

NATIONAL CENTER FOR STATE COURTS—Continued

The budget proposes an appropriation of \$254,000 from the General Fund to finance California's membership in the National Center for State Courts (NCSC). This amount is \$28,000, or 12 percent, greater than estimated current-year expenditures. The requested amount would provide payment of 100 percent of California's assessment in the budget year. The current-year expenditure provides 94 percent of California's assessment. Although California has historically paid less than its full assessment, the Judicial Council advises that it has increased its use of NCSC services in recent years.

Members of the NCSC include all 50 states, four territories, and the District of Columbia. Membership entitles California to judicial research data, consultative services, and information on the views of the various states on federal legislation and national programs affecting the judicial system. The assessment imposed on each member is based primarily on the state's population.

California's proposed payment represents approximately 2.2 percent of the NCSC's annual operating budget.

GOVERNOR'S OFFICE

Item 0500 from the General
Fund

Budget p. LJE 18

Requested 1990-91	\$8,620,000
Estimated 1989-90	8,283,000
Actual 1988-89	7,394,000
Requested increase (excluding amount for salary increases) \$337,000 (+4.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The Governor's Office has 86 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$8.6 million from the General Fund for support of the Governor's Office in 1990-91. The proposed amount is \$337,000, or 4.1 percent, greater than estimated current-year expenditures. Table 1 provides a summary of the budget for the Governor's Office in the past, current, and budget years.

Table 1
Governor's Office
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

<i>Function</i>	<i>Actual 1988-89</i>	<i>Est. 1989-90</i>	<i>Prop. 1990-91</i>	<i>Percent Change From 1989-90</i>
Personal services	\$4,273	\$4,706	\$4,820	2.4%
Operating expenses and equipment	1,577	1,622	1,655	2.0
Unclassified expenses	55	55	125	127.3
Overseas offices	<u>1,489</u>	<u>1,900</u>	<u>2,020</u>	<u>6.3</u>
Totals	\$7,394	\$8,283	\$8,620	4.1%

Most of the increase (\$120,000) requested for 1990-91 is proposed for operation of the five overseas trade offices. This amount includes the full-year operating costs of the newest trade office, which is located in Hong Kong, and relocation expenses for the employees of all five trade offices. In addition, the budget requests \$114,000 for increases in personal services.

Overseas Offices. According to the Governor's staff, the state now has overseas trade offices located in Frankfurt, Hong Kong, London, Mexico City, and Tokyo. The offices are designed to promote state exports, establish agricultural markets, and attract more foreign investment and tourists to California.

SECRETARY FOR STATE AND CONSUMER SERVICES

Item 0510 from the General
Fund

Budget p. LJE 19

Requested 1990-91	\$870,000
Estimated 1989-90	842,000
Actual 1988-89	732,000
Requested increase (excluding amount for salary increases) \$28,000 (+3.3 percent)	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0510-001-001—Support	General	\$856,000
Reimbursements	—	<u>14,000</u>
Total		\$870,000

GENERAL PROGRAM STATEMENT

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

SECRETARY FOR STATE AND CONSUMER SERVICES—Continued

California Museum of Science and Industry	General Services
Consumer Affairs	State Personnel Board
Fair Employment and Housing	Public Employees' Retirement System
Fair Employment and Housing Commission	State Teachers' Retirement System
State Fire Marshal	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 \$856,000 from the General Fund for support of the State and Consumer Services Agency in 1990-91. Total agency expenditures in 1990-91, including expenditures from reimbursements, are budgeted at \$870,000, an increase of \$28,000, or 3.3 percent, over total current-year expenditures. The increase is due primarily to the full-year costs of salary and benefit increases granted in the current year.

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING

Item 0520 from various funds

Budget p. LJE 20

Requested 1990-91	\$1,622,000
Estimated 1989-90	1,728,000
Actual 1988-89	1,634,000
Requested decrease (excluding amount for salary increases) \$106,000 (-6.1 percent)	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0520-001-001—Support	General	\$428,000
0520-001-044—Support	Motor Vehicle Account, State Transportation	657,000
Reimbursements	—	537,000
Total		\$1,622,000

GENERAL PROGRAM STATEMENT

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

Business and Regulatory Agencies

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

Transportation Agencies

California Highway Patrol
 Motor Vehicles
 Transportation
 Traffic Safety

Housing Agencies

Housing and Community Development
 California Housing Finance Agency

The agency has 19.9 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 1990-91. This is \$106,000, or 6.1 percent, less than estimated total expenditures in 1989-90. The proposed expenditures would be funded from appropriations totaling \$1.1 million—including \$428,000 from the General Fund and \$657,000 from the Motor Vehicle Account—and from reimbursements of \$537,000.

The budget proposes no workload or program changes for the agency. The \$106,000 net reduction in proposed expenditures in the budget year results from elimination of current-year one-time costs of \$105,000 to plan for, or participate in, World Expositions in Australia and Spain; a \$25,000 decrease in pro rata costs; and increases of \$18,000 for salaries and \$6,000 for price increases.

SECRETARY FOR HEALTH AND WELFARE

Item 0530 from the General

Fund

Budget p. LJE 22

Requested 1990-91	\$3,356,000
Estimated 1989-90	3,837,000
Actual 1988-89	3,266,000

Requested decrease (excluding amount for
 salary increase) \$481,000 (—12.5 percent)

Total recommended reduction	None
-----------------------------------	------

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0530-001-001—Support	General	\$1,549,000
Control Section 23.50	State Legalization Impact Assistance Grant	1,393,000
Reimbursements	—	414,000
Total		\$3,356,000

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

SECRETARY FOR HEALTH AND WELFARE—Continued

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 \$3.4 million to support the Secretary for Health and Welfare in 1990-91. This amount consists of (1) \$1.5 million from the General Fund for direct support costs, (2) \$1.4 million from the federal State Legalization Impact Assistance Grant for implementation of IRCA, and (3) \$414,000 in reimbursements. Proposed expenditures are \$481,000, or 12.5 percent, less than estimated total expenditures in 1989-90. The decrease is due primarily to a proposed transfer of funds for the implementation of Proposition 65 from the Secretary's budget to the Department of Health Services (DHS) in order to centralize the agency's administration and workload for the program in the DHS.

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
1988-89 through 1990-91
(dollars in thousands)

<i>Program</i>	<i>Actual 1988-89</i>	<i>Est. 1989-90</i>	<i>Prop. 1990-91</i>	<i>Percent Change From 1989-90</i>
Secretary's office	\$1,738	\$1,922	\$1,963	2.1%
Proposition 65 implementation	285	377	—	-100.0
Long-term care financing study	36	—	—	—
Immigration Reform and Control Act	<u>1,207</u>	<u>1,538</u>	<u>1,393</u>	<u>-9.4</u>
Totals	\$3,266	\$3,837	\$3,356	-12.5%
Funding Sources				
<i>General Fund</i>	\$1,663	\$1,875	\$1,549	-17.4%
<i>State Legalization Impact Assistance Grant</i>	1,207	1,538	1,393	-9.4
<i>Reimbursements</i>	396	424	414	-2.4

SECRETARY FOR RESOURCES

Item 0540 from the General
Fund and Environmental
License Plate Fund

Budget p. LJE 24

Requested 1990-91	\$1,545,000
Estimated 1989-90	1,904,000
Actual 1988-89	1,350,000
Requested decrease (excluding amount for salary increases) \$359,000 (-18.8 percent)	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0540-001-001—Agency support	General	\$1,425,000
0540-001-140—CTRPA activities	Environmental License Plate	75,000
Reimbursements	—	45,000
Total		\$1,545,000

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 enforcement 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	Integrated Waste Management Board
Colorado River Board	

In practice, the Air Resources Board, the Integrated 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 \$1,545,000 for the Secretary for Resources in 1990-91. This amount consists of (1) \$1,425,000 from the

SECRETARY FOR RESOURCES—Continued

General Fund for direct support costs, (2) \$75,000 from the Environmental License Plate Fund for processing and monitoring certain leases in the Tahoe Basin, and (3) \$45,000 in reimbursements. This is \$359,000, or 18.8 percent lower than estimated current-year expenditures.

The proposed decrease in expenditures reflects a reduction in funding for one-time studies to develop and evaluate timberland wildlife management programs and mitigation measures. These studies were required by Ch 1241/89 (AB 1580, Willie Brown).

Our analysis indicates that the budget request for the Secretary for Resources is reasonable.

**SECRETARY FOR YOUTH AND ADULT CORRECTIONAL
AGENCY**

Item 0550 from the General
Fund

Budget p. LJE 25

Requested 1990-91	\$978,000
Estimated 1989-90	1,005,000
Actual 1988-89	774,000
Requested decrease (excluding amount for salary increases) \$27,000 (—2.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Secretary for the Youth and Adult Correctional Agency coordinates the activities of and provides policy direction to the Departments of Corrections and the Youth Authority, Board of Prison Terms, Youthful Offender Parole Board, Board of Corrections, Prison Industry Authority, and Narcotic Addict Evaluation Authority. The agency has 10.3 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes \$978,000 from the General Fund for support of the Youth and Adult Correctional Agency in 1990-91. This is a decrease of \$27,000, or 2.7 percent, below estimated current-year expenditures. The net reduction results primarily 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 salary and benefit increases.

The Blue Ribbon Commission on Inmate Population Management, established by Ch 1255/87 (SB 279, Presley), conducted a comprehensive review of the state's correctional system and issued a final report in January 1990. The report makes various recommendations to the Gover-

nor and the Legislature concerning future correctional policy. The areas addressed by the report include: substance abuse among prison inmates, sentencing reform, community corrections programs, and construction of additional state prisons.

Support for the commission's operations in the current year was provided by the departments that report to the Youth and Adult Correctional Agency. The commission's mission is complete with publication of its report.

OFFICE OF CALIFORNIA-MEXICO AFFAIRS

Item 0580 from the General

Fund

Budget p. LJE 26

Requested 1990-91.....	\$289,000
Estimated 1989-90	285,000
Actual 1988-89	263,000
Requested increase (excluding amount for salary increases) \$4,000 (+1.4 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The Office of California-Mexico Affairs (OCMA), established by Chapter 1197, Statutes of 1982, consolidated two previous state agencies: the Commission of the Californias and the Southwest Border Regional Conference. Chapter 1197 consolidated the purposes, staff, and resources of the two predecessor agencies into two organizational units within OCMA.

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

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

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

OFFICE OF CALIFORNIA-MEXICO AFFAIRS—Continued

The budget proposes General Fund expenditures of \$289,000 to support the activities of the OCMA in 1990-91, an increase of \$4,000, or 1.4 percent, above the current year. The proposed increase will fund additional personal services costs.

CALIFORNIA STATE WORLD TRADE COMMISSION

Item 0585 from the General
Fund and various funds

Budget p. LJE 27

Requested 1990-91	\$2,596,000
Estimated 1989-90	2,485,000
Actual 1988-89	2,232,000
Requested increase (excluding amount for salary increases) \$111,000 (+4.5 percent)	
Total recommended reduction	278,000

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0585-001-001—Transfer to California State World Trade Commission Fund	General	(\$2,062,000)
0585-001-147—Transfer to California Export Fi- nance Fund	Unitary	(1,000,000)
0585-001-981—Support	California State World Trade Commission	2,062,000
Statutory Appropriation—Support	Export Finance	249,000
Statutory Appropriation—Support	Export Promotion Account	285,000
Total		\$2,596,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis
page

1. *Export Finance Office. Reduce Item 0585-001-001 by \$278,000.* Recommend reduction of \$278,000 from the General Fund to reflect special fund revenues available for administrative support and the actual level of anticipated expenditures.

39

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 15-member commission is composed of government and

business leaders and is chaired by an appointee of the Governor. The commission has 22.7 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$2,596,000 from various funds to support the programs of the commission during 1990-91. This amount is \$111,000, or 4.5 percent, above estimated current-year expenditures. This reflects a *net* increase of \$81,000 for program changes and \$30,000 for salaries, benefits, and other baseline adjustments.

The budget proposes an increase of \$145,000 and 4.2 personnel-years in the Export Finance Loan Guarantee Program to support additional loan guarantee workloads. Of the proposed increase, 2.8 personnel-years were administratively established in 1989-90. The budget also proposes to transfer \$1 million from the Unitary Fund to the Export Finance Fund in order to fund additional export loan guarantees. This amount is not reflected as an expenditure in the commission's budget, on the basis that it will be used to fund additional loan guarantee reserves.

Table 1 displays the personnel and funding levels for 1988-89 through 1990-91.

Table 1
California State World Trade Commission
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Program	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change From 1989-90	
				Amount	Percent
State World Trade Commission	\$1,686	\$1,829	\$1,869	\$40	2.2%
Export Finance Office	546	656	727	71	10.8
Totals	\$2,232	\$2,485	\$2,596	\$111	4.5%
Funding Sources					
General Fund	\$2,824	\$2,039	\$2,062	\$23	1.1%
Unitary Fund	—	—	1,000	1,000	— ^a
Export Finance Fund	-896	168	-751	-919	— ^a
Export Promotion Account	299	278	285	7	2.5
California State World Trade Commission Fund	5	—	—	—	—
Personnel-Years	20.0	22.7	26.9	4.2	15.6%

^a Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

Export Finance Office Can Be More Self-Sufficient

We recommend a reduction of \$278,000 from the General Fund to reflect special fund revenues available for administrative support and the actual level of anticipated expenditures. (Reduce Item 0585-001-001 by \$278,000.)

The Export Finance Office was established by Chapter 1693, Statutes of 1984 (SB 1196, Vuich) to provide export assistance and to disseminate information on export opportunities, the techniques of exporting, and

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued

sources of public and private export assistance. State contributions to the Export Finance Loan Guarantee Fund have enabled the office to make 195 export loan guarantees, supporting export sales of \$174 million. The program has also issued 243 preliminary loan guarantee commitments. The budget proposes to allocate another \$1 million (from the Unitary Fund) to the office for additional loan guarantees in 1990-91. Our analysis indicates that this additional funding will enable the office to adequately address the expected levels of program activity in the budget year.

Our analysis indicates, however, that the budget fails to recognize additional revenues that will accrue to the California Export Finance Fund from investments and recent increases in administrative fees charged for export loan guarantees. We estimate that these additional revenues will amount to \$250,000 in 1990-91. According to the commission, fee and investment income in excess of its capital requirements should be used to defray the Export Finance Office's operating expenses, in order that the office become "as self-sustaining as possible." In addition, our review indicates that the proposed funding increase for the office is overbudgeted by \$28,000 due to an error in the preparation of the budget. Taking these two factors into account, the office's proposed General Fund support can be reduced by a total of \$278,000 without affecting either the level of proposed loan guarantee activity or the financial condition of the Export Finance Fund, as indicated in the budget. Accordingly, we recommend that the General Fund support for the Export Finance Office be reduced by \$278,000.

OFFICE OF PLANNING AND RESEARCH

Item 0650 from the General
Fund and various funds

Budget p. LJE 32

Requested 1990-91	\$8,127,000
Estimated 1989-90	8,895,000
Actual 1988-89	5,810,000
Requested decrease (excluding amount for salary increases) \$768,000 (—8.6 percent)	
Total recommended reduction	430,000

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0650-001-001—Support	General	\$4,326,000
0650-001-002—Support	Property Acquisition Law Account	430,000
0650-001-853—Support	Petroleum Violation Escrow Account (Federal)	61,000
0650-001-890—Support	Federal Trust	234,000
Reimbursements	—	107,000

Chapter 1343, Statutes of 1986	Local Jurisdiction Energy Assistance Account (Federal)	781,000
Chapters 1338 and 1339, Statutes of 1986	Petroleum Violation Escrow Account (Federal)	2,188,000
Total		<u>\$8,127,000</u>

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS*Analysis
page*

1. *Office of Asset Management. Reduce Item 0650-001-002 by \$430,000.* Recommend deletion because asset management programs already exist in agencies responsible for the management of state property. 42

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 77 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes the expenditure of \$8.1 million (all funds) for support of OPR in 1990-91. This is a decrease of \$768,000, or 8.6 percent,

Table 1
Office of Planning and Research
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

<i>Program</i>	<i>Actual 1988-89</i>	<i>Est. 1989-90</i>	<i>Prop. 1990-91</i>	<i>Percent Change From 1989-90</i>
Education planning and policy.....	\$404	\$484	\$486	0.1%
Local government affairs.....	755	808	825	2.1
Permit assistance.....	1,148	1,216	1,228	1.0
Energy extension service.....	1,816	4,231	3,264	-22.9
Community relations.....	682	758	772	1.8
Executive office and support services.....	<u>1,005</u>	<u>1,398</u>	<u>1,552</u>	<u>11.0</u>
Totals.....	\$5,810	\$8,895	\$8,127	-8.6%
Funding Sources				
<i>General Fund</i>	\$3,809	\$4,557	\$4,326	-5.1%
<i>Property Acquisition Law Account</i>	—	—	430	— ^a
<i>Local Agency Technical Assistance Account</i> ...	80	— ^b	— ^b	—
<i>Local Jurisdiction Energy Assistance Account (federal-PVEA)</i>	77	908	781	-14.0
<i>PVEA funds (federal)</i>	1,441	3,122	2,249	-28.0
<i>Federal Trust Fund</i>	296	201	234	16.4
<i>Reimbursements</i>	107	107	107	—
Personnel-Years.....	71.7	77.0	79.9	3.8%

^a Not a meaningful figure.

^b 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 (AB 3206, Tanner).

OFFICE OF PLANNING AND RESEARCH—Continued

below estimated current-year expenditures. This decrease is primarily the result of: (1) completion of the work of the Governor's Board of Inquiry on the 1989 Loma Prieta Earthquake in the current year, and (2) current-year expenditure of federal funds that were appropriated to OPR in prior legislation.

Table 1 shows the budget for OPR by program and funding source for 1988-89 through 1990-91.

ANALYSIS AND RECOMMENDATIONS**Office of Asset Management Not Justified**

We recommend deletion of \$430,000 from the Property Acquisition Law Account proposed for a state asset management program because similar programs already exist in other departments that manage state property.

The budget proposes \$430,000 from the Property Acquisition Law Account for permanent establishment of a state Office of Asset Management (OAM) in OPR. The office was established in OPR in the current year pursuant to an executive order. The executive order established as state policy the active management of state land and property for the maximum public benefit and highest and best use. The OPR received \$260,000 in reimbursements from the Department of General Services (DGS) in the current year to support the program.

The proposal for the budget year includes \$160,000 for three positions, \$200,000 for external consulting contracts, and \$70,000 for other operating expenses and equipment. The office will rely primarily on the property management staff of DGS, other agencies having property management functions, such as Caltrans, and independent consultants.

Our analysis indicates that other state agencies responsible for management of large amounts of state property currently have asset management programs. The DGS controls the property transactions of most state agencies and already has a property asset management program. The Legislature established the Proactive Asset Management Program in DGS last year. In fact, DGS proposes to expand its current program in the budget year (please see our discussion of the DGS proposal in Item 1760).

Caltrans is the only other major state agency that does not rely on DGS for property management services. Caltrans, however, has had an asset management program for many years and is currently reviewing its asset management strategy.

There is no indication that OAM will have significant authority over DGS or Caltrans, other than oversight and advisory functions. Thus, given that both departments already have asset management programs, we see no reason to create an additional layer of bureaucracy for this program, especially given that OPR has little role in the management of state property.

Accordingly, we recommend deletion of the request. We suggest that the Legislature consider any changes in the area of property asset management in the DGS or Caltrans budgets.

OFFICE OF EMERGENCY SERVICES

Item 0690 from the General
Fund and various other funds

Budget p. LJE 37

Requested 1990-91	\$153,408,000
Estimated 1989-90	227,986,000
Actual 1988-89	50,850,000
Requested decrease (excluding amount for salary increases) \$74,578,000 (—32.7 percent)	
Recommended reduction	6,329,000

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0690-001-001—Support	General	\$21,457,000
0690-001-014—Support	Hazardous Waste Control Account	2,334,000
0690-001-029—Support	Nuclear Planning Assessment Special Account	1,029,000
0690-001-890—Support	Federal Trust	4,754,000
0690-101-001—Local Assistance	General	4,750,000
0690-101-029—Local Assistance Fixed Nuclear Power Plant Planning	Nuclear Planning Assessment Special Account	1,868,000
0690-101-890—Local Assistance Disaster Assistance	Federal Trust	96,413,000
Subtotal, Budget Bill Appropriations		(\$132,605,000)
Government Code Sections 8690.02, 8690.4, 8690.5—Support	Disaster Administration Sup- port Account, Natural Disaster Assistance	717,000
Chapter 3x, Statutes of 1987—Local Assistance	General	346,000
Continuous Appropriation—Local Assistance	Public Facilities and Local Agency Account, Natural Disaster Assistance	17,696,000
Continuous Appropriation—Local Assistance	Street and Highway Account, Natural Disaster Assistance	874,000
Continuous Appropriation—Local Assistance	State Assistance for Fire Equipment Account	100,000
Reimbursements		1,070,000
Total, All Funds		\$153,408,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis
page

1. *Satellite Communications Equipment. Reduce Item 0690-001-001 by \$4,527,000.* Recommend a reduction because the proposal is premature. 47
2. *Urban Search and Rescue. Reduce Item 0690-001-001 by \$564,000.* Recommend deletion of equipment and 2.7 posi- 49

OFFICE OF EMERGENCY SERVICES—Continued

- tions because proposal does not reflect final recommendations of an advisory committee.
3. **Training. Reduce Item 0690-001-001 by \$209,000.** Recommend deletion of contract funds and one position due to lack of justification. 50
 4. **Earthquake Preparedness Projects. Reduce Item 0690-001-001 by \$1,029,000.** Recommend deletion of 10 proposed positions because office should seek authorizing legislation to expand projects. 50
 5. **Dam Safety Program.** Recommend that the office provide to the Legislature, prior to budget hearings, its plan for compliance with state and federal law. 52
 6. **Disaster Assistance Accounts.** Recommend that the office provide to the Legislature, prior to budget hearings, a revised estimate of amounts needed in specified disaster assistance accounts. 53
 7. **Allocations To Other State Agencies.** Budget request includes \$1,893,000 from the General Fund for expenditures that would occur in the Department of General Services and the Emergency Medical Services Authority. 54

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.

MAJOR ISSUES

- ☒ Many of the office's proposals are not fully developed.
- ☒ Proposals for satellite communications equipment (\$4.5 million) and urban search & rescue equipment (\$564,000) are premature.
- ☒ Earthquake preparedness projects should be expanded through legislation.
- ☒ Dam safety program is not in compliance with state and federal law.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$153.4 million in 1990-91. This is \$74.6 million, or 33 percent, less than estimated expenditures in the current year.

The budget proposes expenditure of \$51.2 million in state funds in 1990-91, which is \$11.4 million, or 22.2 percent, less than estimated state expenditures in the current year. The decrease in expenditures proposed for 1990-91 is primarily due to decreases in disaster assistance expenditures provided in the current year for the Loma Prieta earthquake.

It is important to note that the amount of disaster assistance budgeted for 1990-91 is an *estimate*. The actual level of expenditure in the budget

Table 1
Office of Emergency Services
Funding Sources
1988-89 through 1990-91
(dollars in thousands)

<i>Category/Source of Funds</i>	<i>Actual 1988-89</i>	<i>Est. 1989-90</i>	<i>Prop. 1990-91</i>	<i>Percent Change From 1989-90</i>
State Operations				
General Fund.....	\$9,960	\$15,399	\$21,457	39.3%
Federal Funds.....	4,050	4,747	4,754	0.1
Hazardous Waste Control Account.....	1,370	1,511	2,334	54.5
Nuclear Planning Assessment Special Account.....	493	980	1,029	5.0
Natural Disaster Assistance Fund:				
OES Disaster Administration Support Account.....	216	-3,073 ^a	717	— ^b
Public Facilities and Local Agency Disaster Response Account.....	1	—	—	—
Southern California Earthquake Account.....	155	—	—	—
Reimbursements.....	733	838	1,070	27.7
Subtotals.....	(\$16,978)	(\$20,402)	(\$31,361)	(53.7%)
Local Assistance				
General Fund.....	\$1,872	\$118,400	\$5,096	-95.7%
Federal Funds.....	24,440	159,863	96,413	-39.7
Nuclear Planning Assessment Special Account.....	685	1,778	1,868	5.1
Natural Disaster Assistance Fund:				
Public Facilities and Local Agency Disaster Response Account.....	2,148	-76,871	17,696	-123.0
Street and Highway Account.....	1,218	4,314	874	-79.7
Public Facilities Account.....	144	—	—	—
1983 Natural Disaster Assistance Account.....	422	—	—	—
1986 Flood Disaster Account.....	6	—	—	—
Southern California Earthquake Account.....	2,884	—	—	—
State Assistance for Fire Equipment Account.....	53	100	100	—
Subtotals.....	(\$33,872)	(\$207,584)	(\$122,047)	(-41.2%)
Totals.....	\$50,850	\$227,986	\$153,408	-32.7%

^a Includes transfer from the General Fund for expenses already counted in General Fund total.

^b Not a meaningful figure.

OFFICE OF EMERGENCY SERVICES—Continued

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.

As Table 1 illustrates, the costs of state operations are proposed to increase by \$10.9 million, or 53.7 percent. This increase is due to various new or expanded proposals that are discussed below. The \$85.5 million, or 41.2 percent, decrease in local assistance in 1990-91 reflects the difference between the amount of disaster relief funds expended in the current year primarily for the Loma Prieta earthquake and the amount that is budgeted for disaster relief for this earthquake and other disasters in the budget year.

Table 2 provides a summary of OES expenditures and personnel by program. The office has 228.6 personnel-years in the current year.

Table 2
Office of Emergency Services
Program Summary
1988-89 through 1990-91
(dollars in thousands)

<i>Program</i>	<i>Actual 1988-89</i>	<i>Est. 1989-90</i>	<i>Prop. 1990-91</i>	<i>Percent Change From 1989-90</i>
Fire and Rescue	\$2,810	\$2,681	\$3,673	37.0%
Law Enforcement	698	833	935	12.2
Emergency Communication Systems	2,472	2,613	7,392	182.9
Plans and Preparedness	1,356	1,428	2,180	52.7
Earthquake Preparedness	1,982	2,183	5,396	147.2
Training	2,359	3,040	3,757	23.6
Hazardous Materials and Radiological				
Planning	3,164	5,084	5,921	16.5
Technical Assistance to Local Governments...	1,738	1,681	1,683	0.1
Disaster Assistance	34,271	208,443	122,471	-41.2
Administration (distributed)	(1,766)	(1,801)	(1,999)	11.0
Totals	\$50,850	\$227,986	\$153,408	-32.7%
<i>Personnel-Years</i>				
Fire and Rescue	24.0	24.0	25.7	7.1%
Law Enforcement	6.2	8.6	8.6	—
Emergency Communication Systems	16.7	15.8	15.8	—
Plans and Preparedness	17.4	19.5	23.2	19.0
Earthquake Preparedness	16.9	24.8	35.3	42.3
Training	26.0	29.5	34.2	15.9
Hazardous Materials and Radiological				
Planning	28.5	45.8	50.5	10.3
Technical Assistance to Local Governments...	23.1	18.6	18.6	—
Disaster Assistance	15.5	12.9	18.5	43.4
Administration (distributed)	34.4	29.1	32.8	12.7
Totals	208.7	228.6	263.2	15.1%

ANALYSIS AND RECOMMENDATIONS

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

- An augmentation of \$1.1 million from the General Fund to purchase additional communications and rescue equipment and to establish a 10-year replacement cycle for this equipment.
- An augmentation of \$221,000 from the General Fund for a phone system at the interim Southern California Operations Center.
- An augmentation of \$155,000 (\$56,000 from the General Fund, \$99,000 from federal and other funds) to re-establish six positions that had been abolished due to vacancies.
- An increase of \$488,000 generated by fees charged for training courses and a General Fund augmentation of \$148,000 to increase the number of courses offered at the California Specialized Training Institute (CSTI).
- An increase of \$794,000 from the Hazardous Waste Control (HWC) Account, offset by reductions of \$103,000 from the General Fund and \$47,000 from federal funds, to properly charge the HWC Account for activities related to hazardous substances.
- An increase of one position funded from reimbursements from other state agencies to assist these agencies in developing disaster recovery plans.

Many of the Office's Proposals Are Not Fully Developed

The office proposes augmentations of about \$15.8 million (\$14.3 million from the General Fund, \$1.5 million from federal and other funds) in various areas, including communications, earthquake preparedness, and training. Our review indicates that while the concepts underlying many of the proposals are meritorious, the office has not provided the Legislature with the kind of information needed to justify the specific projects and funding amounts proposed in the budget. In some cases, we believe that it would be more appropriate for the department to seek authorizing legislation to implement its proposals. Moreover, some requests are premised upon significant and time-consuming actions being completed during a very short period of time.

Although the requested augmentation is relatively large compared to the regular OES support budget, there are several areas that are not addressed that represent potentially significant deficiencies in the state's emergency services responsibilities. These deficiencies became apparent following the Loma Prieta Earthquake on October 17, 1989. They include hazard mitigation, coordination between OES and other state departments that provide emergency services, the self-sufficiency of local agencies in disaster planning and response efforts, and emergency housing.

The particular proposals that we are concerned with are discussed below.

Request for Satellite Communications Equipment Is Premature

We recommend a reduction of \$4,527,000 proposed from the General Fund for purchase of satellite communications equipment because the proposal is premature. (Reduce Item 0690-001-001 by \$4,527,000.)

OFFICE OF EMERGENCY SERVICES—Continued

The budget proposes \$4.5 million from the General Fund for the purchase of a network of small satellite ground stations to be installed at emergency operation centers and other facilities. The network would provide redundant "hub" stations with telephone interconnect and network switching equipment located at the state operations center in Sacramento and a state coordinating center, which is proposed to be located in southern California (we discuss this proposal in our analysis of the office's capital outlay proposal in the back portion of this document). The OES estimates that this system would result in costs of \$5 million in 1991-92 and \$4.6 million in 1992-93, with ongoing costs of about \$2.2 million annually thereafter.

Background. Recently, OES has been working with the Department of General Services (DGS) to develop ways to reduce the seismic vulnerability of public safety communications. In 1988, OES and DGS commissioned Morrison-Knudsen Engineers, Inc. to undertake a communications vulnerability study. The study made various recommendations regarding activities that OES and DGS should undertake to improve the earthquake survivability of the public safety communications in the state. The report included recommendations that OES and DGS conduct feasibility studies on installing additional microwave paths and determining the financial viability and seismic survivability of a California Emergency Satellite Communications System.

No Basis for Costs Assumed in the Proposal. At the time this analysis was prepared, OES had not begun either of the recommended studies and had no plans to do so. Instead, OES has instructed DGS to issue a request for information (RFI) to potential vendors regarding information about the cost and availability of the type of equipment outlined in the Morrison-Knudsen study. The DGS advised us that these requests for information would not be distributed until February 1990 and would take seven months to complete. Thus, the estimates of the budget-year and future-year costs of the proposal are not based on any information that reflects the type or cost of equipment that is available.

Optimistic Time Frame. The DGS advises that neither it nor OES has significant knowledge of the type of satellite communications equipment requested, but that the RFI process would be used to educate the two departments. Even if the RFI process were successful in educating OES and DGS on this new communications system, and if the RFI process is completed within the DGS schedule of seven months, the two departments will still have to complete the Request for Proposal (RFP) process to accept bids and let a contract for purchase of equipment. The RFP process alone usually takes another six to eight months. Therefore, it appears highly unlikely that the actual date of *beginning* the procurement process would fall in 1990-91.

Proposal is Premature. While it appears that the state may need to upgrade its public safety communications system, our analysis indicates that OES has not undertaken the necessary steps to adequately assess the feasibility or the cost of the system it is proposing. The OES has not

followed reasonable procedures to determine what type of equipment and related support is necessary to upgrade the system. We believe that before OES proposes to commit the state to the expenditure of millions of dollars for equipment in the budget year and future years, it should develop a proposal that is based on (1) an accurate assessment of the feasibility of a system, (2) the type of equipment available in the marketplace, and (3) the costs of implementing and maintaining such a system. Given that the proposal does not contain any of these elements, we recommend a General Fund reduction of \$4.5 million proposed for the purchase of satellite equipment.

Equipment Request Should Await Recommendation of Advisory Committee

We recommend a General Fund reduction of \$564,000 proposed for urban search and rescue training and equipment because the proposal is premature. (Reduce Item 0690-001-001 by \$564,000.)

The budget proposes \$564,000 from the General Fund to purchase equipment (\$453,000) for urban search and rescue activities and to implement a training program (\$111,000) for persons who participate in these activities. The OES cannot identify the type or amount of equipment it plans to purchase or the number of participants and type of training it plans to provide.

Current Law Requires the State to Have Urban Rescue Capability. Chapter 1206, Statutes of 1989 (SB 2046, Campbell), requires OES to acquire and maintain urban heavy rescue units and transportable caches of gear. The legislation, however, does not specify the number or types of units and equipment that OES is to have. Chapter 1206 also requires the State Fire Marshal to coordinate with OES the training of personnel in the use of the units and equipment.

Budget Request Precedes the Final Proposal of the Advisory Committee. Late in 1989, OES established an urban search and rescue advisory committee in response to Chapter 1206. The committee is currently developing a proposal on how the state can acquire urban search and rescue capabilities. The committee completed its first draft of a proposal in December 1989. This draft identified areas that still need to be addressed, including development of an inventory of equipment that is currently available, compiling a list of appropriate required equipment, identifying and developing agreements with other state and local agencies that would be involved in the proposed multi-discipline urban search and rescue teams, establishing systems for tracking team member training and certification, and developing a curriculum and establishing a site for continuing education and team training. There is no date projected for completion of the committee's final report.

We do not know the basis for the office's proposal for equipment purchases since it was developed without information or guidance from the advisory committee. In addition, we know of no basis for the proposal for training programs since decisions about the amount, type, and even the location of the training have not been made. Thus, our review indicates that the amount requested has little, if any, analytical basis.

OFFICE OF EMERGENCY SERVICES—Continued

In addition, because the Legislature has expressed its concern regarding the state's urban rescue capability, we believe that the Legislature should have the opportunity to review the final proposal of the advisory committee and establish priorities for the state before funds are committed for additional activities in this area.

Accordingly, we recommend a General Fund reduction of \$564,000. We recommend that the OES await the final proposal of the Urban Search and Rescue Advisory Committee before submitting a proposal for funding.

Training Proposal Not Justified

We recommend a General Fund reduction of \$209,000 proposed for a training position and outside consultant services because the OES has provided insufficient justification and detail for the proposal. (Reduce Item 0690-001-001 by \$209,000.)

The budget proposes \$209,000 from the General Fund and one new position to develop and conduct training for staff of the State Operations Center. Of this amount, \$50,000 is proposed to support the position and \$159,000 is proposed for consultant services and other operating expenses and equipment.

Currently, OES personnel and personnel from other state agencies receive training in coordinating their various functions during the time of a disaster. Training involves simulating disaster situations, such as earthquakes and nuclear accidents. The OES indicates that these exercises provide essential training to the state personnel involved. The office further states that "additional extensive in-depth training is necessary" for disaster response.

In response to the perceived need for additional training, OES proposes extensive use of outside consultant services. The office asserts that an outside consultant would have more in-depth knowledge of the functions of the various state departments during an emergency than would OES staff. However, the office had no detail on the requirements for a consultant, the criteria it would use for selecting one, or the particular expertise that an outside consultant would have that is lacking within the office.

Training Deficiencies Not Identified. The office already has a staff to perform the training function and the various state agencies currently undertake coordinated training exercises to prepare for disaster situations. Our analysis indicates that OES has not defined the inadequacies of the current training programs or identified how additional staff or consultant services would address the perceived need. Thus, we do not believe that OES has presented adequate justification to support an expansion of the current effort. Accordingly, we recommend that the requested amount be deleted, for a General Fund savings of \$209,000.

OES Should Seek Legislation to Expand Earthquake Preparedness Projects

We recommend a General Fund reduction of \$1,029,000 proposed for the expansion of the southern California and Bay Area earthquake

preparedness projects because OES should seek legislation authorizing the expansion. (Reduce Item 0690-001-001 by \$1,029,000.)

The budget proposes an increase of \$2.4 million (\$2 million from the General Fund and \$394,000 from federal funds) for continuation and expansion of the Southern California Earthquake Preparedness Project (SCEPP) and the Bay Area Regional Earthquake Preparedness Project (BAYREP) through 1990-91. The amount proposed includes \$1.4 million for continuation of the existing projects and \$1 million and 10 new positions for expansion of the projects into two additional, unspecified, counties.

Earthquake Preparedness Projects were Created and Expanded Through Legislation. The SCEPP was initially authorized by Ch 1046/80 (AB 2202, Vicencia) to test, on a limited-term basis, an earthquake planning and preparedness project that would be applicable to other areas of the state. Chapter 313, Statutes of 1984 (AB 2662, Alatorre), created the BAYREP and extended both programs through June 1985. Chapter 1115, Statutes of 1986 (SB 1973, Alquist), modified the programs and extended them through June 1990.

Chapter 1243, Statutes of 1987 (SB 1410, Bergeson), added San Diego and Imperial Counties to the SCEPP area and Ch 1056/89 (AB 725, Hansen) extended the sunset date for SCEPP and BAYREP to June 1995. Chapter 1056 did not include authorization or financial support to expand the programs into additional counties.

The main purpose of the projects is to increase public awareness of earthquake hazards. The projects have produced various manuals and guides for use by cities, schools, and businesses in preparing for and recovering from earthquake damage. The projects have also sponsored conferences and worked with local planners to increase awareness of earthquake hazards and to develop regional response and rescue plans. Some of the specific requirements of the two projects include reviewing recovery efforts after a damaging earthquake such as the recent Loma Prieta earthquake, and recommending program changes to state and local agencies to reduce earthquake hazards.

Legislature May Wish to Determine the Location of Project Sites As It Has Done Throughout the History of the Projects. We are concerned that the OES is seeking to expand the SCEPP and BAYREP only four months after the Legislature reviewed the projects and extended them in Chapter 1056. Historically, the projects have been expanded only through legislation. In addition, we believe that the Legislature may wish to review the activities of the projects in light of the recovery efforts following the recent Loma Prieta earthquake. Considering the Legislature's long interest in these projects, it may wish to specify particular areas of study for the projects and determine where expansion is most needed.

Therefore, we recommend that funding proposed for expansion of the projects (\$1 million) be deleted until the Legislature has an opportunity to review the work of the projects, review the findings made by the projects regarding the Loma Prieta earthquake, and determine the

OFFICE OF EMERGENCY SERVICES—Continued

location of any appropriate expansion. Consistent with previous legislative actions, expansion of the projects should be sought through separate legislation.

Dam Safety Program Requires Monitoring

We recommend that OES provide a work plan to the Legislature, prior to budget hearings, demonstrating how it plans to meet the legal requirements of its dam safety program.

The budget proposes a General Fund augmentation of \$103,000 and two positions to eliminate the backlog of safety inspections that exist in the office's dam safety program and to bring the program into compliance with state and federal law.

Background. Under current law, OES is required to inspect annually specified dams and the areas below the dams to determine if any death or personal injury would result in the event of a dam's sudden or total failure. In the event that death or injury would result, OES requires the dam owner to submit a map that indicates the likely path, depth, and speed of the water. This map is provided to local planning jurisdictions for use in developing evacuation plans. Dams that do not pose a risk of death or injury still must be inspected every two years.

OES Has Been Unable to Conduct Statutorily Required Dam Inspections. Currently, OES has two part-time positions (an emergency planner and an office technician) to carry out these inspections. According to OES, it has been unable to maintain the required schedule of inspections. The office indicates that there are over 1,200 dams within its jurisdiction and about 400 dams are in its inspection backlog. The amount of time it takes to inspect a dam varies from several hours (excluding travel time) to several days. Also, almost all of the approximately 300 evacuation plans on file with the office are at least five years old and do not take account of recent population growth in the areas below the dams. The OES also advises that it has been unable to follow-up on dams and downstream areas that have specific problems requiring action to be sure that appropriate steps have been taken by the owners.

Compliance with Federal Requirements is Also Delayed. In 1988, the Federal Energy Regulatory Commission required new inundation maps and emergency action plans from all dam owners whose dams produce power. According to OES, it currently has about 140 inundation maps and emergency action plans involving more than 50 jurisdictions that must be evaluated and integrated with the state's program.

In order to meet these state and federal requirements and eliminate the backlog, OES is proposing to add two emergency services coordinators. This proposal will increase the staffing of the program to 2.5 professional positions, plus the current half-time clerical position. At the time this analysis was prepared, however, OES had not developed a work plan that demonstrated that the addition of two professional staff would enable OES to comply with state and federal law.

Given the large backlog of inspections and the public safety issues involved, we believe that the Legislature should closely monitor the office's efforts in this area.

Consequently, we recommend that OES provide the Legislature, prior to budget hearings, with more detailed information regarding its plan to eliminate its inspection backlog and comply with current federal and state requirements. This information should include a work plan with an estimate of the number of hours (including travel time) that will be necessary to inspect all the dams in its backlog; an estimate of the amount of staff time necessary to integrate the Federal Energy Regulatory Commission's required maps and plans with the state-required maps and plans; and a plan to conduct follow-up inspections on dams and downstream areas that have been identified as having particular problems.

Legislature Needs Better Estimate of the Amounts Required for the Disaster Accounts

We recommend that the OES provide the Legislature, prior to budget hearings, with revised estimates of the amounts needed in its disaster assistance accounts to meet obligations from previous disasters.

The budget proposes a General Fund appropriation of \$866,000 to the OES Disaster Administration Support (DAS) Account and \$4.75 million to the Public Facilities and Local Agency (PFLA) Disaster Response Account to cover obligations from previous disasters, *excluding* the Loma Prieta earthquake of October 1989.

Chapter 1507, Statutes of 1988 (SB 1910, Campbell), made various changes in the Natural Disaster Assistance Fund, including the creation of the DAS Account and the PFLA Account. The purpose of the DAS Account is to provide funds to state agencies for the engineering, administrative, and audit functions that are necessary for response and recovery activities related to particular disasters. The purpose of the PFLA Account generally is to provide funds to local agencies for response and recovery activities related to a natural disaster and for the repair, reconstruction, or replacement of facilities damaged during a natural disaster.

We are concerned about the amounts requested for the accounts for several reasons.

Estimate Does Not Account for Loma Prieta Earthquake. First, the request does not include an estimate of the amount needed in the DAS Account to support the engineering, audit, and administrative functions of state agencies that will result from work associated with the recent Loma Prieta earthquake. This is of concern because in the past the balances of various disaster assistance accounts have been reverted to the General Fund, even though the accounts had outstanding obligations. For example, last year the Legislature reverted \$6.7 million in several disaster accounts to the General Fund because the funds had not been encumbered at the time. The OES knew, however, that a portion of the funds would be needed to meet the state's legal obligations. Now, the budget requests an appropriation for this purpose.

OFFICE OF EMERGENCY SERVICES—Continued

Currently, the Director of Finance has the authority to transfer any amount of funds to the DAS Account from the Reserve for Economic Uncertainties to cover any amount of claims that may exceed the unencumbered balance in the account. This transfer authority is to allow an immediate flow of funds into the account in times of emergency. Since the Loma Prieta earthquake occurred several months ago, OES has had time to make an assessment of its need for engineering, audit, and administrative support to carry out reconstruction activities. Therefore, we believe that it is prudent to budget for these anticipated expenses, rather than to depend on the transfer authority of the Director of Finance.

Estimates for the DAS Account Do Not Reflect Proper Expenditures.

The second reason that we are concerned about the request for the DAS Account is that it appears the OES may be charging expenses to the account that are not allowed by law. Current law specifies that the DAS Account be used for support costs "required to respond to a specific disaster." However, OES recently purchased several trailers for its Sacramento headquarters that will be used as office space for the Disaster Assistance Division. Although we do not question the need for the additional space, we do not believe that this need arose out of a specific disaster. We believe that costs associated with the regular activities of OES should be funded through its regular support budget and subject to legislative review, not through the DAS Account.

Estimate May Overstate Needs for PFLA Account. The request for the PFLA Account is based on calculations that include "obligations" to various reclamation districts for emergency repairs to the Delta. However, over the past year, OES has been working with the federal government, State Controller's auditors, and the members of the reclamation districts to recover state funds that were spent inappropriately or for expenditures which the districts cannot document adequately.

The OES is near resolution on the major projects in the Delta. Soon it should have a better estimate of the actual recoveries made as well as the outstanding obligations of the PFLA Account. This will likely have the effect of reducing the amount needed to meet the obligations associated with past disasters.

Analyst's Recommendation. Because of our concerns regarding the uses of these accounts and the amounts needed to meet the state's obligations from previous disasters, we recommend that OES provide the Legislature, prior to budget hearings, with revised estimates of the amounts needed in the DAS and PFLA Accounts to meet obligations from previous disasters.

Funds Are in the Wrong Budget

The budget proposes \$1,893,000 from the General Fund for expenditures that would occur in other agencies.

The budget proposes \$1.9 million from the General Fund for services that would not be provided by OES but instead by the Office of the State

Architect in the Department of General Services (DGS) and the Emergency Medical Services Authority (EMSA). The Governor's Budget indicates that the amount proposed for DGS (\$1.5 million) would be used for a seismic survey of public school buildings and state-owned structures. The amount proposed for EMSA (\$393,000) would be used for a medical mutual aid response system.

The OES staff advise that the funds would be "passed through" OES to DGS and EMSA. Staff further advise that the funds are proposed in this item simply because the budgets of DGS and EMSA had been completed prior to the time these proposals were approved, but the budget for OES was still pending.

Because the funds are not associated with any program within OES, the amount will have to be adjusted depending on actions taken by the budget subcommittees on the DGS and EMSA budgets. We discuss these proposals in our analyses of DGS (Item 1760) and EMSA (Item 4120).

Capital Outlay

The Governor's Budget proposes an appropriation of \$230,000 in Item 0690-301-036 for capital outlay expenditures in the Office of Emergency Services. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

USES OF THE DISASTER RELIEF FUND

Item 0695 from the Disaster
Relief Fund

Budget p. LJE 51

ANALYSIS AND RECOMMENDATIONS

We recommend deletion of this item from the Budget Bill because we believe that it is an inappropriate use of the Disaster Relief Fund.

The budget proposes language that would allow the Disaster Relief Fund to be used to reimburse the General Fund for tax revenue losses incurred as a result of the Loma Prieta earthquake. The Department of Finance estimates this amount at \$61 million in the current year and \$36 million in the budget year.

Background. Chapter 13, Statutes of 1989 (AB 48x, Areias), and Chapter 14, Statutes of 1989 (SB 33x, Mello), enacted during the November 1989 special session, established the Disaster Relief Fund. Revenue to this fund accrues from a quarter-cent increase in sales taxes that is effective for 13 months. During the special session, the Legislature also enacted legislation to allow individual and corporate taxpayers to carry forward all of their excess casualty and operating losses related to the earthquake for up to five years, with one-half of any remaining excess losses deductible over the subsequent 10 years. In addition, corporations, as well as individuals, could carry back their losses to the prior year.

USES OF THE DISASTER RELIEF FUND—Continued

Analyst's Recommendation. We do not believe that reimbursing the General Fund for lost revenue is an appropriate use of the Disaster Relief Fund. This is because Chapters 13 and 14 state that the Disaster Relief Fund is continuously appropriated for "purposes of funding disbursements made for response to and recovery from earthquakes...and any other related casualties." Also, at this early stage of recovery, the state has limited information regarding the amount needed from the Disaster Relief Fund for the recovery activities of the state and local governments in the budget year. Any shortfall in the Disaster Relief Fund will probably have to be made up from the General Fund (the Reserve for Economic Uncertainties). Because current estimates of response and recovery costs associated with the earthquake exceed the amount estimated to be available in the fund, we recommend that the proposed provision be deleted.

GOVERNOR'S PORTRAIT

Item 0720 from the General Fund Budget p. LJE 57

Requested 1990-91	\$20,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item provides funds for commissioning a portrait of the Governor. Traditionally, funds have been provided for a portrait of each outgoing Governor. The previous outgoing Governor's portrait was commissioned in 1982-83 for \$13,000.

REQUIREMENTS OF GOVERNOR-ELECT AND THE OUTGOING GOVERNOR

Item 0730 from the General Fund Budget p. LJE 58

Requested 1990-91	\$550,000
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Constitution requires the Governor to submit to the Legislature by January 10 of each year a budget with an explanatory

message for the ensuing fiscal year. Because the Governor's term does not begin until January 3 following his or her election, newly-elected Governors have only one week in office before their budget is due.

Chapter 1241, Statutes of 1974 (SB 1984, Alquist), allows the Director of Finance to appoint persons to assist a Governor-elect in preparing a budget for submission by the January 10 deadline. The act also allows the outgoing Governor to appoint, for up to 60 days, persons to assist him in concluding matters arising out of his official duties.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$550,000 from the General Fund in 1990-91 for the purposes authorized in Chapter 1241. Approximately \$232,000 was expended for these purposes during the last transition in 1982-83.

The Budget Bill specifies that the appropriation would be available for expenditure by the Department of Finance from November 7, 1990 to January 6, 1991. The Budget Bill allocates \$450,000 for the duties of the Governor-elect subject to his or her approval. The remaining \$100,000 is allocated for the duties of the outgoing Governor.

Our analysis indicates that the funds are needed to ensure a smooth transition from one administration to another. Consequently, we recommend approval of the requested amount.

OFFICE OF THE LIEUTENANT GOVERNOR

Item 0750 from the General
Fund

Budget p. LJE 58

Requested 1990-91.....	\$1,667,000
Estimated 1989-90	1,630,000
Actual 1988-89	1,533,000
Requested increase (excluding amount for salary increases) \$37,000 (+2.3 percent)	
Total recommended reduction.....	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0750-001-001—Support	General	\$1,597,000
Reimbursements	—	70,000
Total		\$1,667,000

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

OFFICE OF THE LIEUTENANT GOVERNOR—Continued

Lieutenant Governor serves on numerous commissions and boards, and performs special tasks as assigned by the Governor.

The Lieutenant Governor's Office has 25.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes total expenditures of \$1,667,000 (\$1,597,000) from the General Fund and (\$70,000) from reimbursements for the support of the Lieutenant Governor's Office during 1990-91. This is an increase of \$37,000, or 2.3 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 59

Requested 1990-91	\$290,273,000
Estimated 1989-90	267,400,000
Actual 1988-89	230,159,000
Requested increase (excluding amount for salary increases) \$22,873,000 (+8.6 percent)	
Total recommended reduction.....	None
Recommendation pending	1,430,000

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0820-001-001—Support	General	\$188,051,000
0820-001-012—Antitrust	Attorney General's Antitrust Account, General	472,000
0820-001-014—Toxic substance	Hazardous Waste Control Account, General	1,145,000
0820-001-017—Fingerprints	Fingerprint Fees, General	17,621,000
0820-001-044—Data center support	Motor Vehicle Account, State Transportation	16,146,000
0820-001-455—Toxic substance	Hazardous Substance Account, General	1,630,000
0820-001-460—Handgun control	Dealers' Record of Sale Special Account, General	2,414,000
0820-001-469—Law enforcement	Narcotics Assistance and Relin- quishment by Criminal Offender, General	511,000
0820-001-477—Gaming registration	Gaming Registration Fee Account, General	292,000
0820-001-890—Support	Federal Trust	9,618,000
0820-001-942—Support	Federal Asset Forfeiture Account, Special Deposit	2,114,000

0820-011-012—Antitrust	Transfer from Antitrust Account, General Fund	(600,000)
0820-011-942—Support	State Asset Forfeiture Account, Special Deposit	235,000
0820-101-001—Local assistance	General	617,000
Political Reform Act	—	346,000
Reimbursements	—	49,061,000
Total		\$290,273,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS*Analysis
page*

1. Legal Services. Withhold recommendation on request for specified legal services provided on behalf of the Department of Social Services, pending assessment by the Attorney General of the impact of recent legislation on the services. 62
2. Crack Down Task Force Program. Recommend adoption of supplemental report language requiring the department to provide specific information on activities of the program in its annual report to the Legislature. 63
3. DNA Identification Program. Withhold recommendation on funding requested from the General Fund for implementation of Deoxyribonucleic Acid (DNA) Identification Program, pending receipt of proposal. 65

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. 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, anti-trust, 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 3,638 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$290.3 million from the General Fund, various special funds, federal funds and reimbursements

DEPARTMENT OF JUSTICE—Continued

for the DOJ in 1990-91. This is \$22.9 million, or 8.6 percent, more than estimated current-year expenditures.

The proposed General Fund appropriations for the department in 1990-91 total \$188.7 million. This represents an increase of \$7.7 million, or 4.2 percent, above estimated current-year expenditures. Most of the requested increase is for implementation of legislation enacted in 1989 which (1) restricted the sale of assault weapons, (2) established a new criminal identification laboratory, and (3) created a new narcotic enforcement program.

Table 1 summarizes the department's spending program for 1990-91, by fund source. Table 2 presents a summary of the department's total expenditures, by program.

Table 1
Department of Justice
Funding Source Summary
1988-89 through 1990-91
(dollars in thousands)

<i>Funding Source</i>	<i>Actual 1988-89</i>	<i>Est. 1989-90</i>	<i>Prop. 1990-91</i>	<i>Percent Change From 1989-90</i>
General Fund	\$154,295	\$180,996	\$188,668	4.2%
Attorney General's Antitrust Account	427	450	472	4.9
Hazardous Waste Control Account	967	1,119	1,145	2.3
Fingerprint Fees Account	12,820	15,353	17,621	14.8
Motor Vehicle Account (State Transportation Fund)	14,576	15,497	16,146	4.2
Hazardous Substance Account	721	1,607	1,630	1.4
Dealers' Record of Sale Account	901	1,802	2,414	34.0
NARCO Fund Account	480	505	511	1.2
Gaming Registration Account	281	296	292	-1.4
Federal Trust Fund	8,344	9,811	9,618	-2.0
Federal Asset Forfeiture Account, Special Deposit Fund	656	2,075	2,114	1.9
State Asset Forfeiture Account, Special Deposit Fund	—	231	235	1.7
Reimbursements	35,691	37,658	49,061	30.3
Political Reform Act ^a	(321)	(340)	346	1.8
Total Fundings	\$230,159	\$267,400	\$290,273	8.6%

^a Amounts in parentheses for 1988-89 and 1989-90 are included in the General Fund totals.

Table 2
Department of Justice
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Increase From 1989-90
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91	
Executive/Administration ^a	665.1	666.0	696.7	(\$43,924)	(\$45,992)	(\$52,800)	14.8%
Executive Programs	52.0	47.1	47.5	4,266	5,618	6,308	12.3
Civil Law	274.7	277.5	293.8	36,259	38,534	41,659	8.1
Criminal Law	409.5	429.6	445.8	41,815	44,844	47,772	6.5
Public Rights	170.4	169.6	167.5	19,786	22,381	22,608	1.0
Law Enforcement	1,941.1	2,048.3	2,300.7	128,033	156,023	171,926	10.2
Totals	3,512.8	3,638.1	3,952.0	\$230,159	\$267,400	\$290,273	8.6%

^a Amounts in parentheses are distributed to other programs.

Table 3 identifies (by funding source) the changes in the department's expenditure levels proposed for 1990-91.

Table 3
Department of Justice
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund ^a	Special Funds ^b	Federal Funds	Reimbursements	Total
1989-90 Expenditures (Revised)	\$180,996	\$38,935	\$9,811	\$37,658	\$267,400
<i>Workload Adjustments</i>					
Agent overtime	—	400	—	—	400
Appeals, writs, and trials	2,549	—	—	—	2,549
Criminalistics	1,207	—	—	—	1,207
Government	455	—	—	—	455
Tort	503	—	—	385	888
Accounting	—	156	16	99	271
Licensing	—	—	—	1,470	1,470
Fingerprint	—	235	—	—	235
Dealers record of sale	—	150	—	—	150
Record purge	—	297	—	—	297
Bureau of investigations	161	—	—	80	241
Missing persons	80	41	—	—	121
Parent locator service	—	—	—	520	520
Subtotals	(\$4,955)	(\$1,279)	(\$16)	(\$2,554)	(\$8,804)
<i>Cost Adjustments</i>					
One-time cost reductions	—\$824	—\$4,146	—\$98	—\$20	—\$5,088
Limited-term programs	—2,120	—798	—	—	—2,918
Price increase	—	295	52	71	418
Employee compensation	2,783	602	159	323	3,867
Pro rata adjustment	—	460	—	—	460
Contract program completion	—	—	—	—303	—303
Expiring grant programs	—	—	—322	—	—322
Other base adjustment	11	—	—	—	11
Child support enforcement	—	—	—	87	87

DEPARTMENT OF JUSTICE—Continued

Table 3—Continued
Department of Justice
Proposed 1990-91 Budget Changes
(dollars in thousands)

	<i>General Fund^a</i>	<i>Special Funds^b</i>	<i>Federal Funds</i>	<i>Reimburse- ments</i>	<i>Total</i>
Child victim witness	518	—	—	—	518
Expiring legislation	-13,534	-966	—	—	-14,500
Subtotals	(-\$13,166)	(-\$4,553)	(-\$209)	(\$158)	(-\$17,770)
<i>Program Adjustments</i>					
Cal-ID equipment maintenance	477	783	—	—	1,260
Cal-ID expansion	986	829	—	—	1,815
Cal-ID enhancement	—	4,121	—	—	4,121
Implementation of Legislation:					
Assault weapons registration (Ch 18/89 and Ch 19/89)	—	1,186	—	—	1,186
DNA implementation (Ch 1304/89)	1,034	—	—	—	1,034
Crack Down task forces (Ch 1453/89) ..	13,732	—	—	8,691	22,423
Subtotals	(\$16,229)	(\$6,919)	—	(\$8,691)	(\$31,839)
1990-91 Expenditures (Proposed)	\$189,014	\$42,580	\$9,618	\$49,061	\$290,273
Changes from 1989-90					
Amount	\$8,018	\$3,645	-\$193	\$11,403	\$22,873
Percentage	4.4%	9.4%	-2.0%	30.3%	8.6%

^a Includes amounts appropriated for the Political Reform Act.

^b Includes special accounts in the General Fund.

LEGAL DIVISIONS

For 1990-91, the department's legal divisions request a net increase of \$7 million (\$4.7 million from the General Fund, and the remainder from federal funds, special funds, and reimbursements) over estimated current-year expenditures. Workload augmentations total approximately \$4 million. We recommend approval of the following significant requests:

- An increase of \$2.8 million from the General Fund, special funds, and reimbursements in the Civil Law Division for workload increases and continuation of the Stringfellow tort litigation.
- A total of \$2.6 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, and Trials program.

Impact of New Legislation Not Reflected in Legal Services Request

We withhold recommendation on \$396,000 in reimbursements requested for legal service work on cases involving the termination of parental rights, pending the Attorney General's assessment of the impact of recent legislation on the program's workload.

The budget requests \$396,000 in reimbursements for attorneys and support staff for legal services to terminate parental rights on behalf of the Department of Social Services (DSS). The termination of parental rights is the first legal step needed to place a child in adoption.

The Attorney General performed this legal work on DSS cases prior to January 1, 1990. Chapter 1485, Statutes of 1987 (SB 243, Presley), however, transferred the responsibility from the Attorney General to county counsels. Consistent with legislative intent, the DSS is proposing \$860,000 in its local assistance budget to pay counties for these services in the budget year.

Chapter 1485 specified that the Attorney General continue work on cases where children were adjudged dependents in juvenile court *prior* to January 1, 1989. Thus, for those cases that began in calendar year 1989, it is the county counsel's responsibility to conduct the termination of parental rights.

Our analysis indicates that the Attorney General has not adjusted the budget to account for the changes made by Chapter 1485. Although the Attorney General will no longer be required to perform legal work in new cases involving termination of parental rights, the DSS advises that additional work may be required by the Attorney General in the budget year in order to complete work on the existing cases.

At the time this analysis was prepared, the Attorney General had not assessed the workload implications of Chapter 1485 on the department's budget. Given the uncertainties, we withhold recommendation on the request, pending the Attorney General's assessment of how the changes contained in Chapter 1485 will affect the department's workload in 1990-91.

DIVISION OF LAW ENFORCEMENT

The Division of Law Enforcement requests a net increase of \$16 million over estimated current-year expenditures for 1989-90. Workload augmentations total \$1.6 million, while program adjustments result in increases totaling \$31.8 million. About 77 percent of the amount requested for program adjustments is due to implementation of legislation enacted in 1989. A portion of these costs are offset by various one-time reductions.

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

- A total of \$3.1 million requested from the General Fund and Fingerprint Fees Account for maintenance and expansion of the Cal-ID system.
- A total of \$4.1 million requested from the Fingerprint Fees Account for Cal-ID program enhancements.
- \$1.2 million requested from the Fingerprint Fees Account for the Assault Weapons Permit Program.

Legislature Needs Specific Information to Judge Effectiveness of Crack Down Task Force Program

We recommend the adoption of supplemental report language directing the department to provide specific information on the Crack Down Task Force Program in its annual report to the Legislature.

The budget requests \$22.4 million for full-year implementation of the Crack Down Task Force Program—a major new law enforcement

DEPARTMENT OF JUSTICE—Continued

program in the Department of Justice. The request includes \$13.7 million from the General Fund and \$8.7 million in reimbursements. The reimbursements would be provided by the Office of Criminal Justice Planning from federal funds received by the state.

Background. Chapter 1453, Statutes of 1989 (SB 1661, Roberti), established the program and appropriated \$13.4 million from the General Fund for implementation in the current year. The program is designed to coordinate state and local law enforcement efforts against cocaine networks formed by Colombian drug cartels and southern California street gangs. The ultimate aim of the program is to reduce cocaine trafficking and distribution.

Budget Proposal. The budget requests \$22.4 million for the task force program in 1990-91. This amount includes the following:

- \$11.1 million for support of 240 positions, including special agents, criminal intelligence specialists, auditors, business service officers, and clerical support.
- \$1.5 million for overtime and travel payments for local law enforcement officials.
- \$3.4 million for special equipment for the task force, including aircraft, helicopters, automatic weapons, infrared sights, and other surveillance equipment.
- \$6.4 million for facilities, training, and other operating expenses and equipment.

The requested amount would support 13 regional enforcement teams located in cities throughout the state. Five teams would be located in Los Angeles, two in San Francisco, and one each in Oakland, Orange, San Jose, Riverside, San Diego, and Sacramento.

Our analysis indicates that the department's request is consistent with the information provided to the Legislature when it was considering SB 1661. We estimate that the ongoing annual costs of the program after 1990-91 will be approximately \$20 million.

Legislature Should Closely Monitor Program. Chapter 1453 requires the department to include a section on the activities of the Crack Down Task Force Program in its annual report to the Legislature, beginning in July 1991. Chapter 1453 does not specify any detail, however, as to the type of information that the department should provide in the report.

Consistent with legislative intent, we believe that the Legislature should closely monitor the activities of the task force. In order to accomplish this, the Legislature will need to receive specific information in the department's annual report.

Specifically, we believe that the department should provide the Legislature with data on the workload of the task force, use of local personnel and equipment, and the success of the task force in achieving its goal to reduce the amount of illegal activity associated with Colombian cocaine cartels. Because of the significance of the costs of the program and its potential role in the nation's narcotics enforcement efforts, the department should also investigate every means to obtain additional federal funds to support the program.

In addition, because Chapter 1453 does not require the department to submit its first report to the Legislature on the activities of the task force until July 1991, the Legislature will not have valuable information in hand when it reviews funding proposals for the task force for the 1991-92 budget. Consequently, we also recommend that the Legislature direct the department to submit its first report on the activities of the task force by March 1991. The program will have been operational for more than a year at that time and its initial accomplishments should be identifiable.

In order to accomplish the two tasks outlined above, we recommend that the Legislature adopt supplemental report language to specify the nature of the data the department should include in its annual report and the timing of the first report. Specifically, we recommend adoption of the following supplemental report language:

The Department of Justice's annual report on the Crack Down Task Force Program required pursuant to Sections 15208 and 15209 of the Government Code shall include the following: a description of the status of implementation and operations of the program; data on the number of arrests made by members of the task force and the amounts of illegal drugs, money, and property seized; number of hours devoted to the program by state and local personnel and the associated costs, flight time logged in operations, maintenance costs for aircraft and helicopters devoted to the program; and any changes in the task force organization or placement. The department should also include in its report a description of its efforts to secure federal funds to support the program. The department shall submit its first report to the legislative fiscal committees and the Joint Legislative Budget Committee by March 1, 1991.

No Information on DNA Identification Program

We withhold recommendation on \$1,034,000 requested from the General Fund for implementation of the Deoxyribonucleic Acid (DNA) Identification Program, pending receipt of details of the proposal.

The department requests \$1 million from the General Fund for full-year implementation of the Deoxyribonucleic Acid (DNA) Identification Program. This is a decrease of \$1.2 million from the amount appropriated for the program in the current year. Specifically, the Legislature appropriated \$1.1 million in the 1989 Budget Act for establishment of a state forensic DNA laboratory in Berkeley. In addition, the Legislature appropriated an additional \$1.1 million in Ch 1304/89 (SB 1408, Hart), for the administration of the program and support of four regional DNA laboratories.

DNA identification, often referred to as "genetic fingerprinting," can use specimens left at a crime scene to identify an individual and additionally disclose the individual's hair color, eye color, gender, race, and propensity for disease. The Attorney General advised the Legislature last year that the department's DNA Identification Program would (1) provide DNA analysis of casework material for 46 counties served by the Bureau of Forensic Services and 12 counties served by local forensic laboratories, and (2) analyze statewide samples from felons convicted and incarcerated for homicide and assault. This data would then form a

DEPARTMENT OF JUSTICE—Continued

database for a computerized identification system. Implementation was scheduled to begin January 1990.

At the time this analysis was prepared, the department had not provided the Legislature with *any* justification for the requested amount for the DNA Identification Program, the expected workload, personnel requirements, or the equipment and support service needs. Given that this is a new program, we believe that it is particularly important for the Legislature to have detailed information on the department's plan for implementation. Therefore, we withhold recommendation on the requested amount, pending receipt of details of the proposal.

Capital Outlay

The Governor's Budget proposes an appropriation of \$248,000 in Item 0820-301-036 for capital outlay expenditure for the Department of Justice. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

STATE CONTROLLER

Item 0840 from the General
Fund and various funds

Budget p. LJE 83

Requested 1990-91	\$105,547,000
Estimated 1989-90	100,816,000
Actual 1988-89	87,718,000
Requested increase (excluding amount for salary increases) \$4,731,000 (+4.7 percent)	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0840-001-001—Support	General	\$74,459,000
0840-001-041—Support	Aeronautics Account, State Transportation	176,000
0840-001-061—Support	Motor Vehicle Fuel Account, Transportation Tax	2,583,000
0840-001-344—Support	State School Building Lease- Purchase	534,000
0840-001-739—Support	State School Building Aid	114,000
0840-001-890—Support	Federal Trust	1,774,000
0840-001-903—Support	Assessment	614,000
0840-001-988—Support	Retail Sales Tax	161,000
Reimbursements	—	25,132,000
Total		\$105,547,000

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 1,430.3 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of \$105.5 million for support of the Controller's Office in 1990-91. This amount consists of \$78.6 million from the General Fund and various special funds, \$1.8 million in federal funds, and \$25.1 million in reimbursements. The proposed expenditure level represents an increase of \$4.7 million, or 4.7 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 Controller's Office in the prior, current, and budget years.

Table 1
State Controller's Office
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1989-90
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91	
Fiscal control	993.5	1,138.4	1,151.6	\$67,312	\$76,951	\$81,090	5.4%
Tax administration	48.5	59.1	59.2	2,453	2,921	3,044	4.2
Administration							
Distributed to other programs ..	(76.6)	(46.2)	(46.2)	(2,635)	(2,635)	(2,635)	—
Undistributed	292.3	232.8	231.9	17,953	20,944	21,413	2.2
Totals	1,334.3	1,430.3	1,442.7	\$87,718	\$100,816	\$105,547	4.7%
Funding Sources							
General Fund				\$61,615	\$72,449	\$74,459	2.8%
Motor Vehicle Fuel Account, Transportation Tax Fund				2,375	2,514	2,583	2.7
Federal Trust Fund				1,053	1,709	1,774	3.8
Bank of America Unclaimed Property Litigation Fund				1,841	—	—	—
State School Building Aid Fund				362	379	114	-69.9
Public Employees Health Care Fund				718	1,205	—	-100.0
Aeronautics Account, State Transportation Fund				34	175	176	0.6
State School Building Lease Purchase Fund				168	265	534	101.5
Retail Sales Tax Fund				152	160	161	0.6
Assessment Fund				137	145	614	323.4
Public Facilities Account, Natural Disaster Assistance Fund ...				697	—	—	—
Streets and Highways Account, Natural Disaster Assistance Fund				697	—	—	—
Reimbursements				17,869	21,815	25,132	15.2

STATE CONTROLLER—Continued

Table 2 identifies significant changes in the proposed budget for the Controller's Office in 1990-91. The largest components of the proposed increase are: (1) additional audit positions which will generate revenues in excess of their costs (34 personnel-years, \$2.0 million); (2) fees for unclaimed property returned by the interstate unclaimed property clearinghouse (\$2.4 million); (3) permanent staff for workload associated with the PERS Care program (11.4 personnel-years, \$1.2 million); and (4) funding for increased postage and supplies costs (\$1.1 million). The increased costs of the proposed workload and program changes are partially offset by cost reductions from the expiration of limited-term positions (\$3.3 million), one-time payments to the unclaimed property clearinghouse (\$1.7 million), and other workload adjustments (\$161,000).

We have reviewed the proposed changes and they appear reasonable.

Table 2
State Controller's Office
Proposed 1990-91 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>All Other Funds</i>	<i>Reimburse- ments</i>	<i>Total</i>
1989-90 Expenditures (Revised)	\$72,449	\$6,552	\$21,815	\$100,816
Baseline Adjustments:				
Expiration of limited-term positions	-1,229	-1,254	-819	-3,302
Price increase	—	8	77	85
Pro rata	—	46	—	46
Employee compensation	1,747	62	303	2,112
Unclaimed property clearinghouse and ad- vertising charges	-1,723	—	—	-1,723
Miscellaneous administrative workload ad- justments	—	—	-161	-161
Subtotal, baseline adjustments	(\$1,205)	(-\$1,138)	(-\$600)	(-\$2,943)
Proposed Changes:				
PERS Care Program	—	—	1,207	1,207
Postage and supplies for PERS/STRS	—	—	1,129	1,129
Federal disaster audit	—	—	958	958
Penalty assessment audit	—	467	—	467
Unclaimed property audit	348	—	—	348
Miscellaneous audits	162	75	—	237
Unclaimed property clearinghouse and ad- vertising charges	2,415	—	—	2,415
Miscellaneous reimbursed workload in- creases	—	—	281	281
Inheritance and gift tax workload	195	—	—	195
Leave accounting system	—	—	342	342
OASDI/Medi-Care tax workload	95	—	—	95
Subtotal, proposed changes	(\$3,215)	(\$542)	(\$3,917)	(\$7,674)
1990-91 Expenditures (proposed)	\$74,459	\$5,956	\$25,132	\$105,547
Change from 1989-90:				
Amount	\$2,010	-\$596	\$3,317	\$4,731
Percent	2.8%	-9.1%	15.2%	4.7%

STATE BOARD OF EQUALIZATION

Item 0860 from the General
Fund and various funds

Budget p. LJE 92

Requested 1990-91	\$189,216,000
Estimated 1989-90	177,495,000
Actual 1988-89	154,885,000
Requested increase (excluding amount for salary increases) \$11,721,000 (+6.6 percent)	
Total recommended reduction	1,249,000
Recommended General Fund savings from funding shifts...	4,000,000

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0860-001-001—Support	General	\$116,737,000
0860-001-014—Support	Hazardous Waste Control Account, General	3,365,000
0860-001-022—Support	Emergency Telephone Number Special Account, General	475,000
0860-001-061—Support	Motor Vehicle Fuel Account, Transportation Tax	5,293,000
0860-001-086—Support	Cigarette Tax	8,545,000
0860-001-230—Support	Cigarette and Tobacco Products Surtax	463,000
0860-001-387—Support	Integrated Waste Management Account, Solid Waste Management	138,000
0860-001-435—Support	Solid Waste Disposal Site and Maintenance Account, Solid Waste Management	236,000
0860-001-439—Support	Underground Storage Tank Cleanup Fund, General	241,000
0860-001-455—Support	Hazardous Substance Account, General	354,000
0860-001-465—Support	Energy Resources Programs Account, General	84,000
0860-001-702—Support	Consumer Affairs	101,000
0860-001-965—Support	Timber Tax	2,325,000
Reimbursements	—	50,859,000
Total		\$189,216,000

Analysis
page

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

1. *Sales Tax Reimbursements. Reduce Item 0860-001-001 by \$4 million and increase reimbursements by the same amount.* 75
Recommend reduction to reflect availability of additional reimbursements for administration of local sales and use taxes.
2. *Use Tax Appeals. Reduce Item 0860-001-001 by \$393,000.* 75
Recommend reduction to eliminate excessive appeals staff

STATE BOARD OF EQUALIZATION—Continued

for new collection programs because the appeals workload for these programs has been overstated.

3. The budget proposes to shift \$6.7 million of General Fund costs to local government. This would disproportionately allocate the entire cost of the board's property assessment program to cities and counties. 77
4. *State-Assessee Audits. Reduce Item 0860-001-086 by \$755,000.* Recommend reduction to eliminate additional audit staff because the board has not established the cost-effectiveness of increased auditing for this program. 78
5. *New Headquarters Building. Reduce Item 0860-001-702 by \$101,000.* Recommend reduction to eliminate new staff to plan for moving the board's headquarters due to absence of identified workload. Further recommend that the board report at hearings on the fiscal implications of its plans to lease a new headquarters building. 79

GENERAL PROGRAM STATEMENT

The Board of Equalization is one of the state's two major tax collection agencies. It collects state and local sales and use taxes and a wide variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, insurance, cigarettes, alcoholic beverages, electricity, hazardous wastes and solid wastes. The board also oversees the adminis-

Table 1
State and Local Revenues
Collected by the Board of Equalization
1988-89 through 1990-91
(dollars in millions)

	<i>Actual</i> 1988-89	<i>Estimated</i> 1989-90	<i>Projected</i> 1990-91	<i>Change</i> <i>From 1989-90</i>	
				<i>Amount</i>	<i>Percent</i>
State sales and use tax ^a	\$12,651	\$13,497	\$14,578	\$1,081	8.0%
Local sales and use tax	4,291	4,794	5,311	517	10.8
Insurance tax	1,318	1,194	1,273	79	6.6
Motor vehicle fuel tax (gasoline)	1,166	1,176	1,196	20	1.7
State cigarette and tobacco tax	490	731	711	-20	-2.7
Use fuel tax (diesel)	154	160	165	5	3.1
Alcoholic beverage tax	128	128	127	-1	-0.8
Local cigarette tax	70	66	65	-1	-1.5
Hazardous waste taxes and fees	68	105	86	-19	-18.1
Emergency telephone users surcharge	42	50	56	6	12.0
Energy resources surcharge (electricity)	38	39	40	1	2.6
Timber yield tax	21	21	21	—	—
Private railroad car tax	2	4	4	—	—
Solid waste disposal site fees ^b	—	8	48	40	500.0
Totals	\$20,439	\$21,973	\$23,681	\$1,708	7.8%
Local revenues	\$4,361	\$4,860	\$5,376	\$516	10.6%
State revenues	16,078	17,113	18,305	1,192	7.0

^a Includes the temporary quarter-cent sales tax enacted for earthquake relief.




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

tration 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 3,208 personnel-years in the current year. Table 1 summarizes the revenues collected by the board under its various programs.

MAJOR ISSUES

-  Budget proposes to shift \$6.7 million of General Fund costs to local government.
-  Proposed General Fund staff support for new collection programs is overbudgeted by \$393,000.
-  Proposed new audit staff is not cost effective.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$189 million for the Board of Equalization in 1990-91, an increase of \$11.7 million, or 6.6 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 1988-89 through 1990-91. It shows that the budget proposes to increase the board's staff by 126.2 personnel-years.

STATE BOARD OF EQUALIZATION—Continued

Table 2
Board of Equalization Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent
		Esti-	Pro-		Esti-	Pro-	Change
	Actual 1988-89	mated 1989-90	posed 1990-91	Actual 1988-89	mated 1989-90	posed 1990-91	From 1989-90
County Assessment Standards	99.3	103.4	103.4	\$5,689	\$6,330	\$6,602	4.3%
State-Assessed Property	95.8	98.6	110.0	5,069	5,706	6,701	17.4
Timber Tax	34.2	35.0	35.0	2,006	2,191	2,325	6.1
Sales and Use Tax:							
Taxpayer Registration	504.9	516.3	528.6	21,169	23,618	25,093	6.2
Return Processing	558.8	586.3	638.0	30,338	35,814	38,152	6.5
Audits	1,196.5	1,214.5	1,221.8	61,623	68,425	71,681	4.8
Collections	357.5	372.2	410.3	16,192	18,621	21,307	14.4
Subtotals	(2,617.7)	(2,689.3)	(2,798.7)	(\$129,322)	(\$146,478)	(\$156,233)	(6.7%)
Hazardous Substances Taxes	45.6	74.6	76.6	\$2,152	\$3,854	\$3,719	-3.5%
Alcoholic Beverage Tax	34.3	35.2	35.2	1,537	1,713	1,778	3.8
Cigarette and Tobacco Products							
Tax	14.5	34.8	31.3	2,259	3,205	3,147	-1.8
Gasoline and Jet Fuel Taxes	12.9	12.8	12.8	724	770	825	7.1
Diesel Fuel Tax	81.9	76.0	76.0	3,919	4,160	4,468	7.4
Other Special Taxes and Fees	10.8	22.3	29.2	585	1,224	1,399	14.3
Appeals of Franchise Tax Board							
Decisions	22.1	25.5	25.5	1,306	1,617	1,772	9.6
Administration (undistributed) ...	0.3	—	—	317	247	247	—
Totals	3,069.4	3,207.5	3,333.7	\$154,885	\$177,495	\$189,216	6.6%
Funding Sources							
General Fund				\$100,816	\$114,825	\$116,737	1.7%
Hazardous Waste Control Account				—	3,516	3,365	-4.3
State Emergency Telephone Special Account				310	428	475	11.0
Motor Vehicle Fuel Account				4,643	4,930	5,293	7.4
Cigarette Tax Fund				1,644	1,759	8,545	485.8
Cigarette and Tobacco Products Surtax Fund				—	568	463	-18.5
Integrated Waste Management Account				—	—	138	— ^a
Solid Waste Disposal Site and Maintenance Account				—	251	236	-6.0
Underground Storage Tank Cleanup Fund				—	250	241	-3.6
Hazardous Substance Account				—	338	354	4.7
Energy Resources Programs Account				80	79	84	6.3
Consumer Affairs Fund				—	—	101	— ^a
Timber Tax Fund				2,006	2,191	2,325	6.1
Reimbursements				45,386	48,360	50,859	5.2

^a Not a meaningful number.

Table 3 shows the proposed budget changes, by funding source, for 1990-91. As noted above, the majority of the additional funds provided for 1990-91 are for baseline adjustments to the board's budget, including the full-year cost of the 1989-90 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. Almost all of the \$4.9 million requested for program and policy changes shown in Table 3 are to meet increasing workload or to enhance revenue collection.

Table 3
Board of Equalization
Proposed 1990-91 Budget Changes
(dollars in thousands)

	<i>General Fund and Reimburse- ments</i>	<i>Special Funds</i>	<i>Totals</i>
1989-90 Expenditures (Revised)	\$163,185	\$14,310	\$177,495
Baseline Adjustments:			
Full-year cost of 1989-90 employee compensation increases	\$4,522	\$427	\$4,949
Merit salary adjustments	1,652	153	1,805
Price increase for operating expenses	566	216	782
Department of Motor Vehicles contract, workload growth	772	—	772
Other	55	-9	46
Subtotals, baseline adjustments	(\$7,567)	(\$787)	(\$8,354)
One-time Costs in 1989-90:			
Equipment to automate verification of sales tax returns	-\$790	—	-\$790
Other one-time equipment costs	-393	-\$138	-531
Tobacco surtax — collect one-time tax on floor stocks	—	-133	-133
Subtotals, one-time costs	(-\$1,183)	(-\$271)	(-\$1,454)
Adjustments for 1989 Legislation:			
Collect temporary sales tax for earthquake relief (Chs 13x & 14x/89)	-\$85	—	-\$85
Implement revised hazardous waste fees (Chs 269 & 1032/89)	—	-\$157	-157
Implement revised solid waste disposal fees (Ch 1095/89)	—	138	138
Subtotals, adjustments for 1989 legislation	(-\$85)	(-\$19)	(-\$104)
Program and Policy Changes:			
Sales and Use Tax			
Collect additional local taxes approved in November 1989	\$882	—	\$882
Taxpayer registration workload growth	432	—	432
Use tax collections on auto sales and customs declarations	1,924	—	1,924
Development of new accounts receivable database	425	\$12	437
Additional staff to collect delinquent accounts	305	—	305
Property Tax			
Additional auditors to value state-assessed properties	—	755	755
Shift cost of state assessments to local share of cigarette tax	-5,946	5,946	—
Other Programs			
Computer network for appeals of Franchise Tax Board decisions	89	—	89
Planning for consolidation of Sacramento headquarters	—	101	101
Subtotals, program and policy changes	(-\$1,889)	(\$6,814)	(\$4,925)
1990-91 Expenditures (proposed)	\$167,595	\$21,621	\$189,216
Change from 1989-90:			
Amount	\$4,410	\$7,311	\$11,721
Percent	2.7%	51.1%	6.6%

**STATE BOARD OF EQUALIZATION—Continued
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. The state imposes a sales and use tax of 4.75 percent (5 percent until January 1, 1991 due to the temporary additional tax rate of 0.25 percent for earthquake relief). 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 one cent per dollar of sales. Consequently, there are three tax rates in effect throughout the state (6 cents, 6.5 cents and 7 cents, excluding the temporary earthquake relief tax), 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.

Revenue Gain Anticipated From the Board's Budget Proposals

Most of the proposed program augmentations in the board's budget have been justified on the basis of their revenue production. The Governor's Budget indicates that these augmentations will generate almost \$43 million in additional sales and use tax revenue during 1990-91, of which the state General Fund share would be about \$31.5 million. Most of this additional revenue (\$31.4 million) would result from hiring additional staff to speed up the collection of delinquent accounts. The budget indicates that the administration plans to authorize a deficiency allocation of \$456,000 in the current year to hire these positions in February 1990, in order to produce an anticipated revenue gain of \$13.2 million in 1989-90 (the state share would be \$9.6 million).

Additional Local Taxes Approved in 1989

Prior to November 1989, voters in 13 counties had approved additional local taxes in excess of the uniform statewide rate. At the November 1989 election, 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) and voters in San Francisco approved a second half-cent tax (in addition to the BART tax), raising their tax rate to the maximum of 7 cents. All of these new taxes will be effective April 1, 1990. Table 4 shows the specific changes approved in the 1989 election.

Table 4
Additional Half-Cent Local Transactions and Use Taxes
Approved by Voters in 1989

<i>County</i>	<i>New Tax Rate^a</i> <i>(cents per dollar)</i>
Imperial.....	6.5
Monterey	6.5
San Bernardino	6.5
Santa Barbara.....	6.5
San Francisco.....	7.0

^a These rates exclude the additional one-quarter-cent temporary earthquake relief tax imposed by the state through December 31, 1990.

Local Tax Reimbursements Understated

We recommend a General Fund reduction of \$4 million to reflect additional reimbursements from local sales tax revenues. (Reduce Item 0860-001-001 by \$4 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 equals 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 1990-91 includes \$50.3 million in reimbursements from local sales tax revenues. We estimate, however, that the board will receive substantially more reimbursement revenue than the amount budgeted for 1990-91. Based on the Department of Finance's January estimate of state sales and use tax revenues and taking into account reimbursements that the board will receive from the newly authorized special local taxes, we estimate that the board will receive \$54.3 million in reimbursements from local tax revenues in 1990-91. This amount is \$4 million more than the amount of reimbursements reflected in the budget. Consequently, the board's General Fund appropriation should be reduced by \$4 million and the amount of budgeted reimbursements should be increased by an equal amount.

Workload Overstated for New Use Tax Collection Programs

We recommend a General Fund reduction of \$393,000 and seven personnel-years from the amount requested for new use tax collection programs because the workload associated with the appeals component of this request has been overstated. (Reduce Item 0860-001-001 by \$393,000).

The budget requests \$1.9 million from the General Fund and local tax reimbursements for 47 additional positions to implement two new use tax

STATE BOARD OF EQUALIZATION—Continued

collection programs. The use tax complements the state and local sales tax. When an individual or business purchases taxable goods for use in California but the seller is not required to collect sales tax, then the buyer must pay a use tax to the board equal to the amount of the sales tax. Most businesses located in California are registered with the board and provide the board with regular sales and use tax returns. Many individual consumers, however, are unfamiliar with the use tax. The budget proposal is intended to enhance the collection of the use tax from individuals who purchase used cars from private parties or who purchase goods on foreign trips.

The "138" Program. An individual who purchases a vehicle from a private party must report the purchase price to the Department of Motor Vehicles (DMV) and pay the use tax based on that price when he or she registers the vehicle. Recently, the department revised its Form 138, which is filed by the seller, to also include the purchase price. On a limited basis, the board has used this information to compile computer-generated lists of sales in which the two prices do not match. The board sends a deficiency billing to the buyer if the price reported by the seller indicates that more use tax is owed. The budget request seeks to expand this program to cover all private-party automobile transactions.

Customs Declarations. U.S. residents returning from foreign travel must file a customs declaration that identifies goods purchased abroad and their cost. The board has conducted some recent tests at major airports and seaports, in which it has used these declarations to identify Californians who have made significant foreign purchases on which use tax is owed. The board then sends a tax bill to these individuals. The budget request would implement this program on a permanent basis for all major international airports and seaports in the state.

Programs Appear Cost-Effective. Based on data from its pilot projects, the board estimates that the requested augmentation of \$1.9 million will produce annual revenue of more than \$10 million (about 70 percent state and 30 percent local), for a benefit/cost ratio of more than five to one. The key to the cost-effectiveness of these programs is their simplicity. The tax bills will identify specific amounts due based on information already filed with government agencies.

Appeals Staffing Excessive. The budget request includes \$786,000 (about 40 percent of the requested funds) for 14 positions to handle petitions and appeals of the tax bills. The proposed staffing level for petitions and appeals was based on workload factors developed for the board's regular use-tax programs. Most of the petitions and appeals for these two new programs, however, are likely to be very straightforward (for example, those involving transcription errors from the DMV or Customs forms). Consequently, these programs should require relatively little petition and appeal workload. Furthermore, there will be a lag of at least several months from the time that the billing staff is hired until petitions and appeals are filed. The budget proposal is based on full-year workload. Because the workload factors appear overstated for these

programs and because there will be a lag in the timing of appeals, the board's budget request appears excessive. Based on our review, we conclude that one-half of the requested amount for petitions and appeals would be a better approximation of the resources needed for these tasks in 1990-91. In subsequent years, staffing can be adjusted, if needed, to reflect workload factors based on experience with these programs.

PROPERTY TAX PROGRAMS

Funding Shift Reduces Local Revenues

The administration's proposal would disproportionately allocate the entire cost of the board's property assessment program to cities and counties.

Although county assessors assess most of the taxable property in the state, the California Constitution requires the board to assess gas, electric and telephone utilities; railways; and intercounty pipelines. These state-assessed properties are not subject to the valuation limitations of Proposition 13, so that the board uses current market value as its standard in making these annual assessments. After assessing each company's property, the board allocates the total value among the state's local taxing entities. Based on these allocations of value, county officials levy and collect property taxes from state assessees and distribute the revenue to local taxing entities. In addition, the board assesses and collects the state tax on private railroad cars (railroad cars that are not owned by the railroads themselves). The state General Fund receives the revenue from this tax.

Budget Proposes Change in Funding Source. In the current year, the budget estimates that the board will spend \$5.7 million for the state-assessed property program. As in past years, the General Fund provides all of this support. For 1990-91, the budget requests \$6.7 million for this program (including an increase of \$755,000 for additional audits and appeals) and proposes to shift all of the funding requirements for this program to the Cigarette Tax Fund. This fund provides local government its share of cigarette tax revenue. The budget states that the reason for the funding shift is to "more properly allocate the costs of the property tax program and reduce state costs ... since this program primarily benefits local government." The funding shift would be an extension and expansion of existing budget practice in a related board program (county assessment surveys), which receives about 30 percent of its funding from the local share of cigarette tax revenue. The budget proposes no change in that funding arrangement, which has been in place for several years.

Proposal Reduces Local Revenue. The Cigarette Tax Fund receives the revenue collected from the regular 10-cent-per-pack cigarette tax (the 25-cent-per-pack surtax imposed by Proposition 99 is deposited elsewhere). Under existing law, the General Fund receives 70 percent of the fund's revenues, and the State Controller allocates the remaining 30 percent of the revenue to cities and counties, in proportion to local sales tax revenues and (for cities) population. Consequently, the \$6.7 million General Fund savings from the proposed funding shift in the board's

STATE BOARD OF EQUALIZATION—Continued

budget results in an equivalent reduction in local revenue. The budget estimates that after this reduction, local governments will receive a total of \$55.8 million from the Cigarette Tax Fund in 1990-91. Cities receive the bulk (85 percent) of the cigarette tax money.

Policy Issues Raised by the Proposal. The proposed funding shift raises the following policy issues for the Legislature to consider:

- *State Also Has Stake in Property Tax.* About 36 percent of local property tax revenues are allocated to school districts, where they are used to help offset the cost of state General Fund school apportionments. Further, another 33 percent of local property tax revenues are allocated to county governments, where they are used in part to help support many local programs that serve a statewide need. Thus, the state clearly is a major "beneficiary" of the board's property tax-related programs.
- *Cities Will Pay Most of Cost.* Statewide, cities receive 13 percent of property tax revenues, but would pay 85 percent of the cost of the state-assessed property program.
- *State is Only Beneficiary of Private Car Tax.* Since the General Fund receives all of the revenue from this tax, local governments are not the beneficiaries of this part of the program. Thus, this portion of the proposal cannot be justified on the basis of the administration's stated rationale. Specifically, the state would save \$994,000 in costs and retain all \$4 million of the expected revenue.

Cost-Effectiveness of Additional Audits Not Established

We recommend a reduction of \$755,000 to eliminate funding for additional staff to audit information reported by state assesses because the board has not demonstrated that the increased audit coverage will be sufficiently cost-effective. (Reduce Item 0860-001-086 by \$755,000).

The budget requests an augmentation of \$755,000 for 12 new staff positions to conduct additional financial and fixed-asset audits of state-assessed railroads, pipelines, utilities and private railroad car companies. The board conducts these audits to verify the information reported by these companies. If an audit establishes additional value, then the board may retroactively increase an assessment (within a four-year statute of limitations). The budget would fund this proposal from the Cigarette Tax Fund, so that cities and counties would ultimately bear the increased costs.

According to the board, 21.3 personnel-years of auditors would be needed in 1990-91 to achieve the audit coverages shown in Table 5, which represent the percentages of companies whose annual reports would be audited within the four-year limit. Because mandatory appeals workload has been increasing, the board indicates that it has redirected some of its audit staff to work on appeals, leaving only 9 personnel-years of staff available for these discretionary audits. Consequently, the budget requests 12 new positions (11.4 personnel-years) to increase audit coverage essentially to the levels indicated in Table 5.

Table 5
State Board of Equalization
Proposed Audit Coverage Levels for State Assesseees
1990-91

<i>Type of Business</i>	<i>Number of Assesseees</i>	<i>Percent Audit Coverage</i>
Gas and electric	13	100%
Telephone and cellular.....	196	100
Radio/telephone.....	76	75
Pipeline.....	32	80
Railroad.....	29	100
Private car.....	294	35

Cost-Effectiveness Not Demonstrated. The board has not presented any specific justification for its proposed levels of audit coverage. In any case, cost-effectiveness, rather than any specific level of audit coverage, is a more appropriate measure of the need for audit resources. The auditing components of the state's tax collection programs generally are targeted at those groups of taxpayers for which audits will be most cost-effective. For example, the Legislature and the board have required that the anticipated amount of audit recoveries from additional sales tax auditors must be at least five times greater than the cost of those audits. The cost-effectiveness of the additional audits that this proposal would fund has not been established. While the major public utilities and railroads clearly merit ongoing audit coverage by the board, many of the state-assessed companies have relatively small tax liabilities and a selective audit program may be much more cost-effective in these cases.

Rather than establishing target percentages for audit coverage, the board should develop a system to classify its state assesseees according to the likely cost-effectiveness of audits and then determine the staffing required to conduct those audits that are most cost-effective. Accordingly, we recommend that the Legislature delete the requested augmentation.

ADMINISTRATION

New Headquarters Building Proposal

We recommend a reduction of \$101,000 and three personnel-years requested from the Consumer Affairs Fund for new staff to plan the consolidation of the board's headquarters facilities, because the need for additional positions has not been justified. We further recommend that the board report at budget hearings on the status of its leasing plans and their fiscal implications. (Reduce Item 0860-001-702 by \$101,000).

The budget requests \$101,000 from the Consumer Affairs Fund for three limited-term positions to assist the board in its planning to consolidate its headquarters operations in a new building. The board's main headquarters is at 1020 N Street, in the Consumer Affairs Building. Due to the limited space available in that building, many of the board's headquarters functions are located in leased space throughout the downtown and midtown area. A need for consolidating the board's

STATE BOARD OF EQUALIZATION—Continued

operations has been recognized for some time. Preliminary plans for a new board building on Site 4 (at 16th and L Streets) were funded and completed in 1984-85, but subsequent funding was not proposed for construction. The board now indicates that it plans to move and consolidate its headquarters operations in a new building in downtown Sacramento which the Public Employees' Retirement System (PERS) would construct and lease to the board. The move would take place in 1992-93.

The board's budget proposal discusses the need to consolidate its headquarters, but does not present any specific justification for the additional positions. We recognize that the board's staff will need to devote time to planning for the proposed consolidation and move, but the Department of General Services and its Office of Real Estate and Design Services also will be assisting the board and providing their technical expertise and services. Furthermore, other large agencies (such as the Franchise Tax Board) have carried out major moves without requesting additional staff. Without a compelling justification, we see no reason to treat the board differently. Accordingly, we recommend deletion of the requested funds. In addition, we note that the Consumer Affairs Fund does not appear to be an appropriate funding source for this proposal, since the money would be used to plan for the board to *vacate* the Consumer Affairs Building rather than for the maintenance or improvement of the building or other property owned by the Department of Consumer Affairs.

Legislature Should be Informed of the Board's Plans. The budget proposal also raises larger concerns. In justifying the urgency of the move, the board has cited the Legislature's plan to construct a legislative office building to replace the Consumer Affairs Building, which was expressed in Ch 1366/89 (SB 42, Craven). That legislation, however, requires a feasibility study and an affirmative finding by the Legislature before the project can proceed. At the time that the budget was submitted, the study had not yet been completed. Furthermore, the board has not presented any information regarding the cost of leasing the new building from PERS, compared with its current rent and lease costs, or the probable terms of the lease. Accordingly, we recommend that the board report at budget hearings on the status of its leasing plans and their future cost implications.

SECRETARY OF STATEItem 0890 from the General
Fund

Budget p. LJE 113

Requested 1990-91	\$27,643,000
Estimated 1989-90	27,534,000
Actual 1988-89	29,728,000
Requested increase (excluding amount for salary increases) \$109,000 (+0.4 percent)	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0890-001-001—Support	General	\$24,090,000
Transfer from Political Reform Act (Item 8640)—Support	General	714,000
Reimbursements	—	<u>2,839,000</u>
Total		\$27,643,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS*Analysis
page*

1. Ballot Pamphlet Funding. The budget underfunds expected expenditures for production and distribution of the state-wide ballot pamphlet by approximately \$1 million in both the current and budget years. 83
2. Corporate Automation. The Secretary of State's Office has not taken sufficient action to reduce costs and increase the level of efficiency in the Corporate Filing Division. 84
3. Uniform Commercial Code (UCC) Optical Disk System. Failure of the system resulted from unrealistic expectations built into the system's design. Recommend that the Secretary of State report at budget hearings on the progress of its plans for the UCC Division. 85

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.

SECRETARY OF STATE—Continued

MAJOR ISSUES

- ☒ The budget underfunds the cost of statewide ballot pamphlets for the June and November elections by \$2 million.
- ☒ Office has poor automation track record:
 - Corporate Filing Division System is costly and inefficient.
 - Uniform Commercial Code Optical Disk system is a failure.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$27.6 million for support of the Secretary of State in 1990-91. This is \$109,000, or 0.4 percent, above the

Table 1
Secretary of State
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1989-90
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91	
Corporate Filing.....	121.7	141.7	141.7	\$7,666	\$9,088	\$9,249	1.8%
Limited Partnership.....	22.5	26.3	26.3	1,358	1,588	1,589	0.1
Elections.....	15.9	16.2	16.2	12,117	6,945	6,923	-0.3
Political Reform.....	18.9	25.4	25.4	1,059	1,394	1,427	2.4
Uniform Commercial Code.....	74.6	79.9	78.8	3,492	3,782	3,694	-2.3
Notary Public.....	13.8	15.7	15.7	1,391	1,835	1,836	0.1
Archives.....	20.4	20.3	20.3	1,344	1,486	1,569	5.6
Administration (undistributed)....	16.4	16.2	15.9	1,301	1,416	1,356	-4.2
Administration (distributed).....	71.7	64.6	64.9	(6,918)	(7,254)	(7,327)	1.0
Totals.....	375.9	406.3	405.2	\$29,728	\$27,534	\$27,643	0.4%
Funding Sources							
General Fund.....				\$27,616	\$24,687	\$24,090	-2.4%
Transfer from Political Reform Act (General Fund)				(657)	(701)	714	1.9
Reimbursements.....				2,112	2,847	2,839	-0.3

estimated current-year level. The proposed expenditures consist of an appropriation of \$24.1 million from the General Fund, reimbursements of \$2.8 million from special handling fees, and \$714,000 under the Political Reform Act. The Secretary of State has 406.3 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 1990-91.

Table 2
Secretary of State
Proposed 1990-91 Budget Changes
(dollars in thousands)

	<i>All Funds</i>
1989-90 Expenditures (revised)	\$27,534
Baseline Adjustments:	
Uniform Commercial Code: eliminate automated system costs	-1,016
Add salary and benefits increase	277
Subtotal, baseline adjustments	(- \$739)
Program Changes:	
Uniform Commercial Code: restore manual processing	\$848
Subtotal, program changes	(\$848)
1990-91 Expenditures (proposed)	\$27,643
Change from 1989-90:	
Amount	\$109
Percent	0.4%

ANALYSIS AND RECOMMENDATIONS

Ballot Pamphlet Expenses Underestimated

The Governor's Budget underfunds expected expenditures for production and distribution of the statewide ballot pamphlet by approximately \$1 million in both the current and budget years.

The budget reflects current-year expenditures of \$2.6 million from the General Fund for printing and mailing expenses for the June 1990 Primary Election ballot pamphlet, and proposes that the same amount be provided for the budget-year costs of the November 1990 General Election. In contrast, printing and mailing costs for the June 1988 ballot pamphlet amounted to \$2.8 million. Printing and mailing costs for the November 1988 ballot pamphlet increased to approximately \$6.5 million, excluding costs incurred for reprinting the pamphlet after errors were discovered. The higher cost reflects an increased number of measures and an increase in the average number of pages required to print each measure.

Underfunding of the Ballot Pamphlet Will Result in General Fund Deficiencies. At this time, the Secretary of State's Office indicates that at least 16 measures are expected to qualify for the 1990 Primary Election. Taking into account the average cost per measure for the November 1988 ballot pamphlet, we estimate that the cost of the Primary Election ballot

SECRETARY OF STATE—Continued

pamphlet will be at least \$3.6 million in 1989-90. This will result in a funding shortfall of approximately \$1 million in the current year, without considering any increase in printing charges.

It is likely that a similar number of measures will be certified for the General Election, based on the record number of initiatives in circulation and historical trends as to the number of measures that will be placed on the ballot by the Legislature. As a result, we anticipate that ballot printing and mailing expenses will exceed the amount proposed in the budget by an amount similar to the current-year shortfall. The administration acknowledges that its proposed funding levels are inadequate and advises that it will consider deficiency funding requests to address the situation.

Corporate Automation System Proves To Be Costly and Inefficient

The Secretary of State's Office has not taken sufficient action to reduce costs and increase the level of efficiency in the Corporate Filing Division.

The Secretary of State's Corporate Filing Division implemented a new on-line Corporate Filing Automation System in March 1987, after a series of delays and programming problems. According to the Feasibility Study Report (FSR) prepared in June 1985, the new system is intended to provide the public and government agencies with more accurate and timely corporate status information than was previously provided through manual efforts. It was anticipated that the system would generate savings from the avoidance of additional staff costs and from reducing the time spent responding to public complaints. The FSR projected that, over the first four years of operation, savings of \$1.3 million would be realized compared to the costs of the former manual system.

Our review of the Corporate Automation System indicates that the costs of operation have actually increased over the levels previously anticipated for operation of the old *manual* system. Thus, the savings used to justify the project have not materialized. Further, the automated system has not provided the level of services anticipated in the FSR. For example, documents are not being filed within the three-day turnaround considered by the Secretary of State to be the maximum acceptable level of delay in providing these services, and the level of public complaints continues to be high.

Cost Overruns Due to Unauthorized System Redesign. According to the Office of Information Technology (OIT), the system's large cost overrun is attributable to an inefficient business process resulting from design changes made during the development of the system, *without* OIT's knowledge or approval. As a result of these inefficiencies, the Corporate Filing Division's costs have increased dramatically over the first three years of the system's implementation. Specifically, Teale Data Center charges have increased by \$4.3 million, and personnel costs have increased by \$681,000 since the first year of system implementation.

Limited Efforts to Address Problems Have Been Futile. As a result of the discrepancy between planned and actual system costs, OIT directed the Secretary of State's Office (in October of 1987) to prepare a Special Project Report to address the reasons for the cost deviations and the corrective actions needed to reduce project costs to approved levels. A private consultant was hired to prepare the report, and it was released in December of 1987. Upon reviewing the report, the Secretary of State's Office concluded that most of its recommendations were not viable. Several recommendations were implemented, however, and resulted in savings of \$160,000 per year. These changes, however, did not address the question of changes in the business process. As a result, OIT *again* directed the office (in July of 1989) to prepare a formal plan to reduce system costs and to align the business process and the automated system. At the time this analysis was prepared, the plan had not been submitted.

Uniform Commercial Code Automation Needs Still Pressing

The failure of the Optical Disk System reflects unrealistic expectations built into the system's design. We recommend that the Secretary of State report at budget hearings on other available automation options for the UCC Division.

The Secretary of State's Office implemented its Optical Disk System in the Uniform Commercial Code (UCC) Division in April of 1989, under a contract with FileNet Corporation. This system, which required approximately three and one-half years of planning, was intended to reduce the amount of time required to verify legal claims on personal property offered as collateral for commercial loans. Because lenders must request a file search from the UCC Division to ensure that property offered as collateral for a loan has not already been pledged, program delays have a direct negative impact on the secured commercial lending industry. According to the project's FSR, approved in December of 1986, it was anticipated that the system would achieve a cost avoidance of almost \$7 million over the then-existing manual system within the first five years of implementation, and a reduction of at least 12 personnel-years beginning in 1988-89. In fact, the FSR claimed that the system is "not only the *least expensive*, but is the *least labor intensive* of all the alternatives considered."

System Resulted in Unacceptable Delays. Experience with the system did not live up to the expectations outlined in the FSR. The amount of time required to conduct a file search increased from *14 days* to *73 days*, which resulted in a virtual halt in secured lending activity as lenders were unable to make timely verifications of property. The system was determined to be a failure by the Secretary of State on May 22, 1989, even before the 30-day test period was completed. The Secretary of State subsequently terminated its contract with FileNet. In addition, the Department of General Services determined that FileNet was in default on its contract with the state.

System Failure Resulted in Funding Deficiencies. As a result of the termination of the FileNet contract, the Secretary of State incurred additional expenses for temporary help and overtime of approximately

SECRETARY OF STATE—Continued

\$500,000 in 1988-89 to return to the old manual system of processing lender verification requests. A current-year deficiency of approximately \$1 million and 17 personnel-years has been requested to fund the manual system. The 1990-91 budget proposes a slightly lower level of funding — \$848,000 and 15.9 personnel-years — to continue this operation, reflecting the stabilization of program activity.

System Failure Reflects Unrealistic Expectations. As of this writing, the Secretary of State has failed to provide a comprehensive explanation of the reasons for the failure of the Optical Disk System. Our review indicates, however, that experience with the system was not consistent with expectations in two key areas. First, document review staff were not able to process documents (handle, review and key data) in the amount of time anticipated. Second, the system's hardware did not operate as quickly as projected, which resulted in delays between document processing operations as well as an inefficient use of staff resources. Given the additional time required for these operations, the system operated at only 30 percent of expected efficiency.

Automated System Still Necessary. Despite the failure of the Optical Disk System, the need still exists for an automated UCC system that meets the needs of the commercial lending industry in an *efficient* and *cost-effective* manner. The Secretary of State's Office has informed us that it plans to begin a new feasibility study for this project in the current year. In order that the Legislature be kept up to date with the office's efforts, we recommend that the Secretary of State report at budget hearings on the progress of its plans for the UCC Division.

STATE TREASURER

Item 0950 from the General
Fund

Budget p. LJE 119

Requested 1990-91	\$14,636,000
Estimated 1989-90	13,574,000
Actual 1988-89	11,861,000
Requested increase (excluding amount for salary increases) \$1,062,000 (+7.8 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 206.3 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of \$14,636,000 from the General Fund and reimbursements to support the State Treasurer's Office in 1990-91. This amount is \$1,062,000, or 7.8 percent, more than expenditures for the current year. The budget request consists of \$6,757,000 from the General Fund, an increase of \$117,000 or 1.8 percent; and \$7,879,000 in reimbursements, an increase of \$945,000 or 14 percent. Table 1 displays the State Treasurer's staffing and funding for the prior, current and budget years.

Table 1
State Treasurer
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1989-90
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91	
Investment Services.....	8.7	9.2	10.6	\$943	\$1,085	\$1,206	11.2%
Cash Management	18.4	18.1	18.1	1,642	1,859	1,912	2.9
Trust Services	69.2	69.3	73.2	4,838	5,561	6,094	9.6
District Securities Division.....	6.3	6.8	6.8	688	780	788	1.0
Centralized Banking Services.....	32.1	38.7	38.7	2,675	3,031	3,166	4.5
Administration (net)	66.3	64.2	70.0	1,075	1,258	1,470	16.9
Totals	201.0	206.3	217.4	\$11,861	\$13,574	\$14,636	7.8%
Funding Sources							
General Fund				\$5,627	\$6,640	\$6,757	1.8%
Reimbursements				6,234	6,934	7,879	13.6

Table 2 identifies the changes in the proposed budget for the Treasurer's Office in 1990-91. As shown in the table, the majority of the additional funds provided for 1990-91 are for workload changes. The proposed budget also includes \$251,000 and 3.7 personnel-years for additions to the Treasurer's administrative staff. All of the workload and program changes are to be funded with reimbursements.

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

STATE TREASURER—Continued

Table 2
State Treasurer
Proposed 1990-91 Budget Changes
(dollars in thousands)

	<i>All Funds</i>
1989-90 Expenditures (revised)	\$13,574
Baseline Adjustments:	
Delete one-time costs	-245
Salary and benefits increase	193
Operating expense increase	54
Subtotal, Baseline Adjustments	(52)
Workload Adjustments:	
Investment Services	106
Trust Services	379
Administration	
Computer program	298
Other operating equipment expenses	26
Subtotal, Workload Adjustments	(\$809)
Proposed Changes:	
Press secretary	92
Legislative unit	107
Executive assistant	52
Subtotal, Proposed Changes	(\$251)
1990-91 Expenditures (proposed)	\$14,636
Change from 1989-90:	
Amount	\$1,062
Percent	7.8%

Capital Outlay

The Governor's Budget proposes an appropriation of \$100,000 in Item 0950-301-036 for capital outlay in the Treasurer's Office. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

CALIFORNIA DEBT ADVISORY COMMISSION

Item 0956 from the California

Debt Advisory Commission

Fund

Budget p. LJE 124

Requested 1990-91	\$1,284,000
Estimated 1989-90	1,142,000
Actual 1988-89	1,028,000
Requested increase (excluding amount for salary increases) \$142,000 (+12 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Debt Advisory Commission (CDAC) was established by Ch 1088/81 (AB 1192, Costa) 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 (Chairperson), the Governor or Director of Finance, the Controller, two local government finance officers, 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 (SB 146, Craven), the fees are paid by the lead underwriter or purchaser of the bonds. Currently, the commission's fee is set at one-hundredth (1/100) of 1 percent of the principal amount of the issue, up to a maximum fee of \$1,500. Short-term debt (such as tax and revenue anticipation notes) is subject to a fixed fee of \$100 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.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$1,284,000 from the California Debt Advisory Commission Fund for support of the commission in 1990-91. This is \$142,000, or 12 percent, more than estimated expenditures in the current year. The proposed increase reflects the addition of \$47,000 and one personnel-year for workload increases, and \$95,000 for salary and price increases. Our analysis indicates that the proposed expenditures for the commission are reasonable.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Item 0959 from the California

Debt Limit Allocation
Committee Fund

Budget p. LJE 126

Requested 1990-91	\$374,000
Estimated 1989-90	321,000
Actual 1988-89	217,000
Requested increase (excluding amount for salary increases) \$53,000 (+17 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Debt Limit Allocation Committee (CDLAC) was established in 1984 in order to ensure the state's compliance with the Federal Tax Reform Acts of 1984 and 1986. Chapter 943, Statutes of 1987 (SB 114, Leroy Greene), provided continuing authority for the committee's operation.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE—Continued

The Tax Reform Acts of 1984 and 1986 limited 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 1990, California's ceiling is estimated to be \$1.4 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 the Director of Finance, and the State Controller. The committee has four personnel-years in the current year.

Pursuant to Chapter 943, 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 \$374,000 from the California Debt Limit Allocation Committee Fund for support of CDLAC during 1990-91. This is an increase of \$53,000, or 17 percent, above estimated current year expenditures. This increase in the committee's budget is attributable primarily to increases in pro rata costs. Our analysis indicates that proposed expenditures for the committee are reasonable.

**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION**

Item 0965 from the Industrial
Development Fund

Budget p. LJE 127

Requested 1990-91	\$421,000
Estimated 1989-90	385,000
Actual 1988-89	321,000
Requested increase (excluding amount for salary increases) \$36,000 (+9.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Industrial Development Financing Advisory Commission (CIDFAC) was created by Ch 1358/80 (AB 74, Lockyer) for the

purpose of evaluating industrial development bonds (IDBs) issued by local development authorities. The proceeds of the bonds assist private businesses with the construction or purchase of certain industrial facilities. 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.

Current state law provides a tax exemption for the interest on IDBs. Provisions of federal law which also provide a federal tax exemption for IDB interest are due to expire on October 1, 1990. The state and federal exemptions on IDB interest allow businesses to obtain financing for qualified projects at rates below conventional financing. Chapter 1264, Statutes of 1989 (AB 1872, Farr), provides that authorities may not undertake projects through the issuance of bonds on or after January 1, 1995, although bonds may be issued after January 1, 1995 to refund bonds issued prior to this date. Chapter 1264 also eliminated the commission's January 1, 1990 sunset date, thereby extending the operation of the commission indefinitely.

The amount of IDBs issued each year is determined by three factors, (1) state authorization limits on IDBs, (2) a federal volume cap on "private activity" bonds in general, and (3) the demand for IDBs. The state is authorized by Ch 816/86 (AB 3175, Farr) to issue up to \$350 million per year in federally tax-exempt IDBs and by Ch 1109/87 (AB 1456, Farr) to issue an additional \$350 million per year in bonds which are federally taxable, but not taxable by the state. Thus far the volume of IDBs issued each year has not come close to these state authorization limits.

The federal volume cap on "private activity" bonds in general and the demand for IDBs are the major factors determining the amount of IDBs issued. Each year, CIDFAC is allocated a portion of the state's federal volume cap by the California Debt Limit Allocation Committee. The 1989 allocation for IDBs was \$150 million. In 1989, the commission received applications for IDBs totaling approximately \$150 million, all of which were approved. In 1990, the demand for IDBs and the "private activity" bond volume cap are likely to again determine the amount of IDBs issued.

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.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$421,000 from the Industrial Development Fund for support of the CIDFAC in 1990-91. This is an increase of \$36,000, or 9.4 percent, over estimated current-year expenditures, and is attributable to salary and price increases. Our analysis indicates that proposed expenditures for the commission are reasonable.

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 129

Requested 1990-91.....	\$1,107,000
Estimated 1989-90	650,000
Actual 1988-89	351,000
Requested increase (excluding amount for salary increases) \$457,000 (+70 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Mortgage Bond Allocation Committee was established by Chapter 1097, Statutes of 1981 (AB 1618, Costa), to allocate to state and local entities the amount of tax-exempt mortgage revenue bonds that may be issued in California to finance housing loans. Chapter 658, Statutes of 1987 (SB 113, Leroy Greene), changed the name of the committee to the Mortgage Bond and Tax Credit Allocation Committee (MBTCAC) and gave it the responsibility of allocating state and federal tax credits to developers of qualified low-income rental projects. Chapter 943, Statutes of 1987 (SB 114, Leroy Greene), allowed the California Debt Limit Allocation Committee (CDLAC) to take over the responsibility for allocating the amount of mortgage revenue bonds that may be issued. The CDLAC assumed this responsibility during 1988-89. Therefore, the MBTCAC is now responsible only for allocating available state and federal low-income housing tax credits.

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 9.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

As shown in Table 1, the budget proposes an appropriation of \$1.1 million from the Mortgage Bond and Tax Credit Allocation Fee Account to support the committee in 1990-91. This is an increase of \$457,000, or 70 percent, over estimated current-year expenditures.

Table 1
Mortgage Bond and Tax Credit Allocation Committee
Proposed 1990-91 Budget Changes
(dollars in thousands)

	<i>Mortgage Bond and Tax Credit Allocation Fee Account</i>
1989-90 Expenditures (Revised)	\$650
<i>Baseline Adjustments</i>	
Employee compensation adjustment	\$6
Increased pro rata	48
Price increase	4
Administratively established positions	-129
Subtotal, baseline adjustments	(-\$71)
<i>Workload Changes</i>	
Staffing increase to meet changes in federal law and increased workload	\$519
Increased administrative support services from State Treasurer	9
Subtotal, workload changes	(\$528)
1990-91 Expenditures (Proposed)	\$1,107
Change from 1989-90	
Amount	\$457
Percent	70.3%

The proposed increase primarily reflects the permanent establishment of five positions in 1990-91 that were administratively established for six months in the current year, as well as the establishment of two additional positions in 1990-91. These additional staff are needed to (1) carry out new duties required by recent changes in federal law, and (2) meet expanded workload resulting from an increase in the number of applications received by the committee.

The committee's budget is supported entirely by fees from developers who apply for federal tax credits. The proposed increase in expenditures in 1990-91 will be funded from surplus fee revenues.

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

Allocation of Tax Credits in 1989

The federal Tax Reform Act of 1986 established a tax credit program for developers of low-income rental housing. Chapters 1138 and 1139, Statutes of 1987 (AB 53, Klehs and SB 572, Garamendi) created a similar state low-income housing tax credit. Both federal and state law limit the amount of tax credits that Californians may claim. The committee is responsible for deciding which of the projects that are eligible to receive a credit will be allowed to claim it, so that the federal and state limits are not exceeded.

The *Supplemental Report of the 1989 Budget Act* required the committee to report on the allocation of federal and state tax credits to the Legislature by December 15, 1989. It also requires the Legislative Analyst to review that report.

Our review of the committee's report — which is based on allocations made through October 1989 — indicates that the allocation of the 1989 tax

CALIFORNIA MORTGAGE BOND AND TAX CREDIT ALLOCATION COMMITTEE—Continued

credits generally met legislatively established requirements. Below, we highlight the salient points of our review.

How Many Credits Were Allocated? The committee allocated a total of \$99.5 million in tax credits in 1989. Of this amount \$35.1 million were federal credits and \$64.4 million were state credits. The state amount included the normal annual state credit ceiling of \$35 million and an additional \$29.4 million made available by Chapter 45, Statutes of 1988 (SB 70, Leroy Greene). This measure authorized the committee to allocate tax credits that were available, but not used, in 1987 and 1988.

How Many Projects Received Credits? The committee allocated tax credits to 161 projects in 1989. Of these projects, all 161 received federal credits and 75 also received state credits. (There are more projects receiving federal credits than state credits because only a portion of the total federal credit that will be claimed by a project owner is counted against the annual ceiling, whereas the entire state credit is counted against the annual ceiling.) When completed, these 161 projects will provide about 8,200 housing units, of which about 7,900 will be occupied by low-income individuals.

Did the Allocations Meet Statutory Requirements? Current law requires the committee to follow certain criteria in allocating the limited pool of tax credits to competing projects. These criteria include (1) giving preference to projects that commit to meeting one or more of six legislative *priorities* — such as providing more than the minimum number of low-income housing units, (2) allocating a minimum of 20 percent of the credits for projects in *rural areas*, and (3) allocating a minimum of 10 percent of the credits to *nonprofit organizations*. As our comments below indicate, the committee followed these criteria in allocating the credits in 1989.

- ***Priorities.*** Our review indicates that the committee allocated the available tax credits to projects that met one or more of the six priorities specified in statute. The two priorities which were most often reflected in the projects were: (1) providing more than the minimum required number of low-income units within a project, and (2) providing housing units targeted to special needs groups, like senior citizens and large families.
- ***20 Percent Rural Setaside.*** The committee allocated over 20 percent of available state tax credits and nearly 20 percent of federal tax credits to rural areas in 1989. (As of December 1, 1989, an additional \$66,000 in federal credits needed to be allocated to meet the 20 percent requirements.) This amount includes \$7 million of available federal tax credits and \$19.8 million of state tax credits.
- ***10 Percent Nonprofit Setaside.*** The committee allocated over 10 percent of the tax credits to nonprofit organizations in 1989. The

committee indicates that 53 percent of the available federal credits and 40 percent of state credits were allocated to projects sponsored by nonprofit organizations.

CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY

Item 0971 from the California
Alternative Energy Authority
Fund

Budget p. LJE 131

Requested 1990-91.....	\$166,000
Estimated 1989-90	157,000
Actual 1988-89	63,000
Requested increase (excluding amount for salary increases) \$9,000 (+5.7 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Alternative Energy Source Financing Authority (CAESFA) was created by Chapter 908, Statutes of 1980, for the purpose of issuing up to \$200 million of revenue bonds to finance alternative energy projects undertaken by private businesses. Interest earned on the bonds is exempt from state and federal income taxes, provided that the projects comply with various federal requirements. Alternative energy sources include geothermal, solar, biomass, wind, cogeneration, and small hydro-electric projects, as well as energy conservation projects that reduce the use of fossil and nuclear fuels. As of September 30, 1989, the authority had about \$121 million in bonds outstanding, with \$79 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 \$166,000 from the CAEAF for support of the authority in 1990-91. This is an increase of \$9,000, or 5.7 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

**CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING
AUTHORITY—Continued**

1990-91 expenditure is within the scope of the program previously approved by the Legislature.
