STATE AND CONSUMER SERVICES

MUSEUM OF SCIENCE AND INDUSTRY

Item 1100 from the General Fund and Exposition Park Improvement Fund — Budget p. SCS 1

Requested 1990-91	$9,226,000
Estimated 1989-90	10,009,000
Actual 1988-89	8,866,000
Requested decrease (excluding amount for salary increases) $783,000 (−7.8 percent)	
Total General Fund recommended reduction	900,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1100-001-001—Support	General	$8,936,000
1100-001-267—Support	Exposition Park Improvement	135,000
Reimbursements	—	155,000
Totals		$9,226,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Museum Security Force. Recommend that the $448,000 appropriated in 1989-90 for additional museum security be reappropriated in the budget year. 101
2. ***Excessive Reserves Available. Reduce Item 1100-001-001 by $900,000 and increase Item 1100-001-267 by $900,000.*** Recommend $900,000 General Fund reduction and $900,000 increase in Exposition Park Improvement Fund expenditures to reflect use of excess reserves. 102

GENERAL PROGRAM STATEMENT

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

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

Associated with the MSI is the Museum of Afro-American History and Culture (MAHC). The MAHC was established by the Legislature to preserve, collect, and display artifacts of Afro-American contributions to the arts, science, religion, education, literature, entertainment, politics, sports, and history of California and the nation. The MAHC is governed by a seven-member advisory board.

The museum has 132.4 personnel-years in the current year.

MUSEUM OF SCIENCE AND INDUSTRY—Continued

MAJOR ISSUES

- ☑ Museum is unlikely to establish its security force in the current year and proposes no funding for it in the budget year.
- ☑ Museum fails to submit expenditure plan for Exposition Park Improvement Fund revenues.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $9.2 million from all funds to support the MSI and the MAHC in 1990-91. This is $783,000, or 7.8 percent, below estimated current-year expenditures. This decrease occurs primarily because current-year funding for a museum security force and associated equipment costs is not continued in the budget year.

Total support for the MSI and the MAHC in the budget year includes $8.9 million from the General Fund, $135,000 from the Exposition Park Improvement Fund (EPIF), $155,000 from reimbursements, and an estimated $1.1 million to be provided by the California Museum Foundation of Los Angeles.

Table 1 shows the museum's expenditures for the past, current, and budget years.

Table 1
Museum of Science and Industry
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Education							
Museum operations	76.9	85.5	85.5	$6,809	$7,851	$7,040	−10.3%
Science workshop	—	—	—	37	42	38	−9.5
Aerospace science museum	2.0	1.9	1.9	227	235	243	3.4
Hall of economics and finance	2.0	1.9	1.9	256	260	265	1.9
Subtotals, education	(80.9)	(89.3)	(89.3)	($7,329)	($8,388)	($7,586)	(−9.6)
Administration							
Administrative services	21.5	23.5	23.5	$1,261	$1,259	$1,276	1.4%
Parking lot operations	4.0	3.7	3.7	332	340	344	1.2
Subtotals, administration	(25.5)	(27.2)	(27.2)	($1,593)	($1,599)	($1,620)	(1.3%)

Afro-American Museum							
Education	10.8	11.2	11.2	$1,091	$1,164	$1,178	1.2%
Administration	5.1	4.7	4.7	446	457	462	1.1
Subtotals, Afro-American museum	(15.9)	(15.9)	(15.9)	($1,537)	($1,621)	($1,640)	(1.2%)
Totals	122.3	132.4	132.4	$8,866	$10,009	$9,226	−7.8%
Funding Sources							
General Fund				*$8,749*	*$8,819*	*$8,936*	*1.3%*
Exposition Park Improvement Fund				—	*1,035*	*135*	*−87.0%*
Reimbursements				*117*	*155*	*155*	—
Foundation				*($1,455)*	*($1,148)*	*($1,148)*	—

The $783,000 decrease in total expenditures proposed for 1990-91 reflects several workload changes, and baseline adjustments needed to maintain the museum's current level of activity. These changes are detailed in Table 2.

Table 2
Museum of Science and Industry
Proposed 1990-91 Budget Changes
(dollars in thousands)

	All Funds
1989-90 Expenditures (Revised)	$10,009
Baseline Adjustments	
Eliminate funding for museum security force	−$448
Employee compensation	121
One-time costs, land acquisition	−216
One-time costs, roof and special repairs	−371
Other	−4
Subtotal, baseline adjustments	(−$918)
Program Change	
Special repairs	$135
1990-91 Expenditures (Proposed)	$9,226
Change from 1989-90	
Amount	−$783
Percent	7.8%

ANALYSIS AND RECOMMENDATIONS

Museum Security Force Held Up

We recommend that up to $448,000 appropriated for a museum security force in the current year be reappropriated for the same purpose in the budget year.

The 1989 Budget Act appropriated $448,000 from the EPIF to establish a security force dedicated to protecting the museum's personnel, exhibits, and grounds. The force was to consist of one chief of police, 13 peace officers, 21 safety officers, and 7 clerical staff. An independent study concluded that an existing arrangement with the State Police for security services was inadequate.

In addition to appropriating funds for the security force, the Legislature adopted Budget Act language making the expenditure of funds for a security force contingent on the approval of a museum security plan by the State Police. The Legislature also adopted language in the *Supplemental Report of The 1989 Budget Act* requiring the museum to submit

MUSEUM OF SCIENCE AND INDUSTRY—Continued

a plan to the Legislature detailing how it would expend these funds for security services in 1989-90. The Legislature took these actions primarily because the museum did not have a specific expenditure plan for security services.

Our analysis indicates that it is unlikely that the museum will establish its security force in the current year. Chapter 1165, Statutes of 1989 (SB 353, Presley), provides that in order for agencies to appoint new peace officers, the Commission on Peace Officer Standards and Training (POST) must first determine that peace officer status is warranted. The museum indicates that such a determination by POST generally requires 18 months to complete. In addition, at the time that this analysis was prepared, the museum had not obtained State Police approval of its security plan nor had it submitted to the Legislature the detailed expenditure plan for museum security services required by the *Supplemental Report of the 1989 Budget Act.*

Consequently, assuming the Legislature still wants the museum to establish a police force, we recommend that a reappropriation item be added to the Budget Bill to make the current year appropriation for the security force available for this purpose in 1990-91. We further recommend adoption of Budget Bill language which would (1) make the expenditure of these funds contingent on approval of a museum security plan by the State Police and (2) require the museum to submit an expenditure plan for security services to the Legislature. The following language would implement this recommendation:

1100-490—Reappropriation, Museum of Science and Industry. On the effective date of this act, up to $448,000 of the amount appropriated by Item 1100-001-267 of the 1989 Budget Act for the purpose of establishing a museum security force is reappropriated for this purpose. The Museum of Science and Industry shall certify to the State Controller the unexpended amount of the initial appropriation.

Provisions:

1. No funds appropriated by this item shall be expended unless and until the museum obtains approval of its security plan by the State Police in accordance with requirements of Section 2615 of the State Administrative Manual.
2. The museum shall provide the fiscal committees of the Legislature with a specific plan for the expenditure of funds provided by this item for museum security services. The plan shall provide specific details on the amounts that will be expended in 1990-91 including personnel, equipment, vehicles, and facilities.

No Expenditure Plan Provided for Park Improvement Fund Revenues

We recommend a General Fund reduction of $900,000 and an increase of $900,000 from the Exposition Park Improvement Fund (EPIF) to make use of excess EPIF reserves and to increase the Legislature's ability to fund other General Fund priorities. (Reduce Item 1100-001-001 by $900,000 and increase Item 1100-001-267 by $900,000.)

Chapter 1171, Statutes of 1988 (AB 2990, Hughes) created the EPIF. The EPIF is funded from revenues the museum earns from parking fees, rental of its facilities, and other business activities. Chapter 1171 requires that the first $833,000 of such revenues be deposited in the General Fund. Any additional revenues are deposited in the EPIF to be appropriated by the Legislature for improvements to Exposition Park. In the current year, for example, the Legislature appropriated $1,035,000 from the EPIF to establish a museum security force, purchase adjacent land, and make special repairs. Table 3 displays the revenues and expenditures of the fund for the past, current and budget years.

Table 3
Museum of Science and Industry
Exposition Park Improvement Fund
1988-89 through 1990-91
(in thousands)

	Actual 1988-89	*Est. 1989-90*	*Prop 1990-91*
Beginning Reserves	—	$119	$119
Revenues and Transfers:			
Parking Lot Revenues	$119	$1,035	$1,035
Total Resources	$119	$1,154	$1,154
Expenditures:			
Land Acquisition	—	$216	—
Roof Repair	—	256	—
Security Force	—	448	—
Special Repairs	—	115	$135
Total Expenditures	—	$1,035	$135
Ending Reserves	$119	$119	$1,019

Source: 1990-91 Governor's Budget

As Table 3 shows the EPIF will receive $1,035,000 in revenues in the budget year. The budget, however, proposes to expend only $135,000 of those revenues, thus, leaving a surplus of $1,019,000. The Department of Finance indicates that additional expenditures are not proposed from this fund because the museum did not submit any additional requests.

Our review indicates that to the extent revenues in the EPIF are not expended by the museum, they are available to use in place of General Fund money proposed for the museum. Should the Legislature choose to take this action, it would not reduce proposed museum spending levels, but, it would increase the Legislature's ability to fund other General Fund priorities. Our analysis indicates that about $900,000 from the EPIF could be used for this purpose and still leave a reserve of $119,000, which is the current year reserve level. Accordingly, we recommend that General Fund support budgeted for the museum be reduced by $900,000 and replaced by increasing EPIF expenditures by $900,000.

DEPARTMENT OF CONSUMER AFFAIRS

Items 1120-1655 from various funds — Budget p. SCS 5

Requested 1990-91	$199,723,000
Estimated 1989-90	181,901,000
Actual 1988-89	140,668,000
Requested increase (excluding amount for salary increases) $17,822,000 (+9.8 percent)	
Total recommended reduction	1,234,000
Recommendation pending	440,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1120-001-704—Board of Accountancy	Accountancy	$6,407,000
1130-004-706—Board of Architectural Examiners	Architectural Examiners	4,015,000
1140-006-001—State Athletic Commission	General	787,000
1140-006-492—State Athletic Commission	Boxers Neurological Examination Account	348,000
1150-008-421—Bureau of Automotive Repair	Vehicle Inspection and Repair	71,452,000
1160-010-713—Board of Barber Examiners	Barber Examiners	1,025,000
1170-012-773—Board of Behavioral Science Examiners	Behavioral Science Examiners	2,667,000
1180-014-717—Cemetery Board	Cemetery	340,000
1200-016-157—Bureau of Collection and Investigative Services	Collection Agency	1,071,000
1210-018-769—Bureau of Collection and Investigative Services	Private Investigator	4,527,000
1230-020-735—Contractors State License Board	Contractors License	34,268,000
1240-022-738—Board of Cosmetology	Cosmetology Contingent	4,319,000
1260-024-741—Board of Dental Examiners	State Dentistry	3,755,000
1270-026-380—Board of Dental Examiners	Dental Auxiliary	886,000
1280-028-325—Bureau of Electronic and Appliance Repair	Electronic and Appliance Repair	1,292,000
1330-036-750—Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	612,000
1340-038-205—Board of Registration for Geologists and Geophysicists	Geology and Geophysics	382,000
1350-040-001—State Board of Guide Dogs for the Blind	General	51,000
1360-042-752—Bureau of Home Furnishings and Thermal Insulation	Bureau of Home Furnishings and Thermal Insulation	2,590,000
1360-042-753—Bureau of Home Furnishings and Thermal Insulation	Bureau of Home Furnishings and Thermal Insulation, Dry Cleaning Account	47,000
1370-044-757—Board of Landscape Architects	Board of Landscape Architects	509,000
1390-046-758—Medical Board of California	Contingent Fund of the Medical Board of California	19,104,000
1390-047-175—Medical Board of California	Dispensing Opticians	194,000
1400-048-108—Medical Board of California	Acupuncture	833,000
1410-050-208—Medical Board of California	Hearing Aid Dispensers	358,000
1420-052-759—Medical Board of California	Physical Therapy	532,000
1430-054-280—Medical Board of California	Physicians' Assistant	491,000
1440-056-295—Medical Board of California	Podiatry	784,000

1450-058-310—Medical Board of California	Psychology	1,429,000
1455-059-319—Medical Board of California	Respiratory Care	818,000
1460-060-376—Medical Board of California	Speech Pathology and Audiology Examining Committee	291,000
1470-062-260—Board of Examiners of Nursing Home Administrators	Nursing Home Administrator's State License Examining Board	414,000
1480-064-763—Board of Optometry	State Optometry	526,000
1490-066-767—Board of Pharmacy	Pharmacy Board Contingent	3,307,000
1500-068-770—Board of Registration for Professional Engineers and Land Surveyors	Professional Engineers and Land Surveyors	4,653,000
1510-070-761—Board of Registered Nursing	Board of Registered Nursing	9,145,000
1520-072-771—Certified Shorthand Reporters Board	Shorthand Reporters	367,000
1530-074-399—Structural Pest Control Board	Structural Pest Control Education and Enforcement	200,000
1530-074-775—Structural Pest Control Board	Structural Pest Control	2,346,000
1540-076-406—Tax Preparers Program	Tax Preparers	950,000
1560-078-777—Board of Examiners in Veterinary Medicine	Veterinary Examiners' Contingent	730,000
1570-080-118—Board of Examiners in Veterinary Medicine	Animal Health Technician Examining Committee	116,000
1590-082-779—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account	3,436,000
1600-084-780—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Psychiatric Technicians Account	858,000
1640-086-001—Division of Consumer Services	General	1,480,000
1655-090-702—Support, Department of Consumer Affairs	Consumer Affairs	1,758,000
Total, Budget Act appropriations		$196,470,000
Statutory appropriation Certified Shorthand Reporters Board	Transcript Reimbursement	300,000
Reimbursements	—	2,953,000
Total, all expenditures		$199,723,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. ***Relocation of the Department. Reduce Item 1655-090-702 Division of Administration and the items of the boards by $77,000.*** Recommend reduction in funds for positions to assist in departmental relocation because of lack of adequate justification. 109
2. Central Testing Unit. Recommend adoption of supplemental report language requiring the department to report to the Legislature by December 1, 1990 on alternative means by which the Central Testing Unit can provide examination services to the boards. 110
3. Departmental Cost Distribution Methodology. Recommend adoption of supplemental report language requiring the department to report to the Legislature by December 1, 1990 on (a) its current methodology in distributing costs to 111

DEPARTMENT OF CONSUMER AFFAIRS—Continued

the boards and (b) an analysis of alternative cost distribution methodologies.

4. Uneven Workflow of Central Cashiering. Recommend adoption of supplemental report language requiring the department to report to the Legislature by December 1, 1990 on the feasibility of converting all boards to a biennial, staggered license renewal system. 112
5. ***Lease for Division of Technology. Reduce Item 1655-090-702 Division of Technology and the items of the boards by $198,000.*** Recommend a reduction in funds to reflect lower rental costs. 113
6. Division of Consumer Services—Automated Phone System. Recommend the adoption of Budget Bill language requiring the department to restore two positions from other units to the Consumer Assistance Office as of July 1, 1990 to ensure that the level of service to the public is not reduced. 113
7. ***Division of Consumer Services—Complaint Mediation Services. Reduce Item 1655-090-702 Division of Consumer Services and the items of the boards by $125,000.*** Recommend reduction of funds for complaint handling and clerical positions because the special funds of the boards are an inappropriate funding source. Further recommend that if the Legislature wishes to fund two positions, that the positions be approved in the reduced amount of $80,000 from the General Fund rather than the special funds. 114
8. Potential Fund Deficiencies. Recommend that, by March 15, 1990, 10 specified agencies report to the Legislature on the steps taken to ensure sufficient reserves in their respective fund balances. Further recommend adoption of Budget Bill language prohibiting the boards with projected fund deficits to spend at a rate that will result in a deficit unless legislation is enacted or regulations are adopted to increase revenues. 116
9. ***Bureau of Automotive Repair. Reduce Item 1150-008-421 by $720,000.*** Recommend a reduction in funds to reflect the bureau's workload related to a lower than projected number of licensed Smog Check stations. 118
10. Bureau of Automotive Repair. We make no recommendation on the bureau's request to contract with the California Youth Authority to provide information to motorists. Further recommend that the bureau report to the Legislature at budget hearings on the cost of providing adequate supervision of the youth offenders to ensure that motorists' personal information will not be compromised. 119
11. Contractors State License Board. The board's complaint backlog has been reduced. 120
12. ***Medical Board of California. Reduce Item 1390-046-758 by $114,000.*** Recommend a reduction in funds for examination contracts to avoid overbudgeting. 121

13. Medical Board of California. Recommend adoption of supplemental report language requiring the board to assign promptly complaints with a potential for patient harm. 121
14. Optometry Board. The board does not plan to conduct a second examination in the current year or in the budget year. 123
15. Board of Registration for Professional Engineers and Land Surveyors. We make no recommendation on board's request to contract with Prison Industry Authority for microfilming services. Further recommend that the board report to the Legislature at budget hearings on the measures it plans to take to ensure that licensees' personal information is adequately protected. 124
16. Board of Registration for Professional Engineers and Land Surveyors. Withhold recommendation on $440,000 to contract for examination services pending receipt of information justifying the amount. 125

GENERAL PROGRAM STATEMENT

The Department of Consumer Affairs (DCA) is responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices. The department has five major components: (1) 38 regulatory agencies, which include boards, bureaus, programs, committees and commissions; (2) the Division of Administration; (3) the Division of Technology; (4) the Division of Investigation; and (5) the Division of Consumer Services. Each of the department's constituent licensing agencies is statutorily independent of the department's control. Only four bureaus and one program are under the direct statutory control of the Director.

Regulatory Agencies. Each of the 38 regulatory agencies is responsible for licensing and regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices.

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

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

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

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

The department has 2,054.3 personnel-years in the current year.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

MAJOR ISSUES

- Levels of service provided by departmental units have decreased.
  - Division of Consumer Services—reduced phone access by consumers seeking assistance.
  - Central Testing Unit—lower services to licensing boards as a result of vacant positions.
- Boards disregard legislative direction.
  - Medical Board of California—complaint backlog has increased and cases with potential harm to patients are not promptly assigned for investigation as directed.
  - Board of Optometry—does not plan to give second license examination, contrary to legislative direction.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes $199.7 million from various funds, including reimbursements, for support of the department and its constituent agencies in 1990-91. This is $17.8 million, or 10 percent, more than estimated expenditures in the current year.

Of the total expenditures proposed for 1990-91, $23.1 million is for support of the four divisions. The remaining $176.6 million is for support of the various boards and bureaus. Table 1 presents the department's total expenditures for the prior, current and budget years.

Table 1
Department of Consumer Affairs
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

	Personnel-Years			Expenditures			
	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Percent Change From 1989-90
Boards and Bureaus	1,576.9	1,759.0	1,835.3	$122,122	$159,079	$176,657	11.0%
Divisions:							
Consumer services	39.8	38.8	41.6	$2,457	$2,649	$2,843	7.3
Administration	127.8	138.8	155.1	6,751	7,967	8,858	11.2
Investigation	59.3	70.3	70.3	3,351	4,403	4,514	2.5
Technology	34.3	47.4	48.5	4,149	6,080	5,093	−16.2
Building and maintenance	—	—	—	1,838	1,723	1,758	2.0
Subtotals, divisions	(261.2)	(295.3)	(315.5)	($18,546)	($22,822)	($23,066)	(1.1%)
Totals	1,838.1	2,054.3	2,150.8	$140,668	$181,901	$199,723	9.8
Funding Sources							
General Fund				*$2,160*	*$2,311*	*$2,318*	*0.3%*
Consumer Affairs Fund				*1,838*	*1,723*	*1,758*	*2.0*
Various Special Funds of the Boards and Bureaus				*133,555*	*174,888*	*192,694*	*10.2*
Reimbursements				*3,115*	*2,979*	*2,953*	*−0.9*

ANALYSIS AND RECOMMENDATIONS

DIVISION OF ADMINISTRATION

Proposal to Relocate the Department

We recommend a reduction of $77,000 from the special funds of the boards because the request for positions to assist in departmental relocation lacks adequate justification. (Reduce Item 1655-090-702 Division of Administration and the items of the boards by $77,000.)

The department is requesting $39,000 in the current year and $77,000 in the budget year for two permanent positions to assist in the relocation of the department and 10 licensing boards from the Consumer Affairs Building in Sacramento. The department cites the Legislature's plan to construct a legislative office building in place of the Consumer Affairs Building, as expressed in Ch 1366/89 (SB 42, Craven), as the basis for its relocation plan.

Request for Staff Not Justified. The department indicates that the positions are needed to develop a workflow and organization plan, develop blueprints for contractors, and perform other space planning tasks necessary for the relocation. Our review of the proposal, however, indicates that the two positions are not justified. This is because the tasks proposed to be performed by the positions are generally provided by the Department of General Services' Office of Real Estate and Design Services (OREDS). Other large agencies, such as the Franchise Tax Board, have carried out major relocation by working through OREDS, without requiring additional staff of their own. We see no reason why the Department of Consumer Affairs cannot utilize OREDS's services in lieu of the proposed additional staff.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Consequently, we recommend a reduction of $77,000 for the positions.

Central Testing Unit

We recommend the Legislature adopt supplemental report language requiring the department to report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee by December 1, 1990 assessing alternative methods of providing examination services to the boards in order to improve these services.

The Central Testing Unit (CTU), within the department's Division of Administration, provides consulting and technical services to the boards to assist them in improving the quality and fairness of their license examinations. Services include validating, revising, developing, and scoring examinations, as well as performing statistical reviews, job analyses, and evaluations of the board's examination program. The CTU also assists the boards in contracting with private companies to provide examination services. The CTU is supported by the assessments on the boards in proportion to their staff size.

In 1989-90, the department expanded the CTU to six professional and one clerical position by adding one test validation analyst position so that it can provide an increased level of service, and to meet previously unmet demands of the boards.

Staff Vacancies Limit CTU's Ability to Provide Services. Our review, however, indicates that while the department expressed the need to increase CTU's staff, it has kept three of the professional staff (one manager and two test validation analysts) positions vacant for more than six months since the beginning of 1989-90. Thus, instead of increasing the level of service to the boards, the level of service has actually been lowered. If the vacancies remain unfilled, the CTU indicates that only three of five major projects planned for 1990-91 will be undertaken. Completion of the remaining two projects—job analyses for the Board of Examiners in Veterinary Medicine and the Hearing Aid Dispenser Examining Committee—will be delayed. The analyses need to be performed in order for the boards to develop and update their licensing examinations. If the CTU cannot perform the studies, the boards would have to contract with a private organization for the services. The boards, however, are relying on CTU to perform the work, thus they have not requested funding to contract for these services. If the vacant positions remain unfilled, these studies will be delayed beyond 1990-91.

Majority of the Boards Contract With a Private Company for Major Projects. Discussions with the boards and CTU indicate that most boards receive a wide range of routine services annually from the CTU. These services include consulting, contract development and monitoring, test question banking, statistical analysis, and examination scoring services. Thus, assessing boards for these services is justified. However, not all boards receive services for major projects such as job analysis and examination development in any one year. Rather, most boards generally contract with a private company for these types of services. Because these projects comprise a majority of CTU's work time, assessing all boards for the costs of these projects results in most boards subsidizing a few.

In summary, the department's failure to fill staff positions on a timely basis has made it difficult for boards to count on the CTU to provide prompt services essential to their licensing activities. Additionally, the boards are charged for services they do not receive or from which they do not benefit. In order to ensure that boards are (1) charged equitably for services rendered and (2) able to receive services such as job analysis and examination development, we believe that the role of CTU in providing these services should be reviewed.

In order to ensure that services are provided to boards in an effective and efficient manner, the department should assess alternative means of providing the services currently intended to be provided by the CTU. The alternatives should include the case where the CTU provides only *routine* services regarding the boards' examination programs, and not major project services. Under this scenario, boards would contract with private consultants for major projects and request for the funding of the contract in their budget. Accordingly, we recommend that the Legislature adopt the following supplemental report language requiring the department to report to the Legislature by December 1, 1990, on alternative roles of CTU in providing examination services to the boards. This would allow the Legislature to determine what the unit's appropriate structure and function ought to be starting in 1991-92.

> The Department of Consumer Affairs shall report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee by December 1, 1990 on alternative ways of providing examination services to the boards in order to improve the quality and fairness of the boards' license examinations. The alternatives shall include one in which the department's Central Testing Unit provides routine services with major projects being contracted out. The report shall include (1) an assessment of the costs and benefits of each alternative, and (2) methods for charging the boards for services under each alternative.

Departmental Cost Distribution Methodology

We recommend that the Legislature adopt supplemental report language requiring the department to report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee by December 1, 1990 on its methodology for distributing costs to the boards and an analysis of alternative cost distribution methodologies. (Item 1655-090-702).

The department assesses the boards within the department for support of the Division of Administration. These assessments are made based on each board's actual staff size. Review of the services provided by the Division of Administration show that for some of the services such as personnel and accounting, assessing boards based on staff size is appropriate. However, costs of other services, such as technical examination expertise or legal services are not related to positions and should not be charged according to staff size. Distributing these costs based on staff size

DEPARTMENT OF CONSUMER AFFAIRS—Continued

would often result in some boards subsidizing others. Such services may be more appropriately charged according to services rendered.

In order to ensure that costs are charged to constituent boards in an equitable manner, we recommend that the Legislature adopt the following supplemental report language requiring the department to review its methodology for distributing costs to boards and to examine the pros and cons of alternative cost distribution methodologies.

> The Department of Consumer Affairs shall report to the fiscal committees of the Legislature and to the Joint Legislative Budget Committee by December 1, 1990 on the following: (1) a description of how costs of the Division of Administration are distributed to boards for the current year and the past three years, including a display of the calculations for each board, and (2) an evaluation of the pros and cons—including costs and benefits—of alternative methods of distributing costs.

Uneven Workflow of Central Cashiering

We recommend that the Legislature adopt supplemental report language requiring the department to report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee by December 1, 1990 on the feasibility and desirability, including associated costs and savings, of having boards convert to a biennial, staggered license renewal system. (Item 1655-090-702).

Currently, 33 of the 38 boards within the department have their licensing and renewal fees cashiered centrally by the Division of Administration. Approximately 18 of the 33 boards renew licenses on a biennial, staggered (such as birthdate) basis. The other 15 boards renew licenses either annually, in alternate (odd or even) years, or on a particular date (such as June 30). For boards that have annual or biennial, staggered renewal cycles, the renewal and fee cashiering workload flows evenly throughout the year. Discussion with the department indicates that providing centralized fee cashiering function for boards with varying renewal cycles creates an uneven workflow, resulting in backlogs of license renewals.

Our preliminary analysis indicates that backlog problems would be minimized if all boards renew their licenses on a staggered basis throughout the year. Additionally, having an even renewal workload would enable the department to better plan for its staffing needs and might result in savings. In order to accurately assess the cost and benefits of a more even renewal workload, we recommend that the Legislature adopt the following supplemental report language:

> The Department of Consumer Affairs shall report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee by December 1, 1990 on the feasibility and desirability, including associated costs and savings, of having all boards renew licenses on a biennial, staggered system.

DIVISION OF TECHNOLOGY

Lease Cost Will Be Lower

We recommend a reduction of $198,000 to the special funds of the boards that support the Division of Technology to reflect lower rental costs. (Reduce Item 1655-090-702 Division of Technology and the items of the boards by $198,000.)

The department is requesting $1.9 million in the budget year to support 22.5 positions so that the Division of Technology can provide an increased level of data processing service to the boards. The department indicates that the boards' demand for services from the division, such as revision of automated systems and staff training, has increased, thereby necessitating the expansion of the division.

Our analysis indicates that the requested amount includes $258,000 to lease office space for the expanded division. According to the department, it requested the amount in order to lease space in a privately owned building as there was no additional space at the Consumer Affairs Building. However, because of the recent relocation of two boards, space will be available in the building to accommodate the increased staff at a lower cost of $60,000 for 1990-91. Accordingly, we recommend a reduction of $198,000 to avoid overbudgeting.

DIVISION OF CONSUMER SERVICES

Delay in Installing Automated Phone System

We recommend that the Legislature adopt Budget Bill language requiring the department to redirect two positions from other units to the Consumer Assistance Office (CAO) as of July 1, 1990, in order to ensure that the level of service to the public is not reduced. (Item 1640-086-001).

The Consumer Assistance Office (CAO), within the Division of Consumer Services, provides assistance to consumers primarily by responding to telephone inquiries. Depending on the nature of the inquiry, the CAO staff either refers the consumer to the appropriate state or local agency, or assists in resolving complaints which do not fall within the jurisdiction of any other governmental agency. The effectiveness of the office in providing consumer assistance, therefore, relies heavily on the efficiency of the telephone system in handling and channeling calls from consumers.

In 1986, the division conducted a study on the adequacy of its telephone system. The study showed that the CAO was receiving an estimated 59,000 busy signals annually at its Sacramento office. In 1988-89, the department planned to install an automated telephone system with toll-free lines to recorded messages and non-toll free lines to live operators in order to improve the public's access to the CAO. The department anticipated that the automated system would allow CAO to handle phone calls more efficiently and, consequently, free up two positions for other activities within the division.

Level of Consumer Assistance is Lower. Our review indicates that the installation of the automated telephone system has been delayed for

DEPARTMENT OF CONSUMER AFFAIRS—Continued

more than one year. Instead of being installed in September 1988, the system is now planned for February 1990. The division indicates that the delay was due to the longer than expected time needed to develop appropriate and effective recorded messages.

While installation of the system has been delayed, the division reduced its CAO staff by two positions in October 1988 and subsequently redirected these positions to other activities. Without the automated telephone system and with two fewer staff positions, the CAO has, in effect, reduced the level of service it provides to the public for more than one year.

System Impact on Improving Consumer Assistance is Unknown. Although the division anticipates that the automated telephone system would improve services with less staff, it recognizes that there has been limited experience with these automated systems, and the system's impact on services provided is not known.

Accordingly, we recommend that the Legislature adopt the following Budget Bill language to require the department to restore two staff for consumer assistance functions, in order to ensure that the CAO provides a level of service at least similar to that provided prior to October 1988.

> The Division of Consumer Services shall as of July 1, 1990 restore two personnel-years to the CAO to provide consumer assistance.

General Consumer Complaint Mediation Services

We recommend deletion of $125,000 from the special funds of the boards that support the Division of Consumer Services because they are inappropriate sources to fund the requested consumer complaint mediation activities. We further recommend that if the Legislature wishes to fund two positions for consumer complaint mediation, that the positions be approved in the reduced amount of $80,000 from the General Fund rather than the special funds. (Reduce Item 1655-090-702, Division of Consumer Services and the items of the boards by $125,000.)

The department is requesting $125,000 from various special funds of the boards and bureaus to support three positions in the Division of Consumer Services. Two positions would provide complaint mediation services to consumers regarding complaints that do not fall within the jurisdiction of any governmental agency, including any of the boards and bureaus within the department. The other position would provide general clerical support services.

According to the department, the number of complaints mediated has doubled over the last seven years. In addition, the amount of time it takes to mediate complaints and close each case has increased from an average of 30 days to 60 days. Consequently, its current staff of one consumer service representative and two part-time student assistants is inadequate to handle the complaint mediation workload.

Our review of the department's request indicates that based on workload data, one consumer service representative and one clerical position are justified at a cost of $80,000. However, we do not believe it is appropriate to fund these positions out of the boards' and bureaus' special funds. This is because an Attorney General's opinion has concluded that the special funds of the boards and bureaus cannot be used for purposes unrelated to the boards' regulatory activities.

Accordingly, we recommend deletion of $125,000 from various special funds because the funding source is inappropriate. While the two positions are justified, we make no recommendation regarding their funding because the Legislature has to determine its priorities in the use of General Fund monies. However, *if* the Legislature chooses to fund the two positions, we recommend that the two positions be approved in the reduced amount of $80,000 from the General Fund.

BOARDS AND BUREAUS

Our analysis indicates that the proposed 1990-91 budgets for a number of boards, bureaus, and committees raise no significant fiscal issues that warrant separate write-ups in this *Analysis*. Many of these entities have requested increases that simply offset the effects of inflation on their current programs. Others have requested additional funding for program and workload increases which our review shows to be justified. Table 2 displays staffing and expenditures for those boards, bureaus, and committees whose budgets we recommend be approved as submitted.

Table 2
Department of Consumer Affairs
Boards, Bureaus, and Committees
Recommend Approval as Budgeted
1990–91
(dollars in thousands)

		Personnel-Years			Expenditures[a]			
Item Number	*Description*	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
1120-001-704	Board of Accountancy	35.9	47.4	47.2	$4,483	$6,157	$6,426	4.4%
1130-004-706	Board of Architectural Examiners[b]	30.6	30.9	30.0	3,002	3,860	4,020	4.1
1140-006-001	State Athletic Commission	12.7	13.8	13.8	969	1,109	1,135	2.3
1160-010-713	Board of Barber Examiners[b]	15.1	12.9	12.9	790	906	1,026	13.2
1170-012-773	Board of Behavioral Science Examiners[b]	23.4	26.0	27.8	1,922	2,427	2,693	11.0
1180-014-717	Cemetery Board	4.6	4.4	4.4	302	326	340	4.3
	Bureau of Collection and Investigative Services:							
1200-016-157	Collection Agencies	11.6	13.0	13.9	765	943	1,078	14.3
1210-018-769	Private Investigators	47.9	48.7	52.3	4,473	5,555	5,927	6.7
1240-022-738	Board of Cosmetology[b]	42.4	40.8	43.1	3,375	3,980	4,340	9.0
1260-024-741	Board of Dental Examiners[b]	31.8	36.0	42.5	2,820	3,221	3,818	18.5
1270-026-380	Board of Dental Examiners—Dental Auxiliary[b]	10.0	8.3	8.5	729	819	890	8.7
1280-028-325	Bureau of Electronic and Appliance Repair	15.0	13.6	13.6	1,099	1,300	1,292	−0.6
1330-036-750	Board of Funeral Directors and Embalmers	6.5	8.2	8.2	484	559	616	10.2

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 2—Continued
Department of Consumer Affairs
Boards, Bureaus, and Committees
Recommend Approval as Budgeted
1990–91
(dollars in thousands)

		Personnel-Years			Expenditures[a]			
Item Number	*Description*	*Actual 1988–89*	*Est. 1989–90*	*Prop. 1990–91*	*Actual 1988–89*	*Est. 1989–90*	*Prop. 1990–91*	*Percent Change From 1989–90*
1340-038-205	Board of Registration for Geologists & Geophysicists	3.7	3.9	3.9	$257	$270	$382	41.5%
1350-040-001	State Board of Guide Dogs for the Blind	0.5	0.6	0.5	37	74	51	−31.1
1360-042-752	Bureau of Home Furnishings	31.8	36.1	37.0	2,039	2,511	2,637	5.0
1370-044-757	Board of Landscape Architects	3.8	3.5	3.5	426	458	509	11.1
1390-047-175	Dispensing Opticians	0.8	1.0	1.0	136	176	194	10.2
1400-048-108	Acupuncturists	5.7	8.0	8.0	534	568	840	47.9
1410-050-208	Hearing Aid Dispensers[b]	3.4	3.4	3.5	305	309	362	17.2
1420-052-759	Physical Therapy	3.7	3.9	4.1	393	468	552	17.9
1430-054-280	Physicians Assistant	3.7	3.8	4.0	332	421	494	17.3
1440-056-295	Podiatry	4.2	4.2	4.7	563	768	788	2.6
1450-058-310	Psychology[b]	8.1	8.2	7.7	1,118	1,390	1,467	5.5
1455-059-319	Respiratory Care	5.9	5.8	5.9	634	772	845	9.5
1460-060-376	Speech Pathology & Audiology Examining Committee	2.9	3.1	3.1	226	269	303	12.6
1470-062-260	Board of Examiners of Nursing Home Administrators	3.8	4.9	4.4	274	395	415	5.1
1490-066-767	Board of Pharmacy	31.7	33.0	33.0	2,784	3,183	3,351	5.3
1510-070-761	Board of Registered Nursing	66.7	74.9	76.4	6,423	9,168	9,670	5.5
1520-072-771	Certified Shorthand Reporters Board	4.0	4.7	4.7	620	743	668	−10.1
1530-074-775	Structural Pest Control Board	29.4	26.9	26.8	2,110	2,455	2,548	3.8
1540-076-406	Tax Preparers Program	6.2	5.8	5.7	866	872	965	10.7
	Board of Examiners in Veterinary Medicine:							
1560-078-777	Veterinarians	4.5	5.3	4.6	689	905	756	−16.5
1570-080-118	Animal Health Technicians	1.4	1.4	1.4	84	110	116	5.5
	Board of Vocational Nurse and Psychiatric Technician:							
1590-082-779	Vocational Nurse[b]	31.3	35.8	36.7	2,737	3,184	3,489	9.6
1600-084-780	Psychiatric Technician	3.7	4.6	4.6	714	730	858	17.5

[a] The expenditure amounts include reimbursements.
[b] The bureau and the boards face potential fund balance problems in 1990–91.

Potential Fund Deficiencies

We recommend that specified boards and bureaus report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee by March 15, 1990 on the steps they are taking to ensure sufficient reserves in their respective funds. We further recommend that the Legislature adopt Budget Bill language prohibiting the boards with projected fund deficits to spend at a rate that will result in a

deficit unless legislation or appropriate regulations to increase the respective boards' revenues are enacted.

Generally, special funds that derive revenues from licensing activities should maintain a prudent reserve sufficient to cover any contingencies and unanticipated reduction in revenue collections. As a general rule, an amount equal to about three months' operating expenses (or 25 percent of annual expenditures) should be maintained. Our analysis indicates that some of the special funds established for the various boards and bureaus are likely to have fund balances during 1990-91 that fail to meet these standards.

Table 3 shows the fund conditions for those boards and bureaus that do not appear to have adequate reserves. As a result, these agencies may run into cash flow problems during the budget year, and they should determine what steps should be taken to avoid the potential of such problems. Accordingly, we recommend that these boards and bureaus report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee by March 15, 1990 on steps they are taking to assure that the balances in their funds will be sufficient to meet their cash flow needs during 1990-91.

Table 3
Department of Consumer Affairs
Boards and Bureau with Fund Deficiencies or Potential Fund Deficiencies in 1990-91
(dollars in thousands)

		Fund Balance		*Proposed Expenditures*	*1990-91 Fund Balance as a Percent of 1990-91*
Item Number	*Board/Bureau/Committee*	*1989-90*	*1990-91*	*1990-91* [a]	*Expenditures*
1130-004-706	Architectural Examiners	$964	$825	$4,015	21.0%
1150-008-421	Automotive Repair	11,357	3,744	80,270 [b]	5.0
1160-010-713	Barber	1,027	136	1,025	13.0
1170-012-773	Behavioral Science Examiners	573	565	2,667	21.0
1240-022-738	Cosmetology	962	150	4,319	3.0
1260-024-741	Dental	1,285	559	3,755	15.0
1270-026-380	Dental Auxiliaries	36	−120	886	—
1410-050-208	Hearing Aid Dispensers	208	64	358	18.0
1450-058-310	Psychology	364	−42	1,429	—
1590-082-779	Vocational Nurse and Psychiatric Technician Examiners—Vocational Nurse Account	1,161	−132	3,436	—

[a] Expenditures are net of reimbursements.
[b] Includes $8.8 million proposed for vehicle inspection program in the Air Resources Board.

Deficits Projected for Three Boards. Table 3 also shows that a deficit is projected for three funds—the Dental Auxiliary Fund, the Psychology Fund, and the Vocational Nurse Account in the Vocational Nurse and Psychiatric Technician Examiners Fund—as of June 30, 1991. The boards supported by these funds indicate that they will be seeking legislation or

DEPARTMENT OF CONSUMER AFFAIRS—Continued

regulations to raise licensing fees in order to avoid a deficit. Pending enactment of legislation or adoption of regulations to increase revenues, we believe that it is prudent that expenditures by these boards not be at a rate that would result in a fund deficit. In order to ensure that this occurs, we recommend that the Legislature adopt the following Budget Bill language for the Board of Dental Examiners, the Board of Psychology (within the Medical Board) and the Board of Vocational Nurse and Psychiatric Technician Examiners, respectively:

> Provided that the board shall not expend at a rate which will result in a deficit as projected in the 1990-91 Governor's Budget unless and until legislation or appropriate regulations for additional revenues to the fund is enacted to avoid the deficit.

BUREAU OF AUTOMOTIVE REPAIR

Smog Check Program

We recommend a reduction of $720,000 to the Vehicle Inspection and Repair Fund to reflect the bureau's workload related to a lower than projected number of licensed Smog Check stations. (Item 1150-008-421).

The Bureau of Automotive Repair (BAR) administers the Smog Check program, established pursuant to Ch 892/82 (SB 33, Presley). This program is intended to satisfy air quality requirements set forth by the Federal Clean Air Act of 1977. Currently, nine federally registered nonattainment areas participate in the program—South Coast Air Basin, San Francisco Bay Area, San Diego, Sacramento, Ventura, Fresno, Kern, San Joaquin, and Tulare.

Bureau Projects Number of Smog Check Stations to Increase. Chapter 1544, Statutes of 1988 (SB 1997, Presley), expanded the Smog Check program and increased the number of vehicles subject to smog inspection by removing the exemptions on certain vehicles such as 1966 - 1968 model year vehicles and heavy-duty gasoline vehicles. Based on the increase in vehicles subject to smog inspection, BAR projects that there would be an increase in the number of stations seeking a license to perform the Smog Check. Additionally, BAR anticipates that the number of licensed stations will increase further because six more counties will be implementing the Smog Check program by the end of the budget year. As a result, the bureau anticipates that stations will increase to 9,570 in 1989-90 and to 10,220 in 1990-91.

Based on the bureau's projections, it is authorized $26.2 million to license stations in the current year. For 1990-91, the budget requests $27.8 million to conduct various licensing and enforcement activities.

Smog Check Stations Have Been Declining. Our review indicates that BAR's projection of licensed stations in 1990-91 is too high. This is because the BAR based its projections on an estimated 8,200 licensed stations in 1988-89. In fact, the number of Smog Check stations has declined. Since January 1989, stations licensed per month declined steadily so that by January 1990, only about 7,900 stations were licensed to perform smog inspections.

Based on the lower number of licensed stations in the current year, our analysis shows that the number of stations would most likely be about 9,920 in 1990-91, instead of the 10,220 projected by the bureau. Consequently, the budget request is overstated. We estimate that with fewer licensed stations, the bureau's licensing and regulatory costs would be lower by $720,000 annually. Accordingly, we recommend a reduction of $720,000 to the bureau's budget request.

Youth Offenders to Assist Motorists Lack Adequate Supervision

We make no recommendation on $415,000 requested from the Vehicle Inspection and Repair Fund because the proposal to contract with the California Youth Authority is a policy decision that should be made by the Legislature. We further recommend that, if the Legislature approves the concept of the project, the Bureau of Automotive Repair shall report to the Legislature at budget hearings on the costs of providing adequate supervision to avoid compromising the security of motorists' personal information. (Item 1150-008-421).

As part of the Smog Check program, the BAR currently contracts with a private company at a cost of $450,000 to provide information over the telephone to motorists who cannot locate replacement emission control parts that are needed to pass the smog inspection. This contract is due to expire June 30, 1990. Instead of continuing to contract with a private firm for the service, the bureau now proposes to contract with the California Youth Authority (CYA) beginning in the current year and requests $415,000 for the contract in 1990-91. For the period January to June 1990, the CYA will train the wards in order to be on line when the private contract expires.

Under the contract with CYA, service would be provided by four youth offenders under the supervision of 1.5 CYA staff. Services include (1) identifying automotive parts suppliers who are located near the motorist's home and (2) if the part is not available, providing an exemption for the required automotive part in completing the Smog Check inspection.

According to BAR, the youth offenders would (1) request the motorist's zip code, telephone area code, vehicle make, model, and year, and the emission control part needed to pass the smog inspection, and (2) locate from a database the suppliers that have the automotive part. If the part is not available, then the motorist would be referred to a CYA supervisor who would record information on the motorist's name, address and telephone number in order to mail exemption forms to the motorist. The supervisor also would process the completed exemption forms and issue an exemption to the motorist. This process is intended to ensure security in handling motorists' personal information.

Proposal Raises Policy Issue. Our review indicates that the proposal fails to provide sufficient supervisorial staff to adequately protect motorists' personal information and to provide timely processing of the exemptions. The BAR has allocated only 2 percent of supervisors' time to handle exemption requests and to process completed forms. However, based on the past exemption workload, we estimate that 50 percent to 100

DEPARTMENT OF CONSUMER AFFAIRS—Continued

percent of the requested supervisor time would be spent in processing exemptions. Consequently, this would substantially reduce the amount of time available to supervise the youth offenders and would compromise the security of motorists' personal information.

We believe that the issue of adequate protection of motorists' personal information is one of policy that the Legislature has to decide. Consequently, we make no recommendation on the proposed CYA contract.

In the event that the Legislature approves the concept of the project, we recommend that the bureau report to the Legislature at the time of budget hearings on the cost to provide adequate supervisorial staff to supervise the youth offenders to ensure that motorists' personal information will not be compromised.

CONTRACTORS STATE LICENSE BOARD

General Fund Transfer

The Governor's Budget is proposing to transfer $20 million from the Contractors License Fund to the General Fund effective June 30, 1990. The impact of the transfer results in a reserve of $9.6 million or equal to about three months' operating reserve. As a general rule, this level of reserve should be sufficient to cover any contingencies and unanticipated reduction in revenue collections occurring in the budget year.

Complaint Backlog Has Declined

We find that the Contractors State License Board has begun to reduce its complaint backlog with additional investigative staff.

The 1989 Budget Act provided an increase of $1.7 million for 24 investigators to the Contractors State License Board (CSLB) to address an anticipated backlog of 8,100 complaints filed against its licensees. This brings the CSLB total investigators to 108 positions.

Table 4 shows the board's complaint backlog over a five-year period. As shown in the table, the board was able to resolve 31,700 complaints in 1988-89—more than the number of complaints received during the year. As a result, the CSLB reduced the number of complaints pending at the year end by 3,400.

Table 4
Contractors State License Board
Complaints Pending at Year End
1986-87 through 1990-91

	Actual			Est.	Prop.
Complaints	*1986-87*	*1987-88*	*1988-89*	*1989-90*	*1990-91*
Received	27,700	27,800	28,300 [a]	27,700	28,900
Closed	26,900	30,200	31,700	28,500	30,800
Pending at Year End	12,800	10,400	7,000	6,200	4,300

[a] Includes 800 cases that were reopened at the beginning of the year.

According to the board, the complaint backlog will continue to decrease during the current and budget years. As of January 1990, the board had closed 13,100 complaints and anticipates reducing the number of complaints pending to 6,200 by the end of the current year. The board projects that this decline will continue into the budget year with 4,300 complaints still pending at the year end.

MEDICAL BOARD OF CALIFORNIA

Examination Contracts Overbudgeted

We recommend a reduction of $114,000 from the Contingent Fund of the Medical Board of California to correct for overbudgeted expenditures for examination contracts. (Item 1390-046-758).

The Medical Board of California contracts with the Federation of State Medical Boards for the Federation Licensing Examination (FLEX). This written examination is administered twice annually to candidates seeking a physician and surgeon license and who either are a foreign medical graduate or a U.S. or Canadian medical school graduate who failed passage of the National Board Examination administered by the medical schools.

Our review shows that the requested amount is overbudgeted. The number of examinees has declined since 1985-86 due, in part, to changes in the examination eligibility requirements. As a result, the board has overbudgeted for the FLEX examination costs for each of the last three years. In the budget year, $338,000 is included in the board's budget request for FLEX examination contracts. However, the board anticipates expenditures of only $224,000. Accordingly, we recommend a reduction of $114,000 from the Contingent Fund of the Medical Board of California to correct for the overbudgeted amount.

Complaint Backlog Has Not Diminished

We recommend that the Legislature adopt supplemental report language requiring the board to promptly assign for investigation, complaints with a potential for patient harm. (Item 1390-046-758).

The Medical Board of California investigates complaints against physicians and surgeons and various other health practitioners such as podiatrists, psychologists and hearing aid dispensers. Complaints are categorized according to whether they involve harm to patients or not.

In 1989-90, the board was allocated $2.4 million for 18 investigators and 10 other enforcement staff to address a backlog of 789 complaints that had not been assigned for investigation. The objective was to reduce the backlog within two years and to prevent a backlog of unassigned cases from recurring. In addition, the Legislature directed the board to first assign and investigate all cases that are categorized as having a potential for patient harm within 30 days of receiving the complaint.

Backlog Still Exists. Our review indicates that, as of December 1989, about 870 cases had not been assigned for investigation. This is an increase

DEPARTMENT OF CONSUMER AFFAIRS—Continued

of 81 cases, or 10 percent, over the number of unassigned cases at the end of 1988. Chart 1 compares the length of time cases had remained unassigned as of December 1988 and December 1989.

Chart 1

Medical Board of California
Comparison of Length of Time
Complaints Have Been Unassigned for Investigation

December 1988 and December 1989

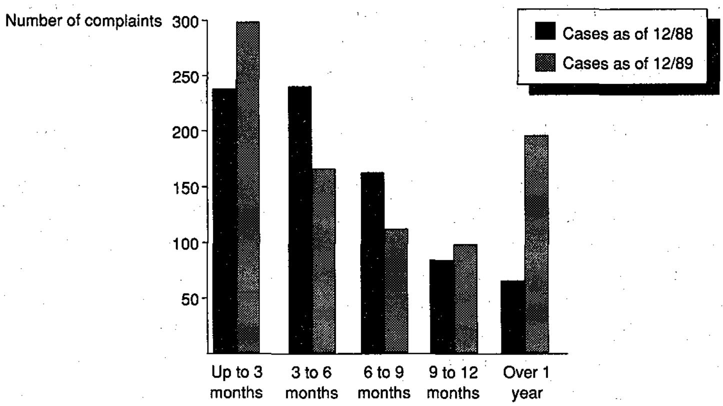

Chart 1 shows that the number of cases unassigned for more than three months increased from 551 as of December 1988 to 572 one year later. In particular, the number of cases unassigned for *more than one year* increased by 131 cases.

Majority of Unassigned Cases Have Potential Patient Harm. Our review further shows that, contrary to legislative direction and the board's stated policy, many cases with a potential for patient harm remain unassigned for considerable lengths of time. As shown in Table 5, of the 870 complaints not assigned as of December 1989, 596 (69 percent) have a potential for patient harm. Of these cases, about 390 (68 percent) have been unassigned for more than three months, including about 117 cases which have not been assigned for more than one year. Thus, a majority of the unassigned cases have a potential for physical harm to the public. The continued delay in assigning these cases raises a question regarding the board's effectiveness in providing adequate protection to the public.

Table 5
Medical Board of California
Number and Type of Complaints Unassigned

Type of Complaints	*As of 12/88*	*As of 12/89* [a]
Potential patient harm	499	596
No potential patient harm	149	274
Health-related practitioners (with and without potential patient harm)	141	—
Totals	789	870

[a] Complaints categorized as potential patient harm and no potential patient harm include complaints against physicians and surgeons and health-related practitioners.

Less than One-Half of the Investigator Positions Have Been Filled. Cases remain unassigned, in part, as a result of the board's inability to fill investigator positions. As of December 1989, only seven out of 18 investigator positions have been filled. The board initially indicated that all positions would be filled within the first two to three months of the current year. However, the board now does not anticipate filling all the positions until March 1990. The delay in filling positions has limited the board's ability to reduce the backlog of complaints.

In summary, our review shows that 68 percent of the board's complaint cases unassigned for more than three months are categorized as having a potential for patient harm. In addition, the board has not fully complied with its own policy nor the Legislature's direction in assigning cases for investigation in a timely manner. Consequently, the board's effectiveness in protecting the public is questionable. In order that the board places a high priority on investigating cases with a potential for patient harm, we recommend that the Legislature adopt supplemental report language requiring the board to first assign and investigate cases identified as having that potential.

> The Medical Board of California shall (a) acknowledge consumer complaints within 10 days of receipt and (b) assign complaints to an investigator within 30 days of receipt. In addition, the Medical Board of California shall investigate all filed complaints as soon as practicable, consistent with its policy of giving number one priority to complaints having the highest potential for patient harm.

BOARD OF OPTOMETRY

No Plans for a Second Licensure Examination

We find that the Board of Optometry does not plan to conduct an examination either in the current year or in the budget year.

In the current year budget, the Legislature adopted budget language and appropriated $112,000 to the Board of Optometry to be used solely for the administration of a second, additional licensure examination. The amount was subsequently reduced to $42,000 by the Governor based on information from the board that the lower amount would be sufficient to cover the actual cost of providing a second examination. The same amount is requested in the board's budget for 1990-91.

Discussions with the board indicate that it does not plan to administer a second examination in the current year and it has no plans for a second

DEPARTMENT OF CONSUMER AFFAIRS—Continued

examination for the budget year. However, the board cannot provide any justification for not complying with the Legislature's direction.

BOARD OF REGISTRATION FOR PROFESSIONAL ENGINEERS AND LAND SURVEYORS

Microfilming of License Files by Prison Inmates

We make no recommendation on $108,000 requested from the Professional Engineers' and Land Surveyors' Fund to contract with Prison Industries Authority (PIA) to prepare and microfilm documents because it is a policy decision that should be made by the Legislature. We further recommend that, if the Legislature approves the concept of the project, the board report to the Legislature at budget hearings on the measures that it will take in its contract with PIA to ensure that licensees' personal information is adequately protected while documents are handled by prison inmates. (Item 1500-068-770).

The Board of Registration for Professional Engineers and Land Surveyors is requesting $108,000 to contract with Prison Industries Authority (PIA) to prepare and microfilm 83,700 master license files. Preparation involves removing staples, repairing (such as taping) documents and aligning them for microfilming. The master license files include the license application and certain supporting documents of licensed professional engineers and land surveyors. The board also indicates that it plans to contract with PIA on an ongoing basis for microfilming files of licenses issued after the budget year at an annual cost of about $6,000.

Our analysis shows that it would cost the board less to use prison inmates to prepare and microfilm documents than performing these tasks in-house, and the funding request to prepare the documents for microfilming is justified.

Proposal Raises Policy Issue. The proposal raises a policy issue regarding adequate protection of licensees' personal information. The board indicates that it will review the PIA operations and the board's staff plan to review the returned microfilm and license files to ensure that access to licensee documents is not abused. But our analysis shows that these procedures may not be adequate. For instance, the Board of Registered Nursing suspended its services with PIA in March 1989 to microfilm license files because questions were raised regarding adequate security of information contained in the license files. Additionally, the Department of Motor Vehicles suspended its mail sorting contract in January 1989 for the same reason.

We believe that the issue of adequate protection of licensees' personal information is one of policy that the Legislature has to decide. Consequently, we make no recommendation on the proposed PIA contract.

In the event that the Legislature approves the concept of the project, we recommend that the board report to the Legislature at the time of budget hearings on the measures that it plans to take to ensure that licensees' personal information is adequately protected while documents are handled by prison inmates.

Examination Development and Validation Costs

We withhold recommendation of $440,000 to provide contract funding for the Board of Registration for Professional Engineers and Land Surveyors' examination unit pending receipt of information justifying the amount. (Item 1500-068-770).

The Board of Registration for Professional Engineers and Land Surveyors is requesting $440,000 to contract for examination development and validation. At the time this analysis was prepared, we had not received any information to justify the request. Consequently, we withhold our recommendation pending receipt of information justifying the request.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Item 1700 from the General Fund and Federal Trust Fund — Budget p. SCS 93

Requested 1990-91	$13,891,000
Estimated 1989-90	13,525,000
Actual 1988-89	12,820,000
Requested increase (excluding amount for salary increases) $366,000 (+2.7 percent)	
Total recommended reduction	None

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1700-001-001—Support	General	$11,812,000
1700-001-890—Support	Federal Trust	2,066,000
Reimbursements		13,000
Total		$13,891,000

GENERAL PROGRAM STATEMENT

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

The department consists of two divisions:

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

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

The department has 236 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of $13.9 million for support of the DFEH in 1990-91. This is $366,000, or 2.7 percent, above estimated current-year expenditures. This increase primarily is due to the full-year cost of the salary adjustment granted state employees in the current year. It also reflects: (1) a decrease of $201,000 in operating expenses and equipment and (2) an increase of $87,000 to reduce salary savings.

The budget requests an appropriation from the General Fund of $11.8 million, or 3.2 percent above estimated current-year General Fund expenditures. Reimbursements are proposed at $13,000, and federal support is proposed at $2.1 million — the same amounts estimated for 1989-90.

Table 1
Department of Fair Employment and Housing
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1988-89*	*Estimated 1989-90*	*Proposed 1990-91*	*Actual 1988-89*	*Estimated 1989-90*	*Proposed 1990-91*	*Percent Change From 1989-90*
Enforcement	188.8	179.5	181.4	$10,296	$10,405	$10,717	3.0%
Administrative services	47.3	56.5	56.5	2,524	3,120	3,174	1.7
Totals	236.1	235.0	237.9	$12,820	$13,525	$13,891	2.7%
Funding Sources							
General Fund				*$10,395*	*$11,446*	*$11,812*	*3.2%*
Federal Trust Fund				*2,337*	*2,066*	*2,066*	—[a]
Reimbursements				*88*	*13*	*13*	—[a]

[a] Not a meaningful figure.

Table 1 shows that General Fund appropriations finance approximately 85 percent of the department's expenditures, while federal funds support about 15 percent. Federal support of the state's antidiscrimination activity in employment is linked to an ongoing "work-sharing agreement" between DFEH and the federal Equal Employment Opportunity Commission (EEOC). Under this agreement, the federal government reimburses DFEH for processing cases which, although filed with the state, are subject to the jurisdiction of EEOC. The reimbursement covers only those cases which are filed pursuant to federal law. The reimbursement rate is $400 per EEOC case in 1989-90. The DFEH anticipates $1.9 million from the EEOC in 1990-91.

Under similar terms, the department also maintains a work-sharing agreement with the federal Department of Housing and Urban Development (HUD) for enforcement of fair housing standards. HUD provides a lump sum award based on the department's prior year workload. The amount of the award for federal fiscal year 1990 is $211,000.

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

FAIR EMPLOYMENT AND HOUSING COMMISSION

Item 1705 from the General Fund — Budget p. SCS 95

Requested 1990-91	$830,000
Estimated 1989-90	820,000
Actual 1988-89	814,000
Requested increase (excluding amount for salary increases) $10,000 (+1.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

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

The commission has 10.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $830,000 from the General Fund to support the FEHC in 1990-91. This is a net increase of $10,000, or 1.2 percent, above estimated current-year expenditures. The increase reflects an increase of $24,000 for wages and salaries, and a decrease of $14,000 for operating expenses and equipment.

OFFICE OF THE STATE FIRE MARSHAL

Item 1710 from the General Fund and various funds — Budget p. SCS 97

Requested 1990-91	$14,073,000
Estimated 1989-90	12,491,000
Actual 1988-89	11,045,000
Requested increase (excluding amount for salary increases) $1,582,000 (+13 percent)	
Total recommended reduction (reimbursements)	186,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1710-001-001—Support	General	$4,926,000
1710-001-198—Support	California Fire and Arson Training	1,437,000
1710-001-199—Support	California Fireworks Licensing	283,000
1710-001-209—Support	Hazardous Liquid Pipeline Safety	1,320,000
Chapter 1252, Statutes of 1989	Hazardous Liquid Pipeline Safety	100,000
Chapter 1277, Statutes of 1989	Hazardous Liquid Pipeline Safety	200,000
1710-001-890—Support	Federal Trust	99,000
Reimbursements		5,708,000
Total		$14,073,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. *Inspection of Laboratories. Reduce reimbursements by $186,000.* Recommend reduction because the Office of the State Fire Marshal has not sufficiently supported an increase in workload to inspect laboratories. 129

GENERAL PROGRAM STATEMENT

The Office of the State Fire Marshal (OSFM) is responsible for protecting life and property from fire. Specifically, it is responsible for:

- Developing, maintaining and enforcing fire and life safety standards for all state-owned/occupied structures, all educational and institutional facilities, public assembly facilities, organized camps, and all buildings over 75 feet in height.
- Developing, maintaining and enforcing controls for portable fire extinguishers, automatic fire extinguishing systems, explosives, fireworks, decorative materials, fabrics, wearing apparel and hazardous liquid and gas pipelines.
- Training and certifying fire service personnel for fire fighting, fire prevention and arson investigation.

The office has 173.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $14.1 million for support of the OSFM in 1990-91. This is an increase of $1.6 million, or 13 percent, above estimated current-year expenditures. Table 1 presents a summary of departmental expenditures by program and funding source for the three-year period ending June 30, 1991.

Table 1
Office of the State Fire Marshal
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

	Expenditures			Percent Change From
Program	*Actual 1988-89*	*Estimated 1989-90*	*Proposed 1990-91*	*1989-90*
Public Fire Safety	$11,045	$12,491	$14,073	13%
Funding Sources:				
General Fund	*4,314*	*4,739*	*4,926*	*4*
California Fire and Arson Training Fund	1,377	1,409	1,437	2
California Fireworks Licensing Fund	*223*	*294*	*283*	*(4)*
Hazardous Liquid Pipeline Safety Fund	*869*	*1,332*	*1,620*	*22*
Reimbursements	*4,162*	*4,618*	*5,708*	*24*
Federal Trust Fund	*100*	*99*	*99*	*0*
Personnel-Years	162.1	173.4	188.3	

The most significant adjustments proposed by the budget, which are not discussed elsewhere in the analysis, are as follows:

- An increase of $860,000 and 11 personnel-years to provide for increased fire and life safety plan checking and field inspection for local jails, state prisons and health care facilities. These costs are to be fully reimbursed by the client agencies.
- An increase of $273,000 and 2.7 personnel-years to inspect pipelines and coordinate with local emergency agencies.
- An increase of $84,000 in reimbursements and 0.9 personnel-years to perform inspections of community care facilities as required by Chapter 993, Statutes of 1989 (SB 1098, Rosenthal).
- An increase of $112,000 to purchase X-ray machines and bomb suits for arson and bomb investigations.

ANALYSIS AND RECOMMENDATIONS

Staff Increase to Inspect Laboratories Not Justified

We recommend a reduction of $186,000 (reimbursements) and 2.8 personnel-years for inspection of fire safety testing laboratories because OSFM has not sufficiently supported (1) an increase in workload for this program, and (2) its estimate of the time needed for certification inspections and reinspections.

The budget contains $186,000 (reimbursement) and 2.8 personnel-years for OSFM to make certification inspections and reinspections of laboratories which test consumer and construction products for fire safety. Under existing law, certain products (such as fire alarms, smoke

OFFICE OF THE STATE FIRE MARSHAL—Continued

detectors, clothing, doors and ceiling assemblies) cannot be sold in California unless they are tested and approved in laboratories certified by OSFM. Chapter 616, Statutes of 1989 (AB 2350, Frizzelle) permits OSFM to charge fees to the laboratories to cover the costs of this program.

According to OSFM, the initial certification inspections of 47 laboratories have already been performed by existing staff in its regional offices, but additional staff is needed to handle additional workload consisting of the certification inspections of five new laboratories each year and reinspections of about 15 existing laboratories each year.

Our analysis indicates that there are two reasons why the justification for the OSFM request is deficient. *First*, the existing staff has effectively handled the inspection and certification of the existing 47 laboratories over a period of several years. The OSFM, however, has not been able to identify what its annual workload has been for these inspections. Thus, OSFM has not clearly established that it will experience an increase in its workload in 1990-91. *Second*, the request is based on the assumption that a typical certification inspection would require almost seven personnel-weeks (270 personnel-days) and a reinspection would require almost four personnel-weeks (139 personnel-days). Only one example is given by OSFM which indicates that 200 personnel-days were charged to one inspection. That inspection involved the development of test standards and procedures for the certification inspection of a laboratory that tests various sizes and types of fire extinguishers. This is not a valid comparison, however, because the time devoted to development of standards and procedures should not be required for each laboratory inspection. In fact, once developed, the standards and procedures should provide a guide for inspecting other laboratories. In turn, this should reduce the time and costs associated with the inspections. Thus, lacking sufficient explanations as to why the additional staff would be needed and how much time would be realistically needed for the inspections, we recommend denial of this request for an increase in staff and reimbursements.

FRANCHISE TAX BOARD

Item 1730 from the General Fund — Budget p. SCS 101

Requested 1990-91	$205,120,000
Estimated 1989-90	188,140,000
Actual 1988–89	163,166,000
Requested increase (excluding amount for salary increase) $16,980,000 (+9 percent)	
Total recommended increase	393,000
Estimated revenue gain from recommendations	600,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1730-001-001—Support	General	$195,892,000
8640-001-001—Support	General (Political Reform Act)	1,190,000
1730-001-200—Support	Fish and Game Preservation	24,000
1730-001-800—Support	U.S. Olympic Committee	21,000
1730-001-803—Support	State Children's Trust	22,000
1730-001-823—Support	California Alzheimer's Disease and Related Disorders Research	31,000
1730-001-905—Support	California Election Campaign	18,000
1730-001-983—Support	California Seniors	20,000
Statutory Appropriation—Support	Delinquent Tax Collection	5,300,000
Statutory Appropriation—Support	Vietnam Veterans' Memorial Account	27,000
Reimbursements	—	2,575,000
Total		$205,120,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. ***Collections Activity. Increase Item 1730-001-001 by $393,000.*** Recommend increase of $393,000 and 10 personnel-years because the Franchise Tax Board can produce a higher level of net revenue than the private collection agencies who would otherwise conduct these activities. 136
2. Social Club Audits. Authority for budget's proposed audit program to deny social clubs' tax-exempt status is unclear. 137
3. Information Center. Budget proposes increased access rates for collections and enforcement callers, but doesn't address needs of general public for better access to telephone assistance. 138

GENERAL PROGRAM STATEMENT

The Franchise Tax Board (FTB) is responsible for administering California's Personal Income Tax (PIT), Bank and Corporation (B&C) tax, Senior Citizens' Property Tax Assistance Program, and the Political Reform Act audit program.

The PIT and B&C tax programs administered by the board account for approximately 59 percent of total General Fund revenues. In 1990-91, these programs are projected to produce revenues of $25 billion, including $19 billion from the PIT and $5.8 billion from the B&C tax. Approximately $23.4 billion of these revenues are accounted for by voluntary self-assessments by taxpayers, while the remaining $1.6 billion will be raised from assessments issued by the board's audit, collections and filing enforcement programs.

The board consists of the Director of Finance, the Chairman of the State Board of Equalization and the State Controller. An executive officer is charged with administering the FTB's day-to-day operations, subject to

FRANCHISE TAX BOARD—Continued

supervision and direction from the board. The FTB has 3,808 personnel-years in the current year.

MAJOR ISSUES

- In-house tax collectors can achieve General Fund revenue increase of $600,000.
- Authority for budget proposal to deny tax-exempt status to social clubs is unclear.
- Budget proposal does not address the need of the general public for better access to telephone assistance.

OVERVIEW OF THE BUDGET REQUEST

Total expenditures by the FTB are proposed at $205.1 million for the budget year, which is $16.9 million, or 9 percent, more than estimated current-year expenditures. The budget request includes funding for 4,064 personnel-years in 1990-91. This is 256 personnel-years (6.7 percent) more than is estimated for the current year.

The budget proposes an appropriation of $195.9 million from the General Fund, which is an increase of $15.8 million, or 8.7 percent, over estimated General Fund expenditures for the current year.

During 1990-91, the board also expects to receive $2.6 million in reimbursements from other agencies, $1.2 million as a transfer from the Political Reform Act (Item 8640), $5.3 million from the Delinquent Tax Collection Fund, and $163,000 from various special funds.

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

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

Table 1
Franchise Tax Board
Program Summary
1988-89 through 1990-91
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change from 1989-90*
Personal Income Tax	2,431	2,554	2,745	$112,758	$130,993	$143,551	9.6%
Bank & Corporation Tax	831	864	913	44,535	51,043	55,343	8.4
Homeowners and Renters Assistance	42	44	44	2,088	2,455	2,517	2.5
Political Reform Act	21	17	17	1,108	1,165	1,190	2.1
Contract Work	64	47	46	2,677	2,484	2,519	1.4
Administration (Distributed)	267	282	299	(11,756)	(13,286)	(14,075)	5.9
Totals	3,656	3,808	4,064	$163,166	$188,140	$205,120	9.0%
Funding Sources							
General Fund	3,555	3,728	3,985	$158,666	$178,967	$195,892	9.5%
Reimbursements	64	47	46	2,845	2,540	2,575	1.4
Political Reform Act (General Fund)	21	17	17	1,088	1,165	1,190	2.1
Delinquent Tax Collection	10	10	10	514	5,314	5,300	−0.3
Fish and Game Fund	1	1	1	10	22	24	9.1
Vietnam Veterans' Memorial Account	1	1	1	5	27	27	—
U.S. Olympic Committee Fund	1	1	1	4	19	21	10.5
State Children's Trust Fund	1	1	1	10	21	22	4.8
California Alzheimer's Disease and Related Disorders Research	—	—	—	7	29	31	6.9
Federal Trust Fund	—	—	—	7	—	—	—
California Election Campaign Fund	1	1	1	3	17	18	5.9
California Seniors Fund	1	1	1	7	19	20	5.3

Source of Funds. Table 1 also shows that nearly all of the FTB budget (about 96 percent) is supported directly from the General Fund. These funds are used for the PIT, B&C and HRA programs. The PIT program also receives support from the Delinquent Tax Collection Fund ($5.3 million) which finances an enforcement program that assigns PIT collection accounts to private collection agencies. The Delinquent Tax Collection Fund is supported by the delinquent taxes actually collected by the agencies.

The funding for the board's PRA audit program is provided under a separate budget item (Item 8640). Expenditures for contract work are financed by reimbursements charged to other government agencies.

In addition, the FTB budget includes funding from the California Election Campaign Fund, the U.S. Olympic Committee Fund, and related funds which are provided to the board in order to cover its costs of processing voluntary contributions made by taxpayers to special programs supported by these funds.

FRANCHISE TAX BOARD—Continued

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

Seventy percent of the board's General Fund budget is for two FTB functions — processing and auditing tax returns. As Table 2 shows, 36 percent of the FTB's total General Fund budget is for return processing and taxpayer assistance and 34 percent is for audits. About 24 percent is for collecting delinquent taxes (collections function) and 5 percent is for programs to make sure that individuals and businesses file tax returns (filing enforcement).

Proposed Changes to the Budget. Table 3 identifies the changes that account for the proposed increase of $17 million in the FTB's budget. It shows about $7.6 million in increased baseline expenditures and $9.4 million in program and workload adjustments.

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Table 2
Franchise Tax Board
Program Functions Supported by the General Fund [a]
1990-91
(dollars in thousands)

	PIT Program		B & C Program		HRA Program		Total	
Function	*Budgeted Expenditures*	*Percent of Total*	*Budgeted Expenditures*	*Percent of Total*	*Budgeted Expenditures*	*Percent of Total*	*Budgeted Expenditures*	*Percent of Total*
Processing/Taxpayer Assistance	$57,103	41.4%	$10,954	19.8%	$2,517	100.0%	$70,574	36.0%
Audit	35,899	26.0	31,369	56.7	—	—	67,268	34.3
Collections	36,813	26.7	10,518	19.0	—	—	47,331	24.2
Filing Enforcement	8,273	5.9	983	1.8	—	—	9,256	4.7
Exempt Corporations	—	—	1,519	2.7	—	—	1,519	0.8
Administration (Distributed)	(9,746)	—	(3,821)	—	(189)	—	(13,756)	—
Totals	$138,088	100.0%	$55,343	100.0%	$2,517	100.0%	$195,948 [b]	100.0%
Percent of General Fund Expenditures	71%		28%		1%		100.0%	

[a] Exclusive of Political Reform Act activities.
[b] This amount is $56,000 higher than the General Fund appropriation ($195,892,000) because it reflects $56,000 in reimbursements from the contract work program for general administrative expenses.

FRANCHISE TAX BOARD—Continued

Table 3
Franchise Tax Board
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*Reimbursements, Transfers, and Special Funds*	*Total*
1989-90 Expenditures (Revised)	$178,967[a]	$9,173	$188,140
Baseline Adjustments:			
Savings from building refinancing	−1,971	—	−1,971
Eliminate administratively established positions	−101	—	−101
Salary increase	3,856	79	3,935
Merit salary adjustment	2,847	—	2,847
Workers' compensation adjustment	535	—	535
One-time costs	−1,094	−35	−1,129
Full-year costs	707	—	707
OE&E price increase	898	—	898
Limited-term positions	—	−156	−156
Miscellaneous adjustments	16	1	17
Subtotal, baseline adjustments	($7,664)	(−$111)	($7,553)
Workload Adjustments:			
Return processing and taxpayer assistance	$5,399	—	$5,399
Program Changes:			
Redirection to taxpayer information project and OE&E	$1,971	—	$1,971
Information center	372	—	372
Audit workplan	2,704	—	2,704
Enforcement workplan	786	$166	952
Subtotal, program changes	($3,862)	($166)	($4,028)
1990-91 Budget Request	$195,892	$9,228	$205,120
Change from 1989-90:			
Amount	$16,925	$55	$16,980
Percent	9.5%	0.6%	9.0%

[a] Excludes amount funded under the Political Reform Act ($1,190,000). This funding is reflected as a transfer.

ANALYSIS AND RECOMMENDATIONS

Contracting Out Collection Activities Is Less Cost-Effective

We recommend that state employees be used instead of private collection agencies to collect certain delinquent accounts receivable because this will result in a net revenue gain to the General Fund of approximately $600,000. (Increase Item 1730-001-001 by $393,000 and 10 personnel-years.)

Within the Tax Enforcement Bureau, the collections division is responsible for collecting the taxes owing on delinquent taxpayer accounts. It accomplishes this task in two ways, through the activities of in-house tax collectors and by contract with outside collection agencies. (Collection activities with respect to out-of-state accounts are also performed by contract with private collection agencies.)

In order to maximize its effectiveness, the division sets priorities for its workload on an expected benefit/cost basis. It then ranks the different categories of overdue accounts according to the amount of additional revenue they are expected to generate relative to the expected cost to collect the taxes owed on the accounts. The department can then budget this workload according to priority, budgeting first for those activities which are expected to yield the most additional revenue relative to cost.

The Legislature has adopted the policy of budgeting sufficient resources to pursue in-house collection activities on all accounts with an expected benefit/cost ratio of at least $5 to $1. Additional accounts with a benefit/cost ratio below this level are contracted out to collection agencies. These collection agencies work on a commission basis, charging the department approximately $17 for every $100 collected. Together with the department's processing costs of approximately $3 for every $100 collected, this results in a total cost to the department of $20 for every $100 collected (a benefit-cost ratio of $5 to $1).

The budget proposes to add $952,000 and 27.8 personnel-years to its existing collections program to collect an additional $5.6 million in taxes owing on delinquent accounts. This request is consistent with the established policy, and we recommend that it be approved. Our analysis indicates, however, that there are more accounts with an expected benefit-cost ratio greater than $5 to $1 which the department has not budgeted to collect. The budget proposes to handle these accounts by delegating them to outside collection agencies where they are expected to generate approximately $1.5 million in additional revenues at a cost of $296,000 in commissions. This $296,000 cost does not require a budget appropriation because the private collection agencies retain a portion of the collections to pay for their commission.

Our analysis indicates, however, that these same accounts would yield more net revenue if pursued by in-house collection activities. This is because the FTB generally has available more means of persuading people to pay delinquent taxes than do private collection agencies. The board may freeze bank assets or place liens on the property of creditors in order to obtain payment, if necessary. Because of its additional persuasive powers, the department projects that in-house tax collectors would be able to collect approximately $2.2 million on these accounts, or $700,000 *more* than the private collection agencies would produce. The cost to collect these accounts "in-house" would be $97,000 higher, but this still leaves a net gain of $600,000 in General Fund revenues. Thus, the General Fund would gain $600,000 by shifting the proposed collection activities from private agencies to state employees.

Authority for Budget's Proposal to Deny Tax-Exempt Status to Social Clubs Is Unclear

The budget proposes to initiate an audit program directed at denying the tax-exempt status of social clubs which are determined by the FTB to have discriminatory membership practices. Legislation to specifically authorize this program (AB 16, Klehs) failed passage in 1989, and the FTB states that its authority to deny tax-exempt status on this basis is subject to differing legal interpretations.

FRANCHISE TAX BOARD—Continued

The budget requests an increase of 4.8 personnel-years and $174,000 from the General Fund to conduct audits of social clubs to determine whether or not they discriminate on the basis of race, sex, color, religion, age, ancestry or national origin. The FTB plans to use the audit findings to deny tax-exempt status to those clubs which practice such discrimination. Under the proposed program, the auditors would:

- Obtain current organizational documents (such as charters and bylaws) from private social clubs;
- Review those documents to determine which clubs discriminate; and
- Revoke the tax-exempt status of those so determined and assess them for income taxes due.

Board's Legal Authority To Act On Audit Findings Questionable. The FTB has not yet determined whether it has the legal authority under existing law to deny tax-exempt status to social clubs which discriminate. Rather, FTB legal staff have found that the board's authority in this area is, at best, open to question. Legal staff further indicate that even if the board does have the authority to deny tax-exempt status to social clubs that discriminate, additional research must be done to determine whether the board would be required to adopt a regulation prior to denying tax-exempt status. Legislation to specifically authorize this audit program (AB 16, Klehs) failed passage in the Assembly in 1989.

Telephone Information Center Upgrade

The budget proposes increased access rates to the Telephone Information Center for taxpayers with outstanding collections and enforcement problems on the basis that the increased access rates will "pay for themselves" through speedier collection of taxes. The budget does not address the need of the general public, however, for better access to telephone assistance.

The Information Center provides centralized, toll-free telephone assistance to taxpayers. It is one of the ways in which taxpayers contact the department to ask questions and resolve problems regarding their tax liability. During 1988-89, the unit answered approximately two million telephone calls, while approximately 1.25 million attempted calls went unanswered, providing an average access rate of almost 62 percent. Table 4 illustrates the types and volumes of calls received by the unit in 1988-89.

Currently, all line agents working in the Information Center are expected to handle any call that comes into the unit. The level of difficulty of the calls ranges from very simple questions about how to get a tax form to quite difficult questions regarding complex tax laws. When a line agent is unable to respond to a question, the call is directed to professional staff or a supervisor for resolution.

Table 4
Franchise Tax Board
Types and Volume of Calls Received by FTB's Information Center in 1988-89

Type of Call	*Volume*	*Percent*
Prefiling assistance	735,300	36.6%
Collections	475,700	23.7
Tax forms requests	229,800	11.4
Tax refund status	219,200	10.9
Audit	80,500	4.0
Filing enforcement	69,800	3.5
Other miscellaneous	198,200	9.9
Total	2,008,500	100.0%

In the budget, the department requests a net increase of $372,000 to purchase an automated call director mechanism. This represents an increase of $525,000 for total equipment and operating expenses offset by a savings of $153,000 in personal services costs. The proposed call director will screen incoming calls, and direct them to line agents specifically trained to handle that type of call. This process will allow the department to use the varying skill levels of its current employees more effectively. Moreover, it will allow the department to train new line agents more efficiently by allowing them to take a greater number of discrete classes over a longer period of time than under the current training method. The program provides that new employees will be trained initially to handle the most basic calls. They will then continue to develop skills and knowledge by completing successively more complex training classes for approximately two years before being fully trained to answer the most difficult calls.

The department anticipates that the efficiencies in both answering calls and training will allow the unit to increase its access rate from 62 percent to 85 percent for collections and filing enforcement calls. The department proposes to maintain the current 62 percent access rate for all other calls. This higher access rate for filing enforcement and collection calls is projected to accelerate the receipt of approximately $75 million to the General Fund by slightly over 30 days, resulting in approximately $600,000 in additional interest revenue annually.

Our analysis indicates that this proposal is justified on the basis of cost effectiveness. We think the proposal may not go far enough, however, in increasing access rates to the unit. For example, the department gives no justification for *limiting* the access rate to 85 percent for these types of calls. More importantly, however, it does not appear that the budget gives adequate attention to the general public's need for better access to telephone assistance. Rather than focusing simply on cost-effectiveness, we believe that three factors should be considered in determining whether to increase the level of access to the unit:

- Would an increased access rate be likely to accelerate the receipt of tax revenues, thereby increasing state interest income?
- Would an increased access rate be likely to reduce costs by eliminating the need for more costly alternative solutions to problems that could be resolved through the Information Center?

FRANCHISE TAX BOARD—Continued

- Is an increased access rate necessary to provide taxpayers with sufficient support to comply with the state's self-assessed Personal Income Tax, Bank and Corporation Tax, and Homeowner and Renter Assistance programs?

Would an increased access rate accelerate the receipt of tax revenues? As noted above, the department expects increased access rates for filing enforcement and collection phone calls to result in additional interest income earned on accelerated receipt of tax revenues. It gives no justification for limiting the access rate for these calls to 85 percent, however. It may be that further increases in the access rate would produce additional revenues. In addition, there may be other types of calls, such as questions about audits, which would also generate additional revenue. Our analysis indicates that the access rate for all types of calls should be increased as long as the additional revenue generated from such increases is greater than the cost to generate them.

Would an increased access rate reduce costs by eliminating the need for more costly alternative solutions to problems that could be resolved through the Information Center? Department documents indicate that the department might be able to reduce its costs by further increasing the access rates for certain types of calls other than those regarding collections and filing enforcement. For example, the average cost of providing prefiling assistance through the Information Center ranges from 48 cents to $3.23 per call. The cost of providing the same service through either letter or district office contact (the two most likely alternatives available to the taxpayer) is approximately $6. A third alternative, whose cost cannot be quantified, is for taxpayers' questions to remain unanswered, possibly resulting in the filing of inaccurate tax returns. Our analysis indicates that the department could reduce its costs by redirecting resources from the correspondence unit and district offices to the Information Center to increase access to the telephone unit for calls regarding prefiling assistance. There may be other types of questions that could be handled at a reduction to current costs by increasing access rates to the unit as well.

Is an increased access rate necessary to provide taxpayers sufficient support to comply with the state's self-assessed tax programs? The budget proposes to provide sufficient funding to maintain the current-year access rate of 62 percent for all calls that do not relate to collections and filing enforcement. This rate appears low, given that the public assistance provided through the Information Center is a critical element of the state's self-assessed Personal Income Tax, Bank and Corporation Tax, and Homeowner and Renter Assistance programs. To the extent that potential taxpayers are frustrated in their attempts to contact the department, their motivation and ability to comply with the state's tax laws is reduced. Chapter 1573, Statutes of 1988 (AB 2788, Harris) indicates the Legislature's support for improved communications between the department and the public. This chapter, the "Taxpayer's Bill of Rights", states in pertinent part that it is "the intent of the Legislature to promote improved taxpayer self-assessment by improving the clarity of tax laws and efforts to inform the public of the proper application of those laws." Among other things, this chapter created a Taxpayers' Rights Advocate position to "coordinate resolution of taxpayer complaints and problems." Limiting access to a unit designed to answer taxpayers' specific questions appears to be inconsistent with this recent legislative action. Increasing the access rate to the Information Center would facilitate peoples' efforts to accurately determine how much tax they owe and resolve problems with the tax-administering agency.

DEPARTMENT OF GENERAL SERVICES

Item 1760 from various funds — Budget p. SCS 110

Requested 1990-91	$475,752,000
Estimated 1989-90	446,880,000
Actual 1988-89	416,072,000
Requested increase (excluding amount for salary increases) $28,872,000 (+6.5 percent)	
Recommended reversion to General Fund	6,352,000
Recommended reduction from special fund for transfer to General Fund	3,159,000
Total General Fund savings	9,511,000
Recommended additional reductions from special funds	4,489,000
Recommendations pending	2,900,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1760-001-001—Departmentwide. For direct support of department operations, for payment to item Service Revolving Fund	General	858,000
1760-001-002—Departmentwide. For maintaining and improving properties (1) acquired under the Property Acquisition Law or (2) declared surplus prior to disposition by the state.	General (Property Acquisition Law Account)	1,979,000
1760-001-003—Departmentwide. For maintaining, protecting, and administering state parking facilities.	General (Motor Vehicle Parking Facilities Moneys Account)	4,529,000
1760-001-006—Office of State Architect. For verifying that plans of structures purchased with state funds are accessible for use by the physically handicapped.	General (Access for Handicapped Account)	958,000
1760-001-022—Office of Telecommunications. For support of Emergency Telephone Number program.	General (State Emergency Telephone Number Account)	994,000
1760-001-026—Departmentwide. For payment of claims and operating expenses resulting from the Motor Vehicle Liability Self-Insurance program.	General (State Motor Vehicle Insurance Account)	
—Budget Act Appropriation		2,269,000
—Government Code Section 16379		9,362,000

DEPARTMENT OF GENERAL SERVICES—Continued

1760-001-120—Office of State Architect. For direct support of specified plan checking services.	Architecture Public Building (School Building Program	8,428,000
1760-001-122—Office of State Architect. For support of hospital plan checking.	Architecture Public Building (Hospital Plan Checking Account)	2,352,000
1760-001-344—Office of Local Assistance. For support of State School Building Lease-Purchase program.	State School Building Lease-Purchase	9,146,000
1760-001-397—Office of California State Police. For state police training activities.	California State Police	110,000
1760-001-450—Departmentwide. For support to test and certify gas valves.	Seismic Gas Valve Certification	84,000
1760-001-465—Departmentwide. For support of energy assessment programs.	General (Energy Resources Program Account)	1,368,000
1760-001-602—Office of State Architect. For support of operations.	Architecture Revolving	18,452,000
1760-001-666—Departmentwide. For provision of goods and services to agencies.	Service Revolving	344,345,000
1760-001-739—Office of Local Assistance. For support of Building Aid	State School Building Aid	799,000
1760-001-961—Office of Local Assistance. For support of State School Deferred Maintenance program.	State School Deferred Maintenance	174,000
1760-011-602—For support of Department excluding Office of State Architects	Architecture Revolving	1,859,000
1760-011-862—Budget Act	Child Care	63,000
1760-101-022—Local Assistance for reimbursement of Emergency Telephone Number program. Facilities Fund	General (State Emergency Telephone Number Account	57,085,000
1760-490-001—Reappropriations for general support from Architecture Revolving Fund	General	1,538,000
1760-490-036—Reappropriations of various Budget Act items from Architectural Revolving Fund	General (Special Account for Capital Outlay)	9,000,000
Total		$475,752,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Office of the State Architect. Hazardous Materials, State Facilities. Recommend that Item 1760-490 to reappropriate $10.5 million for hazardous materials abatement programs under OSA management be modified to reflect prior legislative action concerning these programs and that Item 1760-495 be added to revert $6,352,000 to the General Fund from previous appropriations to these programs. 151
2. Asbestos Claims. The state did not file a first-cycle claim against the Johns Manville Corporation for recovery of costs associated with asbestos abatement in state-owned buildings. The deadline for filing a claim for the second cycle of disbursements is October 31, 1990. 153

3. Office of the State Architect. Withhold recommendation on $1,500,000 from the General Fund pending receipt from OSA of a work plan that justifies management positions, clarifies procedures, and provides cost estimates for two proposed seismic survey programs. Recommend further that for state building, OSA use the survey methodology employed by the Seismic Safety Commission in 1981, and that OSA provide a work plan for proceeding in this manner. 153
4. ***Office of Local Assistance.*** Withhold recommendation on the office's budget pending receipt of report required by Legislature. 156
5. ***Office of Real Estate and Design Services. Reduce Item 1760-001-002 by $858,000.*** Reduce funding for Proactive Asset Management Program because (a) the department has not justified the need for additional resources and (b) Legislature should be notified before development of state property is initiated. 157
6. Office of Real Estate and Design Services. Organization structure for Proactive Asset Management program is ineffective. 159
7. Office of Real Estate and Design Services. Unless the Proactive Assets Management program becomes self-supporting in 1991-92, the Property Law Acquisition Account will run out of funds. 159
8. Office of Real Estate and Design Services. OREDS has no enforcement mechanism to ensure compliance with state prevailing wage laws. 160
9. ***Office of Energy Assessments. Reduce Item 1760-001-666 by $300,000.*** Recommend reduction because funds for new consulting contracts can be funded within department's current expenditure authority. 160
10. Building Rental Account. Closing of three state office buildings due to Loma Prieta earthquake is expected to cost Building Rental Account $2.2 million in the current fiscal year and $2 million in the budget year. 161
11. ***Office of Buildings and Grounds. Reduce Item 1760-001-666 by $1,379,000 (50.1 personnel-years).*** Recommend deletion of maintenance positions at three closed state office buildings in Oakland and San Francisco. 162
12. Office of Buildings and Grounds. The Legislature should direct the Department of General Services consistent with past legislative policy, to require tenants of the Ronald Reagan State Office Building in Los Angeles to pay the bond costs, as well as the annual maintenance costs, of the building, which is scheduled to open during the budget year. 162
13. ***Office of Buildings and Grounds. Reduce Item 1760-001-666 by $1,780,000.*** Recommend deletion of five special repair 164

DEPARTMENT OF GENERAL SERVICES—Continued

projects because (a) department has not provided justification for them, (b) the Legislature has previously deleted them, or (c) they are more appropriately funded out of capital outlay.

14. Office of Buildings and Grounds. Withhold recommendation on $1,400,000 requested in Item 1760-001-666 for six roof repair projects at various state office buildings and a project to alleviate water intrusion at the Bonderson Building (Sacramento), pending receipt of additional information showing the basis for the scope and cost of these projects. 166
15. ***Office of Buildings and Grounds. Transfer from Building Rental Account (BRA) to General Fund.*** Recommend transfer from Building Rental Account to General Fund of $3,159,000 of savings resulting from recommended reductions of BRA expenditures. 167

Telecommunications

16. CALNET. Recommend that the department report during budget hearing on CALNET's (1) potential savings, (2) impact on staffing needs, and (3) potential impact on local telephone rates. 167
17. Emergency Telephone Program. Recommend adoption of Budget Bill language requiring the department to pay interest on General Fund loans used to support the 9-1-1 program. 173
18. ***Technical. Reduce Item 1760-001-666 by $172,000 to correct overbudgeting for microwave radio equipment expenditures.*** 174

GENERAL PROGRAM STATEMENT

The Department of General Services (DGS) was created by statute in 1963 to increase the overall efficiency and economy of state government operations. It does this by (1) providing support services on a centralized basis to operating departments; (2) performing management and support functions as assigned by the Governor and specified by statute; and (3) establishing and enforcing statewide administrative policies and procedures. The department performs these functions through two major programs: property management services and statewide support services. The DGS has 4,329.1 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $475.8 million from various funds to support activities of the Department of General Services in 1990-91. This is $28.9 million, or 6.5 percent, above estimated current-year expenditures.

MAJOR ISSUES

- ☑ General Fund expenditures would be reduced by $9.4 million as a result of the administration's proposal to charge all state departments for State Police and Building Rental services.
- ☑ Rental charges to departments occupying state-owned office buildings will increase significantly as a result of closing buildings in Oakland and San Francisco and opening the Ronald Reagan Building in Los Angeles.

Departmental Expenditures by Program

Table 1 shows department expenditures, by program, for the past, current, and budget years. The programs with the largest proposed budget-year expenditures are Telecommunications ($131 million), Buildings and Grounds ($71 million), Building Rental ($60 million), Procurement ($53 million), and State Printing ($45 million).

Table 1
Department of General Services
Distribution of Program Expenditures
1988-89 through 1990-91
(dollars in thousands)

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 Amount*	*Change From 1989-90 Percent*
Property Management Services:					
Architectural consulting and construction services	$43,085	$27,136	$41,527	$14,391	53.0%
Building rental	48,914	50,045	59,629	9,584	19.2
Building standards	550	550	567	17	3.1
Buildings and grounds	63,521	63,998	71,279	7,281	11.4
Energy assessments	2,646	3,658	4,336	678	18.5
Facilities planning and development	2,288	3,096	3,135	39	1.3
Local assistance	10,133	10,249	10,182	−67	−0.7
Real estate and design services	9,761	10,087	10,964	877	8.7
Subtotals, property management services	($180,898)	($168,819)	($201,619)	($32,800)	(19.4%)
Statewide Support Services:					
Administrative hearings	$5,394	$6,018	$5,988	−$30	−0.5%
Fleet administration	25,534	24,936	26,504	1,568	6.3
Insurance and risk management	10,883	14,469	12,763	−1,706	−11.8

DEPARTMENT OF GENERAL SERVICES—Continued

Table 1—Continued
Department of General Services
Distribution of Program Expenditures
1988-89 through 1990-91
(dollars in thousands)

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 Amount*	*Change From 1989-90 Percent*
Legal services	1,435	1,455	1,506	51	3.5
Management technology and planning	7,408	8,083	8,288	205	2.5
Procurement	48,544	51,700	52,767	1,067	2.1
Records management	2,574	2,677	3,139	462	17.3
Small and minority business	1,434	1,607	1,734	127	7.9
State police	23,145	24,459	25,105	646	2.6
State printing	46,306	44,941	44,869	−72	−0.2
Support services	14,993	15,866	16,790	924	5.8
Telecommunications	99,231	129,434	130,790	1,356	1.0
Subtotals, statewide support services	($286,881)	($325,645)	($330,243)	($4,598)	(1.4%)
Administration:					
Administrative services	$4,182	$3,970	$4,109	$139	3.5%
Executive	1,648	1,880	1,930	50	2.7
Fiscal services	6,602	6,419	6,840	421	6.6
Subtotals, administration	($12,432)	($12,269)	($12,879)	($610)	(4.9%)
Totals, All Programs	$480,211	$506,733	$544,741	$38,008	7.5%
Distribution of Intrafund Services	−64,139	−59,853	−68,989	−9,136	−15.3%
Total Net Expenditures	$416,072	$446,880	$475,752	$28,872	6.5%

As Table 1 indicates, the largest change in proposed program expenditures is the $32.8 million increase in Property Management Services. The increase is due primarily to a $14.4 million increase in Architectural Consulting and Construction Services, a $9.6 million increase in Building Rentals, and a $7.3 million increase in the Buildings and Grounds expenditures. In addition, significant increases are proposed in Fleet Administration ($1.6 million), Telecommunications ($1.4 million), and Procurement ($1.1 million).

Funding Sources for Departmental Expenditures

The department is funded by two types of appropriations. The department's *direct support appropriations* are for specific purposes (such as maintenance for the Capitol complex). Its *revolving fund appropriations*, on the other hand, permit the department to spend specified revenues. These revenues, "earned" by providing services and products to client agencies, are budgeted initially for operating expenses within the support budgets of the state agencies. The DGS receives the revenues when the client agencies purchase goods and services. The department pays its personnel costs and operating expenses by using the "spending authority" provided by its revolving fund appropriations.

Table 2 presents a summary of the department's total expenditures, by source of fund, for the prior, current, and budget years. The table indicates that 23 percent of the department's costs are funded by direct support, with the balance — 77 percent — supported from "earned" revenues.

Table 2
Department of General Services
Total Expenditures, By Source of Funds
1988-89 through 1990-91
(dollars in thousands)

Funding Source	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent of Total 1990-91*
Direct Support:				
General Fund	$21,795	$20,676	$2,396	0.5%
General Fund (Special Accounts - 6)	59,177	78,702	77,176	16.2
Architecture Public Building Funds (2)	10,062	10,442	10,780	2.2
Energy Resources Programs Account	1,192	1,304	1,368	0.3
State School Building Aid Fund	595	785	799	0.2
State School Building Lease-Purchase Fund	7,871	8,790	9,146	1.9
Special Account for Capital Outlay	5,902	5,000	9,000	1.9
Various Special Funds/Accounts	555	848	431	0.1
Subtotals, Direct Support	($107,149)	($126,547)	($111,096)	(23.3%)
Revolving Funds:				
Architecture Revolving Fund (ARF)	$15,005	$18,463	$20,311	4.3%
Return of unused ARF funds	—	-16,900	—	—
Service Revolving Fund	293,906	318,770	344,345	72.4
Surplus Personal Property Revolving Fund	12	—	—	—
Subtotals, Revolving Funds	($308,923)	($320,333)	($364,656)	(76.7%)
Total Expenditures	$416,072	$446,880	$475,752	100.0%

Program Distribution of Departmental Personnel

Table 3 identifies the allocation of staff among departmental functions for the prior, current, and budget years. It shows that 4,425.6 personnel-years are proposed for the budget year—a net increase of 96.5 personnel-years (2.2 percent) above the current-year level. About 46 percent of the department's staff are budgeted in property management services, and about 49 percent in statewide support services, with the balance in administration.

Table 3
Department of General Services
Distribution of Personnel-Years, By Program
1988-89 through 1990-91

	Personnel-Years			
Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent of Total 1990-91*
Property Management Services:				
Architectural consulting and construction services	330.4	362.4	382.3	8.6%
Building standards	7.7	6.7	6.7	0.2
Buildings and grounds	1,216.8	1,225.3	1,268.1	28.7
Energy assessments	11.9	12.7	17.4	0.4
Project development and management	29.6	36.8	40.3	0.9
Local assistance	189.9	193.0	189.0	4.3
Real estate and design services	136.4	143.6	145.3	3.3
Subtotals, property management services	(1,922.7)	(1,980.5)	(2,049.1)	(46.3%)

DEPARTMENT OF GENERAL SERVICES—Continued

Table 3—Continued
Department of General Services
Distribution of Personnel-Years, By Program
1988-89 through 1990-91

	Personnel-Years			*Percent*
Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*of Total 1990-91*
Statewide Support Services:				
Administrative hearings	56.3	61.4	61.4	1.4%
Fleet administration	150.3	149.4	151.2	3.4
Insurance and risk management	25.4	21.8	23.2	0.5
Legal services	20.7	19.5	19.5	0.4
Management technology and planning	126.2	129.8	129.8	2.9
Procurement	278.8	280.3	284.6	6.4
Records management	35.8	40.8	42.7	1.0
Small and minority business	19.6	24.3	25.2	0.6
State police	379.3	412.0	412.9	9.3
State printing	423.9	408.3	408.3	9.2
Support services	199.4	191.7	191.7	4.3
Telecommunications	355.6	381.2	395.0	8.9
Subtotals, statewide support services	(2,071.3)	(2,120.5)	(2,145.5)	(48.5%)
Administration:				
Administrative services	80.3	70.0	70.0	1.6%
Executive	23.6	25.0	25.0	0.6
Fiscal services	131.5	133.1	136.0	3.1
Subtotals, administration	(235.4)	(228.1)	(231.0)	(5.2%)
Totals	4,229.4	4,329.1	4,425.6	100%

Proposed Budget Year Changes

Table 4 shows the changes in the proposed 1990-91 budget resulting from baseline adjustments, workload changes, and program changes by major funding categories. The table shows a proposed decrease in General Fund expenditures of $18.3 million, or 88 percent below current year expenditures. This decrease is due to the following factors:

- A $7.9 million decrease to reflect use of prior year appropriations (special funds) available for the State Architect,
- A $6.6 million decrease to reflect the transfer of State Police services from a direct General Fund appropriation to a revolving fund appropriation, to be fully recovered through increased charges to client agencies,
- A $2.8 million decrease to reflect the funding source transfer of Building Rentals from a direct General Fund appropriation to a revolving fund appropriation, to be fully recovered through increased charges to client agencies, and
- A $1.2 million decrease for various baseline adjustments.

Proposed General Fund Savings. The General Fund savings of $9.4 million proposed for State Police services ($6.6 million) and building rentals ($2.8 million) will result in increased costs of a like amount allocated to all agencies using these services. Presumably, these costs will be absorbed because the budget does not provide additional funding in agencies' budgets for this purpose.

Table 4
Department of General Services
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*Special Funds*	*Revolving Fund*	*Total*
1989-90 Expenditures (Revised)	$20,676	$105,871	$320,333	$446,880
Distribution of Intrafund	—	—	59,853	59,853
Total Expenditures	$20,676	$105,871	$380,186	$506,733
Baseline Adjustments				
Salary increase adjustment	$207	$970	$5,095	$6,272
Pro rata charges	—	166	1,616	1,782
Price increase	—	296	3,974	4,270
Miscellaneous adjustments	−1,151	−10,436	13,845	2,258
Subtotals, baseline adjustments	($−944)	($−9,004)	($24,530)	($14,582)
Workload Changes				
Management technology and planning	—	—	$91	$91
Support services	—	—	798	798
Fleet administration	—	$368	—	368
Fiscal services	—	—	124	124
State police	—	—	348	348
Program development and management	—	557	65	622
Buildings & grounds	—	—	3,128	3,128
Real estate & design	—	364	880	1,244
State architect	—	6,273	—	6,273
Local assistance	—	121	—	121
Insurance	—	—	143	143
Energy assessments	—	—	566	566
Subtotals, workload changes	(—)	($7,683)	($6,143)	($13,826)
Program Changes				
State police (capitol security system)	—	—	$237	$237
State police (pro rata charges to other agencies)	−$6,614	—	6,614	—
Insurance and risk management (auto claims expedited)	—	—	385	385
Telecommunications (centrex replacement)	—	—	1,791	1,791
Telecommunications (microwave equipment)	—	—	3,573	3,573
Telecommunications (voice mail equipment)	—	—	403	403
Procurement (recycling programs — Ch 974, 1094, 1322/89)	—	—	226	226
Small and minority business (procurement goals)	—	—	113	113
Small and minority business (veterans preference)	—	—	63	63
State printing (special building repairs)	—	—	63	63
Fleet administration (legislative vehicles)	—	—	852	852
Buildings & grounds (special repairs - intrafund)	—	—	5,197	5,197
Building rentals (rental charges to other agencies)	−2,822	—	2,822	—
Management technology and planning (computer newsletter)	—	—	12	12

DEPARTMENT OF GENERAL SERVICES—Continued

Table 4—Continued
Department of General Services
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*Special Funds*	*Revolving Fund*	*Total*
Records management (administrative manual)	—	—	337	337
State architect (toxic removal programs)	—	$4,000	—	4,000
State architect (reappropriate prior year sums)	−7,900	—	—	−7,900
State architect (seismic safety design - intrafund)	—	—	98	98
Local assistance (contractors' registration program)	—	97	—	97
Local assistance (local match program)	—	53	—	53
Subtotals, program changes	($−17,336)	($4,150)	($22,786)	($9,600)
Total Expenditures	$2,396	$108,700	$433,645	$544,741
Distribution of Intrafund	—	—	−68,989	−68,989
1990-91 Expenditures (Proposed)	$2,396	$108,700	$364,656	$475,752
Change in Net Expenditures from 1989-90				
Amount	−$18,280	$2,829	$44,323	$28,872
Percent	−88.4%	2.7%	13.8%	6.5%

ANALYSIS AND RECOMMENDATIONS

PROPERTY MANAGEMENT SERVICES

The property management services program has responsibility for planning, acquisition, design, construction, maintenance, and operation of state-owned facilities for state offices and employees. The seven agencies which carry out this program are: Office of Project Development and Management, Office of the State Architect, Office of Local Assistance, Building Standards Commission, Office of Energy Assessments, Office of Real Estate and Design Services, and Office of Buildings and Grounds.

We recommend approval of the following budget not discussed elsewhere in the analysis:

- Building Standards Commission.

OFFICE OF THE STATE ARCHITECT

The Office of the State Architect (OSA) provides five major services:

- Architectural/engineering (A/E) consulting for state construction projects;
- Construction inspection for state projects;
- Project management and accounting for state construction projects;
- Plan checking and inspection pursuant to state statutes concerning access for the handicapped, earthquake safety for schools and hospitals, and earthquake and fire safety for state-owned or leased fire stations, police stations, and emergency communication centers;
- Mitigation of hazardous conditions in state-owned facilities (asbestos abatement, PCB removal, and repair, removal and monitoring of underground tanks).

The budget proposes $41.5 million for support of OSA activities in 1990-91. This is an increase of $14.4 million, or 53 percent, above the OSA's projected spending in 1989-90. The OSA has 362.4 personnel-years in the current year.

Major changes in the OSA budget for 1990-91 are:

- A reappropriation of $10,538,000 for the three hazardous materials abatement programs.
- A net increase of $1,762,000 (17.1 limited term personnel-years) to provide inspection services at state prison construction sites;
- An increase of $158,000 in operating expenses to fund increased lease costs for OSA's facilities at 400 "P" Street, Sacramento.
- An increase of $149,000 (1.4 personnel-years) to manage the workload for the Underground Storage Tank Program.
- Approximately $1.4 million in salary increases.

We recommend approval of the OSA budget, except for the items noted below.

Hazardous Materials Abatement Programs

We recommend that Item 1760-490 to reappropriate $10.5 million for hazardous materials abatement programs under OSA management be modified to reflect prior legislative action concerning these programs and that Item 1760-495 be added to revert to the General Fund previous appropriations to these programs.

Since 1984, the Legislature has appropriated almost $77 million for the asbestos abatement, PCB, and underground storage tank programs. By the end of the 1989-90 fiscal year, $16.9 million of these previous appropriations will not have been encumbered—$9 million from the Special Account for Capital Outlay (SAFCO) and $7.9 million from the General Fund. The 1990-91 budget proposes to reappropriate the $9 million from the Special Account for Capital Outlay and $1,538,000 from the General Fund for these three hazardous materials abatement programs. In addition, Department of Finance staff indicate it is the administration's intent to revert the remaining $6,362,000 to the General Fund.

The reappropriation of funds from SAFCO is scheduled for the three programs as follows: $2.3 million for asbestos abatement, $2.7 million for PCBs, and $4 million for underground storage tanks. The proposed amounts for each program are based on the total value of contracts that OSA staff has administered in previous fiscal years. Our analysis of these programs indicates that reappropriation of $10.5 million is reasonable. Based on OSA's staffing levels in these programs, the $10.5 million should provide for the amount of work that can be accomplished in the budget year. Therefore, we recommend approval. On this basis, the reversion of the remaining $6,362,000 is appropriate because these funds would not be encumbered during the budget year. Reversion of the $6,362,000 will allow the Legislature to use this money for other statewide needs.

Unlike the proposed schedule for funds from SAFCO, the budget proposes a lump sum reappropriation of $1,538,000 under Item 1760-490

DEPARTMENT OF GENERAL SERVICES—Continued

from the General Fund for administrative costs. This is contrary to the Legislature's actions in past years, in which the three programs were budgeted *separately* because each targets a different material, uses different technology, and operates under a different regulatory system. The three programs are also independently managed, and their projects are independently scheduled. Thus, we see no advantage to modifying the way the Legislature treated funding for these programs in the 1989 Budget Act. We therefore recommend modifying Item 1760-490 to schedule the General Fund reappropriation to the three programs and to make a technical adjustment in the Budget Bill for reappropriation of the SAFCO funds.

1760-490—Reappropriation, Department of General Services. Notwithstanding any other provision of law:

001 General Fund

(1) An amount of $1,538,000 is hereby reappropriated from amounts returned to the General Fund from previous transfers made to the Architectural Revolving Fund. This amount shall be available for these programs as follows:

Asbestos Abatement Program	$337,000
PCB Program	$628,000
Underground Storage Tank Program	$573,000

It is the intent of the Legislature that no transfer of funds are to occur between these programs.

036 Special Account for Capital Outlay

(1) An amount of $9 million is hereby reappropriated from amounts returned to the Special Account for Capital Outlay from previous transfers to the Architectural Revolving Fund. This amount shall be available for these programs as follows:

Asbestos Abatement Program	$2,300,000
PCB Program	$2,700,000
Underground Storage Tank Program	$4,000,000

It is the intent of the Legislature that no transfer of funds are to occur between these programs.

Reversion. The Budget Bill does not include an item to revert the $6.4 million which will not be encumbered during the budget year. Lacking such an item, the funds will be deposited in the General Fund only if the administration takes action to transfer the funds from the Architectural Revolving Fund and then to administratively revert them to the General Fund. To assure that the $6.4 million is available for other statewide needs at the beginning of the budget year, we recommend that the Legislature add an item to revert these funds to the General Fund. Therefore, we recommend adding the following item to the Budget Bill:

1760-495—Reversion, Department of General Services. Notwithstanding any other provision of the law.

001 General Fund

As of June 30, 1990, an amount of $6,362,000 from previous transfers to the Architectural Revolving Fund for the asbestos, PCB, and underground storage tank programs shall be transferred from the Architectural Revolving Fund to the General Fund.

Asbestos Claims

The state did not file a first-cycle claim against the Johns Manville Corporation for recovery of costs associated with asbestos abatement in state-owned buildings. The deadline for filing a claim for the second cycle of disbursements is October 31, 1990.

First Cycle of Claims. According to the settlement of a class-action liability suit against the Johns Manville Corporation, the state could have filed a claim for the first cycle of disbursements from the Manville Property Damage Settlement Trust. According to the Trust, about $109 million was available in this first cycle, but the deadline for filing a claim was October 31, 1989. In considering whether to file a claim, DGS and the Department of Finance used as a policy guideline that the state should receive at least five dollars for every one dollar spent in filing a claim. The DGS determined that based on information from the Trust and DGS' estimate of costs to file claims, the eventual payback ratio would be less than 3 to 1, thus no claim was filed. The department estimated a cost of $120,000 to file claims on this matter. No details are available to substantiate this estimate. Furthermore, it is not clear why a "payback ratio" of 5 to 1 was used to determine whether or not to file a claim. The DGS also has asserted that OSA had insufficient staff to file claims because of its ongoing responsibilities to administer asbestos abatement contracts.

For the first cycle, the University of California filed claims for $11 million and has received approval to date of $7 million. The California State University system also filed $1.3 million in claims and has received approval to date of $269,000. Any approvals for claims filed during this first cycle are expected to be finalized by February 28, 1990. Neither of the postsecondary education segments kept separate accounts of its costs to file the claims.

Second Cycle of Claims. The state must decide if a claim should be submitted during the second filing cycle, which ends October 31, 1990. Three categories of claims are eligible for funding. The first priority goes to actual abatement costs, the second is for operations/maintenance, and the third covers survey costs to identify asbestos. The Johns Manville Trust only considers claims for abatement work that has been completed. Information from the OSA indicates that by the October filing deadline, about $25 million in asbestos surveys ($4.6 million) and abatement projects ($20.4 million) administered by OSA will have been completed.

Seismic Survey Programs

We withhold recommendation on $1,500,000 from the General Fund, which is proposed for allocation to OSA from the Office of Emergency Services under Item 0690-001-001, pending receipt from OSA of a work plan which justifies management positions, clarifies survey procedures, and provides complete schedules and cost estimates for two proposed seismic survey programs. We also recommend that OSA use the survey methodology employed by the Seismic Safety Commission in 1981, and that OSA provide a work plan for proceeding in this manner.

DEPARTMENT OF GENERAL SERVICES—Continued

The Office of Emergency Services' budget (Item 0690-001-001) includes $1.5 million for allocation to OSA to initiate and administer programs to conduct seismic surveys of K-12 school buildings and state-owned buildings. Both programs will be administered by OSA with the actual survey work to be done by private consultants. The requested amount includes $1,020,000 for consulting services ($255,000 for K-12 schools and $765,000 for state-owned buildings) and $480,000 (7.6 personnel-years) for OSA personnel and operating expenses. Future costs to complete the two surveys are estimated to total $9 million over the next two years. The two programs are described below.

K-12 Public Schools Constructed Before 1971. This program would consist of a survey of all 35,000 K-12 public school buildings built after passage of the 1933 Field Act and prior to the upgrading of earthquake design standards in 1971. According to department personnel, the three-year program entails a three-stage review process. First, consultants will review existing file cards that list the age, location, and type of construction for each building. Consultants will then review the actual construction documents of those buildings determined to be a potential hazard. Based on the review of construction documents, consultants will then undertake site investigations for those buildings identified as potentially hazardous. From the site investigations, consultants will develop priority rankings and cost estimates for the buildings that require upgrading for earthquake resistance.

State Buildings. This program involves a seismic survey of *all* 9,000 state-owned buildings. Discussions with department personnel indicate that this program also entails a three-stage process. Consultants will review a state building inventory to decide which buildings will require a review of actual construction documents. Based on the review of construction documents, site investigations of potentially hazardous state buildings will be undertaken to develop priority rankings and cost estimates for seismic retrofit.

We have the following concern with the proposal.

Budget Proposal Does Not Explain the Program. A program to assess the seismic hazards of these buildings should provide the Legislature with valuable information about the seismic safety of California's public schools and state buildings. In addition, Ch 123/89 (SB 920, Rogers) requires the Seismic Safety Commission (SSC), in cooperation with the State Architect, to develop a policy on acceptable levels of earthquake risk for new and existing state-owned buildings by January 1, 1991. The information obtained from a seismic evaluation of state buildings will be useful in setting relative priorities of risks under the SSC's policy. From OSA's *written* proposal, however, it is unclear how the survey programs would be designed and administered.

For example, the proposal requests eight positions in OSA for activities such as development and interpretation of regulations and procedures, project management, contract negotiation and administration, fiscal/project control, and maintaining a data base. While some of these activities may be necessary, OSA has not been able to correlate these activities with the three-stage process described above. Furthermore, OSA has not provided any workload data to substantiate the need for eight positions to administer these programs.

In addition, the proposal states that 1,500 schools and 2,250 state buildings *will be surveyed in the first year*. This is counter to the department's staff explanation that both programs would involve a three-stage survey process. Unfortunately, the written proposal does not contain either a work plan for future years or a timetable for completion of the surveys. We therefore recommend that OSA develop a proposal to manage the three-stage survey programs *as described above*. The proposal should describe and justify all OSA positions, clarify survey procedures, and provide schedules and cost estimates to complete both surveys. An alternative procedure for state buildings is discussed below.

State Buildings Survey. A 1981 survey by the Seismic Safety Commission (SSC) ranked the seismic safety of 1,150 buildings of the University of California and the California State University and 200 state-owned office buildings. Buildings were ranked according to cost-benefit ratios based on "a goal of obtaining the greatest life-saving potential during future earthquakes for a given sum of dollars." The survey report concluded that those buildings at the top of the list should be given the "highest priority and funding for evaluation of specific seismic hazards."

The 1981 survey was done at a cost of about $50,000 and was completed in about one year. In contrast, the OSA proposal is estimated to cost $4 million over a three-year period. Applying the SSC's methodology to all other state buildings would be much less expensive and time consuming and would provide a priority list for implementing a retrofit program. We therefore recommend that OSA use the SSC methodology in the state building program. Prior to budget hearings, OSA should provide a cost estimate, workload assessment and time schedule for proceeding in this manner.

Summary. Pending receipt of the information discussed above, we withhold recommendation on the funding level for these seismic survey programs.

OFFICE OF PROJECT DEVELOPMENT AND MANAGEMENT

We recommend approval of the proposed budget for the Office of Project Development and Management.

The Office of Project Development and Management (OPDM) is responsible for managing the state's capital outlay construction program. OPDM also plans for the development of state offices and parking facilities, performs environmental studies on behalf of the Department of General Services, and performs site feasibility analyses and location studies.

The budget proposes $3.1 million for support of OPDM activities in 1990-91. This is an increase of $39,000, or 1.2 percent, above estimated 1989-90 expenditures. The budget request, however, is $729,000, or 30 percent, above the amount actually appropriated for OPDM in the 1989

DEPARTMENT OF GENERAL SERVICES—Continued

Budget Act. This is because the Governor's estimate of current year expenditures includes $611,000 (4.7 personnel-years) of proposed deficiency spending. The office has 36.8 personnel-years.

For the 1989-90 and 1990-91 fiscal years, OPDM requests one limited-term position to assess the need for child-care facilities in state office buildings and to develop a plan for meeting this need. This proposal is reasonable and we recommend approval. OPDM also requests 7.6 permanent positions in 1989-90 to manage the state's capital outlay program. The proposal is based on OPDM's workload to manage capital outlay projects approved in the 1989 Budget Act, unfinished projects approved in previous budget acts, and projects—such as the Secretary of State/Archives building—which were authorized in separate legislation. This proposal is reasonable and we recommend approval.

Some of the projects that OPDM is currently managing will be completed in 1989-90. Based on the number of new capital outlay projects proposed in the 1990-91 budget, however, OPDM will have sufficient workload to justify continuance of the 7.6 positions in 1990-91.

OFFICE OF LOCAL ASSISTANCE

The Office of Local Assistance (OLA) provides administrative support to the State Allocation Board. It has primary responsibility for administering several programs which provide funding to local public school districts for acquisition and development of school sites, construction of new school buildings, and reconstruction or maintenance of existing school buildings. The OLA also administers programs which fund the placement of portable classrooms, construction of child care facilities, abatement of asbestos in school facilities, and installation of air conditioning in year-round schools. The budget requests $10,182,000 for OLA in 1990-91. This is a decrease of $67,000, or 0.7 percent, below estimated 1989-90 expenditures.

Supplemental Language Report Not Received

We withhold recommendation on OLA's proposed $10.2 million budget for 1990-91 pending receipt and review of a workload standards report required by the Legislature.

The *Supplemental Report of the 1988 Budget Act* directed OLA, with assistance from a management consultant, to establish performance goals for all critical tasks performed in the school facilities application process. Performance goals and workload standards were to be developed by November 1, 1988, to be followed by a process of measuring actual performance against goals. The Legislature was to receive a report from OLA no later than October 1, 1989 that would justify all positions in OLA's 1990-91 budget based on the new workload standards.

At the time this analysis was written, the required report had not been received from OLA. We withhold recommendation on OLA's budget pending receipt and review of this report. It is our understanding that the report will be released prior to budget hearings. Upon receipt and review of the report, we will provide the Legislature a supplemental analysis of OLA's 1990-91 budget.

OFFICE OF REAL ESTATE AND DESIGN SERVICES

The Office of Real Estate and Design Services (OREDS) acts as the state's agent in acquiring and selling real property, identifying surplus state property and managing acquired property prior to its transfer to other departments. In addition, OREDS is responsible for providing well-planned, functional and economical quarters in state owned and leased facilities to accommodate agencies' space needs.

The budget proposes $11 million in 1990-91 for support of OREDS. This amount consists of $9 million from the Service Revolving Fund and $2 million from the General Fund, Property Acquisition Law Account. This is an increase of $877,000, or 8.7 percent, above estimated current-year expenditures. This increase is attributable to expansion of the "Proactive Asset Management Program," which is discussed below.

ANALYSIS AND RECOMMENDATIONS

Asset Management Program Expansion is Premature

We recommend a reduction of $858,000 from the General Fund, Property Acquisition Law Account (Item 1760-001-002) for expansion of the Proactive Asset Management Program because (a) the department has not justified the need for additional resources and (b) the Legislature should be notified before development of state property is initiated.

The Proposal. The budget includes $1.2 million from the General Fund, Property Acquisition Law Account for expansion of the Proactive Asset Management Program. The mission of the program, which originally received funding in the current year, is to more aggressively identify and manage under-utilized state properties and, by leasing and selling these properties, increase state revenues. The budget requests a total of 8 positions, $465,000 in external consulting contracts, and $125,000 for a study of the computerized State Property Inventory. We discuss each section of the proposal below.

Background. The Proactive Assets Management Program is meant to build upon legislative direction to improve state property utilization and management as expressed in Ch 907/86 (AB 3932, Areias).

Chapter 907 directed the Department of General Services to develop a centralized computer inventory of state properties by January 1, 1989 and to prepare a report by that date of all surplus properties and other properties with no identified current or projected use. The inventory is almost complete, although it is one year behind schedule. The legislation also required the Auditor General to report to the Legislature by January 1, 1990 on the department's compliance with the legislation.

Staffing. The budget includes $654,000 for eight positions for the Proactive Assets Management program. This includes an additional 3.5 positions ($318,000) over the 4.5 positions ($336,000) approved in the current year.

DEPARTMENT OF GENERAL SERVICES—Continued

The current-year workplan calls for PAM project managers to inspect all state-owned properties identified in the property inventory, as a preliminary step to proposing specific development projects. Due to the delay in finishing the property inventory, the inspections have not started and the workload requirement remains the same. The department, however, is proposing to nearly double the number of staff for this activity without justification for why such an increase is necessary.

The department also proposes that staff begin work on specific development projects in the budget year. To ensure that the Legislature is informed before development projects are initiated, the Legislature should review PAM's development proposals early in the process. This not only ensures legislative control, but prevents PAM project managers from spending funds on projects that the Legislature subsequently rejects. The PAM staff would have to do some preliminary work, such as a characterization of the surrounding community to identify appropriate development options. This preliminary work would serve as a basis for recommending development of each site for legislative consideration. Our analysis indicates that existing staff could perform this work once the property inspection is complete. We therefore recommend deletion of the $318,000 and the additional 3.5 positions. This would result in the same staffing level for this program as provided in the current year.

Contracts. The budget requests $465,000 in consultant contracts for the PAM program. The funds are expected to be used after the physical inspection of the properties in the inventory is complete and development options are identified. The proposed consultant work includes land appraisals, environmental impact statement preparation, and market demand studies. As mentioned above, we believe it is premature to begin development work until the Legislature has been given an opportunity to review the proposed development options for state property.

The proposed consultant activities would be the first steps toward initiating specific development of state property. It is essential that the Legislature review proposed development prior to these activities if it is to maintain a measure of control over such developments. Otherwise, the Legislature will *not* have a meaningful input because key decisions will have already been made. We therefore recommend deletion of the requested $465,000 for consultant contracts. Funds for these purposes should be made available at the time the Legislature is notified of what property is being proposed for development along with the development proposal. At that time, the department should be able to provide a more reliable estimate of the amount of funds necessary for consulting contracts and the Legislature would have sufficient information to review the total proposal.

Computer Study. The budget requests $125,000 for a Feasibility Study Report (FSR) to determine what modifications are required for the computerized property inventory. While we agree that such a study is necessary, the Legislature approved $50,000 for this purpose in the current year. According to the department, none of these funds have been spent, due to the delay in finishing the property inventory. The department has also provided no justification for the need for additional funds. We therefore recommend that the budget be reduced by $75,000. This would provide the same amount ($50,000) approved by the Legislature in the current year.

In summary, we recommend a reduction of $858,000 under Item 1760-001-002 for the PAM Program. This includes reducing staffing by 3.5 positions ($318,000), reducing contracting funds by $465,000 and reducing funds for a study of the computerized property inventory by $75,000.

PAM Organization Structure Is Ineffective

The Proactive Asset Management Program's organization structure is ineffective.

The organizational structure of the PAM program is unusual. Program direction is provided by the Office of Assets Management in the Governor's Office of Planning and Research. The staff of the PAM program, however, is located in and supervised by the Department of General Services. The Office of Assets Management was established administratively in the current year, using funds ($96,000) transferred from the amount the Legislature appropriated to DGS for the PAM program. In our analysis of Item 0650 (Office of Planning and Research) we recommend deleting $430,000 from the Property Acquisition Law Account for the Office of Assets Management in the budget year because the current organization structure makes the PAM program ineffective.

Property Acquisition Law Account Is at Risk of Running Out of Funds in 1991-92

Unless the Proactive Assets Management Program becomes self-supporting, the Property Acquisition Law Account will run out of funds in 1991-92.

After property has been declared surplus by the Legislature and is under the jurisdiction of the Department of General Services, any rental or other revenues received by the department for that property are deposited into the Property Acquisition Law (PAL) Account in the General Fund. OREDS' expenses required for the maintenance, repair, care for, or sale of such surplus property are reimbursed from this account. In the current year, the Proactive Assets Management Program was funded entirely from the PAL Account.

The budget proposes funding $1.2 million of the PAM program from the Property Acquisition Law in the budget year. According to the department, this account will have a surplus of $1.3 million at the end of the current year. In the budget year, however, expenditures from the account are expected to exceed revenues by $1.2 million, leaving only a $100,000 surplus on June 30, 1991. This surplus will not be large enough to cover operating expenses in 1991-92. Although the department maintains that the PAM program will be self-supporting after the budget year, our analysis indicates this will not be the case, given the amount of time required to develop property to the point that it generates revenue.

DEPARTMENT OF GENERAL SERVICES—Continued

Thus, under this scenario, the account will not have sufficient funds to finance the PAM program in 1991-92.

Prevailing Wage Claims

The Office of Real Estate and Design Services has no enforcement mechanism to ensure compliance with state prevailing wage laws.

Under state labor law, contractors and subcontractors working on public works projects must pay their workers prevailing wages, as determined by the Director of the Department of Industrial Relations. This requirement is contained in the bid and contract documents for build-to-suit projects administered by OREDS. Whether or not the contractor complies with the requirement is neither monitored nor enforced by OREDS. Instead, OREDS depends on the contractor to comply or expects workers to lodge a complaint.

Although statistics on the number of complaints on build-to-suit projects are unavailable, the recent case of a California Highway Patrol office in Susanville provides an example of the problem. In that case, the Department of Industrial Relations (DIR) was notified of a complaint, but was unable to compile enough information before the statute of limitations expired (90 days after completion of construction). The DIR expressed concern that OREDS' slow response to information requests was a major reason for the investigation's delay. OREDS, however, has no current plans to institute a program to enforce the prevailing wage law.

Auditor General Report on OREDS

In early 1990, the Auditor General is scheduled to release the results of a year-long comprehensive review of OREDS' activities. Although the report was not available in time for our analysis, it should be available prior to legislative hearings on the department's budget. We will review the findings of the report, and prepare a supplemental analysis of the department's budget request for OREDS if appropriate.

OFFICE OF ENERGY ASSESSMENTS

The Office of Energy Assessments (OEA) is responsible for improving the efficiency of state operations by developing cost-efficient energy programs. The budget proposes $4,336,000 for support of OEA in 1990-91, consisting of $966,000 from the Energy Resources Programs Account (ERPA) in the General Fund and $3,370,000 from the Service Revolving Fund (SRF). This is an increase of $678,000, or 19 percent, above estimated current year expenditures. The major part of the increase ($566,000) is to fund 4.7 new personnel-years to enable OEA to increase its ability to develop energy-savings projects. This proposal is discussed below.

Budget Increase Not Needed To Fund New Contracts

We recommend a reduction of $300,000 in Item 1760-001-666 because, based on historical overbudgeting, the department has enough contracting authority to fund new contracts.

Our analysis indicates that the addition of 4.7 personnel-years should enable OEA to increase its ability to develop energy-savings projects. The proposed $566,000 includes $266,000 to fund the 4.7 personnel-years and $300,000 for additional consultant contracts. Our analysis also indicates, however, that the $300,000 is not necessary because OEA has consistently overbudgeted for consultant contracts. As Table 5 shows, during the last four years for which actual data are available (1985-86 through 1988-89) OEA overbudgeted consultant contracts by a total of $4 million.

Table 5
Department of General Services
Office of Energy Assessments
Consultant Contracts
1985-86 through 1988-89
(in thousands)

	1985-86	*1986-87*	*1987-88*	*1988-89*	*1989-90*	*1990-91*
Budgeted	$2,406	$2,406	$2,406	$2,700	$2,700	$3,060
Expended	1,078	1,542	1,456	1,813	NA [a]	NA [a]
Amount Overbudgeted	$1,328	$864	$950	$887		

[a] Actual expenditures not available.

The OEA request includes $3 million for contracts in 1990-91. This exceeds 1988-89 actual expenditures by $1.2 million. Table 5 shows that the program has been consistently overbudgeted by as much as $1.3 million. On this basis, we believe OEA will have sufficient funds for new contracts without increasing the budget for this purpose.

Consequently, we recommend that Item 1760-001-666 be reduced by $300,000. This will still leave the department with $2.7 million for contracts, or a 49 percent increase over the amount spent in 1988-89.

OFFICE OF BUILDINGS AND GROUNDS

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

The budget proposes total expenditures of $71.3 million for support of OBG in 1990-91. This is an increase of $7.3 million, or 11 percent, above estimated current-year expenditures. The proposed increase includes $2.3 million to fund maintenance and operation of the Ronald Reagan State Office Building in Los Angeles. The budget also includes $5.2 million to fund special repairs in state office buildings and $744,000 for inflationary price increases for utilities.

Earthquake Rattles Building Rental Account

As a result of the 1989 Loma Prieta earthquake, three state office buildings in the Bay Area—one in Oakland and two in San Francisco—are currently closed. According to the Department of General Services, this will result in a loss to the Building Rental Account of $2.2 million in the current year and $2 million in the budget year. The loss is lower for the

DEPARTMENT OF GENERAL SERVICES—Continued

budget year because DGS had planned to move tenants out of the 350 McAllister Building in San Francisco into lease space by November 1990. Thus, the loss to the Building Rental Account for the budget year is related primarily to the Oakland and San Francisco Department of Industrial Relations buildings. The department plans to increase the rate charged to tenants of state office space by approximately 4 cents per square foot per month to compensate for the decline in revenue.

Buildings and Grounds Has Excess Staff

We recommend that Item 1760-001-666 (Building Rental Account) be reduced by $1,379,000 and that this amount be transferred to the General Fund.

As mentioned above, three state office buildings in San Francisco and Oakland are closed. At this time, the department does not plan to reoccupy the buildings in the budget year. This situation has resulted in an excess of 50.1 personnel-years budgeted for the operation and maintenance of these state office buildings. The department estimates that it has budgeted $1.4 million for these positions. Under the circumstances, these positions are unnecessary in the budget year. We therefore recommend that the department's budget be reduced by $1.4 million and that this amount be transferred to the General Fund.

Ronald Reagan Office Building

We recommend, consistent with past legislative policy, that the Department of General Services charge the tenants of the Ronald Reagan State Office Building in Los Angeles an annual rental rate to pay the full bond debt service costs as well as the annual maintenance/operations costs of the building, which is scheduled to open during the budget year.

The budget requests $2,314,000 in Item 1760-001-002 for equipment/utilities and additional Buildings and Grounds staff for the Ronald Reagan Office Building in Los Angeles. This building will be ready for occupancy in November 1990.

Background. Construction of the Ronald Reagan building was financed through lease-purchase bonds. The first payment to bondholders will occur in 1991-92 with the combined principal and interest payments totaling approximately $18 million per year. Construction of state office buildings generally has been financed through a lump sum appropriation as part of the state's capital outlay program. As a result the only annual costs normally budgeted for state buildings are the costs to clean, maintain and provide utilities. These costs are funded by the Building Rental Account.

Over 20 years ago, the state used a form of lease-purchase financing to construct eight multi-agency buildings. The annual cost of these buildings also is included in the Building Rental Account. The proposed 1990-91 budget for the Building Rental Account includes $626,000 in debt payments for these lease-purchase buildings.

The annual cost for the most recent revenue bond-financed state office building (San Francisco), however, is not paid from the BRA. Rather, when this building was occupied, the Legislature directed the Department of General Services to charge the occupants the full annual costs for bond debt service and maintenance/operations costs for the new building. We recommend the Legislature take the same action for the Ronald Reagan Building.

Current Policy Offers Advantages. There are two significant advantages to charging the building tenants the full cost of this building rather than the alternative of spreading the cost across statewide building rental rates.

First, when the cost of maintenance, utilities and debt payment for a limited number of agencies far exceeds the same costs for the rest of state agencies in the Building Rental Account, the limited number of agencies are effectively subsidized. This would be the case for the agencies moving into the Ronald Reagan Office Building. The average maintenance, utilities and debt payment cost for all agencies in the Building Rental Account is projected to be 98 cents per square foot per month in 1990-91 (not including the cost related to the Oakland/San Francisco buildings). The average cost for tenants in the Reagan Building for the full costs of bond repayments, maintenance, and utilities would be approximately $3.14 per square foot per month. If, however, the bond costs and maintenance are paid through the statewide Building Rental Account, the rent paid by all agencies in state space would increase nearly 40 percent to approximately $1.34. Thus, funding the cost through the Building Rental Account would result in a subsidy of approximately $1.80 per square foot per month for the tenants of the Ronald Reagan Building.

Second, if the annual payments for purchases of state buildings are spread across all agencies in rent increases, the cost of constructing and financing a new state facility is hidden. By funding lease-purchase payments through the occupying agencies' budget, the annual cost of purchasing the facility would be properly reflected in the budget.

Consequently, we recommend that the Legislature direct the Department of General Services to charge tenants of the Ronald Reagan Office Building rent equivalent to the cost of bond repayments, maintenance, and utilities of the building. Such rent should commence when the building is initially occupied in November 1990, so there is a prudent reserve in the Building Rental Account to pay the first bond installment in March 1991. A decision made for the budget year will also facilitate state agency planning for 1991-92 support budgets.

Special Repairs

The budget includes $5.2 million for 74 special repair projects. Special repairs are projects that continue the usability of a facility at its original designed level of service. (In contrast, capital outlay projects include new construction and alterations, extensions and improvements of existing structures.)

DEPARTMENT OF GENERAL SERVICES—Continued

A. Projects for Which We Recommend Approval

Table 6
Department of General Services
Office of Buildings and Grounds
1990-91 Special Repair Projects
Projects for Which We Recommend Approval
(dollars in thousands)

Type of Project	*Number of Projects*	*Department Request and Analyst Recommendation*
1. Heating, ventilation, air conditioning repairs	25	$1,173
2. Roof repairs/replacement	5	96
3. Electrical repair and load test	9	206
4. Painting and window/drapery replacement	8	196
5. State Capitol projects	4	851
6. Miscellaneous	11	78
Totals	62	$2,600

We recommend approval of $2,600,000 from the Service Revolving Fund under Item 1760-001-666 requested for 62 projects outlined in Table 6.

Our review of the 62 special repair projects shown in Table 6 indicates that each repair is necessary to ensure the viability of a state building or the safety and comfort of its occupants. The projects range in scope from $1,555 to repair a security fence at the Red Bluff State Office Building to $750,000 to remodel the Governor's offices in Sacramento, San Francisco, and Los Angeles after the election of a new governor.

B. Projects for Which We Recommend Deletion

We recommend deletion of $1,780,000 from the Service Revolving Fund under Item 1760-001-666 for five projects that either the department has not provided justification for, the Legislature has previously deleted, or are more appropriately funded out of capital outlay.

We recommend deletion of funds for the following five projects:

- $207,000 to replace brick flooring in the atrium at the Energy Commission Building, Sacramento.
- $295,000 to replace 270 dual-paned windows at the state office building at 751 N Street, Sacramento.
- $164,000 to paint the exterior of the state office building at 751 N Street, Sacramento.
- $861,000 to modernize elevator controls at the Santa Ana state office building.
- $253,000 to replace instrumentation at the central plant, Sacramento.

Replace Brick Flooring. The budget includes $207,000 to replace brick flooring for the state office building occupied by the Energy Commission. The proposal is to replace the brick flooring with a concrete brick-type flooring. This was proposed initially in the 1988-89 Governor's Budget when it was included as part of a capital outlay request to install a roof over the atrium of this building. The Legislature approved construction of the roof but deleted replacement of the flooring because the department did not provide sufficient justification for this work. Since that time, the department has not provided any further justification for the project.

Replacement of Windows. This building, occupied by the Employment Development Department (EDD) was completed and occupied in 1983. The budget requests $295,000 to replace 270 dual-paned windows on the slanting south side of the building. According to the department, faulty seals have allowed moisture inside the panes, causing "unsightly and unsanitary" conditions. According to the department's documentation for this project, the faulty seals appear to be due to "an inherent design error and/or manufacturer's error."

This proposal is identical to the department's request in the 1989-90 budget. The Legislature deleted funding for this project last year because the department could neither (1) substantiate that either an unsafe or unsanitary condition exists, nor (2) explain why, if the situation is due to design and/or manufacturer error, it should not be the designer and/or manufacturer's responsibility to correct the problem. The department has simply resubmitted the prior proposal without providing any additional information.

Paint Exterior of EDD Building. The budget includes $164,000 to paint the exterior of the EDD Annex Building, but provides no justification for the project. Specifically, the department does not indicate why painting is required at this time, or why the cost is so high compared to other similar painting projects. Moreover, potential building modifications make such a proposal premature. Specifically, the 1988 Budget Act included $270,000 (under Item 1760-301-666) to undertake a study and develop construction documents for major modifications to the building's heating, ventilation and air-conditioning systems. These modifications may involve significant modifications to the solar collector system that is located on the exterior of the building. Therefore, painting the building's exterior should be deferred pending resolution of the work involving the solar collector system. On this basis and because no urgency has been demonstrated for the painting project, we recommend deletion of the $164,000 requested for painting the EDD Annex.

Elevator Modernization. The budget requests $861,000 to modernize elevator controls at the Santa Ana state office building. Again, the department has not provided documentation of the extent of the problem, or a basis for the scope and cost of the proposed solution. Consequently, we recommend deletion of the $861,000.

Replace Instrumentation. The budget requests $253,000 for replacement of pneumatic controls with electronic transmitters and a computer-driven Direct Distributed Control System in the central plant. The department's capital outlay budget (Item 1760-301-036) includes the *same* work as requested for the special repair project. This work improves rather than repairs the existing control system and would more properly be funded under capital outlay where we recommend approval. The funds under this item should therefore be deleted.

DEPARTMENT OF GENERAL SERVICES—Continued

C. Projects for Which We Withhold Recommendation

We withhold recommendation on $1.4 million requested in Item 1760-001-666 for six roof repair projects at various state office buildings and a project to alleviate water intrusion at the Bonderson Building, pending receipt of additional information showing the basis for the scope and cost of these projects.

Roof Repairs. As shown in Table 7, the budget includes $853,000 under Item 1760-001-666 for six special repair projects to replace roofs at various state office buildings.

Table 7
Department of General Services
1990-91 Special Repair Projects
Roof Repair Projects
(in thousands)

Building	*Department Request*
1. Jesse Unruh	$192
2. Library and Courts	168
3. Franchise Tax	130
4. Bonderson	192
5. Blue Anchor	73
6. Santa Rosa	98
Total	$853

The department has not provided adequate documentation of the extent of the roof problem at these buildings. Instead, the department simply indicated the age of the roof and stated that leaks have occurred. Further, no evidence is provided to show that complete roof replacement is necessary in every case. In fact, the same remedy is requested for roofs of very different ages. For example, the Library and Courts building has not had a roof replacement in 20 years, but the Bonderson building is only seven years old. The department should undertake tests that can accurately identify the extent of the present damage. These tests will indicate whether a complete roof replacement is necessary at this time. For those replacements that are necessary, the department should provide information on the type of roof that will be installed and the warranty period for each roof. This will assist the Legislature in reviewing the cost for each project.

We have consistently supported an appropriate level of ongoing and preventive maintenance. The timely repair/replacement of roofing material is an important element of a proper maintenance program. The department, however, has not documented either the reasons for or the cost of replacing the roofing material on these six buildings. The department should be able to provide this information prior to legislative hearings on this item. Thus, we withhold recommendations on the projects pending receipt of additional information.

Water Intrusion. The budget includes $547,000 to install prefinished panels over exterior air ducts to prevent water intrusion into the Bonderson building. The leaks are causing damage to the building's carpeting and ceiling tiles and are interfering with the HVAC system.

The department maintains that the leakage problem is inherent to the building design and/or construction, but does not indicate that it will attempt to recover costs from the designer/contractor. Consequently, we withhold recommendation on this project pending receipt of information outlining the options available and the department's plan to recover costs from the designer/contractor of the building.

Transfer of Savings From Building Rental Account to General Fund

We recommend the transfer from the Building Rental Account to the General Fund of $3,159,000 of savings resulting from our recommended reductions to the Building Rental Account portion of the OBG budget.

Of the $71.3 million proposed for expenditure by OBG in 1990-91, a total of $53.7 million is from the Building Rental Account (BRA). The primary source of revenue into the BRA is rent paid by state agencies for office space owned by the Department of General Services. All agencies renting office space from OBG will pay rent at the rate of 98 cents per square foot per month (not including the cost related to the Oakland/San Francisco buildings) during the budget year. The rate for the current year is 93 cents per square foot per month.

In our analysis of the OBG budget, we recommend reductions which, if adopted, would reduce BRA expenditures. Since BRA revenues would not be affected, the reduced amount of expenditures would generate a corresponding surplus in the BRA. In order to maximize the Legislature's flexibility in meeting statewide needs, we recommend transferring the savings resulting from our recommendations ($3,159,000) to the General Fund.

STATEWIDE SUPPORT SERVICES

CALNET

We recommend that the Department of General Services, Telecommunications Division report during budget hearings on (1) its estimate of savings which will result from CALNET, (2) the impact of CALNET on current and future department staffing needs, and (3) the potential impact on local telephone rates.

On November 28, 1989 the Department of General Services, Telecommunications Division (DGS/TD), awarded a $105 million contract to GTEL, a subsidiary of General Telephone, to purchase CALNET and replace the state's long distance telephone system. In addition, the Governor's Budget proposes to begin replacing 70,000 state Centrex telephone lines currently leased from Pacific Bell and General Telephone. Together these proposals will replace and upgrade the existing state telephone system. The DGS/TD based its decision to purchase CALNET and replace existing Centrex lines primarily on the belief that these initiatives would result in state savings.

In this analysis, we (1) describe the proposals to replace the state's telephone system and (2) assess whether the new system will in fact result in state savings.

The Current State Telephone System. Currently, the state leases a dedicated telephone network from Pacific Bell and American Telephone

DEPARTMENT OF GENERAL SERVICES—Continued

and Telegraph (AT&T). This network connects over 150 state and local government agencies and provides telephone service to over 200,000 users. This network provides public agencies with long distance and local

Chart 1

Brief History of CALNET

1984

January. The divestiture of American Telephone and Telegraph (AT&T) splits phone network facilities used by the state between AT&T and Pacific Bell. The state obtains a court approved agreement to temporarily continue the existing phone system (State Network Facility Agreement signed between DGS, AT&T, and Pacific Bell). The agreement is effective to December 30, 1990.

1986

July. In order to find a more permanent arrangement for providing state phone service, the Legislature appropriates $314,000 in the state budget for a review of the state's phone network. An independent report is completed in October which recommends that the state purchase CALNET. Under the CALNET proposal, the state would buy its own long distance and local phone facilities (known as switches) for the Sacramento, San Francisco/Oakland and Los Angeles areas.

1987

September. DGS issues a Request For Proposal to purchase CALNET. 17 companies express interest in the project and 3 companies submit bids (GTEL, AT&T and EDS). DGS's decision to purchase rather than lease its network precludes Pacific Bell from bidding on the project because under the AT&T divestiture decision Pacific Bell is prohibited from manufacturing or selling telecommunications equipment.

1989

June. DGS issues intent to award the CALNET contract to GTEL for $105 million. Pacific Bell files protest with state of control. Protest is denied on September 8.

July. AT&T files a protest with State Board of Control. Protest denied on November 1.

October. Pacific Bell files a complaint with Superior Court.

September. The Auditor General's Office begins an investigation into DGS's procurement of CALNET (report to be released in early 1990).

December. The court decide against Pacific Bells challenge and the CALNET contract is awarded to GTEL.

1990

January. GTEL begins 3 phase—33 month implementation of CALNET. CALNET scheduled to be partially operational by March 1991 (completion of Phase I) and fully operational by September 1, 1992 (completion of Phases II and III).

telephone service at a substantially reduced cost, approximately 45 percent below the public network cost. Established in the 1960's, the leased network connects public agencies through three major switching centers: Sacramento, San Francisco/Oakland, and Los Angeles. The state leases approximately 100,000 telephone lines from various local telephone companies (primarily Pacific Bell and General Telephone) connected through 55 consolidated exchanges, known as "Centrexes." The Centrexes are linked to the three major switching centers.

The Proposed New Telephone System. In 1986 the Legislature appropriated $314,000 and 5.7 personnel-years to DGS/TD to review the state's telephone system. The Governor vetoed the additional positions, but approved the funds which the department used to contract for an independent review of the state's telephone system. This review ultimately resulted in a proposal to replace the existing leased state telephone system. The proposal consist of: (1) state purchase of its own major switching centers—CALNET, and (2) competitively bidding the remaining state Centrex lines. Chart 1 provides a brief history of the events preceding the award of the CALNET contract.

Under the CALNET proposal, the state would purchase the telephone equipment (called switches) necessary to replace the major switching centers (Sacramento, San Francisco/Oakland, and Los Angeles) that form the backbone of the existing state telephone network. This new state-owned telephone network would connect state and local agencies in the Sacramento, San Francisco/Oakland, and Los Angeles areas and provide them with both long distance and local telephone service. CALNET would replace approximately 30,000 of the 100,000 Centrex lines currently used by the state. DGS/TD will fund the purchase of CALNET by redirecting funds used to lease the current telephone system.

The DGS/TD indicates that CALNET will provide the state with an enhanced telephone system. It would allow the state to (1) better integrate the state's voice and data transmission needs; (2) better manage its telecommunications costs; and (3) take advantage of the rapid technological changes in the telecommunications industry, and thus, make new telephone services, such as voice mail, available to state agencies at lower costs than is currently available.

In addition to purchasing CALNET, the DGS/TD proposes to competitively bid the remaining 70,000 Centrex lines leased by the state. Specifically, the department is proposing to bid approximately 10,000 lines each year for the next seven years. The Governor's Budget proposes $1.8 million in increased spending authority for DGS/TD to begin implementing this program in 1990-91.

Will the New System Result in State Savings? The state may realize savings from the purchase of CALNET and the replacement of existing Centrex lines. Our review, however, indicates that DGS/TD did not complete a feasibility study report which would have evaluated and documented specifically the potential costs and savings of Calnet and competing alternatives. Thus, our analysis is limited to discussing the

DEPARTMENT OF GENERAL SERVICES—Continued

general estimates of savings provided by the department. Chart 2 shows the department's projected savings due to the CALNET purchase.

Chart 2

Department of General Services Estimated CALNET Savings

(in thousands)

	1991-92[a]	1992-93	1993-94	1994-95	➤	2000-01	2001-02
Current expenditures	$12,139	$12,323	$12,512	$12,786		$14,953	$15,377
CALNET costs	11,550[b]	11,580	11,990	12,279		12,728	8,710
Projected annual savings[c]	$589	$743	$522	$507		$2,225	$6,667

10-year average annual savings[c] $789
15-year average annaul savings[c] $2,677

[a] CALNET operational March 1991, however, costs reflected in 1991-92.
[b] LAO estimate.
[c] Actual costs could vary significantly depending on CALNET 1991-92 start-up costs.
Source: Department of General Services, Telecommunications Division.

Projected Savings From CALNET. Under the terms of the contract with GTEL, CALNET will be purchased over a 10-year period for $105 million, or $10.5 million per year. The DGS/TD will fund CALNET by redirecting funds used to lease the existing system. As Chart 2 shows, based on department projections, CALNET will ***save*** the state an average of $789,000 annually over the next 10 years, and significantly more over a 15-year time-period. These savings would be reflected as reductions in departments' baseline budgets over time. The actual savings, if any, realized by CALNET could vary significantly depending on a number of factors. Specifically:

- ***Extension of Existing Telephone Agreement.*** According to the DGS/TD, CALNET will be installed over the next 33 months but basic telephone service from the system should be available by March of 1991. Chart 2 assumes that the existing long distance telephone system will be available during the installation of CALNET. However, the agreement between Pacific Bell and AT&T to provide long distance service for the existing telephone system expires on December 30, 1990. At this time it is not known whether this agreement will be extended. If the current long distance system is not available, the state will be forced to use the public telephone network for its long distance calls during the first three months of 1991. This would increase the state's long distance costs by approximately 45 percent for at least three months. Similarly, if there are any delays in CALNET and it is not operational by March 1991, the projected savings from CALNET in 1991-92 would be reduced.

- ***Additional DGS/TD Staff Needs.*** The CALNET contract provides for GTEL to operate and maintain CALNET for the first three years (after three years the DGS/TD has the option to take over operations and maintenance or continue with GTEL). Although the DGS/TD cost projections include the costs of contracting with GTEL for operations and maintenance in the first three years, they do not include additional DGS/TD staff costs which may be incurred to replace GTEL support in later years. Because CALNET will be an important and complex state asset which requires specialized staff to install, maintain, and operate; it is likely that some additional DGS/TD staff will be required.
- ***CALNET's Useful Life.*** Chart 2 shows that CALNET realizes greater annual savings once the system is fully paid for, beginning in 2001-02. Given continued technological advances in the telecommunications industry, however, whether these greater savings are realized depends on CALNET's useful life. If CALNET is technologically obsolete and needs to be replaced in the next 10 years, these savings will not materialize. On the other hand, if CALNET lasts as long as the current system has (20 plus years), the state will realize these greater savings.
- ***Changes in Telecommunications Costs.*** The department's projections assume that the costs of the current telephone system will increase an average of 2.3 percent annually over the next 15 years. If telecommunication costs increase by more than 2.3 percent annually, Chart 2 understates the savings from CALNET. Conversely, if costs grow less than 2.3 percent, Chart 2 overstates CALNET's savings.

Projected Savings From the Centrex Replacement Program. Under the Centrex replacement proposal, the state would competitively bid 70,000 Centrex lines over the next 10 years. Chart 3 shows the department's projected savings from the Centrex replacement program. Currently, the state leases the vast majority of its Centrex lines from Pacific Bell for $189 per line per year. The department estimates that through competitive bidding, the cost can be reduced to approximately $151 per line. This would result in average annual state savings of $1.2 million over the next seven years.

Our review indicates that although the actual savings from the Centrex replacement proposal will depend on the prices available through the competitive bidding process, the department's projected savings are reasonable.

What Impact Will Replacing The Current State Telephone System Have on Local Public Telephone Rates? In addition to state fiscal considerations, the other significant fiscal impact that can result from the

DEPARTMENT OF GENERAL SERVICES—Continued

Chart 3

Department of General Services
Estimated Savings from Centrex Replacement Program

(dollars in thousands)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Total Centrex Lines	70,000	70,000	70,000	70,000	70,000	70,000	70,000
Existing Centrex Lines	60,000	50,000	40,000	30,000	20,000	10,000	--
Centrex Replacement	10,000	20,000	30,000	40,000	50,000	60,000	70,000
Existing Costs	$13,230	$13,230	$13,230	$13,230	$13,230	$13,230	$13,230
Centrex Replacement	1,791	3,237	4,804	6,371	7,938	9,505	11,072
Remaining Centrex Cost	11,340	9,450	7,560	5,670	3,780	1,890	--
Net Savings	$99	$543	$866	$1,189	$1,512	$1,835	$2,158
Average Annual Savings	$1.172						

Source: Department of General Services, Telecommunications Division.

replacement proposal is a potential increase in local public telephone rates.

Our review indicates that it is unlikely that there will be any impact on public telephone rates in Pacific Bell's or General Telephone's service areas from either CALNET or the Centrex replacement. Under the regulatory framework recently adopted by the California Public Utilities Commission (PUC), telephone rates within these service areas are not affected by changes in costs or the revenue base. Instead telephone rates are adjusted downward annually by 4.5 percent to reflect assumed productivity gains and then adjusted upward by the inflation rate.

This is not to say that replacing the state's telephone system will have no impact on Pacific Bell or General Telephone, just that these firm's shareholders, not their ratepayers, bear the risks (and benefits) resulting from changes in revenues and costs. It is clear General Telephone stands to gain substantially from the CALNET project and under the Centrex replacement proposal may lose the few Centrex lines it currently leases to the state. Pacific Bell on the other hand, stands to lose significant annual revenues due to both proposals. Estimates of Pacific Bell's direct revenue losses range from $3.4 million up to $45 million annually. To put these losses in perspective, however, Pacific Bell's 1988 operating revenue was approximately $8.8 billion.

Although the CALNET and Centrex replacements will not affect ratepayers in Pacific Bell's or General Telephone's service areas, it is unknown what impact, if any, these projects will have on smaller local telephone companies and their ratepayers. Under PUC regulations, these smaller firms receive a reasonable rate of return on their invested capital. If replacing the state's telephone system resulted in a loss of revenue for these smaller firms, they would be authorized to increase their rates to make up for those losses.

Recommendation. Our analysis indicates that the DGS/TD proposal to replace the existing state telephone system could result in state savings, possibly without adversely affecting local telephone rates. However, there are significant uncertainties underlying the department's proposal. Because this proposal is a major commitment of state resources with major fiscal implications for the state, and potentially some local ratepayers, we believe the administration should assure the Legislature that it can in fact achieve the projected savings without adversely affecting local telephone rates. Therefore, we recommend that the DGS/TD report at budget hearings on (1) its estimates of the savings which will result from CALNET, (2) the impact of CALNET on current and future department staffing needs, and (3) the potential impact on local telephone rates.

$10 Million Interest Free Phone Loan

We recommend the adoption of Budget Bill language in Item 1760-101-001 requiring the department to pay interest on funds borrowed from the General Fund to support the 9-1-1 emergency telephone program.

The 9-1-1 Emergency Telephone program is a network of local communication centers designed to provide immediate access to emergency services (such as fire, police, and emergency medical services). The program is administered by the department and funded by a surcharge on all telephone bills in California. (The surcharge is currently 0.69 percent of each bill.) The department uses the revenue generated by the surcharge to reimburse local governments and telephone utilities for the costs of the 9-1-1 emergency telephone program.

The budget proposes $57.1 million from the State Emergency Telephone Number Account to support the program in 1990-91. The budget also requests authority to provide General Fund loans of up to $10.5 million to the program to correct monthly cash flow problems. The department indicates that without this loan authority the state would (1) be assessed $274,000 in late payment charges by local telephone utilities and (2) impose financial burdens on local governments. The cash flow problem arises primarily because utilities who collect the surcharges remit these revenues to the program on a quarterly basis, while the program reimburses local governments and utilities on a monthly basis.

Our analysis indicates that the proposed loan authority is needed to cover the cash flow problems. However, we find that the provision of loans to this program results in General Fund costs which could be avoided. We estimate loans made to the program will cost the General

DEPARTMENT OF GENERAL SERVICES—Continued

Fund between $215,000 and $870,000 in forgone interest revenue, depending on the amounts borrowed and the length of time the loans are outstanding. The program was established to be fully supported from revenues generated by the surcharge. Accordingly, we recommend approval of the loan authority, but, also recommend that the Legislature adopt Budget Bill language in Item 1760-101-001 requiring the program to repay the loans *with interest* to the General Fund. The following language is consistent with this recommendation.

Provision:

1. All money transferred pursuant to this item during 1990-91 shall be repaid with interest to the General Fund prior to June 30, 1991. Interest costs shall be calculated using the average rate earned by the Pooled Money Investment Account during the period of the loan.

Technical Recommendation

We recommend a reduction of $172,000 in expenditure authority requested by the department for purchase of microwave radio equipment because this amount is not budgeted in its client agencies. (Reduce Item 1760-001-666 by $172,000.)

Under current law the Department of General Services (DGS) purchases all microwave equipment requested by various state agencies. The DGS then bills these client agencies for the costs of the equipment. The funds needed to support these purchases are budgeted in each client agency's budget.

The budget proposes an increase of $3.6 million in the department's spending authority to purchase additional microwave radio equipment. However, our review of DGS's client agencies' budgets indicates that only about $3.4 million is proposed for microwave radio equipment. Accordingly, we recommend reducing the requested spending authority in Item 1760-001-666 by $172,000

Capital Outlay

The Governor's Budget proposes appropriations totaling $1,145,000 in Items 1760-301-036 and 1760-301-666 for capital outlay expenditure in the Department of General 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.

STATE PERSONNEL BOARD

Item 1880 from the General Fund — Budget p. SCS 135

Requested 1990-91	$16,301,000
Estimated 1989-90	16,641,000
Actual 1988-89	24,240,000
Requested decrease (excluding amount for salary increases) $340,000 (−2.0 percent)	
Total recommended reduction	None

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1880-001-001—Support	General	$11,520,000
Reimbursements	—	4,781,000
Total		$16,301,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. COD Program. Recommend that the board report at budget hearings on its progress in increasing program participation. 177

GENERAL PROGRAM STATEMENT

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

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

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

The board has 276.8 personnel-years in the current year.

STATE PERSONNEL BOARD—Continued

MAJOR ISSUES

- The COD program is operating at significantly reduced participation levels.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $16.3 million for support of the State Personnel Board in 1990-91. This is $340,000, or 2 percent, below estimated expenditures for the current year. The proposed expenditures consist of an appropriation of $11.5 million from the General Fund and $4.8 million in reimbursements. The General Fund amount is $504,000, or 4.2 percent, below estimated current-year expenditures. Reimbursements are expected to increase by $164,000, or 3.6 percent, above estimated current-year amounts.

The reduction in the SPB budget is due primarily to an unallocated reduction, partially offset by the full year cost of new programs and increased personal services costs. The unallocated reduction represents the second phase of a 20 percent reduction for SPB which was proposed by the Governor and ultimately included in the 1989 Budget Act. The proposal called for a reduction of $1.5 million in 1989-90 and $1.1 million in 1990-91.

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

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

	Personnel-Years			*Expenditures*			
Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Merit system administration	197.7	199.2	180.0	$23,359	$15,433	$15,045	−2.5%
Local government services	—	—	—	881	899	917	2.0
Administrative services	79.4	77.6	72.9	4,125	4,918	4,431	−9.9
Distributed administrative service	(79.4)	(77.6)	(72.9)	−4,125	−4,609	−4,092	−11.2
Totals	277.1	276.8	252.9	$24,240	$16,641	$16,301	−2.0%
Funding Sources							
General Fund				*$20,461*	*$12,024*	*$11,520*	*−4.2%*
Reimbursements				*3,779*	*4,617*	*4,781*	*3.6%*

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

	General Fund	*Reim-bursements*	*Totals*
1989-90 Expenditures (Revised)	$12,024	$4,617	$16,641
Baseline Adjustments			
Personal services	271	20	291
Operating expense	—	59	59
Full year cost of new programs	300	—	300
Unallocated reduction	−1,075	—	−1,075
Other base adjustments	—	18	18
Subtotals, baseline adjustments	(−$504)	($97)	(−$407)
Workload Changes			
Psychological screening	—	$33	$33
Technical training	—	5	5
On-line automated selection system	—	25	25
Criterion validation and test construction	—	4	4
Subtotals, workload changes	($—)	($67)	($67)
1990-91 Expenditures (Proposed)	$11,520	$4,781	$16,301
Change from 1989-90			
Amount	−$504	$164	−$340
Percent	−4.2%	3.6%	−2.0%

ANALYSIS AND RECOMMENDATIONS

Career Opportunities Development Program

We recommend that the board report at budget hearings on its progress in increasing the number of participants in the Career Opportunities Development program.

The 1989-90 Governor's Budget proposed to eliminate the Career Opportunities Development (COD) program. Ultimately, the amount appropriated in the 1989 Budget Act was approximately 76 percent less than the prior year's level. The administration indicated that the training opportunities available in 1989-90 would continue at the previous year's level, despite the cuts. In this analysis we review the current operations of the COD program and assess the effects of the budget reduction.

Background. The Career Opportunities Development (COD) program was established by the Legislature in 1971. The program provided on-the-job-training for disabled individuals, welfare recipients, and other economically disadvantaged persons. The SPB administered the COD program through contracts with other state agencies, local governments, and nonprofit organizations. Prior to the current year, the COD program consisted of the following two components:

- COD/Jobs — funded 80 percent of the total training costs for economically disadvantaged persons who met COD eligibility criteria.
- COD/Rehab — funded 90 percent of the total training costs for disabled clients of the Department of Rehabilitation (DOR).

The employing department or organization provided the remaining 10 to 20 percent of the trainee salary and benefits costs. The training period

STATE PERSONNEL BOARD—Continued

could vary from 6 months to 18 months depending upon the job assignment. Fourteen state agencies participated in the program in 1988-89. Many of these agencies used COD participants to fill entry-level positions that had a high turnover rate. The program was also used to further the department's affirmative action goals.

COD Funding 1989-90. The state's action decreased total expenditures for COD from $9.6 million in 1988-89 to $2.2 million in 1989-90. The administration indicated that the training opportunities available in 1989-90 would continue to be the same as it had been in previous years. The $2.2 million available to the SPB consisted of a $200,000 direct appropriation from the General Fund and a $2 million reimbursement from the Department of Rehabilitation to fund COD positions.

Specifically with regard to the Department of Rehabilitation, the 1989 Budget Act provided $2.1 million from the General Fund to be matched with federal funds on an 80/20 (federal/state) basis. The federal matching funds result in about $8.4 million in additional funds available to DOR for training programs for disabled individuals. The 1989 Budget Act required the DOR to use $2 million of these funds to purchase on-the-job training services for disabled individuals from the SPB as noted above. The SPB uses these funds to reimburse agencies and organizations that participate in the COD/Rehab program.

In addition to the $2.2 million provided to the SPB, the 1989 Budget Act provided a total of $1 million of funding to provide training opportunities for COD-eligible individuals. COD funding was placed in the support budgets of two departments as follows: $790,000 to the Department of Developmental Services (DDS); and $210,000 in the Department of Mental Health (DMH). The 1989 Budget Act also contained control language requiring DDS, DMH, Department of Transportation (DOT), and Department of Corrections (DOC) to maintain 1988-89 participation levels in the COD program.

Effects of Budget Reduction. The COD/Rehab portion of the COD program is the only remaining component of the program in the current year. The new program differs in that it funds 100 percent of the COD participant's salary during the training period, but none of the associated benefit costs. These benefits are paid by the employing department. The SPB estimates that benefits typically cost an additional 30 percent.

The DDS is funding 83 positions with the $790,000 appropriated to it. The DMH is funding 16 positions with the $210,000 it received. These positions, however, are not COD positions contracted through the SPB. Instead, these departments are now contracting directly for positions for *low-income* individuals. The Department of Transportation (DOT) did not receive a budget augmentation in the current year, yet the department has contracted with the SPB for 45 COD/Rehab positions. The Department of Corrections did not receive a budget augmentation and has not contracted with the SPB for COD/Rehab positions.

Our review indicates that fewer state agencies are participating in the COD program in the current year than in the past year and that the COD program is operating at significantly reduced participation levels.

State departments currently represent 8.3 percent of total COD employers. According to the SPB, state departments represented 36 percent of all COD employers in 1988-89. To date, 34 fewer departments are participating in the program. Table 3 compares the number of COD contracts by type of employer for fiscal years 1988-89 and 1989-90.

Table 3
State Personnel Board
Number of COD Contracts by Employer Type [a]
1988-89 through 1989-90

	1988-89		1989-90 [b]	
Employer Type	*Number*	*Percent*	*Number*	*Percent*
State	36	36	2	8
Local	7	7	7	29
Nonprofit	45	45	15	63
College/University	5	5	—	—
Special District	3	3	—	—
American Indian Tribes	4	4	—	—
Total	100	100	24	100

[a] Fiscal year 1988-89 includes COD/Jobs and COD/Rehab contracts. Fiscal year 1989-90 includes only COD/Rehab contracts.
[b] Includes available data as of January 10, 1990.

The change in program funding contributed significantly to the reduction in state agency participation. The elimination of the COD/Jobs component and reduction in funding has also limited the number of positions. Table 4 compares the number of positions by employer type for fiscal years 1988-89 and 1989-90. Current year data reflect program activity for the first six months of the fiscal year.

Table 4
State Personnel Board
Number of COD Positions by Employer Type [a]
1988-89 through 1989-90 [b]

			Change From 1988-89 [b]	
Employer Type	*1988-89*	*1989-90 [b]*	*Number*	*Percent*
State [c]	449	147	−302	−67.3%
Local	211	46	−165	−78.2
Nonprofit	122	59	63	−51.6
American	7	—	−7	−100.0
College/University	5	—	−5	−100.0
Special District	3	—	−3	−100.0
Total	797	252	−545	−68.4

[a] Fiscal year 1988-89 includes COD/Jobs and COD/Rehab contracts. Fiscal year 1989-90 includes only COD/Rehab contracts.
[b] Includes available data as of January 10, 1990.
[c] State Positions include 48 COD/Rehab positions and 99 low-income positions contracted independently by DOT and DMH, respectively.

State agencies, in the past, utilized the COD/Jobs component of the COD program more than the COD/Rehab component. Table 5 compares the number of COD/Rehab positions supported by state agencies in 1988-89 and 1989-90:

STATE PERSONNEL BOARD—Continued

Table 5
State Personnel Board
COD/Rehab Positions by State Department
1988-89 through 1989-90

	Number of Positions	
State Agencies	*1988-89*	*1989-90*[a]
Department of Developmental Services	21	—[b]
Department of Transportation	1	45
Department of Mental Health	1	—[b]
Department of Real Estate	—	3
Department of Justice	24	—
Department of Health Services	14	—
State Controller's Office	8	—
Air Resources Board	6	—
Energy Commission	3	—
Franchise Tax Board	1	—
Board of Equalization	1	—
Total	80	48

[a] Includes available data as of January 10, 1990. If the current trend continues, it is likely that the total number of positions will be similar to the 1988-89 experience.

[b] These departments received budget augmentations and are funding low-income positions independent of the SPB.

As Table 5 indicates, 80 positions were contracted for by state agencies using COD/Rehab funding in 1988-89. This represents 18 percent of the 449 total COD positions contracted by state agencies in that year. The number of contracted positions in the first half of fiscal year 1989-90 is consistent with the number of positions contracted for during the first half of 1988-89. Thus, it would appear that the number of COD/Rehab positions for 1989-90 is likely to be the same as 1988-89, however, these positions will not be located in as many state agencies.

Factors Contributing to Low Participation Levels. Our review indicates that several factors may contribute to the reduction in state department participation: (1) decrease in training reimbursement, (2) incompatible job/trainee mix, and (3) funding delays. Each factor is discussed below.

- ***Training Reimbursement Schedule Altered.*** In 1988-89 the SPB reimbursed departments for 80 percent to 90 percent of *total* training costs for up to eighteen months. Currently the SPB reimburses departments for 100 percent of salary for up to six months of training. Employing departments are funding the costs of benefits, which average 30 percent of salary. The increased costs to departments may inhibit their willingness to hire COD participants. In addition, many of the training programs exceed six months in duration. The SPB will accommodate longer training periods by writing more than one contract, with each limited to six months. The additional contracts, however, are subject to the availability of funds.
- ***Incompatible Job/Trainee Mix.*** The COD Jobs component provided training to economically disadvantaged *or* disabled individuals. Par-

ticipation in the Rehab component of the COD program is limited to disabled individuals who are DOR clients. Many of the positions filled in the past by COD participants, (for example, psychiatric technicians, registered nurses, or correctional officers) may be unsuitable for individuals with disabilities. Thus, low participation levels by state agencies may be a result of an incompatible mix of available positions and potential employees.

- ***Funding Delays Slow Program Implementation.*** Contract negotiations between the Department of Rehabilitation (DOR) and the SPB delayed the implementation of the COD program for three months. Although the 1989-90 SPB budget contained reimbursement authority, the monies were not actually available to the SPB until the interagency contract was signed in October 1989. The SPB did not solicit potential COD employers during the negotiation process. This delayed initial implementation of the program until October.

Summary and Recommendations. Our review indicates that the COD program is operating at significantly reduced participation levels. Specifically, there has been a reduction in both the number of state agencies employing COD participants and in the total number of COD trainees. The implementation delay and new program restrictions have hindered participation in the program. Currently, only two state departments are participating in the COD program. The SPB, however, indicates that the number of participating state agencies will increase significantly during the spring. In fact, the Governor's Budget assumes that 20 state agencies will participate in COD in the current year. Due to the factors discussed in our analysis, the budget assumption may be overly optimistic. Therefore, we recommend that the SPB report at budget hearings on its progress in increasing participation in the COD program.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Item 1900 from various funds — Budget p. SCS 141

Requested 1990-91	$51,662,000
Estimated 1989-90	46,949,000
Actual 1988-89	42,281,000
Requested increase (excluding amount for salary increases) $4,713,000 (+10 percent)	
Total recommended reduction	None

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1900-001-001—Social Security administration	General	$56,000
1900-001-815—Retirement administration	Judges' Retirement	273,000
1900-001-820—Retirement administration	Legislators' Retirement	173,000
1900-001-830—Retirement administration	Employees' Retirement	44,974,000
Chapter 1006/89—Medicare for retired teachers	Employees' Retirement	302,000
Unexpended balance returned	Employees' Retirement	−14,000
1900-001-950—Health benefit administration	Public Employees Contingency Reserve	4,637,000
1900-001-962—Retirement administration	Volunteers Fire-fighters' Length of Service Award	73,000
Reimbursements		1,188,000
Total		$51,662,000

GENERAL PROGRAM STATEMENT

The Public Employees' Retirement System (PERS) administers retirement, health and related benefit programs that serve over one million active and retired public employees. The participants in these programs include state constitutional officers, members of the Legislature, judges, state employees, most nonteaching school employees and other California public employees whose employers elect to contract for the benefits available through the system. The proportion of members is approximately one-third each for state employees, nonteaching school employees, and the employees of other local government agencies. The PERS also administers the coverage and reporting aspects of the federal Old Age Survivors, Disability and Health Insurance (Social Security) programs, and Medicare coverage for retired teachers (effective January 1, 1990).

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

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

The PERS is managed by a 13-member Board of Administration. Members are appointed, elected by specified membership groups, or assigned by statute. The PERS has 715 personnel-years in the current year.

Table 1 summarizes the prior, current and proposed budget-year expenditures for PERS. It shows that the Governor proposes $45 million to finance the system's Retirement program and $5 million to finance the Health Benefits program. The other single largest item is $25 million for administration that is distributed among the system's other programs.

Table 1
Public Employees' Retirement System
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Retirement	609.4	607.9	610.2	$37,576	$41,059	$44,962	9.5%
Social security	8.6	13.1	12.8	535	426	445	4.5
Health benefits	86.4	85.5	91.2	3,457	4,308	4,999	16.0
PERS System Redesign Project	7.8	8.5	8.5	713	1,156	1,256	8.7
Administration (distributed to other programs)	(283.1)	(283.3)	(285.9)	(20,855)	(22,528)	(24,833)	10.2
Totals	712.2	715.0	722.7	$42,281	$46,949	$51,662	10.0%
Funding Sources							
General Fund				*$58*	*$56*	*$56*	—
Judges' Retirement Fund				*235*	*262*	*273*	*4.2%*
Legislators' Retirement Fund				*134*	*158*	*173*	*9.5*
Public Employees' Retirement Fund				*37,761*	*41,002*	*45,262*	*10.4*
Public Employees' Contingency Reserve Fund				*3,495*	*4,233*	*4,637*	*9.5*
Volunteer Firefighters' Length of Service Award Fund				*10*	*72*	*73*	*1.4*
Reimbursements				*588*	*1,166*	*1,188*	*1.9*

Table 2 summarizes the significant changes proposed in the PERS budget in 1990-91. The largest proposed increase ($2.6 million) is due to an adjustment in *pro rata charges.* These are charges assessed by the Department of Finance for services provided by certain state agencies like the State Controller and the State Treasurer. Other significant changes reflected in Table 2 include a reduction of $1.4 million to adjust for various one-time expenses, an increase of $1.3 million for the full year costs of salary increases granted in the current year, an increase of $730,000 to reduce departmental salary savings, and an increase of $784,000 for various program changes (primarily to implement recent legislation).

Table 2
Public Employees' Retirement System
Proposed 1990-91 Budget Changes
(dollars in thousands)

	All Funds
1989-90 Expenditures (Revised)	$46,949
Baseline Adjustments	
Pro rata increase	$2,589
Employee compensation adjustment	1,375
Salary savings revision	730
Price increase	297
Adjustments for one-time expenditures	−1,464
Subtotal, baseline adjustments	($3,527)
Workload Changes	
Disability medical examiners	$145
State employee health benefits	113
Public agency health benefits	70

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Table 2—Continued
Public Employees' Retirement System
Proposed 1990-91 Budget Changes
(dollars in thousands)

	All Funds
Health claims	39
Legal	35
Subtotal, workload changes	($402)
Program Changes	
Medicare for retired teachers (Ch 1006/89)	$288
Health benefits unfunded liability	100
Fixed income manager	98
Internal audits manager	77
Retiree health insurance (Ch 548/89)	75
Program research & development	64
Pre-retirement workshops (Ch 752/89)	50
Disability for safety workers (Ch 276/89)	32
Subtotal, program changes	($784)
Total Expenditures 1990-91 (Proposed)	$51,662
Change from 1989-90	
Amount	$4,713
Percent	10%

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of $51.7 million (including $1,188,000 in reimbursements) from various funds for the administrative support of the PERS in 1990-91. This is $4.7 million, or 10 percent, above estimated current-year expenditures.

Our analysis indicates that the amount requested to carry out the PERS' existing responsibilities is reasonable.

STATE TEACHERS' RETIREMENT SYSTEM

Item 1920 from the State Teachers' Retirement Fund and other funds — Budget p. SCS 148

Requested 1990-91	$204,179,000 [a]
Estimated 1989-90	194,293,000 [a]
Actual 1988-89	155,099,000 [a]
Requested increase $9,886,000 (excluding amount for salary increases) (+5.1 percent)	
Total recommended reduction	None

[a] Includes funding for STRS administration and purchasing power benefits

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1920-001-835—Retirement administration	State Teachers' Retirement	$29,063,000
Education Code Section 24701 COLA Administration	State Teachers' Retirement (Retirees' Purchasing Power Protection Account)	97,000
1920-001-963—Annuity Administration	Teacher Tax-Sheltered Annuity Administration	66,000
Reimbursements		239,000
Education Code Section 22206 Purchasing power protection for benefit payments	State Teachers' Retirement	174,714,000
Total		$204,179,000

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for providing retirement benefits to public school teachers. Currently, the STRS serves over 334,000 active and retired members. The system is managed by the State Teachers' Retirement Board, and is under the administrative jurisdiction of the State and Consumer Services Agency.

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

The STRS has 349.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The $204.2 million budget for STRS includes $174.7 million for purchasing power benefits and $29.5 million for STRS administration. Funding for purchasing power benefits is provided by statute and the funding for STRS administration is requested in the Budget Act.

Table 1 shows STRS expenditures, by program, for the past, current, and budget years. Table 1 also indicates that the STRS proposes to fund 365.2 personnel-years in the budget year—a net increase of 15.4 personnel-years from the current-year level.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

Table 1
State Teachers' Retirement System
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Program	Actual 1988-89	Est. 1989-90	Proposed 1990-91	Change From 1989-90 Amount	Change From 1989-90 Percent
Administration:					
Executive office	$494	$657	$634	−$23	−3.5%
Legal office	778	941	883	−58	−6.2
Administration and program analysis	870	1,293	1,272	−21	−1.6
Administrative services	625	721	761	40	5.5
Fiscal and audit services	3,375	5,496	5,516	20	0.4
Subtotals, administration	($6,142)	($9,108)	($9,066)	(−$42)	(−0.5%)
Investment Services	$973	$1,067	$2,035	$968	90.7%
Client Services:					
Administration	$394	$869	$892	$23	2.6%
External operations	2,478	2,746	2,853	107	3.9
Member services	5,262	5,753	6,865	1,112	19.3
Subtotals, client services	($8,134)	($9,368)	($10,610)	($1,242)	(13.3%)
Operation Systems:					
Administration	$115	$125	$158	$33	26.4%
Accounting	1,237	1,594	1,876	282	17.7
Data processing	5,872	5,713	5,720	7	0.7
Subtotals, operation systems	($7,224)	($7,432)	($7,754)	($322)	(4.3%)
Purchasing Power Protection for Retirees	132,626	$167,318	$174,714	$7,396	4.4%
Total Expenditures	$155,099	$194,293	$204,179	$9,886	5.1%
Funding Sources					
General Fund	$132,626	—	—	—	—
Teachers' Retirement Fund:					
Supplemental Benefit Maintenance Account	—	*$167,318*	*$174,714*	*$7,396*	*4.4%*
Program Administration	*22,047*	*26,573*	*29,063*	*2,490*	*9.4*
Retirees' Purchasing Power Protection Account	*97*	*97*	*97*	—	—
Teacher Tax Shelter Annuity Fund	*48*	*66*	*66*	—	—
Reimbursements	281	239	239	—	—
Personnel-Years	318.2	349.8	365.2	15.4	4.4%

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

STRS Administration. The budget requests $29.5 million from the State Teachers' Retirement Fund (STRF), two other special funds, and reimbursements for administrative support of the STRS in 1990-91. This is a net increase of $2.5 million, or 9.4 percent above estimated current-year expenditures for administration. The proposed amount includes funding for client services ($10.6 million), investment management ($2.0 million), administration ($9.1 million), and system operations ($7.8 million).

Table 2 shows the specific changes proposed for the budget year. The major changes include the following items:

- $2.8 million increase to fund ongoing operating costs for the newly completed computerized benefit processing system and a $3.2 million decrease to reflect one-time development costs.
- $972,000 increase in the investment office to convert 13 staff members from contractors to regular employees.
- $947,000 increase for employee compensation.
- $768,000 and 13.5 personnel-years for member services to expedite benefit payments and to investigate, process, and monitor disability claims. This figure includes $143,000 for member services administration to make permanent 3 positions to complete development of workload measures and standards for the automated benefit processing system.

Purchasing Power Protection. Chapter 115, Statutes of 1989 (SB 1407, Cecil Green) and Chapter 116, Statutes of 1989 (SB 1513, Campbell), established a funding mechanism that provides purchasing power protection benefits to retired teachers. Prior to these acts, the Legislature provided purchasing power benefits primarily through appropriations in

Table 2
State Teachers' Retirement System
Proposed 1990-91 Budget Changes
(dollars in thousands)

	STRS Administration	*STRS Purchasing Power*
1989-90 Expenditures (Revised)	$26,975	$167,318
Baseline Adjustments		
Employee compensation	$947	—
Pro rata charges	184	—
Price increase	150	—
One-time expenditures:		
Data Processing	−3,156	—
Equipment	−380	—
Accounting	−269	—
Miscellaneous	4	—
Subtotal, baseline adjustments	(−$2,520)	—
Workload Adjustments		
Member services	$625	—
Accounting	147	—
Administration	143	—
Subtotal, workload adjustments	($915)	—
Program Changes		
Purchasing power protection	—	$7,396
Data processing	$2,842	—
Conversion of contract staff to regular staff	972	—
Accounting	162	—
External operations	60	—
Administration	59	—
Subtotal, program changes	($4,095)	($7,396)
1990-91 Expenditures (Proposed)	$29,465	$174,714
Change from 1989-90		
Amount	$2,490	$7,396
Percent	9.4%	4.4%

STATE TEACHERS' RETIREMENT SYSTEM—Continued

the annual Budget Act. Of the $194 million shown in Table 1 for 1989-90, $167 million is for purchasing power protection. During 1990-91, however, $175 million in purchasing protection is appropriated *by statute* from the STRF — a 4.4 percent increase over the current year. This increase is due to the inflation estimate for benefits in 1990-91.

The statutes create the Supplemental Benefit Maintenance Account. This account is funded with transfers from the STRF sufficient to ensure that retired members of the STRS receive benefit payments equal to at least 68.2 percent of the value of their initial benefit. These transfers will be repaid with interest through annual payments from the General Fund over time. During the budget year, the General Fund will repay $53 million to the STRF.

STATE TEACHERS' RETIREMENT SYSTEM—REVERSION

Item 1920-495 for legislative appropriations from the State Teachers' Retirement Fund during 1988 — Budget p. SCS 151

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes to revert $80,539 to the State Teachers' Retirement Fund (STRF) from the unencumbered balances of two 1988 legislative appropriations. Chapter 743, Statutes of 1988 (AB 147, Elder) appropriated $100,000 from the STRF to the State Teachers' Retirement System (STRS) to establish an actuarily-sound option to the existing retirement plan that would fully integrate Social Security benefit payments with those from STRS. The Budget Bill reverts the $39,904 balance from this completed program to the STRF. Chapter 792, statutes of 1988 (AB 3172, Elder) appropriated $134,000 from the STRF so that STRS would send concurrent notification to retirants that their benefit payments had been mailed directly to their financial institutions for deposit. The budget bill reverts the $40,635 balance to the STRF.

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA

Items 1960-1970 from the General Fund and various special funds — Budget p. SCS 154

Requested 1990-91	$1,349,959,000
Estimated 1989-90	1,249,608,000
Actual 1988-89	1,048,812,000

Requested increase (excluding amount for salary increases) $100,351,000 (+8.0 percent)

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1960-001-001—Support	General	$2,647,000
1960-001-592—Support	Cal-Vet Farm and Home	1,086,000
1960-101-001—Local assistance	General	1,750,000
1970-011-001—Veterans' Home	General	27,112,000
1970-011-890—Veterans' Home	Federal Trust	11,403,000
Reimbursements		8,222,000
Total, Budget Bill appropriations		($52,220,000)
Continuing Appropriation—Support	Cal-Vet Farm and Home	22,513,000
Continuing Appropriation—Loans	Cal-Vet Farm and Home	1,271,106,000
Continuing Appropriation—Support	Cal-Guard Farm and Home	113,000
Continuing Appropriation—Loans	Cal-Guard Farm and Home	4,007,000
Total		$1,349,959,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Homeownership Assistance Program. Recommend that the Department of Veterans Affairs report to the Legislature prior to budget hearings on a plan to coordinate with the California Housing Finance Agency on the Homeownership Assistance Program. 192

GENERAL PROGRAM STATEMENT

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

1. ***Cal-Vet Farm and Home Loan.*** This program provides low-interest farm and home loans to qualifying veterans, using proceeds from the sale of general obligation and revenue bonds.

2. ***Veterans Claims and Rights.*** This program assists eligible veterans and their dependents in obtaining federal and state benefits by providing claims representation, county subventions, and direct educational assistance to qualifying veterans' dependents.

3. ***The Veterans' Home.*** The home provides approximately 1,350 California war veterans with several levels of medical care, rehabilitation services, and residential services.

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

4. ***Cal-Guard Farm and Home Loan.*** This program provided low-interest farm and home loans to qualifying National Guard members, using proceeds from the sale of revenue bonds. The Military Department advises that in 1986 it decided to stop providing new loans under this program because of a lack of interest by guard members due to the fact that interest rates required under the program were not competitive. As a result, no new loan applications have been accepted since May 1, 1986, and the current program involves only maintenance and servicing of the existing loan portfolio.

5. ***Administration.*** This program provides for the implementation of policies established by the California Veterans Board and the department Director.

The department has 1,284.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $1.3 billion from various state and federal funds for support of the DVA and the Veterans' Home of California in 1990-91. This is an increase of $100.4 million, or 8 percent, above estimated current-year expenditures. The increase reflects the following changes:

- An increase of $359,000, or 1.2 percent, in *General Fund* support for departmental administration and the Veterans' Home. This primarily results from full-year costs of salary increases provided in the current year.
- An increase of $100.4 million, or 8.4 percent, in *special funds*. Nearly all of this increase is in the Cal-Vet loan program, primarily to reflect increased loan costs. The special fund request also reflects an increase of $161,000, or 4.1 percent, in the Cal-Guard loan program, also because of increased loan costs.
- A decrease in *federal funds* of $393,000, or 3.3 percent, primarily the result of a reduction of one-time expenditures from the current year to equip various facilities at the Veterans' Home.
- An increase in *reimbursements* of $325,000, or 4.1 percent, primarily reflects increased receipts from member fees at the Veterans' Home.

Table 1 provides a summary, by fiscal year and funding source, of all expenditures, including expenditures for loans, debt service, and taxes in the Cal-Vet and Cal-Guard loan programs.

Table 1
Department of Veterans Affairs
Summary of Expenditures and Funding Sources
1988-89 through 1990-91
(dollars in thousands)

Expenditures By Funding Source	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
General Fund				
Departmental administration	$2,425	$2,640	$2,647	0.3%
Veterans Service Offices	1,250	1,750	1,750	—
Veterans' Home	23,118	26,760	27,112	1.3
Subtotals, General Fund	($26,793)	($31,150)	($31,509)	(1.2%)
Veterans Farm and Home Building Fund				
Loan program administration	$18,356	$22,530	$23,599	4.7%
Loans, debt service, taxes	979,336	1,171,984	1,271,106	8.5
Subtotals, Cal-Vet Fund	($997,692)	($1,194,514)	($1,294,705)	(8.4%)
California National Guard Members Farm and Home Building Fund				
Loan program administration	$98	$113	$113	—
Loans, debt service, taxes	5,565	3,846	4,007	4.2%
Subtotals, Cal-Guard Fund	($5,663)	($3,959)	($4,120)	(4.1%)
Federal Trust Fund—Veterans' Home	$10,741	$11,796	$11,403	−3.3%
Special Account for Capital Outlay (Veterans' Home of Southern California) [a]	$48	$292	—	−100.0%
Reimbursements				
Departmental administration	$198	$220	$224	1.8%
Local assistance	463	365	365	—
Veterans' Home	7,214	7,312	7,633	4.4
Subtotals, Reimbursements	($7,875)	($7,897)	($8,222)	(4.1%)
Totals, Expenditures	$1,048,812	$1,249,608	$1,349,959	8.0%

[a] Transfer from Capital Outlay Item 1970-303-036, Budget Act of 1988, as added by Chapter 1240, Statutes of 1988 (AB 200, Clute).

Table 2 summarizes the department's expenditures and personnel-years, by program, for the past, current, and budget years.

Table 2
Department of Veterans Affairs
Program Summary
1988-89 through 1990-91
(dollars in thousands)

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Cal-Vet Farm and Home Loan	$997,692	$1,194,514	$1,294,705	8.4%
Cal-Guard Farm and Home Loan	5,663	3,959	4,120	4.1
Veterans Claims and Rights	3,592	4,140	4,162	0.5
Veterans' Home	41,817	46,703	46,972	0.6
Veterans' Home of Southern California	48	292	—	−100.0
Administration (distributed)	(1,849)	(2,264)	(1,974)	−12.8
Totals	$1,048,812	$1,249,608	$1,349,959	8.0%

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

Table 2—Continued
Department of Veterans Affairs
Program Summary
1988-89 through 1990-91
(dollars in thousands)

	Actual 1988-89	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Personnel-years				
Cal-Vet Farm and Home Loan	266.2	279.0	279.0	—
Cal-Guard Farm and Home Loan	4.2	2.4	2.4	—
Veterans Claims and Rights	33.3	35.5	35.5	—
Veterans' Home	932.4	964.6	961.4	−0.3
Veterans' Home of Southern California	—	3.0	—	−100.0
Administration (distributed)	(34.4)	(35.2)	(35.2)	—
Totals	1,236.1	1,284.5	1,278.3	−0.5%

ANALYSIS AND RECOMMENDATIONS

Coordination Needed Between DVA and California Housing Finance Agency

We recommend that the DVA report to the Legislature prior to budget hearings on its plan to coordinate with the California Housing Finance Agency (CHFA) to extend services to California veterans through the Homeownership Assistance Program.

Chapter 30, Statutes of 1988 (SB 1692, Roberti), established the Homeownership Assistance Program to provide homebuying assistance to both California veterans and clients of the California Housing Finance Agency (CHFA). The program is designed to make the purchase of homes more affordable to first-time buyers. We found that no coordination had taken place to ensure that qualifying veterans receive information and services from the program.

Homeownership Opportunities for Veterans. The DVA currently provides assistance to veterans through its Cal-Vet Farm and Home Loan program. Within the program, qualifying veterans can purchase homes using a variety of financing schemes. For example, DVA operates its own specialized loan program for veterans who meet certain income criteria.

The Homeownership Assistance Program provides low interest deferred-payment loans to first-time homebuyers who purchase housing financed by CHFA or the DVA. Voters approved a continuous appropriation of up to $25 million for the program in the Housing and Homeless Bond Act of 1988. An additional continuous appropriation of up to $25 million will be on the ballot in June as part of the Housing and Homeless Bond Act of 1990. Chapter 30 also provides that CHFA administer the Homeownership Assistance Program and contract with DVA to provide services to veterans or provide the services directly.

No Coordination Between Agencies. Although Chapter 30 requires CHFA and DVA to work together to ensure that qualifying veterans receive information and services from the Homeownership Assistance Program, our review of the program found that there has been no coordination between the two agencies. The CHFA advises that it is awaiting contact from DVA on this issue.

Because of the potential resources available through the Homeownership Assistance Program for veterans and the intent expressed by the Legislature in Chapter 30, we recommend that DVA report to the Legislature prior to budget hearings on its plan to coordinate with CHFA to extend program services to veterans.

Capital Outlay

The Governor's Budget proposes several appropriations beginning with Item 1970-301-036 for capital outlay expenditures for the Veterans' Home. Please see our analysis of the proposed Department of Veterans Affairs Capital Outlay Program in the capital outlay section of this *Analysis* which is in the back of this document.