

**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
0510-001-001-Support	General	\$799,000
Reimbursements	-	14,000
Total		\$813,000

**GENERAL PROGRAM STATEMENT**

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

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

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

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes an appropriation of \$799,000 from the General Fund for support of the State and Consumer Services Agency in 1989-90. Total agency expenditures in 1989-90, including expenditures from reimbursements, are budgeted at \$813,000, an increase of \$33,000, or 4.2 percent, over total current-year expenditures. This amount includes an increase of \$31,000 for personal services costs and \$2,000 for operating expenses.

**Governor's Office****SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING**

Item 0520 from various funds

Budget p. LJE 20

Requested 1989-90 .....	\$1,602,000
Estimated 1988-89 .....	1,691,000
Actual 1987-88 .....	2,031,000
Requested decrease (excluding amount for salary increases) \$89,000 (-5.3 percent)	
Total recommended reduction.....	None

**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
0520-001-001-Support	General	\$417,000
0520-001-044-Support	Motor Vehicle Account	664,000
Reimbursements	-	521,000
Total		\$1,602,000

**GENERAL PROGRAM STATEMENT**

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

## SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING—Continued

### *Business and Regulatory Agencies*

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

### *Transportation Agencies*

California Highway Patrol  
Motor Vehicles  
Transportation  
Traffic Safety

### *Housing Agencies*

Housing and Community Development  
California Housing Finance Agency

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

## ANALYSIS AND RECOMMENDATIONS

### *We recommend approval.*

The budget proposes total expenditures of \$1.6 million to support the agency's activities in 1989-90. This is \$89,000, or 5.3 percent, less than estimated total expenditures in 1988-89. The proposed expenditures would be supported by \$417,000 from the General Fund, \$664,000 from the Motor Vehicle Account and \$521,000 from reimbursements.

The reduction in proposed expenditures is the result of three changes. First, the budget proposes a reduction of \$226,000 to reflect one-time costs in the current year to participate in the 1988 World Exposition in Brisbane, Australia. Second, the budget requests \$67,000 and 0.9 personnel-year to assist the California Small Business Advocate. The position of advocate was created within the agency by Ch 1721/84. Finally, the budget requests an additional \$70,000 to cover cost increases.

## Governor's Office SECRETARY FOR HEALTH AND WELFARE

Item 0530 from the General  
Fund

Budget p. LJE 22

Requested 1989-90.....	\$3,509,000
Estimated 1988-89 .....	3,612,000
Actual 1987-88 .....	3,757,000
Requested decrease (excluding amount for salary increase) \$103,000 (—2.9 percent)	
Total recommended reduction.....	None

### 1989-90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0530-001-001—Support	General	\$1,814,000
Control Section 23.50	State Legalization Impact Assis- tance Grant (SLIAG)	1,286,000
Reimbursements	—	409,000
Total		\$3,509,000

## GENERAL PROGRAM STATEMENT

The Secretary for the Health and Welfare Agency (HWA) is directly responsible to the Governor for general policy formulation in the health

and human services area. The Secretary is also responsible for the operations and fiscal management of the following departments and offices:

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

The HWA is the lead agency in the implementation of the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65) and of the federal Immigration Reform and Control Act of 1986 (IRCA). The agency has 29.1 personnel-years in the current year.

### ANALYSIS AND RECOMMENDATIONS

#### *We recommend approval.*

The budget proposes total expenditures of \$3.5 million from the General Fund to support the Secretary for Health and Welfare in 1989-90. This amount consists of (1) \$1.8 million from the General Fund for direct support costs, (2) \$1.3 million from the federal State Legalization Impact Assistance Grant (SLIAG) for implementation of IRCA, and (3) \$409,000 in reimbursements. Proposed expenditures are \$103,000, or 2.9 percent, less than estimated total expenditures in 1988-89. The decrease is primarily due to the elimination of one-time funding provided in the 1988 Budget Act for the agency to complete a study of long-term care financing. Table 1 presents a summary of program expenditures and funding sources for the agency during the past, current, and budget years.

**Table 1**  
**Secretary for Health and Welfare**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

<i>Program</i>	<i>Actual 1987-88</i>	<i>Est. 1988-89</i>	<i>Prop. 1989-90</i>	<i>Percent Change From 1988-89</i>
Secretary's office .....	\$3,340	\$1,778	\$1,851	4.1%
Proposition 65 implementation .....	262	358	372	3.9
Long-term care financing study .....	155	95	—	-100.0
Immigration Reform and Control Act .....	—	1,381	1,286	-6.9
Totals .....	\$3,757	\$3,612	\$3,509	-2.9%
<b>Funding Sources</b>				
General Fund .....	\$3,332	\$1,850	\$1,814	-1.9%
State Legalization Impact Assistance Grant (SLIAG) .....	—	1,381	1,286	-6.9
Reimbursements .....	425	381	409	7.3

**Governor's Office**  
**SECRETARY FOR RESOURCES**

Item 0540 from the General  
 Fund and Environmental  
 License Plate Fund

Budget p. LJE 24

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Requested 1989-90 .....	\$1,446,000
Estimated 1988-89 .....	1,385,000
Actual 1987-88 .....	1,265,000
Requested increase (excluding amount for salary increases) \$61,000 (+4.4 percent)	
Total recommended reduction .....	None

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**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
0540-001-001—Agency support	General	\$1,338,000
0540-001-140—CTRPA activities	Environmental License Plate	75,000
Reimbursements	—	33,000
Total		\$1,446,000

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**GENERAL PROGRAM STATEMENT**

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

Conservation	California Conservation Corps
Fish and Game	Energy Resources Conservation and Development Commission
Forestry and Fire Protection	Santa Monica Mountains Conservancy
Parks and Recreation	State Coastal Conservancy
Boating and Waterways	California Tahoe Conservancy
Water Resources	California Coastal Commission
Air Resources Board	State Water Resources Control Board
State Lands Commission	California Waste Management Board
Colorado River Board	

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

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

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

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes the expenditure of \$1,446,000 for the Secretary for Resources in 1989-90. This amount consists of (1) \$1,338,000 from the General Fund for direct support costs, (2) \$75,000 from the Environmen-

tal License Plate Fund for processing and monitoring certain leases in the Tahoe Basin, and (3) \$33,000 in reimbursements. This is \$61,000, or 4.4 percent, higher than estimated current-year expenditures. The proposed increase primarily reflects salary and wage adjustments.

### **Proposition 99: New Funds Available for Allocation to Resources Programs**

Last November the voters of California approved the "Tobacco Tax and Health Protection Act of 1988," commonly referred to as "Proposition 99." This act (1) places a surtax on cigarettes and other tobacco products (2) specifies categories of programs relating to health and natural resources for which the surtax revenue may be appropriated by the Legislature, and (3) allocates surtax revenues among these categories.

Proposition 99 distributes surtax revenue to several accounts primarily for the support of health-related programs. In addition, the act allocates 5 percent of total surtax revenues to the Public Resources Account (PRA) for support of (1) state and local park and recreation resources, and (2) programs to protect, restore, enhance and/or maintain fish, waterfowl and wildlife habitat. Finally, the proposition allocates 25 percent of total revenues to the Unallocated Account for support of (1) health-related programs, (2) park and recreation resources, (3) natural habitat protection, (4) fire prevention programs, and (5) general environmental conservation programs.

Table 1 displays estimated current-year and budget-year revenues resulting from the surtax and shows the administration's proposed expenditure plan. Currently, the Department of Finance estimates that approximately \$925 million will be available from the surtax to support current- and budget-year programs. As Table 1 shows, the PRA will receive approximately \$46.2 million and the Unallocated Account will receive \$231.1 million through 1989-90.

**Table 1**  
**Cigarette and Tobacco Products Surtax Fund**  
**Summary of Proposed Revenues and Expenditures**  
**1989-90 Governor's Budget**  
**1988-89 and 1989-90**  
**(dollars in thousands)**

	<i>Health Related Accounts<sup>a</sup></i>	<i>Public Resources Account</i>	<i>Unallocated Account</i>	<i>Totals</i>
<b>Revenues</b>				
1988-89 .....	\$210,000	\$15,000	\$75,000	\$300,000
1989-90 .....	<u>437,112</u>	<u>31,222</u>	<u>156,112</u>	<u>624,446</u>
Totals, revenues .....	\$647,112	\$46,222	\$231,112	\$924,446
<b>Expenditures</b>				
1988-89 .....	\$128,250	—	\$71,250 <sup>c</sup>	\$199,500
1989-90 .....	<u>486,430</u>	<u>\$44,359<sup>b</sup></u>	<u>148,306<sup>c</sup></u>	<u>679,095</u>
Totals, expenditures .....	<u>\$614,680</u>	<u>\$44,359</u>	<u>\$219,556</u>	<u>\$878,595</u>
Reserves, 1989-90 .....	\$32,432	\$1,863	\$11,556	\$45,851

<sup>a</sup> Health Education Account, Hospital Services Account, Physicians Services Account and Health Research Account.

<sup>b</sup> Includes \$7.5 million transferred to Roberti-Z'berg-Harris Urban-Open Space Recreation Program Account and \$1 million transferred to Waterfowl Habitat Preservation Account.

<sup>c</sup> Health programs only.

**SECRETARY FOR RESOURCES—Continued****Budget Proposes Increased Expenditures for Resources Programs**

The budget proposes surtax revenue expenditures totaling \$44.4 million from the PRA for resources programs.

Table 2 provides a detailed breakdown of the administration's resource-related expenditure proposal for surtax revenues. As the table shows, proposed expenditures are divided approximately equally between habitat-related programs and parks and recreation programs. The table also shows that the administration proposes to fund a wide variety of programs from the PRA, including:

- Buying new helicopters and other equipment for fighting forest fires (\$1.8 million);
- Various capital outlay projects (\$15 million);
- Increased funding for fisheries and waterfowl habitat enhancement programs (\$5.7 million); and
- Increased support for local parks and recreation projects and resources (\$11.1 million).

**Table 2**  
**Cigarette and Tobacco Products Surtax Fund**  
**Proposed Expenditures from Public Resources Account <sup>a</sup>**  
**1989-90 Governor's Budget**  
**(dollars in thousands)**

<i>Item</i>	<i>Department</i>	<i>Proposed Expenditures</i>	
		<i>Habitat</i>	<i>Recreation</i>
3125-301	California Tahoe Conservancy—Capital Outlay		
	• Acquisition and site improvements .....	\$1,000	—
3340	California Conservation Corps		
	• Tahoe residential center .....	\$210	—
3540	Department of Forestry and Fire Protection (CDFFP)		
	• Purchase of new helicopters .....	\$1,020	—
	• Maintenance and operations cost of air fleet .....	1,065	—
	• Purchase of telecommunications equipment .....	820	—
	• Increased Timber Harvest Plan workload .....	520	—
	• Expanded fire prevention media program .....	300	—
	• Timber Harvest Plan reviews .....	343	—
	• Soil erosion studies .....	285	—
	• Pitch canker research .....	125	—
3540-301	CDFFP—Capital Outlay		
	• New fire station .....	1,226	—
	• Apparatus building: construction and equipment .....	452	—
	• Fire station replacement .....	783	—
	• New base: construction and equipment .....	893	—
	• Minor projects .....	646	—
	Subtotals, CDFFP .....	(\$6,478)	(—)
3600	Department of Fish and Game (DFG)		
	• Fisheries habitat enhancement .....	\$2,750	—
	• New waterfowl habitat program .....	2,000	—
	• Increased warden staffing in southern California .....	465	—
	• Salmon and steelhead habitat improvement .....	775	—
	• Transfer to Waterfowl Habitat Preservation Account .....	1,000	—
	Subtotals, DFG .....	(\$6,990)	(—)
3640-301	Wildlife Conservation Board (WCB)—Capital Outlay		
	• Deer habitat acquisition .....	\$3,000	—
	• Cosumnes River Preserve acquisition .....	1,500	—
	Subtotals, WCB .....	(\$4,500)	(—)

3680-101	Department of Boating and Waterways (DBW)—Local Assistance		
	• Beach erosion projects in three counties .....	—	\$3,592
3790	Department of Parks and Recreation (DPR)		
	• Park road deferred maintenance .....	—	\$4,800
	• Radio conversion project .....	—	1,000
	• New equipment for various units .....	—	694
3790-101	DPR—Local Assistance		
	• Roberti-Z'berg-Harris local assistance grants .....	—	7,500
3790-301	DPR—Capital Outlay		
	• Beach erosion projects in three counties .....	—	592
	• Minor capital outlay .....	—	3,770
	Subtotals, DPR .....	(—)	(\$18,356)
3860-301	Department of Water Resources—Capital Outlay		
	• Riparian vegetation purchase .....	\$1,100	—
3940	Water Resources Control Board		
	• Board cost for Santa Monica Bay pollution plan .....	\$133	—
	Totals .....	\$22,411	\$21,948

<sup>a</sup> Support budgets unless otherwise noted.

How should the Legislature evaluate the administration's proposed PRA spending plan? In our analyses of each constituent department's budget, we address any concerns that we have identified with the *specific* proposals listed in Table 2. However, in making an *overall* evaluation of the administration's proposal and in determining its own spending priorities for surtax revenues available to support resources programs, the Legislature may wish to consider four questions.

**Does the proposal supplement or supplant current service levels?** Proposition 99 requires that program expenditures funded from the surtax must supplement—rather than supplant—existing program service levels. For many resource-related programs it is difficult to determine the extent to which supplementation is occurring. For example, this year the shortfall in tidelands oil revenues has virtually eliminated the Special Account for Capital Outlay (SAFCO), a frequent source of support for projects in the Departments of Parks and Recreation, Water Resources, Boating and Waterways, and Forestry. In some instances, the administration proposes to “backfill” for the loss of SAFCO funding with the PRA. Without the PRA, however, these projects might have been eliminated entirely from the budget in 1989-90.

**Is the Public Resources Account an appropriate source of funding for the proposal?** Proposition 99 includes fire prevention and general environmental conservation programs as activities that can be funded from cigarette surtax revenues. However, these activities cannot be funded from the PRA. Rather, the act requires that these activities be funded from the Unallocated Account. By our count, the budget proposes \$8.5 million for activities related to fire prevention or fire fighting and at least \$1 million for general conservation activities not specifically related either to natural habitat protection or park and recreation resources. All or a portion of these costs might be funded more appropriately from the Unallocated Account. As submitted in January, the administration's proposal includes an \$11.6 million reserve in the Unallocated Account that could be used to fund these or other legislative priorities.

**SECRETARY FOR RESOURCES—Continued**

*Should surtax revenue be used to support ongoing program costs?* As we discuss in *The 1989-90 Budget: Perspectives and Issues*, revenues deposited to the surtax fund and distributed to its various accounts will decrease over time as fewer individuals buy cigarettes and other tobacco products. To the extent that the budget proposes to fund continuing program costs from these funds, a gap between available revenues and actual program costs will develop as program costs go up and revenues decline. We estimate that the budget proposes to fund over \$8 million in continuing costs for resources programs from the PRA.

*Are natural habitat funds allocated equally to fish, waterfowl, and wildlife habitat projects?*

The act specifies that half of the Public Resources Account be spent on fish, waterfowl and wildlife habitat, *on an equally funded basis*. Many of the expenditure proposals we have reviewed however, do not specify the type of habitat targeted for funding. As a result, we cannot evaluate the extent to which fish, waterfowl and wildlife habitats are benefiting equally from the program proposals. To the extent that any one habitat type receives funding beyond its "fair share," the Legislature may wish to shift these expenditures to the Unallocated Account.

The Legislature will need to coordinate decisions for funding health programs with actions to fund resource-related activities and projects because the Unallocated Account can be used to support both types of expenditures. The above questions should be useful to the Legislature in establishing priorities for resource-related expenditures from the surtax and weighing these priorities against those it establishes for health programs that it also could choose to fund.

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**Governor's Office**
**SECRETARY FOR YOUTH AND ADULT CORRECTIONAL  
AGENCY**

Item 0550 from the General  
Fund

Budget p. LJE 25

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Requested 1989-90 .....	\$929,000
Estimated 1988-89 .....	937,000
Actual 1987-88 .....	968,000
Requested decrease (excluding amount for salary increases) \$8,000 (-1.0 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The Secretary for the Youth and Adult Correctional Agency coordinates the activities of and provides policy direction to the Departments of Corrections and the Youth Authority, Board of Prison Terms, Youthful Offender Parole Board, Board of Corrections, Prison Industry Authority,



and Narcotic Addict Evaluation Authority. The agency has 10.3 personnel-years in the current year.

### ANALYSIS AND RECOMMENDATIONS

#### *We recommend approval.*

The budget proposes \$929,000 from the General Fund for support of the Youth and Adult Correctional Agency in 1989-90. This is a decrease of \$8,000, or less than 1 percent, below estimated current-year expenditures. The net reduction results from a onetime expenditure of \$50,000 in the current year to fund consulting services for the Blue Ribbon Commission on Inmate Population Management. The reduction is partially offset by price increases and salary adjustments.

The Blue Ribbon Commission on Inmate Population Management, established by Ch 1255/87 (SB 279), is charged with conducting a comprehensive review of the state's correctional system. Specifically, the commission is required to examine population projections for the state's prisons, evaluate the costs of incarceration, study alternatives to incarceration, and make various recommendations to the Governor and the Legislature. A preliminary report is due in September 1989.

Support for the commission's operations in the current and budget years is provided by the departments that report to the Youth and Adult Correctional Agency. In the current year, the Departments of Corrections and the Youth Authority are providing a total of 5.5 personnel-years to support the operations of the commission. Budget-year expenditures for staff support to the commission are estimated at approximately \$130,000.

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## OFFICE OF CALIFORNIA-MEXICO AFFAIRS

Item 0580 from the General  
Fund

Budget p. LJE 26

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Requested 1989-90.....	\$279,000
Estimated 1988-89 .....	272,000
Actual 1987-88 .....	261,000
Requested increase (excluding amount for salary increases) \$7,000 (+2.6 percent)	
Total recommended reduction.....	None

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### GENERAL PROGRAM STATEMENT

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

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

**OFFICE OF CALIFORNIA-MEXICO AFFAIRS—Continued**

commission; the Lieutenant Governor serves as vice-chairman.

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

The office has 3.9 personnel-years in the current year.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes General Fund expenditures of \$279,000 to support the activities of the OCMA in 1989-90, an increase of \$7,000, or 2.6 percent, from the current year. The proposed increase will fund additional personal services costs.

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**CALIFORNIA STATE WORLD TRADE COMMISSION**

Item 0585 from the General  
Fund and various funds

Budget p. LJE 27

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Requested 1989-90 .....	\$2,397,000
Estimated 1988-89 .....	2,208,000
Actual 1987-88 .....	1,926,000
Requested increase (excluding amount for salary increases) \$189,000 (+8.6 percent)	
Total recommended reduction .....	None

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**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
0585-001-001-Transfer to California State World Trade Commission Fund	General	(\$2,015,000)
0585-001-981-Support	California State World Trade Commission	2,015,000
0585-011-981-Transfer to California Export Promotion Account	California State World Trade Commission	(25,000)
Statutory Appropriation-Support	Export Finance	104,000
Statutory Appropriation-Support	Export Promotion Account	278,000
Total		\$2,397,000

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**GENERAL PROGRAM STATEMENT**

The California State World Trade Commission has several responsibilities in the area of international trade. These include: (1) coordinating activities designed toward expanding international trade; (2) addressing policies that affect California's ability to trade internationally; (3) providing research in international trade; (4) administering programs designed to increase the availability of funds used to finance the overseas sales of California products; and (5) coordinating meeting arrangements,

research and inquiries on behalf of foreign visitors who come to California. The 11-member commission is composed of government and business leaders and is chaired by an appointee of the Governor. The commission has 16.9 personnel-years in the current year.

### ANALYSIS AND RECOMMENDATIONS

#### *We recommend approval.*

The budget proposes total expenditures of \$2,397,000 from various funds to support the programs of the commission during 1989-90. This amount is \$189,000, or 8.6 percent, above estimated current-year expenditures. This increase reflects a \$155,000 increase for program changes and a net increase of \$34,000 for salaries, benefits and other baseline adjustments.

The budget proposes \$84,000 and 1.9 personnel-years for the trade show program and 0.9 and \$74,000 for the trade policy and research program. Our analysis indicates that the proposed expenditures for the commission are reasonable. Table 1 displays the personnel and funding levels for 1987-88 through 1989-90.

**Table 1**  
**California State World Trade Commission**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

<i>Program</i>	<i>Actual 1987-88</i>	<i>Est. 1988-89</i>	<i>Prop. 1989-90</i>	<i>Change From 1988-89</i>	
				<i>Amount</i>	<i>Percent</i>
State World Trade Commission .....	\$1,184	\$1,668	\$1,825	\$157	9.4%
Export Finance Office .....	742	540	572	32	5.9
Totals .....	\$1,926	\$2,208	\$2,397	\$189	8.6%
Funding Sources .....					
General Fund .....	\$1,528	\$2,824	\$2,015	-\$809	-28.6%
Special Account for Capital Outlay .....	1,000	—	—	—	—
Export Finance Fund .....	664	-896	104	1,000	"
Export Promotion Account .....	62	260	278	18	6.9
California State World Trade Commission Fund .....	—	20	—	-20	-100.0
Personnel-Years .....	14.9	16.9	19.7	2.8	14.2%

" Not a meaningful figure.

**Governor's Office**  
**OFFICE OF PLANNING AND RESEARCH**

Item 0650 from the General  
 Fund and various funds

Budget p. LJE 31

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Requested 1989-90 .....	\$8,044,000
Estimated 1988-89 .....	9,127,000
Actual 1987-88 .....	12,593,000
Requested decrease (excluding amount for salary increases) \$1,083,000 (-12 percent)	
Total recommended reduction .....	None

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**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
0650-001-001—Support	General	\$4,167,000
0650-001-890—Support	Federal Trust	193,000
Reimbursements	—	107,000
0650-490—Reappropriation	Petroleum Violation Escrow Account (Federal)	3,416,000
	Local Jurisdiction Energy Assis- tance Account (Federal)	161,000
Total		<u>\$8,044,000</u>

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**GENERAL PROGRAM STATEMENT**

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

The OPR has 75 personnel-years in the current year.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes the expenditure of \$8 million (all funds) for support of OPR in 1989-90. This is a decrease of \$1 million, or 12 percent, below estimated current-year expenditures. This decrease is almost entirely the result of reduced expenditures of federal funds in the Local Jurisdiction Energy Assistance Account. This account was established in 1986-87 with \$4 million in federal Petroleum Violation Escrow Account (PVEA) funds. These funds have been used by the California Energy Extension Service for its energy management programs.

In addition, Ch 1389/88 transferred the authority to assess and collect permit assistance fees from OPR's Office of Permit Assistance to local agencies. This results in a decrease of \$500,000 in the Local Agency Technical Assistance Account.

The budget further proposes to reappropriate \$3.6 million of \$11 million initially appropriated to OPR in 1986. In that year, the Legislature appropriated funds from the PVEA to OPR for the following three programs: (1) small business energy accounting (Ch 1338/86—\$4 mil-

lion), (2) Native American community energy services (Ch 1339/86—\$3 million), and (3) schools energy management centers (Ch 1343/86—\$4 million). The OPR requests that the remaining \$3.6 million of these amounts be reappropriated to enable it to complete these programs. Budget Bill language provides that the funds would be available for expenditure through June 30, 1991.

Table 1 shows the budget for OPR by program and funding source for 1987-88 through 1989-90.

**Table 1**  
**Office of Planning and Research**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

<i>Program</i>	<i>Actual 1987-88</i>	<i>Est. 1988-89</i>	<i>Prop. 1989-90</i>	<i>Percent Change From 1988-89</i>
Education planning and policy .....	\$523	\$420	\$468	11.4%
Local government affairs .....	756	750	800	2.7
Permit assistance .....	1,073	1,218	1,220	0.2
Energy extension service .....	8,703	5,082	3,770	-25.8
Community relations .....	674	715	766	7.1
Executive office and support services .....	864	942	1,020	8.3
Totals .....	\$12,593	\$9,127	\$8,044	-11.9%
Funding Sources				
General Fund .....	\$3,683	\$3,853	\$4,167	8.2%
Local Agency Technical Assistance Account .....	—	80	— <sup>a</sup>	-100.0
Local Jurisdiction Energy Assistance Account (federal-PVEA) .....	2,234	1,544	161	-89.6
PVEA funds (federal) .....	6,250	3,225	3,416	5.9
Federal Trust Fund .....	219	310	193	-37.7
Reimbursements .....	207	115	107	-7.0
Personnel-Years .....	76.4	75	77	2.7%

<sup>a</sup> The authority to assess and collect permit assistance fees was transferred from OPR's Office of Permit Assistance to local agencies by Ch 1389/88.

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

**Governor's Office**  
**OFFICE OF EMERGENCY SERVICES**

Item 0690 from the General  
Fund and various other funds

Budget p. LJE 35

Requested 1989-90 .....	\$76,066,000
Estimated 1988-89 .....	72,717,000
Actual 1987-88 .....	45,747,000
Requested increase (excluding amount for salary increases) \$3,349,000 (+4.6 percent)	
Recommended reversion to General Fund .....	2,207,638

**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
0690-001-001—Support	General	\$10,233,000
0690-001-014—Support	Hazardous Waste Control Account	1,405,000
0690-001-029—Support	Nuclear Planning Assessment Special Account	980,000
0690-001-890—Support	Federal Trust	4,721,000
Continuous Appropriation—Support	Southern California Earthquake Account, Natural Disaster Assistance	914,000
0690-101-029—Local Assistance Fixed Nuclear Power Plant Planning	Nuclear Planning Assessment Special Account	1,778,000
0690-101-890—Local Assistance Emergency Mutual Aid	Federal Trust	38,013,000
Continuous Appropriation—Local Assistance	Public Facilities Account, Natural Disaster Assistance	2,345,000
Continuous Appropriation—Local Assistance	Street and Highway Account, Natural Disaster Assistance	2,671,000
Continuous Appropriation—Local Assistance	1986 Flood Disaster Account, Natural Disaster Assistance	1,123,000
Continuous Appropriation—Local Assistance	Southern California Earthquake Account, Natural Disaster Assistance	11,200,000
Reimbursements		683,000
Total, All Funds		\$76,066,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Reversion. Recommend adoption of Budget Bill language to revert \$2.2 million to the General Fund from the Southern California Earthquake Account on June 30, 1989. 46

**GENERAL PROGRAM STATEMENT**

The Office of Emergency Services (OES) coordinates emergency activities necessary to save lives and reduce losses from natural or other disasters. These responsibilities are administered through four programs—Mutual Aid Response, Plans and Preparedness, Disaster Assistance, and Administration/Executive.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$76.1 million in 1989-90. This is \$3.3 million, or 4.6 percent, more than estimated expenditures in the current year.

The budget proposes expenditure of \$33.3 million in state funds in 1989-90, which is \$3.1 million, or 10 percent, more than estimated state expenditures in the current year. The increase in expenditures proposed for 1989-90 is primarily due to increases in disaster assistance expenditures related to the 1987 southern California earthquake.

It is important to note that the amount of disaster assistance budgeted for 1989-90 is an *estimate*. The actual level of expenditure in the budget year will depend on the cost of repairing damage caused by natural disasters.

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

**Table 1**  
**Office of Emergency Services**  
**Funding Sources**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

<i>Category/Source of Funds</i>	<i>Actual 1987-88</i>	<i>Est. 1988-89</i>	<i>Prop. 1989-90</i>	<i>Percent Change From 1988-89</i>
<b>State Operations</b>				
General Fund.....	\$11,859	\$10,181	\$10,233	0.5%
Federal funds.....	4,000	4,524	4,721	4.4
Hazardous Waste Control.....	259	1,486	1,405	-5.5
Nuclear Planning Assessment.....	295	937	980	4.5
Natural Disaster Assistance Fund:				
Southern California Earthquake Account.....	186	900	914	1.6
Street and Highway Account.....	4	—	—	—
Reimbursements.....	1,147	742	683	-8.0
Subtotals.....	(\$17,750)	(\$18,770)	(\$18,936)	(0.9%)
<b>Local Assistance</b>				
General Fund.....	\$20,999	\$2,618	—	—
Federal funds.....	24,213	38,013	\$38,013	—
Nuclear Planning Assessment.....	525	1,700	1,778	4.4%
Special Account for Capital Outlay.....	100	—	—	—
Natural Disaster Assistance Fund:				
Public Facilities Account.....	681	2,345	2,345	—
Street and Highway Account.....	624	2,671	2,671	—
1986 Flood Disaster Account.....	270	600	1,123	87.2
Southern California Earthquake Account.....	-19,200	6,000	11,200	86.7
State Assistance for Fire Equipment Account.....	-215	—	—	—
Subtotals.....	(\$27,997)	(\$53,947)	(\$57,130)	(5.9%)
<b>Totals.....</b>	<b>\$45,747</b>	<b>\$72,717</b>	<b>\$76,066</b>	<b>4.6%</b>

As Table 1 illustrates, the costs of state operations are proposed to remain fairly constant and increase by only \$166,000, or less than 1 percent, in the budget year. The \$3.2 million, or 5.9 percent, increase in local assistance in 1989-90 reflects the anticipated level of disaster relief expenditures in the budget year.

Table 2 provides a summary of OES expenditures and personnel by program. The office has 225.7 personnel-years in the current year.

**OFFICE OF EMERGENCY SERVICES—Continued**

**Table 2**  
**Office of Emergency Services**  
**Program Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Percent Change From 1988-89</i>
	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>	
<i>Program Expenditures</i>				
Fire and rescue .....	\$3,417	\$2,708	\$2,520	-6.9%
Law enforcement .....	702	854	882	3.3
Emergency communication systems .....	2,239	2,371	2,553	7.7
Plans and preparedness .....	1,506	1,462	1,429	-2.3
Earthquake preparedness .....	2,109	1,989	1,999	0.5
Training .....	2,298	2,987	3,000	0.4
Hazardous materials and radiological planning ..	2,327	4,815	5,013	4.1
Technical assistance .....	1,464	1,627	1,611	-1.0
Disaster assistance .....	29,685	53,904	57,059	6.0
Administration (distributed) .....	(1,842)	(1,680)	(1,762)	5.0
Totals .....	\$45,747	\$72,717	\$76,066	4.6%
<i>Personnel-Years</i>				
Fire and rescue .....	23.9	24.0	24.0	—
Law enforcement .....	7.7	8.6	8.6	—
Emergency communication systems .....	14.8	15.8	15.8	—
Plans and preparedness .....	19.4	19.5	19.5	—
Earthquake preparedness .....	14.9	21.5	24.8	15.3%
Training .....	24.2	31.4	31.4	—
Hazardous materials and radiological planning ..	19.2	44.3	45.8	3.4
Technical assistance .....	19.3	18.6	18.6	—
Disaster assistance .....	19.1	12.9	12.9	—
Administration (distributed) .....	33.3	29.1	29.1	—
Totals .....	195.8	225.7	230.5	2.1%

**ANALYSIS AND RECOMMENDATIONS**

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

- An augmentation of \$134,000 from the General Fund for increased costs of the statewide microwave communications system as well as other communication systems.
- An increase of \$121,000 generated by fees to the Nuclear Planning Assessment Account in order to implement Ch 1607/88 which requires OES, Department of Health Services, and local governments to perform specified planning and coordination activities relating to potential nuclear power plant accidents.
- An augmentation of \$75,000 from the General Fund to replace funds previously reimbursed by the Department of Health Services for planning and preparedness activities under the state's Toxic Chemical Community Right-to-Know law.

**Reversion of Unused Disaster Funds**

*We recommend that the Legislature adopt Budget Bill language that would revert \$2.2 million to the General Fund from the Southern California Earthquake Account on June 30, 1989.*



In response to the southern California earthquake of October 1987, the Legislature met in extraordinary session and appropriated \$88.8 million for various disaster relief programs to provide assistance in recovery and reconstruction to individuals as well as to state and local agencies, and school districts. At the time the appropriations were made, OES's cost estimates of the damage to personal and real property were in preliminary stages. By the spring of 1988, OES had determined that the total amount appropriated would not be necessary for these purposes. Therefore, the Legislature reverted to the General Fund a net total of \$21 million from the original \$88.8 million appropriation.

The amount of funds reverted could have been larger, if Los Angeles County had not requested that the Legislature reserve \$16 million from Chapter 7x of the First Extraordinary Session of 1987 for repair of damage to the county's Health Administration Building. The Legislature set aside \$16 million for this purpose as requested. This allowed Los Angeles County time to prepare the required engineering and architectural studies in order to submit a claim to the Federal Emergency Management Agency (FEMA). A claim to FEMA is necessary because state law requires that federal assistance be exhausted before a claim can be made to the state disaster programs.

At the time this analysis was prepared, the county had still not prepared the required studies for federal disaster assistance. Although OES has provided funding for the county to produce these studies, more than one year after the earthquake the county has not provided OES with adequate justification for continuing the reserve of \$16 million. Therefore, OES is budgeting almost all of this \$16 million to offset the costs of other disaster assistance efforts in the past, current, and budget years. The past disasters include events such as the wildfires of 1988 in Calaveras County, and flood and high tide damage in Los Angeles County.

Based on OES cost data, we estimate that a minimum of approximately \$2.2 million will be available for reversion in the budget year. This amount allows for the costs of the disasters that occurred in the current and past years, a 25 percent share of the potential repair costs of the Los Angeles County Health Administration Building, as well as a reserve for future disasters as required by current law. In the event that Los Angeles County eventually does file a claim with FEMA, and FEMA concurs in the assessment of \$16 million in damage from the October 1987 earthquake, the state would be required to provide a 25 percent share of those costs (\$4 million).

To the extent that either FEMA certifies that damages to the Los Angeles County Health Administration Building are less than \$16 million, or that Los Angeles County fails to apply to FEMA, there would be up to an additional \$4 million available for reversion to the General Fund from the Southern California Earthquake Account.

The following Budget Bill language adopted as a control section would accomplish the reversion of the initial \$2.2 million:

Notwithstanding any other provision of law, on June 30, 1989, the State Controller shall transfer the amount of two million two hundred and seven thousand dollars (\$2,207,000) to the General Fund from the Public Facilities and Local Agency Disaster Response Account (previously the Natural Disaster Assistance Fund—Southern California Earthquake Account).

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**OFFICE OF THE LIEUTENANT GOVERNOR**

Item 0750 from the General  
Fund

Budget p. LJE 47

Requested 1989-90 .....	\$1,584,000
Estimated 1988-89 .....	1,518,000
Actual 1987-88 .....	1,599,000
Requested increase (excluding amount for salary increases) \$66,000 (+4.3 percent)	
Total recommended reduction.....	None

**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
0750-001-001—Support	General	\$1,514,000
Reimbursements		70,000
Total		\$1,584,000

**GENERAL PROGRAM STATEMENT**

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

The Lieutenant Governor's Office has 23.5 personnel-years in the current year.

**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

The budget proposes total expenditures of \$1,584,000 (\$1,514,000 from the General Fund and \$70,000 from reimbursements) for the support of the Lieutenant Governor's Office during 1989-90. This is an increase of \$66,000, or 4.3 percent, over estimated current-year expenditures. The proposed increase will fund increased personal services costs.

**DEPARTMENT OF JUSTICE**

Item 0820 from the General  
Fund and various funds

Budget p. LJE 48

Requested 1989-90 .....	\$246,748,000
Estimated 1988-89 .....	231,817,000
Actual 1987-88 .....	223,395,000
Requested increase (excluding amount for salary increases) \$14,931,000 (+6.4 percent)	
Total recommended reduction.....	125,000
Recommendation pending .....	1,479,000

**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
0820-001-001—Support	General	\$162,953,000
0820-001-012—Antitrust	Attorney General's Antitrust Account, General	444,000
0820-001-014—Toxic substance	Hazardous Waste Control Account, General	1,104,000
0820-001-017—Fingerprints	Fingerprint Fees, General	14,652,000
0820-001-044—Data center support	Motor Vehicle Account, State Transportation	15,296,000
0820-001-455—Toxic substance	Hazardous Substance Account, General	1,586,000
0820-001-460—Handgun control	Dealers' Record of Sale Special Account, General	989,000
0820-001-469—Law enforcement	Narcotics Assistance and Relinquishment by Criminal Offender, General	500,000
0820-001-477—Gaming registration	Gaming Registration Fee Account, General	293,000
0820-001-890—Support	Federal Trust	9,338,000
0820-001-942—Support	Federal Asset Forfeiture Account, Special Deposit	1,183,000
0820-001-942—Support	State Asset Forfeiture Account, Special Deposit	422,000
0820-011-012—Antitrust	Transfer From Antitrust Account, General Fund	(600,000)
0820-101-001—Local assistance	General	310,000
Political Reform Act	—	335,000
Reimbursements	—	37,343,000
Total		\$246,748,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

	<i>Analysis page</i>
1. Public Rights Workload. Recommend that the department report during budget hearings on its ability to defend the state against potential liability arising from <i>Atlantic Richfield Company v. State Lands Commission, et al.</i> within existing resources.	52
2. <i>Nursing Home Citation Workload. Reduce reimbursements by \$125,000.</i> Recommend reduction of 2.2 positions because workload projections do not support an augmentation of this magnitude.	53
3. Legal Services. Withhold recommendation on \$1.1 million in reimbursements and \$351,000 from the Hazardous Substance Account for requested legal services provided on behalf of the Department of Health Services and the State Department of Education.	54
4. Serious Habitual Offender Program. Recommend adoption of supplemental report language directing the department to report on various issues related to whether the program is self-financed as the Legislature intended.	55
5. Unallocated Reduction. Recommend that the department report to the Legislature prior to budget hearings on its plan to absorb a \$1 million unallocated reduction in its law enforcement programs.	57

**DEPARTMENT OF JUSTICE—Continued****GENERAL PROGRAM STATEMENT**

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

The department's legal programs are carried out in three divisions staffed with attorneys, paralegals, auditors, and related support personnel. The Civil Law Division provides legal representation for most state agencies, boards, and commissions. The Criminal Law Division represents the state in all criminal matters before the Supreme Court and courts of appeal. The Public Rights Division provides legal services in the areas of civil rights and charitable trust, natural resources, environmental law, antitrust, land law, and consumer law.

The department's largest program is law enforcement support. It (1) provides investigative assistance and training to local law enforcement agencies, (2) suppresses traffic in narcotics, (3) operates a system of criminalistics laboratories throughout the state, (4) maintains centralized criminal history records and fingerprint files, and (5) operates a 24-hour-a-day communications center which provides criminal record information to law enforcement agencies throughout the state.

The department has a total of 3,544 personnel-years in the current year.

**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes total expenditures of \$246.7 million from the General Fund, various special funds, federal funds and reimbursements

**Table 1**  
**Department of Justice**  
**Funding Source Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

<i>Funding Source</i>	<i>Actual 1987-88</i>	<i>Est. 1988-89</i>	<i>Prop. 1989-90</i>	<i>Percent Change From 1988-89</i>
General Fund .....	\$156,008	\$154,993	\$163,263	5.3%
Attorney General's Anti-Trust Account .....	411	427	444	4.0
Hazardous Waste Control Account .....	933	967	1,104	14.2
Fingerprint Fees Account .....	11,329	12,988	14,652	12.8
Motor Vehicle Account (State Transportation Fund) .....	14,187	14,576	15,296	4.9
Hazardous Substance Account .....	452	721	1,586	120.0
Dealers' Record of Sale Account .....	884	901	989	9.8
NARCO Fund Account .....	219	980	500	-49.0
Gaming Registration Account .....	297	281	293	4.3
Federal Trust Fund .....	7,535	9,031	9,338	3.4
Federal Asset Forfeiture Account, Special De- posit Fund .....	643	656	1,183	80.3
State Asset Forfeiture Account, Special De- posit Fund .....	—	—	422	— <sup>a</sup>
Reimbursements .....	30,497	35,296	37,343	5.8
Political Reform Act <sup>b</sup> .....	(314)	(321)	335	4.4
Total Funding .....	\$223,395	\$231,817	\$246,748	6.4%

<sup>a</sup> Not a meaningful figure.

<sup>b</sup> Amounts in parentheses for 1987-88 and 1988-89 are included in the General Fund totals.

for the DOJ in 1989-90. This is \$14.9 million, or 6.4 percent, more than estimated current-year expenditures.

The proposed General Fund appropriations for the department in 1989-90 total \$163.3 million. This represents an increase of \$8.3 million, or 5.3 percent, above estimated current-year expenditures.

Table 1 summarizes the department's spending program for 1989-90, by fund source, and Table 2 presents a summary of the department's total expenditures, by program.

**Table 2**  
**Department of Justice**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

Program	Personnel-Years			Expenditures			Percent Increase From
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1987-88	1988-89	1989-90	1987-88	1988-89	1989-90	
Executive/Administration <sup>a</sup> .....	609.9	694.1	684.3	(\$41,418)	(\$43,908)	(\$45,279)	3.1%
Special Programs <sup>b</sup> .....	76.8	—	—	6,856	—	—	—
Executive Programs <sup>c</sup> .....	—	44.2	46	—	4,217	5,525	31.0
Civil Law .....	260.2	255.8	259.1	35,143	36,584	38,869	6.2
Criminal Law .....	366.9	400.5	413.2	37,463	42,275	44,168	4.5
Public Rights .....	153	158.7	162.8	18,858	20,115	21,373	6.3
Law Enforcement .....	1,793.8	1,990.9	2,030.4	125,075	128,626	136,813	6.4
Totals .....	3,260.6	3,544.2	3,595.8	\$223,395	\$231,817	\$246,748	6.4%

<sup>a</sup> Amounts in parentheses are distributed to other programs.

<sup>b</sup> Program was abolished on July 1, 1988.

<sup>c</sup> Program was established on July 1, 1988.

Table 3 identifies (by funding source) the changes in the department's expenditure levels proposed for 1989-90.

**Table 3**  
**Department of Justice**  
**Proposed 1989-90 Budget Changes**  
**(dollars in thousands)**

	General Fund <sup>a</sup>	Special Funds <sup>b</sup>	Federal Funds	Reimbursements	Total
1988-89 Expenditures (Revised) .....	\$154,993	\$32,497	\$9,031	\$35,296	\$231,817
Workload Changes					
Drug diversion .....	—	194	580	—	774
Criminalistics latent prints .....	474	—	—	—	474
Criminal identification program staffing ..	1,208	—	—	—	1,208
Appeals, writs, and trials workload .....	642	—	—	—	642
Government law workload .....	1,391	—	—	196	1,587
Tort workload .....	1,015	—	—	—	1,015
Health, education and welfare workload ..	—	—	—	1,660	1,660
Environment cost recovery .....	—	969	—	—	969
Other legal workload .....	908	—	—	196	1,104
Other law enforcement workload .....	217	184	—	802	1,203
Subtotals .....	(\$5,855)	(\$1,347)	(\$580)	(\$2,854)	(\$10,636)

**DEPARTMENT OF JUSTICE—Continued**

## Cost Adjustments

One-time cost reductions.....	-\$343	-\$1,450	-\$1	-\$1,470	-\$3,264
Limited-term programs.....	-2,852	-404	-132	-577	-3,965
Price increase.....	—	185	61	82	328
Employee compensation.....	5,805	800	307	1,276	8,188
Expiring legislation.....	-196	-1,000	—	—	-1,196
Expiring grant programs.....	—	—	-508	—	-508
Unallocated reduction.....	-1,000	—	—	—	-1,000
Narcotics local assistance.....	—	-500	—	—	-500
Equipment maintenance.....	200	—	—	—	200
Other.....	81	115	—	-118	78
Subtotals.....	(\$1,695)	(\$2,254)	(\$273)	(\$807)	(\$1,639)
Program Adjustments					
Cal-ID expansion.....	506	610	—	—	1,116
Feasibility studies.....	—	297	—	—	297
Toxic waste removal.....	—	228	—	—	228
Cal-ID local assistance.....	—	3,500	—	—	3,500
Habitual offender pilot program.....	422	—	—	—	422
Special prosecutions.....	127	244	—	—	371
Subtotals.....	(\$1,055)	(\$4,879)	—	—	(\$5,934)
1989-90 Expenditures (Proposed).....	\$163,598	\$36,469	\$9,338	\$37,343	\$246,748
Changes from 1988-89					
Amount.....	\$8,605	\$3,972	\$307	\$2,047	\$14,931
Percentage.....	5.6%	12.2%	3.4%	5.8%	6.4%

<sup>a</sup> Includes amounts appropriated for the Political Reform Act.<sup>b</sup> Includes special accounts in the General Fund.**LEGAL DIVISIONS**

For 1989-90, the department's legal divisions request a net increase of \$5.4 million (\$711,000 from the General Fund, and the remainder from federal funds, special funds, and reimbursements) over estimated current-year expenditures. Workload driven augmentations total approximately \$7 million and are offset by \$3.3 million in reductions due to limited-term programs which are not continued into the budget year. We recommend approval of the following significant requests which are not discussed elsewhere:

- An increase of \$5 million from the General Fund, special funds, and reimbursements in the Civil Law Division for workload increases, continuation of the Stringfellow tort litigation, and NAACP litigation.
- A total of \$1 million from the General Fund, special funds, and federal funds for the Criminal Law Division. This increase is due to additional workload in the Appeals, Writs, Trials, and correctional law programs.
- An additional \$969,000 from a special fund for the Public Rights Division for workload increases related to Environmental Cost Recovery and Stringfellow cost recovery litigation.

**Major Litigation Workload Not Addressed in Budget**

*We recommend that the department report to the Legislature during budget hearings on its ability to defend the state against the potential*

***liability arising from a claim filed by the Atlantic Richfield Company against the State Lands Commission, et al., within its existing resources.***

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

The department advises that the nature of this litigation is complex and likely will require significant attorney and external consultant services. While the department to date has absorbed the costs of the state's defense within its existing budget, it anticipates that significant additional resources may be needed in the current and budget years for this case. Our review, however, indicates that no additional funding is proposed in the 1989-90 Governor's Budget to deal with this litigation.

While the state's liability in this legal action is uncertain, in our judgment the magnitude of the claim suggests that the state should pursue an active and comprehensive defense. (The amount of the initial claim totaled \$793 million plus interest.) Accordingly, we recommend that the department report to the Legislature during budget hearings on its ability to defend the state against the potential liability arising from this litigation within its existing resources.

**Full Request Not Justified**

*We recommend deletion of \$125,000 in reimbursements for 1.2 attorney positions and 1 stenographer requested to address a backlog in nursing home citation cases because the department's contradictory workload projections do not support an augmentation of this magnitude. (Reduce reimbursements by \$125,000.)*

The department requests \$729,000 in reimbursements for additional legal positions and related support staff to prosecute nursing home citation cases on behalf of the Department of Health Services (DHS) Citation Enforcement Program. In this program, the DHS files citations against nursing homes which in its opinion have violated certain state regulations.

For the budget year, the Attorney General has requested an additional 5 attorneys to address a backlog of these citation enforcement cases. According to information in the department's budget change proposal, the department currently has 6.2 attorneys and anticipates a need for a total of 11.2 attorneys to handle the workload. The basis for the request is an estimate of the average amount of attorney time it takes to handle a nursing home citation case. Using this standard, the request projects the amount of attorney time needed to handle new cases and address the backlog over a period of the next three years.

We have received conflicting information from the department, however, which suggests that there is a need for only 3.8 additional attorneys and related staff to handle this workload. Specifically, the department's Supplementary Schedule of Legal Services, which is provided to the Legislature on an annual basis pursuant to requirements of supplemental report language, estimates that the Attorney General is billing the DHS for 8,200 attorney hours in 1988-89 for nursing home

**DEPARTMENT OF JUSTICE—Continued**

citation cases. This estimate suggests that the equivalent of 4.5 attorneys are currently dedicated to nursing home citation cases. According to this schedule, the projected number of billing hours for nursing home citation cases is 15,200 attorney hours for 1989-90, an equivalent of 8.3 attorneys. Thus, based on the schedule provided to the Legislature, the Attorney General needs an additional 3.8 attorneys to handle the projected workload of new cases and to address the backlog.

Further investigation of workload figures suggests that the estimate of an additional 3.8 attorneys is more accurate than the estimate of an additional 5 attorneys. We discussed the methodology used to compile the Supplementary Schedule of Legal Hours with staff of the department, and inquired about the actual number of attorney hours to date spent on nursing home citation cases. Our review indicates that the estimate of 3.8 additional attorneys is the more accurate of the two estimates.

Based on the information we have received from the department at this time, we are unable to recommend approval of the full amount requested. Accordingly, we recommend a deletion of 1.2 attorneys and 1 stenographer, or \$125,000 in reimbursements from the budget request.

**Legal Staffing Needs Uncertain**

*We withhold recommendation on three requests for additional staff to handle legal work on behalf of various state agencies for a total of \$1.1 million in reimbursements and \$351,000 from the Hazardous Substance Account, pending receipt of further information from the state agencies about expected workload.*

The Attorney General has requested additional staff to perform legal work for various state agencies. We are concerned about three of these requests because there is substantial uncertainty about the level of legal services needed to handle the projected workload in the budget year. The Attorney General requests \$1,128,000 in reimbursements and \$351,000 from the Hazardous Substance Account for a total of 8 attorney positions and 5.5 related support staff. The Attorney General has requested resources to provide legal services on behalf of the Department of Health Services (DHS) for enforcement of toxic waste clean up and the defense of Medi-Cal claim cases. Resources have also been requested to defend the State Department of Education (SDE) in a desegregation case, *NAACP v. Los Angeles Unified School District, et al.*

**Enforcement of Toxic Waste Clean up.** The Attorney General has requested an appropriation of \$351,000 from the Hazardous Substance Account for additional staff to perform legal work on behalf of DHS. The four requested attorneys would be assigned to recover costs incurred by the state to clean up hazardous waste sites. At the time this analysis was written, DHS had not yet determined the number of cases which it will request the Attorney General to work on in the budget year. Therefore, we withhold recommendation pending further information from DHS on the workload expected of the Attorney General. (Please see Item 4260 for a recommendation to develop these estimates.)

**Medi-Cal Claim Cases.** The Attorney General has requested \$196,000 from reimbursements to provide additional legal services to the DHS. There has been an increase in cases filed by medical providers because their claims for reimbursement under the Medi-Cal program have been denied by the DHS. The Attorney General would provide the necessary



staff to defend the DHS in these cases. Although DHS advises that some additional work will be needed in the budget year, no funds are included in its budget to pay for these legal services. Pending resolution of the issue of how much legal services are needed and how they would be financed, we withhold recommendation on the Attorney General's request for 2 attorneys and 1.4 related support positions.

*NAACP v. Los Angeles Unified School District, et al.* is an ongoing desegregation case in which the Attorney General is defending the SDE. This is a complex case involving whether or not the district provides equal opportunity for education to students, particularly to black students in south-central Los Angeles. The SDE has submitted a proposal which requests \$550,000 from the General Fund to reimburse the Attorney General for legal services provided on its behalf. The Attorney General, however, has requested reimbursement spending authority totaling \$932,000. The Attorney General's proposal requests 2 attorneys, 1 paralegal, and 2.1 clerical staff in addition to \$685,000 for consultants in economics and demographics to support the defense.

We are concerned with the discrepancy between the two estimates on the expenditures needed for defense of this case. We have also received information from both departments which indicates that a settlement is pending. Because of the uncertainty of whether or not this case will go to trial and the amount that such defense would cost, we withhold recommendation on the request for \$932,000 and request that the departments jointly report to the Legislature prior to budget hearings on these issues.

#### **DIVISION OF LAW ENFORCEMENT**

The Division of Law Enforcement requests a net increase of \$8.2 million over estimated current-year expenditures for 1989-90. Workload driven augmentations total \$3.7 million, while program adjustments result in increases totaling \$5.9 million. These costs are offset by various one-time cost reductions, including an unallocated reduction of \$1 million proposed for the budget year.

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

- A \$1.2 million General Fund increase for workload changes in the Criminal Identification program of the Bureau of Criminal Identification and Information.
- A total of \$1.1 million requested from the General Fund and the Fingerprint Fees Account in the General Fund for Cal-ID expansion.
- A \$3.5 million allocation from the Fingerprint Fees Account to help local law enforcement agencies purchase Cal-ID Remote Access Network equipment.

#### **Serious Habitual Offender Program Designed to be Self-Funded**

*We recommend the adoption of supplemental report language directing the department to submit for legislative review a report which indicates whether the Serious Habitual Offender Program pilot project is self-financing as the statute specifies.*

Chapter 1134, Statutes of 1988 (SB 2334, Lockyer), establishes the Serious Habitual Offender Program (SHOP) pilot project, the purpose of which is to support efforts of local criminal justice agencies to identify, locate, apprehend, and prosecute repeat sexual offenders. According to

**DEPARTMENT OF JUSTICE—Continued**

the department, research indicates that sexual offenders have a high rate of recidivism with the average sex offender committing around 360 offenses in a lifetime. Thus, law enforcement officials believe that the key to apprehending such individuals is to maintain an accurate file, which includes information such as the sexual offender's method of operation, current residence, and criminal record.

The department suggests that the current method of "tracking" sexual offenders does not provide law enforcement agencies with accurate information on the individuals. Although current law requires convicted sexual offenders to register with local law enforcement agencies, the department indicates that the local law enforcement agencies do not consistently update these files. Staff anticipates that more accurate files would facilitate investigations of assault cases.

For the pilot project, the DOJ is requesting \$422,000 from the General Fund for six permanent and three limited-term positions to actively (1) collect information on sexual offenders and (2) provide this information to local law enforcement agencies. The Attorney General would also establish an advisory committee with representatives from state and local agencies to assist in the implementation and operation of the project. The project would be established in 10 specified counties for a five-year period. The objective is to evaluate the impact of this "tracking" system on the number of arrests and convictions for sex offenses, the average length of sentence given to repeat sex offenders, and the number of sex offenses committed.

***Statute Specifies the Project Should be Self-Financed.*** Chapter 1134 established a self-financing mechanism for the project by requiring that persons who are convicted of sexually related crimes shall, in addition to any imprisonment or fine, be fined one hundred dollars (\$100) for first time offenders or two hundred dollars (\$200) for second and subsequent time offenders. The fines, which are deposited with the county treasurers, will be transferred to the General Fund on a monthly basis and, when appropriated by the Legislature, be used for the purposes of the project.

The department indicates that revenues from the fines over a period of five years will more than compensate for the expense of the project. The department requests \$422,000 from the General Fund for start-up expenses and staff support in the budget year. Subsequent annual expenditures are expected to be in the range of \$260,000 annually primarily for staffing costs.

Although the department expects that revenues from the fines will support the expenses of the project, it makes no provision to ensure that the project is completely self-financing. Instead, the budget provides a General Fund appropriation to cover the cost of the project and *assumes* that sufficient revenues from fines will be deposited in the General Fund to offset the costs of the project.

In order to assess whether the project is implemented according to legislative intent, we recommend that the department report to the Legislature by December 15, 1989 on the status of revenue collections, the likelihood that the project will be self-financing given the present fine structure, and any recommendations for legislative changes needed to ensure that the project will be self-supporting as the Legislature intended. Accordingly, we recommend that the Legislature adopt the following supplemental report language:

The department shall report to the appropriate policy and fiscal committees, and the Joint Legislative Budget Committee, by December 15, 1989 on the status of revenue collections from fines levied against convicted sexual offenders, the likelihood that the Serious Habitual Offender Program pilot project will be self-financing given the present fine structure, and any recommendations for legislative changes needed to ensure that the project is self-supporting according to legislative intent.

#### Department Needs to Identify Impact of Unallocated Reduction

*We recommend that the department report to the Legislature prior to budget hearings on its plan for absorbing an unallocated reduction of \$1 million proposed in the budget, and the impact of the reduction on its law enforcement programs.*

The Governor's Budget for 1989-90 reflects an unallocated reduction of \$1 million from the General Fund to the Law Enforcement Division's budget. At the time this analysis was written, the department had not yet determined how it would absorb this cut. We recommend that the department report to the Legislature prior to budget hearings on its plan to absorb this unallocated reduction, including information on how specific law enforcement programs would be affected.

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### STATE CONTROLLER

Item 0840 from the General  
Fund

Budget p. LJE 73

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Requested 1989-90 .....	\$97,158,000
Estimated 1988-89 .....	89,738,000
Actual 1987-88 .....	89,056,000
Requested increase (excluding amount for salary increases) \$7,420,000 (+8.3 percent)	
Total recommended reduction .....	None

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#### 1989-90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0840-001-001—Support	General	\$69,418,000
0840-001-041—Support	Aeronautics Account, State Transportation	173,000
0840-001-061—Support	Motor Vehicle Fuel Account, Transportation Tax	2,474,000
0840-001-344—Support	State School Building Lease- Purchase	261,000
0840-001-739—Support	State School Building Aid	378,000
0840-001-822—Support	Public Employees Health Care	1,205,000
0840-001-890—Support	Federal Trust	1,682,000
0840-001-903—Support	Assessment	143,000
0840-001-988—Support	Retail Sales Tax	157,000
Reimbursements	—	<u>21,267,000</u>
Total		<u>\$97,158,000</u>

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**STATE CONTROLLER—Continued****SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis  
page*

1. Bureau of Local Reimbursements: Recommend that the Legislature adopt supplemental report language requiring the State Controller's Office (SCO) to rely more heavily on selective audit procedures, and to submit to the Legislature, by October 1, 1989, (1) a plan and detailed implementation time-line for an automated claim accounting and audit selection system for the Bureau of Local Reimbursements, and (2) a report on mandates subject to selective audit in 1988-89 and 1989-90. 60

**GENERAL PROGRAM STATEMENT**

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

The Controller has 1,386.3 personnel-years in the current year.

**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes expenditures of \$97.2 million for support of the Controller's Office in 1989-90. This amount consists of \$74.2 million from the General Fund and various special funds, \$1.7 million in federal funds, and \$21.3 million in reimbursements. The proposed expenditure level represents an increase of \$7.4 million, or 8.3 percent, above estimated current-year expenditures.

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

**Table 1**  
**State Controller's Office**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

<i>Program</i>	<i>Personnel-Years</i>			<i>Expenditures</i>			<i>Percent Change From</i>
	<i>Actual 1987-88</i>	<i>Est. 1988-89</i>	<i>Prop. 1989-90</i>	<i>Actual 1987-88</i>	<i>Est. 1988-89</i>	<i>Prop. 1989-90</i>	
Fiscal control .....	999.3	1,143.6	1,179.6	\$68,296	\$68,935	\$72,765	5.6%
Tax administration .....	51.7	60.0	62.8	2,721	2,626	2,862	9.0
Administration							
Distributed to other programs ..	(67.1)	(76.6)	(72.8)	(2,635)	(2,635)	(2,785)	(5.7)
Undistributed .....	285.1	182.7	185.3	18,039	18,177	21,531	18.5
Totals .....	1,336.1	1,386.3	1,427.7	\$89,056	\$89,738	\$97,158	8.3%

## Funding Sources

<i>General Fund</i> .....	\$64,185	\$61,622	\$69,418	12.7%
<i>Motor Vehicle Fuel Account, Transportation Tax Fund</i> .....	2,337	2,374	2,474	4.2
<i>Federal Trust Fund</i> .....	986	1,512	1,682	11.2
<i>Bank of America Unclaimed Property Litigation Fund</i> .....	2,021	1,929	—	-100.0
<i>State School Building Aid Fund</i> .....	341	365	378	3.6
<i>Public Employees Health Care Fund</i> .....	—	779	1,205	54.7
<i>Aeronautics Account, State Transportation Fund</i> .....	54	173	173	—
<i>State School Building Lease-Purchase Fund</i> .....	92	168	261	55.4
<i>Retail Sales Tax Fund</i> .....	150	151	157	4.0
<i>Assessment Fund</i> .....	144	136	143	5.1
<i>Reimbursements</i> .....	18,746	20,529	21,267	3.6

Table 2 identifies significant changes in the proposed budget for the Controller's Office in 1989-90.

**Table 2**  
**State Controller's Office**  
**Proposed 1989-90 Budget Changes**  
**(dollars in thousands)**

	<i>General Fund</i>	<i>All Other Funds</i>	<i>Reimbursements</i>	<i>Total</i>
1988-89 Expenditures (Revised) .....	\$61,622	\$7,587	\$20,529	\$89,738
Baseline Adjustments:				
Expiration of limited-term positions .....	-2,057	-3,260	-55	-5,372
Price increase .....	—	8	68	76
Pro rata/SWCAP adjustment .....	—	49	—	49
June 1989 salary adjustment .....	2,121	133	688	2,942
Rent .....	1,293	—	—	1,293
Miscellaneous workload adjustments .....	-29	-47	-295	-371
Subtotal, Baseline Adjustments .....	(\$1,328)	(-\$3,117)	(\$406)	(\$1,383)
Proposed Changes:				
Computer acquisition .....	1,508	—	—	1,508
Local reimbursement claims workload .....	257	—	—	257
Accounting workload .....	—	87	—	87
Retirement funds interest computation .....	—	—	80	80
Oil and gas royalty audits .....	524	364	—	888
Toxic waste superfund audit .....	15	300	—	315
Buena Vista Hills audit .....	—	47	—	47
PERS Care Program .....	—	1,205	—	1,205
Trial Court Audit Program .....	391	—	—	391
Miscellaneous automation system workload .....	—	—	252	252
Tax collection workload .....	87	—	—	87
Unclaimed property clearing-house and advertising charges .....	805	—	—	805
Change of escheat period for unclaimed property .....	2,881	—	—	2,881
Subtotal, Proposed Changes .....	(\$6,468)	(\$2,003)	(\$332)	(\$8,803)
1989-90 Expenditures (proposed) .....	\$69,418	\$6,473	\$21,267	\$97,158
Change from 1988-89:				
Amount .....	\$7,796	-\$1,114	\$738	\$7,420
Percent .....	12.7%	-14.7%	3.6%	8.3%

**STATE CONTROLLER—Continued**  
**ANALYSIS AND RECOMMENDATIONS****Bureau of Local Reimbursements**

*We recommend that the Legislature adopt supplemental report language requiring the State Controller's Office to rely more heavily on selective audit procedures and to submit to the Legislature, by October 1, 1989, (1) a plan and detailed implementation time-line for an automated claim accounting and audit selection system for the Bureau of Local Reimbursements, and (2) a report on mandates subject to selective audit in 1988-89 and 1989-90.*

The Bureau of Local Reimbursements (BLR) within the Controller's Accounting Division processes two types of local government reimbursement claims. First, the unit processes mandated cost claims for state-mandated local programs. Second, the unit pays out claims to local governments for other local reimbursement programs which are *not* state-mandated local programs, such as payments to counties for the defense of indigents. The budget proposes to make six limited-term positions permanent, at a cost of \$257,000, to handle continuing workload related to these claims. Two of these positions were established last year, to assist in the development of an automated claims payment system.

***Backlog of Claims Continues to Rise.*** Last year, in the *Analysis of the 1988-89 Budget Bill*, we pointed out that the BLR is not able to process all of the claims it receives by the end of each fiscal year. Claims not processed in the year they are received are "carried over" to be processed in the next fiscal year, resulting in a "backlog" of claims to be processed. Based on projected workload volumes and current workload-processing standards, we estimate that, by the end of 1989-90, the number of backlogged claims will grow to 25,472. The Controller's Office reports that it would require not only the six limited-term positions, but seven additional staff as well, to pay all local government claims in a timely manner.

These continuing backlogs in the BLR reflect the presence of a significant processing problem. The resulting delays have led local government representatives to complain that payments are not made until all of their claims are processed. This complicates the budgeting processes of these governments, many of whom operate with little or no reserve funds.

***Improved Workload Management Could Reduce Staffing Needs.*** Last year, we pointed out that the continuing backlogs occurred, in part, due to a cumbersome audit process rather than a lack of staffing. The Controller's Office estimates that local mandate claims generally require an average of 3.5 hours to process, in contrast to the 23 minutes needed to audit other types of reimbursement claims. This is because the BLR generally performs a full desk audit on each claim. These audit procedures are inconsistent with those used by other agencies, most of whom audit only on an exception basis.

The Controller's Office could reduce the staff needed to handle the workload growth in mandated cost claims by improving current audit and payment procedures. Last year, two strategies were adopted to achieve these aims:

- ***Selective Audits.*** Last year in our analysis of the Controller's budget, we pointed out that, by auditing only the potentially productive

accounts, the Controller's Office could reduce its backlog without additional staff. The Controller's Office agreed to begin auditing accounts on a selective basis, and to report back to the Legislature regarding the progress made in reducing the backlog of mandated cost claims.

- **Automated Payment System.** In the 1988 Budget Act, the Controller's Office received 1.9 personnel-years for one year to assist in developing an automated system for paying and auditing local reimbursement claims. The Controller's Office reports that this system will be an integral part of BLR's selective audit program, because it will allow staff to identify more easily the claims which do not require a full audit. In addition, this program will improve staff productivity in paying claims and keeping accounts.

**Workload Management Improvements Moving Slowly.** Based on our review of the staff's efforts to date, we believe that the Controller's Office has made some moderate improvements in BLR's current workload practices. First, the staff has updated and clarified some of its mandated cost claiming instructions, which potentially will reduce the number of errors made by local governments. The staff also tested selective audit procedures on the claims processed for the 1987-88 costs of five programs, and plans to continue selective auditing of a limited number of programs in the future. Unfortunately, the Controller's Office could not report as to the audit hours saved through the implementation of these measures.

Our analysis indicates, however, that the savings from the selective audit procedures were probably minor. This is because the five programs used to test the selective audit procedures collectively involved only 258 claims, which represents *less than 2 percent of the total mandated cost claims processed by SCO*. Even if the BLR achieved a 50 percent reduction in audit time, its savings only would amount to one-fourth of one personnel-year. By extending selective audit procedures to the larger programs, some of which involve hundreds of claims, the Controller's Office could realize more dramatic workload savings.

Furthermore, the Controller's Office has made little progress to date on developing an automated accounting system for BLR. Although a total of four staff are assigned to this effort, at the end of six months they have not completed any plan as to the parameters of the project or a time-line for project development and implementation. Moreover, the Controller's Office indicates that this system will not be operating for at least two years. The Controller's Office has not provided an adequate explanation of these delays in developing its automated system.

We believe that this automated system is a key to effective workload management within the BLR. By improving staff productivity, this system will help the Controller's Office to pay local government claims in a timely fashion without large staff increases. In order to hasten the improvements authorized by the Legislature last year, we recommend the adoption of the following supplemental report language:

**State Controller's Office Local Reimbursement Payment System**

It is the intent of the Legislature that the State Controller's Office (SCO) shall rely more heavily on the use of selective audit techniques to manage mandated cost reimbursement workload in the Bureau of Local Reimbursements. To accomplish this, the Controller shall (1) expand the number of programs subject to selective audit procedures; and (2) expedite the implementation of its automated accounting and audit selection system.

**STATE CONTROLLER—Continued**

On or before October 1, 1989, the SCO shall submit to the Legislature a plan and detailed time-line for the design and implementation of an automated accounting and audit selection system. In addition, the SCO shall provide a list of the accounts subject to selective audit in 1988-89, the accounts proposed for selective audit in 1989-90, and an estimate of workload savings resulting from these selective audit procedures.

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**STATE BOARD OF EQUALIZATION**

Item 0860 from the General  
Fund and various funds

Budget p. LJE 81

Requested 1989-90 .....	\$168,580,000
Estimated 1988-89 .....	153,622,000
Actual 1987-88 .....	145,130,000
Requested increase (excluding amount for salary increases) \$14,958,000 (+9.7 percent)	
Total recommended reduction .....	None
Recommended General Fund savings from funding shifts .....	2,200,000
Recommendation pending .....	1,355,000

**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
0860-001-001—Support	General	\$110,295,000
0860-001-014—Support	Hazardous Waste Control Account, General	2,358,000
0860-001-022—Support	Emergency Telephone Number Special Account, General	417,000
0860-001-061—Support	Motor Vehicle Account, Transportation Tax	4,799,000
0860-001-086—Support	Cigarette Tax	1,714,000
0860-001-230—Support	Cigarette and Tobacco Products Surtax	554,000
0860-001-435—Support	Solid Waste Disposal Site and Maintenance Account, General	244,000
0860-001-455—Support	Hazardous Substances Account, General	328,000
0860-001-465—Support	Energy Resources Programs Account, General	77,000
0860-001-965—Support	Timber Tax	2,138,000
Reimbursements	—	45,656,000
Total		\$168,580,000



**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
page

1. **Sales Tax Reimbursements.** Reduce Item 0860-001-001 by \$2.2 million and increase reimbursements by the same amount. Recommend reduction to reflect availability of additional reimbursements for administration of local sales and use taxes. 67
2. **Processing Sales Tax Returns.** Withhold recommendation on \$1.4 million pending receipt of a revised budget request that reflects (a) workload for local taxes approved in the November election and (b) the costs and savings associated with a planned automation project. 67
3. **Telecommunications Equipment.** Recommend that the board report at hearings as to how it will reconcile its equipment request with the proposed funding level. 68
4. **Welfare Exemption Audits.** Recommend that two new positions be made limited-term because the audit program should be done on a pilot basis until the need for an ongoing program is established. 69

**GENERAL PROGRAM STATEMENT**

The Board of Equalization is one of the state's two major tax collection agencies. It collects state and local sales taxes and a wide variety of business and excise taxes (including the gasoline, insurance, and cigarette

**Table 1**  
**State and Local Revenues**  
**Collected by the Board of Equalization**  
**1987-88 through 1989-90**  
**(dollars in millions)**

	<i>Actual</i> 1987-88	<i>Estimated</i> 1988-89	<i>Projected</i> 1989-90	<i>Change</i> From 1988-89	
				<i>Amount</i>	<i>Percent</i>
State sales and use tax .....	\$11,651	\$12,593	\$13,448	\$855	6.8%
Local sales and use tax .....	3,820	4,272	4,742	470	11.0
Insurance tax .....	1,158	1,411	1,279	-132	-9.4
Motor vehicle fuel tax (gasoline) .....	1,132	1,150	1,170	20	1.7
State cigarette and tobacco tax .....	176	471	791	320	67.9
Use fuel tax (diesel) .....	148	154	160	6	3.9
Alcoholic beverage tax .....	129	127	126	-1	-0.8
Local cigarette tax .....	75	74	72	-2	-2.7
Hazardous waste taxes and fees .....	50	67	61	-6	-9.0
Emergency telephone users surcharge .....	41	43	60	17	39.5
Energy resources surcharge (electricity) ...	37	38	38	—	—
Timber yield tax .....	18	19	19	—	—
Private railroad car tax .....	3	4	4	—	—
Universal telephone service tax <sup>a</sup> .....	13	—	—	—	—
Solid waste disposal site fees <sup>b</sup> .....	—	—	—	—	—
<b>Totals .....</b>	<b>\$18,451</b>	<b>\$20,423</b>	<b>\$21,970</b>	<b>\$1,547</b>	<b>7.6%</b>
<b>Local revenues .....</b>	<b>\$3,895</b>	<b>\$4,346</b>	<b>\$4,814</b>	<b>\$468</b>	<b>10.8%</b>
<b>State revenues .....</b>	<b>14,556</b>	<b>16,077</b>	<b>17,156</b>	<b>1,079</b>	<b>6.7</b>

<sup>a</sup> The Universal Telephone Service Tax was repealed by Ch 163/87.

<sup>b</sup> Solid waste disposal (landfill) fees were established by Ch 1319/87; the first fee payments are due in July 1990.

**STATE BOARD OF EQUALIZATION—Continued**

taxes) and fees. The board also oversees the administration of the property tax by county assessors and assesses public utility property in order to allocate value to each taxing jurisdiction.

There are five board members: the State Controller and four members who are elected from geographic districts. The chairmanship of the board rotates annually among the members. The chairman also serves as an *ex officio* member of the Franchise Tax Board, the state's other major tax collection agency, which administers the personal income and bank and corporation taxes. Finally, the Board of Equalization also hears appeals of decisions by the Franchise Tax Board and resolves disputes concerning the assessment of property owned by a city or county outside its boundaries.

The board's headquarters are in Sacramento. It has field offices throughout California, as well as in New York, Chicago and Houston. The board has 3,059 personnel-years in the current year.

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

**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes total expenditures of \$169 million for the Board of Equalization in 1989-90, an increase of \$15 million, or 9.7 percent, from estimated current-year expenditures. Most of this increase is for adjustments to the board's base budget, such as the full-year cost of employee salary and benefit increases granted in the current year.

Table 2 summarizes the staffing and expenditures for the board from 1987-88 through 1989-90. It shows that the budget proposes to increase the board's staff by 99.7 personnel-years.

**Table 2**  
**Board of Equalization Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

Program	Personnel-Years			Expenditures			Percent
	Esti-			Esti-			Change
	Actual 1987-88	mated 1988-89	Proposed 1989-90	Actual 1987-88	mated 1988-89	Proposed 1989-90	From 1988-89
County Assessment Standards ....	100.2	99.5	102.8	\$5,695	\$5,863	\$6,415	9.4%
State Assessed Property .....	100.2	95.5	95.6	5,256	5,227	5,538	6.0
Timber Tax .....	34.8	35.4	35.4	1,952	2,006	2,138	6.6
Sales and Use Tax .....	2,464.7	2,611.2	2,673.4	120,575	128,354	140,128	9.2
Hazardous Substances Tax .....	38.7	42.3	58.3	1,630	1,827	2,686	47.0
Alcoholic Beverage Tax .....	36.6	34.9	36.3	1,590	1,506	1,675	11.2
Cigarette and Tobacco Products Tax .....	12.5	9.8	24.9	1,867	2,040	2,637	29.3
Motor Vehicle Fuel License Tax .	13.5	13.5	13.0	694	710	728	2.5
Use Fuel Tax .....	82.4	86.7	84.2	3,778	3,933	4,071	3.5
Solid Waste Disposal Site Fee ....	—	—	3.8	—	—	244	100.0
Energy Resources Surcharge .....	1.7	1.7	1.5	78	80	77	-3.8
Emergency Telephone Users Sur- charge .....	3.6	6.9	7.3	179	368	417	13.3
Insurance Tax .....	3.1	3.0	3.1	157	157	170	8.3
Universal Telephone Service Tax.	3.5	—	—	190	—	—	—
Appeals of Franchise Tax Board Decisions .....	21.6	18.8	19.3	1,200	1,304	1,409	8.1
Administration (undistributed) ...	—	—	—	289	247	247	—
Totals .....	2,917.1	3,059.2	3,158.9	\$145,130	\$153,622	\$168,580	9.7%

<b>Funding Sources</b>				
<i>General Fund</i> .....	\$98,114	\$101,428	\$110,295	8.7%
<i>Hazardous Waste Control Account</i> .....	—	—	2,358	100.0
<i>State Emergency Telephone Number Special Account</i> .....	179	368	417	13.3
<i>Motor Vehicle Fuel Account</i> .....	4,472	4,643	4,799	3.4
<i>Cigarette Tax Fund</i> .....	1,647	1,644	1,714	4.3
<i>Cigarette and Tobacco Products Surtax Fund</i> .....	—	—	554	100.0
<i>Solid Waste Disposal Site and Maintenance Account</i> .....	—	—	244	100.0
<i>Universal Telephone Service Fund</i> .....	190	—	—	—
<i>Hazardous Substances Account</i> .....	—	—	328	100.0
<i>Energy Resources Programs Account</i> .....	78	80	77	-3.8
<i>Timber Tax Fund</i> .....	1,952	2,006	2,138	6.6
<i>Mobilehome-Manufactured Home Revolving Fund</i> .....	64	—	—	—
<i>Reimbursements</i> .....	38,434	43,453	45,656	5.1

Table 3 shows the proposed budget changes, by funding source, for 1989-90. As noted above, the majority of the additional funds provided for 1989-90 are for baseline adjustments to the board's budget, including the full-year cost of the 1988-89 salary increase and general price increases. Also, unlike most other state agencies, the administration's budget proposal would fully fund the board's cost of providing merit salary adjustments. Essentially all of the \$4 million in program changes shown in Table 3 are to meet increasing workload or to implement additional taxes and fees recently approved by the Legislature or the voters.

**Table 3**  
**Board of Equalization**  
**Proposed 1989-90 Budget Changes**  
**(dollars in thousands)**

	<i>General Fund and Reimburse- ments</i>	<i>Special Funds</i>	<i>Totals</i>
1988-89 Expenditures (Revised) .....	\$144,881	\$8,741	\$153,622
<b>Baseline Adjustments:</b>			
Full-year cost of 1988-89 employee compensation increases .....	\$6,309	\$441	\$6,750
Merit salary adjustments .....	2,275	139	2,414
Reduce salary savings .....	964	—	964
Price increase for operating expenses .....	520	89	609
Special adjustment for rent and postage .....	734	66	800
Department of Motor Vehicles contract, workload growth .....	325	—	325
Technical adjustment to reflect direct appropriations for hazardous waste .....	-1,735	1,735	—
Other .....	-36	-40	-76
Subtotals, Baseline Adjustments .....	(\$9,356)	(\$2,430)	(\$11,786)
<b>One-time and limited-term costs in 1987-88:</b>			
Expiring PERS contract for Golden Handshake .....	-\$650	—	-\$650
Limited-term auditors for public utility valuations ..	-91	—	-91
Other .....	-65	—	-65
Subtotals, One-time and Limited-Term Costs .....	(-\$806)	(—)	(-\$806)
<b>Program Changes:</b>			
<b>Sales and Use Tax</b>			
Collect additional local taxes approved in June 1988 .....	\$604	—	\$604

**STATE BOARD OF EQUALIZATION—Continued**

Workload growth to process tax returns .....	751	—	751
Audit appeals and hearings workload growth.....	474	—	474
Additional field staff to process delinquent accounts .....	251	—	251
Register out-of-state mail-order firms .....	99	—	99
Telecommunications improvements.....	175	12	187
Excise and Property Taxes			
Collect cigarette and tobacco products surtax (Proposition 99).....	—	554	554
Implement new landfill disposal fees (Ch 1319/87) .	—	244	244
Address backlog of appeals of hazardous waste fees.	—	394	394
Implement revised hazardous waste fees (Ch 1376/88) .....	—	254	254
Audit property tax welfare exemption claims.....	113	—	113
Audit alcoholic beverage tax accounts .....	53	—	53
Subtotals, Program Changes.....	<u>(\$2,520)</u>	<u>(\$1,458)</u>	<u>(\$3,978)</u>
1989-90 Expenditures (proposed) .....	\$155,951	\$12,629	\$168,580
Change from 1988-89:			
Amount.....	\$11,070	\$3,888	\$14,958
Percent.....	7.6%	44.5%	9.7%

**ANALYSIS AND RECOMMENDATIONS****SALES AND USE TAX PROGRAM**

The board collects and administers both the state and local portions of the sales and use tax. Under existing law, the state imposes a sales and use tax of 4.75 percent. In addition, a uniform local sales tax of 1.25 percent is imposed by cities and counties, so that the combined rate is at least 6 percent (6 cents per dollar of sales) everywhere in California. Also, local voters may approve additional countywide "transactions and use" taxes (in half-cent increments) up to a maximum of 1 cent per dollar of sales. Consequently, there are three tax rates currently in effect throughout the state (6 cents, 6.5 cents and 7 cents), with each county having one of these rates. Generally, the revenue from each additional half-cent tax is allocated to a special district and dedicated to a specific purpose, typically transportation programs. For example, Alameda County has a 7-cent rate, of which 6 cents is the uniform statewide rate, one half-cent is for the Bay Area Rapid Transit District (BART) and the other half-cent funds the Alameda County Transportation Authority.

**Additional Local Taxes Approved in 1988**

Prior to June 1988, voters in nine counties had approved rates in excess of 6 cents. At the June and November elections of 1988, voters in three of

**Table 4**  
**Additional Half-Cent Local Transactions and Use Taxes**  
**Approved by Voters in 1988**

<i>County</i>	<i>Election</i>	<i>New Tax Rate (cents per dollar)</i>	<i>Effective Date</i>
Inyo	June	6.5	October 1, 1988
San Benito	June	6.5	January 1, 1989
San Diego	June	7	January 1, 1989
San Mateo	June	7	January 1, 1989
Contra Costa	November	7	April 1, 1989
Sacramento	November	6.5	April 1, 1989
Riverside	November	6.5	July 1, 1989

these counties approved additional half-cent increases (to the maximum of 7 cents) and voters in four counties that had no special local rate approved new half-cent local taxes (increasing their rate from 6 cents to 6.5 cents). Table 4 shows the specific changes approved in the 1988 elections.

#### **Local Tax Reimbursements Understated**

*We recommend a General Fund reduction of \$2.2 million to reflect additional reimbursements from local sales tax revenues. (Reduce Item 0860-001-001 by \$2.2 million and increase reimbursements by an equal amount.)*

Before the board distributes sales tax revenues to local agencies, it deducts an amount to cover a portion of its administrative costs. This amount is equal to a fixed percentage (set by statute) of the revenues produced by the tax. Specifically, the board charges cities and counties an amount equal to 0.82 percent of the revenue from the uniform 1.25-cent local tax rate and generally charges an amount equal to 1.64 percent of the revenue from each half-cent of additional local tax rate. These charges are included in the board's budget as reimbursements and reduce, on a dollar-for-dollar basis, the amount of General Fund support needed by the board.

The board's proposed funding in 1989-90 includes \$45.1 million in reimbursements from local sales tax revenues. This amount is based on an estimate that was made prior to the November 1988 election and therefore does not include any reimbursements from the new half-cent taxes in Contra Costa, Sacramento, and Riverside Counties. Furthermore, the reimbursement estimate used for the budget was made before the Department of Finance's January forecast of state sales and use tax revenues became available. Including reimbursements from local taxes approved in November and using the department's January revenue forecast, we estimate that the board will receive \$47.3 million in reimbursements from local tax revenues in 1989-90. This amount is \$2.2 million more than the amount of reimbursements reflected in the budget. Consequently, the board's General Fund appropriation should be reduced by \$2.2 million and the amount of budgeted reimbursements should be increased by an equal amount.

#### **Processing Sales Tax Returns: Revised Request Expected**

*We withhold recommendation on \$1.4 million and 28 personnel-years requested for increased workload to process sales tax returns pending receipt and analysis of a revised request that reflects (1) workload for local taxes approved in the November election and (2) the costs and savings associated with implementing a planned automation project.*

The budget requests a total of \$1.4 million and 28 personnel-years (PYs) to handle additional workload in processing sales and use tax returns. This increased workload is attributable to:

- *Taxes approved in the June election (\$604,000, 16.1 PYs).* Based on its experience in administering the existing local sales taxes, the board expects the addition of new special half-cent taxes in four counties to increase the time and effort required to process returns from firms doing business in those counties. This is because of the increased complexity of those returns. Each return must show the

**STATE BOARD OF EQUALIZATION—Continued**

amount of tax payment allocated to each special taxing district. The board's staff must review these returns to verify proper allocation of the tax payment, detect and correct errors and reconcile inconsistencies.

- **Growth in number of tax returns (\$751,000, 11.9 PYs).** Generally, the number of sales and use tax returns grows each year as a result of growth in the economy and population. For 1989-90, the board estimates that the number of returns will grow by 131,000, to a total of 4 million returns (including fuel tax returns).

**Budget Revisions Expected.** The board and staff of the Department of Finance indicate that they plan to submit a budget change letter to revise both of the above requests. The anticipated revised request will address the following two issues:

- **Local Taxes Approved in November.** The current budget request addresses only the workload for the four special local taxes approved in the June election. The board will need additional resources in 1989-90 to administer the three special taxes approved in the November election.
- **Implementation of Automation Project.** Since 1982, the board has been developing a project to automate much of the work of processing sales tax returns. Currently, for example, board staff must manually check the arithmetic on many returns. The Office of Information Technology has approved the design of the second phase of this project and implementation should begin in the current year. Almost \$1 million will be needed for the project in 1989-90, primarily for equipment, according to the board's latest progress report. On the other hand, the project will increase productivity and allow some offsetting staff savings.

Because of the substantial revisions expected to the board's budget request for processing sales tax returns, we withhold recommendation on \$1.4 million and 28 PYs requested for increased workload to process these tax returns, pending receipt and analysis of the revised request.

**Telecommunications Proposal Underfunded**

*We recommend that the board report at the time of hearings as to how it will reconcile its telecommunications equipment request with the level of requested funding.*

The budget requests \$187,000 (including \$131,000 from the General Fund) for new telephone equipment to replace telephone systems at four of the board's field offices. This request includes \$40,000 to replace a system at the Hollywood office that has run out of capacity. The board now indicates, however, that the Hollywood project was substantially underbudgeted. It does not provide an adequate number of telephones for the planned number of staff and it does not include the cost of a call-sequencer, which is needed for proper operation of the system. Consequently, we recommend that the board report at the time of hearings as to how it will reconcile its telecommunications equipment proposal with the amount of funding requested.

**Legislative Oversight: Implementing the Taxpayers' Bill of Rights**

Chapter 1574, Statutes of 1988, (AB 2833, Katz) enacted "The Harris-Katz California Taxpayers' Bill of Rights" to provide taxpayers with additional rights and safeguards with regard to the sales and use tax. The

legislation became effective on January 1, 1989. When AB 2833 was considered by the Legislature, the board indicated that it would incur ongoing annual costs totaling almost \$1 million, as follows:

Establish a Taxpayer Rights Advocate's Office .....	\$239,000
Expand taxpayer education programs .....	252,000
Identify areas of recurring taxpayer error through analysis of audit data .....	347,000
Reimbursement of certain taxpayer hearing costs.....	75,000
Increased litigation costs.....	60,000
Total .....	\$973,000

The budget does not provide any additional funds or identify any resources that will be redirected from other activities to implement the Taxpayers' Bill of Rights in 1989-90. The board indicates that it currently is examining alternatives, timetables and costs to carry out the legislation and that an implementation plan should be available in April.

### PROPERTY AND EXCISE TAXES PROGRAMS

#### Need for Welfare Exemption Audits Should be Evaluated

*We recommend limiting to two years the term of two new positions requested to audit property tax welfare exemptions because the need for a permanent audit program has not been established.*

The budget requests an increase of \$113,000 from the General Fund for two auditor-appraisers to review claims for the "welfare exemption" from property taxes. Under the California Constitution and state law, property owned by nonprofit organizations and used for religious, hospital, scientific or charitable activities that benefit the public welfare may qualify for this exemption from property taxes. The organization must apply to the county assessor for the exemption, and the exemption must be approved by the assessor and by the Board of Equalization. The two new positions would audit some of these claims and develop additional guidelines for use by county assessors. In particular, the audits would focus on verifying the nonprofit status of organizations and ensuring that property that is used for a nonexempt purpose, such as a museum gift shop, is not included in the exemption.

Most (about 64 percent) of the revenue loss from the welfare exemption is borne by cities, counties and special districts. The remaining 36 percent of the revenue loss is borne by school and community college districts, but becomes a state cost because of the state's financing mechanism for these districts. In effect, the state replaces any property tax revenue lost by school and community college districts. Almost \$15 billion of assessed value was granted the welfare exemption in 1987-88.

Given that the revenue loss from improper exemptions primarily affects local agencies, county assessors have a strong incentive to review exemption claims carefully. However, given the large amount of money at stake and the complex operations and structure of some of the organizations receiving the exemption, the board's request appears reasonable as a pilot effort to determine whether substantial problems exist. Consequently, we recommend approval of the two new positions on a two-year limited-term basis, during which time the board can determine whether an ongoing program is needed.

## SECRETARY OF STATE

Item 0890 from the General  
Fund

Budget p. LJE 101

Requested 1989-90 .....	\$26,096,000
Estimated 1988-89 .....	30,116,000
Actual 1987-88 .....	26,275,000
Requested decrease (excluding amount for salary increases) \$4,020,000 (-13 percent)	
Total recommended reduction .....	621,000
Recommendation pending .....	538,000

### 1989-90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0890-001-001—Support	General	\$22,571,000
Transfer from Political Reform Act (Item 8640)—Support	General	686,000
Reimbursements	—	2,839,000
Total		\$26,096,000

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. Corporate Division Staffing Increases. Withhold recommendation on \$538,000 and 17 personnel-years pending receipt and analysis of revised workload projections. *72*
2. *Name Availability Telephone Service. Reduce Item 0890-001-001 by \$621,000.* Recommend deletion of \$621,000 and 5.7 personnel-years in the Name Availability Unit to eliminate duplicative service. *73*

### GENERAL PROGRAM STATEMENT

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

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$26.1 million for support of the Secretary of State in 1989-90. This is \$4 million, or 13 percent, below the estimated current-year level. The proposed expenditures consist of an appropriation of \$22.6 million from the General Fund, reimbursements of \$2.8 million from special handling fees, and \$686,000 under the Political Reform Act. The Secretary of State has 376.4 personnel-years in the current year. Table 1 displays the Secretary of State's staffing and funding for the prior, current and budget years. Table 2 shows the proposed budget changes for 1989-90.



**Table 1**  
**Secretary of State**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

Program	Personnel-Years			Expenditures			Percent
	Actual	Est.	Prop.	Actual	Est.	Prop.	Change
	1987-88	1988-89	1989-90	1987-88	1988-89	1989-90	From 1988-89
Corporate Filing.....	122.5	120.3	141.9	\$7,111	\$7,451	\$8,910	19.6%
Limited Partnership.....	22.5	22.1	26.4	1,113	1,178	1,366	16.0
Elections.....	17.8	15.0	16.2	7,539	12,705	7,313	-42.4
Political Reform.....	16.1	20.8	25.5	814	1,112	1,235	11.1
Uniform Commercial Code.....	63.3	75.2	63.3	5,566	3,258	2,455	-24.6
Notary Public.....	14.2	13.9	15.7	1,335	1,471	1,871	27.2
Archives.....	19.7	19.9	20.3	1,511	1,590	1,695	6.6
Administration (undistributed)...	15.5	13.3	14.3	1,286	1,351	1,251	-7.4
Administration (distributed).....	75.6	76.3	65.8	(6,727)	(7,238)	(7,312)	1.0
Totals.....	367.2	376.4	389.4	\$26,275	\$30,116	\$26,096	-13.3%
Funding Sources							
General Fund.....				\$24,206	\$28,077	\$22,571	-19.6%
Transfer from Political Reform Act (General Fund) .....				(632)	(657)	686	5.7
Reimbursements.....				2,069	2,039	2,839	39.2

**Table 2**  
**Secretary of State**  
**Proposed 1989-90 Budget Changes**  
**(dollars in thousands)**

	All Funds
1988-89 Expenditures (revised).....	\$30,116
Baseline Adjustments:	
Delete one-time EDP costs.....	-553
Delete limited-term positions.....	-623
Eliminate one-time elections costs.....	-5,273
Eliminate one-time political reform costs.....	-113
Add salary and benefits increase.....	529
Subtotal, Baseline Adjustments.....	(-\$6,033)
Program Changes:	
Political reform—Propositions 68 and 73.....	164
Political reform workload.....	63
Corporate filing workload.....	605
Corporate status—direct access.....	438
Limited Partnership workload.....	118
Notary workload.....	57
Notary public examinations.....	370
Mailroom workload.....	27
Increased rent.....	84
Increased equipment base.....	35
Archives preservation.....	25
Elections workload.....	27
Subtotal, Program Changes.....	(\$2,013)
1989-90 Expenditures (proposed).....	\$26,096
Change from 1988-89:	
Amount.....	-\$4,020
Percent.....	-13.3%

**SECRETARY OF STATE—Continued  
ANALYSIS AND RECOMMENDATIONS****Corporate Automation Workload Increases**

*We withhold recommendation on \$538,000 and 17 personnel-years requested in Item 0890-001-001 for increased workload and backlogs in the Corporate Filing and Services Division, pending receipt and analysis of revised workload projections and estimated Teale Data Center charges for the additional positions.*

**Background.** The Secretary of State is required by the California Corporations Code to maintain specified corporate documents on file as public records. The documents are handled by the Secretary of State's Corporate Services and Filing Division, which records and reserves corporation names, dates of incorporation, changes in the status of corporations (such as dissolutions or mergers), and other information. The business, legal and financial communities rely on the information in these files to conduct business activities.

The Secretary of State's Office implemented a new on-line Corporate Automation System in March 1987 that was intended to provide the public and government agencies with more accurate and timely corporate status information than has been previously provided through manual efforts. It was anticipated that the system would generate savings from the avoidance of additional staff costs for workload increases, and by reducing the time spent responding to public complaints. The project's feasibility study report (FSR) estimated that, over the first four years of operation, savings of \$1.3 million would be realized, compared to the costs of the former manual system.

To date, the Corporate Automation System has not provided the benefits anticipated in the FSR. Levels of service are not being met within the three-day turnaround time (excluding telephone inquiries) considered by the Secretary of State to be the maximum acceptable level of delay in providing these services. As a result, backlog volumes have continued to accumulate, office space and equipment needs have continued to rise, unanticipated Teale Data Center expenses have resulted in funding deficiencies, and the level of public complaints has continued to be high.

The budget proposes \$538,000 and 17 personnel-years from the General Fund for the Corporate Filing and Services Division to fund workload increases, reduce the accumulating backlogs, and to reduce delays in turnaround times. In addition, the budget proposes to establish a new corporate status "direct access" system which will enable clients to access corporate status information, for a fee, through a computer link to the office's corporate data base.

**Staffing and Workload Projections Questionable.** Our analysis of the staffing and workload projections developed by the office indicates that they do not provide an adequate basis for evaluating the request for additional resources. Specifically, these data do not make clear how the addition of 17 personnel-years will allow the division to meet its turnaround goal of three days or less. Our concern stems largely from the proposal's failure to consider the full range of current workload responsibilities and associated costs, and the alternatives which may be available for handling the existing workload. For example, the proposal fails to:

- Address the office's current practice of redirecting temporarily idle staff between units to meet workload demands;
- Document how the estimates of personnel-years needed to eliminate various document backlogs for each unit were derived; and
- Address the impact of the proposed "direct access" system on telephone inquiries and the need for personnel-years to respond to these inquiries.

**Additional Teale Data Center Charges Not Addressed.** Our analysis of this proposal also indicates that it fails to include Teale Data Center expenses associated with the additional positions requested. Based on information provided by the Secretary of State's Office, we estimate that the *average* Teale Data Center expenses are approximately \$19,000 for each position within the Corporate Filing and Services Division for the current year, however, these expenses vary widely between the different units within the division. Failure to adequately account for expected data center expenses has resulted in requests for deficiency funding on a regular basis in recent years.

Given the many unanswered questions regarding this request, the Legislature does not have adequate information to evaluate this proposal at this time. Therefore, we withhold recommendation on the \$538,000 and 17 personnel-years requested in the budget for the Corporate Filing and Services Division, pending receipt and analysis of (1) adequate workload projections, and (2) estimated Teale Data Center expenditures for each of the additional positions requested.

#### **Deletion of Name Availability Telephone Operators Makes Sense**

*We recommend the deletion of \$621,000 and 5.7 personnel-years to discontinue funding for telephone information on corporate name availability because the service is duplicative and costly. (Reduce Item 0890-001-001 by \$621,000.)*

The budget proposes an increase of \$67,000 and 1.9 personnel-years in the Name Availability Unit to answer telephone inquiries regarding the availability of corporate names. Four staff are currently assigned to answer telephone inquiries from corporations and individuals seeking to determine whether a corporate name is available. The staff must access the office's data base to determine if the names are available, and the responses are then provided to the waiting callers. Since the only way to *reserve* an available corporate name is by appearing *in person* at the Secretary of State's Office, or through a *written request*, accompanied by a \$10 fee, any information received by telephone must be subsequently verified by other staff in the Name Availability Unit, to ensure that the corporate name is still available.

Our analysis indicates that the information provided over the telephone in the Name Availability Unit is costly and duplicative. Teale Data Center charges associated with investigating the availability of names are approximately \$443,000 in the current year. These costs are incurred *again* at the time that an actual request to reserve a corporate name is made. We believe that this telephone service, which is provided free of charge, is unnecessary and should be discontinued. On this basis, we recommend the deletion of \$621,000 and 5.7 personnel-years.

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## STATE TREASURER

Item 0950 from the General  
Fund

Budget p. LJE 113

Requested 1989-90 .....	\$13,092,000
Estimated 1988-89 .....	11,905,000
Actual 1987-88 .....	11,969,000
Requested increase (excluding amount for salary increases) \$1,187,000 (+10 percent)	
Total recommended reduction .....	None

## GENERAL PROGRAM STATEMENT

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

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

The State Treasurer has 198.2 personnel-years in the current year.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$13,092,000 from the General Fund and reimbursements to support the State Treasurer's Office in 1989-90. This amount is \$1,187,000, or 10 percent, more than estimated expenditures for the current year.

The budget request consists of \$6,525,000 from the General Fund, an increase of \$500,000, or 8.3 percent; and \$6,567,000 in reimbursements, an

Table 1  
State Treasurer  
Budget Summary  
1987-88 through 1989-90  
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1988-89
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1987-88	1988-89	1989-90	1987-88	1988-89	1989-90	
Investment Services .....	8.7	8.7	8.7	\$709	\$705	\$838	18.9%
Cash Management .....	18.2	18.1	18.1	1,248	1,242	1,424	14.7
Trust Services .....	60.1	66.9	67.8	4,808	4,784	5,553	16.1
District Securities Division .....	7.0	6.8	6.8	517	511	595	16.4
Centralized Banking Services <sup>a</sup> ..	—	40.7	40.7	—	3,424	3,404	-0.4
Administration (net) .....	90.7	57.0	58.7	4,687	1,239	1,278	3.1
Totals .....	184.7	198.2	200.8	\$11,969	\$11,905	\$13,092	10.0%
Funding Sources							
General Fund .....				\$6,336	\$6,025	\$6,525	8.3%
Reimbursements .....				5,633	5,880	6,567	11.7

<sup>a</sup> This program is included under Administration in years prior to 1988-89.

increase of \$687,000, or 12 percent. Table 1 shows the expenditures and personnel-years for each of the major programs administered by the State Treasurer's Office during the prior, current, and budget years.

### ANALYSIS AND RECOMMENDATIONS

#### *We recommend approval.*

The proposed net increase of \$1,187,000 in the budget reflects salary and price increases of \$453,000, and several proposed program changes for 1989-90. These changes include: (1) \$137,000 to fund site and installation costs for computer equipment; (2) \$366,000 for general increases in personal services and operating expenses; and (3) \$231,000 and 4.6 personnel-years for workload increases.

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

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## CALIFORNIA DEBT ADVISORY COMMISSION

Item 0956 from the California  
Debt Advisory Commission  
Fund

Budget p. LJE 117

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Requested 1989-90 .....	\$1,125,000
Estimated 1988-89 .....	1,181,000
Actual 1987-88 .....	915,000
Requested decrease (excluding amount for salary increases) \$56,000 (-5.0 percent)	
Total recommended reduction .....	None

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### GENERAL PROGRAM STATEMENT

The California Debt Advisory Commission (CDAC) was established by Ch 1088/81 to provide advisory assistance to state agencies and local governments in the areas of debt issuance and management. The commission has nine members, including the State Treasurer (who serves as chairperson), the Governor or Director of Finance, the Controller, two local government finance officers appointed by the State Treasurer, two members of the Assembly, and two members of the Senate. The general activities of the CDAC are supported by notification fees imposed on the issuance of bonds. Under the terms of Ch 293/83, the fees are paid by the lead underwriter or purchaser of the bonds. Currently, the fee is set at one-eightieth (1/80) of 1 percent of the principal amount of the bond issue, up to a maximum fee of \$2,500. Short-term debt (such as tax and revenue anticipation notes) is subject to a fixed fee of \$125 per issue, while debt issues of less than \$1 million are exempt from the fee requirement. The revenues from the fees are deposited into the CDAC fund.

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

## **CALIFORNIA DEBT ADVISORY COMMISSION—Continued ANALYSIS AND RECOMMENDATIONS**

### *We recommend approval.*

The budget proposes an appropriation of \$1,125,000 from the California Debt Advisory Commission Fund for support of the commission in 1989-90. This is \$56,000, or 5.0 percent, less than estimated expenditures in the current year. This decrease is primarily attributable to the elimination of one-time report expenses.

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

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## **CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE**

Item 0959 from the California  
Debt Limit Allocation  
Committee Fund

Budget p. LJE 113

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Requested 1989-90 .....	\$229,000
Estimated 1988-89 .....	222,000
Actual 1987-88 .....	155,000
Requested increase (excluding amount for salary increases) \$7,000 (+3.2 percent)	
Total recommended reduction .....	None

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## **GENERAL PROGRAM STATEMENT**

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

The Tax Reform Acts of 1984 and 1986 limit the amount of tax-exempt "private activity" bonds which may be issued in a state during a given year. "Private activity bonds" generally include bonds issued for private industrial and commercial development projects, single and multi-family housing, for-profit hospitals and educational facilities, and student loans. Under the Tax Reform Act of 1986, the volume of these bonds that may be issued by each state after 1987 is limited to \$50 per resident, or \$150 million, whichever is greater. In 1989, California's ceiling is estimated to be \$1.3 billion. The committee is responsible for allocating the ceiling amount among state and local agencies.

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

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

Pursuant to Ch 943/87, the committee charges fees to the lead underwriter of bond issues. These fees are deposited in the CDLAC Fund and are used to support the activities of the committee.

### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The budget proposes an appropriation of \$229,000 from the California Debt Limit Allocation Committee Fund for support of CDLAC during 1989-90. This is an increase of \$7,000, or 3.2 percent, above estimated expenditures for the current year. This increase in the committee's budget is attributable to salary and price increases. Our analysis indicates that the proposed expenditures for the committee are reasonable.

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## CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Item 0965 from the Industrial  
Development Fund

Budget p. LJE 120

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Requested 1989-90 .....	\$380,000
Estimated 1988-89 .....	363,000
Actual 1987-88 .....	293,000
Requested increase (excluding amount for salary increases) \$17,000 (+4.7 percent)	
Total recommended reduction .....	None

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### GENERAL PROGRAM STATEMENT

The California Industrial Development Financing Advisory Commission (CIDFAC) was created by Ch 1358/80 for the purpose of evaluating industrial development bonds (IDBs) which are issued by local development authorities. The proceeds of the bonds assist private businesses with the construction or purchase of certain industrial facilities. Current state and federal regulations provide a tax exemption for the interest on IDBs, which allows businesses to obtain financing for qualified projects at rates below conventional financing. These bonds are subject to the state's volume cap for "private activity" bonds, which may restrict the level of IDBs issued in 1989. Chapter 816, Statutes of 1986, increased the maximum amount of federally tax-exempt IDBs which may be issued per year from \$250 million to \$350 million. Chapter 1109, Statutes of 1987, authorized the issuance of an additional \$350 million in bonds which are federally taxable, but not taxable by the state. Finally, provisions of federal law which allow a tax exemption for interest earned on IDBs will expire on December 31, 1989.

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

# **CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION—Continued**

In the past three years, the commission has funded 34 projects totaling \$175.6 million. Table 1 shows the number of projects and the annual amount of bonds issued for 1986, 1987, and 1988.

**Table 1**  
**California Industrial Development Financing Advisory Commission**  
**Industrial Development Bonds Issued**  
**1986 through 1988**  
**(dollars in thousands)**

	1986	1987	1988
Projects .....	10	12	12
Bond Volume .....	\$51,085	\$52,450	\$72,050

The authority for the commission expires on January 1, 1990. The budget includes funding for the full budget year. The Budget Bill, however, includes language prohibiting the expenditure of funds provided for the second half of the budget year, unless legislation is enacted to extend the commission's sunset date. The administration also indicates that its support for an extension of the commission's sunset date is dependent upon the enactment of federal legislation to extend the tax exemption for industrial development bonds.

## **ANALYSIS AND RECOMMENDATIONS**

### *We recommend approval.*

The budget proposes an appropriation of \$380,000 from the Industrial Development Fund for support of the CIDFAC in 1989-90. This is an increase of \$17,000, or 4.7 percent, over estimated current-year expenditures, and is attributable to salary and price increases. Our analysis indicates that the proposed expenditures for the commission are reasonable.

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

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

Budget p. LJE 116

Requested 1989-90 .....	\$335,000
Estimated 1988-89 .....	243,000
Actual 1987-88 .....	115,000
Requested increase (excluding amount for salary increases) \$92,000 (+38 percent)	
Total recommended reduction .....	None

## **GENERAL PROGRAM STATEMENT**

The California Mortgage Bond and Tax Credit Allocation Committee was established by Ch 1097/81 to assure that the state complies with the



requirements of the Federal Mortgage Subsidy Bond Tax Act of 1980. The committee is responsible for allocating to state and local entities the amount of tax-exempt revenue bonds that may be issued in California to finance loans on owner-occupied and multifamily rental housing. The committee also allocates state and federal tax credits to developers of qualified low-income rental projects.

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

The committee has 1.5 personnel-years in the current year.

### ANALYSIS AND RECOMMENDATIONS

#### *We recommend approval.*

The budget proposes an appropriation of \$335,000 from the Mortgage Bond and Tax Credit Allocation Fee Account in the General Fund for support of the committee in 1989-90. This is \$92,000, or 38 percent, above estimated current-year expenditures. The proposed increase reflects an additional \$82,000 for personal services costs and an increase of \$10,000 in operating expenses to support an additional 1.5 personnel-years in the budget year.

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

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

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## CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY

Item 0971 from the California  
Alternative Energy Authority  
Fund

Budget p. LJE 118

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Requested 1989-90.....	\$155,000
Estimated 1988-89 .....	149,000
Actual 1987-88 .....	65,000
Requested increase (excluding amount for salary increases) \$6,000 (+4 percent)	
Total recommended reduction.....	None

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### GENERAL PROGRAM STATEMENT

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

### CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY—Continued

projects undertaken by private businesses. Interest earned on the bonds is exempt from state and federal income taxes, provided that the projects comply with various federal requirements. Alternative energy sources include geothermal, solar, biomass, wind, cogeneration, and small hydro-electric projects, as well as energy conservation projects that reduce the use of fossil and nuclear fuels. As of June 30, 1988, the authority had about \$125 million in bonds outstanding, with \$75 million in remaining authorization.

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

### ANALYSIS AND RECOMMENDATIONS

#### *We recommend approval.*

The budget proposes an appropriation of \$155,000 from the CAEAF for support of the authority in 1989-90. This is an increase of \$6,000, or 4 percent, over the current-year budget and results from increased salary and operating costs.

The requested appropriation is entirely from fees collected by the authority and from surplus remaining in the CAEAF. The proposed 1989-90 expenditure is within the scope of the program previously approved by the Legislature.

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

Item 0994 from the General Fund

Budget p. LJE 122

Requested 1989-90 .....	\$289,000
Estimated 1988-89 .....	289,000
Actual 1987-88 .....	195,000
Requested increase (excluding amount for salary increases) None	
Total recommended reduction .....	None

### 1989-90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0994-001-001—Support	General	\$257,000
Ch 1065/86	General	32,000
Total		\$289,000

### GENERAL PROGRAM STATEMENT

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

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

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

### ANALYSIS AND RECOMMENDATIONS

#### *We recommend approval.*

The budget proposes expenditures of \$289,000 for support of task force activities in 1989-90. This amount is the same as estimated current-year expenditures.

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

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## State and Consumer Services Agency MUSEUM OF SCIENCE AND INDUSTRY

Item 1100 from the General  
Fund

Budget p. SCS 1

Requested 1989-90.....	\$8,949,000
Estimated 1988-89 .....	8,779,000
Actual 1987-88 .....	8,329,000
Requested increase (excluding amount for salary increases) \$170,000 (+1.9 percent)	
Total recommended reduction.....	None

### 1989-90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1100-001-001—Support	General	\$8,794,000
Reimbursements	—	155,000
Totals		\$8,949,000

### GENERAL PROGRAM STATEMENT

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

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

Associated with the Museum of Science and Industry is the Museum of Afro-American History and Culture (MAHC). The MAHC was estab-