipated from state sources with the balance—\$135 million—to be funded from federal, local and private sources. This does not include the costs to acquire the right-of-way from Fullerton to San Diego or to replace automatic train stop systems—identified by the report as being obsolete—with new cab signalling systems. These items could add significantly to the cost of the capital improvement program in the corridor.

Legislature Should Review Future Phases of LOSSAN Program

We recommend that the Legislature adopt Budget Bill language restricting the use of \$20 million requested by the department for capital improvements in the LOSSAN corridor to the purposes identified in its budget request.

The budget proposes \$20 million in 1988-89 for projects included in the capital improvement program recommended by the LOSSAN study group. This amount includes \$10 million in Petroleum Violation Escrow Account (PVEA) funds, \$5 million in federal funds and \$5 million in reimbursements. The Budget Bill also includes language which specifies that these funds are to be used for capital improvements in the LOSSAN corridor.

Of the requested funds, the department proposes to use \$11 million for rail replacement, \$5 million for various projects to reduce travel times, and \$4 million to add four track crossovers between Fullerton and Los Angeles. The latter two categories of projects were identified by the study group as the highest priorities within Phase I of the capital improvement program. Rail replacement, while a somewhat lower priority, was identified as necessary to maintain operating speeds at their current levels.

Our analysis indicates that each of these projects is likely to provide significant benefits at current 8 train service levels. Such benefits consist of reduced running times, improved service reliability, improved passenger comfort, and improved safety. Therefore, we recommend approval of

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY— Continued

the \$20 million requested for LOSSAN corridor improvements.

We believe, however, that the language proposed in the Budget Bill which would authorize the use of the requested funds for *capital improvements to the San Diegan Rail Service* is too broad. It provides the department authority to carry out *any project* within the LOSSAN capital improvement program or, for that matter, any project on the service without further legislative approval.

Therefore, we recommend the adoption of Budget Bill language to more clearly specify the use of the \$20 million requested for the purposes identified in the administration's proposal. The following Budget Bill language is consistent with this recommendation.

The funds appropriated in this item for intercity rail capital improvements shall be available for allocation by the California Transportation Commission to fund projects, identified in the Los Angeles-San Diego State Rail Corridor Study submitted to the Legislature pursuant to Ch 1313/85, within the categories of (1) rail replacement and upgrade (phase I-B), (2) low cost time reduction projects (phase I-A-1), and (3) crossovers at four locations (phase I-A-2).

Rail Budget Detail Needed

We recommend that, by March 15, the department provide the Legislature with additional information on its rail service budget request.

The department is requesting \$5.5 million to pay the state's share of Amtrak rail services and associated feeder bus service in 1988-89. Currently, these services include two Bakersfield-Oakland (San Joaquin) round-trips daily and four San Diego-Los Angeles (San Diegan) round-trips daily. Service from Santa Barbara to Los Angeles is scheduled to begin before the end of 1987-88.

Our analysis indicates that the department overbudgeted for Amtrak service costs in 1986-87 and 1987-88 when compared to costs billed by Amtrak. As shown in Table 15, actual billings in 1986-87 were \$1.2 million below the amount budgeted, while 1987-88 estimated billings are \$1.4 million below the budgeted level. The department indicates, however, that an unspecified portion of this overbudgeting is necessary to provide a contingency within the Amtrak contract against higher-than-expected costs or lower-than-anticipated revenues.

Table 15
State Supported Amtrak Service Costs
Budgeted Versus Actual or Estimated
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Prop.</i> 1988-89
Budgeted	\$5,109	\$5,321	\$5,513
Amtrak billings	3,878	3,914	NA
Surplus	\$1,231	\$1,407	NA

While the amounts identified as *surplus* in Table 15 were not needed to pay for 1986-87 service costs, and are not expected to be needed to pay for 1987-88 services, they remain encumbered in Amtrak contracts. Our

review indicates that, under terms of the agreement, Amtrak renders a final billing and the department makes a final payment to Amtrak within 20 months of the time the Legislature appropriates funds in the Budget Act to support service. Thus, for example, the final payment for 1986-87 would be made no later than March 1, 1988. Consequently, the surplus balance in the 1986-87 contract could be disencumbered and reverted to the TP and D Account prior to the 1988-89 fiscal year.

Department staff indicate, however, that they intend to amend the 1986-87 and 1987-88 Amtrak contracts to use the surplus amounts to fund rail and bus service level increases and other service items. They further indicate that some or all of these items may be implemented before September 30, 1988 when the current-year Amtrak contract expires. The department identified the following four areas it expects to support with these surplus balances:

- Add a third San Joaquin train pursuant to authority granted under Ch 1328/87.
- Add a second train from Los Angeles to Santa Barbara.
- Add additional feeder bus service.
- Fund costs of on-time incentives Amtrak proposes to negotiate in its contract with the railroad operator.

We asked the department to identify the amounts budgeted in 1988-89 for each of these activities, in addition to amounts needed to continue service at current levels. At the time we prepared this analysis, the department had not provided this information.

Without this information, we cannot advise the Legislature on the department's requested budget for state-supported Amtrak service. Therefore, we recommend that by March 15, the department provide the Legislature with (1) a complete breakdown of its budget request, including an estimate of the amounts required in 1988-89 to maintain current service levels and the amounts requested to provide for new service, increased service levels, or to fund incentive agreements, and (2) the purposes for which it intends to amend prior or current-year Amtrak contracts and the amount anticipated to be expended from those contracts for each purpose.

AERONAUTICS

We recommend approval.

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

The budget proposes—in addition to \$2,650,000 of current statutory appropriations—\$2,723,000 from the Aeronautics Account and \$407,000 from the Federal Trust Fund for total expenditures of \$5,780,000 in 1988-89. This is a *decrease* of \$204,000 (3.4 percent) from estimated current-year expenditures consisting of (1) reductions of \$251,000 in local assistance and \$372,000 in one-time costs, and (2) increases of \$250,000 to update the California Aviation System Plan, \$100,000 to update the Airport Land Use Planning Handbook, and \$69,000 in other costs. The budget proposes to maintain the current-year staffing level of 30.2 personnel-years.

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued****TRANSPORTATION PLANNING**

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

The budget proposes an expenditure of \$23.3 million for transportation planning in 1988-89, including \$10.5 million for state operations, and \$12.8 million for local assistance. This is an increase of about \$540,000, or 2.4 percent, over estimated current-year expenditures.

Evaluation of Demonstration Project Needed

We recommend that the Legislature adopt supplemental report language directing the department to submit to the chairpersons of the fiscal committees a report evaluating the effectiveness of a demonstration project on advanced transportation planning.

The department currently reviews environmental impact documents prepared by local agencies and private developers for proposed development projects, evaluates the potential impact on traffic of the affected areas, and recommends necessary mitigation measures where appropriate. The department maintains that, under the current practice, it is involved in the development planning process at too late a stage. Consequently, local and regional agencies are unable to determine as soon as possible the appropriate right-of-way to reserve for their own transportation needs and to improve the state highway system. In addition, local agencies and private developers often experience delays while traffic mitigation measures are worked out during the environmental review process.

For 1988-89, the budget requests \$382,000 and 10 personnel-years to implement a two-year demonstration project to review local land-use plans and development proposals at an earlier stage of the development process, and to participate in transportation studies leading to the protection of rights-of-way by local agencies. The department proposes to conduct the demonstration project in 2 to 3 sites in high growth areas throughout the state.

While we think the proposed demonstration project may have merit, the benefits and cost-effectiveness of the proposed method to promote advance transportation system planning ought to be evaluated. Such an evaluation is particularly important because statewide implementation would require an estimated 70 personnel-years and \$2.5 million annually. Consequently, we recommend that the Legislature adopt the following supplemental report language to ensure that such an evaluation is conducted.

The Department of Transportation shall submit to the chairpersons of the Joint Legislative Budget Committee and the fiscal committees of the Legislature, by December 31, 1989, a report evaluating the cost-effectiveness of a demonstration project for advanced transportation system development. The report should evaluate how well the approach reduces delay in local agency and private development, improves mitigation measures funded by local developers, and reduces state resource requirements for mandated reviews of development projects. The study also should evaluate the response of local agencies to the state's earlier involvement in the land use planning process.

ADMINISTRATION

The Administration program contains the business, legal, management and other technical services necessary to support the department. The department proposes expenditures of \$173 million for this program in 1988-89. This is a net increase of \$28.8 million, or 20 percent over estimated current-year expenditures. Major increases in the program include: (1) \$10.5 million and 30 personnel-years to provide administrative support to a new district office in Orange County, (2) \$10.4 million and 10 personnel-years to accommodate increased tort cases workload and to pay increased tort awards, (3) \$5.8 million and 53.4 personnel-years to accommodate the workload associated with increased departmental staff and program levels, (4) \$1.1 million and 21.8 personnel-years to reduce various accounting backlogs, strengthen the department's internal accounting controls, and operate and maintain an expanded automated accounting system, and (5) \$225,000 and 5.2 personnel-years to implement and maintain a "cash management" system.

Orange County District Office

Chapter 1050, Statutes of 1987 requires the department to establish a full service district office in Orange County (District 12). It appropriates \$4.1 million for the support of an interim office in the current year, and for the initial start-up cost of the permanent office. In planning for the new office, the department estimates that the office will need a total of 588 staff to provide the full complement of services currently provided by other district offices. Of this number, the department proposes to redirect 528 personnel-years from the Los Angeles district office which currently handles all work related to Orange County. However, an additional 60 personnel-years of staff are proposed to provide the administrative and management services, including accounting, personnel and business management and computer services, which are necessary for the operation of an office and which cannot be redirected from the Los Angeles office. Based on the proposed size of the new office, the budget requests \$13.5 million for the Orange County office in 1988-89, including \$11 million for operating expenses, and \$2.5 million for the support of the 60 personnel-years of new staff.

Extensive Computer Usage Overbudgeted and Unjustified

We recommend a reduction of \$717,000 from the State Highway Account because the installation of extensive computer equipment in a new district office is premature and overbudgeted. (Reduce Item 2660-001-042 by \$717,000.)

The budget requests \$3.5 million for various computer equipment for the Orange County office. Our review indicates that this amount is overbudgeted in two areas, for a total of \$717,000. First, the request includes funds to acquire 25 engineering workstations, at about \$23,000 each, as part of the implementation of the computer-aided design and drafting project (CADD). The department, however, indicated that under an existing purchase contract for all CADD engineering workstations, the average cost is approximately \$16,000 per unit. The department's request, therefore, is \$167,000 too high.

Second, the budget includes \$550,000 for equipment to implement one or more "local area networks" involving about 237 microcomputers.

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued**

While we believe the 237 microcomputers requested by the department are warranted, the proposal to link up these computers is not substantiated at this time. The department has not conducted a feasibility study report on this project and is unable to substantiate the need or describe the nature and purpose of the project. Consequently, there is no basis to evaluate the merit of the project. Until the project is more clearly defined with a feasibility study report which has been reviewed and approved by the Office of Information Technology, the requested amount is unsubstantiated.

Accordingly, we recommend a total reduction of \$717,000 from the State Highway Account.

"High Tech" Investment Should Increase Productivity

We recommend that the Legislature adopt supplemental report language requiring the department to submit a report to the chairperson of the fiscal committees, by July 1, 1989 and July 1, 1990, evaluating the effectiveness of the increased use of computer technology in the Orange County office for highway capital outlay project development, as compared to the department's other district offices.

In a recent draft report, the department identified ratios of office automation equipment to staff which it estimates to be optimal for its functions and activities. The department intends to gradually bring this equipment on line in order to attain these ratios over time for the whole department. The budget, however, proposes to establish the Orange County office at the optimal ratios at the outset. Thus, the Orange County office will have a higher concentration of computer and office automation equipment to staff than in other district offices.

The staffing proposal for the new Orange County office, particularly for project development, however, does not take into account the high usage of computer and office automation equipment. We think that the new office offers a good opportunity for the department to evaluate the impact of a greater reliance on computerization and automation on productivity, particularly in project development, as compared to other district offices. In addition, the department can test the validity of the equipment-to-staff ratios used in the Orange County office to guide staffing standards and future uses of computer technology department-wide. Accordingly, we recommend that the Legislature adopt the following supplemental report language to require such a report.

The Department of Transportation shall submit a report to the chairpersons of the Joint Legislative Budget Committee and the fiscal committees, by July 1, 1989 and July 1, 1990, which evaluates the impact on productivity and staffing needs, particularly in the project development area, of the higher computer use in the Orange County office. The study shall compare the Orange County office with the performance of the department's other offices.

Lease for New Office Overestimated

We recommend a reduction of \$877,000 from the State Highway Account because the amount of space to be leased for the Orange County office is overestimated. (Reduce Item 2660-001-042 by \$877,000.)

The budget requests \$3.8 million to lease 150,000 square feet of space for the new Orange County office. Our review of the architectural plan for the office shows that the budget request is overstated. First, the plan identifies a need for 121,000 square feet—39,000 square feet less than the requested funds would provide. Second, the plan includes about 6,000 square feet for about 100 staff more than proposed for 1988-89. Moreover, there is no workload basis to indicate that the district office will expand by that amount to necessitate the additional space. Adjusting for the lesser amount of space needed, we recommend a reduction of \$877,000 in the amount requested for the new district office.

Relocation of Staff is Costly

We recommend that the Legislature adopt Budget Bill language to restrict the use of \$2.8 million in the State Highway Account to staff relocation costs only.

The budget also requests \$2.8 million for the relocation of up to 200 staff to the new Orange County district office at an average cost of \$14,000 each. The department indicates that these are very rough guesses, and it has no good estimates on the number of staff for which relocation expenses will be paid and the amount payable for each staff. Consequently, we have no basis to determine if the requested amount is appropriate. In order that this amount is available only for relocation purposes, we recommend that the Legislature adopt the following Budget Bill language in Item 2660-001-042 to restrict the use of the funds.

Provided that \$2.8 million in this item is available only for staff relocation related to the establishment of the Orange County District Office.

Technical Recommendations

We recommend the following technical budgeting adjustments, for a total reduction of \$35,721,000 as follows:

- Reduce by \$30 million from the State Highway Account because the state-funded portion of highway capital outlay expenditures planned for 1988-89 is less than the requested \$257 million by this amount. (Reduce Item 2660-301-042 by \$30 million.)
- Reduce operating expenses by \$3.1 million because of overbudgeting. (Reduce Item 2660-001-042 by \$3.1 million.)
- Reduce departmentwide facilities operations by \$1,864,000 because the department overestimated space and facilities needs for increases in staff. (Reduce Item 2660-001-042 by \$1,864,000.)
- Shift funding for local transportation systems management from local assistance to state operations because the work is to be contracted by the department. (Reduce Item 2660-112-853 by \$1 million and increase Item 2660-012-853 by \$1 million.)
- Reduce \$3 million in reimbursements to contract for engineering services on locally funded highway projects because the department indicates this expenditure authority is no longer needed. (Reduce reimbursements in Item 2660-001-042 by \$3,000,000.)
- Reduce \$620,000 from the State Highway Account because contract funds to study high occupancy vehicle (HOV) facilities will not be needed because these facilities will not be completed in the budget year. (Reduce Item 2660-001-042 by \$620,000.)

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

- Recommend that 5.8 PYs and \$147,000 be approved on a limited-time basis because the feasibility study report for computerized maintenance data collection indicates that these personnel are required only for the budget year.
- Reduce \$137,000 from the State Highway Account because the cost of roadway deicing materials has decreased. (Reduce Item 2660-001-042 by \$137,000.)

Pending Recommendations

We withhold recommendation on the following:

- \$675,000 from the State Highway Account for equipment maintenance contracts pending receipt of workload information (Item 2660-001-042).
- \$7,219,000 from the Transportation Planning and Development Account, \$1,430,000 in federal funds, and \$7,219,000 in reimbursements to pay costs of the Caltrain operating contract pending receipt of further clarification on the treatment of revenues in determining contract costs (Items 2660-001-046 and 2660-001-890).

DEPARTMENT OF TRANSPORTATION—CAPITAL OUTLAY

Item 2660-311 from the State
Highway Account, State
Transportation Fund

Budget p. BTH 83

Requested 1988-89.....	\$1,577,000
Recommended approval.....	1,362,000
Recommended reduction.....	215,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | <i>Analysis
page</i> |
|---|--------------------------|
| 1. <i>Security Systems. Reduce Item 2660-311-042(1) by \$31,000 and Item 2660-311-042(3) by \$58,000.</i> Recommend deletion of proposed electronic access control systems at the District 2 Headquarters Building (Redding) and the District 8 Headquarters Buildings (San Bernardino), because security measures of this magnitude are unnecessary. | 263 |
| 2. <i>Minor Projects. Reduce Item 2660-311-042(3) by \$126,000.</i> Recommend deletion of the proposed intercom system for the District 7 office buildings (Los Angeles), because it would not be effective and it is not required under state fire and life safety codes. | 264 |

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$1,577,000 from the State Highway Account, State Transportation Fund, for two major capital outlay projects and 10 minor capital outlay projects (\$200,000 or less per project) for the Department

of Transportation's (Caltrans) *administrative* facilities. The department's proposals and our recommendations are discussed below.

District Office Security Systems

We recommend a reduction of \$89,000 in Items 2660-311-042(1) (\$31,000) and 2660-311-042(3) (\$58,000) to delete electronic access control systems proposed for headquarters buildings in two districts.

The budget proposes installation of electronic access control systems at the main entrances of the District 2 Headquarters Building in Redding and the District 8 Headquarters Building and Annex/Warehouse in San Bernardino. These systems are not justified either by the types of security problems described by the department, or the equipment housed in the buildings.

The type of access control system proposed by the department involves magnetic door locks connected electronically to a card reading device. When an authorized card is inserted into the device, the magnetic locks are disengaged to permit entry. At San Bernardino, the security system would also include closed circuit video-camera surveillance of building entrances.

The proposed security measures are excessive for two reasons:

- The buildings are office buildings and warehouses. They contain equipment of no greater value or sophistication than the equipment contained in most state office buildings or warehouses.
- The department reports thefts/vandalisms only from the San Bernardino buildings. These incidents either would not have been prevented by the proposed system, or could have been prevented by more careful use of existing security measures. One-third of the nine incidents reported over a two-year period (involving a loss of \$400 or less per incident) occurred outside of the buildings. Thus, these incidents would not have been prevented by controlling access to the buildings. Of the remaining incidents, one could have been prevented by locking a desk and/or an office door, and another could have been prevented by storing equipment in a locked cabinet. In the remaining four cases, equipment was taken out of locked offices/storerooms or out of locked cabinets, with no sign of forced entry.

We therefore recommend deletion of these two projects.

District Office Buildings—Redding/San Luis Obispo

We recommend approval (except for the security access control system at Redding as recommended above).

The Budget Bill requests \$778,000 for fire/life safety renovations of two district office buildings: Redding (\$517,000 in Item 2660-311-042(1)) and San Luis Obispo (\$261,000 in Item 2660-311-042(2)). The proposed work includes installation of fire escapes and fire dampers, replacement of doors in the main corridors with one-hour fire rated doors, and replacement of corridor wall and ceiling surfaces with fire resistant materials. Our analysis indicates that this work is necessary to bring the buildings into compliance with fire safety codes. Consequently, we recommend approval, except for the \$31,000 security access control system (discussed above) for the Redding office.

DEPARTMENT OF TRANSPORTATION—CAPITAL OUTLAY—Continued**Minor Capital Outlay**

We recommend a reduction of \$126,000 in Item 2660-311-042(3), to delete a proposed intercom system for the District 7 office building (Los Angeles).

The budget proposes \$126,000 to install an intercom system at the Caltrans District 7 office building in Los Angeles. The department justifies this proposal on the basis of assuring safe exiting from the building during or after a disaster. We recommend deletion of this project for two reasons:

- The proposed system would not contribute to employee safety in the event of an earthquake or other disaster.
- The state building codes for fire/life safety do not require such a system.

Intercom system not justified on safety grounds. The purpose of the intercom system, according to the department, is to relay evacuation instructions by voice in the event normal exit routes are blocked during or after a disaster. For this system to be effective, the system coordinator must have immediate and accurate information on the condition of the building. In such situations, however, rehearsed evacuation procedures would be well under way *or complete* by the time detailed information on building conditions could be available to an evacuation coordinator, and then be communicated to other areas of the building. Furthermore, damage to the building, significant enough to block exits, could also destroy the elements of an intercom system.

Intercom system not required (or defined) in state building codes. The state building codes related to fire/life safety specify those building elements necessary to protect occupants in the event of fire, earthquake or other potential disasters. For exiting, this includes elements such as an alarm system, exit signs, posted evacuation routes and periodic evacuation drills. The intercom system requested in this item is not an element of the precautions specified in the codes.

Supplemental Report Language

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

DEPARTMENT OF TRANSPORTATION—REAPPROPRIATION

Items 2660-490 and 2660-491
from various funds

Budget p. BTH 84

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes the following reappropriations.

Capital Outlay (Item 2660-490). The budget proposes that the unliquidated encumbrances of specified appropriations made in the Budget

Acts of 1982, 1983, 1984 and 1985, be reappropriated until June 30, 1989. The appropriations were made to provide state and federal funds for highway capital outlay purposes. Reappropriating these funds would allow the projects to be paid upon completion.

In addition, the department requests the reappropriation of specified unencumbered amounts, also from the same appropriations, to be available until June 30, 1989. The department indicates that these amounts will allow for payment of any potential claims on construction projects funded out of these appropriations.

Local Assistance. (Item 2660-491). The budget also proposes that the unliquidated encumbrances of specified state and federal funds appropriated in the 1987 Budget Act for local assistance purposes be reappropriated. The reappropriation would allow local projects to be paid upon completion, when the encumbrance will be liquidated.

Business, Transportation and Housing Agency OFFICE OF TRAFFIC SAFETY

Item 2700 from various funds

Budget p. BTH 92

Requested 1988-89.....	\$11,930,000
Estimated 1987-88.....	14,690,000
Actual 1986-87.....	12,421,000
Requested decrease (excluding amount for salary increases) \$2,760,000 (-18.8 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2700-001-044—Support	State Transportation, Motor Vehicle Account	\$290,000
2700-001-890—Support and state grants	Federal Trust	6,957,000
2700-101-890—Local assistance	Federal Trust	4,663,000
Reimbursements	—	20,000
Total		\$11,930,000

GENERAL PROGRAM STATEMENT

The Office of Traffic Safety (OTS) is responsible for evaluating and approving all state and local highway safety projects supported by federal funds. In order to qualify for federal funding, these projects must (1) comply with uniform safety standards established by the federal Department of Transportation and (2) address highway safety problem areas identified by OTS. In addition, OTS is responsible for (1) updating the California Highway Safety Plan, (2) providing technical assistance to state and local agencies in the development of traffic safety plans, and (3) coordinating ongoing traffic safety programs.

The office has 25.4 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

OFFICE OF TRAFFIC SAFETY—Continued

The budget proposes total expenditures of \$11,930,000 (all funds) in 1988-89. This is a reduction of \$2,760,000, or 19 percent, from the estimated current year level and is primarily the result of a \$2.8 million decrease in federal funds. This reduction, however, is misleading. According to OTS, part of the expenditures shown in the budget for the current year probably will not occur. These unexpended funds will carry-over into the budget year and could be used for grants to state and local agencies, thereby lessening the reduction in federal expenditures.

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

Table 1
Office of Traffic Safety
Summary of Expenditures
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>
Administration	\$1,935	\$1,540	\$1,711	11.1%
Grants to state agencies.....	4,243	6,468	5,556	-14.1
Grants to local agencies.....	6,243	6,682	4,663	-30.2
Totals	\$12,421	\$14,690	\$11,930	-18.8%
Funding Sources				
<i>Motor Vehicle Account, State Transportation</i>				
<i>Fund</i>	\$250	\$277	\$290	4.7%
<i>Federal Trust Fund</i>	11,693	14,413	11,620	-19.4
<i>First Offender Program Evaluation Fund</i>	357	—	—	—
<i>Reimbursements</i>	121	—	20	100.0

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

Business, Transportation and Housing Agency
DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 2720 from various funds

Budget p. BTH 94

Requested 1988-89	\$547,012,000
Estimated 1987-88	499,529,000
Actual 1986-87	469,927,000
Requested increase (excluding amount for salary increases) \$47,483,000 (+9.5 percent)	
Total recommended reduction	7,738,000
Recommendation pending	2,394,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2720-001-044—Support	State Transportation, Motor Vehicle Account	\$531,113,000
2720-001-840—Support	Motorcyclist Safety	1,360,000
2720-001-847—Support	Asset Forfeiture	2,000,000
2720-001-890—Support	Federal Trust	2,794,000
2720-011-044—Payment of deficiencies	Motor Vehicle Account	(2,000,000)
2720-021-044—Advance purchase of vehicles	Motor Vehicle Account	(5,000,000)
Reimbursements	—	9,745,000
Total		\$547,012,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. **Traffic Enforcement Personnel.** Recommend the adoption of supplemental report language requiring the department to submit a report to the Legislature on (a) desired service levels of major traffic officer functions and (b) how these levels will be used in determining current and future traffic officer needs. 269
2. **Radio Equipment. Reduce Item 2720-001-044 by \$6.6 million.** Recommend reduction to more accurately reflect anticipated costs. Further recommend Budget Bill language to restrict the use of \$9.4 million to the purchase of enforcement radio equipment only. 271
3. **Telephone Equipment and Consultant Services. Reduce Item 2720-001-044 by \$556,000.** Recommend reduction because funds will not be needed in the budget year. 272
4. **Paratransit Vehicle Inspections.** Withhold recommendation on \$891,000 and 17.1 personnel-years pending survey results on general public paratransit vehicles and drivers. 273
5. **Asset Forfeiture Program.** Recommend that the department submit to the Legislature by March 15, a specific expenditure proposal for \$2.0 million from the Asset Forfeiture Fund. 273
6. **Replacement Vehicles.** Withhold recommendation on \$1,503,000 for new and replacement vehicles pending receipt of updated information on vehicle prices. 274
7. **Technical Adjustment. Reduce Item 2720-001-044 by \$582,000.** Recommend a reduction to eliminate overbudgeting for lease and operating and expense costs. 274

GENERAL PROGRAM STATEMENT

The Department of the California Highway Patrol (CHP) is responsible for ensuring the safe, lawful, and efficient movement of persons and goods along the state's highway system. To carry out this responsibility, the department administers three programs to assist the motoring public: (1) Traffic Management, (2) Regulation and Inspection, and (3) Vehicle Ownership Security. A fourth program, Administrative Support, provides administrative services to the first three programs.

The department has 7,856.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests a total of \$547,012,000 for expenditure by the California Highway Patrol in the budget year. This is \$47,483,000, or 9.5

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

percent, above estimated expenditures in the current year. The CHP also proposes a staffing level of 8,241.2 personnel-years in the budget year. This is an increase of 384.3 personnel-years, or 4.9 percent, over the current level. Table 1 summarizes the department's expenditures, by program, for the prior, current, and budget years. Table 2 summarizes the major changes in the CHP's budget proposed for 1988-89.

Table 1
Department of the California Highway Patrol
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	
Traffic management.....	6,807.0	6,913.4	7,222.8	\$423,540	\$444,866	\$487,610	9.6%
Regulation and inspection	712.8	781.8	833.1	37,476	43,979	47,134	7.2
Vehicle ownership security	157.5	161.7	185.3	8,911	10,684	12,268	14.8
Administration ^a	(1,351.2)	(1,427.1)	(1,473.2)	(91,858)	(99,589)	(102,139)	(2.6)
Totals.....	7,677.3	7,856.9	8,241.2	\$469,927	\$499,529	\$547,012	9.5%
Funding Sources							
Motor Vehicle Account, State Transportation Fund				\$458,543	\$484,303	\$531,113	9.7%
Driver Training Penalty Assessment Fund				232	248	—	-100.0
Motorcyclist Safety Fund				552	1,362	1,360	-0.1
Federal Trust Fund				1,464	3,109	2,794	-10.1
Asset Forfeiture Fund				—	—	2,000	100.0
Reimbursements.....				9,136	10,507	9,745	-7.3

^a Administrative costs and personnel-years distributed to other programs.

Table 2
Department of the California Highway Patrol
Proposed 1988-89 Budget Changes
(dollars in thousands)

	Motor Vehicle Account	Driver Training Penalty Assessment Fund	Motorcy- clist Safety Fund	Federal Trust Fund	Asset Forfeiture Fund	Reimburse- ments	Totals
1987-88 Expenditures (Revised) ..	\$484,303	\$248	\$1,362	\$3,109	—	\$10,507	\$499,529
Baseline Adjustments							
Employee compensation in- crease	\$7,837	—	—	(\$16)	—	(\$115)	\$7,837
Elimination of one-time costs ...	-15,145	-248	—	—	—	—	-15,393
Price increase	1,559	—	—	—	—	—	1,559
Elimination of gasoline reserve ..	-1,000	—	—	—	—	—	-1,000
Additional traffic officers (Chap- ter 1157)	2,129	—	—	—	—	—	2,129
Salary savings	3,331	—	—	—	—	—	3,331
Other base adjustments	78	—	-\$2	-1,565	—	-942	-2,431
Subtotals, Baseline Adjust- ments	(-\$1,211)	(\$248)	(\$2)	(\$1,565)	(\$—)	(\$942)	(\$3,968)

Workload and Program Changes

Additional traffic officers	\$10,943	—	—	—	—	—	\$10,943
Motor Carrier Safety program ..	—	—	—	1,250	—	—	1,250
Vehicle Theft program	(1,263)	—	—	—	—	—	(1,263)
Asset Forfeiture program	—	—	—	—	2,000	—	2,000
Telecommunications services ...	25,498	—	—	—	—	180	25,678
New field commands	525	—	—	—	—	—	525
Replacement vehicles	1,503	—	—	—	—	—	1,503
Traffic enforcement for HOV facilities	433	—	—	—	—	—	433
Flight operations	5,701	—	—	—	—	—	5,701
Data processing services	481	—	—	—	—	—	481
Regulation of commercial carriers	958	—	—	—	—	—	958
Formula-justified staffing increases	520	—	—	—	—	—	520
Psychological screening	84	—	—	—	—	—	84
Records management	174	—	—	—	—	—	174
Underground storage tanks	310	—	—	—	—	—	310
Public Paratransit Vehicle program	891	—	—	—	—	—	891
Subtotals, Workload and Program Changes	<u>(\$48,021)</u>	<u>(\$—)</u>	<u>(\$—)</u>	<u>(\$1,250)</u>	<u>(\$2,000)</u>	<u>(\$180)</u>	<u>(\$51,451)</u>
1988-89 Expenditures (Proposed) .	\$531,113	—	\$1,360	\$2,794	\$2,000	\$9,745	\$547,012
Change from 1987-88:							
Amount	\$46,810	—\$248	—\$2	—\$315	\$2,000	—\$762	\$47,483
Percent	9.7%	—100%	—0.1%	—10.1%	100%	—7.3%	9.5%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following requests which are not discussed elsewhere in this *Analysis*:

- Various baseline adjustments resulting in a net reduction of \$3.9 million.
- \$5.7 million to purchase three helicopters and one airplane.
- \$2.2 million to expand (1) the Motor Carrier Safety program (\$1.3 million) and (2) the Regulation of Commercial Carriers program (\$0.9 million).
- \$1.3 million to support the Vehicle Theft program.
- \$953,000 to increase staffing for (1) high occupancy vehicle (HOV) lanes (\$433,000) and (2) formula driven workload (\$520,000).
- \$655,000 to improve data processing and records management services.
- \$310,000 for increased costs of underground storage tanks.

Information on Traffic Enforcement Staffing Levels is Not Adequate

We recommend that the Legislature adopt supplemental report language requiring the CHP to submit a report by December 1, 1988 on (1) desired service levels of major traffic officer functions and (2) how these levels will be used in determining current and future traffic officer needs.

The budget proposes \$10.9 million from the Motor Vehicle Account to fund 165 additional uniformed officers and 15 related support personnel to be deployed in major metropolitan areas. These positions are in

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

addition to the 150 uniformed officers and 30 support personnel provided by Ch 1157/87 (AB 2416) who will be assigned to those counties with the most freeway violence.

According to the department, the increased staff are necessary because its workload has increased, while the number of uniformed staff has remained fairly constant. Specifically, the department argues that its workload has increased as a result of an increase in the state's population and road use (as measured by vehicle miles traveled (VMT)), as well as an increase in the department's general program responsibilities. Additionally, the department states that as traffic congestion spreads to broader metropolitan areas, more uniformed officers must be deployed to control this congestion.

We are not able to make a recommendation on this request because the department has not provided the Legislature with workload standards which are necessary in order to project staffing levels. This lack of information is of particular concern because the department indicates that uniformed officers are seriously understaffed. Without such information, this request, as well as any subsequent requests in future years for additional officers, will be difficult to evaluate.

Department Has Found it Difficult to Develop Workload Standards. In the *Supplemental Report of the 1984 Budget Act*, the Legislature directed the department to report on appropriate staffing levels to meet its mission. In response, the department stated that it was not able to determine a "viable staffing formula", but would address this issue in the future. The department indicates that it has convened several task forces on this subject, and has conducted a survey to review the workforce allocation methods of highway patrol departments in other states and law enforcement agencies in metropolitan areas of California. However, in the current year, the department has stated that "the establishment of workload standards based exclusively upon the measurement of workload items cannot be accomplished."

We recognize that it is a difficult task to develop methodologies for projecting staffing needs. Nevertheless, we have identified two recent efforts which may provide the department with some guidance. For example, the department may be able to adopt, in part, a workforce allocation model currently being developed by the National Highway Traffic Safety Administration (NHTSA). The purpose of the NHTSA model is to provide state highway patrol agencies with a method for determining current and future traffic officer needs. In addition, we have found that a model developed by the Illinois Department of Law Enforcement provides a useful framework for approaching traffic officer staffing issues.

Illinois Police Officer Allocation Model Provides Possible Guidelines. Since 1982, the State of Illinois has used a model to allocate uniformed officers throughout the state. More recently, the model has been used to estimate increased staffing needs. Illinois has made this model available to other highway patrol agencies, such as the Ontario Provincial Police in Canada, which are currently attempting to modify the model for their use.

According to this model, staffing needs consist of three components: administrative workload, "response" workload, and "patrol" workload. Administrative workload refers to the number of officers required to

perform administrative, nonpatrol functions. Because administrative levels are set by management, they are not determined by the model. Response workload means that portion of an officer's time spent in responding to "calls for service." The two largest categories of "calls for service" are accidents and criminal complaints. Patrol workload is the time an officer actually spends patrolling when not responding to "calls for service."

The number of officers provided for response workload and patrol workload are the result of two factors: (1) historical experience and (2) desired level of service which is a policy decision. For example, the number of officers provided to handle response workload is a function of (1) the projected number of calls for service (for example, the number of accidents and criminal complaints), (2) the average time required to respond to each call (based on historical averages), and the desired level of service (for example, all accidents will be responded to immediately).

Department Needs to Formulate Desired Service Levels. The Illinois model illustrates that at the base of traffic enforcement staffing level decisions, lie policy decisions on desired service levels. Certainly, implicit service levels underlay the department's current traffic enforcement staffing level. But until the Legislature has an opportunity to evaluate these service levels it cannot determine (1) if current staffing levels are appropriate and (2) future staffing levels for projected workload.

Analyst's Recommendations. We make no recommendation on \$10.9 million for 180 uniformed officers and related support staff because the department has not provided the Legislature with adequate information to project staffing levels. The addition of the proposed officers is basically a policy decision to be made by the Legislature.

Additionally, because our review indicates that service level standards are central to establishing staffing levels, we recommend that the Legislature adopt supplemental report language requiring the CHP to report to the Legislature, by December 1, 1988, on (1) desired service levels, by major traffic officer functions and (2) how these service levels will be used to determine current and future traffic officer needs. This information would enable the Legislature to establish a state policy on highway patrol service levels and standards.

The following supplemental report language is consistent with this recommendation:

The Department of the California Highway Patrol shall report to the Legislature by December 1, 1988, on (1) desired service levels by major traffic officer functions and (2) how these service levels will be used to determine current and future traffic officer needs.

Law Enforcement Radio Equipment Will Cost Less

We recommend that the amount budgeted for law enforcement radio equipment be reduced by \$6.6 million to more accurately reflect anticipated costs. We further recommend that the Legislature adopt Budget Bill language restricting the use of \$9.4 million proposed from the Motor Vehicle Account to purchase enforcement radio equipment only. (Reduce Item 2720-001-044 by \$6.6 million.)

The budget requests \$40.6 million to replace and add various telecommunications and telephone systems, and to operate and maintain these systems. Table 3 shows the major components of the replacement and additional equipment that the department proposes to purchase.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued**Table 3****Department of the California Highway Patrol
Telecommunications Equipment and Expenses
1988-89****(dollars in thousands)**

<i>Replacement Equipment</i>	
Enforcement radios	\$10,128
Base stations	451
Telephone systems	2,140
Other radio equipment	1,913
<i>Additional Equipment</i>	
Enforcement radios	5,894
Other telephones/radios	3,159
<i>Operating Expenses</i>	<u>16,944</u>
Total	\$40,629

As part of its budget request, the department is proposing to replace its law enforcement radio equipment. The department replaces all of its enforcement radio equipment every 10 years, with the replacement being done over a three-year period. The current effort started in 1986-87, and the budget requests \$10.1 million for 1988-89, the last year of the current replacement program. Together with \$15.6 million already approved for 1986-87 and the current year, this amount will bring the total for radio replacement purposes to \$25.7 million.

The budget also requests \$5.9 million in 1988-89 to purchase additional enforcement radio equipment to accommodate needs related to projected expansion in the enforcement staff. Thus, the department is proposing to spend a total of \$31.6 million to purchase replacement and additional radio equipment.

Our review of the bids received by the department for enforcement radio equipment indicates that the total costs for all replacement *and* additional radio equipment will be substantially less than the \$31.6 million. The highest bid to provide this equipment was about \$22 million. The department indicates that because the bid award is currently being contested, final costs for the equipment are not certain. In addition, the department may have to incur other expenses for items not included in the bids, but which are necessary for the replacement program. To allow for these contingencies, we recommend that a total of \$25 million be made available for the radio equipment purchase, which is \$6.6 million less than the \$31.6 million requested by the department for the three-year period. For 1988-89, the amount needed for appropriation in the Budget Bill will therefore be \$9.4 million. Accordingly, we recommend that \$6.6 million be deleted from the budget.

Because the total costs of the equipment may be less than \$25 million, we further recommend that the Legislature adopt Budget Bill language restricting the use of the \$9.4 million to the purchase of enforcement radio equipment only. The following Budget Bill language is consistent with this recommendation:

Provided that \$9.4 million available in this item can be used only for the purchase of enforcement radio equipment.

Telephone Equipment and Consultant Services Overbudgeted

We recommend a reduction of \$556,000 requested in the budget for telephone equipment and consultant services because this amount will

not be needed in the budget year. (Reduce Item 2720-001-044 by \$556,000.)

Included in the department's request for \$40.6 million in telecommunications is \$2.1 million for telephone equipment, of which \$578,000 would be spent to install new systems in eight new offices in 1988-89. Our review indicates that five of these offices, located in West Kern, West Los Angeles, Amador, Modesto, and Indio will not be ready for occupancy until 1989-90. Consequently, the request for equipment for these sites is premature. We therefore recommend the deletion of \$163,000 requested for these offices.

The budget also includes \$393,000 for consultant services to implement and test a Mobile Digital Terminal and Automatic Vehicle Locator System. The department now indicates that the system will not be implemented in 1988-89. Accordingly, the amount for consultant services will not be needed, and we recommend that this amount be deleted from the budget.

Paratransit Survey Results Needed

We withhold recommendation on \$891,000 from the Motor Vehicle Account and 17.1 personnel-years pending receipt of results from the department's survey of general public paratransit vehicles and drivers. We further recommend that the department submit these survey results to the Legislature by April 1.

Chapter 986, Statutes of 1987, requires the CHP to inspect general public paratransit vehicles (GPPVs) and to certify that their drivers meet specified minimum requirements beginning July 1, 1988. A GPPV is a vehicle seating 19 or fewer passengers and used to provide dial-a-ride or other specified service under the jurisdiction of a public transit system. The department requests \$891,000 and 17.1 personnel-years in 1988-89 to carry out the required vehicle inspections and driver certifications. This request is based on an estimate that, annually, 6,300 vehicles will need to be inspected and 4,000 drivers will require certification.

Our review of the request indicates that the department is attempting to verify its estimate of the number of GPPVs and drivers through a survey of transit operators. Results of the survey are to be forwarded from field divisions to headquarters by March 1. Furthermore, our own review of information provided to the State Controller by transit operators under the Transportation Development Act indicates that the department's current estimate may be high. Therefore, we withhold recommendation on the department's request pending completion of the survey. We further recommend that the department submit its GPPV survey results to the Legislature by April 1.

Department Needs Specific Expenditure Proposal

We recommend that the department submit to the Legislature by March 15, a specific expenditure proposal for \$2 million from the Asset Forfeiture Fund for its drug-related law enforcement programs.

Currently, the department participates in state and federal Asset Forfeiture programs. Under these programs, the department and other law enforcement agencies can receive a share of the value of the property they seize as a result of narcotics investigations and convictions. These programs specify that the funds should be used to support the law

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

enforcement activities of the agency that seized the forfeited assets. The department expects its share of Asset Forfeiture funds to be about \$2 million annually, starting in 1988-89.

The department proposes to use its \$2 million from the Asset Forfeiture Fund to support its drug-related law enforcement programs. Thus far, the department has not been able to provide a schedule detailing the uses of these funds, but indicates that this documentation will soon be available. In order to insure that the funds are spent appropriately, we recommend that the department submit to the Legislature by March 15, a detailed list of its proposed expenditures of \$2 million for personnel and equipment costs.

Request for Replacement Vehicles Will be Amended

We withhold recommendation on \$1,503,000 requested to replace existing vehicles and purchase new ones, pending receipt of updated information on vehicle prices.

The department is requesting \$1,503,000 above its baseline budget to replace and purchase certain new vehicles. This figure is based on past years' vehicle prices that were available at the time of the budget request. The department will be receiving more current vehicle price data, and will be able to adjust its request for replacement and new vehicles accordingly. Consequently, we withhold recommendation on \$1,503,000 requested to purchase vehicles pending the receipt of updated information.

Technical Budgeting Issue

We recommend technical budgeting adjustments for a total reduction of \$582,000 from Item 2720-001-044 as follows:

- Reduce \$160,000 for lease expenses for various locations because the effective date of the leases is now estimated to be later than originally projected.
 - Reduce \$422,000 and 1.5 personnel-years proposed for two new field offices (West Kern and Livermore) because these sites will not be occupied until 1989-90.
-

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL— CAPITAL OUTLAY

Item 2720-301 from the Motor

Vehicle Account, State

Transportation Fund

Budget p. BTH 105

Requested 1988-89.....	\$5,963,000
Recommended approval.....	5,868,000
Recommended reduction.....	95,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
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1. *Minor Projects—CHP Academy. Reduce Item 2720-301-044(1) by \$95,000.* Recommend deletion of all-weather running track at the CHP Academy, because this project is not justified by the CHP's training program.

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ANALYSIS AND RECOMMENDATIONS

The budget proposes \$5,963,000 from the Motor Vehicle Account, State Transportation Fund, for the Department of the California Highway Patrol's (CHP) 1988-89 capital outlay program. This includes four major and 14 minor projects (\$200,000 or less per project). The CHP's requests are summarized in Tables 1 and 2.

Table 1

Department of the California Highway Patrol 1988-89 Major Capital Outlay Program Summary Item 2720-301-044 (dollars in thousands)

Sub- Item	Project	Location	Phase ^a	Budget Bill Amount
(2)	Purchase of leased facility	Verdugo Hills	a	\$1,656
(3)	Purchase of leased facility	Madera	a	598
(4)	Purchase of leased facility	San Diego	a	2,953
(5)	Property options and appraisals	Various	a	20
Total.....				\$5,227

^a Phase symbols indicate: a = acquisition.

Purchase of Leased Facilities

We recommend approval of \$5,227,000 for the purchase of three leased CHP facilities, and for appraising property and obtaining property options.

The CHP is requesting a total of \$5,227,000 for the purchase of three offices occupied by the department under a lease with purchase option agreement (\$5,207,000), and for conducting property appraisals and obtaining property options (\$20,000). The location and purchase price of each office is summarized in Table 1.

The amount budgeted for the purchase of each leased facility is based on the amount specified in the lease agreement, plus \$4,000 for the

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY—Continued

Department of General Services' administrative costs. Our analysis indicates that each acquisition is financially beneficial to the state. The cost of purchasing and maintaining each facility is less than the present value of future lease payments.

The \$20,000 for appraisals/options would finance site evaluations for new offices in West Los Angeles and Ontario, scheduled to be constructed and occupied in 1989-90.

Accordingly, we recommend approval of the requested funds.

Minor Projects

We recommend a reduction of \$95,000 in Item 2720-301-044(1) to delete one minor project proposed for the CHP Academy in Sacramento.

The Budget Bill proposes a total of \$736,000 for 14 minor projects (\$200,000 or less per project). Table 2 summarizes the proposed projects and our recommendations.

Table 2
Department of the California State Highway Patrol
1988-89 Minor Capital Outlay Projects
Item 2720-301-044(1)
(dollars in thousands)

<i>Type of Project</i>	<i>Location</i>	<i>Number of Sites</i>	<i>Budget Bill Amount</i>	<i>Analyst's Recommendation</i>
Alter office or program space	Various	12	\$128	\$128
Improve drainage of parking lot	Hayward	1	160	160
Garage door program	Various	5	30	30
Vehicle hoist program	Various	7	196	196
Headquarters building security	Sacramento	1	36	36
Academy projects	Sacramento	4	186	91
Totals			\$736	\$641

We recommend deletion of one minor project, totaling \$95,000, proposed for the CHP Academy located in Sacramento.

All Weather Running Track (\$95,000). The department proposes to convert its present quarter-mile, oval decomposed granite track to a synthetic surface. We recommend deletion of this project, because the existing surface is adequate for the training and exercise uses required of it. Use of a track for competition is the primary justification for installing a synthetic surface. The Academy track, however, is used to supplement the conditioning of cadets and for routine exercise, not for competition.

The department argues that the present track surface is unusable *immediately* after a heavy rain. While this may be true, this weather condition is not long lasting, and the Academy has alternatives to the quarter-mile track, including a four-mile, perimeter running course, and a gymnasium. Heavy rains do not affect the asphalt surface of the perimeter course.

Supplemental Report Language

For purpose of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which de-

scribes the scope of each of the capital outlay projects approved under this item.

Business, Transportation and Housing Agency DEPARTMENT OF MOTOR VEHICLES

Item 2740 from various funds

Budget p. BTH 106

Requested 1988-89	\$379,531,000
Estimated 1987-88	355,767,000
Actual 1986-87	339,246,000
Requested increase (excluding amount for salary increases) \$23,764,000 (+6.7 percent)	
Total recommended reduction.....	172,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2740-001-001—Anatomical donor designation	General	\$64,000
2740-001-044—Support	Motor Vehicle Account	245,515,000
2740-001-054—Support of New Motor Vehicle Board	New Motor Vehicle Account	1,060,000
2740-001-064—Support	Motor Vehicle License Fee Account, Transportation Tax	120,672,000
2740-001-378—Bicycle registration	State Bicycle License and Registration	39,000
2740-001-516—Undocumented vessel registration	Harbors and Watercraft Revolving	3,179,000
2740-001-890—Support	Federal Trust Fund	468,000
2740-011-044—Payment of deficiencies	Motor Vehicle Account, State Transportation	(1,000,000)
Reimbursements	—	8,534,000
Total		\$379,531,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Electronic Data Processing Conversion. Recommend that the department provide the Legislature with a revised estimate of Teale Data Center charges by March 15. 280
2. **Technical Adjustment. Reduce Item 2740-001-044 by \$172,000.** Recommend a reduction to eliminate overbudgeting for lease costs. 280

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest and promoting public safety on California's roads and highways. To carry out these responsibilities, the department administers four programs to aid the driving public: (1) Vehicle and Vessel Identification and Compliance, (2) Driver Licensing and Personal Identification, (3) Driver Safety, and (4) Occupational Licensing and Investigative Services. These programs are implemented by the depart-

DEPARTMENT OF MOTOR VEHICLES—Continued

ment's Divisions of Headquarters Operations, Field Operations, Investigation and Occupational Licensing, and Electronic Data Processing. Administrative support services are provided to the other divisions by the Division of Administration. In addition, the New Motor Vehicle Board operates as an independent agency within the department.

The department has 7,720.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests appropriations totaling \$379.5 million (all funds) for support of the Department of Motor Vehicles in 1988-89. This is an increase of \$23.8 million, or 6.7 percent, above estimated expenditures in the current year. Table 1 summarizes the department's expenditures, by program, for the prior, current, and budget years. Table 2 summarizes the major changes in the DMV's budget proposed for 1988-89.

Table 1
Department of Motor Vehicles
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1987-88
	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Actual 1986-87	Est. 1987-88	Prop. 1988-89	
Vehicle/vessel identification and compliance.....	3,742.3	3,750.2	3,762.0	\$186,117	\$194,797	\$209,957	7.8%
Driver licensing & personal identification.....	2,110.8	2,142.7	2,112.9	96,308	101,579	107,254	5.6
Driver safety	827.8	825.5	840.9	34,907	35,743	37,675	5.4
Occupational licensing & investigative services	423.5	450.0	460.1	21,148	22,716	23,585	3.8
New Motor Vehicle Board	13.7	16.8	18.7	766	932	1,060	13.7
Total administration.....	486.6	535.0	540.7	44,457	43,018	47,092	9.5
Administration distributed	—	—	—	-44,457	-43,018	-47,092	9.5
Totals.....	7,604.7	7,720.2	7,735.3	\$339,246	\$355,767	\$379,531	6.7%
Funding Sources							
General Fund				\$62	\$62	\$64	3.2%
Motor Vehicle Account, State Transportation Fund				229,999	233,259	245,515	5.3
New Motor Vehicle Board				762	922	1,060	15.0
Motor Vehicle License Fee Account, State Transportation Tax Fund				95,058	107,668	120,672	12.1
State Bicycle License and Registration Fund				39	37	39	5.4
Harbors and Watercraft Revolving Fund				3,219	3,320	3,179	-4.2
Federal Trust Fund				—	406	468	15.3
Reimbursements.....				10,107	10,093	8,534	-15.4

Table 2
Department of Motor Vehicles
Proposed 1988-89 Budget Changes
(dollars in thousands)

	<i>Motor Vehicle Account</i>	<i>Motor Vehicle License Fee Account</i>	<i>Other</i>	<i>Total</i>
1987-88 Expenditures (Revised)	\$233,259	\$107,668	\$14,840	\$355,767
Baseline Adjustments				
Employee compensation	2,781	1,285	165	4,231
Price increase	1,568	732	59	2,359
Pro rata increase	1,160	—	19	1,179
One-time/annualized costs	1,080	499	-601	978
Federal Grants	—	—	49	49
Funding allocation adjustment	386	342	-728	—
Subtotals, Baseline Adjustments	(\$6,975)	(\$2,858)	(\$-1,037)	(\$8,796)
Workload and Program Changes				
Workload	1,025	5,786	-342	6,469
EDP automation	1,335	1,586	-178	2,743
Revenue collection system	1,116	1,889	—	3,005
Elevator repairs	1,212	665	—	1,877
Driver safety hearings	416	—	—	416
Legislation	177	220	—	397
New Motor Vehicle Board	—	—	61	61
Subtotals, Workload and Program Changes	(\$5,281)	(\$10,146)	(\$-459)	(\$14,968)
1988-89 Expenditures (Proposed)	\$245,515	\$120,672	\$13,344	\$379,531
Change from 1987-88:				
Amount	\$12,256	\$13,004	-\$1,496	\$23,764
Percent	5.3%	12.1%	-10.1%	6.7%

Funding Sources

In the budget year, the department proposes to fund its programs primarily from two sources—\$245.5 million from the Motor Vehicle Account (MVA), State Transportation Fund, and \$120.7 million from the Motor Vehicle License Fee Account, Transportation Tax Fund.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following budget changes which are not discussed elsewhere in this *Analysis*:

- Baseline adjustments for (1) increased cost of employee compensation and price increases (\$6,590,000), (2) increased pro rata charges (\$1,179,000), and (3) the net impact of one-time expenditures and annualized costs (\$978,000); and
- Budget change proposals for (1) additional staff due to increased workload (\$6,469,000), (2) elevator repairs (\$1,877,000), and (3) longer driver safety hearings and implementation of legislation (\$813,000).

Budget Does Not Reflect Increased Revenues—\$19.2 million

The DMV estimates that annually, about 1.4 million vehicles in the state are not reregistered. Beginning in 1988-89, the department proposes to initiate a two-phase collection system to increase vehicle registration

DEPARTMENT OF MOTOR VEHICLES—Continued

and revenue collection. Phase I, proposed for 1988-89, is targeted to reduce the number of vehicles with expired registration by about 30 percent, and collect fees, including registration fees and any vehicle related fees which are past due from about 430,000 vehicles. Phase II is planned for 1989-90 to automate various collection procedures and reduce the number of incomplete registrations. The budget requests 28.5 personnel-years and \$3 million to develop and implement the collection system in 1988-89. Our review indicates that the amount requested is warranted.

The DMV projects that the proposed collection system will increase revenues by about \$25.6 million annually. For nine months of implementation in 1988-89, the additional revenues will be about \$19.2 million, including about \$7.9 million to the Motor Vehicle Account, \$7.3 million to the Motor Vehicle License Fee Account, and about \$4 million to the State Highway Account. The budget, however, does not reflect the potential revenue increases to the respective accounts.

Data Processing Estimate Outdated

We recommend that the Department of Motor Vehicles provide a revised estimate of Teale Data Center service charges to the Legislature by March 15.

Since 1986-87, the department has been engaged in a project to convert DMV electronic data processing from its aging in-house computer system to the Teale Data Center (TDC). The department is requesting \$10.8 million in 1988-89—an increase of \$5.6 million (110 percent) above estimated current-year expenditures—to pay for work performed at Teale in 1988-89. The increase reflects the transfer of the first increment of DMV processing work to Teale in December 1987.

Our review indicates, however, that the estimate of 1988-89 Teale costs was made at the time of project approval in 1986. Since that time, TDC charges for various categories of service have been reduced by a range of 25 percent to 75 percent. At the same time, there may have been changes in workload since 1986 which would increase the level of Teale costs in 1988-89. Consequently, we recommend that the department provide a revised estimate of its Teale Data Center costs to the Legislature by March 15.

Technical Budgeting Issue

We recommend a reduction of \$172,000 from Item 2740-001-044 to correct for funds overbudgeted for operating expenses, as follows:

- Reduce \$172,000 for lease expenses because the effective date of the leases is later than originally estimated.
-

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY

Item 2740-301 from the Motor
Vehicle Account, State
Transportation Fund

Budget p. BTH 119

Requested 1988-89.....	\$2,199,000
Recommended approval.....	2,120,000
Recommended reduction.....	79,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. Upland Office Building. Recommend that, prior to budget hearings, the Department of Motor Vehicles (DMV) submit a report to the Legislature which compares the costs and benefits of lease-purchase financing with capital outlay financing of this project. 281
2. Santa Ana Office Addition. Amend Item 1970-495—Reversion, to revert the balance of funds appropriated in Item 2740-301-044(8), Budget Act of 1985. Recommend reversion of \$267,000 for working drawings and construction, because the DMV has abandoned this project. 282
3. *Minor Projects. Reduce Item 2740-301-044(1) by \$79,000.* 283
Recommend reduction to correct overbudgeting of carpeting projects at the DMV headquarters building and seven field offices.

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$2,199,000 in Item 2740-301-044 for the Department of Motor Vehicles (DMV) capital outlay program for 1988-89. This amount includes \$1,645,000 for purchase of a leased field office facility and \$554,000 for 15 minor capital outlay projects (\$200,000 or less per project).

Ventura Field Office

We recommend approval.

This building was constructed in 1985-86 under a lease with purchase option agreement with the department. The budget proposes \$1,645,000 to exercise the purchase option in 1988-89.

The department predicts that this building will be adequate to serve its needs in the Ventura area for the next 12 years. Our analysis indicates that if DMV occupies this building for longer than eight years, purchasing the building now is more economical than continuing to make the scheduled lease payments.

DMV Cancels Upland Office Construction Project

We recommend that, prior to budget hearings, the DMV submit a report to the Legislature which (1) describes its current plan to lease a field office to serve the Upland area, and (2) compares the cost of this plan with the cost of the land acquisition/construction project already recognized by the Legislature.

In the 1986 Budget Act, Item 2740-301-044(9), the Legislature appropriated \$1,213,000 to acquire property (\$1,153,000) and prepare prelimi-

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

nary plans (\$60,000) for a DMV field office in Upland. In the *Supplemental Report of the 1986 Budget Act*, the Legislature recognized \$1,742,000 as the future cost of working drawings and construction. In proposing the project DMV stipulated that: "experience proves that it is more economical to purchase a facility at this grade level (maximum size) than to lease space."

After a year and a half, however, DMV has neither acquired a site for this project, nor completed preliminary plans. Moreover, in its 1988-89 capital outlay program, DMV has canceled the Upland office as a capital outlay project, and declared its intent to pursue a lease with purchase option. The DMV explains this change by its inability to acquire the preferred site for the building. The land, which was offered for well below market price, was recently sold to a developer whose plans do not include a DMV field office. According to DMV, the amount appropriated by the Legislature is no longer sufficient to acquire suitable land in Upland at the market price.

The DMV has not provided sufficient information to determine (1) the current cost of a suitable site for construction of this project, or (2) the cost-effectiveness of financing the project on a lease-purchase basis, relative to the original plan for site acquisition/construction. We recommend, therefore, that DMV, before budget hearings, submit a report to the Legislature which:

- Estimates the current cost of a suitable construction site in Upland, and the current annual lease rate for suitable office space;
- Describes in detail how the department could meet its program needs in Upland through a lease-purchase arrangement;
- Shows the relative cost-effectiveness, in present value terms, of two approaches to this project: site acquisition/construction and lease with option to purchase.

This report will enable the Legislature to make an informed decision concerning the future course of this project, and its related costs.

Santa Ana Addition

We recommend reversion of the balance of funds appropriated in Item 2740-301-044(8), Budget Act of 1985, for preliminary plans, working drawings and construction of an addition to the DMV field office in Santa Ana.

In the 1985 Budget Act (Item 2740-301-044(8)), the Legislature appropriated \$312,000 for preliminary plans, working drawings and construction of an addition to the DMV field office in Santa Ana. The department spent \$45,000 of this appropriation in 1985-86, and completed preliminary plans. Working drawings were never started. *The department now intends to cancel the project.* In its 1988-89 Lease Schedule, the DMV proposes to lease a satellite office in the Irvine-Tustin area. The department asserts that this office will fill the program needs which originally justified the Santa Ana addition, making construction of the addition unnecessary.

The department gives two reasons to explain the long delay of this construction project and its cancellation:

- Difficulties with consulting architects caused the Office of the State Architect to delay working drawings for two years.

- Revised population statistics for Santa Ana and surrounding areas indicated that more than twice the space originally planned for the addition would be needed to meet regional demand for DMV services.

Given DMV's intent to lease satellite office space, we recommend reversion of the balance of the appropriation for the Santa Ana addition, \$267,000 for working drawings and construction. Specifically, we recommend that Item 2740-495 be amended to include the following:

As of June 30, 1988, the unencumbered balance, including any unspent balances in the Architecture Revolving Fund, of the appropriations provided in the following citation shall revert to the unappropriated surplus of the fund from which the appropriation was made.

Item 2740-301-044(8), Budget Act of 1985, 71.10.010-Santa Ana—Preliminary plans, working drawings and construction of building addition.

Minor Projects

We recommend a reduction of \$79,000 in Item 2740-301-044(1) to eliminate overbudgeting of carpet installation at the DMV headquarters building and seven field offices.

The budget proposes \$554,000 in Item 2740-301-044(1) for minor capital outlay projects (\$200,000 or less per project). These projects range from \$6,000 to install emergency lighting in the Chula Vista office to \$178,000 to install carpet tile in seven field offices. We recommend approval of all projects with a reduction in the cost of installing carpet tile.

Two projects involve purchase and installation of carpet tile at the DMV headquarters building in Sacramento (\$68,000) and at seven field offices (\$178,000). While carpeting of these offices appears justified, our analysis indicates that the department has set the unit cost of carpet tile too high in estimating the cost of these projects. The Office of Real Estate and Design Services (OREDS) confirms that the cost estimated by DMV (\$25/square yard) is much higher than the current average cost of installing carpet tile in state buildings (\$18/square yard). Based on the cost data provided by OREDS, we recommend a reduction of \$23,000 for the headquarters project and \$56,000 for the field office project, for a total reduction of \$79,000.

Supplemental Report Language

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

DEPARTMENT OF MOTOR VEHICLES—REVERSION

Item 2740-495 to the Motor
Vehicle Account

Budget p. BTH 113

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

DEPARTMENT OF MOTOR VEHICLES—REVERSION—Continued

The budget proposes to revert to the unappropriated reserve of the Motor Vehicle Account (MVA), the unexpended balances remaining in two appropriations made by Ch 1078/86 and Ch 1306/86.

- Chapter 1078 appropriated \$40,000 from the MVA to the Department of Motor Vehicles in 1985-86 to establish a program to register and title park trailers. Because the costs to establish this program were minimal, and the department could not accurately identify the costs of establishing the program, none of the appropriation was expended. Accordingly, an unexpended balance of \$40,000 remains.
- Chapter 1306 appropriated \$92,000 from the MVA to the department in 1985-86 to establish a program to regulate the maintenance and operation of tour buses. An unexpended balance of \$33,000 remains.

Both of these appropriations were made effective for three years, however, both projects have been completed.

**Business, Transportation and Housing Agency
STEPHEN P. TEALE DATA CENTER**

Item 2780 from the Stephen P.
Teale Data Center Revolving
Fund

Budget p. BTH 120

Requested 1988-89	\$58,968,000
Estimated 1987-88	53,249,000
Actual 1986-87	53,354,000
Requested increase (excluding amount for salary increases) \$5,719,000 (+10.7 percent)	
Total recommended reduction	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2780-001-683—Support	Stephen P. Teale Data Center Revolving	\$58,933,000
Reimbursements	—	35,000
Total		\$58,968,000

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Data Center (TDC) is one of the three consolidated data centers authorized by the Legislature. The center was established to provide centralized electronic data processing services to state agencies in order to minimize the total cost of data processing to the state. The costs of operating the center are fully reimbursed by approximately 230 clients.

The data center has 350.9 personnel-years (PYs) in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$58,968,000 for data center operating expenses and equipment in 1988-89. This consists of \$58,933,000 from the Stephen P.

Teale Data Center Revolving Fund and \$35,000 in reimbursements. The budget request represents an increase of \$5,719,000 (10.7 percent) and 18.5 PYs over estimated current-year expenditures.

Table 1 summarizes the changes proposed in the data center's budget for 1988-89.

Table 1
Stephen P. Teale Data Center
Proposed 1988-89 Budget Changes
(dollars in thousands)

	<i>TDC</i> <i>Revolving</i> <i>Fund</i>	<i>General</i> <i>Fund</i>	<i>Reimburse-</i> <i>ments</i>	<i>Total</i>
1987-88 Expenditures (Revised)	\$54,393	—\$1,179	\$35	\$53,249
<i>Baseline Adjustments</i>				
Current-year General Fund repayment	-1,179	1,179	—	—
One-time costs	-1,443	—	—	-1,443
Salary and benefits	230	—	—	230
Price increase	692	—	—	692
Pro rata increase	307	—	—	307
Subtotals, Baseline Adjustments	(—\$1,393)	(\$1,179)	—	(—\$214)
<i>Workload Changes</i>				
Equipment acquisition	4,768	—	—	4,768
Increased personnel	715	—	—	715
Client training	225	—	—	225
Subtotals, Workload Changes	(\$5,708)	—	—	(\$5,708)
<i>Program Change Proposals</i>				
Advanced Technology Laboratory	225	—	—	225
Subtotals, Program Changes	(\$225)	—	—	(\$225)
1988-89 Expenditures (Proposed)	\$58,933	—	\$35	\$58,968
Change from 1987-88:				
Amount	\$4,540	\$1,179	—	\$5,719
Percent	8.3%	200.0%	—	10.7%

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Teale Data Center is requesting 3.8 PYs and \$225,000 for a special unit—the Advanced Technology Laboratory (ATL)—established by the TDC director. The purpose of the ATL is to evaluate the applicability of *new* hardware and software products to state data processing needs. We believe that the proposed level of expenditure for ATL activities is justified based on the potential benefits of improvements to state data processing practices.

Our analysis also indicates that the other increases proposed by the center—for equipment acquisition, increased personnel, and client training—appear justified based on current and expected growth in workload.