# BUSINESS TRANSPORTATION AND HOUSING

## DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 2100 from the General Fund — Budget p. BTH 1

| | |
|---|---|
| Requested 1990-91 | $23,688,000 |
| Estimated 1989-90 | 23,311,000 |
| Actual 1988-89 | 21,213,000 |
| Requested increase (excluding amount for salary increases) $377,000 (+1.6 percent) | |
| Total recommended reduction | None |
| Recommendation pending | 325,000 |

### 1990–91 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2100-001-001—Support | General | $23,114,000 |
| Reimbursements | | 574,000 |
| Total | | $23,688,000 |

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Drug Enforcement Narcotics Team (DENT). Withhold recommendation on $325,000 from the General Fund to support the DENT, pending a determination by the Office of Criminal Justice Planning on whether federal funds will be available to support the program in 1990-91. 199

### GENERAL PROGRAM STATEMENT

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

It maintains 23 district and branch offices throughout the state, as well as a headquarters in Sacramento. The department has 416 personnel-years in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $23.7 million for support of the ABC in the budget year. This amount includes an appropriation of $23.1 million from the General Fund and $574,000 in reimbursements. The total amount provided for support of the ABC is $377,000, or 1.6 percent, above estimated current-year expenditures. This increase primarily is due to the full-year costs of salary increases provided in the current year.

Table 1 provides a summary of expenditures and personnel-years for the department's three programs in the prior, current, and budget years.

**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued**

**Table 1**
**Department of Alcoholic Beverage Control**
**Program Summary**
**1988-89 through 1990-91**
**(dollars in thousands)**

| | Personnel-Years | | | Expenditures | | | Percent Change From |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1988-89* | *Est. 1989-90* | *Prop. 1990-91* | *Actual 1988-89* | *Est. 1989-90* | *Prop. 1990-91* | *1989-90* |
| Licensing | 196.1 | 199.0 | 199.0 | $11,598 | $12,652 | $12,831 | 1.4% |
| Compliance | 157.7 | 169.0 | 169.0 | 9,615 | 10,659 | 10,857 | 1.9 |
| Administration (distributed) | 48.0 | 48.0 | 48.0 | (2,200) | (2,594) | (2,641) | 1.8 |
| Totals | 401.8 | 416.0 | 416.0 | $21,213 | $23,311 | $23,688 | 1.6% |

## General Fund Revenues Projected to Increase Slightly

The ABC is supported by the General Fund and produces revenue for the General Fund. It collects license fees and various other fees and charges, according to schedules established by statute. All money collected by the department is deposited in or transferred to the General Fund.

Table 2 provides a summary of actual, estimated, and proposed revenues by fiscal year. As shown in the table, the department estimates that its activities will generate revenues to the General Fund of $33.4 million in 1990-91. This is an increase of $551,000, or 1.7 percent, over estimated current-year revenues. The increase largely is attributable to

**Table 2**
**Department of Alcoholic Beverage Control**
**License Fees and Miscellaneous General Fund Revenues**
**1988-89 through 1990-91**
**(dollars in thousands)**

| | *Actual 1988-89* | *Est. 1989-90* | *Prop. 1990-91* | *Percent Change From 1989-90* |
|---|---|---|---|---|
| Out-of-state beer certificates | $11 | $11 | $11 | — |
| Original license fees | 3,044 | 3,091 | 3,141 | 1.6% |
| Transfer fees | 4,708 | 4,500 | 4,600 | 2.2 |
| Special fees | 353 | 355 | 355 | — |
| Service charges | 161 | 170 | 170 | — |
| Annual fees | 18,693 | 18,816 | 18,944 | 0.7 |
| Offers in compromise | 2,523 | 2,550 | 2,800 | 9.8 |
| Ten percent surcharge on annual fees | 1,783 | 1,795 | 1,807 | 0.7 |
| Caterer's authorization, permits, and manager's certificates | 384 | 390 | 390 | — |
| Surcharge on annual fees for administrative hearings | 886 | 891 | 897 | 0.7% |
| Modification of conditions | 25 | 25 | 25 | — |
| Penalty assessments | 255 | 260 | 265 | 1.9% |
| Miscellaneous income | 12 | 12 | 12 | — |
| Sale of confiscated property | 5 | 5 | 5 | — |
| Sale of documents | 1 | 1 | 1 | — |
| Totals | $32,844 | $32,872 | $33,423 | 1.7% |

the projected growth in the number of active licenses and the amount of fines paid in lieu of license suspension (offers in compromise).

## ANALYSIS AND RECOMMENDATIONS

### Federal Funds May Be Available to Support DENT Program

***We withhold recommendation on $325,000 proposed from the General Fund to support the Drug Enforcement Narcotics Team (DENT) pending a decision by Office of Criminal Justice Planning (OCJP) on the availability of federal funding for this purpose.***

The budget requests a General Fund augmentation of $325,000 for support of the ABC's Drug Enforcement Narcotics Team (DENT) in 1990-91. In the current year, the DENT program is funded through a grant of federal funds provided by the OCJP.

The DENT program consists of five investigators who specialize in cases involving narcotics violations occurring on premises that are licensed for the sale or manufacture of alcoholic beverages. The team usually operates in cooperation with local law enforcement agencies upon a request by the local agencies. The team has worked with over 50 local agencies in completing 165 investigations of drug violations occurring in or about licensed facilities since its formation in January 1988.

***Federal Funds May be Available for Budget Year.*** At the time this analysis was prepared, OCJP had not determined the level of federal funding that would be available to ABC for the DENT program in 1990-91. According to the ABC, federal funds may be available to support the program for at least half of the budget year. This could reduce the amount needed from the General Fund for support of the DENT program by *at least* $162,000. The ABC advises that a determination as to the availability of federal funds will be made prior to budget hearings. Therefore, we withhold recommendation on the request of $325,000 from the General Fund, pending a determination by the OCJP regarding the availability of federal funds for support of the DENT program in 1990-91.

## ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 2120 from the Alcoholic Beverage Control Appeals Fund — Budget p. BTH 4

| | |
|---|---|
| Requested 1990-91 | $529,000 |
| Estimated 1989-90 | 497,000 |
| Actual 1988-89 | 439,000 |
| Requested increase (excluding amount for salary increases) $32,000 (+6.4 percent) | |
| Total recommended reduction | None |

### GENERAL PROGRAM STATEMENT

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

The board consists of a chairman and two members appointed by the Governor with the consent of the Senate. The board members meet once each month, alternating between Los Angeles and San Francisco. Pursuant to Ch 1335/88 (SB 2316, Dills), board members are paid an annual salary of $25,000. Previously, they received a per diem payment of $100 for each day that the board members spent reviewing decisions of the Department of Alcoholic Beverage Control. The board has 7.1 personnel-years in the current year.

### ANALYSIS AND RECOMMENDATIONS

***We recommend approval.***

The budget proposes an appropriation of $529,000 from the Alcoholic Beverage Control Appeals Fund for support of the board in 1990-91. This amount is $32,000, or 6.4 percent, more than estimated current-year expenditures. The proposed change for 1990-91 primarily results from an increase in personal services to re-establish the chief counsel position as a full-time position. We believe that the board's proposal is reasonable. Consequently, we recommend that the request be approved.

# STATE BANKING DEPARTMENT

Item 2140 from various funds — Budget p. BTH 6

| | |
|---|---|
| Requested 1990-91 | $14,592,000 |
| Estimated 1989-90 | 14,283,000 |
| Actual 1988-89 | 12,108,000 |
| Requested increase (excluding amount for salary increases) $309,000 (+2.2 percent) | |
| Total recommended reduction | None |

## 1990-91 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2140-001-136—Support | State Banking | $14,176,000 |
| 2140-001-240—Support | Local Agency Deposit Security | 257,000 |
| Reimbursement | | 159,000 |
| Total | | $14,592,000 |

## GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from losses that may result when a bank or other financial entity under the department's jurisdiction fails. Banks have the option of being federally or state chartered. Only state chartered entities are subject to regulation by this department.

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

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

The department is administered by the Superintendent of Banks, who is appointed by the Governor. The department has 194.3 personnel-years in the current year.

## OVERVIEW OF THE BUDGET REQUEST

The department proposes total expenditures of $14.6 million in 1990-91, which is $309,000, or 2.2 percent, more than the estimated current-year expenditures. To finance the proposed expenditures, the budget requests $14.2 million from the State Banking Fund and $257,000 from the Local Agency Deposit Security Fund. In addition, the department expects to collect $159,000 in reimbursements.

Table 1 shows the personnel and expenditures for the department in the past, current and budget years. Table 2 summarizes the budget changes proposed for 1990-91.

**STATE BANKING DEPARTMENT—Continued**

**Table 1**
**State Banking Department**
**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* |
| Licensing and supervision of banks and trust companies | 135.1 | 136.5 | 144.2 | $8,216 | $9,724 | $9,344 | −4.1% |
| Payment instruments | 3.5 | 6.8 | 10.0 | 166 | 342 | 466 | 36.2 |
| Certification of securities | 0.1 | 0.1 | 0.1 | 2 | 3 | 3 | — |
| Supervision of California Business and Industrial Development Corporations | 0.3 | 0.4 | 0.4 | 9 | 10 | 11 | 10.0 |
| Administration of local agency security | 5.2 | 5.0 | 5.0 | 172 | 164 | 168 | 2.4 |
| Departmental administration | 39.9 | 45.5 | 45.5 | 3,543 | 4,040 | 4,600 | 13.9 |
| Totals | 184.1 | 194.3 | 205.2 | $12,108 | $14,283 | $14,592 | 2.2% |
| Funding Sources | | | | | | | |
| *State Banking Fund* | | | | *$11,726* | *$13,870* | *$14,176* | *2.2%* |
| *Local Agency Deposit Security Fund* | | | | *251* | *254* | *257* | *1.2* |
| *Reimbursements* | | | | *131* | *159* | *159* | — |

**Table 2**
**State Banking Department**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *State Banking Fund* | *Local Agency Deposit Security Fund* | *Reimbursements* | *All Funds* |
|---|---|---|---|---|
| 1989-90 Expenditures (Revised) | $13,870 | $254 | $159 | $14,283 |
| *Baseline Adjustments* | | | | |
| Cost increases for salaries and operating expenses | 355 | 2 | — | 357 |
| Increased facilities operations expenses | 119 | — | — | 119 |
| Reduced salary savings | 239 | 1 | — | 240 |
| Deficiency appropriation | −1,200 | — | — | −1,200 |
| Subtotals, baseline adjustments | (−$487) | ($3) | — | (−$484) |
| *Workload Changes* | | | | |
| Additional staff for savings and loan conversions to banks | 323 | — | — | 323 |
| Increased regulation of money transmitters | 140 | — | — | 140 |
| Subtotals, workload changes | ($463) | — | — | ($463) |
| *Program Change* | | | | |
| Laptop computers for examiners | $330 | — | — | $330 |
| 1990-91 Expenditures (Proposed) | $14,176 | $257 | $159 | $14,592 |
| Change from 1989-90: | | | | |
| Amount | $306 | $3 | — | $309 |
| Percent | 2.2% | 1.2% | — | 2.2% |

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval* of the department's proposed budget, including the following significant changes.

- *Baseline adjustment* for a deficiency appropriation of $1.2 million from the State Banking Fund for the liquidation of assets of the First Independent Trust Company (a department licensee) during 1989-90;
- *Workload changes* for additional staff to handle anticipated conversions by savings and loan associations to banks ($323,000) and full-year funding of Ch 1196/89 (AB 1461, Polanco), which increases the department's regulatory responsibilities over the transmission of money abroad ($140,000); and
- *Program change* of providing laptop computers to department examiners ($330,000) in order to: (1) access relevant financial information compiled by federal regulatory agencies; and (2) enhance the analytical quality and timeliness of bank examinations.

# DEPARTMENT OF CORPORATIONS

Item 2180 from the General Fund — Budget p. BTH 11

| | |
|---|---|
| Requested 1990-91 | $24,378,000 |
| Estimated 1989-90 | 23,093,000 |
| Actual 1988-89 | 21,385,000 |
| Requested increase (excluding amount for salary increase) $1,285,000 (+5.6 percent) | |
| Total recommended reduction | None |

## 1990–91 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2180-001-001—Support | General | $10,322,000 |
| Reimbursements | — | 14,056,000 |
| Total | | $24,378,000 |

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Funding of Escrow Agents' Regulatory Program. Recommend adoption of Budget Bill language to ensure full-funding of program costs by licensees. 205

## GENERAL PROGRAM STATEMENT

The Department of Corporations is responsible for protecting the public from unfair business practices and the fraudulent or improper sale of financial products and services. The department fulfills this responsibility through three major programs: (1) investment, (2) lender-

**DEPARTMENT OF CORPORATIONS—Continued**

fiduciary, and (3) health care service plans. The cost of administering the department is prorated among these programs.

Under the *Investment* program, the department approves securities and franchises offered for sale and conducts investigations to enforce the various pertinent laws. It also certifies securities broker-dealers and investment advisors to operate in California and regulates their activities.

The *Lender-Fiduciary* program licenses, examines and regulates check sellers, credit unions, escrow offices, industrial loan companies, consumer and commercial finance lenders, and trading stamp companies.

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

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

The department has 360.3 personnel-years in the current year.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $24.4 million in 1990-91, which is $1.3 million, or 5.6 percent, above the estimated total expenditures in the current year. Of the total expenditures, the budget requests that $10.3 million be funded from the General Fund and $14.1 million be reimbursed by various assessments and fees.

Table 1 shows the personnel and expenditures of the department for the past, current, and budget years. Table 2 summarizes the significant budget changes proposed for 1990-91.

**Table 1**
**Department of Corporations**
**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* |
| Investment | 161.3 | 171.5 | 172.4 | $8,538 | $9,580 | $10,024 | 4.6% |
| Lender-fiduciary | 125.3 | 125.3 | 143.6 | 7,859 | 8,457 | 9,329 | 10.3 |
| Health care service plan | 46.9 | 44.5 | 55.3 | 4,036 | 3,931 | 3,873 | −1.5 |
| Administration | 18.9 | 19.0 | 19.0 | 952 | 1,125 | 1,152 | 2.4 |
| Totals | 352.4 | 360.3 | 390.3 | $21,385 | $23,093 | $24,378 | 5.6% |
| Funding Sources | | | | | | | |
| *General Fund* | | | | *$9,081* | *$9,911* | *$10,322* | *4.1%* |
| *Reimbursements* | | | | *12,304* | *13,182* | *14,056* | *6.6* |

**Table 2**
**Department of Corporations**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *General Fund* | *Reimburse-ments* | *Total* |
|---|---|---|---|
| 1989-90 Expenditures (Revised) | $9,911 | $13,182 | $23,093 |
| *Baseline Adjustments* | | | |
| Salary increases | 181 | 212 | 393 |
| Rent increases | 230 | 271 | 501 |
| Deleted contracts for examining health plans | — | −784 | −784 |
| Increased operating expenses | — | 104 | 104 |
| Subtotals, baseline adjustments | ($411) | (−$197) | ($214) |
| *Workload Changes* | | | |
| Additional examiners for Escrow program | — | $625 | $625 |
| Additional legal staff for Lender-Fiduciary program | — | 90 | 90 |
| Subtotals, workload changes | — | ($715) | ($715) |
| *Program Changes* | | | |
| Additional examiners for Health Care program | — | $292 | $292 |
| Consumer services staff for Health Care program | — | 64 | 64 |
| Subtotals, program changes | — | ($356) | ($356) |
| 1990-91 Expenditures (Proposed) | $10,322 | $14,056 | $24,378 |
| Change from 1989-90 | | | |
| Amount | $411 | $874 | $1,285 |
| Percent | 4.1% | 6.6% | 5.6% |

## ANALYSIS AND RECOMMENDATIONS

***We recommend approval*** of the department's proposed budget, including the following significant changes:

- Rent increases of $501,000 resulting primarily from the relocation of the department's Los Angeles office necessitated by a fire at the previous location.
- Net reduction of $492,000 resulting from the termination of contracts with private accounting firms to audit health service plans, and using additional in-house examiners to perform this function instead.
- Increases of $625,000 for additional examiners to audit escrow companies on a more frequent basis in order to address problems of financial irregularities among licensees.

### Full Funding of the Escrow Agents' Regulatory Program

***We recommend that the Legislature adopt Budget Bill language in Item 2180-001-001 to authorize the Corporations Commissioner to adjust, as necessary, the assessments levied against escrow licensees in order to provide sufficient funds to finance the full cost of regulating escrow agents in 1990-91.***

The budget proposes expenditures of $3.1 million to support the Escrow program which licenses and regulates escrow offices and agents. Program costs are financed primarily by annual assessments of licensees, located primarily in southern California. (Assessments are collected as

**DEPARTMENT OF CORPORATIONS—Continued**

reimbursements to the department.) Current law limits the increase in annual assessments by a percentage of the U.S. Consumer Price Index (CPI).

Our analysis indicates that this CPI cap restricts the department's ability to regulate licensees and effectively enforce current law. This is because the department's regulatory workload has increased faster than the increase in annual assessment as limited by the growth in the CPI. For instance, during the past five years (1984-85 through 1988-89), the number of financial examinations and investigations of licensees conducted by the department increased by 54 percent, while the CPI grew by only 19 percent. As a result, assessments on licensees have not generated sufficient funds to cover the department's expenditures. Consequently, the program accumulated a deficit of $209,000 for the period. According to the department, the deficits were mainly financed from the General Fund.

Our review further shows that, for the current and budget years, assessments adjusted for increase in the CPI will not be adequate to cover expenditures for the regulatory program and deficits of at least $200,000 will occur in each year. As a result, the department would have to reduce its regulatory effort in order to limit expenditures to available revenues. Alternatively, the program deficit would have to be paid from the General Fund.

In order to enable the department to effectively regulate escrow agents in 1990-91 without a subsidy from the General Fund, we recommend that the Legislature adopt the following Budget Bill language in Item 2180-001-001:

> Notwithstanding any other provision of law, the Corporations Commissioner is authorized to adjust the annual assessments levied on escrow licensees as necessary, to provide sufficient funds to cover the regulatory and enforcement costs associated with the Escrow program in 1990-91.

## DEPARTMENT OF COMMERCE

Item 2200 from the General Fund and various funds — Budget p. BTH 20

| | |
|---|---|
| Requested 1990-91 | $51,878,000 |
| Estimated 1989-90 | 45,875,000 |
| Actual 1988-89 | 33,364,000 |
| Requested increase (excluding amount for salary increases) $6,003,000 (+13 percent) | |
| Total recommended reduction | 1,900,000 |

## 1990–91 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2200-001-001—Support | General | $11,428,000 |
| 2200-001-147—Support | Unitary | 6,195,000 |
| 2200-001-440—Support | Petroleum Underground Storage Tank Financing Account | 210,000 |
| Statutory Appropriation—Support | Rural Economic Development | 25,000 |
| Statutory Appropriation—Support | Hazardous Waste Reduction Loan Account | 130,000 |
| Statutory Appropriation—Support | Federal Trust | 19,000 |
| 2200-101-147—For transfer to California Competitive Technology Fund and Rural Economic Development Fund | Unitary | (17,330,000) |
| 2200-101-922—Local assistance | Economic Development Grant and Loan | 3,200,000 |
| 2200-111-147—Local assistance | Unitary | 5,000,000 |
| Statutory Appropriation—Local assistance | General | (5,000,000) |
| Statutory Appropriation—Local assistance | Rural Economic Development | 10,300,000 |
| Statutory Appropriation—Local assistance | Competitive Technology Fund | 9,330,000 |
| Statutory Appropriation—Local assistance | Petroleum Underground Storage Tank Financing Account | 1,435,000 |
| Statutory Appropriation—Local assistance | Hazardous Waste Reduction Loan Account | 1,200,000 |
| Statutory Appropriation—Local assistance | Federal Trust | 61,000 |
| 2200-495—Reversion | General | — |
| Reimbursements | — | 4,468,000 |
| Less loan repayments | | −1,123,000 |
| Total | | $51,878,000 |

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Unitary Funds. The budget's proposed appropriations of Unitary Fund "election fee" revenues would override existing law concerning the use of these revenues. Further, these revenues may not be available due to court orders requiring that funds be impounded pending resolution of litigation over the "election fee." 210
2. ***Tourism Marketing Funds. Reduce Item 2200-001-147 by $1.9 million.*** Recommend reduction because the proposed funding increase cannot be justified on a cost-effectiveness basis. 213

## GENERAL PROGRAM STATEMENT

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

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

**DEPARTMENT OF COMMERCE—Continued**

The department is headed by a Director who is appointed by the Governor. In addition, the department receives guidance from a 21-member advisory council representing a cross section of the state's economy. The department has 127.5 personnel-years in the current year.

## MAJOR ISSUES

☑ Proposed Use of Unitary Fund Revenues Raises Questions:

- Budget overrides existing process and intent for allocation of this revenue.
- Revenues may not fully be available due to court orders impounding funds.

☑ Expansion of Tourism Marketing Program Can't Be Justified on Cost-Effectiveness Basis.

**OVERVIEW OF THE BUDGET REQUEST**

Total expenditures of $51.9 million are proposed for support of the department in 1990-91. This is an increase of $6 million, or 13 percent, above estimated current-year expenditures. The budget proposes appropriations of $11.4 million from the General Fund in 1990-91. This is $17.2 million, or 60 percent *less* than estimated General Fund expenditures for the current year. This decrease is the result of the administration's proposal to shift the source of program expenditures for the Competitive Technology and Business Development programs from the General Fund to the Unitary Fund.

The department's budget reflects a number of significant funding increases. These include (1) an additional $10.1 million for grants in the Competitive Technology Program; (2) an additional $8 million for grants and loans in the Rural Economic Development Infrastructure Program; and (3) increased funding of $1.9 million to expand the Tourism Marketing Program. The budget also includes funding for costs associated with 1989 legislation relating to the San Diego Olympic Training Facility and a new Pollution Control Loan Program.

Table 1 displays the department's budget for the past, current and budget years by program. Table 2 shows the proposed changes in the department's expenditures for 1990-91.

**Table 1**
**Department of Commerce**
**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* |
| Business Development | 23.7 | 23.2 | 24.6 | $3,189 | $3,453 | $3,517 | 1.9% |
| California Film Commission | 7.0 | 7.6 | 7.6 | 767 | 815 | 820 | 0.6 |
| Competitive Technology | 2 | 4.8 | 4.8 | 6,212 | 7,892 | 10,108 | 28.1 |
| Marketing and Communications | 6.1 | 6.2 | 6.2 | 475 | 511 | 512 | 0.2 |
| Tourism | 8.7 | 11.4 | 11.4 | 5,530 | 6,464 | 8,389 | 29.8 |
| Local Development | 15.6 | 16.1 | 16.1 | 13,790 | 13,782 | 18,840 | 36.7 |
| Small Business | 14.7 | 17.3 | 20.4 | 2,609 | 12,066 | 8,860 | 28.1 |
| Economic Research | 7.9 | 8.5 | 8.5 | 792 | 892 | 832 | 7.3 |
| Administration (distributed) | 30.9 | 32.4 | 34.2 | (1,770) | (2,573) | (2,698) | 4.9 |
| Totals | 116.6 | 127.5 | 133.8 | $33,364 | $45,875 | $51,878 | 13.1% |
| Funding Sources | | | | | | | |
| *General Fund* | | | | *$13,012* | *$28,614* | *$11,428* | *−60.1%* |
| *State Enterprise Loan Fund* | | | | — | *750* | — | —[a] |
| *Rural Economic Development Fund* | | | | *10,797* | *7,573* | *10,255* | *35.4* |
| *Unitary Fund* | | | | — | *25* | *11,195* | *447.8* |
| *Replacement of Underground Storage Tank Account* | | | | — | *1,565* | *1,645* | *5.1* |
| *Main Street Fund* | | | | — | *56* | — | *−100.0* |
| *California Competitive Technology Fund* | | | | — | — | *9,330* | —[a] |
| *Disaster Relief Fund* | | | | — | *1,000* | — | *−100.0* |
| *Special Account for Capital Outlay* | | | | *6,212* | *784* | — | *−100.0* |
| *Competitive Technology Fund* | | | | — | — | — | — |
| *Hazardous Waste Reduction Loan Account* | | | | *302* | *1,319* | *1,260* | *−4.5* |
| *Federal Trust Fund* | | | | *22* | *384* | *80* | *−79.2* |
| *Small Business Expansion Fund* | | | | *367* | — | — | — |
| *Economic Development Grant and Loan Fund* | | | | *2,082* | *2,360* | *2,217* | *−6.1* |
| *Reimbursements* | | | | *570* | *1,445* | *4,468* | *309.2* |

[a] Not a meaningful figure.

**Table 2**
**Department of Commerce**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *General Fund* | *Federal Funds* | *Special Funds* | *Reim-burse-ments* | *All Funds* |
|---|---|---|---|---|---|
| 1989-90 Expenditures (revised) | $28,614 | $384 | $15,432 | $1,445 | $45,875 |
| Baseline Adjustments: | | | | | |
| Enterprise zone workload | −$149 | — | — | — | −$149 |
| Competitive technology | −7,108 | — | — | — | −7,108 |
| Rural infrastructure | −730 | — | −$5,270 | — | −6,000 |
| Asia study | −20 | — | — | — | −20 |
| Earthquake relief | −6,000 | — | −1,000 | — | −7,000 |
| Loan guarantees | — | — | −750 | — | −750 |
| Federal economic dislocation grant | — | −$304 | — | — | −304 |
| Supercomputer study | — | — | −25 | −$45 | −70 |
| Petroleum tank replacement loans | — | — | −130 | — | −130 |

**DEPARTMENT OF COMMERCE—Continued**

**Table 2—Continued**
**Department of Commerce**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *General Fund* | *Federal Funds* | *Special Funds* | *Reimbursements* | *All Funds* |
|---|---|---|---|---|---|
| Main street—reappropriation | — | — | −56 | — | −56 |
| Competitive technology—reappropriation | — | — | −784 | — | −784 |
| Local development reimbursements | — | — | — | −67 | −67 |
| Loan repayments | — | — | −248 | — | −248 |
| Pollution control loans | — | — | — | −60 | −60 |
| Olympic training center | 5,000 | — | — | — | 5,000 |
| Employee compensation/benefits | 163 | — | −2 | — | 161 |
| Subtotals, baseline adjustments | (−$8,844) | (−$304) | (−$8,265) | (−$172) | (−$17,585) |
| Program Changes: | | | | | |
| Enterprise zone expansion | — | — | $175 | — | $175 |
| Competitive technology | — | — | 10,108 | — | 10,108 |
| Tourism marketing expansion | — | — | 1,900 | — | 1,900 |
| Rural infrastructure | — | — | 8,000 | — | 8,000 |
| Petroleum tank replacement | — | — | 210 | — | 210 |
| Pollution control loans | — | — | — | $3,195 | 3,195 |
| Business development | −$3,342 | — | 3,342 | — | — |
| Olympic training center | −5,000 | — | 5,000 | — | — |
| Subtotals, program changes | (−$8,342) | — | ($28,735) | ($3,195) | ($23,588) |
| 1990-91 Budget Request | $11,428 | $80 | $35,902 | $4,468 | $51,878 |
| Change from 1989-90: | | | | | |
| Amount | −$17,186 | −$304 | $20,470 | $3,023 | $6,003 |
| Percent | −60.1% | −79.2% | 202.4% | 209.2% | 13.1% |

## ANALYSIS AND RECOMMENDATIONS

### Budget Proposes Redirection of Unitary Fund Revenues

***The Governor's Budget proposes to allocate Unitary Fund revenues through the Budget Act rather than using the process established in existing law. Further, these revenues have been impounded by court order pending the resolution of litigation.***

The Unitary Fund was established by Ch 660/86 (SB 85, Alquist) to provide funding for infrastructure and economic development programs. Revenue to the fund is derived from annual "election fee" payments by corporations that elect the "water's edge" method of taxation. Annual election fee payments are deposited into the fund. Two-thirds of the revenue is allocated to the Future Infrastructure State Targeted Account (FISTA), and one-third is allocated to the Local Project Account for Non-Transient Spending (LPANS). Chapter 660 requires that all money in the Unitary Fund "be used exclusively for infrastructure financing and economic development."

Of the funds allocated to the FISTA, Chapter 660 calls for 80 percent to be disbursed by the California Development Review Panel (CDRP), upon appropriation by the Legislature. The CDRP is to allocate this funding for capital improvement projects submitted by local agencies.

The panel may provide grants or loans for qualified infrastructure projects of up to $2 million per project. The legislation further specifies that it is the intent of the Legislature that these funds not be used for the purpose of supplanting *or* supplementing *any* existing state infrastructure financing program.

Authorized uses of the remaining 20 percent of the FISTA are limited to the support of various export programs and the California Small Business Bond Insurance Corporation. Existing law does not specify appropriate uses or place limitations on the use of any revenues appropriated to the LPANS account. Existing law also provides for an annual appropriation of $2 million from the Unitary Fund to the Supercomputer Center Account in each of the 1989-90, 1990-91 and 1991-92 fiscal years.

***Budget Proposals.*** Table 3 summarizes the budget's proposals for Unitary Fund transfers and expenditures in 1989-90 and 1990-91. The proposed allocations total $15.5 million in the current year and $32.5 million in the budget year. These allocations would commit all but $2 million of the fund's expected revenue through June 30, 1991.

**Table 3**
**Proposed Allocations of Unitary Fund Revenues**
**1989-90 and 1990-91**
**(dollars in thousands)**

| | 1989-90 | 1990-91 |
|---|---|---|
| *Transfers:* | | |
| To General Fund | $13,500 | — |
| To Supercomputer Center Account [a] | 2,000 | $2,000 |
| To Competitive Technology Fund | — | 9,330 |
| To Rural Economic Development Fund | — | 8,000 |
| Expenditures: | | |
| Office of Business Development | — | 3,517 |
| Tourism Marketing Program | — | 1,900 |
| Competitive Technology Program—administrative costs | — | 778 |
| Olympic Training Facility | — | 5,000 |
| Export Finance Program [b] | — | 1,000 |
| Agricultural Export Program [c] | — | 1,000 |
| Total, proposed allocations | $15,500 | $32,525 |

[a] Included in Item 2225, Unitary Fund programs.
[b] Included in Item 0585, World Trade Commission programs.
[c] Included in Item 8560, Department of Food and Agriculture programs.

The budget proposes that a new Control Section 11.60 be added to the Budget Bill. This section would provide that no expenditure, disbursement or transfer be made from the Unitary Fund except through the Budget Act. Most of the proposed transfers and expenditures are reflected in this item. The transfers to the General Fund and the Supercomputer Center Account, as well as the appropriations for the Agricultural Export Program and the Export Finance Program, are contained in separate budget items.

In general, we find the budget inconsistent with the intent of Chapter 660 because it ignores the allocations made to FISTA and LPANS by existing law, and leaves no role in disbursing funds for the California

**DEPARTMENT OF COMMERCE—Continued**

Development Review Panel. Our findings with regard to the individual elements of the budget proposal contained in this item are as follows:

- ***Rural Economic Development Infrastructure Program.*** The budget proposes an $8 million transfer to the Rural Economic Development Fund for additional grants and loans to rural communities for infrastructure projects. Our review indicates that, while the use of these funds for local infrastructure projects is consistent with the legislative intent of Chapter 660, their disbursement through the existing Rural Infrastructure Program is not.
- ***Competitive Technology Program.*** The budget proposes a $9,330,000 transfer to the Competitive Technology Fund. These funds would be used for additional grants for projects which focus on making the results of research carried out in universities more accessible to private sector companies wishing to take advantage of the commercial potential of this research. In addition, the budget proposes expenditures of $778,000 from the Unitary Fund for administrative expenses of the program. These expenditures may be considered to fit within a broad definition of "economic development" and thus are consistent with Chapter 660.
- ***Tourism Marketing Program.*** The budget proposes expenditures of $1.9 million from the Unitary Fund to expand the Tourism Marketing Program's domestic and international marketing activities. These expenditures may be considered to be used for economic development purposes, and thus are consistent with Chapter 660. (This proposal is discussed in more detail later in this item.)
- ***Business Development.*** The budget proposes expenditures of $3,517,000 from the Unitary Fund for continued support of the Business Development Program. This program has three elements: Business Development; Enterprise Zones; and the Office of Foreign Investment. The primary objectives of this program are to attract new business and industry and to assist and encourage the expansion of businesses located within the state. Our review indicates that the proposed expenditures are again consistent with the legislation because these funds would be used for economic development purposes, although we question whether the Legislature intended Unitary Fund revenues to supplant existing state funding for an ongoing program.
- ***Olympic Training Center.*** Chapter 1182, Statutes of 1989, (SB 1403, Campbell) appropriates $15 million from the General Fund for a loan to the San Diego National Sports Training Foundation, to assist in the development of a California Olympic Training Center. These funds are to be allocated in $5 million annual installments, beginning in 1990-91. The budget proposes that the 1990-91 installment be paid from the Unitary Fund instead of the General Fund, and that the General Fund appropriation be reverted. The use of Unitary Fund revenues for this recently approved allocation appears inconsistent with legislative intent.

***Revenues May Not Be Available.*** Several lawsuits have been filed recently challenging the state's authority to impose the water's edge election fee. The lawsuits have requested that the election fee revenues collected by the state be impounded pending the resolution of the lawsuits, in order that the monies be available for the payment of refunds should the plaintiffs prevail in their efforts. This request for the impounding of funds has been granted by four separate court orders with respect to the portion of the revenues attributable to the plaintiffs (approximately $6 million). These lawsuits could take several years to resolve.

**Tourism Marketing Funds Adequate for Now**

***We recommend deletion of $1.9 million for tourism marketing activities because the cost-effectiveness of the additional funding has not been demonstrated. (Reduce Item 2200-001-147 by $1.9 million.)***

The budget proposes a $1.9 million increase from the Unitary Fund to augment tourism marketing activities in the budget year. Of this amount, the department proposes to devote $200,000 towards international marketing activities, and $1.7 million towards domestic marketing activities. The department justifies this request on the basis of its evaluation of the existing tourism marketing campaign, which commenced in March of 1985.

***Efforts to Evaluate Existing Program Have Been Limited.*** Chapter 309, Statutes of 1984 (SB 1601, Dills), requires the Office of Tourism to submit an annual report to the Legislature assessing the overall benefits and effectiveness of the tourism marketing program, by December 31 of each year. The annual report is to document the benefits of the marketing program which are directly attributable to all of the following: (1) California's tourism industry; (2) employment in California; (3) state and local tax revenues; and (4) the state's lesser known and underutilized destinations. In addition, the report is to identify additional data necessary to further and adequately assess the benefits of the program. At the time this analysis was prepared, the department had not yet prepared its annual study. The department indicates that this study will not be completed until March of 1990.

The department's current method of evaluating the above effects of the tourism marketing program is based upon the results of two studies completed in 1986 and 1987. In these studies, the number of public inquiries for tourism information received by the Office of Tourism were converted into the percentage of public inquiries that resulted in actual trips to the state, otherwise known by the department as "conversions." In addition, studies were also completed that estimated the amount of state and local tax revenues generated as a result of these conversions. Overall, the department concluded that as a result of the program's conversions, one dollar spent on the Tourism Marketing Program results in a seven-dollar increase in state and local tax revenues.

***Benefits of Tourism Marketing Program Based on False Assumptions.*** Our analysis indicates that the department's conclusions are incorrect. Specifically, these conclusions are based on the assumption that

**DEPARTMENT OF COMMERCE—Continued**

a direct relationship exists between the number of inquiry conversions and the amount of funding available for the Tourism Marketing Program. Using the department's logic, this would indicate that as funding levels increased for the program, inquiry conversions would also increase. Accordingly, as funding levels decreased, inquiry conversions would be expected to decrease.

Our review of annual program funding levels and the corresponding number of inquiry conversions indicates that a direct relationship does not exist between marginal changes in tourism marketing expenditures and the number of inquiry conversions. In fact, when funding for the Tourism Marketing Program was *reduced* by $2.3 million (29 percent) in 1988-89, the number of inquiry conversions *increased* by 9,000 (4 percent) over the conversions in the prior year. In the current year, the tourism marketing budget includes a funding augmentation of almost $1 million, however, inquiry conversions are expected to increase by only 2 percent. On this basis, the department's assertion that a marginal increase of $1.9 million to the tourism marketing program in 1990-91 will result in increased state and local tax revenues of $13.3 million appears to be unjustifiable.

As recent experience with changes in the funding level for tourism marketing indicates, the program's impact on tourism has generally stabilized, and additional efforts in this area do not appear cost-effective. Accordingly, we recommend deletion of the $1.9 million included in the budget.

## STATE ASSISTANCE FUND FOR ENTERPRISE, BUSINESS AND INDUSTRIAL DEVELOPMENT CORPORATION

Item 2222 from the State
Enterprise Loan Fund — Budget p. BTH 33

| | |
|---|---|
| Requested 1990-91 | $124,000 |
| Estimated 1989-90 | (313,000)[a] |
| Actual 1988-89 | (303,000)[a] |
| Requested increase $124,000 | |
| Total recommended reduction | None |

[a] Reflects level of appropriation authority provided to predecessor corporation.

**GENERAL PROGRAM STATEMENT**

The State Assistance Fund for Enterprise, Business and Industrial Development Corporation (SAFE-BIDCO) was created by Ch 1040/89 (SB 1629, Roberti) for the purpose of providing financial assistance to small businesses. The SAFE-BIDCO is a nonprofit corporation which provides loans, loan guarantees, and management assistance to small businesses which are unable to obtain conventional financing.

The SAFE-BIDCO was formerly the State Assistance Fund for Energy, California Business and Industrial Development Corporation, which made loans to small businesses involved in alternative energy production or energy conservation. Chapter 1040 renamed the corporation and changed its functions. Also, Chapter 1040 renamed the former State Energy Loan Fund as the State Enterprise Loan Fund (SELF) to reflect SAFE-BIDCO's new functions. The SELF is a revolving loan fund used to account for the loan repayments attributable to loans made by the former corporation.

Currently, as a business and industrial development corporation, the SAFE-BIDCO is authorized to make loans to small businesses. In addition, Chapter 1040 authorizes the SAFE-BIDCO to act as a small business development corporation, providing loans, loan guarantees and management assistance. The SAFE-BIDCO is, thus, the eighth small business development corporation in the state's network. It will serve the six county region known as the North Coast.

The SAFE-BIDCO will use loan repayments from prior loan activity to make new small business loans. In addition, Chapter 1040 allocated $750,000 of the former corporation's assets to the Small Business Expansion Fund, from which the SAFE-BIDCO will make loan guarantees. The corporation is required by Chapter 1040 to obtain Small Business Administration guarantees for at least 80 percent of each loan it makes, or guarantees from another governmental loan guarantee authority of at least 50 percent.

The board of directors of the corporation has seven members: the Secretary of the Business, Transportation and Housing Agency; a member of the Energy Commission; the chairperson of the Small Business Development Board or his or her designee; and four public members.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $124,000 from the SELF, which is the amount of loan repayments (principal and interest) that the SAFE-BIDCO expects to receive during 1990-91 (from loans made by the former corporation). This money is appropriated to the SAFE-BIDCO to allow it to make new loans to small businesses.

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The budget request appears reasonable and is consistent with the statutory policy established by the Legislature for funding SAFE-BIDCO.

## UNITARY FUND PROGRAMS

Item 2225 from the Unitary Fund — Budget p. BTH 34

| | |
|---|---|
| Requested 1990-91 | $2,000,000 |
| Estimated 1989-90 | 2,025,000 |
| Actual 1988-89 | — |
| Requested decrease $25,000 (−1.2 percent) | |
| Total recommended reduction | None |

### 1990–91 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2225-001-147—For transfer to the General Fund | Unitary | (−$13,500,000) |
| Statutory Appropriation—Local assistance | Unitary | 2,000,000 |
| Total | | $2,000,000 |

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Unitary Fund Transfers. The budget's proposed transfer of Unitary Fund "election fee" revenues to the General Fund is not consistent with legislative intent for the use of these revenues. 217
2. Supercomputer Center Account. Proposed Control Section 11.60 would override an existing statutory appropriation for the Supercomputer Center Account. 217

### GENERAL PROGRAM STATEMENT

The Unitary Fund was established by Chapter 660, Statutes of 1986 (SB 85, Alquist), to address state and local infrastructure financing needs. It is supported by the annual "election fees" paid by corporations who elect to have their income apportioned for state tax purposes on the basis of their domestic, as opposed to worldwide, business activities. This method of determining a corporation's state tax liability has become known as the "water's edge method."

Election fee revenues deposited in the Unitary Fund are to be used exclusively for infrastructure financing and economic development. Chapter 660 establishes two accounts within the Unitary Fund for this purpose. Two-thirds of the Unitary Fund revenues are allocated to the Future Infrastructure State Targeted Account (FISTA) and the other one-third to the Local Project Account for Non-Transient Spending (LPANS). Chapter 660 contemplates that the money in these accounts will be appropriated by the Legislature for the specific purposes authorized in the law prior to their expenditure. Of the amount allocated to the FISTA, 80 percent is to be disbursed by the California Development Review Panel (CDRP) for capital improvement projects submitted by local agencies. The remaining 20 percent is to be allocated for various export programs and the California Small Business Bond Insurance Corporation. The measure does not specify uses or limitations on funds allocated to the LPANS account. Existing law also provides for an allocation of Unitary Fund revenues to the Supercomputer Center Account, as discussed below.

## ANALYSIS AND RECOMMENDATIONS

### Budget Proposes Transfer of Unitary Fund Revenues

***The budget's proposed transfer of Unitary Fund revenues to the General Fund is not consistent with the Legislature's intent for the use of these revenues.***

The budget proposes to transfer $13.5 million to the General Fund from the Unitary Fund in the current year. These funds would be used to help offset the impact of lower-than-anticipated current-year revenues on the state's reserve fund (the Special Fund for Economic Uncertainties). The budget also makes a number of other proposals for transfer and expenditure of these revenues. These proposals are discussed in our analysis of the Department of Commerce (please see discussion of Unitary Fund revenues in Item 2200, page 210).

Chapter 660 requires that all monies deposited in the Unitary Fund "be used exclusively for infrastructure financing and economic development." Our review indicates that the proposed transfer of Unitary Fund monies to the General Fund is inconsistent with the legislative intent of Chapter 660 because these monies would not be used for infrastructure or economic development purposes.

### Budget Inadvertently Eliminates Supercomputer Center Account Funding

***The Governor's Budget prohibits any transfer, expenditure or disbursement of Unitary Fund revenues that is not made in accordance with the Budget Act, thereby overriding the existing statutory appropriation for the Supercomputer Center Account.***

Chapter 1558, Statutes of 1988 (AB 4440, Cortese), established the Supercomputer Center Account in the General Fund, and appropriated $2 million to this account in each of the 1989-90, 1990-91 and 1991-92 fiscal years. The Department of Commerce is to disburse these funds as a grant each year to the San Diego Supercomputer Center, to assist in the development of a graphics and animation facility. The budget documents reflect the allocation of these funds to the account in 1989-90 and 1990-91.

The Governor's Budget proposes that a new control section (Control Section 11.60) be added to the Budget Bill. This control section would prohibit any transfer, expenditure or disbursement of Unitary Fund revenues that is not made in accordance with the provisions of the Budget Act. Because the allocation of funds for the Supercomputer Center Account is accomplished by statute instead of through the Budget Act, it appears that the proposed control section would prohibit this allocation, even though the Governor's Budget proposes that the funds be allocated.

# DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 2240 from the General Fund and various funds — Budget p. BTH 35

| | |
|---|---|
| Requested 1990-91 | $380,326,000 |
| Estimated 1989-90 | 389,400,000 |
| Actual 1988-89 | 93,944,000 |
| Requested decrease (excluding amount for salary increases) $9,074,000 (−2.3 percent) | |
| Recommended reductions from the General Fund | 133,000 |
| Recommended reductions from special funds | 200,000 |
| Recommendation pending | 19,344,000 |

## 1990–91 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2240-001-001—Support | General | $6,805,000 |
| 2240-001-245—Support | Mobilehome Park Revolving | 2,989,000 |
| 2240-001-451—Support | Manufactured Home License Fee Account | 2,004,000 |
| 2240-001-530—Support | Mobilehome Park Purchase | 342,000 |
| 2240-001-635—Support | Rural Predevelopment Loan | 204,000 |
| 2240-001-648—Support | Mobilehome-Manufactured Home Revolving | 12,409,000 |
| Ch 48/88—Support | Home Building and Rehabilitation | 2,692,000 |
| Ch 27/88—Support | Earthquake Safety and Housing Rehabilitation Bond Account | 2,550,000 |
| 2240-001-813—Support | Self-Help Housing | 193,000 |
| Ch 1429/88—Support | Petroleum Violation Escrow Account | 178,000 |
| Control Section 23.50—Support | State Legislation Impact Assistance Grant | 331,000 |
| 2240-001-890—Support | Federal Trust | 1,697,000 |
| 2240-001-929—Support | Housing Rehabilitation Loan | 652,000 |
| Health and Safety Code Section 50661—Support | Housing Rehabilitation Loan | (2,500,000) |
| 2240-001-936—Support | Homeownership Assistance | 238,000 |
| 2240-001-938—Support | Rental Housing Construction | 708,000 |
| Health and Safety Code Section 50740—Support | Rental Housing Construction | (2,279,000) |
| 2240-001-980—Support | Urban Predevelopment Loan | 250,000 |
| 2240-001-985—Support | Emergency Housing Assistance | 152,000 |
| Health and Safety Code Section 50800.5—Support | Emergency Housing and Assistance | (413,000) |
| Subtotal, support | | ($34,394,000) |
| 2240-101-001—Local assistance | General | $4,400,000 |
| 2240-102-001—Local Assistance | General | 15,000,000 |
| Ch 4x/89 | General | 20,000,000 |
| Ch 6x/89 | General | 20,000,000 |
| Health and Safety Code Section 50782—Local assistance | Mobilehome Park Purchase | 2,038,000 |
| Health and Safety Code Section 50516—Local assistance | Rural Predevelopment Loan | 2,092,000 |

| | | |
|---|---|---|
| Health and Safety Code Section 50661.7 | California Disaster Housing Rehabilitation | (40,000,000) |
| Ch 48/88—Local assistance | Homebuilding and Rehabilitation | 197,308,000 |
| Health and Safety Code Section 50697.1—Local assistance | Self-Help Housing | 239,000 |
| 2240-101-843—Local assistance | California Housing Trust | (3,000,000) |
| Ch 1429/88—Local assistance | Petroleum Violation Escrow Account | 1,483,000 |
| Control Section 23.50—Local assistance | State Legalization Impact Assistance Grant | 3,148,000 |
| 2240-101-890—Local assistance | Federal Trust | 63,200,000 |
| Health and Safety Section 50517.5—Local assistance | Farmworker Housing Grant | 1,100,000 |
| Health and Safety Code Section 50661—Local assistance | Housing Rehabilitation Loan | 100,000 |
| Health and Safety Code Section 50778—Local assistance | Homeownership Assistance | 826,000 |
| Health and Safety Code Section 50740—Local assistance | Rental Housing Construction | 2,420,000 |
| Government Code Section 16370—Local assistance | Special Deposit—Office of Migrant Services Account | 1,515,000 |
| Health and Safety Code Section 18070—Local assistance | Mobilehome Recovery | 75,000 |
| Health and Safety Code Section 50531—Local assistance | Urban Predevelopment Loan | 3,137,000 |
| Health and Safety Code Section 50800.5—Local assistance | Emergency Housing Assistance | 1,555,000 |
| Subtotal, local assistance | | ($339,636,000) |
| Reimbursements | | $6,296,000 |
| Total Funding | | $380,326,000 |

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Propositions 77 and 84. Withhold recommendation on 71.5 positions and $4,194,000, pending receipt of (1) a detailed plan for developing workload data in the budget year, (2) a plan and timeline for reducing staff levels to accommodate projected decreases in workload in the coming years, and (3) an estimate of the percent of bond funds which the department will expend on program administration through the year 2000. 223
2. Earthquake Assistance. Withhold recommendation on $15 million from the sale of surplus property proposed to aid victims of the Loma Prieta earthquake, pending receipt of (1) a more specific proposal and (2) an explanation of how the property will be declared surplus and sold quickly enough to provide the funds in 1990-91. 228
3. Homeless Sensitivity Training. The department has ignored a legislative directive to develop homeless sensitivity training for its director and key staff. 229
4. Internal Auditors. Withhold recommendation on $150,000 (various special funds) and two positions requested to perform internal audits, pending receipt of (1) the depart- 229

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

ment's audit plan, and (2) a revised allocation of the cost of the positions among various special funds.

5. ***Technical Recommendations. Reduce various items by $333,000 ($133,000 General Fund) and establish three positions on a limited-term basis.*** Recommend various reductions because funds are overbudgeted. Recommend three positions requested to administer energy conservation assistance be established on a one-year limited-term basis because funding for these positions will not be available beyond 1990-91. 229

## GENERAL PROGRAM STATEMENT

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

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

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

The department has 627.7 personnel-years in the current year.

## MAJOR ISSUES

- ☑ Large staffing increase will cost Propositions 77 and 84 bond funds over $4 million in budget year and may increase in future years, decreasing funds available for loans and grants.
- ☑ Proposed sale of surplus property at Agnews State Hospital to provide $15 million to aid earthquake victims not likely to occur in 1990-91.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $380.3 million from various sources, including federal funds and reimbursements, for the HCD in 1990-91. This is $9 million, or 2.3 percent, below estimated current-year expenditures. Excluding federal funds, expenditures in 1990-91 are budgeted at $315.4 million, which is $5.4 million, or 1.7 percent, below estimated current-year expenditures.

Table 1 presents a summary of departmental expenditures, by program and funding source, for the three-year period ending June 30, 1991. As

**Table 1**
**Department of Housing and Community Development**
**Budget Summary**
**1988-89 through 1990-91**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | *Percent Change* |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1988-89* | *Estimated 1989-90* | *Proposed 1990-91* | *Actual 1988-89* | *Estimated 1989-90* | *Proposed 1990-91* | *From 1989-90* |
| Codes and standards | 230.2 | 247.1 | 249.9 | $16,912 | $19,226 | $19,051 | −0.9% |
| Community affairs | 171.2 | 220.8 | 246.8 | 75,705 | 368,786 | 359,846 | −2.4 |
| Housing policy development | 21.6 | 23.7 | 23.7 | 1,327 | 1,388 | 1,429 | 3.0 |
| Administration | 113.8 | 136.1 | 139.5 | (7,547) | (8,448) | (9,153) | (8.3) |
| Totals | 536.8 | 627.7 | 659.9 | $93,944 | $389,400 | $380,326 | −2.3% |
| Funding Sources | | | | | | | |
| *General Fund* | | | | *$14,267* | *$45,071* | *$66,205* | *46.9%* |
| *Mobilehome Park Revolving Fund* | | | | *2,096* | *2,781* | *2,989* | *7.5* |
| *1987 Southern California Earthquake Account* | | | | *89* | — | — | — |
| *Manufactured Home License Fee Account* | | | | *1,829* | *1,949* | *2,004* | *2.8* |
| *Mobilehome Park Purchase Fund* | | | | *2,803* | *8,227* | *2,380* | *−71.1* |
| *Rural Predevelopment Loan Fund* | | | | *2,274* | *2,545* | *2,296* | *−9.8* |
| *Mobilehome-Manufactured Home Revolving Fund* | | | | *11,372* | *12,249* | *12,409* | *1.3* |
| *California Disaster Housing Rehabilitation Fund* | | | | — | *(24,000)* | *(40,000)* | *(66.7)* |
| *Home Building and Rehabilitation Fund* | | | | — | *75,000* | *200,000* | *166.7* |
| *Earthquake Safety and Housing Rehab. Bond Account* | | | | *521* | *146,929* | *2,550* | *−98.3* |
| *Self-Help Housing Fund* | | | | *2,850* | *877* | *432* | *−50.7* |
| *Farm Labor Rehabilitation Loan Account* | | | | *3* | — | — | — |
| *Petroleum Violation Escrow Account* | | | | — | *339* | *1,661* | *390.0* |
| *State Legalization Impact Assistance Grant* | | | | *55* | *4,360* | *3,479* | *−20.2* |
| *Farmworker Housing Grant Fund* | | | | *621* | *956* | *1,100* | *15.1* |
| *Housing Rehabilitation Loan Fund* | | | | *4,417* | *701* | *752* | *7.3* |
| *Homeownership Assistance Fund* | | | | *1,185* | *1,153* | *1,064* | *−7.7* |
| *Rental Housing Construction Fund* | | | | *2,351* | *4,400* | *3,128* | *−28.9* |
| *Special Deposit Fund—Office of Migrant Services Account* | | | | *1,015* | *1,015* | *1,515* | *49.3* |
| *Special Deposit Fund—Senior Shared Housing* | | | | *575* | — | — | — |
| *Mobilehome Recovery Fund* | | | | — | *560* | *75* | *−86.6* |
| *Urban Predevelopment Loan Fund* | | | | *4,424* | *3,859* | *3,387* | *−12.2* |
| *Rural Community Facility Grant Fund* | | | | *206* | — | — | — |
| *Emergency Housing and Assistance Fund* | | | | *2,109* | *1,157* | *1,707* | *47.5* |
| *Reimbursements* | | | | *10,140* | *6,728* | *6,296* | *−6.4* |
| *Subtotals, state funds* | | | | *($65,202)* | *($320,856)* | *($315,429)* | *(−1.7%)* |
| *Federal Trust Fund* | | | | *$28,742* | *$68,544* | *$64,897* | *−5.3%* |
| *Totals, all funds* | | | | *$93,944* | *$389,400* | *$380,326* | *−2.3%* |

indicated in the table, the department is supported by the General Fund (17 percent), special funds (64 percent), federal funds (17 percent), and reimbursements (2 percent).

The department anticipates receiving approximately $64.9 million in federal funds in the budget year. Of this amount, $28 million, or 43.1 percent, is for the Small Cities portion of the federal Community Development Block Grant Program (CDBG). The HCD first assumed statewide management of the program in October 1982.

### Proposed Budget-Year Changes

Table 2 summarizes the major changes in the department's proposed budget for 1990-91. The most significant adjustments proposed by the budget, which are not discussed elsewhere in this analysis, are as follows:

- A net increase of $6 million in the amount expended from special session legislation to assist victims of the Loma Prieta earthquake. This increase reflects additional expenditures for deferred-payment loans to rehabilitate and reconstruct housing in earthquake-impacted areas ($16 million) offset by a decrease in expenditures for emergency shelters, predevelopment loans, and farmworker housing (-$10 million).
- A decrease of $5.9 million in the amount provided to assist mobilehome park residents in purchasing mobilehome parks. This decrease primarily reflects the current-year expenditure of surplus funds in the Mobilehome Park Assistance Fund.
- A decrease of $3.8 million in federal funds.
- The transfer of $3 million in tidelands oil monies to the California Housing Trust Fund (CHTF). No transfer was provided in the current year. These funds would be allocated as follows: $1.5 million for the state Emergency Shelter Program to fund operation of emergency shelters; $1 million to the Farmworker Housing Grant Program; and $500,000 to the Office of Migrant Services to fund the operation of existing state-owned migrant farmworker housing centers.

**Table 2**
**Department of Housing and Community Development**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *General* | *Special* | *Federal* | *Reimbursements* | *Totals* |
|---|---|---|---|---|---|
| 1990-91 Expenditures (Revised) | $45,071 | $269,057 | $68,544 | $6,728 | $389,400 |
| *Baseline Adjustments* | | | | | |
| Price increase | — | $97 | $6 | $23 | $126 |
| Employee compensation | $125 | 315 | 23 | 95 | 558 |
| Increased pro rata | — | 146 | — | — | 146 |
| Administratively established positions | — | −1,622 | — | — | −1,622 |
| Century Freeway—actual contract expenditures | — | — | — | −400 | −400 |
| Mobilehome-Manufacturing Housing—insufficient fee revenue | — | −250 | — | — | −250 |
| One-time appropriations | — | −170 | — | — | −170 |
| Plastic pipe study | — | — | — | −150 | −150 |
| Miscellaneous adjustments | 9 | 50 | 78 | — | 137 |
| Subtotals, baseline adjustments | ($134) | (−$1,434) | ($107) | (−$432) | (−$1,625) |
| *Changes in Amount of Local Assistance Provided* | | | | | |
| Proposition 77 loans | — | −$145,969 | — | — | −$145,969 |
| Proposition 84 loans and grants | — | 123,841 | — | — | 123,841 |
| California Disaster Assistance programs | $6,000 | — | — | — | 6,000 |
| Housing Trust Fund transfer | — | 3,000 | — | — | 3,000 |
| Mobilehome Park Assistance | — | −5,859 | — | — | −5,859 |
| Federal programs | — | — | −$3,754 | — | −3,754 |
| All other programs | — | −4,569 | — | — | −4,569 |
| Subtotals, changes in amount of local assistance | ($6,000) | (−$29,556) | (−$3,754) | — | (−$27,310) |
| *Workload Changes* | | | | | |
| Proposition 77 staffing | — | $1,552 | — | — | $1,552 |
| Proposition 84 staffing | — | 2,642 | — | — | 2,642 |
| Internal audit staff | — | 150 | — | — | 150 |
| Energy conservation program | — | 178 | — | — | 178 |
| Mobilehome ombudsman | — | 186 | — | — | 186 |
| Subtotals, workload changes | — | ($4,708) | — | — | ($4,708) |
| *New Programs* | | | | | |
| Earthquake assistance from surplus land sale | $15,000 | — | — | — | $15,000 |
| Confidentiality of mobilehome owner addresses | — | $31 | — | — | 31 |
| Earthquake bracing system inspections | — | 121 | — | — | 121 |
| Subtotals, new programs | $15,000 | $152 | — | — | $15,152 |
| 1990-91 Expenditures (Proposed) | $66,205 | $242,928 | $64,897 | $6,296 | $380,326 |
| Change from 1989-90 | | | | | |
| Amount | $21,134 | −$26,129 | −$3,647 | −$432 | −$9,074 |
| Percent | 46.9% | −9.7% | −5.3% | −6.4% | −2.3% |

## ANALYSIS AND RECOMMENDATIONS

### Propositions 77 and 84 — Request for Additional Positions

***We withhold recommendation on 71.5 positions and $4,194,000, pending receipt of: (1) a detailed plan for developing workload data in the budget year, (2) a plan and timeline for reducing staffing levels to***

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

***accommodate projected decreases in workload in the coming years, and (3) an estimate of the percent of bond funds which the department will expend on program administration through the year 2000.***

### Background

In 1988, the Legislature enacted and the voters approved the California Earthquake Safety and Housing Rehabilitation Bond Act (Proposition 77) and the Housing and Homeless Bond Act (Proposition 84). These measures authorize the state to sell a total of $450 million in general obligation bonds for the purpose of constructing and rehabilitating housing for lower income Californians. The HCD administers $425 million of these bond funds; the California Housing Finance Agency administers $25 million. Table 3 shows the distribution of funds administered by the HCD by program and shows the dollar amount of loans and grants made under each of these programs as of mid-January 1990.

**Table 3**
**Department of Housing and Community Development**
**Propositions 77 and 84 Bond Programs**
**Loans and Grants Awarded by Mid-January 1990**
**(in millions)**

| Program/Purpose | *Bond Authorizations* Prop 77 | Prop 84 | Loan/Grant Awards |
|---|---|---|---|
| *California Housing Rehabilitation Program:* | | | |
| Seismic and health and safety rehabilitation of multifamily housing | $80 | — | — |
| Health and safety rehabilitation of multifamily and owner occupied housing | 70 | — | $5.8 |
| Acquisition and rehabilitation of residential hotels | — | $25 | 4.7 |
| *Rental Housing Construction Program:* | | | |
| Construction of multifamily housing | — | 200 | — |
| *Emergency Shelter Program:* | | | |
| Construction and rehabilitation of emergency shelters | — | 25 | 5.8 |
| *Family Housing Demonstration Project:* | | | |
| Construction of family housing | — | 15 | — |
| *Office of Migrant Services:* | | | |
| Construction and rehabilitation of migrant farmworker centers | — | 10 | — |
| Totals | $150 | $275 | $16.3 |

### Progress

While the bond acts were approved more than a year before this analysis was prepared, Table 3 shows that only $16.3 million of the $425 million in bond funds have been issued as grants or loans. In addition, no loans or grants have been issued from three of the five programs.

Our review found three principal reasons for the delayed implementation of the bond programs:

- The department and the administration have been extremely slow in determining the need for additional staff and then establishing and filling the positions.
- The federal Tax Reform Act of 1986 substantially altered the requirements for issuance of tax-exempt bonds. This necessitated a lengthy review of federal tax law and its affect on the administration of these housing programs.
- Additional legislation was needed to make technical corrections to the bond acts and related housing statutes.

While implementation of the bond programs has been very slow to date, our review indicates that most of the preliminary ground work is now complete. The department has filled 38 of the 50.5 currently authorized bond positions. The Treasurer's Office and the department have determined that, due to federal law changes, they will sell federally-*taxable* bonds to finance nearly all the bond programs. Finally, most of the needed additional legislation has been enacted. Accordingly, the department indicates that it will issue a substantial number of loans and grants in the coming months and that, by the end of the current year, 30 percent of Propositions 77 and 84 bond funds will be committed to specific housing projects and each of the five bond programs will be operational.

**Budget Proposal**

The budget proposes $4,194,000 from the bond funds to (1) permanently establish 33 positions which were administratively established in the current year and (2) add 38.5 new permanent positions. These 71.5 proposed positions would be *in addition* to the 17.5 positions established in the 1989 Budget Act, bringing the total number of permanent positions

**Table 4**
**Department of Housing and Community Development**
**Propositions 77 and 84 Staffing Levels**
**1989-90 and 1990-91**

| *Administration:* | *1989 Budget Act* | *Proposed 1990-91* | *Total* |
|---|---|---|---|
| Accounting | 2.0 | 5.0 | 7.0 |
| Legal | 1.0 | 2.0 | 3.0 |
| Budgets and business services | 1.0 | 4.0 | 5.0 |
| Personnel | 0.5 | 1.5 | 2.0 |
| Clerical/technical support | — | 3.0 | 3.0 |
| Subtotals, administration | (4.5) | (15.5) | (20.0) |
| Program: | | | |
| Managers | 2.0 | 5.0 | 7.0 |
| Program specialists | 8.0 | 42.0 | 50.0 |
| Architects | 1.0 | 1.0 | 2.0 |
| Clerical/technical support | 2.0 | 8.0 | 10.0 |
| Subtotals, program | (13.0) | (56.0) | (69.0) |
| Totals | 17.5 | 71.5[a] | 89.0 |

[a] A total of 33 of the 71.5 proposed positions were administratively added during the current year.

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

administering the bond acts to 89. Table 4 shows the current and proposed staffing levels for the housing programs by position.

**Issues and Concerns**

Our review indicates that the department's proposal has three serious shortcomings. These shortcomings — all very interrelated — result from a marked deficiency in oversight and planning by the department. Moreover, they threaten to compromise the implementation of the Propositions 77 and 84 bond programs — and may also have negative effects on other housing programs administered by the department. We discuss our findings below.

***Lacking workload standards, it is impossible for the Legislature to determine whether the request for additional staffing is appropriate.*** Although the department has administered over two dozen loan and grant programs during the last decade, the department has no reliable information on the amount of staff and other resources necessary to implement these programs. In addition, the HCD has not compiled basic workload data on its employees. Because the HCD has failed to develop this program and workload information, the Legislature and the administration are precluded from any serious evaluation of departmental staffing levels. Our review of the department's proposal for increased staff indicates that it is impossible to determine whether the proposed 71.5 additional positions represent (1) *an adequate level of staff* which will be able to fully implement the bond programs, (2) *too few staff* which would further delay implementation, or (3) *too many staff* which would result in an unnecessary diversion of bond funds from loans and grants to program administration.

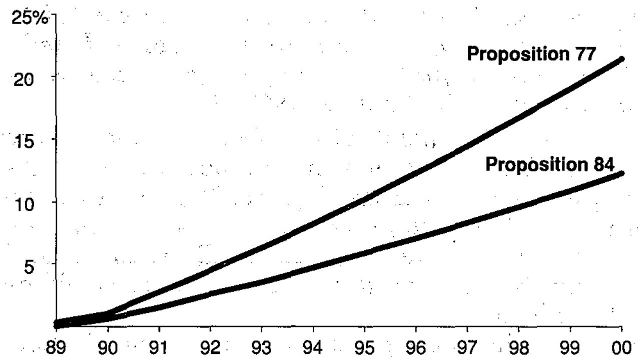
***Although the bond funds will be fully committed within a few years and workload will decline, the department proposes to establish all the bond staff on a permanent basis.*** Our review of the department's proposed staffing increase indicates that most of the positions will not be needed on a permanent basis. In two to four years, the department will have committed almost all of the loan and grant funds and bond program workload will decline substantially from these two sources. While the department will need a small permanent staff to monitor loans and make new loans as the original loans are repaid (generally, 20 to 40 years from now), the bond programs will not need an implementation staff of 89 — including 50 program specialists, seven managers and three lawyers. Despite the certainty that workload will decline substantially in the future, the department indicates that it has no plans to make commensurate staff reductions. Because the cost of administering the bond programs is charged to the bond funds, this lack of foresight by the department could result in an unnecessary diversion of funds from program to administration.

***The department's bond program administration expenses are high relative to other agencies' expenses.*** While it is difficult to estimate the precise level of funds necessary to administer the housing bond programs, our review indicates that the rate at which the HCD is expending the bond funds for administrative purposes is very high. As shown in Chart 1, unless the HCD institutes major cost and staffing reductions in the next year or two, the HCD will have spent *10 to 20 percent or more* of bond proceeds for bond program administration by the year 2000. Moreover, the department will *continue* to expend bond funds for bond program administration well into the next decade — so the percent of bond funds ultimately devoted to administration will be much higher than indicated in Chart 1.

**Chart 1**

**Substantial Portion of Bond Proceeds to Be Spent on Administration**

**Cumulative percent of bond funds spent on administration 1989-90 through 1999-2000 [a]**




[a] Data are for fiscal years ending in year shown. All data after 1990-91 are projected assuming (1) no change in level of staff and (2) annual cost increases of four percent.

Chart 1 raises a critical question for the Legislature: *What portion of the funds available under Propositions 77 and 84 should be devoted to housing programs and what portion to administration*? Our review indicates that two similar programs expend 95 percent or more of bond funds on program and less than five percent on administration. Specifically, (1) local and state housing revenue bond programs nationwide expend *2.5 percent* of bond funds on administration and (2) California state agencies spend a maximum of *five percent* of parks and conservation bond funds to establish and administer new local assistance grant programs. The remaining housing revenue and parks and conservation bonds are used for programmatic purposes.

While the housing programs funded by Propositions 77 and 84 may warrant a somewhat higher level of administrative spending than these

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

two bond programs (because the loan and grant amounts are relatively small and the competition for this money is keen), the rate at which the HCD is expending the bond funds for administrative purposes appears quite high. Further, our review indicates that the department has no estimate of the total amount of bond funds it will spend on administration and no plan for containing these costs.

*Recommendation.* Due to the above concerns, we withhold recommendation on the department's request for $4,194,000 and 71.5 positions, pending receipt of (1) a detailed plan for developing workload data in the budget year, (2) a plan and timeline for reducing staff levels to accommodate projected decreases in workload in the coming years, and (3) an estimate and explanation of the percent of bond funds which the department plans to expend on program administration through the year 2000.

**No Details Regarding Sale of Surplus Property to Aid Earthquake Victims**

***We withhold recommendation on $15 million from the sale of surplus property requested to assist victims of the Loma Prieta earthquake, pending receipt of (1) a more specific proposal and (2) an explanation of how the property will be declared surplus and sold quickly enough to provide the funds in 1990-91.***

The budget proposes to spend $15 million for the construction, reconstruction or rehabilitation of low-income housing in the 10-county area affected by the Loma Prieta Earthquake. It proposes to fund this expenditure with a portion of the proceeds generated from the sale of surplus property at Agnews State Hospital. The Department of General Services (DGS) estimates that the sale of this property would generate approximately $69 million.

In order to evaluate this proposal, the Legislature needs more information in two areas. First, the department is currently unable to provide *any* details regarding the programs that would receive funding. For example, the department does not know whether the programs will provide loans or grants, which groups will be targeted for assistance or whether it will administer the programs directly or through local or nonprofit agencies.

Second, because of the lengthy process involved in declaring land surplus and selling state property, we question whether the $15 million will be available for expenditure in 1990-91. According to DGS, this process normally takes two years. Even if it were expedited — for example, if the property were declared surplus through urgency legislation rather than through the normal surplus property bill — it is unlikely that the entire process could be completed before the end of 1990-91.

Therefore, we withhold recommendation on the proposed expenditure of $15 million for housing assistance in earthquake-impacted areas, pending receipt of (1) a more specific proposal, and (2) an explanation of how the property will be declared surplus and sold quickly enough to make the funds available in 1990-91.

**No Plan to Provide Homeless Sensitivity Training**

***The department has ignored supplemental report language directing it to provide homeless sensitivity training for its director and key staff.*** The *Supplemental Report of the 1989 Budget Act* directs the department to develop and implement a plan to improve the sensitivity of the director and key department staff to the problems of the homeless. It specified that the department submit the plan to the Legislature by December 1, 1989.

The department has not submitted the plan as required. Furthermore, the department informs us that it does not intend to develop or implement a plan for homeless sensitivity training in the current year.

**Internal Auditor Staff**

***We withhold recommendation on two auditor positions and $150,000 (various special funds), pending receipt of the department's audit plan and a revised methodology for allocating the cost of the positions.***

The budget proposes $150,000 to add two auditors to the department's newly established Internal Audit Program. The department indicates that these positions will conduct (1) in-depth financial and regulatory compliance audits on a sample of the 3,000 loan and grant contracts the department has outstanding and (2) limited pre-award financial reviews of loan and grant applicants. While we agree that the department needs additional staff for its Internal Audit Program in order to ensure that loan and grant funds are used efficiently and in accordance with program objectives, we have two concerns with the department's proposal.

***No Audit Plan.*** When the Legislature established the Internal Audit Program of the department in the 1989-90 Budget Act, the department committed to completing an audit plan and manual in the current year. Neither the plan nor the manual was complete at the time this analysis was written. Until these documents are available this spring, the Legislature has no basis for evaluating the request for two additional staff.

***Audit Positions Charged to Bond and Earthquake Funds.*** The distribution of the cost of these positions is inappropriate. The budget allocates $75,000 of the cost of these positions to Propositions 77 and 84 bond funds and $25,000 to funds appropriated in special session legislation to aid victims of the Loma Prieta earthquake. Our analysis indicates that this is inappropriate because bond and earthquake related loans and grants represent only a small fraction of the total loans and grants the department has outstanding. The auditors will spend the greatest portion of their time reviewing loan and grant contracts from *other* programs. The cost of the auditors should be distributed accordingly.

Due to these concerns, we withhold recommendation on the auditors and $150,000, pending receipt of the department's audit plan and a revised cost allocation.

**Technical Recommendations**

***We recommend various technical budget adjustments for a total reduction of $333,000 ($133,000 General Fund) as follows:***

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

- Reduce General Fund support for Community Development Block Grant administration by $133,000 to account for an increase in federal funds available for this purpose. ***(Reduce Item 2240-001-001 by $133,000.)***
- Reduce the amount requested from Propositions 77 and 84 bond funds for administration by $105,000 to correct for underbudgeted salary savings. ***(Reduce Item 2240-001-714 by $75,000 and Item 2240-001-788 by $30,000.)***
- Reduce the amount requested from the Mobilehome-Manufactured Home Revolving Fund for support of the Mobilehome Ombudsman by $95,000 to correct for double-budgeting. ***(Reduce Item 2240-001-648 by $95,000.)***
- Establish three positions on a one-year limited-term basis, rather than on a permanent basis as proposed, to administer energy conservation assistance for low-income households, because the funds appropriated for the program will be completely expended in the budget year. Therefore, no funds will be available to support continuation of the positions beyond 1990-91.

**Reversion—Item 2240-495**

***We recommend approval.***

The budget proposes to revert to the General Fund the unencumbered balance from the appropriation made in Chapter 112, Statutes of 1988 (AB 2207, Costa) for mitigation of lead-based paint in department-owned migrant farmworker housing. The work has been completed and the $1.7 million proposed to revert is no longer needed.

## CALIFORNIA HOUSING FINANCE AGENCY

Item 2260 from the California Housing Finance Fund — Budget p. BTH 60

| | |
|---|---|
| Requested 1990-91 | ($8,908,000) [a] |
| Estimated 1989-90 | (9,011,000) [a] |
| Actual 1988-89 | (7,820,000) [a] |
| Requested decrease (excluding amount for salary increases) $103,000 (−1.1 percent) | |
| Total recommended reduction | None |

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

**GENERAL PROGRAM STATEMENT**

The primary mission of the California Housing Finance Agency (CHFA) is to provide financing for the development and rehabilitation of housing for the state's low- and moderate-income residents. Funding for its programs is derived mainly from the sale of tax-exempt revenue bonds and notes, the proceeds from which are used to (1) make direct loans to developers of multifamily rental housing or (2) provide loans and insurance through private lenders to low- and moderate-income households for the purchase and/or rehabilitation of single-family housing units. Bond proceeds are deposited in the California Housing Finance Fund and are continuously appropriated to the agency by Section 51000 of the Health and Safety Code.

The agency's direct operating expenses are supported by a combination of (1) service fees charged to borrowers and lenders, (2) interest earned on loans of bond proceeds, and (3) interest earned on invested agency funds.

The agency is governed by an 11-member Board of Directors, and has 125.5 personnel-years in the current year.

## OVERVIEW OF THE BUDGET REQUEST

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

According to CHFA staff, board action on a final proposed budget for 1990-91 is not expected until March 1990. The agency's 1990-91 preliminary budget is displayed in the Governor's Budget for informational purposes only. It shows that the CHFA plans to spend $8,908,000 in 1990-91, a decrease of $103,000, or 1.1 percent, under estimated current-year expenditures. The proposed amount reflects increases in personal services costs ($172,000) and decreased statewide pro rata charges (-$275,000).

### Evaluation of Senior Citizens' Housing Bond Program

Chapter 1359, Statutes of 1986 (AB 2051, Davis), authorized the CHFA to sell up to $200 million in revenue bonds to provide below market-rate loans to developers of low- and moderate-income senior housing. Chapter 1359 requires our office to evaluate the CHFA's implementation of this program in the 1989-90 and 1990-91 *Analysis of the Budget Bill.*

As was the case in last year's *Analysis* (see pages 193-196), the CHFA has not issued any bonds or made any loans since the programs' inception. The CHFA indicates that two fundamental factors continue to make this program unattractive to developers, and therefore, not feasible to implement: (1) the lack of state funding for rent subsidies and (2) the statutory cap on developers' profits.

In last year's *Analysis*, we outlined two options the Legislature could pursue with regard to this program: (1) terminating the program or (2) funding the Senior Citizen's Housing Annuity Account, which was established by Chapter 1359. We estimate that funding the annuity account at a level to support this program would require approximately

**CALIFORNIA HOUSING FINANCE AGENCY—Continued**

$3 million to $5 million annually from the General Fund for 30 years.

**State and Local Agencies' Use of Housing Revenue Bonds**

Chapter 1611, Statutes of 1988 (AB 3285, Maxine Waters), requires our office to annually report specified information regarding housing financed with tax-exempt revenue bonds issued by CHFA and certain local government agencies. Last year, we reported cumulative information on housing financed between 1979 and 1988. This year, in order to highlight recent activity in these programs, we present data on housing financed in the 1988-89 fiscal year. We base the following report on information submitted by the CHFA and the California Debt Advisory Commission (CDAC).

***How Many Housing Units Were Created for Moderate- and Lower-Income Californians?*** The CHFA and local agencies produced over 11,000 housing units for moderate-and lower-income Californians in 1988-89. More than three-quarters of these units (8,877) were single-family homes. The CHFA reports that about two-thirds of the single-family home loans it granted were to households with annual income of less than $35,000; most of the remainder were to households with annual income of less than $45,000. The CDAC reports that about 60 percent of the single-family home loans granted by local agencies were to households in the "moderate" income range. "Moderate" income is defined as up to 120 percent of county median income.

All of the 2,424 multifamily units produced by the CHFA and the local agencies are specifically reserved for occupancy by lower-income households. Of the 908 units that were occupied at the time CDAC and CHFA completed their surveys, about half were reserved for households with very-low income and the other half for households with low income. "Very-low" and "low" are defined as less than 50 percent and 80 percent, respectively, of county median income.

***How Large Are the Households Living in the Units?*** The single family and rental housing produced over the last year benefitted predominantly very small households. About 57 percent of the single-family homes are occupied by households consisting of one or two members. This concentration of smaller households is due, in part, to the relatively modest increase in maximum household income permitted under federal law for larger households.

In the case of multifamily housing, the CDAC data shows that (1) virtually all the units (98 percent) are one- or two-bedroom units occupied in 81 percent of the cases by one- and two-member households and (2) only 6 percent of all occupied units housed families with four or more members. CHFA data on units financed between 1979 and 1988 indicate a very similar concentration of smaller family sizes. The reasons for this concentration of smaller households is complex and results from many factors, including: (1) local housing market economics, (2) federal limits on rent, and (3) greater community acceptance of senior, rather than family, rental housing construction.

***Where is the Housing Being Produced?*** Most of the single-family homes financed in 1988-89 are located in relatively moderate cost housing markets. Fresno, Sacramento, Riverside, Contra Costa and Tulare Counties account for more than half the production of all single-family housing. This geographical concentration of single-family housing is in part due to the federal and state restrictions on home purchase price and homebuyer incomes.

In the case of multifamily housing, one urban county—Los Angeles—accounts for more than half of all multifamily housing production. Partially because of the complexities of issuing multifamily housing bonds, our review found that larger cities and counties, like the City of Los Angeles, generally have been more successful in financing multifamily housing with housing bonds. Since 1985, the other major issuers of multifamily housing bonds have been the Counties of Alameda, Sacramento, and San Bernardino.

***What is the Cost of the Housing Bond Program?*** While there is no *direct* cost to the state to operate the CHFA and local housing bond programs, the state pays an *indirect* cost because purchasers of housing bonds are not required to pay personal income tax on the interest they earn on these bonds. In addition, sales of housing bonds increase the public sector's demand for financial capital. This may in turn increase the interest rate that the state pays on other bonds.

While there is no universally accepted estimate of the indirect cost associated with housing bonds, experts generally report a net *federal* revenue loss of $19 million to $25 million per $1 billion of outstanding bonds. Because state tax rates are roughly one-third the federal rate, this would equate to a state revenue loss of about $6 million to $8 million per $1 billion of outstanding bonds. Although CDAC does not maintain data on the amount of outstanding housing bonds, our review indicates that (1) the CHFA and local agencies have *issued* about $20 billion in housing bonds over the past decade and (2) two major issuers of housing bonds (CHFA and the City of Los Angeles) have a total of $4 billion in housing bonds *outstanding*. From this information, we estimate that the state revenue loss associated with the CHFA and the City of Los Angeles housing bond programs may exceed $24 million annually—and the statewide total revenue loss may well be double this amount.

Tables 1 and 2 below show the specific information required by Chapter 1611. Table 1 provides information on the types of housing financed with tax-exempt revenue bonds, occupant statistics, and the types of sponsors. Table 2 shows the distribution of this housing by county. The data provided by CDAC and CHFA have certain limitations which are indicated in the footnotes. These limitations result primarily because (1) the CHFA and CDAC collect and report data very differently and (2) many local agencies using housing bonds have not submitted their required yearly report to CDAC.

## CALIFORNIA HOUSING FINANCE AGENCY—Continued

### Table 1
### California Housing Finance Agency
### Housing Financed By Tax-Exempt Revenue Bonds
### 1989–1990

| | *Multifamily Housing* | | | *Single-Family Housing* | | |
|---|---|---|---|---|---|---|
| | *CHFA* | *Local* [a] | *Total* | *CHFA* | *Local* [a] | *Total* |
| Number of Units | 489 | 6,103 | 6,592 | 6,733 | 2,144 | 8,877 |
| Number of targeted units | 284 | 2,140 | 2,424 | 6,733 | 2,144 | 8,877 |
| Number of occupied targeted multifamily units | 41 | 867 | 908 | — | — | — |
| Household Size of Occupied Targeted Units: | | | | | | |
| One and two members | N/A [b] | 627 | 627 | 3,505 | 1,543 | 5,048 |
| Three members | N/A | 103 | 103 | 1,369 | 318 | 1,687 |
| Four or more members | N/A | 44 | 44 | 1,859 | 283 | 2,142 |
| Household Income Levels for Occupied Targeted Units: | | | | | | |
| Very low income | 15 | 382 | 397 | N/A [b] | — | — |
| Low income | 26 | 392 | 418 | N/A | 850 | 850 |
| Moderate income | — | — | — | N/A | 1,285 | 1,285 |
| Above moderate income | — | — | — | N/A | 9 | 9 |
| Unit Size: | | | | | | |
| Studio | N/A [b] | — | — | N/A [b] | — | — |
| One bedroom | N/A | 404 | 404 | N/A | 292 | 292 |
| Two bedroom | N/A | 354 | 354 | N/A | 804 | 804 |
| Three and more bedrooms | N/A | 16 | 16 | N/A | 1,048 | 1,048 |
| Monthly Rent/Mortgage Payment | $136-$655 | $113-$722 | $113-$722 | $198-$1,122 | $448-$1,624 | $198-$1,624 |
| Per Unit Expenditure of Bond Proceeds | $70,858 | $43,583 | — | $77,735 | $89,773 | — |
| Development Projects By Type of Sponsor: | | | | | | |
| For-profit | 5 | 29 | 34 | N/A | 107 | 107 |
| Nonprofit local government | 5 | 7 | 12 | N/A | 5 | 5 |
| Limited dividend | — | — | — | N/A | — | — |
| Length of Time Rental Units Reserved For Targeted Groups: | | | | | | |
| 1997-2000 | — | 9 | 9 | — | — | — |
| 2001-2010 | — | 9 | 9 | — | — | — |
| 2011-2030 | 10 | 6 | 16 | — | — | — |
| 2031-2040 | — | 1 | 1 | — | — | — |

[a] Note on data limitations. The CDAC does not report annual data summarizing local agency housing production. We estimate local housing production by including all housing loans originated before July 1, 1989 using the proceeds of housing bonds issued by a local agency in 1987-88. In addition, our report may underestimate local housing production because some local agencies have not submitted reports to CDAC — or included incomplete entries in their reports.

[b] N/A indicates that this information is not collected by the agency or is not currently available.

**Table 2**
**California Housing Finance Agency**
**Geographical Distribution of Housing**
**Financed By Housing Revenue Bonds in 1988-89**

| | *Targeted Units of Multifamily Housing* | | | *Single-Family Housing* | | | |
|---|---|---|---|---|---|---|---|
| *County* | *CHFA* | *Local*[a] | *Subtotals* | *CHFA* | *Local*[a] | *Subtotals* | *Totals All Housing* |
| Contra Costa | — | 51 | 51 | 320 | 533 | 853 | 904 |
| Fresno | — | 60 | 60 | 1,052 | — | 1,052 | 1,112 |
| Kern | — | — | — | 548 | — | 548 | 548 |
| Los Angeles | 166 | 1,089 | 1,255 | 267 | 150 | 417 | 1,672 |
| Orange | — | 113 | 113 | 17 | 507 | 524 | 637 |
| Riverside | — | 123 | 123 | 394 | 604 | 998 | 1,121 |
| Sacramento | — | 60 | 68 | 869 | 350 | 1,219 | 1,287 |
| San Bernardino | — | 139 | 139 | 454 | — | 454 | 593 |
| San Diego | — | 15 | 15 | 297 | — | 297 | 312 |
| San Joaquin | — | — | — | 224 | — | 224 | 224 |
| Solano | — | — | — | 117 | — | 117 | 117 |
| Stanislaus | — | 66 | 66 | 412 | — | 412 | 478 |
| Tulare | — | — | — | 675 | — | 675 | 675 |
| Yolo | 28 | — | 28 | 167 | — | 167 | 195 |
| All Other Counties | 82 | 424 | 506 | 920 | — | 920 | 1,426 |
| Totals, 1988-89 revenue bond financed housing production | 284 | 2,140 | 2,424 | 6,733 | 2,144 | 8,877 | 11,301 |

[a] See note on data limitations in footnote a of Table 1.

# DEPARTMENT OF INSURANCE

Item 2290 from the Insurance Fund — Budget p. BTH 63

| | |
|---|---|
| Requested 1990-91 | $63,269,000 |
| Estimated 1989-90 | 60,422,000 |
| Actual 1988-89 | 35,922,000 |
| Requested increase (excluding amount for salary increases) $2,847,000 (+4.7 percent) | |
| Total recommended reduction | 146,000 |
| Recommendation pending | 24,428,000 |

**1990–91 FUNDING BY ITEM AND SOURCE**

| Item—Description | Fund | Amount |
|---|---|---|
| 2290-001-217—Support | Insurance | $59,694,000 |
| 2290-002-217—Advisory panel | Insurance | 75,000 |
| 2290-101-217—Local assistance; fraud control | Insurance | 3,500,000 |
| Total | | $63,269,000 |

**DEPARTMENT OF INSURANCE—Continued**

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

| | Analysis page |
|---|---|
| 1. Implementation of Proposition 103. Withhold recommendation on $22.1 million requested for rate review and regulatory activities, pending outcome of administrative hearings. | 240 |
| 2. ***Out-of-State Travel Expenses. Reduce Item 2290-001-217 by $146,000.*** Recommend reduction to correct overbudgeted out-of-state travel expenses. | 241 |
| 3. Contract Funds and Personal Computers. Withhold recommendation on $2.3 million proposed for private consulting contracts and personal computers and software, pending receipt of information to justify request. | 241 |

## GENERAL PROGRAM STATEMENT

Insurance is the only interstate business that is regulated entirely by the states, rather than by the federal government. In California, the Department of Insurance is responsible for regulating the activities of insurance companies, agents and brokers. Currently, there are about 1,900 insurers generating total premiums of about $50 billion in California.

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

## MAJOR ISSUES

- ☑ The Department of Insurance's initial approach to implement Proposition 103 delayed putting the provisions of that measure into effect.
- ☑ Because implementation of Proposition 103 has been significantly delayed, the department does not have the experience to justify the amount requested in the budget, and we do not have the analytical basis to make final recommendations regarding the adequacy of the amount.

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

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

The department has 760.6 personnel-years in the current year.

**Table 1**
**Department of Insurance**
**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* |
| Regulation | 342.2 | 579.7 | 602.4 | $25,577 | $40,393 | $41,633 | 3.1% |
| Fraud control | 27.0 | 43.7 | 49.2 | 1,949 | 6,685 [a] | 7,645 [a] | 14.4 |
| Tax collection and audit | 3.8 | 3.8 | 3.8 | 287 | 344 | 349 | 1.5 |
| Administration | 109.2 | 133.4 | 134.4 | 8,109 | 13,000 | 13,642 | 4.9 |
| Totals | 482.4 | 760.6 | 789.8 | $35,922 | $60,422 | $63,269 | 4.7% |

[a] Includes $3.5 million allocation to district attorneys for prosecuting insurance fraud cases.

**Table 2**
**Department of Insurance**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *Insurance Fund* |
|---|---|
| 1989-90 Expenditures (Revised) | $60,422 |
| *Baseline Adjustments* | |
| Salary adjustments | 901 |
| One-time expenditures | −1,581 |
| Price increases | 418 |
| Increased salary savings | −282 |
| Subtotal, baseline adjustments | (−$544) |
| *Workload Changes* | |
| Proposition 103-related staff increases | $145 |
| Relocation of Los Angeles office | 383 |
| Increased data processing costs | 398 |
| Subtotal, workload changes | ($926) |
| *Program Changes* | |
| Increased external consulting services | $1,002 |
| Increased anti-fraud activities | 915 |
| Change in licensing requirement | 548 |
| Subtotal, program changes | ($2,465) |
| 1990-91 Expenditures (Proposed) | $63,269 |
| Changes from 1989-90: | |
| Amount | $2,847 |
| Percent | 4.7% |

**DEPARTMENT OF INSURANCE—Continued**

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes an expenditure of $63.3 million from the Insurance Fund to support the department in 1990-91. This is an increase of $2.8 million, or 4.7 percent, over estimated current-year expenditures.

Table 1 shows the department's expenditures for the past, current and budget years. Table 2 summarizes the significant changes proposed for the budget year.

## ANALYSIS AND RECOMMENDATIONS

### Department is Slow to Implement Proposition 103

The Department of Insurance is responsible for the implementation of Proposition 103 which was enacted by voters in November 1988. In last year's *Analysis* (please see page 198), we outlined the administrative and regulatory responsibilities of the department under Proposition 103 and the additional workload this measure was expected to generate for the department.

Since our 1989-90 *Analysis*, several developments related to the implementation of Proposition 103 have occurred. This section reviews the actions taken by the department to carry out its Proposition 103 responsibilities. (For review of the *policy* and *economic* implications of Proposition 103, please see our write-up in *The 1990-91 Budget: Perspectives and Issues* which we publish concurrently with this *Analysis*).

***Slow Start for Implementation of Proposition 103 in 1988-89.*** Although Proposition 103 was approved in November 1988, the department was hesitant to begin implementing the measure because of a state Supreme Court stay imposed immediately after the measure was approved by the voters. However, on December 7, 1988, the state Supreme Court upheld most of the provisions of the measure (except for the rate rollback provisions) making the department responsible for their implementation as soon as practicable. Nonetheless, a request for additional staff and funds to begin implementation of Proposition 103 was not submitted to the Legislature by the Department of Finance until *mid-April* 1989. The augmentation of $1.3 million and 66 additional staff positions was requested to (1) start a rate regulatory division for receiving and analyzing initial rate filings; (2) increase legal and consumer services staff; and (3) update and expand computer equipment to establish a rate regulatory process mandated by the proposition. The Legislature approved the augmentation by early May.

This delay in requesting resources affected the department's ability to handle the additional workload related to implementation of the measure.

***Supreme Court Decision Increases Department's Workload.*** In May, the state Supreme Court upheld the rate-rollback provision and changed the standard for an insurer to be eligible for a rate-rollback exemption—from "threat of insolvency" to "not receiving a reasonable rate of return." This decision significantly increased the department's regulatory workload. The decision requires the Insurance Commissioner to determine what "a reasonable rate of return" is for insurers and effectively allows many more insurers to apply for a rate-rollback exemption than under the "threat of insolvency" standard provided initially by Proposition 103.

In response to the court decision, the Insurance Commissioner issued emergency regulations for insurance companies to file exemptions from rate rollback. By June, approximately 450 insurers had filed about 4,200 applications for exemption. However, due to the late decision to augment staff, the department was not able to hire and train the new staff fast enough to handle the emerging workload. As a consequence, it had to reassign 50 field examiners (88 percent of its total examiner force) from auditing insurance companies to review exemption applications.

***Implementation Drags On in Current Year.*** For the current year, the department requested and is authorized $20.6 million to support a total staff of 263 positions to (1) fully establish a rate regulatory division to handle all rate reviews; (2) expand the legal division for developing rules and regulations; (3) increase administrative support; and (4) automate the department's data processing functions. The amount also included $3 million for "contingency" purposes.

Hiring new staff, however, continues to be slow. As of the end of December 1989, the department had filled only 185 of the 263 positions, or 70 percent of the total. The positions filled include most of the rate regulatory and administrative staff. However, only 15 of the 29 new legal positions have been filled. In our view, the lack of sufficient legal staff limits the department's ability to develop standards and regulations in a timely manner to effectively implement rate rollback and rate approval.

***Lack of Plan to Develop Standards and Regulations Leads to Delay and Uncertainty.*** As part of the rate rollback and rate approval process, Proposition 103 also requires the department to hold hearings (1) to determine if its analysis and decision on rate filings by insurers are accurate; (2) to allow insurers to plead exemption from a rate regulatory decision; and (3) to examine cases where rate changes proposed by insurers exceed certain percentages.

Before these hearings are conducted, standards—such as what constitutes a "reasonable rate of return"—and regulations must be adopted. To accomplish this, a regulatory department typically (1) develops a management plan for promulgating the rules, standards and regulations; (2) develops a set of basic, tentative regulations: and (3) invites public comment and input to validate the tentative rules, standards and regulations *prior* to their final adoption.

Our analysis shows that the department has not adopted this process. Instead of developing standards—such as a "reasonable rate of return"

**DEPARTMENT OF INSURANCE—Continued**

—with public and independent expert input, the department internally developed a standard for the rate to be used in evaluating exemption applications. Similarly, instead of first adopting regulations to guide the rate-rollback hearings, the department chose to use the actual individual rate-rollback hearings as the forum to develop the basic regulations.

This course of action resulted in a high degree of uncertainty as to how the department would evaluate rollback exemptions and, subsequently, rate changes filed by insurers. It also resulted in numerous legal challenges filed by insurers regarding the department's standard for "reasonable rate of return" and its "make-up-as-you-go" approach to regulations. In view of the legal challenges, the Insurance Commissioner rescinded the previous action on rollback exemptions and postponed the individual hearings for rollback exemptions. At the same time, the Commissioner declared a six-month freeze on all auto insurance rates in order to suspend rate increases announced by major insurers.

***The Department Changes to Typical Regulatory Approach.*** Recognizing that the internal process failed to establish standards and regulations necessary to ensure an orderly implementation of the measure, the department contracted in October 1989 with a law firm for assistance. With the guidance of this law firm, the department developed—through administrative hearings—general ("generic") regulations for the rating methodology. These regulations, issued in early December 1989, will provide guidelines for rate filings by insurers and analysis of these filings by department staff.

Since December 1989, the department also has been conducting "generic" administrative hearings in order to develop economic standards (such as "reasonable rate of return") and regulations, to be used for rate-rollback hearings. These hearings are projected to continue until the end of February. The department expects to issue these standards and regulations in early March 1990.

***Legal Challenges Expected to Continue in 1990-91.*** While the department anticipates publishing standards and regulations by March 1990, it is still uncertain (1) whether rate-rollback will occur and (2) how the department will proceed with its rate review and approval process. This is because the department anticipates that its standards and regulations will be further challenged by insurers. Moreover, additional issues raised at the "generic" hearings (such as the Commissioner's declared intent to cap insurers' expenses and prohibit them from passing on certain expenses to consumers) will likely invite new legal challenges. Consequently, until standards and regulations are adopted and legal challenges resolved, it is unlikely that the department could carry out with any success the rate rollback and rate review mandates of Proposition 103.

**Adequacy of the Proposition 103-Related Budget Cannot be Determined**

***We withhold recommendation on $22,060,000 requested by the Department of Insurance for implementation of Proposition 103, pending outcome of administrative hearings currently being conducted.***

To continue its implementation of Proposition 103, the department is requesting total funding of $22.1 million for 1990-91.

Because the implementation of the regulatory provisions of the proposition has been significantly delayed, the department does not have the workload experience to justify its request. Additionally, the department cannot project what its rate review workload will be before standards and regulations are adopted. Thus, we do not have the analytical basis to evaluate the adequacy of that budget.

Accordingly, we withhold recommendation of the department's request of $22.1 million for Proposition 103 implementation pending the outcome of the administrative hearings and adoption of standards and regulations.

**Out-of-State Travel Overbudgeted**

***We recommend a reduction of $146,000 from Item 2290-001-217 to correct overbudgeted out-of-state travel expenses. (Reduce Item 2290-001-217 by $146,000.)***

The budget proposes $726,000 for out-of-state travel by the department's employees during 1990-91. This amount is $14,000, or about 2 percent, more than the $712,000 shown as estimated expenditures for out-of-state travel during 1989-90.

Our review, however, indicates that the budget overstated the estimated 1989-90 expenditure amount. It failed to reflect action taken by the Department of Finance (DOF) that reduced the Department of Insurance's authorized out-of-state travel amount from $712,000 to $569,000. According to the department, this reduction reflected DOF's general policy to limit discretionary out-of-state travel.

Our analysis indicates, based on the amount authorized for the current year (adjusted for inflation), that the amount requested for 1990-91 is too high, and ought to be $580,000 instead. Therefore, we recommend that the department's budget for out-of-state travel in 1990-91 be reduced by $146,000 to correct for overbudgeting.

**Private Consulting Contracts and Personal Computers Need to be Justified**

***We withhold recommendation on a combined total of $2,368,000 requested for external consultant and professional services and personal computers, pending submission of justification by the Department of Insurance.***

***Private Consulting Contracts.*** The budget proposes to spend $2.1 million on external (private) consultant and professional services. This is $1 million (88 percent) more than the expenditure for the current year.

Although the department indicated that the proposed $2.1 million would probably be spent on six consulting contracts, no information was submitted regarding the specific services to be provided by each or the justification for these contracts.

Accordingly, we withhold recommendation on the $2.1 million budgeted for private contractors, pending receipt of adequate justifications for each contract and each amount requested.

**DEPARTMENT OF INSURANCE—Continued**

***Personal Computers.*** The budget also proposes to spend $224,000 on 25 personal computers and associated software in an ongoing effort to expand the use of computer technology throughout the department. This proposed acquisition is in addition to 58 computers added during the past two years and 28 added during 1989-90.

Our analysis of this proposal indicates that it is not properly justified for the following reasons. At the time this analysis was prepared, (1) the department was unable to produce written documentation assessing and justifying the need for these computers and software, and (2) there was no information as to the allocation, use and cost-effectiveness of the proposed new computers. Such information is necessary in order to (1) evaluate computer usage, (2) determine subsequent needs, and (3) prevent duplicative or ineffective allocation of computer hardware and software.

In absence of the information identified above, we are unable to recommend approval of this proposal. Thus, we withhold recommendation on this request, pending the department's submittal of the specified missing information prior to the budget hearings.

## DEPARTMENT OF REAL ESTATE

Item 2320 from the Real Estate Fund — Budget p. BTH 68

| | |
|---|---|
| Requested 1990-91 | $26,448,000 |
| Estimated 1989-90 | 25,678,000 |
| Actual 1988-89 | 23,577,000 |
| Requested increase (excluding amount for salary increases) $770,000 (+3.0 percent) | |
| Total recommended reduction | None |

**1990–91 FUNDING BY ITEM AND SOURCE**

| Item—Description | Fund | Amount |
|---|---|---|
| 2320-001-317—Support | Real Estate | $25,900,000 |
| Reimbursements | — | 548,000 |
| Total | | $26,448,000 |

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

1. Reduction of Excess Reserves. Recommend adoption of Budget Bill language requiring the Department of Real Estate to reduce license fees in order to reduce excess reserves in the Real Estate Fund. 244

## GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for protecting the public by (1) enforcing the Real Estate Law, and (2) regulating offerings of subdivided property, real property securities, and certain other real estate transactions.

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

The department has 382.2 personnel-years in the current year.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $26.4 million in 1990-91. This is $770,000, or 3 percent, more than the estimated current-year expenditures. The proposed expenditures consist of $25.9 million from the Real Estate Fund and $548,000 from reimbursements.

Table 1 shows the department's expenditures for the past, current and budget years. Table 2 summarizes the significant changes proposed for the budget year.

**Table 1**
**Department of Real Estate**
**Budget Summary**
**1988-89 through 1990-91**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | *Percent Change From* |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1988-89* | *Est. 1989-90* | *Prop. 1990-91* | *Actual 1988-89* | *Est. 1989-90* | *Prop. 1990-91* | *1989-90* |
| Licensing and education | 72.4 | 75.6 | 75.6 | $4,624 | $5,257 | $5,173 | −1.6% |
| Regulatory and recovery | 160.5 | 174.6 | 174.6 | 11,049 | 12,350 | 12,679 | 2.7 |
| Subdivisions | 70.4 | 75.5 | 75.5 | 3,903 | 3,875 | 4,070 | 5.0 |
| Administration | 55.9 | 56.5 | 58.3 | 4,001 | 4,196 | 4,526 | 7.9 |
| Totals | 359.2 | 382.2 | 384.0 | $23,577 | $25,678 | $26,448 | 3.0% |
| Funding Sources | | | | | | | |
| *Real Estate Fund* | | | | *$22,799* | *$25,130* | *$25,900* | *3.1%* |
| *Reimbursements* | | | | *778* | *548* | *548* | — |

**DEPARTMENT OF REAL ESTATE—Continued**

**Table 2**
**Department of Real Estate**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *Real Estate Fund* |
|---|---|
| 1989-90 Expenditures (Revised) | $25,678 |
| *Baseline Adjustments* | |
| Salary increases | 336 |
| Increased pro rata charges | 208 |
| Rent increase | 65 |
| Increase in other operating expenses | 69 |
| Subtotal, baseline adjustments | ($678) |
| *Workload Changes* | |
| Increased cashiering and business services | $62 |
| Increased data processing needs | 30 |
| Subtotal, workload changes | ($92) |
| 1990-91 Expenditures (Proposed) | $26,448 |
| Change from 1989-90 | |
| Amount | $770 |
| Percent | 3.0% |

## ANALYSIS AND RECOMMENDATIONS

***We recommend approval*** of the department's proposed budget, including the following increases: (1) $336,000 for salary increases; (2) $208,000 for higher pro rata charges; and (3) $92,000 for additional accounting workload.

### Excessive Fund Reserves Should be Reduced

***We recommend that the Legislature adopt Budget Bill language requiring the Department of Real Estate to reduce its license fees in order to reduce the excess reserves which have accumulated in the Real Estate Fund.***

The Department of Real Estate is supported by various license fees imposed on real estate agents and brokers. Fee revenues are deposited in the Real Estate Fund.

Our review shows that the Real Estate Fund has accumulated an excessive reserve in recent years. In 1987-88, the Real Estate Fund reserve available to the department was $10.3 million. By the end of 1990-91, the balance is projected to be $19.4 million. This amount represents 75 percent of the department's budget proposed for 1990-91 and is in excess of what is needed to provide a prudent reserve—25 percent to 50 percent of a department's annual operating expenses—that is sufficient to cover any contingencies and unanticipated reductions in revenue collections. Accordingly, the reserve ought to be reduced.

One option to reduce this reserve would be by lowering fees charged for the renewal of real estate broker and salespersons' licenses. Since 1983, the department has charged these licensees the maximum amounts authorized by law ($165 and $120, respectively). Reducing the license renewal fees would benefit those persons who have contributed to the accumulation of the reserve.

Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 2320-001-317 to reduce the excessive reserve in the Real Estate Fund:

> The Department of Real Estate shall reduce during 1990-91, the fees it charges for renewal of real estate broker and salespersons' licenses in such a way as to leave a reserve of no more than 50 percent of the department's operating expenses in the budget year.

## DEPARTMENT OF SAVINGS AND LOAN

Item 2340 from the Savings Association Special Regulatory Fund — Budget p. BTH 73

| | |
|---|---|
| Requested 1990-91 | $8,826,000 |
| Estimated 1989-90 | 9,746,000 |
| Actual 1988-89 | 8,354,000 |
| Requested decrease (excluding amount for salary increases) $920,000 (−9.4 percent) | |
| Total recommended reduction | None |

### 1990–91 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2340-001-337—Support | Savings Association Special Regulatory | $8,779,000 |
| Reimbursements | — | 47,000 |
| Total | | $8,826,000 |

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Funding Problem. Recommend that the Department of Savings and Loan report to the Legislature, prior to budget hearings, regarding the magnitude and effects of the funding problem facing the department and potential solutions. 247

### GENERAL PROGRAM STATEMENT

The Department of Savings and Loan protects the savings and investments of the public by regulating the activities and examining the financial records of state licensed savings and loan associations.

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

The department has 139.8 personnel-years in the current year.

**DEPARTMENT OF SAVINGS AND LOAN—Continued**

## MAJOR ISSUES

- The department may run out of revenues to operate an effective regulatory program.
- A state charter option for savings and loan associations and a separate state department to regulate them are no longer needed.

## OVERVIEW OF THE BUDGET REQUEST

The budget requests $8.8 million for support of the department in 1990-91. This is $920,000, or 9.4 percent, less than estimated current-year expenditures. This includes $8.8 million from the Savings Association Special Regulatory Fund and reimbursements of $47,000.

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

**Table 1**
**Department of Savings and Loan**
**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* |
| Examination | 72.0 | 79.8 | 65.1 | $4,948 | $5,742 | $5,200 | −10.4% |
| Appraisal | 18.6 | 20.2 | 14.8 | 1,320 | 1,579 | 1,432 | −10.3 |
| Licensing and legal assistance | 4.0 | 4.8 | 3.6 | 430 | 485 | 439 | −10.5 |
| Administration | 29.6 | 35.0 | 29.2 | 1,656 | 1,940 | 1,755 | −10.5 |
| Totals | 124.2 | 139.8 | 112.7 | $8,354 | $9,746 | $8,826 | −10.4% |
| Funding Sources | | | | | | | |
| *Savings Association Special Regulatory Fund* | | | | *$8,223* | *$9,699* | *$8,779* | *−10.5%* |
| *Reimbursements* | | | | *131* | *47* | *47* | — |

**Table 2**
**Department of Savings and Loan**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *Savings Association Special Regulatory Fund* |
|---|---|
| 1989-90 Expenditures (Revised) | $9,746 |
| *Baseline Adjustments* | |
| Salary increases | 149 |
| Price increases | 85 |
| Lower pro rata charges | −95 |
| Subtotal, baseline adjustments | ($139) |
| *Workload Changes* | |
| Reduction due to declining number of licensees | −$1,211 |
| Expenses for move of Los Angeles office | 152 |
| Subtotal, workload changes | (−$1,059) |
| 1990-91 Expenditures (Proposed) | $8,826 |
| Change from 1989-90: | |
| Amount | −$920 |
| Percent | −9.4% |

## ANALYSIS AND RECOMMENDATIONS

### Department's Funding Problems Continue

***We recommend that, prior to the budget hearings, the Department of Savings and Loan report updated information to the Legislature on: (1) the shrinking revenue base which finances the department's regulatory activities; (2) the impact of reduced revenues on the department's ability to retain staff and regulate effectively the savings and loan associations remaining under its jurisdiction; and (3) the options proposed by the department to address the funding problem.***

The department is supported by assessments on state chartered savings and loan associations and various fee revenues. Assessments are made based on the asset size of associations, except for small associations which are levied a $20,000 minimum assessment. Revenues from assessments and fees are deposited in the Savings Association Special Regulatory Fund.

**Table 3**
**Department of Savings and Loan**
**Savings Association Special Regulatory Fund**
**Fund Condition**
**1987-88 through 1990-91**
**(in thousands)**

| | *Actual 1987-88* | *Actual 1988-89* | *Estimated 1989-90* | *Projected 1990-91* | *Change From 1989-90* |
|---|---|---|---|---|---|
| Beginning reserves | $4,478 | $2,901 | $3,129 | $1,774 | −$1,355 |
| Revenues | 7,181 | 8,451 | 8,344 | 7,175 | −1,169 |
| Total Resources | $11,659 | $11,352 | $11,473 | $8,949 | −$2,524 |
| Expenditures | 8,758 | 8,223 | 9,699 | 8,779 | −920 |
| Ending Reserves | $2,901 | $3,129 | $1,774 | $170 | −$1,604 |

**DEPARTMENT OF SAVINGS AND LOAN—Continued**

For 1990-91, the budget proposes to spend about $8.8 million from the Savings Association Special Regulatory Fund to finance the department's activities. Revenues to the regulatory fund, however, are projected to be about $7.2 million during the same period. Thus, expenditures will exceed revenues by about $1.6 million.

As Table 3 shows, the department's expenditures exceeded revenues it collected from assessments and fees in 1987-88. In 1988-89, expenditures did not exceed revenues because the department did not fill vacant positions. However, for the current and budget years, revenues are anticipated to fall short of expenditures. These deficits will be financed from reserves accumulated in prior years. Consequently, as Table 3 shows, reserves in the fund will essentially be depleted by the end of 1990-91, leaving an inadequate reserve of only $170,000.

In anticipation of this funding problem, the department (1) increased the assessment rate from 99 cents per $1,000 of assets to $1.04 per $1,000 of assets effective in June 1989; and (2) proposes to eliminate 27 currently vacant positions for a net reduction of $920,000 in proposed expenditures in 1990-91.

Our review, however, shows that even these drastic steps are not expected to resolve the department's funding problem.

***Assessment Base Will Continue to Shrink.*** The budget projects that the total revenues in 1990-91 would include $6.6 million in assessment fees from state chartered associations. However, our review indicates that due to the following reasons, the number of state chartered associations will continue to decline, and assessment revenues to the department will likely be lower than projected.

*1. **Federal law preempts state flexibility to provide preferential treatment to state associations.*** The recent enactment of the federal Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA) imposes more stringent capital requirements on all associations and prohibits states from granting more liberal standards to state chartered associations than those applicable to federal associations. As a result, competitive advantages previously provided by state law to state chartered associations have been eliminated.

*2. **Financially weak associations will leave the industry.*** Because some of the remaining state savings and loans will not be able to meet the more stringent capital requirements imposed by FIRREA as a condition to qualify for federal deposit insurance, these associations will eventually have to be taken over by the federal authority, or merge with another association, or leave the business.

*3. **Incentives to reduce costs will also result in associations leaving state charter.*** An increasing number of the remaining state associations will convert to federal charter to avoid state assessments and examination fees. Alternatively, they may try to convert to a state or federally chartered bank in order to avoid the substantial surcharge imposed by the federal deposit insurance agency for bailout of insolvent savings and loan associations.

For these reasons, we believe that the number of remaining state associations will continue to diminish during the budget year and the department's assessment revenues will fall short of the $6.6 million projected for 1990-91.

***Regulatory Efforts Are Reduced Due to Lack of Funding.*** Without an adequate assessment base, the department will not be able to maintain a staff required for an effective regulatory effort. In the current year, the department has held vacant 44 positions—including 24 examiner positions—due to the uncertainty of its funding level. Depending on the assessments that the department can collect to support its activities in 1990-91, the department's budget might need to be cut back beyond those proposed in the Governor's Budget, thereby reducing the department's regulatory activities further.

In order to provide updated information to the Legislature on this issue, we recommend that, prior to budget hearings, the Department of Savings and Loan report on (1) the shrinking revenue base which finances the department's regulatory activities, (2) the impact of reduced revenues on the department's ability to retain staff and regulate effectively the savings and loan associations remaining under its jurisdiction; and (3) the options proposed by the department to address the funding problem.

### Recent Changes Eliminate the Need for a State Department of Savings and Loan

Our review shows that without the competitive advantages previously provided to state chartered associations, the incentive for associations to choose the state charter option over federal charter is eliminated. Consequently, a separate state charter option for savings and loan associations is no longer warranted.

In a letter to Members of the Legislature dated January 19, 1990, we recommended the enactment of legislation to terminate the issuance of new state charter for savings and loan associations and to require the conversion of all existing state associations to federal charter, or to a state or federally chartered bank. Elimination of a state charter option for savings and loan associations will also eliminate the regulatory workload and, therefore, the need for the Department of Savings and Loan.

We have also recommended enactment of legislation for consolidation of various lender and fiduciary programs into a new Department of Financial Services in order to provide more effective regulation of financial services. Thus, until all state chartered associations are eliminated, interim regulatory effort could be provided by a state regulatory staff which is consolidated with the State Banking Department and with certain other lender-fiduciary programs in the Departments of Corporations and Real Estate.

# CALIFORNIA TRANSPORTATION COMMISSION

Item 2600 from the State
Transportation Fund — Budget p. BTH 76

| | |
|---|---|
| Requested 1990-91 | $1,428,000 |
| Estimated 1989-90 | 1,547,000 |
| Actual 1988-89 | 1,256,000 |
| Requested decrease (excluding amount for salary increases) $119,000 (−7.7 percent) | |
| Total recommended reduction | None |

## 1990–91 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2600-001-042—Support | State Highway Account, State Transportation | $151,000 |
| 2600-001-046—Support | Transportation Planning and Development Account, State Transportation | 1,277,000 |
| Total | | $1,428,000 |

## GENERAL PROGRAM STATEMENT

The California Transportation Commission (CTC) is responsible for programming and allocating funds appropriated by the Legislature for specified highway, transit, and aviation purposes. The commission also assists the Administration and the Legislature in the development of transportation policies.

Chapter 105, Statutes of 1989 (SB 300, Kopp) and Ch 106/89 (AB 471, Katz) modified the specific responsibilities of the commission. These responsibilities, as modified, include:

- Adoption of a seven-year State Transportation Improvement Program (STIP) every two years.
- Adoption of guidelines for various transportation programs.
- Allocation among eligible transportation projects of funds appropriated by the Legislature for transportation purposes.
- Evaluation of the Department of Transportation's annual budget and of the adequacy of current state transportation revenues.
- Reporting annually to the Legislature on policies adopted by the CTC, major project allocations made in the previous year, and significant transportation issues facing the state.

The CTC consists of nine part-time members appointed by the Governor. In addition, one member each from the Senate and the Assembly serve as ex-officio members of the commission.

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

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The budget proposes total expenditures of $1.4 million for support of the commission's activities in 1990-91. This is $119,000, or 7.7 percent, less than estimated expenditures in the current year. The proposed funding includes $151,000 from the State Highway Account and $1.3 million from the Transportation Planning and Development Account.

The budget proposes no workload or program changes for the commission. The $119,000 net reduction in proposed expenditures results from elimination of $41,000 in current-year equipment costs; a $110,000 decrease in pro rata costs; and increases of $24,000 for salaries and benefits, and $8,000 for price increases.

## SPECIAL TRANSPORTATION PROGRAMS

Item 2640 from the Transportation Planning and Development Account, State Transportation Fund — Budget p. BTH 78

| | |
|---|---|
| Requested 1990-91 | $73,000 |
| Estimated 1989-90 | 5,663,000 |
| Actual 1988-89 | 1,928,000 |
| Requested decrease (excluding amount for salary increase) $5,590,000 (−99 percent) | |
| Total recommended reduction | None |

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Recommend that the Legislature amend this item to conform to actions taken in Item 2660 regarding the Transportation Planning and Development Account. 251

### GENERAL PROGRAM STATEMENT

The Special Transportation Programs item provides funding for the State Transportation Assistance (STA) program. Under the STA program, local transportation agencies receive funds on a formula basis for capital and operating assistance for public mass transit systems and, under specified conditions, for construction and maintenance of local streets and roads.

### ANALYSIS AND RECOMMENDATIONS

***We recommend that the Legislature amend this item of the Budget Bill (Item 2640-101-046) to conform to the actions it takes on the use of Transportation Planning and Development (TP and D) Account funds under Item 2660-013-046.***

The budget requests $73,000 from the TP and D Account in 1990-91 for the STA program. This is $5.6 million, or 99 percent, below expenditures

**SPECIAL TRANSPORTATION PROGRAMS—Continued**

in the current year. The amount requested for the budget year would enable the State Controller and the Department of Transportation to administer funds provided under the STA program in previous years.

The budget, however, proposes to provide no assistance to local transportation agencies in the budget year. Instead, the budget proposes to change the TP and D Account funding requirements for various programs—including the STA program—as specified in current law. Our analysis of all the proposed changes to the use of TP and D Account money is under the Department of Transportation item in this *Analysis*. (Please see Item 2660.) As a result, we recommend that the Legislature take up this item when it considers Item 2660 and that it conform this item to its actions on the funding level of other TP and D Account supported programs.

## DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY

Items 2660, 2660-301, 2660-302, and 2660-399 from various funds — Budget p. BTH 79

| | |
|---|---|
| Requested 1990-91 | $3,187,280,000 |
| Estimated 1989-90 | 4,124,919,000 |
| Actual 1988-89 | 3,256,635,000 |
| Requested decrease (excluding amount for salary increases) $937,639,000 (−22.7 percent) | |
| Total recommended reduction | None |
| Recommendation pending | 17,855,000 |

**1990–91 FUNDING BY ITEM AND SOURCE**

| Item—Description | Fund [a] | Amount |
|---|---|---|
| 2660-001-041—Aeronautics, support | Aeronautics Account | $2,610,000 |
| 2660-001-042—Highway, mass transportation, and transportation planning, support | State Highway Account | 1,002,553,000 |
| 2660-001-045—Highway, support | Bicycle Lane Account | 10,000 |
| 2660-001-046—Mass transportation and transportation planning, support | Transportation Planning and Development Account | 37,242,000 |
| 2660-101-042—Highway, local assistance | State Highway Account | 32,600,000 |
| 2660-101-045—Highway, local assistance | Bicycle Lane Account | 660,000 |
| 2660-101-046—Mass transportation and transportation planning, local assistance | Transportation Planning and Development Account | 20,255,000 |
| 2660-301-042—Highway, capital outlay | State Highway Account | 97,144,000 |
| 2660-399-042—Highway, capital outlay | State Highway Account | 5,000,000 |
| Total, Budget Act appropriations, state funds | | $1,198,074,000 |

| | | |
|---|---|---|
| 2660-001-890—Support | Federal | 230,449,000 |
| 2660-101-890—Local assistance | Federal | 282,984,000 |
| 2660-301-890—Capital outlay | Federal | 720,784,000 |
| Total, Budget Act appropriations, federal funds | | $1,234,217,000 |
| Prior appropriations | | |
| Statutory—Highway support | Toll Bridge Funds | $50,816,000 |
| Statutory—Highway, support | State Highway Account | 8,218,000 |
| Statutory—Highway, support | General | 4,000,000 |
| Statutory—Highway, support | Seismic Safety Retrofit Account | 13,000,000 |
| Statutory—Highway, support | Disaster Relief | 900,000 |
| Statutory—Aeronautics, local assistance | Aeronautics Account | 2,320,000 |
| Statutory—Aeronautics, local assistance | Local Airport Loan Account | 1,000,000 |
| Statutory—Highway, local assistance | Seismic Safety Retrofit Account | 15,000,000 |
| Statutory—Mass transportation, local assistance | Rideshare Vanpool Loan and Grant | 5,000,000 |
| Budget Act of 1988—Mass transportation, local assistance | State Highway Account | 9,995,000 |
| Budget Act of 1989—Mass transportation, local assistance | State Highway Account | 26,000,000 |
| Budget Act of 1984—Highway, capital outlay | State Highway Account | 2,000,000 |
| Budget Act of 1987—Highway, capital outlay | State Highway Account | 10,000,000 |
| Budget Act of 1988—Highway, capital outlay | State Highway Account | 102,093,000 |
| Budget Act of 1989—Highway, capital outlay | State Highway Account | 210,233,000 |
| Statutory—Highway, capital outlay | Special Account for Capital Outlay | 2,873,000 |
| Statutory—Highway, capital outlay | Toll Bridge Funds | 21,965,000 |
| Statutory—Highway, capital outlay | Seismic Safety Retrofit Account | 44,000,000 |
| Statutory—Highway, capital outlay | Outer Continental Shelf | 4,431,000 |
| Total, prior appropriations, state funds | | $533,844,000 |
| Budget Act of 1984—Highway, capital outlay | Federal | 6,000,000 |
| Budget Act of 1985—Highway, capital outlay | Federal | 8,000,000 |
| Budget Act of 1986—Highway, capital outlay | Federal | 10,000,000 |
| Budget Act of 1987—Highway, capital outlay | Federal | 173,650,000 |
| Budget Act of 1988—Highway, capital outlay | Federal | 279,650,000 |
| Budget Act of 1989—Highway, capital outlay | Federal | 270,021,000 |
| Total, prior appropriations, federal funds | | $747,321,000 |
| Minus, balance available in subsequent years | | $1,044,709,000 |
| Minus, unexpended balance | | 233,743,000 |
| Reimbursements | | 752,276,000 |
| Total, all expenditures | | $3,187,280,000 |

[a] All accounts are within the State Transportation Fund, except for the Special Account for Capital Outlay in the General Fund.

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Earthquake Expenditures. Recommend that by April 1, 1990, the department report to the fiscal committees on the estimated costs of recovery from the Loma Prieta earthquake. 269
2. Federal Funding for Seismic Retrofit Program. We find that the budget proposal to expend about $266 million of normally available federal funds to accomplish work under the Seismic Retrofit Program could reduce federal funds available to accomplish STIP projects. 270

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

3. Capital Outlay Support. Recommend that, by April 1, 1990, the department provide to the fiscal committees workload information to justify its request for capital outlay support. 272
4. Capital Outlay Support Staff. We find the department would be forced to initiate layoffs or make further reductions in other portions of its budget if the assumptions used to develop its staffing request prove overly optimistic. 273
5. Project Development Costs Report. We find the department failed to submit statutorily required reports to the Legislature on project development costs. Further recommend that the department report the methodology to estimate project development cost at the time of budget hearings. 273
6. Cost-Effectiveness of Consulting Engineers. Recommend the department provide the Legislature, prior to budget hearings, with its analysis of cost effectiveness of contracting for engineering services. 274
7. Right-of-Way Acquisition. Recommend the department report to the Legislature, prior to budget hearings, on the level of right-of-way funding needed for projects to be awarded in 1990-91. 282
8. Highway Litter Removal. Recommend the redirection of 30 personnel-years and $3.8 million from the State Highway Account requested for additional highway litter removal to higher priority activities. 283
9. Mass Transportation Assistance. We find that the budget proposes to use $54 million in Transportation Planning and Development (TP and D) Account resources, reserved by statute for transit local assistance, instead for the highway program. Consequently, mass transit STIP commitments will be difficult to meet. 286
10. Rail Contracts. Withhold recommendation on $17.8 million from the TP and D Account to support the operation of the Peninsula Commute Service and Amtrak intercity rail service pending progress in operating contract negotiations. 289

**GENERAL PROGRAM STATEMENT**

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

The department has 17,066 personnel-years (PYs) in the current year.

## MAJOR ISSUES

- ✔ Based on current estimates of revenue, the state faces a shortfall of $3.7 billion in resources through 1992-93 in order to pay for noncapital outlay expenditures and to construct all 1988 State Transportation Improvement Program projects according to schedule. The shortfall would be larger if normally available federal funds are used (in combination with state money) to fund $266 million of seismic retrofit projects.

- ✔ For 1990-91, the budget identifies a shortfall of $533 million in the State Highway Account (SHA), and proposes various adjustments and reductions including:

  - Reducing SHA-funded staff by 765 personnel-years.
  - Minimizing the need for further staff reductions by shifting staff from SHA-funded work to work funded by other sources—primarily local sales tax revenues, toll revenues, and private developer funds.
  - Shifting $118 million from mass transportation local assistance programs to the highway program to further alleviate the impact of the SHA deficit on highway activities.

- ✔ The reduction in mass transportation local assistance programs will leave $16.2 million for the Transit Capital Improvement Program in 1990-91. With this amount, the state can fund only a small portion of its $101 million commitments to local transit projects, including projects on the Bay Area Rapid Transit and the Los Angeles Metro Rail systems.

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

## MAJOR ISSUES

☑ If SCA 1 is approved by voters in June 1990, about $18.5 billion in additional transportation funds would be available—through gas tax and truck weight fee increases and bond proceeds—over the 10-year period 1990-91 through 1999-2000. Specifically, an additional $718 million would be available to the SHA in 1990-91 thereby eliminating the shortfall of $533 million.

☑ If SCA 1 is not approved and additional revenues are not available, the Legislature will need to decide, based on its own priorities, what level of highway capital outlay program should be sustained vis-a-vis other programs (for example, maintenance, mass transportation) in the budget and subsequent years.

In addition, the Legislature will need to determine:

- The level of project development staffing needed to carry out the capital outlay program.
- The level of capital outlay "shelf" projects to be developed.
- The extent to which rights-of-way should be acquired in excess of the amount needed to award projects in 1990-91
- The amount of state funding of mass transportation activities that would best meet the state's transportation demands.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $3.2 billion by Caltrans in 1990-91. This is about $937.6 million, or 23 percent, less than estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the department, by program, from 1988-89 through 1990-91.

**Table 1**
**Department of Transportation**
**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* |
| Aeronautics | 30.9 | 30.2 | 30.2 | $7,606 | $6,786 | $5,998 | −11.6% |
| Highway transportation | 14,731.6 | 15,099.3 | 14,401.6 | 3,109,541 | 3,804,740 | 2,953,656 | −22.4 |
| Mass transportation | 153.4 | 150.6 | 203.7 | 118,056 | 287,936 | 201,936 | −29.9 |
| Transportation planning | 154.9 | 160.4 | 160.4 | 21,432 | 25,457 | 25,690 | 0.9 |
| Administration (distributed) | 1,569.9 | 1,625.4 | 1,539.4 | (166,662) | (187,240) | (191,398) | (2.2) |
| Totals | 16,640.7 | 17,065.9 | 16,335.3 | $3,256,635 | $4,124,919 | $3,187,280 | −22.7% |
| Funding Sources | | | | | | | |
| *State Funds* | | | | *$1,497,906* | *$1,632,226* | *$1,435,926* | *−12.0%* |
| *Federal Funds* | | | | *1,438,464* | *1,855,268* | *999,078* | *−46.2* |
| *Reimbursements* | | | | *320,265* | *637,425* | *752,276* | *18.0* |

### Significant Program Changes

Table 2 summarizes the major changes in proposed activities in 1990-91 by funding source.

**Table 2**
**Department of Transportation**
**Proposed 1990–91 Budget Changes**
**(dollars in thousands)**

| | *General Fund* | *Aeronautics Account* | *State Highway Account* | *Transportation Planning and Development Account* | *Disaster Relief Fund* | *Seismic Safety Account* | *Federal Funds* | *Reimbursements* | *Other Funds* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|
| 1989–90 Expenditures (Revised) | $5,000 | $4,899 | $1,383,930 | $99,333 | $100 | $8,000 | $1,855,268 | $637,425 | $130,964 | $4,124,919 |
| *Baseline Adjustments* | | | | | | | | | | |
| Price increase | - | - | 7,312 | 330 | - | - | 1,405 | 318 | 125 | 9,490 |
| Employee compensation | - | 20 | 14,355 | 203 | - | - | 2,520 | 311 | 311 | 17,720 |
| Pro rata adjustment | - | - | 8,654 | - | - | - | - | - | - | 8,654 |
| New legislation | - | - | 1,000 | - | - | - | - | - | 10,000 | 11,000 |
| Current year capital outlay | - | - | −188,914 | −10,000 | - | - | −1,343,726 | −600,251 | −22,686 | −2,165,577 |
| One-time current year costs | - | - | −40,486 | −5,948 | −100 | −5,000 | −4,183 | - | −26,211 | −81,928 |
| One-time current year savings | - | - | 65,450 | - | - | - | - | - | - | 65,450 |
| One-time current year redirection | −5,000 | - | 15,000 | - | - | −3,000 | −7,000 | - | - | 0 |
| Local assistance (carryover) | - | - | 35,995 | - | - | - | - | - | −46,235 | −10,240 |
| Capital outlay (carryover) | - | - | 69,933 | - | - | - | - | - | - | 69,933 |
| Other | - | 11 | 26,819 | 74 | - | - | 250 | −92 | 207 | 27,269 |
| Subtotals, baseline adjustments | (−$5,000) | ($31) | ($15,118) | (−$15,341) | (−$100) | (−$8,000) | (−$1,350,734) | (−$599,714) | (−$84,489) | (−$2,048,229) |
| *Workload and Program Changes* | | | | | | | | | | |
| Departmentwide | | | | | | | | | | |
| Hiring freeze | - | - | −$31,578 | - | - | - | - | - | - | −$31,578 |
| Overtime and temporary help | - | - | −15,687 | - | - | - | - | - | - | −15,687 |
| Nonengineering consultants | - | - | −6,000 | - | - | - | - | - | - | −6,000 |
| Nonexpendable equipment | - | - | −5,000 | - | - | - | - | - | - | −5,000 |
| Highways | | | | | | | | | | |
| New capital outlay | - | - | 97,144 | - | - | $25,000 | $485,645 | $700,394 | $24,838 | 1,333,021 |
| Seismic safety | - | - | - | - | $450 | 9,000 | - | - | - | 9,450 |
| Emergency engineering work | $4,000 | - | −17,000 | - | - | 13,000 | - | - | - | 0 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Locally reimbursed engineering | – | – | –9,040 | – | – | – | – | 9,040 | – | 0 |
| Toll funded engineering | – | – | –9,869 | – | – | – | – | – | 9,869 | 0 |
| Privatization reimbursed work | – | – | – | – | – | – | – | 3,827 | – | 3,827 |
| Engineering consultants | – | – | –104,000 | – | – | – | – | – | – | –104,000 |
| Toll collection workload | – | – | – | – | – | – | – | – | 645 | 645 |
| Toll cashiering workload | – | – | – | – | – | – | – | – | 497 | 497 |
| Litter removal | – | – | 3,790 | – | – | – | – | – | – | 3,790 |
| Advanced technology | – | – | – | – | – | – | 2,000 | – | – | 2,000 |
| Right-of-way rental system | – | – | 911 | – | – | – | – | – | – | 911 |
| Hazardous waste fund split | – | – | 990 | – | – | – | –990 | – | – | 0 |
| Mass Transportation | | | | | | | | | | |
| Reimbursed work | – | – | – | – | – | – | –111 | –583 | – | –694 |
| Amtrak operating support | – | – | – | $1,723 | – | – | – | – | – | 1,723 |
| Caltrain operations | – | – | – | 1,650 | – | – | – | 1,650 | – | 3,300 |
| Intercity rail capital staff | – | – | – | 344 | – | – | – | – | – | 344 |
| Ridesharing | – | – | – | – | – | – | 8,000 | – | – | 8,000 |
| Transit capital improvements | – | – | –64,000 | –30,212 | – | – | – | – | – | –94,212 |
| Administration | | | | | | | | | | |
| Labor relations pool | – | – | – | – | – | – | – | 237 | – | 237 |
| Facilities maintenance | – | – | 16 | – | – | – | – | – | – | 16 |
| Subtotals, workload and program changes | ($4,000) | – | (–$159,323) | (–$26,495) | ($450) | ($47,000) | ($494,544) | ($714,565) | ($35,849) | ($1,110,590) |
| 1990–91 Expenditures (Proposed) | $4,000 | $4,930 | $1,239,725 | $57,497 | $450 | $47,000 | $999,078 | $752,276 | $82,324 | $3,187,280 |
| Change from 1989–90: | | | | | | | | | | |
| Amount | –$1,000 | $31 | –$144,205 | –$41,836 | $350 | $39,000 | –$856,190 | $114,851 | –$48,640 | –$937,639 |
| Percent | –20.0% | 0.6% | –10.4% | –42.1% | 350.0% | 487.5% | –46.2% | 18.0% | –37.1% | –22.7% |

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

## ANALYSIS AND RECOMMENDATIONS

### HIGHWAY TRANSPORTATION FUNDING

California finances its highway transportation program primarily with a combination of state and federal funds. State Highway Account (SHA) funds—derived primarily from the state gas tax (9 cents per gallon) and truck weight fees—are used to pay for noncapital outlay activities, including highway maintenance and operations, engineering staff support, departmental administration, and local assistance. In addition, SHA money also is used to match federal funds available to California.

Federal funds are used mainly to pay for highway capital outlay expenditures. These funds also pay for about 34 percent of the support and engineering staff used to design and develop highway capital outlay projects. In addition to state and federal money, funding from special local sales tax measures enacted in 14 counties since 1984, and from private sources (primarily developers), plays an increasing role in the development of California's highway system.

As discussed in further detail below, funding available for highway and other transportation programs would increase if voters approve the *Traffic Congestion Relief and Spending Limitation Act of 1990* placed on the June 1990 ballot by Resolution Ch 66/89 (SCA 1, Garamendi). *The Governor's Budget, however, is based on revenues anticipated to be available under current law.*

#### Outlook Based On 1988 STIP

The 1988 State Transportation Improvement Program (STIP) was adopted by the California Transportation Commission (CTC) in October 1988. The 1988 STIP—covering the years 1988-89 through 1992-93—is the state's most recently adopted program of transportation projects to be funded from state and federal resources. (The CTC did not adopt a 1989 STIP.) The highway component of the STIP constitutes the state's current five-year highway capital outlay program.

Under provisions of Ch 105/89 (SB 300, Kopp) and Ch 106/89 (AB 471, Katz), the 1990 STIP, scheduled for adoption later this year, is to be a seven year program and will include transportation projects under new programs established by those acts. (Please see page 263 for a further discussion of the new programs.)

#### 1988 STIP Underfunded By $3.7 Billion

As shown in Table 3, based on Caltrans' current estimates of revenues, the state would need an additional $3.7 billion over anticipated resources through 1992-93—the end of the 1988 STIP period—in order to pay for noncapital outlay expenditures and to construct all 1988 STIP projects as they have been scheduled in the STIP.

**Table 3**
**Funding of 1988 STIP**
**1990-91 through 1992-93** [a]
**(dollars in millions)**

| *Funding Sources* | *Total Resources* | *Expenditures: Support and Local Assistance* | *Expenditures: Capital Outlay* [b] | *Expenditures: Total* | *Balance* |
|---|---|---|---|---|---|
| State Highway Account | $3,074 [c] | $4,134 | $1,081 | $5,215 | −$2,141 |
| Federal funds | 3,197 | 994 | 3,762 | 4,756 | −1,559 |
| Totals | $6,271 | $5,128 | $4,843 | $9,971 | −$3,700 |

[a] Balance of the five years covered by the 1988 STIP.
[b] Includes $249 million in projects rescheduled beyond 1992-93.
[c] Includes carry-in and resource adjustments.
Source: Caltrans.

***SHA Resources Inadequate to Fund Planned Support and Local Assistance.*** Because highway maintenance and operations expenditures generally are not eligible for federal funding, SHA resources must be used primarily for support of these activities and for local assistance while federal funds are used mainly for capital outlay. However, as shown in Table 3, SHA resources ($3.1 billion) are estimated to fall about $1 billion short of funding support and local assistance costs ($4.1 billion) through 1992-93.

***SHA Resources Inadequate to Provide State Match for Federal Funds.*** The SHA funding shortfall for support and local assistance means that, unless these activities are substantially reduced, no SHA funds would be available for highway capital outlay, including the state match for federal capital outlay funds available during the period.

***Size of Shortfall May Vary.*** The size of the shortfall can be affected by other factors. For instance, the estimates presented in Table 3 *do not* include any costs of (1) repair or restoration of highway facilities as a result of the Loma Prieta Earthquake or (2) retrofitting of bridge structures to improve their seismic safety. To the extent SHA or federal highway funds have to be used to pay for this work—rather than additional federal or state emergency relief funds—the shortfall through 1992-93 would be even greater. As discussed in further detail later, the budget contemplates using $266 million of normally available federal funds for seismic retrofit projects. Use of normal federal funds for these projects would reduce the amount available for STIP projects, and thus increase the size of the shortfall. (Please see page 270.)

The estimate also assumes that federal funds made available to California remain at about current levels in the future. To the extent the amount of federal funds is higher or lower, the shortfall would be affected accordingly.

## Budget Year Outlook

While the highway funding problem will continue in the future, it first became significant in 1988-89 and continued in the current year. Consequently, as shown in Chart 1, expenditures in 1988-89 and 1989-90 were

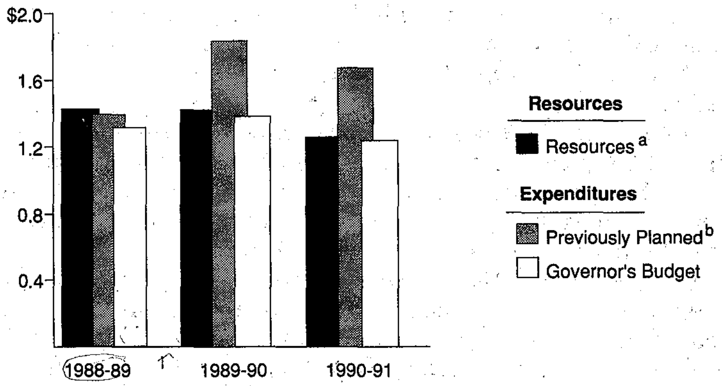
**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued**

reduced from previously planned levels—levels necessary to sustain maintenance, operations and capital outlay support activities and to fund STIP projects scheduled for construction—to levels which could be supported by available resources. These resources include one-time transfers to the SHA of $162 million, primarily from the Motor Vehicle Account, in the current year. (For a summary of actions taken in the 1988-89 and 1989-90 budgets, please see the *Analysis of the 1989-90 Budget Bill*, page 219.)

Chart 1

**State Highway Account Planned Expenditures Exceed Resources**

**1988-89 through 1990-91 (dollars in billions)**




[a] Including one-time resources of $162 million in 1989-90 and $58 million in 1990-91.

[b] To fund support activities and to award highway projects on schedule.

## Budget Proposes Further Program Reductions In 1990-91

As Chart 1 shows, the funding gap between available resources and planned expenditures will continue in the budget year. Based on revenues available under current law, the Governor's Budget identifies a $533 million deficit in SHA resources if current levels of highway maintenance, operations, and capital outlay support are to be sustained and highway capital outlay projects scheduled for construction award in 1990-91 are to be funded. In order to balance SHA resources and expenditures in 1990-91, the budget proposes the following actions.

*Current Year:*

- Reduce engineering services contracts by $17 million.
- Redirect staff to emergency repair, restoration and retrofit activities funded from non-SHA sources, thereby saving the SHA $15 million.

*Budget Year:*

- Eliminate $104 million in engineering services contracts and reduce other consulting services by $6 million.
- Defer award of highway projects with multi-year costs of about $470 million, in order to save $185 million in capital outlay expenditures in 1990-91.
- Freeze hiring, eliminate cash overtime and temporary help (except maintenance and toll collection) to reduce staff costs by $47 million and 765 PYs.
- Redirect staff from SHA-funded activities to work on (1) projects funded by local tax measures and by toll revenues, and (2) emergency repair, restoration and retrofit projects to save the SHA $36 million.
- Transfer $40 million from the TP and D Account to the SHA through reductions in the Transit Capital Improvements and State Transportation Assistance programs.
- Eliminate $64 million in SHA local assistance funding for mass transit rail projects.
- Shift $14.3 million in highway-related planning costs to the TP and D Account and reduce equipment expenditures by $5 million.

Thus, the budget proposes to (1) reduce SHA-funded staff by 765 PYs, (2) minimize the need for additional staff reductions by shifting staff from SHA-funded work to work funded by other sources, and (3) shift money from transit programs to the highway program to further alleviate the impact of the SHA deficit on highway activities. The impact of this latter policy on transit programs is discussed in further detail elsewhere in this *Analysis*. (Please see page 286.)

### Transportation Funding Acts

State highway revenues, however, might be significantly higher in 1990-91. This is because the Legislature enacted three measures—Ch 105/89 (SB 300, Kopp), Ch 106/89 (AB 471, Katz), and Ch 108/89 (AB 973, Costa)—which would increase transportation revenues beginning in the budget year through a combination of increases in the state gas tax and truck weight fees. However, these revenue increases would occur *only if* voters approve SCA 1 at the June 1990 election. The specific transportation funding provisions of the measures which are contingent on voter approval include:

- Increasing gas taxes from 9 cents per gallon to 14 cents per gallon on August 1, 1990 and incrementally to 18 cents per gallon by January 1, 1994.

- Increasing truck weight fees by 40 percent on August 1, 1990 and an additional 10 percent beginning January 1, 1995.
- Issuing $3 billion of general obligation bonds to fund capital improvements on rail systems. (Voter approval of $1 billion of such bonds will be sought at each of three elections—June 1990 and November 1992 and 1994. Only the first bond issue is subject to voter approval of SCA 1.)

The acts also provide that additional sales tax revenues resulting from an increase in the gas tax be used for specified transportation purposes.

The acts are projected to raise about $18.5 billion over the ten-year period 1990-91 through 1999-2000. As shown in Chart 2, if voters approve SCA 1, $3.5 billion of these new revenues would be allocated to address the shortfall in funding for the 1988 STIP. (As discussed earlier, the STIP shortfall is currently estimated by the department at about $3.7 billion—$200 million higher. The acts anticipated the possibility of increases in the 1988 STIP shortfall as a result of increases in project costs, and provided generally that STIP projects experiencing cost increases would have to re-compete for funding in the 1990 or later STIPs.) The balance of the new revenues would be available to fund a variety of transportation programs.

### Additional 1990-91 Revenues if SCA 1 Approved

Approval of SCA 1 by the voters would result in additional revenues of about $925 million in 1990-91. Of this amount, $175 million would automatically be allocated to cities and counties for streets and roads. About $718 million would be received by the State Highway Account with the remaining $32 million accruing to the TP and D Account.

### Administration's Proposals for 1990-91 if SCA 1 Approved

The Governor's Budget identifies a number of spending proposals which are *not* currently contained in the Budget Bill, but which the administration intends to present to the Legislature if SCA 1 is approved by the voters in June. These proposals—totaling $101 million—are summarized in Table 4. In addition, the budget indicates that the administration would seek authorization for $450 million for 1988 STIP projects, $250 million for the State Local Partnership Program and $100 million for traffic systems management. The details of the administration's proposal are not currently available.

Chart 2

## $18.5 Billion In New Revenues Would Be Allocated To Transportation Programs Over 10 Years If Voters Approve SCA 1

**1990-91 through 1999-2000**

- ☑ **$3.5 billion—*1988 State Transportation Improvement Program (STIP)***—to fund the state's currently adopted construction program.
- ☑ **$3 billion—*Rail Projects***—bond funds to construct or improve intercity, commuter and urban rail transit systems.
- ☑ **$1.3 billion—*Interregional Roads***—to construct or improve state highway segments principally serving interregional or intercounty travel and located outside urbanized areas of the state.
- ☑ **$3 billion—*Flexible Congestion Relief***—allocated, based on cost-effectiveness, among highway, street or transit projects designed to relieve traffic congestion.
- ☑ **$2 billion—*State-Local Partnership***—to match an equal amount of local funds for eligible road, highway or rail transit projects.
- ☑ **$3 billion—*Streets and Roads***—to cities and counties to maintain and improve streets and roads.
- ☑ **$2.7 billion—*Other***—for traffic systems management ($1 billion), highway maintenance and rehabilitation ($1 billion), transit operations and capital improvements ($500 million), soundwalls ($150 million) and environmental enhancement and mitigation ($100 million).

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

**Table 4**
**Department of Transportation**
**Budget Proposals if SCA 1 is Approved**
**(dollars in millions)**

| | *Personnel-Years* | *Amount* |
|---|---|---|
| *Baseline Adjustments* | | |
| Salary savings adjustment | — | $5.1 |
| *Workload and Program Changes* | | |
| Local tax measure workload and state local partnership program | 119.4 | 22.7 |
| Advanced roadway technology program and research and development center | 18.7 | 19.1 |
| Bay area toll bridge workload | −82.7 | 10.9 |
| STIP preparation workload | 149.8 | 9.6 |
| Computer drafting and design equipment | — | 8.2 |
| Highway maintenance workload | 52.2 | 5.2 |
| Congestion relief strategies | 10.3 | 3.3 |
| Maintenance and inspection of bridges | 18.3 | 2.8 |
| Advanced transportation system development | 54.0 | 2.5 |
| Automated grade crossing maintenance | — | 2.5 |
| Travel behavior survey | — | 1.5 |
| Project management system | 22.6 | 1.5 |
| Litter removal by inmates | 19.6 | 1.4 |
| Staff support for mass transportation program | 14.4 | 1.3 |
| Permits workload and automation | 11.5 | 1.0 |
| Hispanic recruitment | 12.7 | 1.0 |
| Other | 7.3 | 1.4 |
| Totals | 428.1 | $101.0 |

The Legislature will need to determine whether it wishes to review such proposals through the normal budget process or whether it wants to address implementation of such proposals in subsequent legislation.

At the time this analysis was prepared, we had not yet had an opportunity to review these proposals. We will be reviewing these proposals and will provide our analysis and recommendations to the Legislature, as appropriate.

**Progress in Implementing 10-Year Funding Plan**

Because of the Legislature's desire to review progress in implementing the 10-year funding plan contained in the transportation acts, Ch 105/89 requires the Legislative Analyst to prepare a brief analysis of proposed expenditures for specified program elements as part of the *Analysis.* Our understanding of the Legislature's intent in enacting this requirement is that we report on the use of new revenues and bond proceeds made available if SCA 1 and related bond measures are approved by the voters. The report is to identify cumulative prior expenditures for these specified elements and the expenditures proposed in the Governor's Budget.

Table 5 summarizes the total expenditures proposed in the Governor's Budget for each of the elements we are required to report on by Chapter 105. However, because the budget is based on current revenues, *none* of these expenditures would be from new revenues or bond proceeds available if SCA 1 is approved by the voters in June 1990.

**Table 5**
**Department of Transportation**
**Proposed Expenditures By Specified Program Elements**
**1990-91**
**(dollars in millions)**

| *Element* | |
|---|---|
| Program development | $25 |
| Maintenance | 646 |
| Operations | 97 |
| Traffic systems management | 14 |
| Flexible congestion relief | 1,053 |
| Interregional road system | 79 |
| Rehabilitation and safety | 538 |
| Intercity, commuter and urban rail | 17 |
| State local partnership program | — |
| Environmental enhancement and mitigation programs | — |
| Soundwalls | 17 |
| Other highway construction | 49 |
| Administration (distributed) | (191) |

## HIGHWAY TRANSPORTATION

Of the total 1990-91 expenditures proposed in the department's budget, $3 billion (93 percent) is proposed for the Highway Transportation program. This is a decrease of about $851 million, or 22 percent, from estimated expenditures in the current year. The reduction consists of $121 million in state operations, $11 million in local assistance, and $719 million in capital outlay expenditures. The budget proposes to decrease staff for the program by 698 personnel-years.

As shown in Table 6, state funds will finance $1.3 billion (45 percent) of the total proposed expenditures, the federal government will fund an additional $918 million (31 percent), and the remaining $707 million (24 percent) will be reimbursed primarily from local (sales tax measures) and private (developer) funds.

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

**Table 6**
**Department of Transportation**
**Highway Transportation**
**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* |
| *State Operations* | | | | | | | |
| Capital outlay support | 7,153.7 | 7,142.0 | 6,628.9 | $626,519 | $634,863 | $513,171 | −19.2% |
| Local assistance | 226.7 | 260.7 | 244.0 | 18,034 | 21,246 | 21,149 | −0.5 |
| Program development | 318.1 | 309.2 | 291.7 | 23,582 | 25,339 | 25,370 | 0.1 |
| Operations | 1,452.5 | 1,425.1 | 1,321.3 | 113,000 | 127,200 | 96,843 | −23.9 |
| Maintenance | 5,580.6 | 5,962.3 | 5,915.7 | 538,182 | 614,636 | 645,607 | 5.0 |
| Equipment services | (733.3) | (738.5) | (686.8) | (100,414) | (102,140) | (95,911) | (−6.1) |
| Subtotals | 14,731.6 | 15,099.3 | 14,401.6 | ($1,319,317) | ($1,423,284) | ($1,302,140) | (−8.5%) |
| *Local Assistance* | | | | | | | |
| Local assistance | | | | $222,451 | $305,332 | $301,760 | −1.2% |
| Operations | | | | 6,500 | 7,750 | — | −100.0 |
| Subtotals | | | | ($228,951) | ($313,082) | ($301,760) | (−3.6%) |
| *Capital Outlay* | | | | | | | |
| Capital outlay projects | | | | $1,501,660 | $2,068,374 | $1,349,756 | −34.8% |
| Local assistance | | | | 59,613 | — | — | — |
| Subtotals | | | | ($1,561,273) | ($2,068,374) | ($1,349,756) | (−34.7%) |
| Totals | | | | $3,109,541 | $3,804,740 | $2,953,656 | 22.4% |
| Funding Sources | | | | | | | |
| *State Funds* | | | | *$1,394,746* | *$1,440,561* | *$1,328,367* | *−7.8%* |
| *Federal Funds* | | | | *1,404,550* | *1,782,415* | *918,040* | *−48.5* |
| *Reimbursements* | | | | *310,245* | *581,764* | *707,249* | *21.6* |

### Expenditures for Loma Prieta Earthquake

One major adjustment proposed by the budget for 1990-91 is to use existing staff to work on retrofitting highway structures in order to enhance their seismic safety, and to do repair and reconstruction work related to the Loma Prieta Earthquake.

The budget includes approximately $24 million in the current year and about $317 million in the budget year for highway activities related to the earthquake. Earthquake expenditures included in the Governor's Budget are summarized in Table 7.

**Table 7**
**Department of Transportation**
**Loma Prieta Earthquake Expenditures**
**1989-90 and 1990-91**
**(dollars in thousands)**

| | *Personnel-Years* | | *Expenditures* | |
|---|---|---|---|---|
| *Activity* | *Est. 1989-90* | *Prop. 1990-91* | *Est. 1989-90* | *Prop. 1990-91* |
| *State Operations* | | | | |
| Emergency opening/repair of highways | 105 | — | $7,000 | — |
| Ferry service | — | — | 2,000 | — |
| Restoration of facilities | 94 | 75 | 5,000 | $4,000 |
| Update seismic standards | — | — | 100 | 450 |
| Seismic retrofit (engineering) | 57 | 245 | 3,000 | 13,000 |
| *Local Assistance* | | | | |
| Emergency transportation services | — | — | 1,800 | — |
| Seismic retrofit (local structures) | — | — | 5,000 | 9,000 |
| *Capital Outlay* | | | | |
| Bridge reconstruction and seismic retrofit (state structures) | — | — | — | 291,000 [a] |
| Totals | 256 | 320 | $23,900 | $317,450 |
| Funding Source | | | | |
| *State Funds* | | | *$7,000* | *$51,450* |
| *Federal Funds* | | | *16,900* | *266,000* |

[a] Includes $266 million of federal emergency relief funds or regular federal apportionments.

## Earthquake Expenditures Will be Higher

***We recommend that, by April 1, 1990, the department report to the fiscal committees on the estimated costs of recovery from the Loma Prieta Earthquake, including costs of bridge seismic retrofit work statewide, and the availability and planned use of federal and state funds for these purposes.***

The department indicates that the Governor's Budget reflects only a portion of expenditures for the restoration and repair of earthquake damages—those related to the redirection of staff costs from the SHA and expenditures from funds directly appropriated to the department by Ch 18x/89 (SB 36x, Kopp).

Actual expenditures, however, will be higher. For example, the department indicates that as of mid-January 1990, it had awarded $57 million in emergency contracts. Another $38 million of emergency contracts were pending award. In addition, the department also identified about $31 million in expenditures for maintenance work, damage assessments and other support costs related to the earthquake. Taken together, these costs total about $126 million—or about $102 million more than the expenditures identified in the Governor's Budget for the current year.

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

Because the Governor's Budget understates the likely expenditures related to the earthquake in both the current and budget years, the Legislature needs to know the following in reviewing the budget for 1990-91:

- What the current year, budget year, and future costs of recovery from the earthquake are estimated to be.
- To what extent those costs will be funded from (1) *additional* federal funds made available to California for emergency relief, or (2) federal funds *normally* available to California which otherwise are used to fund non-earthquake- related projects or activities.
- What portion of the earthquake-related costs the administration expects to fund from the revenues generated by the special 1/4 percent sales tax, and what other sources of funds (such as the SHA) would be used to pay the remaining costs.

At the time this analysis was prepared, the department indicated that it was still developing cost estimates and other information needed to answer these questions. The department indicated that it intends to provide this information to the Legislature once it becomes available. We recommend that the department report to the Legislature by April 1, 1990 addressing the points identified above.

**Use of Normally Available Federal Funds for Seismic Retrofit Program**

***We find that the proposal to spend about $266 million of normally available federal funds to accomplish work under the Seismic Retrofit Program could reduce federal funds available to accomplish STIP projects.***

Chapter 17x, Statutes of 1989 (AB 38x, Sher) and Ch 18x/89 (SB 36x, Kopp), require all publicly owned bridges in California to be inspected for seismic safety by Caltrans or appropriate local agencies. Bridges found to have structural deficiencies are to be retrofitted to correct these deficiencies by the end of 1991. To fund these retrofit projects, the acts provided $80 million in emergency sales tax money (from the Disaster Relief Fund) to be used as follows:

- $60 million to retrofit state bridges and to match federal funds available for that purpose.
- $20 million to local agencies to retrofit local bridges.

***Cost of Program for State Bridges Estimated at About $300 Million.*** The department estimates that the multi-year costs of the state's Seismic Retrofit Program will be about $300 million (including about $291 million—$266 million in federal funds and $25 million in state funds—in 1990-91, as shown in Table 7). This preliminary estimate, however, is subject to change once the department determines how best to accomplish the task of retrofitting state bridges.

***Federal Emergency Relief Funds May Not be Available for the Program.*** At the time the Seismic Retrofit Program was established, it was not known if this program could qualify for federal emergency relief funds. This is because these federal funds generally are provided to the state only for qualifying emergency *repair* or *restoration* projects in the disaster area. These funds are *in addition to* any other federal highway funds that the state is entitled to receive through normal annual allocations and apportionments.

While the department is still seeking federal approval to use emergency relief funds for the Seismic Retrofit Program, the budget assumes that normal federal apportionments will have to be used for this effort. Because this would reduce the amount of federal funds available to nonearthquake projects in the STIP, the use of normally available federal money for seismic retrofit work represents a significant *policy choice* which the Legislature should review in the course of its budget deliberations. However, if the Legislature decides not to use the normally available federal money for the retrofit program, it would need to decide, based on its own priorities, what other state funds can be used for this purpose.

## Capital Outlay Support

For 1990-91, the budget proposes $513 million and 6,628.9 personnel-years in state staff to design and engineer highway projects on the state system. This is about 513.1 PYs and $124.7 million *less* than the amount projected to be expended in the current year.

### Legislature Approved Development of Shelf Projects in Current Year

In general, the department's need for staff resources to design and engineer projects is related to the number, type and schedules of projects to be awarded over a multi-year period. Similarly, the amount of staff resources needed to oversee construction on highway projects is related to the same factors. Thus, in any given year's budget, the department is requesting resources to work on projects which are at various stages of development and construction.

Since 1987-88, the department has augmented its capital outlay support staff by about 1,480 PYs to increase its capacity to get projects ready for construction. As we indicated in last year's *Analysis* (please see the *Analysis of the 1989-90 Budget Bill*, page 233), the budget for the current year provided a level of staff resources for project design and engineering which would make more STIP projects ready for construction than could be funded given existing revenues. Projects that are design-ready but lack funding are put "on the shelf" awaiting future funding.

In adopting the 1989-90 budget, the Legislature concurred in the policy to maintain project development resources and to develop shelf projects. This was done in order that the department could have projects ready to make use of new highway revenues in the event that the voters approve SCA 1. As discussed elsewhere in this *Analysis*, if voters approve SCA 1 at the June 1990 election, the SHA would receive about $718 million in additional revenues in 1990-91. In that event, "shelf" projects would be funded.

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

**What Amount of Project Development Work Should be Continued if New Revenues are Not Available?**

If voters do not approve SCA 1, the Legislature will need to determine what level of highway capital outlay program the state should sustain in the budget year and subsequent years. Depending on the size of the future capital outlay program, the size of project development staff might need to be adjusted. Specifically, it is likely that in order to avoid further increases in the number of unfunded shelf projects, further reductions in staff level—below those proposed in the Governor's Budget—would be necessary to balance project support with funding available for capital outlay.

Such reductions in project development staffing costs could, in the short term, free up some funding for state match on highway projects or for other high priority needs. In the longer term, however, it would adversely affect the department's ability to deliver projects in the event additional funds are made available.

**Department Should Relate Budget Request to Workload**

*We find that the department has not provided workload justification for its request for capital outlay support. Therefore, we recommend that the department provide such justification to the fiscal committees by April 1, 1990.*

The department not only develops and oversees the construction of capital outlay projects scheduled in the STIP but, increasingly, it oversees the development and construction of projects funded by local and private sources. Consequently, the annual capital outlay support request includes resources for work on the STIP as well as other projects.

In order to evaluate whether staff resources requested are adequate to carry out the state's capital outlay improvement program, as reflected in the STIP, the Legislature needs to know what work the department proposes to accomplish.

In the past, the department has provided this information based on a model used to estimate staffing needs given project schedules. We requested that the department again provide this information for the budget year. At the time this analysis was prepared, the department had not provided this information.

In order for the Legislature to review the department's 1990-91 request, this information is essential. This is because the department is proposing to redirect staff to work on projects funded by others—including local and private sources, as well as projects that are not scheduled in the STIP (for example, seismic retrofit projects). Without knowing the mix of work planned to be accomplished, the Legislature has no basis to evaluate whether the department's proposal is a realistic one. For instance, it cannot be determined whether local funds would indeed be available to pay for Caltrans staff and whether the staffing level proposed for this work is too high or too low. Additionally, the Legislature cannot determine what additional STIP projects would be developed for the *shelf.*

Consequently, we recommend that the department provide justification for its capital outlay support request to the fiscal committees by April 1, 1990. This justification should clearly identify the amount and type of work to be performed and should clearly relate this information to the department's plans for delivery of projects over a multi-year period and to projects under construction.

### Savings May Not Materialize

***We find that the department would be forced to initiate layoffs or make further reductions in other portions of its budget if the assumptions used to develop its staffing request prove overly optimistic.***

In order to develop an expenditure plan which can be accommodated within current revenues, the budget proposes, among other adjustments, to (1) eliminate SHA-funded engineering consultant contracts for a total savings of about $121 million during the current and budget years, (2) reduce project development staff (as part of the departmentwide staff reductions) by about 460 PYs and $28 million through a hiring freeze and reductions in temporary help and cash overtime, and (3) redirect 295 PYs to non-SHA-funded work including toll bridge work, local sales tax measure work and work funded from private sources for SHA savings of about $36 million.

Our review indicates that the staff adjustments proposed in the Governor's Budget are based on *optimistic* assumptions regarding the amount of staff which can be shifted to non-SHA-funded activities and on the amount of savings which can be achieved through attrition. For example, our review shows that much of the work the department hopes to do for local or private entities has not been negotiated or otherwise specifically identified. Furthermore, the department does not have a specific staffing plan which matches the amount of work with staff resources. For example, it is not known whether the emphasis on toll bridge, seismic retrofit, and earthquake reconstruction would outstrip the structural engineering staff resources estimated to be available.

To the extent the department's staffing assumptions prove overly optimistic, the staff cost savings to the SHA would not be realized. Consequently, the department would be forced to initiate layoffs or make further reductions in other portions of its budget.

### Failure to Report on Project Development Costs

***We find that the department failed to submit to the Legislature its report on highway project development costs, as required by Ch 105/89 (SB 300, Kopp).***

***We recommend that the department report, at the time of budget hearings, on the methodology used to estimate its costs of project development and any actions it can take to address problems in allocating project development costs against individual projects.***

Chapter 105, Statutes of 1989 (SB 300, Kopp), requires Caltrans to keep its project development costs (that is, the costs of engineering and

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

designing highway projects) from exceeding 20 percent of the value of projects awarded in a year. Chapter 105 also requires (1) the department to report by November 15 of each year on its project development costs in the preceding year and (2) the Legislative Analyst to assess annually in the *Analysis* the extent to which the department's project development costs meet the 20 percent standard.

At the time we prepared this analysis, the department had not submitted to the Legislature the first report required under the new law. (This report was due November 15, 1989.) During our review of the budget, department staff provided us with a *preliminary* estimate of project development costs and a subsequent revision to these preliminary estimates. However, we are unable to provide the Legislature with our assessment of the department's project development costs, as required by Chapter 105, until the department submits its final report to the Legislature.

***Department's Methodology Does Not Capture All Costs.*** Based on our review of the preliminary information provided by the department, we are concerned that its current methodology excludes $248 million in highway projects awarded for the Century Freeway. The department indicates that its accounting systems do not allow it to determine the amount of project development costs attributable to these projects which were actually awarded. According to the department, this is because these projects were originally part of other Century Freeway projects which are yet to be awarded, and it cannot identify what amounts of project development costs should be allocated to which portions of the project.

Because other highway projects are frequently *split* in a similar manner during their development, the department's inability to allocate costs among Century Freeway projects raises a question regarding the validity of its methodology for cost allocation for other non-Century Freeway projects.

In order to ensure that the department's project development cost methodology fully captures all relevant costs, we recommend that the department report, at the time of budget hearings, on the methodology it uses to estimate costs of project development and any actions it can take to address problems in allocating these costs against individual projects.

**Cost-Effectiveness of Using Consultant Engineers Merits Review**

***We recommend that, prior to budget hearings, the department provide the fiscal committees with its financial analyses used to demonstrate the cost-effectiveness of contracting for engineering services.***

Beginning in 1986-87, the department expanded its use of consultant engineers to perform project development work. In 1988, the Legislature enacted Ch 9/88 (SB 516, Bergeson) to facilitate the department's ability to contract directly with private firms for engineering services. Chapter 9 also required the department to adopt guidelines for determining the appropriateness of contracting with consultant firms. Among other things, these guidelines are required to ensure that the cost-effectiveness of contracting is considered equally with other factors when a determination to contract is made.

Since 1986-87, the Legislature has appropriated about $283 million to the department to contract with engineering consultants, and the department has executed more than 270 consultant contracts.

As discussed earlier, the department is proposing to eliminate a total of $121 million in SHA-funded costs for engineering consultants during the current and budget years. The department indicates, however, that these consultant funds would be restored to the budget if SCA 1 is approved by the voters in June.

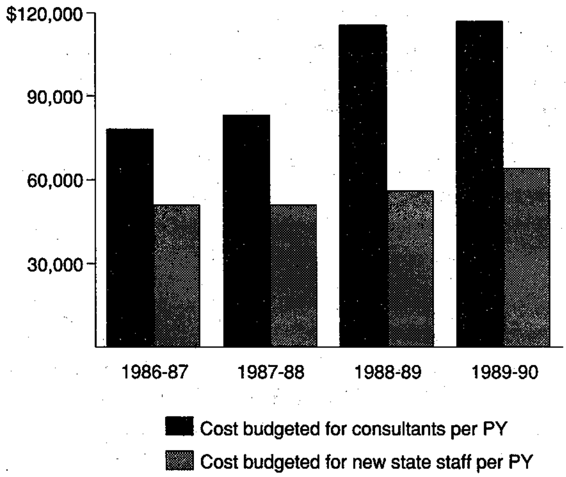
***Direct Costs of Contracting are Higher than State Staff Costs.*** Our review indicates that the costs of using consultants is higher than using state staff. We made this comparison in two different ways. First, we compared consultant costs to the costs of hiring new state staff. Second, we compared the costs of consultant engineers with the costs of departmental engineers in comparable engineering classifications.

Chart 3 shows that, over the past four years, the estimated cost per PY for contracted consulting service has increased from about $78,000 in 1986-87 to $117,000 in 1989-90. Chart 3 also shows that the department's cost for a contracted PY is significantly higher than its costs to hire new staff. Both the costs for consultants and the cost for state staff include overhead. Consultant costs also include a profit margin (typically about 12 percent).

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

Chart 3

Cost to Contract for Engineering Services Higher Than Hiring New Staff




The comparison presented in Chart 3 may somewhat *overstate* the difference in costs between consultants and state staff because new staff are hired predominately at the entry level, while consultants may be more experienced engineers. To account for this difference in experience, we compared costs of more experienced in-house engineers with costs of comparable consultant staff for the assistant and associate engineering classifications. As indicated by Table 8, for each engineering classification, even the *lowest* cost for consultants is higher than the cost to support a comparable departmental staff who is at the top of the salary range. Not surprisingly, Table 8 shows that this cost differential increases with the level of engineering classification.

**Table 8**
**Department of Transportation**
**Comparison of Caltrans and Consultant Costs [a]**
**by Engineering Classification**

| *Engineering Classification* | *Caltrans (top step)* | *Consultant (minimum)* | *Consultant (maximum)* |
|---|---|---|---|
| Assistant | $79,890 | $90,923 | $144,536 |
| Associate | 98,025 | 121,962 | 181,148 |
| Squad Average (1 associate + 3 assistants) | 84,424 | 98,683 | 153,689 |

[a] Costs are based on 1,768 hours per personnel-year equivalent, and include 1989-90 salary and benefits, and administrative overhead. In the case of consultants, costs include an additional 12 percent for profit margin.

***Is Contracting Cost-Effective?*** While the *direct* costs of consultants are higher than the direct costs of state staff, this does not mean that contracting for engineering services may not be a cost-effective alternative for accomplishing engineering work. First, in some circumstances, contracting may be the *only* real alternative available to accomplish work when very specialized skills cannot be obtained within the department. Second, it may be more economical to employ consultant services for limited periods of time in order to accommodate peak workload. This would allow the department to avoid costs of hiring, training, and subsequently laying off, staff. For these reasons, the cost-effectiveness of using consultants to accomplish project development work requires that the department review the costs of alternative combinations of departmental staff and consultant services to accomplish its anticipated workload.

As noted earlier, Chapter 9 requires the department to consider cost-effectiveness equally with other factors when determining whether to contract for engineering services. We believe that the difference in direct costs between consultants and state staff raises a significant question as to the overall cost-effectiveness of using consultant engineering services. Therefore, we recommend that, prior to budget hearings, the department provide the fiscal committees with its financial analyses used to demonstrate the cost-effectiveness of contracting for engineering services.

## Review of 1988-89 Project Delivery

Because of concern over project delays, the Legislature has enacted, over the past two years, various requirements to ensure the timely delivery of state highway projects. Specifically, Ch 24/88 (SB 140, Deddeh) requires that:

- The STIP be a schedule for project delivery.
- The department submit to the Legislature annually, a project delivery plan and report based on the adopted STIP.
- The Legislative Analyst include, annually in the *Analysis*, an assessment of the department's progress in delivering projects as scheduled in the STIP.

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

***Department Fails to Comply with Statutory Reporting Requirements.*** For 1989-90, the department has failed to meet the statutory requirement that it provide the Legislature annually, by November 15, a project delivery plan which indicates its staffing needs to deliver STIP projects and a report which indicates the extent to which it achieved scheduled milestones for major highway projects. The department also has failed to submit various reports pursuant to requirements in the *Supplemental Report of the 1989 Budget Act.*

**Analyst's Assessment of Project Delivery Performance in 1988-89**

Pursuant to Chapter 24, we have completed the following assessment of the department's delivery of projects as scheduled in the STIP. *Project delivery* is defined in statute as occurring when a project is advertised.

***Caltrans Delivered About One-Third of 1988 STIP Projects for 1988-89.*** In total, the 1988 STIP scheduled 294 major projects (projects with costs of over $250,000) with a value of $1.1 billion to be delivered in 1988-89. (As discussed below, the department only scheduled 167 of these projects in its own delivery plan.) Our review shows that the department delivered 102 (34 percent) of these projects worth about $434 million (39 percent).

***Caltrans Unable to Deliver Projects According to STIP Schedules.*** The department indicates two reasons why it was unable to deliver projects as scheduled in the adopted 1988 STIP. First, schedules adopted in the 1988 STIP may have been too optimistic. Second, it had to deliver a backlog of projects from prior years that had resulted due to inadequate staff resources.

***Caltrans Developed its Own Project Delivery Plan.*** Because not all STIP projects could be delivered on their original schedules, Caltrans developed its own project delivery plan that would enable it to complete all STIP projects, including backlogged projects, over the 1988 STIP period. The department's 1988-89 delivery plan is summarized in Table 9. Instead of delivering only STIP projects scheduled for 1988-89, Table 9 shows that the department planned to deliver a combination of backlogged projects, projects scheduled in the STIP for 1988-89, as well as projects which have been scheduled for delivery in later years. The department indicates that, when some projects originally included in the annual delivery plan were delayed, it attempted to accelerate development on other projects (scheduled for later years) in an effort to ensure that the overall number and dollar value of projects completed met the delivery plan target.

***Total Project Delivery in 1988-89 was Higher, but Still Short of Department's Plan.*** While the department delivered only about one-third of the projects scheduled in the 1988 STIP for 1988-89, it was able to deliver other backlogged projects as well as some projects scheduled for later years, as intended by the department's own delivery plan. In total, it delivered 219 major projects with a value of about $919 million in 1988-89.

**Table 9**
**Department of Transportation**
**Project Delivery Versus 1988-89 Delivery Plan**
**By Year Scheduled in the 1988 STIP**
**(dollars in millions)**

| *Year Scheduled in 1988 STIP* | *Number of Projects* | | | *Construction Cost* | | |
|---|---|---|---|---|---|---|
| | *Planned* | *Delivered* | *Late* | *Planned* | *Delivered* | *Late* |
| Unscheduled [a] | 28 | 22 | 6 | $67 | $64 | $3 |
| 1986-87 and prior years | 31 | 23 | 8 | 131 | 87 | 44 |
| 1987-88 | 83 | 61 | 22 | 323 | 300 | 23 |
| 1988-89 | 167 | 102 | 65 | 586 | 434 | 152 |
| 1989-90 and later years | 20 | 11 | 9 | 57 | 34 | 23 |
| Totals | 329 | 219 | 110 | $1,164 | $919 | $245 |

[a] Includes STIP amendments, locally funded projects, and partial STIP jobs.

Our analysis shows, however, that this level of delivery was still short of the department's own delivery plan goal. As Table 9 shows, for 1988-89 the department planned to deliver 329 major projects originally scheduled for various years. These projects had estimated construction costs of about $1.2 billion. Table 9 shows that the delivery of $919 million was $245 million less than planned. With respect to the projects scheduled in the STIP for 1988–89, the department delivered only 102 (61 percent) of the 167 projects it had included in its own delivery plan. Given this level of performance, it will take several years for the remaining 1988-89 STIP year projects to be delivered.

***Legislative Oversight Impeded by Failure to Submit Report.*** As previously indicated, the department failed to provide the Legislature with the project delivery report required by Ch 24/88. In the absence of this report, the Legislature does not have the information it needs to adequately assess the specific reasons for any delays in project delivery. This is because the report is required to indicate the extent to which projects failed to meet certain milestones (such as completion of environmental assessments and design activities on highway projects). In addition, the report is required to specify *why* these projects were delayed, and provides a plan to resolve these problems and a schedule to complete these projects.

### Affirmative Action Goals for Project Development

As is also required by Ch 24/88, the following reviews the extent to which the composition of the department's project development staff—consisting primarily of engineers and technicians—achieves affirmative action goals. To assess the department's achievement of these goals, we first evaluate the overall representation of its employees (by ethnicity and gender) relative to the mix found in the California private-sector labor force. If the mix is the same, then the department has achieved parity. Secondly, we evaluate the attainment of specific goals included in the department's 1988-89 Affirmative Action Plan.

***Department Made Limited Progress in Meeting Overall Goals for Some Target Groups.*** Chart 4 shows the extent that the department's

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

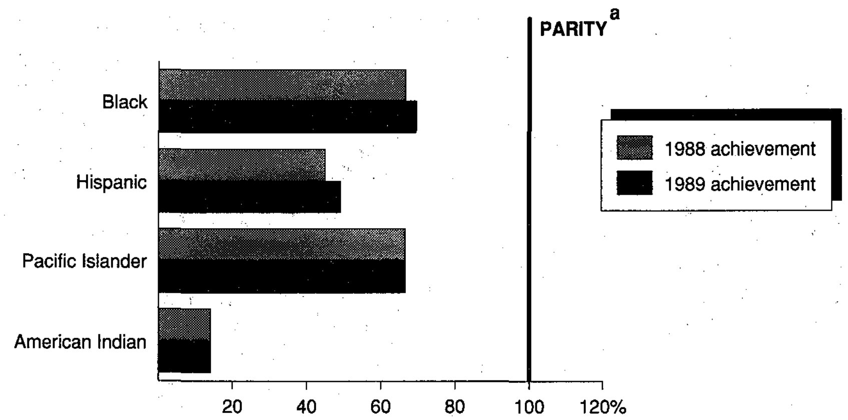
overall project delivery staff achieved labor-force parity in 1988 and 1989 for selected target groups. As shown by the chart, the representation of black and Hispanic groups as a percent of project development staff increased slightly—that is, moved closer to parity—in 1989 as compared to 1988. The chart indicates, however, that target groups such as American Indians and Pacific Islanders were unchanged from the previous year.

Our review also shows that women, as a whole, did not move closer to parity in 1989. However, the representation of women improved in certain job classifications. Most notably, the number of women in professional classifications, which includes engineers, *increased* about 23 percent over the 1988 level.

Chart 4

**Attainment of Private Sector Labor Force Parity Project Development Staff**

**1988 versus 1989**




[a]Private sector parity based on 1980 U.S. Census.

***Department Met Hiring Goals.*** In order to improve the representation of various minority groups within its staff, the department has established hiring goals for specific groups. Our review indicates that the department met its hiring goals in 1988-89. For instance, it (1) achieved its 10 percent hiring goal for Hispanics in engineering classifications and (2) exceeded its 33 percent hiring goal for women.

### Caltrans Attainment of Minority and Women Business Goals

Chapter 24, Statutes of 1988, also requires that we review the extent to which the department has met the minority and women business enterprise goals established by Ch 9/88 (SB 516, Bergeson). Under Chapter 9, the department is authorized to contract directly with private consultants to perform various project development services such as environmental reviews, project engineering, and design on state highway projects. Additionally, Chapter 9 establishes goals of 15 percent for minority business enterprise (MBE) and 5 percent for women business enterprise (WBE) for engineering contracts. These goals are based on the total dollar value of contracts awarded by the department.

***Caltrans Exceeded Combined MBE/WBE Goal in 1989.*** During 1988-89, the department awarded a total of $97.1 million in contracts with private consulting firms for engineering services. Of this total, our review indicates that $20.5 million was awarded to minority and women business enterprise firms. This represents a combined achievement of 21 percent, which is slightly higher than the 20 percent combined goal established for MBE/WBE firms by Chapter 9. In total, the department indicates 222 contracts were awarded to these firms, including 186 to minority-owned firms and 36 to women-owned firms.

Relative to the individual goals for MBE and WBE contracts, the department:

- Exceeded the 15 percent goal for MBE firms (17 percent attained).
- Fell short of the 5 percent goal for WBE firms (4.1 percent attained).

The department indicates that it was able to exceed the goal for minority firms due, in part, to the relatively large number of minority-owned engineering firms in the consulting engineering industry, whereas there are relatively fewer women-owned firms in the industry to perform the contract work. To improve their representation, the department indicates that it has implemented an outreach program in order to identify women-owned engineering firms and to ensure these firms are certified for contract award under the department's WBE program.

## Highway Capital Outlay

The Governor's Budget proposes highway capital outlay expenditures in 1990-91 of $1.3 billion. This is $718 million (35 percent) less than estimated current-year expenditures of $2.1 billion. Of the total highway capital outlay expenditures proposed for 1990-91, about $628 million will be funded from SHA and federal funds. The remaining amounts would be funded from local and private reimbursements and from toll revenues.

Table 10 summarizes the expenditures proposed in the Governor's Budget for 1990-91 to be funded from SHA and federal funds. Due to the lack of SHA funds (as discussed earlier), the budget proposes the use of SHA money mainly to pay for capital projects that have been awarded, as well as to acquire right-of-way. As shown in the table, apart from seismic retrofit, bridge reconstruction, safety and minor projects, no new capital outlay work would be awarded.

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

**Table 10**
**Department of Transportation**
**1990-91 Highway Capital Outlay Expenditures**
**State Highway Account and Federal Funds**
**(dollars in millions)**

| | Expenditures | | |
|---|---|---|---|
| *Projects* | *SHA* | *Federal* | *Total* |
| Capital projects previously awarded | $70 | — | $70 |
| Seismic Retrofit Program | — | $250 | 250 |
| Bridge reconstruction | — | 16 | 16 |
| Safety projects | 6 | 54 | 60 |
| Minor projects | 11 | 35 | 46 |
| Right-of-way | 80 | 106 | 186 |
| Totals | $167 | $461 | $628 |

## Emphasis On Right-of-Way Acquisition a Matter of Legislative Priorities

***We recommend that, prior to budget hearings, the department report to the fiscal committees on the level of right-of-way funding needed in 1990-91 for only those projects which can be awarded based on existing revenues.***

As shown in Table 10, the department proposes expenditures of $186 million in 1990-91 for right-of-way acquisition. This includes $80 million in SHA funds and $106 million in federal funds. This is about the same level of right-of-way expenditures as the past and current years.

Expenditures on right-of-way acquisition and related activities typically precede the award of highway projects for construction, sometimes by several years. Consequently, as in the case of project development costs discussed earlier, expenditures for right-of-way acquisition should be related to the number, type, and schedule of projects to be delivered over a multi-year period.

The department indicates that it has requested a level of right-of-way funding necessary to deliver projects according to previously adopted schedules. This level of funding for right-of-way acquisition is inconsistent with the levels that would be needed to deliver projects which can be awarded based on existing revenues. The department indicates, however, that a level of funding for right-of-way projects that is lower than that proposed in the Governor's Budget would make it difficult to deliver projects in the future in the event additional funds become available. This is because, to the extent properties increase in value over time, a delay in their acquisition would increase the cost of future highway projects.

In reviewing the budget, the Legislature will need to decide whether (1) to approve the proposed policy of maintaining right-of-way funding at the historical level for the last two years or (2) to provide a lower funding level that is adequate to deliver only those projects which can be awarded based on existing revenues. In making this decision, the Legislature will need to consider whether additional transportation funding would be available in the near future if SCA 1 fails.

In view of the above, we recommend that the department report to the fiscal committees prior to budget hearings on the level of right-of-way funding needed in 1990-91 to deliver only projects which can be awarded based on existing revenues (that is, without the passage of SCA 1).

Ultimately, the Legislature will need to determine whether the department's proposed policy of maintaining right-of-way funding at current levels corresponds to the Legislature's priorities in the use of limited resources, and adjust the department's request accordingly.

## Highway Maintenance

### Budget Restores Reductions in Preventive Maintenance

For 1990-91, the department proposes a total of 5,915.7 personnel-years and $645.6 million in order to maintain the state's roadways, bridges, landscaped areas, and other highway facilities. Included in this amount is $38.2 million to *restore* one-time reductions in funds for various maintenance activities. These reductions were taken in the current year to make up for the shortfall in state highway revenues. Specifically, the budget restores funding for the following:

- $25.4 million for preventive maintenance on roadways (chip seals), and for repair of rigid pavement and structures.
- $8.2 million for maintenance materials.
- $4.7 million for purchase of maintenance equipment.

***No Increase in Resources in 1990-91 to Match Growth in Highway Maintenance Inventory.*** Although the budget restores previous reductions in maintenance funds, it does not provide additional resources to accommodate the inventory of roadways and bridges added to the state highway system in the last year. Consequently, while maintenance workload has grown, resources to handle this workload will not increase.

Our analysis indicates that, in the short run, this underbudgeting for maintenance workload will result in the deferral of some maintenance work. In the long run, if resources do not keep pace with inventory increases, the department would have to incur higher costs to rehabilitate the inadequately maintained roads. For example, the department indicates that preventive maintenance of road surfaces costs from $5,000 to $10,000 per lane mile, whereas rehabilitating these roads costs about $100,000 per lane mile.

### Increased Resources Provided For Lowest Priority Work

***We recommend deletion of 30 personnel-years and $3,789,000 from the SHA proposed to increase the level of litter removal on state highways because these activities are of relatively low priority. We further recommend that the Legislature redirect this amount to activities consistent with its own priorities.***

For 1990-91, the budget proposes an additional 30 personnel-years and $3.8 million to augment the level of litter removal along state highways in urban areas. Because of the shortfall in the SHA, this work is proposed to be funded by a transfer from the Motor Vehicle Account. According to the department, these funds would be used to purchase state-of-the-art

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

litter removal equipment, as well as to increase staff devoted to litter removal in Los Angeles, Orange County, and the Bay Area.

***Budget Increases Resources for Lowest Priority Work.*** Table 11 shows that, relative to all highway maintenance work performed by the department, litter removal is ranked the *lowest* priority and serves primarily an aesthetic purpose. Our review indicates that, despite the low priority ranking, the department proposes to increase resources allocated in this area, while providing no additional resources to respond to higher priority safety or preservation work activities.

**Table 11**
**Department of Transportation**
**Highway Maintenance**
**Priority of Work by Type**

| *Basis of Priority* | *Priority Order*[a] | *Type of Work* |
|---|---|---|
| Safety response | 1 | Snow & ice control |
| | 2 | Storm damage |
| | 3 | Pavement markers and striping |
| | 4 | Highway lighting & traffic signals |
| | 5 | Slopes/drainage/vegetation |
| Preservation | 6 | Rigid pavement |
| | 7 | Landscaping |
| | 8 | Flexible pavement |
| | 9 | Rest areas |
| | 10 | Bridges |
| Other Structures | 11 | Tunnels, tubes, toll booths |
| Aesthetics | 12 | Litter debris removal |

[a] The priority order has been established by Caltrans' Maintenance Program.
Source: Caltrans, January 1990.

We agree that litter along state highways is unsightly. However, given the fact that (1) litter removal is the department's lowest maintenance priority and (2) the funds available for transportation purposes are limited, we believe it is not prudent for the department to devote an *increased* level of resources for litter removal at this time.

For the these reasons, we recommend that 30 personnel-years and $3.8 million from the SHA be deleted, and that the Legislature redirect these resources to other activities consistent with the Legislature's own priorities. For instance, these could include matching available federal funds or reducing the transfers made from the TP and D Account.

## MASS TRANSPORTATION

The Mass Transportation program is the second largest program within the Caltrans budget, with expenditures that account for approximately 6.3 percent of the department's total budget. As shown in Table 12, a total of $201.9 million is proposed for expenditure in 1990-91 in seven different mass transportation activity areas. This amount consists of $76.9 million for state operations, $71.8 million for local assistance, and $53.2 million for capital outlay. The program for 1990-91 represents a decrease of $86 million or 30 percent, from estimated current-year expenditures.

This decrease, however, is understated. In the budget year, expenses for rideshare operations activities are included in the Mass Transportation program, while these expenditures are not included under the program in the current year. Accordingly, when current-year expenditures including rideshare operations are compared to budget-year expenditures, the budget request reflects a decrease of $116.8 million, or 37 percent, from total estimated expenditures for 1989-90.

**Table 12**
**Department of Transportation**
**Mass Transportation**
**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* |
| *State Operations* | | | | | | | |
| Full mobility transportation | 23.3 | 23.0 | 23.0 | $1,321 | $1,309 | $1,330 | 1.6% |
| Local assistance - mass transportation | 43.3 | 43.5 | 39.4 | 2,057 | 3,152 | 3,558 | 12.9 |
| Interregional public transportation | 43.9 | 42.2 | 48.2 | 31,936 | 29,689 | 33,514 | 12.9 |
| Transfer facilities and services | 31.5 | 30.0 | 30.0 | 2,621 | 3,509 | 3,614 | 3.0 |
| Transportation demonstration projects | 4.7 | 5.1 | 5.1 | 270 | 496 | 532 | 7.3 |
| Work for others | 6.7 | 6.8 | 0.5 | 2 | 1,805 | 1,464 | −18.9 |
| Rideshare operations [a] | (45.8) | (47.2) | 57.5 | (10,630) | (30,796) | 32,924 | 6.9 |
| Subtotals | 153.4 | 150.6 | 203.7 | ($38,207) | ($39,960) | ($76,936) | (8.1%) |
| *Local Assistance* | | | | | | | |
| Local Assistance - mass transportation | | | | $55,640 | $150,273 | $66,802 | −55.5% |
| Interregional public transportation | | | | 152 | 500 | — | −100.0 |
| Rideshare operations | | | | — | (−5,000) | 5,000 | — |
| Subtotals | | | | ($55,792) | ($150,773) | ($71,802) | (−52.4%) |
| *Capital Outlay* | | | | | | | |
| Local assistance - mass transportation | | | | $9,451 | — | — | — |
| Interregional public transportation | | | | 11,614 | 97,203 | 53,198 | −45.3% |
| Transfer facilities and services | | | | 2,992 | — | — | — |
| Subtotals | | | | ($24,057) | ($97,203) | ($53,198) | (−45.3%) |
| Totals | | | | $118,056 | $287,936 | $201,936 | −29.9% |
| Funding Sources | | | | | | | |
| *State Funds* | | | | *$84,662* | *$171,779* | *$87,435* | *−49.1%* |
| *Federal Funds* | | | | *23,529* | *61,290* | *70,267* | *14.6* |
| *Reimbursements* | | | | *9,865* | *54,867* | *44,234* | *−19.4* |

[a] Displayed in Highway Transportation Program for 1988-89 and 1989-90.

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

The budget proposes a staffing level of 203.7 PYs for the Mass Transportation program—53.1 PYs (35 percent) more than the current year. Again, when current-year PYs including those dedicated to ride-share operations are compared to budget-year PYs, the total increase is 5.9 PYs.

**Reduced Funding for Mass Transportation Assistance**

***We find that the budget proposes to use $54 million in Transportation Planning and Development Account resources, reserved by statute for mass transportation local assistance, instead for the highway program. Consequently, mass transit STIP commitments will be difficult to meet.***

Current law requires that Transportation Planning and Development (TP and D) Account revenues, which are primarily derived from sales tax on diesel fuel, be allocated to various programs according to a specific formula. The majority of these programs provide capital and operating assistance to local transit operators. Additionally, current law requires that the TP and D Account be reimbursed from the SHA for the pro rata share of highway planning activities that are funded from TP and D Account funds.

***Budget Proposes to Use TP and D Account Resources for the Highway Program.*** The budget proposes, instead of following statutory TP and D Account requirements, to make two adjustments in order to "free up" $54 million for use by the SHA:

- Transfer $40 million from the TP and D Account to the SHA;
- Not to reimburse the TP and D Account for $14 million in highway planning activities.

The budget specifies that, in the event that SCA 1 passes, these actions would not be taken. It appears that the purpose of this proposal is to transfer funds intended for transit local assistance to the highway program in an effort to minimize the effects of the funding problem on the highway program.

***Effects of the Budget Proposal on TP and D Account Funded Programs.*** Table 13 shows the effects of the budget proposal on programs funded by the TP and D Account.

**Table 13**
**Department of Transportation**
**Transportation Planning and Development Account**
**Statutory Allocation Compared to the Budget Proposal**
**(dollars in millions)**

| *Program* | *Estimated Statutory Allocation* [a] | *Budget Proposal* |
|---|---|---|
| State Transportation Assistance | $43.1 | — [b] |
| Transit Capital Improvement | 27.4 | $16.2 |

[a] Assumes same funding levels for mass transit support, planning activities and rail operations as proposed in budget.

[b] Budget proposes to transfer $40 million from this program to the State Highway Account.

***No Funds Proposed for State Transportation Assistance Program (STA).*** Under the STA program, local transportation agencies receive funds on a formula basis for capital and operating assistance for public mass transit systems and, under specified conditions, for construction and maintenance of local streets and roads. Current law requires that the TP and D Account first fund the state support costs of the Mass Transportation program and various transportation planning activities. Of the remaining revenues, 50 percent are required to be allocated to the STA program. Based on the statutory allocation formula and the projected resources in the TP and D Account, we estimate that about $43 million would be available for STA in the budget year, as shown in Table 13. The budget proposes no funding for the STA program. Instead, based on an earlier estimate of funds available for the STA program, the budget proposes to transfer $40 million to the SHA.

***Funding for Transit Capital Improvement (TCI) Program Will be Lowered.*** The TCI program provides capital assistance to local transportation agencies for the following types of capital improvement projects: (1) railroad rights-of-way acquisition, (2) public rail transit projects and rolling stock, (3) stations for transferring between various modes of transit, and (4) passenger ferries and terminals. Current law requires that the TCI program receive TP and D Account funds remaining after the STA program and state support for various rail operations have been funded. Assuming the same level of rail operations as proposed in the budget, we estimate that $27.4 million would be available for TCI in 1990-91, as shown in Table 13. The budget, however, proposes expenditures of $16.2 million for the TCI program.

***Other Programs Will be Funded at Essentially Current-Year Level.*** The TP and D Account also funds (1) the operation of the San Francisco Peninsula Commute Service (Caltrain), (2) the state's share of operating costs on the San Diegan and San Joaquin Amtrak services, (3) various transportation planning activities, and (4) support for the Division of Mass Transportation. The budget requests $46.3 million to maintain support for most of these activities at essentially the current-year level, while providing for extended service on both the San Diegan and San Joaquin services.

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

***No Funding for Article XIX Guideway Program.*** Article XIX of the California Constitution authorizes the use of SHA funds for the improvement of mass transit guideways—in counties where voters have approved the use of these funds for such purposes. These funds provide another source of money for capital assistance to local transportation agencies in addition to TCI grants. Current law does not specify a funding level for this program. The budget proposes no SHA funding for the Article XIX Guideway program in 1990-91. (However, in the event that SCA 1 passes, the administration indicates that it would request funding to be restored to the current-year level of $64 million.)

***STIP Commitments Would be Difficult to Meet at Proposed Capital Assistance Levels.*** In the 1988 STIP, the CTC adopted a mass transit component that includes a total of $101 million in 1990-91. This amount represents the state's commitment to fund guideway and TCI projects, including multi-year funding agreements that the CTC has entered into with the Los Angeles County Transportation Commission (LACTC) for its Metro Rail project and Bay Area Rapid Transit (BART) for various projects. For 1990-91, the funding commitment is $53 million for the Metro Rail and $12.3 million for BART—for a total of $65.3 million.

Clearly, at the proposed level of TCI and guideway funding for the budget year ($16.2 million), the CTC would be able to meet only a small portion of its 1990-91 commitments with BART, LACTC and other local agencies to fund projects programed in the STIP. Local agencies would need to find alternative funding sources to continue their projects. If this is not possible, they may be required to delay or cancel projects.

***Decreased Capital Assistance Level Raises Policy Issues.*** In the event that the voters do not ratify SCA 1 in June, transportation funds available in future years would continue to be limited. As a consequence, the Legislature and the administration would have to determine how best to use these limited funds to meet the state's transportation demands, including what is the appropriate mix of highway versus transit funding. Two options are available to the Legislature in determining the funding of transit activities relative to highways.

One option the Legislature could choose is to concentrate transportation resources in the highway program, as proposed by the budget. This option would leave the funding for mass transportation as primarily a local responsibility.

The second option would emphasize the role of mass transit in meeting the state's transportation needs, and the state's commitment to providing funding for mass transit. Accordingly, the Legislature would increase funding for transit local assistance above the proposed level. Attendant reductions in the highway program would need to be made.

Thus, the appropriate funding levels for local transit assistance programs would depend on the Legislature's priorities for the use of transportation funds. Because this is a policy decision that has to be made by the Legislature, we make no recommendation on the proposed funding levels for local assistance of mass transportation activities.

**Costs of Rail Contracts Not Known**

***We withhold recommendation on $17.8 million from the TP and D Account to support the operation of the Peninsula Commute Service and Amtrak intercity rail service, pending progress in operating contract negotiations. (Item 2660-001-046.)***

Currently, Caltrans contracts with rail corporations for both commuter and intercity rail services.

***Commuter Rail.*** The department contracts with the Southern Pacific Railroad (SP) for the operation of the Peninsula Commute Service (Caltrain). Costs of the contract are evenly split between the state and the three counties served by Caltrain. The current contract with SP expires June 30, 1990.

The state's current-year share of contract costs is $7.1 million. The department anticipates contract costs will increase in 1990-91 and is requesting an increase of $1.6 million from the TP and D Account—for a total of $8.7 million—to pay for the new contract. The department indicates cost increases would be in a variety of areas, including liability coverage and maintenance.

The department also indicates that the increased costs are rough estimates, and that the exact costs of the service will not be available until a contract is signed with SP. At this time, the department does not know when contract negotiations will be completed.

***Intercity Rail.*** The department also contracts with Amtrak for intercity rail services. Amtrak services include service on the Bakersfield - Oakland (San Joaquin) line, the San Diego - Los Angeles (San Diegan) line and associated feeder bus service.

The state's costs to support Amtrak services in the current year (including marketing) are $7.4 million. Amtrak contract costs are projected to increase in 1990-91 primarily because of the addition of a third round trip on the San Joaquin line and a second round-trip extension to Santa Barbara on the San Diegan line. Consequently, the department is requesting an additional $1.7 million from the TP and D Account in the budget year for increases in costs of Amtrak rail and feeder bus service and marketing—bringing total Amtrak operating support costs to $9.1 million. The department indicates that this request is based on preliminary Amtrak estimates of the additional service.

The department reports that it will amend its existing contract with Amtrak to include the operation of the third train on the San Joaquin line. Once the amendment is negotiated, the department will have a better estimate of costs to operate the third San Joaquin train in 1990-91. In addition, the department is currently negotiating with Amtrak on the contract for the Santa Barbara extension, and anticipates that it will soon have better estimates for the 1990-91 cost of this service.

***Analyst's Recommendation.*** Our review shows that information available at this time to evaluate the cost to support both Caltrain and the

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

Amtrak services is incomplete. Additionally, we find that better information should be available soon, as contract negotiations progress. Consequently, we withhold recommendation on the department's request for $17.8 million from the TP and D Account for (1) contract costs with SP ($8.7 million) and (2) contract and marketing costs for the operation of Amtrak service ($9.1 million), pending further progress in contract negotiations.

## DEPARTMENT OF TRANSPORTATION—REAPPROPRIATIONS

Items 2660-490 through 2660-494 from various funds — Budget p. BTH 95

### ANALYSIS AND RECOMMENDATIONS

**Capital Outlay (Item 2660-490)**

*We recommend approval.*

The budget proposes that the unliquidated encumbrances of specified appropriations made in the Budget Acts of 1984, 1985, 1986, and 1987, be reappropriated until June 30, 1991. These appropriations were made to provide state and federal funds for highway capital outlay purposes. The department indicates that reappropriating these funds would allow the projects to be paid upon completion.

In addition, the department requests the reappropriation of specified unencumbered amounts, also from the same appropriations, to be available until June 30, 1991. The department indicates that these amounts will allow for payment of any potential claims on construction projects funded out of these appropriations.

**Local Assistance (Item 2660-491)**

*We recommend approval.*

The budget proposes that the unliquidated encumbrances of specified state funds appropriated in the 1988 Budget Act for local assistance purposes be reappropriated. The reappropriation would allow local projects to be paid upon completion, when the encumbrances will be liquidated.

**SAFCO and Outer Continental Shelf Funds (Item 2660-492)**

*We recommend approval.*

The budget proposes that the unencumbered and unliquidated balances of funds from the Special Account for Capital Outlay (SAFCO) appropriated in Ch 407/85 (AB 87, O'Connell) and federal Outer Continental Shelf funds appropriated in Ch 1440/85 (AB 1024, O'Connell) be reappropriated until June 30, 1991. These appropriations were made for highway capital outlay purposes. However, delays in constructing these projects have resulted in the department not encumbering and liquidating the funds made available for these purposes. Reappropriating these funds would allow the projects to be paid upon completion.

**Building Capital Outlay (Item 2660-493)**

*We recommend approval.*

The budget proposes that the unliquidated and unencumbered balances of funds appropriated in Ch 1472/88 (SB 2381, Deddeh) be reappropriated until September 28, 1991. This appropriation was made to pay initial costs of acquiring a new building for the District 4 (San Francisco) office to be available for occupancy by August 30, 1993. Negotiations to acquire a building are continuing. Reappropriating these funds would extend their availability for the purpose of acquiring the new District 4 office.

**Local Jurisdiction Energy Assistance Funds (Item 2660-494)**

*We recommend approval.*

The budget proposes that the unencumbered and unliquidated balance of funds from the Local Jurisdiction Energy Assistance Account appropriated in Ch 1343/86 (SB 880, L. Greene) be reappropriated until June 30, 1991. These appropriations were made to provide technical assistance and equipment to local jurisdictions for the purpose of improving traffic flow efficiency. The department indicates that it has funded all grant requests under the program made to date and that it expects to encumber the balance of the funds in 1990-91. Reappropriating these funds would allow the department to provide additional grants in the budget year.

## OFFICE OF TRAFFIC SAFETY

Item 2700 from various funds Budget p. BTH 106

| | |
|---|---|
| Requested 1990-91 | $14,709,000 |
| Estimated 1989-90 | 14,662,000 |
| Actual 1988-89 | 14,397,000 |
| Requested increase (excluding amount for salary increases) $47,000 (+0.3 percent) | |
| Total recommended reduction | None |

**OFFICE OF TRAFFIC SAFETY—Continued**

**1990–91 FUNDING BY ITEM AND SOURCE**

| Item—Description | Fund | Amount |
|---|---|---|
| 2700-001-044—Support | Motor Vehicle Account, State Transportation | $309,000 |
| 2700-001-890—Support and state grants | Federal Trust | 7,017,000 |
| 2700-101-890—Local assistance | Federal Trust | 7,363,000 |
| Reimbursements | — | 20,000 |
| Total | | $14,709,000 |

## GENERAL PROGRAM STATEMENT

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

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

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The budget proposes total expenditures of $14.7 million (all funds) in 1990-91. This is an increase of $47,000, or 0.3 percent, above the estimated current-year level. The proposed increase results from a decrease of $77,000 in operating and equipment expenses and increases of $57,000 in grants to state agencies and $67,000 in personal services including the support for one additional accounting technician.

# DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 2720 from various funds — Budget p. BTH 108

| | |
|---|---|
| Requested 1990-91 | $571,590,000 |
| Estimated 1989-90 | 544,168,000 |
| Actual 1988-89 | 497,026,000 |
| Requested increase (excluding amount for salary increases) $27,422,000 (+5.0 percent) | |
| Total recommended reduction | 463,000 |
| Recommendation pending | 16,896,000 |

### 1990–91 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2720-001-044—Support | Motor Vehicle Account, State Transportation | $553,060,000 |
| 2720-001-840—Support | Motorcyclist Safety | 1,672,000 |
| 2720-001-847—Support | Asset Forfeiture | 2,140,000 |
| 2720-001-890—Support | Federal Trust | 2,806,000 |
| 2720-011-044—Payment of deficiencies | Motor Vehicle Account | (2,000,000) |
| 2720-021-044—Advance purchase of vehicles | Motor Vehicle Account | (5,000,000) |
| Reimbursements | — | 11,912,000 |
| Total | | $571,590,000 |

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Traffic Officers and Sergeants. We make no recommendation on $9.3 million for 165 positions for traffic officers and sergeants because the CHP has not provided the methodology upon which the request was made. 296
2. ***Nonuniformed Staff Augmentation. Reduce Item 2720-001-044 by $185,000.*** Recommend reduction because four positions to support additional traffic officers have not been justified. 297
3. ***Semi-Automatic Pistols. Reduce Item 2720-001-044 by $182,000.*** Recommend reduction because the department plans to purchase more pistols than it needs. 298
4. Replacement and Additional Vehicles. Withhold recommendation on $16.9 million for new and replacement vehicles pending receipt of updated vehicle price information. 299
5. ***Technical Adjustment. Reduce Item 2720-001-044 by $96,000.*** Recommend a reduction to correct for overbudgeting for various activities. 299

### GENERAL PROGRAM STATEMENT

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

The department has 8,687.4 personnel-years in the current year.

## MAJOR ISSUES

- ☑ 165 new officers and sergeants are requested to continue strengthening the enforcement field force. Because the Legislature has not been provided with service level standards and workload data necessary to evaluate the request, there is no analytical basis to determine if the request is justified.
- ☑ The CHP proposes to rearm all uniformed personnel with semi-automatic pistols in the next two years.

### OVERVIEW OF THE BUDGET REQUEST

The budget requests a total of $571.6 million for expenditure by the CHP in 1990-91. This is $27.4 million, or 5.0 percent, above estimated expenditures in the current year. This increase, however, is misleading. In the budget year, $41 million in CHP retirement commitments will be funded from a surplus in the Public Employees' Retirement System Fund. Consequently, the department's expenditures for the budget year do not represent its total retirement benefit commitments.

The CHP also proposes a staffing level of 8,804.1 personnel-years in the budget year. This is an increase of 116.7 personnel-years, or 1.3 percent, over the current level. Table 1 summarizes the department's expenditures, by program, for the prior, current, and budget years. Table 2 summarizes the major changes in the CHP's budget proposal for 1990-91.

**Table 1**
**Department of the California Highway Patrol**
**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* |
| Traffic management | 5,833.2 | 6,268.4 | 6,347.4 | $444,590 | $482,042 | $510,262 | 5.9% |
| Regulation and inspection | 647.5 | 768.7 | 800.3 | 42,297 | 50,625 | 49,476 | −2.3 |
| Vehicle ownership security | 161.8 | 157.0 | 158.3 | 10,139 | 11,501 | 11,852 | 3.1 |
| Administration (distributed) | 1,456.8 | 1,493.3 | 1,498.1 | (89,349) | (104,138) | (112,743) | (8.3) |
| Totals | 8,099.3 | 8,687.4 | 8,804.1 | $497,026 | $544,168 | $571,590 | 5.0% |
| Funding Sources | | | | | | | |
| *Motor Vehicle Account, State Transportation Fund* | | | | *$481,626* | *$526,157* | *$553,060* | *5.1%* |
| *Motorcyclist Safety Fund* | | | | *1,348* | *1,849* | *1,672* | *−9.6* |
| *Federal Trust Fund* | | | | *2,770* | *2,800* | *2,806* | *0.2* |
| *Asset Forfeiture Fund* | | | | *600* | *2,000* | *2,140* | *7.0* |
| *Petroleum Violation Escrow Account* | | | | — | *150* | — | *−100.0* |
| *Reimbursements* | | | | *10,682* | *11,212* | *11,912* | *6.2* |

**Table 2**
**Department of the California Highway Patrol**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *Motor Vehicle Account* | *Reimburse-ments* | *Other* | *Totals* |
|---|---|---|---|---|
| 1989-90 Expenditures (Revised) | $526,157 | $11,212 | $6,799 | $544,168 |
| *Baseline Adjustments* | | | | |
| Employee compensation increase | 20,653 | — | — | 20,653 |
| Elimination of one-time costs | −18,712 | — | — | −18,712 |
| Price increase | 1,535 | — | — | 1,535 |
| Full-year cost of new programs | 5,607 | — | — | 5,607 |
| PERS rate reduction | −314 | — | −2 | −316 |
| Other adjustments including retirement contributions | −6,757 | −325 | −179 | −7,261 |
| Subtotals, baseline adjustments | ($2,012) | (−$325) | (−$181) | ($1,506) |
| *Workload and Program Changes* | | | | |
| Additional traffic management personnel | $9,796 | — | — | $9,796 |
| Establishment of new field commands | 458 | — | — | 458 |
| Semi-automatic pistols | 1,300 | — | — | 1,300 |
| Biennial terminal inspection (BIT) program | 232 | — | — | 232 |
| Telecommunications services | 9,511 | $1,025 | — | 10,536 |
| Additional and replacement vehicles | −77 | — | — | −77 |
| Hepatitis "B" risk study | 100 | — | — | 100 |
| Inspection of commercial carriers | 1,215 | — | — | 1,215 |
| Workload-based staffing increases | 344 | — | — | 344 |
| Data processing services | (50) | — | — | (50) |
| Administrative hearings/Ch 1460/89 | 2,012 | — | — | 2,012 |
| Subtotals, workload and program changes | ($24,891) | ($1,025) | (—) | ($25,916) |
| 1990-91 Expenditures (Proposed) | $553,060 | $11,912 | $6,618 | $571,590 |
| Change from 1989-90: | | | | |
| Amount | $26,903 | $700 | −$181 | $27,422 |
| Percent | 5.1% | 6.2% | −2.6% | 5.0% |

**DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued**

## ANALYSIS AND RECOMMENDATIONS

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

- Baseline adjustments totaling $1.5 million; and
- Workload and program changes including (1) $10.5 million for telecommunications and microwave equipment, and additional communications staff, (2) $2 million in overtime for officers to attend license suspension hearings, (3) $1.4 million for additional staff to regulate and inspect commercial vehicles, (4) $458,000 to establish new field commands in Buttonwillow and Livermore, (5) $344,000 for additional clerical staff and a reduction in data processing services, and (6) $100,000 for a study of employee risk to Hepatitis.

### Legislature Needs to Review CHP Traffic Officer Staffing Methodology

***We make no recommendation on $9.3 million to support 165 positions for traffic officers and sergeants to increase law enforcement activities because the department has not provided the Legislature with the service level standards and workload data used to develop this request. Furthermore, we recommend that the department explain during budget hearings the staffing methodology and selection of service levels.***

The department has requested $9.3 million to support an additional 150 traffic officers and 15 sergeant positions. From 1987-88 to the current year, the number of traffic officer positions has increased from 4,667 to 5,156, or about 10 percent. The addition of these 165 new officers would raise total positions to 5,306, or about 3 percent above the current-year level.

***Legislature Requires Officer Requests to be Based on Workload and Geographic Needs.*** In the *Supplemental Report of the 1989 Budget Act,* the Legislature directed the CHP to develop a staffing methodology as the basis for requesting traffic officer personnel. In addition, the Legislature required the CHP to base its requests for additional traffic officers in 1990-91 and 1991-92 on (1) identified needs in specific geographical areas, and (2) workload factors and service level standards identified in the development of the staffing methodology. Beginning in 1992-93, any requests for additional officers for general patrol purposes would be based on the staffing methodology.

The Legislature also required the CHP to submit a progress report on the development of the staffing methodology by December 1, 1989. However, at the time this analysis was prepared, the report had not been submitted.

***Service Levels Are a Key Factor in Prototype Formula.*** Since 1988-89, the department has participated with Northwestern University in a project designed to produce a traffic officer staffing formula. To date, the project has yielded a prototype formula which is being tested by the CHP and seven similar law enforcement agencies in other states.

Among the key components of this formula are service levels. These include factors such as the time it takes an officer to respond to an emergency or the frequency that an officer would patrol a specific section of highway. In addition, the formula takes into account regional and geographic differences. For example, it allows for variations in service levels between rural and urban regions.

***Prototype Formula Yields Need for Hundreds of New Officers.*** The department indicated that at the time the 1990-91 budget was prepared, it had not had sufficient time to fully identify the service levels it should use in the staffing formula. Instead, the department based its budget-year staffing request on workload data gathered from a sample of 31 field commands. Staff in these areas were also asked to estimate what they considered to be reasonable levels of service. Applying the sample data statewide, the formula derived a need for several hundred officers more than the 150 requested in the budget.

Based on this finding, the CHP contends it has a severe officer shortage. However, at the time this analysis was prepared, CHP had not provided us with data on service level standards and workload factors on which its request is based. Thus, we have no basis to evaluate whether (1) the CHP does have a severe officer shortage, (2) the prototype formula is appropriate for specific conditions of California, and (3) the selected service levels are appropriate (either too high or too low). Furthermore, the department has neither explained how it adjusted the request downward to 150 officers, nor identified the regions that are in greatest need of the new officers. Consequently, we have no analytical basis to evaluate the request.

Accordingly, we make no recommendation on the department's request for the additional traffic officers and support personnel.

It is essential, however, that the Legislature be informed of the basis upon which the CHP staffing level is determined, and the level of service to the public a particular staffing level could provide. Without this information, the Legislature would continue to be asked to decide on CHP force strength with no analytical basis. Accordingly, we recommend that the department explain its staffing methodology and the selection of key service levels to the Legislature during budget hearings.

### Nonuniformed Positions Not Justified

***We recommend deletion of four personnel-years and $185,000 from Item 2720-001-044 for traffic management support because the department has not justified the need for these positions.***

In addition to the request for traffic officers and sergeants, the department requests 15 other positions, including clerical staff assistants, communications operators and a data processing technician to provide support to the additional traffic officers. Our review shows that 11 of these position are justified on a workload and program basis if the Legislature approves the request for the traffic officers and sergeants.

However, we find no direct workload linkage between the additional officers and the department's request for two analysts and two computer

**DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued**

programmer positions. In addition, the department has not provided workload data or other justification for these proposed positions. Consequently, we recommend deletion of $185,000 to fund these four positions because the department has not demonstrated a need for them.

### Too Many Pistols to be Purchased

*We recommend deletion of $182,000 from Item 2720-001-044 because the number of semi-automatic pistols to be purchased exceeds departmental need.*

Over the next two years, the department plans to purchase a total of 7,500 semi-automatic pistols to replace revolvers issued to every sworn officer. For 1990-91, the department has requested $1.3 million to purchase pistols for about half of the CHP's sworn force. The department plans to submit a similar request for 1991-92 in order to provide these weapons to the remaining officers.

According to the CHP, the semi-automatic pistol has two principal advantages over the revolver. First, it holds up to 15 rounds per magazine, whereas the revolver holds five or six depending on the model. Second, it can be reloaded faster than the revolver. The CHP also maintains that the pistols are needed because of the increased probability of officers encountering persons armed with semi-automatic and automatic weapons. The likelihood of armed encounters is intensified by the department's expanding effort to intercept illegal drugs transported on state highways. The department anticipates that the semi-automatic weapons would provide added safety to the officers.

*Pistol Purchase Exceeds Departmental Needs.* We think that the proposal to rearm CHP officers with semi-automatic pistols is warranted. However, our review shows that the number of pistols requested is overstated. Our analysis indicates that the department will require 6,213 pistols to arm every sworn officer. In addition, we think a spare pistol pool of 500, or about 8 percent of the total pistols issued, would be adequate to service the needs of the patrol. This would bring the total number of pistols to 6,713, or 787 fewer than planned by the patrol.

There are three major differences between our estimate and the department's. First, the CHP proposes to maintain a spare pistol pool of 16 percent (994 weapons) of the total pistols issued. The pool is used to replace weapons damaged or otherwise taken out of service. We find the proposed pool of 994 excessive because the new pistols should require less maintenance than the current revolvers. This finding was confirmed in our discussions with other state police agencies which have recently converted to semi-automatic pistols.

Second, the request includes 165 pistols for traffic officers and sergeants proposed to be added in 1990-91. However, our review shows that semi-automatic weapons for the additional uniformed personnel are provided as part of that request. Thus, to avoid double budgeting, $78,000 for those pistols should be deleted.

Third, the department's request includes 280 additional weapons for cadet training at the CHP academy. Our review indicates that about 100 cadets require pistols for training at any given time.

After making these adjustments, our analysis indicates that the 500 spare pistols would provide sufficient weapons for cadet training and adequate backup.

Because of these reasons, the request of 7,500 pistols exceeds departmental needs. The purchase of 6,713 weapons would result in a two-year total cost of $2.2 million. For the budget year, this would result in a cost of $1.1 million, or $182,000 less than proposed by the department. Therefore, we recommend a deletion of $182,000 for the purchase of semi-automatic pistols.

**Request for New and Replacement Vehicles Awaits New Prices**

***We withhold recommendation on $16.9 million from the baseline budget to purchase replacement vehicles and additional motorcycles, pending receipt of updated information on vehicle prices.***

The department is requesting $16.9 million to purchase replacement vehicles and 13 additional motorcycles.

The CHP's request is based on vehicle prices for 1989. The department, however, will be receiving more current vehicle price data and will adjust its request for replacement and additional vehicles at that time. Consequently, we withhold recommendation on $16.9 million pending the receipt of updated information.

**Technical Budgeting Issues**

***We recommend a reduction of $96,000 from Item 2720-001-044 to correct for funds overbudgeted for various programs. Specific items are listed below:***

- $55,000 for replacement revolvers which will no longer be needed if the CHP purchases semi-automatic pistols for all sworn officers during the next two years. If semi-automatics are not authorized by the Legislature, this amount should be restored to the budget.
- $20,000 for overbudgeting for the purchase of Computer Aided Dispatch consoles.
- $21,000 to correct for an error in calculating overtime cost for CHP officers to attend driving-under-the-influence administrative hearings authorized by Ch 1460/89 (SB 1623, Lockyer).

**Capital Outlay**

The Governor's Budget proposes an appropriation of $2.2 million in Item 2720-301-044 for capital outlay expenditures for the CHP. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

# DEPARTMENT OF MOTOR VEHICLES

Item 2740 from various funds Budget p. BTH 120

| | |
|---|---|
| Requested 1990-91 | $464,453,000 |
| Estimated 1989-90 | 430,942,000 |
| Actual 1988-89 | 385,633,000 |
| Requested increase (excluding amount for salary increases) $33,511,000 (+7.8 percent) | |
| Total recommended reduction | 363,000 |
| Recommendation pending | 5,656,000 |

## 1990–91 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2740-001-001—Support—Anatomical donor designation | General | $64,000 |
| 2740-001-044—Support | Motor Vehicle Account, State Transportation | 299,865,000 |
| 2740-001-054—Support—New Motor Vehicle Board | New Motor Vehicle Account | 1,165,000 |
| 2740-001-064—Support | Motor Vehicle License Fee Account, State Transportation | 148,660,000 |
| 2740-001-516—Support—Undocumented vessel registration | Harbors and Watercraft Revolving | 3,564,000 |
| 2740-001-890—Support | Federal Trust | 417,000 |
| 2740-011-044—Payment of deficiencies | Motor Vehicle Account | (1,000,000) |
| Reimbursements | — | 10,718,000 |
| Total | | $464,453,000 |

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Motor Vehicle Account. We find that the Motor Vehicle Account will have a shortfall of more than $60 million in the budget year, without new revenues or reductions in expenditures. 303
2. Magnetic Stripe Driver License. We withhold recommendation on $5.7 million requested for the production of magnetic stripe driver licenses and identification cards because of uncertainties over the disposition of the bid award. 306
3. Revenue Collection System. We recommend that 41 personnel-years to develop an automated revenue collection system and process an increase in workload be limited-term positions. 306
4. ***Per Diem Savings for the New Motor Vehicle Board. Reduce Item 2740-001-054 by $363,000.*** We recommend a reduction to reflect per diem savings to the New Motor Vehicle Board. 307

5. Lease-purchase agreements for New Field Offices. We recommend that Budget Bill language authorizing leases for field offices in Roseville and Vista be transferred from the department's support to its capital outlay budget. 308

## GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest in vehicle ownership and promoting public safety on California's roads and highways. Additionally, the department provides revenue collection services for state and local agencies. To carry out these responsibilities, the department administers four programs to aid the driving public: (1) Vehicle and Vessel Identification and Compliance, (2) Driver Licensing and Personal Identification, (3) Driver Safety, and (4) Occupational Licensing and Investigative Services. These programs are implemented by the department's Division of Headquarters Operations, Field Operations, Investigation and Occupational Licensing, and Electronic Data Processing. Administrative support services are provided to the other divisions by the Division of Administration. In addition, the New Motor Vehicle Board operates as an independent agency within the department.

The department has 7,995.4 personnel-years in the current year.

## MAJOR ISSUES

- Without additional revenues or reductions in expenditures, the Motor Vehicle Account will experience a shortfall of at least $60 million in the budget year.

**DEPARTMENT OF MOTOR VEHICLES—Continued**

**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes total expenditures of $464.4 million for the support of the Department of Motor Vehicles (DMV) in 1990-91. This is an increase of $33.5 million, or 7.8 percent, above estimated expenditures for the current year. The budget also proposes 8,432.8 personnel-years in 1990-91—an increase of 437.4 personnel-years above the 1989-90 level.

To fund the department's programs, the budget requests $299.9 million from the Motor Vehicle Account (MVA), State Transportation Fund, and $148.7 million from the Motor Vehicle License Fee Account, Transportation Tax Fund. The budget also proposes expenditures of $1.2 million from the New Motor Vehicle Account, $3.6 million from Harbors and Watercraft Revolving Fund and $471,000 from federal funds. In addition, the budget projects $10.7 million in reimbursements.

Table 1 summarizes the department's expenditures, by program, for the prior, current, and budget years. Table 2 summarizes the major changes in the DMV's budget proposed for 1990-91.

**Table 1**
**Department of Motor Vehicles**
**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* |
| Vehicle/vessel identification and compliance | 3,713.3 | 3,863.7 | 4,058.1 | $212,125 | $234,024 | $251,479 | 7.4% |
| Driver licensing and personal identification | 2,085.5 | 2,030.4 | 2,104.7 | 109,079 | 117,000 | 125,176 | 7.0 |
| Driver safety | 831.3 | 1,108.1 | 1,253.8 | 39,744 | 53,394 | 60,116 | 12.6 |
| Investigative services | 454.1 | 426.4 | 440.2 | 23,642 | 25,446 | 26,517 | 4.2 |
| New Motor Vehicle Board | 17.6 | 18.7 | 19.6 | 1,043 | 1,078 | 1,165 | 8.1 |
| Administration (distributed) | 533.7 | 548.1 | 556.4 | (47,463) | (51,230) | (53,764) | (4.9) |
| Totals | 7,635.5 | 7,995.4 | 8,432.8 | $385,633 | $430,942 | $464,453 | 7.8% |
| Funding Sources | | | | | | | |
| *General Fund* | | | | *$64* | *$64* | *$64* | — |
| *Motor Vehicle Account, State Transportation Fund* | | | | *249,654* | *280,142* | *299,865* | *7.0%* |
| *New Motor Vehicle Board* | | | | *1,043* | *1,078* | *1,165* | *8.1* |
| *Motor Vehicle License Fee Account, Transportation Tax Fund* | | | | *121,361* | *135,715* | *148,660* | *9.5* |
| *State Bicycle License and Registration Fund* | | | | *30* | — | — | — |
| *Harbors and Watercraft Revolving Fund* | | | | *3,183* | *3,691* | *3,564* | *−3.4* |
| *Federal Trust Fund* | | | | *328* | *417* | *417* | — |
| *Reimbursements* | | | | *9,970* | *9,835* | *10,718* | *9.0* |

**Table 2**
**Department of Motor Vehicles**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *Motor Vehicle Account* | *Motor Vehicle License Fee Account* | *Other* | *Total* |
|---|---|---|---|---|
| 1989-90 Expenditures (Revised) | $280,141 | $135,715 | $15,086 | $430,942 |
| *Baseline Adjustments* | | | | |
| Employee compensation | 4,491 | 2,211 | 277 | 6,979 |
| Price increase | 1,638 | 807 | 11 | 2,456 |
| Pro rata adjustment | 3,185 | — | 82 | 3,267 |
| Limited term positions | −415 | −205 | — | −620 |
| Office automation savings | −167 | −83 | — | −250 |
| One-time costs | −361 | −175 | — | −536 |
| Funding allocation adjustment | −3,632 | 3,632 | — | — |
| Office of Traffic Safety grant | — | — | −83 | −83 |
| Board of Control | 53 | — | — | 53 |
| New legislation | −800 | — | — | −800 |
| Subtotals, baseline adjustments | ($3,992) | ($6,187) | ($287) | ($10,466) |
| *Workload and Program Changes* | | | | |
| Workload | 12,015 | 6,107 | 450 | 18,572 |
| Continuing EDP automation | −2,286 | −980 | — | −3,266 |
| New legislation | 6,003 | 1,631 | 67 | 7,701 |
| New Motor Vehicle Board | — | — | 38 | 38 |
| Subtotals, workload and program changes | ($15,732) | ($6,758) | ($555) | ($23,045) |
| 1990-91 Expenditures (Proposed) | $299,865 | $148,660 | $15,928 | $464,453 |
| Change from 1989-90: | | | | |
| Amount | $19,724 | $12,945 | $842 | $33,511 |
| Percent | 7.0% | 9.5% | 5.6% | 7.8% |

## ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following budget changes:

- Baseline adjustments totaling $10.1 million.
- Workload and program changes including (1) $12.9 million for additional staff due to increased workload, (2) a reduction of $3.3 million for lower electronic data processing application costs, and (3) $7.7 million for the implementation of new legislation.

### Condition of the Motor Vehicle Account

***We find that the Motor Vehicle Account (MVA) will experience a shortfall of at least $60 million in the budget year without additional revenues or reductions in expenditures.***

The MVA derives most of its revenues from motor vehicle registration fees and driver license fees. The majority of MVA resources are used to support the activities of the Department of Motor Vehicles, the California Highway Patrol, and the Air Resources Board.

Our review indicates that the condition of the MVA has deteriorated significantly since our last *Analysis.* Furthermore, the fund condition could worsen during both the current and budget years.

**DEPARTMENT OF MOTOR VEHICLES—Continued**

***Account Barely Balanced in Current Year.*** The Governor's Budget estimates that the MVA will have a reserve of $1.4 million by the end of the current year—$46 million less than the amount projected a year ago. Lower than expected growth in motor vehicle registration fee revenues in 1988-89 and in the current year appear to be responsible for the significantly lower revenues into the MVA, thereby resulting in a smaller reserve.

***Additional Fee Revenues May Not Materialize.*** The Governor's Budget proposes to raise fee revenues in the current year in order to offset the lower than anticipated revenues from vehicle registration and to achieve a balance of $1.4 million in the account. In particular, the DMV plans to raise the fee it charges for the sale of information from vehicle registration and driver license records—primarily to insurance companies and financial institutions—from 80 cents to $2 per record, beginning in February 1990. As a result, the budget anticipates an additional $12 million from the sale of this information in 1989-90. The DMV assumes that buyers will not decrease the volume of their information purchases in light of the 150 percent fee increase. However, whether buyers will continue to purchase the same volume of information despite the price increase is unknown.

To the extent revenue from the sale of information is less than anticipated, the MVA may fall short of the $1.4 million reserve at the end of 1989-90. In that event, a portion of the planned transfer from the MVA to the State Highway Account will have to be less. (The current-year Budget Act authorizes the transfer of $122 million from the MVA to the State Highway Account at the direction of the Department of Finance. At the time this analysis was prepared, about $40 million had been transferred.) Alternatively, expenditures in support of the DMV and the California Highway Patrol (CHP) will have to be reduced.

***The MVA Will be in Deficit in the Budget Year Without Additional Revenues.*** Our analysis further shows that resources in the MVA will fall short of proposed expenditures by at least $60 million in the budget year, *if* no additional revenue is generated in 1990-91 and *if* current-year projections are accurate. To make up for the shortfall and to provide for a reserve, the Governor's Budget proposes to raise $80 million in new revenue through various fee increases. Three of the fee increase proposals (for a total of $29 million) would require legislation, including:

- Extend the $1 motor vehicle registration fee surcharge (expected revenue, $13 million). The surcharge, which has been imposed since 1981, was intended to provide funding for 670 CHP traffic officers. This fee will expire January 1, 1991.
- Eliminate retroactive applications for certificates of nonoperation (expected revenue, $15 million). Currently, persons who fail to register their vehicles on time can have the registration fee waived (for the period the vehicle was not registered) if they show that they have not operated the vehicle. This proposal would disallow the waiver and would require past fees to be paid.

- Increase license renewal fees for vehicle dealers from $15 to $85 and salespersons from $15 to $50 (expected revenue, $600,000). Currently, dealers are required to renew their licenses annually and salespersons every three years.

The remaining $51 million in projected fee revenues would be raised through administrative actions by the DMV. These actions include:

- Increase the fee for the sale of information (expected revenue, $40 million). The department plans to continue the fee increase from 80 cents to $2 per record on a permanent basis. The department projects the additional revenues based on the same assumption it used for the current-year projection—that an offsetting reduction in the demand for information would not occur.
- Impose fees to cover the cost of administering two new programs (expected revenue, $11 million). Chapter 718, Statutes of 1989 (SB 839, Seymour) authorized the refunds of vehicle license fees if a vehicle is stolen or totally destroyed. The department plans to charge an administrative fee for processing the refund. In addition, DMV plans to charge a $100 reinstatement fee for persons who have their driver's license revoked under the administrative suspension program, as authorized by Ch 1460/89 (SB 1623, Lockyer).

The budget projects that these fee increases will result in sufficient MVA resources to support all proposed expenditures and leave a reserve of $20.5 million at the end of 1990-91.

***Revenue Estimates Appear to be on Shaky Ground.*** Our analysis indicates that the budget's revenue projections for 1990-91 appear optimistic. It is not clear that the proposed fee increases will generate the projected revenues. Specifically, the projections for some proposals appear to be based on best case scenarios or on untested assumptions. For instance, half of the projected new revenue would be generated from the 150 percent fee increase in the sale of information. As we noted earlier, it is unknown whether the increase will have an offsetting effect on the volume of sales. Similarly, the revenue estimates from changes to the certificate of nonoperation program and implementation of new programs may be optimistic because the department has little experience upon which to base its revenue projections for these new activities.

Furthermore, of the three measures that require legislation, two must be effective by *July 1990* in order to generate a full year of revenue. Otherwise, their revenue impact in 1990-91 would be lower.

***Expenditures Might be Greater Than Projected.*** While revenues to the MVA in 1990-91 could be lower than projected, expenditures from this account could be higher than proposed for several reasons. First, the budget proposes to pay $41 million in CHP staff retirement expenditures in the budget year from a continuing surplus in the CHP retirement account of the Public Employees' Retirement System (PERS). The size of the surplus, however, will depend on the investment climate and return of PERS investments. If the surplus declines in the budget year, the cost of financing CHP retirement expenditures would have to be shifted back to the MVA.

**DEPARTMENT OF MOTOR VEHICLES—Continued**

Second, the budget does not recognize salary increases that will become effective in 1990-91. For example, the budget does not include expenditures of between $6.5 million and $11 million in salary increases for most CHP personnel which will go into effect January 1, 1991, according to existing contract agreements. Similarly, the budget does not take into account any salary increases that might be provided to other state staff—such as DMV personnel—in the budget year. To the extent such increases occur, expenditures from the MVA will be correspondingly higher.

***Analyst's Assessment of MVA Condition.*** In summary, our review shows that, *without additional revenues*, the MVA will have a shortfall of at least $60 million in 1990-91. The budget proposes to cover this shortfall and realize a $20.5 million reserve based on revenue and expenditure assumptions that may be optimistic. Assuming the full $41 million in the PERS surplus is available to fund CHP retirement costs, the MVA could still experience a deficit if revenues from proposed new fees are less than anticipated. The potential deficit would also depend on the amount of salary increases provided to CHP and DMV personnel in the budget year.

### Magnetic Stripe Driver License Project Delayed

***We withhold recommendation on $5,656,000 requested from the Motor Vehicle Account to fund production of magnetic stripe driver licenses and identification cards because of uncertainty over the disposition of the bid award.***

In the current year, the DMV is authorized $3.7 million to begin the issuance of credit card-like driver licenses and identification cards. In September 1989, DMV informed the Legislature that it intended to award a production contract to allow issuance of the new cards beginning February 1990. The contract would cover the period from February 1990 to December 31, 1994 for a total cost of $28.5 million, based on the cost per license ranging from 73 cents to 77 cents during the life of the contract.

In 1990-91, the DMV anticipates that it will issue about 7 million magnetic stripe licenses. Consequently, the department is requesting total funding of $5.7 million to cover the cost of producing these cards.

However, at the time this analysis was prepared, the contract award was being protested. Consequently, it is almost certain that production of the cards will be delayed until the protests are resolved and the terms of the contract settled. Until this occurs, we are unable to obtain price per card information necessary to evaluate the department's request. Therefore, we withhold recommendation on $5.7 million pending information regarding the disposition of the bid award.

### Department Cracks Down on Registration Dodgers

***We recommend that 41 personnel-years requested to develop an automated revenue collection system and to process an increase in revenue collection workload be made limited-term, available for one year, because these staff will not be needed beyond the budget year.***

The department is intensifying its effort to enforce compliance of motor vehicle registration laws. In order to identify individuals who illegally register vehicles out-of-state, it is doing the following:

1. ***Automated Revenue Collection to be Ready in 1991-92.*** The department is requesting $185,000 in one-time costs to support one analyst position and software modifications to develop an automated system of collecting motor vehicle registration fees from California residents who illegally register in other states. Our review shows that the project has merit and should be approved. However, according to DMV, the automated system will be developed during the budget year and start-up for the new system is currently scheduled for June 1991. Accordingly, we recommend that the requested analyst position be limited to one year—the time it takes to develop the system.

2. ***Manual System to Handle New Workload in 1990-91.*** While the automated system is being developed, DMV, in conjunction with the California Highway Patrol (CHP) plans to intensify its efforts in 1990-91 to track California residents who illegally register vehicles in other states by directly obtaining vehicle registration data from other states. Currently, DMV processes about 13,000 reports of suspected violations a year. Most of the reports originate from observation reports, filed by CHP traffic officers, on vehicles with out-of-state license plates.

By cross-checking registration data obtained directly from other states, the effort is expected to yield about 38,000 reports annually. Because the process of residency verification will continue to be performed manually until the automated system is operational, DMV has requested an additional 40 personnel-years in the budget year to process the new workload. The DMV notes that once the automated system becomes operational in 1991-92, the additional staff will no longer be needed. In addition, DMV says it will be able to reduce its revenue collection unit staffing by an additional five clerical support positions.

***Revenues of up to $2 Million Expected.*** Based on the department's past efforts to enforce registration compliance, our analysis indicates that the enhanced effort to verify legal residence will result in additional revenues of up to $2 million in 1990-91. Thus, the staffing request is warranted for the budget year, until the automated collection system is implemented.

Based on the projected benefits, we recommend approval of the department's proposals to collect registration fees from California residents who illegally register their vehicles in other states. In addition, we recommend that the 41 personnel-years requested in this budget be made limited-term positions for one year due to expire June 30, 1991, when the automated system is planned to be operational.

**New Equipment to Save Per Diem Costs**

***We recommend that $363,000 be deleted from Item 2740-001-054 to reflect per diem savings to the New Motor Vehicle Board.***

The New Motor Vehicle Board (NMVB) mediates disputes among new vehicle dealers and manufacturers or distributors, and investigates

**DEPARTMENT OF MOTOR VEHICLES—Continued**

consumer complaints against licensed dealers. For 1990-91, the board has requested $38,000 to fund one attorney position and associated equipment (including a camera, television and video cassette recorder). The position and equipment are needed to help process the backlog of legal work now before the board. Our review shows that the position is justified on a workload basis.

While the request for the equipment is justified, our review shows the department failed to account for the savings that will be generated as a result of this equipment. According to the board, the equipment will enable board members to review cases more efficiently by eliminating the need for members to review transcripts of each evidentiary hearing. Instead, members will review key portions of hearings on tape. With this equipment, the NMVB estimates it could eliminate approximately 80 percent of its projected per diem costs (or $363,000) for transcript review. Therefore, we recommend that $363,000 be deleted from Item 2740-001-054 to reflect savings in per diem costs.

**Transfer Lease-Purchase Agreements to Capital Budget**

***We recommend that Budget Bill language which authorizes leases for field offices in Roseville and Vista be transferred from the department's support budget (Item 2740-001-044) to its capital outlay budget (Item 2740-301-044).***

The department seeks authority to enter into lease-purchase agreements for new field offices in Roseville and Vista. Our review shows that the requests for these facilities is warranted on a workload and program basis. Consequently, we recommend approval of $56,000 in lease expenses for both field offices. We also recommend the approval of Budget Bill language authorizing the department to seek leases with a purchase option of over $2 million for each facility. However, if the purchase option is subsequently exercised, purchase of the facility would be a major capital acquisition. Consequently, we recommend that the Budget Bill language granting the department lease-purchase authority be deleted from the department's support budget (Item 2740-001-044), and instead be inserted under the capital outlay appropriation item (Item 2740-301-044). This would be consistent with the Legislature's past practice.

**Capital Outlay**

The Governor's Budget proposes an appropriation of $640,000 in Item 2740-301-044 for capital outlay expenditures for the department. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

## STEPHEN P. TEALE DATA CENTER

Item 2780 from the Stephen P. Teale Data Center Revolving Fund — Budget p. BTH 134

| | |
|---|---|
| Requested 1990-91 | $86,407,000 |
| Estimated 1989-90 | 83,336,000 |
| Actual 1988-89 | 62,895,000 |
| Requested increase (excluding amount for salary increases) $3,071,000 (+3.7 percent) | |
| Total recommended reduction | 519,000 |
| Recommendation pending | 45,242,000 |

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. ***Salary Savings. Reduce Item 2780-001-683 by $187,000.*** Recommend adjustments to reflect higher salary savings based on prior years' experience. 310
2. ***Geographic Information Services Program. Reduce Item 2780-001-683 by $332,000.*** (a) Recommend a reduction of $332,000 to eliminate overbudgeting for program. (b) Recommend the adoption of supplemental report language to require quarterly program reports. 311
3. Electronic Data Processing (EDP) Equipment. Withhold recommendation on $45.2 million for EDP equipment and maintenance pending receipt of information justifying the request. 312

### GENERAL PROGRAM STATEMENT

The Stephen P. Teale Data Center, one of the state's three consolidated data centers, provides centralized electronic data processing services to state agencies in order to minimize the total cost of data processing to the state. The costs of operating the center are reimbursed fully by approximately 166 client agencies.

The data center has 391.3 personnel-years in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget requests $86.4 million for the expansion and operation of the data center in 1990-91. This amount represents an increase of $3.1 million (3.7 percent) over estimated current-year expenditures.

Table 1 summarizes the changes proposed in the data center's budget for 1990-91.

**STEPHEN P. TEALE DATA CENTER—Continued**

**Table 1**
**Stephen P. Teale Data Center**
**Proposed 1990-91 Budget Changes**
**(dollars in thousands)**

| | *TDC Revolving Fund* |
|---|---|
| 1989-90 Expenditures (Revised) | $83,336 |
| *Baseline Adjustments* | |
| Delete one-time costs | −2,219 |
| Salary and benefits | 518 |
| Delete limited-term positions | −45 |
| Price increase | 752 |
| Pro rata increase | 407 |
| Subtotal, baseline adjustments | (−$587) |
| *Workload Changes* | |
| Equipment acquisition | 2,238 |
| Increased personnel | 199 |
| Subtotal, workload changes | ($2,437) |
| *Program Change Proposals* | |
| Geographic Information System (GIS) | 921 |
| Supercomputer capabilities for Air Resources Board | 300 |
| Subtotal, program changes | ($1,221) |
| 1990-91 Expenditures (Proposed) | $86,407 |
| Change from 1989-90: | |
| Amount | $3,071 |
| Percent | 3.7% |

## ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following significant changes in the data center's budget which are not discussed elsewhere in this *Analysis:*

- Increases of $2.2 million for data processing equipment to increase data storage capacity.
- An additional $300,000 for supercomputer capabilities for the Air Resources Board.
- An additional $199,000 for staff to handle increased workload.

### Technical Adjustment for Salary Savings

***We recommend a reduction of $187,000 from the Teale Data Center Revolving Fund to correct for underestimated levels of salary savings. (Reduce Item 2780-001-683 by $187,000.)***

The budget proposes $391,000 in salary savings for the data center in 1990-91—an amount equal to 2.4 percent of total salaries and wages. Salary savings result from employee turnover, delays in filling positions and filling vacated positions at, or close to, the minimum step of the salary range.

Our analysis, however, indicates that the 2.4 percent rate is lower than the actual salary savings rate realized by the data center during the last several years.

**Table 2**
**Stephen P. Teale Data Center**
**Estimated Versus Actual Salary Savings and Rates**
**1986-87 through 1988-89**
**(dollars in thousands)**

| | *Salary Savings Amounts* | | *Salary Savings Rate* | |
|---|---|---|---|---|
| | *Estimated* | *Actual* | *Estimated* | *Actual* |
| 1986-87 | $284 | $445 | 2.6% | 4.1% |
| 1987-88 | 289 | 410 | 2.4 | 3.5 |
| 1988-89 | 510 | 544 | 3.8 | 4.0 |

Table 2 shows that, from 1986-87 through 1988-89, the data center realized a level of salary savings for each year that ranged from 3.5 percent to 4.1 percent of total salaries and wages. Thus, based on past experience, the salary savings rate proposed for 1990-91 appears too low.

In order to reflect a more realistic level of salary savings, we recommend applying a 3.5 percent rate—the lowest rate experienced by the department during the three-year period—to the total salaries and wages proposed for 1990-91. A budgeted rate of 3.5 percent would increase salary savings by $187,000 above the amount budgeted. This adjustment permits a corresponding reduction of $187,000 in the amount requested from the Teale Data Center Revolving Fund.

### Geographic Information Systems Program

***We recommend a reduction of $332,000 from the Teale Data Center Revolving Fund because the data center's request for the Geographic Information Systems does not take into account funds that are already included in its baseline budget for the program. We further recommend the adoption of supplemental report language requiring the Stephen P. Teale Data Center to submit quarterly reports in 1990-91 to the Legislature on its Geographic Information Systems program in order that the Legislature can be informed of program costs and revenues. (Reduce Item 2780-001-683 by $332,000.)***

The budget requests $921,000 and 4.7 personnel-years to continue the development and implementation of the Geographic Information Systems program (GIS)—a map-based data storage and manipulation system. An example of a GIS project is the statewide road data base that the data center is developing for the Department of Transportation. The data center intends to offer the GIS service to client departments on a cost recovery basis.

*1. **Program Overbudgeted.*** Our review shows that the data center's expenditure request of $921,000 is justified. However, our analysis also shows that the data center's baseline budget already includes $332,000 for the GIS program. The 1990-91 budget proposal, therefore, includes a total of $1.3 million to fund the GIS program—$332,000 more than is needed. Accordingly, we recommend a reduction of $332,000 from the Teale Data Center Revolving Fund.

*2. **Program May Not be Self-Supporting.*** In the current year, expenditures for the GIS program are estimated at $1.4 million, while revenues (payments from client departments) are estimated at $745,000. Thus, the

**STEPHEN P. TEALE DATA CENTER—Continued**

program will not be self-supporting. In the budget year, expenditures of $921,000 are anticipated to be fully covered by revenues projected at about $1.1 million. However, our review shows that the data center's revenue estimate for 1990-91 may be overly optimistic. For instance, the data center has recently revised its current-year revenue estimate downward by over 50 percent (to the new estimate of $745,000). However, the budget-year estimate was reduced by only 5 percent. In the event that the data center does not realize revenue as projected, the GIS program may not be able to recover its costs.

Because it is the intent of the Legislature that the costs of operating the data center be fully reimbursed by client departments, it is important that the Legislature be kept informed of the ability of new programs, such as GIS, to generate revenue to cover costs. Consequently, we recommend adoption of the following supplemental report language:

> The Stephen P. Teale Data Center shall submit to the Legislature quarterly reports during 1990-91 on the Geographic Information Systems program which shall include (1) a listing of current and prospective clients, (2) a description of each project and its cost to the client department, (3) payments received, (4) overall program expenditures by the data center, and (5) plans to offer GIS service on a fully self-supporting basis.

**Equipment Purchase Needs to be Justified**

***We withhold recommendation on $45,242,000 requested for electronic data processing equipment acquisition, rent and maintenance pending receipt of more detailed information to substantiate this request.***

The data center requests $45.2 million for data processing equipment acquisition, rent and maintenance. At the time this analysis was prepared, the department was unable to provide adequate information to justify the request. Therefore, we withhold recommendation on the amount pending sufficient information to substantiate this request.