

**STATE
AND
CONSUMER
SERVICES**

MUSEUM OF SCIENCE AND INDUSTRY

Item 1100 from the General
Fund and Exposition Park
Improvement Fund

Budget p. SCS 1

Requested 1991-92.....	\$10,927,000
Estimated 1990-91	10,882,000
Actual 1989-90	9,504,000
Requested increase \$45,000 (+0.4 percent)	
Total recommended reduction.....	650,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1100-001-001—Support	General	\$8,816,000
1100-001-267—Support Reimbursements	Exposition Park Improvement	1,882,000
		<u>229,000</u>
Total		\$10,927,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Museum Staff. Recommend that the \$650,000 appropriated in 1990-91 for various additional personnel be reappropriated because the funds are not needed in the current year. Further recommend \$650,000 General Fund reduction to reflect this increased support from the EPIF. *(Reduce Item 1100-001-001 by \$650,000.)* 107
2. Museum Has Closed Two Buildings. Recommend that, prior to budget hearings, the museum report to the Legislature on (1) the status of the buildings that have been closed based on concerns about seismic safety, (2) the necessity of having these buildings meet Field Act standards (3) future capital outlay needs and (4) plans for financing those needs. 108

GENERAL PROGRAM STATEMENT

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

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

Associated with the MSI is the Museum of Afro-American History and Culture (MAHC). The MAHC was established by the Legislature to preserve, collect, and display artifacts of Afro-American contributions to

MUSEUM OF SCIENCE AND INDUSTRY—Continued

the arts, science, religion, education, literature, entertainment, politics, sports, and history of California and the nation. The MAHC is governed by a seven-member advisory board.

The museum has 189.2 personnel-years in the current year.

MAJOR ISSUES

- General Fund savings of \$650,000 in 1991-92 due to significant hiring delays in the current year.
- The Museum of Science and Industry has closed two buildings because they are seismically unsafe. These buildings contain over 60 percent of the museum's total available exhibition and education space.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$10.9 million from all funds to support the MSI and the MAHC in 1991-92. This is \$45,000, or 0.4 percent above estimated current-year expenditures. This increase is primarily due to the full year effect of salary increases granted in the current year. This increase is partially offset by the elimination of one-time projects (\$260,000) and the unallocated trigger-related reduction (\$120,000). The unallocated trigger-related reduction is included in the proposed budget for the museum in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Total support for the MSI and the MAHC in the budget year includes \$8.8 million from the General Fund, \$1.9 million from the Exposition Park Improvement Fund (EPIF), \$229,000 from reimbursements, and \$1.3 million to be provided by the California Museum foundation of Los Angeles.

Table 1 shows the museum's expenditures for the past, current, and budget years. The baseline adjustments and workload changes proposed for the budget year are displayed in Table 2.

Table 1
Museum of Science and Industry
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	
Education							
Museum operations	107.9	174.4	174.4	\$8,210	\$9,512	\$9,650	1.4%
Administration (distributed)	(19.2)	(20.0)	(20.0)	(\$1,066)	(\$950)	(\$959)	0.9
Afro-American Museum	20.1	14.8	14.8	1,294	1,370	1,397	2.0
Unallocated reduction	—	—	—	—	—	120	—
Totals	128.0	189.2	189.2	9,504	10,882	10,927	0.4%
Funding Sources							
General Fund				\$8,764	\$8,771	\$8,816	0.5%
Exposition Park Improvement				556	1,884	1,882	-0.1
Reimbursements				184	227	229	0.9
Foundation				(\$1,159)	(\$1,221)	(\$1,305)	6.9

Table 2
Museum of Science and Industry
Proposed 1991-92 Budget Changes
(dollars in thousands)

<i>All Funds</i>	
1990-91 Expenditures	\$10,882
<i>Baseline Adjustments</i>	
Allocation for employee compensation	\$347
One-time costs, special repairs	-135
One-time costs, other (external contracts)	-125
Central administration services, pro rata	78
Unallocated reduction	-\$120
Total, baseline adjustments	\$165
1991-92 Expenditures (Proposed)	\$10,927
Change from 1990-91:	
Amount	\$45
Percent	0.4%

ANALYSIS AND RECOMMENDATIONS

Museum Experienced Significant Hiring Delays

We recommend that the \$650,000 appropriated in the Exposition Park Improvement Fund (Item 1100-001-267) by the 1990 Budget Act for various additional personnel be reappropriated because the funds are not needed. We further recommend a General Fund reduction of \$650,000 to reflect the increased support from the EPIF in 1991-92. (Reduce Item 1100-001-001 by \$650,000.)

The 1990 Budget Act appropriated \$1,639,000 from the Exposition Park Improvement Fund (EPIF) for 37 positions to augment the museum's security force and implement the audit recommendations from the Office of the Auditor General (OAG). The 1990 Budget Act provided funds from the EPIF to increase the museum's security force by 26 positions and add 11 positions for various purposes as a result of audit recommendations made by the OAG. As of December 31, 1990, the museum had only filled three of the 26 museum security positions and six of the 11 OAG recommended positions.

The museum's failure to fill the positions is the result of a combination of factors: (1) the museum has not yet requested classification approval from the Department of Personnel Administration (DPA) for six posi-

MUSEUM OF SCIENCE AND INDUSTRY—Continued

tions; (2) it took a total of five months to obtain approval for the Chief and Assistant Chief of Museum Security classifications from the DPA and to obtain funding authorization from the Department of Finance (DOF); and (3) the museum's decision to fill the Chief and Assistant Chief positions prior to hiring the other additional security officers.

The museum indicates that all of the positions will be filled by March 1, 1991. This target date may be missed if the museum fails to obtain classification authorization from the DPA or continues to delay the hiring of security officers until the Chief and Assistant Chief positions are filled. However, even if all of the positions are filled by the target date, our analysis indicates that the EPIF will realize substantial salary and related operating expense savings in the amount of \$650,000 for the positions held vacant thus far.

The current year savings may be used to fund museum activities in the budget year, which the Budget Bill proposes to fund from the General Fund. Accordingly, we recommend that the \$650,000 appropriated in the EPIF (Item 1100-001-267) of the 1990 Budget Act for increased museum security and implementation of OAG audit recommendations be reappropriated to fund museum activities in 1991-92. We further recommend that the General Fund appropriation (Item 1100-001-001) in the Budget Bill be reduced by \$650,000 to reflect increased funding support available from the EPIF. This action would not reduce proposed museum spending levels. It would, however, increase the Legislature's ability to fund other General Fund priorities in 1991-92. The following language would implement this recommendation:

1100-490 Reappropriation, Museum of Science and Industry. On the effective date of this act, up to \$650,000 of the amount appropriated by Item 1100-001-267 of the 1990 Budget Act for additional museum personnel is reappropriated for support of the museum.

Museum Has Closed Two Buildings

We recommend that, prior to budget hearings, the museum report to the Legislature on (1) the status of the buildings that have been closed based on concerns about seismic safety, (2) the necessity of having these buildings meet Field Act standards, (3) future capital outlay needs and (4) plans for financing those needs.

In October 1990, based on a review by a team of structural engineers, the Office of the State Architect (OSA) advised the museum to close two of its buildings due to concerns about their seismic safety. The two structures, the Ahmanson and Armory buildings, contain a total of 255,000 gross square feet, which represents 64 percent of the museum's total available exhibition and education space.

An in-depth engineering study of the two buildings is scheduled to be completed in mid-February. The study will evaluate the seismic safety of the two buildings and estimate the costs of bringing them into compliance with Title 24 (Field Act) standards. Based on the study's results, the MSI will develop a plan for its future capital outlay needs.

In order to assess both the short and long-term capital outlay needs of the museum, the Legislature needs to know (1) the status of the closed

buildings, (2) the necessity of having these buildings meet Field Act standards, (3) future capital outlay requirements, and (4) plans for financing those capital outlay requirements. Because this information should also assist the Legislature in its review of the museum's 1991-92 budget, we recommend that the museum report on these questions prior to legislative hearings on the budget.

DEPARTMENT OF CONSUMER AFFAIRS

Items 1120-1655 from various funds

Budget p. SCS 4

Requested 1991-92.....	\$209,332,000
Estimated 1990-91.....	199,727,000
Actual 1989-90.....	176,057,000
Requested increase \$9,605,000 (+4.8 percent)	
Total recommended reduction.....	5,126,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1120-001-704—Board of Accountancy	Accountancy	\$7,126,000
1130-004-706—Board of Architectural Examiners	Architectural Examiners	3,882,000
1140-006-001—State Athletic Commission	General	765,000
1140-006-492—State Athletic Commission	Boxers Neurological Examination Account	384,000
1150-008-421—Bureau of Automotive Repair	Vehicle Inspection and Repair	70,720,000
1160-010-713—Board of Barber Examiners	Barber Examiners	986,000
1170-012-773—Board of Behavioral Science Examiners	Behavioral Science Examiners	3,298,000
1180-014-717—Cemetery Board	Cemetery	371,000
1200-016-157—Bureau of Collection and Investigative Services	Collection Agency	1,549,000
1210-018-769—Bureau of Collection and Investigative Services	Private Investigator	5,655,000
1230-020-735—Contractors State License Board	Contractors License	34,552,000
1240-022-738—Board of Cosmetology	Cosmetology Contingent	4,665,000
1260-024-741—Board of Dental Examiners	State Dentistry	4,081,000
1270-026-380—Board of Dental Examiners	Dental Auxiliary	960,000
1280-028-325—Bureau of Electronic and Appliance Repair	Electronic and Appliance Repair	1,258,000
1330-036-750—Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	779,000
1340-038-205—Board of Registration for Geologists and Geophysicists	Geology and Geophysics	401,000
1350-040-001—State Board of Guide Dogs for the Blind	General	43,000
1360-042-752—Bureau of Home Furnishings and Thermal Insulation	Bureau of Home Furnishings and Thermal Insulation	2,607,000
1360-042-753—Bureau of Home Furnishings and Thermal Insulation	Bureau of Home Furnishings and Thermal Insulation, Dry Cleaning Account	59,000
1370-044-757—Board of Landscape Architects	Board of Landscape Architects	680,000

DEPARTMENT OF CONSUMER AFFAIRS—Continued

1390-046-758—Medical Board of California	Contingent Fund of the Medical Board of California	22,781,000
1390-047-175—Medical Board of California	Dispensing Opticians	188,000
1400-048-108—Medical Board of California	Acupuncturists	704,000
1410-050-208—Medical Board of California	Hearing Aid Dispensers	431,000
1420-052-759—Medical Board of California	Physical Therapy	750,000
1430-054-280—Medical Board of California	Physicians' Assistant	569,000
1440-056-295—Medical Board of California	Podiatry	915,000
1450-058-310—Medical Board of California	Psychology	1,554,000
1455-059-319—Medical Board of California	Respiratory Care	908,000
1460-060-376—Medical Board of California	Speech Pathology and Audiology Examining Committee	289,000
1470-062-260—Board of Examiners of Nursing Home Administrators	Nursing Home Administrator's State License Examining Board	413,000
1480-064-763—Board of Optometry	State Optometry	805,000
1490-066-767—Board of Pharmacy	Pharmacy Board Contingent	3,324,000
1500-068-770—Board of Registration for Professional Engineers and Land Surveyors	Professional Engineers and Land Surveyors	4,598,000
1510-070-761—Board of Registered Nursing	Board of Registered Nursing	10,050,000
1520-072-771—Certified Shorthand Reporters Board	Shorthand Reporters	421,000
1530-074-399—Structural Pest Control Board	Structural Pest Control Education and Enforcement	208,000
1530-074-775—Structural Pest Control Board	Structural Pest Control	2,349,000
1540-076-406—Tax Preparers Program	Tax Preparers	1,246,000
1560-078-777—Board of Examiners in Veterinary Medicine	Veterinary Examiners' Contingent	844,000
1570-080-118—Board of Examiners in Veterinary Medicine	Animal Health Technician Examining Committee	118,000
1590-082-779—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account	3,049,000
1600-084-780—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Psychiatric Technicians Account	953,000
1640-086-001—Division of Consumer Services	General	1,457,000
1655-090-702—Support, Department of Consumer Affairs	Consumer Affairs	1,758,000
Total, Budget Act appropriations		\$205,503,000
Statutory appropriation, Certified Shorthand Reporters Board	Transcript Reimbursement	296,000
Reimbursements		3,533,000
Total, all expenditures		\$209,332,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS	<i>Analysis page</i>
1. Departmentwide Computer Project. Recommend adoption of supplemental report language requiring the department to report to the Legislature by November 15, 1991 on its automated enforcement tracking system.	113
2. Potential Fund Deficiencies. Recommend that, by April 1, 1991, 10 specified agencies report to the Legislature on the steps taken to ensure sufficient reserves in their respective	116

- fund balances. Further recommend adoption of Budget Bill language prohibiting the Board of Registered Nursing from running a deficit in 1991-92.
3. **Bureau of Automotive Repair. Reduce Item 1150-008-421 by \$4.8 million.** Recommend a reduction because the number of licensed Smog Check stations will be lower than estimated by the bureau. 117
 4. Board of Behavioral Science Examiners. Recommend a reduction of \$470,000 in reimbursements because a fingerprint check program will not be implemented in the budget year. 119
 5. Contractors State License Board. The board is continuing to reduce its complaint backlog. 120
 6. Medical Board of California. The board has reduced its backlog of unassigned investigative cases. 120
 7. Medical Board of California. Recommend that the board report to the Legislature by April 15, 1991 on its 1991-92 projected complaint workload, resources needed, and alternative methods to handle the workload. 121
 8. Medical Board of California. Recommend enactment of legislation authorizing the board to take disciplinary action against physicians who fail to provide medical records regarding the investigation of a complaint within a reasonable period. 122
 9. **Medical Board of California. Reduce Item 1390-046-758 and the various items of the allied health committees by \$282,000.** Recommend a reduction in funds for Attorney General services to avoid overbudgeting. 123

GENERAL PROGRAM STATEMENT

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

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

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

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

DEPARTMENT OF CONSUMER AFFAIRS—Continued

and bureaus have data processing staff.

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

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

The department has 2,202.1 personnel-years in the current year.

MAJOR ISSUES

- The number of Smog Check stations projected by the Bureau of Automotive Repair has not materialized and, therefore, the bureau's station licensing and inspection workload will be lower than projected.
- The Medical Board of California has reduced its backlog of unassigned investigative cases.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes \$209.3 million from various funds, including reimbursements, for support of the department and its constituent agencies in 1991-92. This is \$9.6 million, or 4.8 percent, more than estimated expenditures in the current year.

Of the total expenditures proposed for 1991-92, \$23.8 million is for support of the four divisions. The remaining \$185.6 million is for support of the various boards and bureaus. Table 1 presents the department's total expenditures for the prior, current, and budget years.

The Governor's Budget includes an unallocated trigger-related reduction of \$43,000 in funding for the department and two constituent agencies. This reduction is included in the proposed budget for the department and the constituent agencies in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1
Department of Consumer Affairs
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	
<i>Boards and Bureaus</i>	1,645.3	1,880.9	1,979.3	\$152,289	\$176,227	\$185,551	5.3%
<i>Divisions:</i>							
Consumer services.....	39.2	41.1	40.6	2,547	2,830	2,865	1.2
Administration.....	137.6	161.3	170.9	7,829	9,339	9,960	6.6
Investigation.....	60.5	70.3	70.3	4,191	4,614	4,658	1.0
Technology.....	50.6	48.5	40.9	5,991	4,966	4,583	-7.7
Building and maintenance.....	—	—	—	3,210	1,751	1,758	0.4
Subtotals, divisions.....	(287.9)	(321.2)	(322.7)	(\$23,768)	(\$23,500)	(\$23,824)	(1.4%)
Unallocated trigger reduction....	—	—	—	—	—	-43	—
Totals.....	1,933.2	2,202.1	2,302.0	\$176,057	\$199,727	\$209,332	4.8%
<i>Funding Sources</i>							
General Fund.....				\$2,203	\$2,273	\$2,265	-0.4%
Consumer Affairs Fund.....				3,210	1,808	1,758	-2.8
Various Special Funds of the Boards and Bureaus.....				167,370	192,609	201,776	4.8
Reimbursements.....				3,274	3,037	3,533	16.3

ANALYSIS AND RECOMMENDATIONS

DIVISION OF TECHNOLOGY

Departmentwide Automation Project

We recommend that the Legislature adopt supplemental report language directing the department to report on the progress of the implementation of an automated enforcement tracking system.

In 1985-86, the Legislature approved a department proposal to implement, in four phases, an advanced computer system to provide increased data processing services to all of the department's constituent agencies.

Our review shows that Phase I of the system has been completed and resulted in the automation of license issuance and renewal processes. However, implementation of Phase II has been continually delayed. Phase II was intended to automate the enforcement and applicant tracking systems, and was initially scheduled for completion in June 1988. However, because of delays in completing Phase I, the anticipated completion date for Phase II was delayed two years, to June 1990. The automated enforcement tracking system was subsequently implemented in August 1990. However, the applicant tracking system will not be completed until June 1992.

Enforcement Tracking System is Not Performing as Expected. Our review further indicates that, while an enforcement tracking system may have been installed at all boards, the system is not performing as anticipated. For instance, most boards cannot generate routine management reports from the system at the current time. In addition, the system does not allow boards to develop specific, ad hoc reports without the

DEPARTMENT OF CONSUMER AFFAIRS—Continued

assistance of a programmer, or automatically print various notices to complainants and licensees. The department explains that, in part, the failure of the system to perform as expected results from technical design problems and contract delays. The department now anticipates providing (1) the capability to generate the management reports by the end of April 1991, (2) the capability for boards to generate ad hoc reports unassisted by July 1991, and (3) the automatically generated notices for each board by December 1991.

Analyst's Assessment. Given the department's history of delays, our review indicates that the department's revised schedule for completing the enforcement tracking system appears optimistic. In order that the Legislature may monitor the status of the enforcement tracking system, we recommend that the Legislature adopt the following supplemental report language directing the department to report on the progress of the system.

The Department of Consumer Affairs shall submit to the chairs of the fiscal committees and the Joint Legislative Budget Committee by November 15, 1991 a report on the progress of completing the automated enforcement tracking system. This report shall include (1) the status of providing the boards with the capability to (a) generate management reports, (b) generate ad hoc reports, and (c) automatically print notices to the parties involved in the complaint; (2) the status of other system improvements; (3) an explanation of any deviations from the schedule; and (4) identification of alternatives to alleviate future schedule delays.

Applicant Tracking System Will be Further Delayed and is Not Funded in the Budget Year. In the current year, development of the applicant tracking system has been delayed due to difficulty in recruiting technical staff and increased time for system design. In addition, the department now anticipates that the costs for project development in the budget year will be higher than originally estimated. Because of the delays and increased costs, the Office of Information Technology (OIT) has required the department to submit a special project report to justify the schedule and cost changes. However, the report was not submitted in time for funding of the project to be included in the Governor's Budget. The Department of Finance indicates that, if the report is approved by OIT, project funding for 1991-92 will be requested in an amendment letter.

BOARDS AND BUREAUS

Our analysis indicates that the proposed 1991-92 budgets for a number of boards, bureaus, and committees raise no significant fiscal issues that warrant separate write-ups in this *Analysis*. Many of these entities have requested increases that simply offset the effects of inflation on their current programs. Others have requested additional funding for program and workload increases, which our review shows to be justified. Table 2 displays staffing and expenditures for those boards, bureaus, and committees whose budgets we recommend be approved as submitted.

Table 2
Department of Consumer Affairs
Boards, Bureaus, and Committees
Recommend Approval as Budgeted
1991-92
(dollars in thousands)

Item Number	Description	Personnel-Years			Expenditures ^a			Percent Change From 1990-91
		Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
1120-001-704	Board of Accountancy	51.0	47.6	62.4	\$5,547	\$6,534	\$7,145	9.4%
1130-004-706	Board of Architectural Examiners	37.5	30.0	30.9	3,683	4,039	3,887	-3.8
1140-006-001	State Athletic Commission	12.6	13.3	13.8	1,054	1,122	1,149	2.4
1160-010-713	Board of Barber Examiners ^b ..	12.5	12.9	12.9	876	1,041	987	-5.2
1180-014-717	Cemetery Board	4.6	4.4	4.4	322	347	371	6.9
	Bureau of Collection and Investigative Services:							
1200-016-157	Collection Agencies	12.4	16.9	19.1	910	1,382	1,556	12.6
1210-018-769	Private Investigators	50.7	59.4	66.5	5,769	6,647	7,055	6.1
1240-022-738	Board of Cosmetology ^b	43.6	43.6	48.7	3,962	4,411	4,686	6.2
1260-024-741	Board of Dental Examiners ^b ..	34.6	43.0	45.3	3,104	3,967	4,144	4.5
1270-026-380	Board of Dental Examiners—Dental Auxiliary ^b	8.4	8.5	9.4	748	902	964	6.9
1280-028-325	Bureau of Electronic and Appliance Repair	14.2	13.6	13.6	1,245	1,312	1,258	-4.1
1330-036-750	Board of Funeral Directors and Embalmers ^b	7.7	8.2	8.7	542	620	785	26.6
1340-038-205	Board of Registration for Geologists & Geophysicists	4.6	3.9	3.9	261	384	401	4.4
1350-040-001	State Board of Guide Dogs for the Blind	0.6	0.5	0.5	61	51	43	-15.7
1360-042-752	Bureau of Home Furnishings and Thermal Insulation ^b	32.5	37.0	36.5	2,180	2,686	2,691	0.2
1370-044-757	Board of Landscape Architects ..	3.8	3.5	4.4	301	511	680	33.1
1390-047-175	Dispensing Opticians	0.8	1.0	1.0	144	195	188	-3.6
1400-048-108	Acupuncturists	4.0	6.1	7.4	527	1,018	711	-30.2
1410-050-208	Hearing Aid Dispensers	3.3	3.5	3.5	355	424	440	3.8
1420-052-759	Physical Therapy	3.4	4.9	5.3	470	744	815	9.5
1430-054-280	Physicians Assistant	3.4	4.0	4.9	416	494	572	15.8
1440-056-295	Podiatry	3.9	5.2	5.6	810	859	919	7.0
1450-058-310	Psychology ^b	9.1	8.1	8.4	1,311	1,538	1,592	3.5
1455-059-319	Respiratory Care	5.9	6.7	7.3	747	899	935	4.0
1460-060-376	Speech Pathology & Audiology Examining Committee	2.9	3.1	3.1	250	306	301	-1.6
1470-062-260	Board of Examiners of Nursing Home Administrators	4.3	4.4	4.4	324	420	414	-1.4
1480-064-763	Board of Optometry	4.7	5.3	6.0	538	629	811	28.9
1490-066-767	Board of Pharmacy	33.6	33.0	33.0	2,884	3,375	3,368	-0.2
1500-068-770	Board of Registration for Professional Engineers and Land Surveyors	44.9	46.9	48.7	4,519	4,697	4,602	-2.0
1510-070-761	Board of Registered Nursing ^b ..	69.2	76.4	76.4	8,344	9,922	10,575	6.6

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 2—Continued
Department of Consumer Affairs
Boards, Bureaus, and Committees
Recommend Approval as Budgeted
1991-92
(dollars in thousands)

Item Number	Description	Personnel-Years			Expenditures ^a			Percent Change From 1990-91
		Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
1520-072-771	Certified Shorthand Reporters Board	4.2	4.7	5.2	796	674	718	6.5
1530-074-775	Structural Pest Control Board	27.1	26.8	26.8	2,311	2,815	2,559	-9.1
1540-076-406	Tax Preparers Program Board of Examiners in Veterinary Medicine:	5.9	5.7	7.2	838	973	1,261	29.6
1560-078-777	Veterinarians	6.1	4.6	6.1	906	754	870	15.4
1570-080-118	Animal Health Technicians Board of Vocational Nurse and Psychiatric Technician:	1.7	1.4	1.4	100	117	118	0.9
1590-082-779	Vocational Nurse	27.3	36.7	34.0	2,906	3,538	3,065	-13.4
1600-084-780	Psychiatric Technician	3.2	5.0	5.5	568	895	953	6.5

^a The expenditure amounts include reimbursements.

^b The bureau and the boards face potential fund balance problems in 1991-92.

Potential Fund Deficiencies

We recommend that specified boards and bureaus report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee by April 1, 1991 on the steps they are taking to ensure sufficient reserves in their respective funds. We further recommend that the Legislature adopt Budget Bill language prohibiting the Board of Registered Nursing from running a deficit in 1991-92 (Item 1510-070-761).

Generally, special funds that derive revenues from licensing activities should maintain a prudent reserve sufficient to cover any contingencies and unanticipated reductions in revenue collections. As a general rule, an amount equal to about three months' operating expenses (or about 25 percent of annual expenditures) should be maintained. In addition, current law requires that the Medical Board of California maintain a reserve equal to four months, or 33 percent, of its annual expenditures.

Our analysis indicates that some of the special funds established for the various boards and bureaus are likely to have fund balances during 1991-92 that fail to meet these standards.

Table 3 shows the fund conditions for those boards and bureaus that do not appear to have adequate reserves. As a result, these agencies may run into cash flow problems during the budget year, and they should determine what steps should be taken to avoid the potential of such problems. Accordingly, we recommend that they report to the fiscal committees of the Legislature and the Joint Legislative Budget Commit-

tee by April 1, 1991 on steps they are taking to assure that the balances in their funds will be sufficient to meet their cash flow needs during 1991-92.

Table 3
Department of Consumer Affairs
Boards and Bureau with Fund Deficiencies or Potential Fund Deficiencies
in 1991-92
(dollars in thousands)

Item Number	Board/Bureau/Committee	Fund Balance		Proposed Expenditures 1991-92 ^a	1991-92 Fund Balance as a Percent of Expenditures 1991-92
		1990-91	1991-92		
1150-008-421	Automotive Repair.....	\$9,571	\$6,567	\$78,593 ^b	8.4%
1160-010-713	Barber.....	100	174	986	17.6
1240-022-738	Cosmetology.....	770	575	4,665	12.3
1260-024-741	Dental.....	370	522	4,081	12.8
1270-026-380	Dental Auxiliaries.....	57	21	960	2.2
1330-036-750	Funeral Directors and Embalmers.....	232	46	779	5.9
1360-042-752	Home Furnishings and Thermal Insulation.....	1,150	201	2,607	7.7
1390-046-758	Medical Board of California.....	5,955	2,522	22,781	11.1
1450-058-310	Psychology.....	321	165	1,554	10.6
1510-070-761	Registered Nursing.....	1,941	-1,065	10,050	—

^a Expenditures are net of reimbursements.

^b Includes \$7.9 million proposed for vehicle inspection program in Air Resources Board.

Deficit Projected for Board of Registered Nursing. Table 3 also shows that a deficit is projected for the Board of Registered Nursing Fund as of June 30, 1992. The board indicates that it will be seeking regulations to raise licensing fees in order to avoid a deficit. Pending adoption of regulations to increase revenues, we believe that it is prudent that expenditures by this board not be at a rate that would result in a fund deficit. In order to ensure that this occurs, we recommend that the Legislature adopt the following Budget Bill language for the Board of Registered Nursing (Item 1510-070-761):

Provided that the board shall not expend at a rate which will result in a deficit in the 1991-92 fiscal year, unless and until appropriate regulations for additional revenues to the fund are enacted to avoid the deficit.

BUREAU OF AUTOMOTIVE REPAIR

Number of Smog Check Stations Overstated

We recommend a reduction of \$4.8 million to the Vehicle Inspection and Repair Fund because the bureau's workload in the Smog Check program will be lower than projected (Item 1150-008-421).

The Bureau of Automotive Repair (BAR) administers the Smog Check program established by Ch 892/82 (SB 33, Presley) and subsequently amended by Ch 1544/88 (SB 1997, Presley). As part of the program, the bureau licenses smog check stations and performs various regulatory activities, including complaint handling and quarterly inspections of stations. Currently, 15 areas participate in the program, including the

DEPARTMENT OF CONSUMER AFFAIRS—Continued

South Coast Air Basin (Los Angeles and adjacent counties), San Francisco bay area, San Diego, Sacramento, Ventura, Fresno, Kern, San Joaquin, Tulare, Merced, Stanislaus, Santa Barbara, San Luis Obispo, Placer, and Monterey. These areas cover the entire or a portion of an air quality management district, which may include one or more counties. As areas' air quality standards deteriorate and are no longer in compliance with the federal requirements, more areas will choose to implement the Smog Check program.

For the current year, the bureau is authorized \$27.9 million to conduct station licensing, inspection, and enforcement activities and to support administrative overhead expenses.

The BAR Projects an Increase in Smog Check Stations in New Areas. Recently, five additional areas — Yolo, Solano, Butte, Glenn, and San Bernardino — have requested the BAR to implement the Smog Check program in the second half of 1990-91. The BAR anticipates that expanding the program into these areas will increase the number of licensed stations under the program by 300, to about 10,400 in 1990-91.

Bureau's Projections are Overstated. Our analysis indicates that the bureau's projection of 10,400 stations in 1990-91 is too high. Table 4 shows the number of licensed stations projected by the BAR, compared to the actual number of licensed stations in 1989-90 and our estimates for 1990-91 through 1991-92. In 1989-90, the bureau projected 9,600 licensed stations. As the table shows, the actual number of licensed stations in 1989-90 was 7,800 — 1,800 less than projected.

Table 4
Bureau of Automotive Repair
Smog Check Program
Licensed Smog Check Stations
1989-90 through 1991-92

<i>Licensed Stations</i>	<i>1989-90</i>	<i>Est.</i> <i>1990-91</i>	<i>Prop.</i> <i>1991-92</i>
BAR projection.....	9,600	10,400	10,400
LAO projection.....	7,800 ^a	8,100 ^b	8,100 ^b
Difference.....	1,800	2,300	2,300

^a This is the average number of licensed stations in 1989-90, based on the actual number of licensed stations per month, which ranged from 8,200 in July 1989 to 7,300 in June 1990.

^b Based on 7,600 actual licensed stations (as of January 1991), 300 additional stations projected by the bureau for expansion of the program into five new areas, and 200 additional stations projected for the Monterey Air Quality District, which started implementing the program in January 1991.

For the current year, the actual number of licensed stations ranged from 7,300 in July 1990 to 7,600 in January 1991. Thus, even with an increase of 500 stations to account for the program's expansions into five new areas, and for the continued implementation of the program in the Monterey Air Quality District which began in January 1991, we estimate that the total number of stations will be 8,100 — or 2,300 less than the bureau's projection. Similarly, we estimate that the number of smog check stations in 1991-92 would be about 8,100 rather than 10,400.

As a result of the fewer number of stations in the program, expenditures will be less than the \$28 million requested by the budget. Based on data from the bureau, which indicates that the average program cost per station is about \$2,100, we estimate that, with 2,300 fewer stations to license and inspect, the bureau's costs would be lower by \$4.8 million annually. Accordingly, we recommend a reduction of \$4.8 million to the BAR's budget request.

BOARD OF BARBER EXAMINERS AND BOARD OF COSMETOLOGY

Consolidation of the Barber and Cosmetology Boards

Chapter 1672, Statutes of 1990 (AB 3008, Eastin), consolidates the Board of Barber Examiners and the Board of Cosmetology into a newly created Board of Barbering and Cosmetology, effective July 1, 1992. Currently, the Board of Barber Examiners licenses and regulates barbers and related entities such as barber shops, and the Board of Cosmetology licenses and regulates cosmetologists, cosmetology shops, and related fields such as manicurists. Under Chapter 1672, the various professions will continue to be licensed and regulated as different licensee categories. However, shops will be licensed as one category.

In order to facilitate the transition to consolidation of the two boards, the budget requests \$70,000 for one position in the Division of Administration to (1) prepare a consolidation implementation plan and (2) to hold public hearings and develop the regulations for adoption by the newly created board prior to July 1, 1992. The request is warranted, and we recommend approval.

BOARD OF BEHAVIORAL SCIENCE EXAMINERS

Funding for Fingerprint Services is Premature

We recommend a reduction of \$470,000 in reimbursements to the Board of Behavioral Science Examiners because a fingerprint check program will not be implemented in the budget year (Item 1170-012-773).

The Board of Behavioral Science Examiners licenses and regulates marriage, family and child counselors, clinical social workers, and educational psychologists. For 1991-92, the board requests an augmentation of \$120,000 for two positions to develop and administer a fingerprint check program for license applicants. In addition, the board is requesting \$470,000 for fingerprint services. This amount will be fully reimbursed by fees charged to applicants.

Our analysis indicates that the board will take about one year to develop procedures and adopt regulations to implement the fingerprint check program. The board concurs with this assessment. Consequently, expenditure authority for the \$470,000 for fingerprint services will not be needed until 1992-93. Accordingly, we recommend a reduction of \$470,000 for reimbursed fingerprint services because the request is premature.

DEPARTMENT OF CONSUMER AFFAIRS—Continued
CONTRACTORS STATE LICENSE BOARD

Board Continues to Reduce Complaint Backlog

The Contractors State License Board is continuing to reduce its complaint backlog with additional investigative staff.

Due to an accumulation of unresolved complaint cases, the Legislature provided an increase of \$1.7 million in the 1989 Budget Act for 24 investigators in the Contractors State License Board (CSLB) to address the backlog of complaints filed against its licensees. The staff increase brought the CSLB total investigators to its current 108 positions.

Table 5 shows the board's complaint backlog over a five-year period. As the table shows, the board has been able to resolve more complaints than received during each year. At the current staff level, the board anticipates reducing the number of complaints pending to 5,300 by the end of 1990-91 and 4,400 complaints by the end of 1991-92.

Table 5
Contractors State License Board
Complaints Pending at Year End
1987-88 through 1991-92

<i>Complaints</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>	<i>Est.</i> <i>1990-91</i>	<i>Prop.</i> <i>1991-92</i>
Received.....	27,800	28,300	28,300	28,900	29,500
Closed.....	30,200	31,700	29,300	31,400	31,400
Pending at Year End ^a	10,200	7,000	6,800	5,300	4,400

^aIncludes cases that were reopened during the year.

MEDICAL BOARD OF CALIFORNIA

The Medical Board of California (MBC) investigates complaints against physicians and surgeons and various health practitioners, such as podiatrists, psychologists, and hearing aid dispensers. The board's central complaint and investigation control unit receives all complaints, categorizes complaints according to whether they involve potential patient harm, and gathers needed documents (for example, medical records) related to the complaints. The unit also contracts with medical consultants to review all complaints involving potential patient harm. Certain complaints, mainly those involving potential patient harm, are then referred to the field offices for investigation. The central control unit also performs a quality review of selected investigations completed by the field offices.

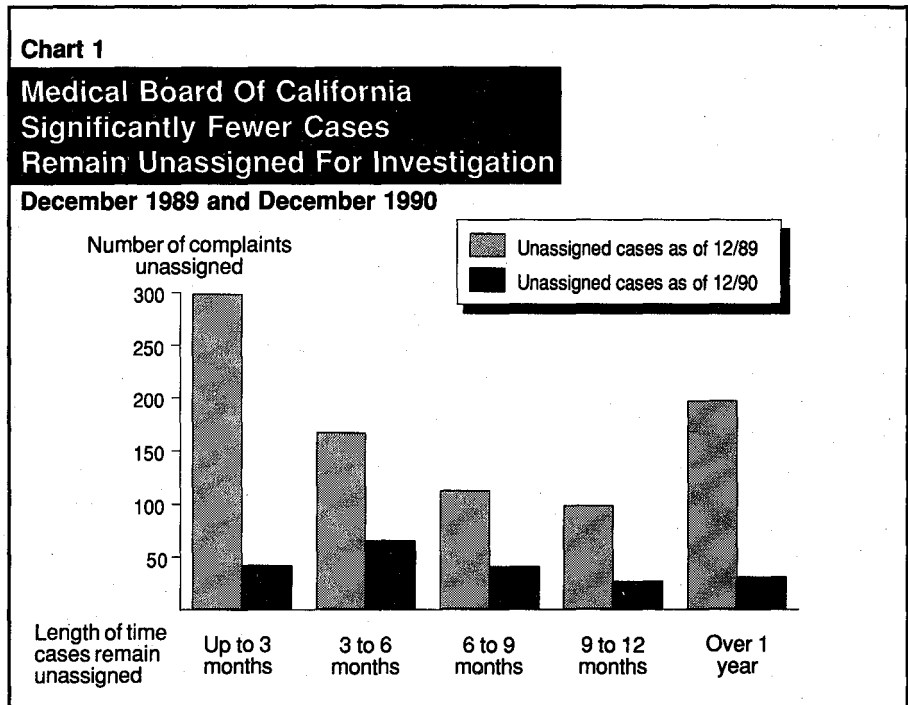
Progress in Reducing Unassigned Investigative Cases

The Medical Board of California has reduced its backlog of unassigned investigative cases as of December 1990.

The Legislature increased the board's enforcement program in 1989-90 by \$2.4 million in order to support 18 additional investigators and 10 other enforcement staff, so that the board could address a backlog of 789 complaints that had not been assigned for investigation at the end of 1988. However, as we indicated in last year's *Analysis*, the number of

unassigned cases actually increased by December 1989 due, primarily, to a delay in bringing the additional staff on board.

During 1990, our review indicates that the board has been able to assign more cases for investigation. By December 1990, unassigned cases had decreased to 205 cases. Chart 1 compares the length of time cases had remained unassigned as of December 1989 and December 1990. In particular, the number of cases that have been unassigned for over a year has dropped significantly, to less than 40 cases.



According to the board, it has been able to assign cases for investigation more promptly by better screening and closing cases they believed did not warrant an investigation, filling and training the additional investigative positions, and relieving experienced investigators of their field training duties with the new investigators.

Chapter 1597 Requires Expeditious Investigations of Complaints

We recommend that the Medical Board of California report to the fiscal committees and the Joint Legislative Budget Committee by April 15, 1991 on the projected increase in complaint workload for 1991-92, the board's assessment of staffing needs to address the workload, and alternative methods of handling investigations expeditiously.

Chapter 1597, Statutes of 1990 (SB 2375, Presley), significantly modifies the MBC's responsibilities for handling complaints against its licensees. Specifically, Chapter 1597 requires the board to set a goal of six months,

DEPARTMENT OF CONSUMER AFFAIRS—Continued

on the average, to complete investigations from the date complaints are received, with complex cases taking no more than one year to investigate. Chapter 1597 requires the board to meet this goal by January 1, 1992.

Most Complaint Cases Currently are More than Six Months Old. Currently, the board has approximately 3,800 unresolved complaint cases. Over half of these cases are more than six months old, including about 900 cases that are over one year old. Consequently, for most of the existing cases, the Chapter 1597 goal — investigations completed within six months — is not attainable.

In order to meet the six-month goal for new incoming complaints, as well as to resolve the existing cases during 1991, the board is requesting an increase in 1991-92 of \$1.6 million to add 12.5 enforcement positions, and to establish as permanent, 10 limited-term enforcement positions that are due to expire at the end of the current year. The increase will provide the MBC with a total of 138 enforcement and investigative staff.

Additional Staff May Not be Sufficient. Our review shows that, even with the additional staff, there is no assurance that the MBC will be able to resolve existing complaints and begin to meet the Chapter 1597 goal for two reasons. First, the proposed staffing level assumes that complaint workload will increase at a rate the board has experienced in the past. However, complaint and investigative workload could exceed past experience, due to the recent installation of a toll-free telephone line, which provides greater access to consumers.

Second, the board may not be able to fill its investigator positions and retain existing investigative staff. According to the board, this is because its investigators are in a classification with a lower salary range than investigators for other state agencies, such as the Attorney General's Office. The board is currently seeking approval from the Department of Personnel Administration to increase the salary levels for its investigators in order to better compete with other agencies. Unless the board is able to hire investigators and retain them, it will not be able to investigate cases expeditiously.

In order that the Legislature can be kept informed of the board's efforts in meeting the Chapter 1597 goal, we recommend that the board report to the fiscal committees by April 15, 1991 on the board's updated projection of complaint workload in 1991-92, its assessment of staffing needs to address that workload, and alternative methods, such as contracting with the Division of Investigation for services, in order to handle investigations expeditiously in the event the board experiences investigative staff recruitment or retention problems and workload increases.

Medical Record Collection Delays Complaint Screening Process

We recommend the enactment of legislation authorizing the board to take disciplinary action against a physician who fails to provide medical records within a reasonable period determined by the board.

About 2,000 of the MBC's current 3,800 pending complaints are being screened in the central control unit. (The other complaints have been

assigned to investigation.) Most of these cases are complaints against physicians with a potential for patient harm, and about 850 of them have been in the screening process for more than four months.

Medical Records Take Long Time to Collect. According to the board, it is not unusual to take four to six months to screen complaints. This is because it often takes a long time to collect medical records from physicians. For instance, based on data from the board, physicians take from over a month to four months to submit requested records in 40 percent of the cases. While the board can adopt regulations to require prompt submission of medical records, the board cannot *induce* physicians to promptly comply with the requirement. This is because the board currently does not have the authority to take disciplinary actions against physicians who do not comply with its request within a certain time frame.

Because it is essential that the board be able to collect necessary medical records in a timely manner given the potential for patient harm, it should be given the authority to take disciplinary action against a licensee or assess a fine if medical records are not received within a reasonable period, as determined by the board. Providing the board with this authority has the advantage of creating an incentive for physicians to respond promptly. Accordingly, we recommend the enactment of legislation authorizing the board to take disciplinary action against a physician who fails to provide medical records, upon written request and appropriate authorization, within a reasonable period determined by the board.

Attorney General Services Are Overbudgeted

We recommend a reduction of \$282,000 from the Contingent Fund of the Medical Board of California and the various special funds of the allied health committees because expenditures for Attorney General services are overbudgeted (Item 1390-046-758).

Chapter 1597 also establishes a Health Quality Enforcement Section (HQES) within the Department of Justice (DOJ), to prosecute cases against licensees of the MBC and allied health committees. The HQES also will provide consultation services to the board, including reviewing complaints and investigative cases, and developing procedures for complaint handling and investigative processes. According to the DOJ, the HQES would consist of clerical support and five attorneys. The HQES will be supported through charges to the MBC and allied health committees.

The budget requests a total of \$855,000 from the Contingent Fund of the Medical Board of California and the various special funds of the allied health committees to reimburse the DOJ. The request includes (1) \$714,000 to support the HQES and (2) \$141,000 for other Attorney General services to be provided to the MBC's central complaint and investigative control unit.

Our analysis indicates that the requested amount is overbudgeted for two reasons. First, the DOJ is estimating a lower amount of \$573,000

DEPARTMENT OF CONSUMER AFFAIRS—Continued

(instead of \$714,000) for support of the HQES in 1991-92. Second, the MBC has double-budgeted for attorney services to the central complaint and investigative control unit. This is because the DOJ advises that it will not be providing services to the MBC's central unit, other than those provided through the HQES. Consequently, the MBC will not need the additional \$141,000 for other DOJ services.

Accordingly, we recommend a reduction of \$282,000 from the Contingent Fund of the Medical Board of California and the various special funds of the allied health committees to correct for the overbudgeted amount.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Item 1700 from the General Fund

Budget p. SCS 88

Requested 1991-92.....	\$13,793,000
Estimated 1990-91	14,809,000
Actual 1989-90	13,355,000
Requested decrease \$1,016,000 (-6.9 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1700-001-001—Support	General	\$11,714,000
1700-001-890—Support	Federal Trust	2,066,000
Reimbursements	—	<u>13,000</u>
Total		\$13,793,000

GENERAL PROGRAM STATEMENT

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

The department consists of two divisions:

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

The department has 250.3 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes total expenditures of \$13.8 million to support DFEH in 1991-92. This is a net decrease of \$1 million, or 6.9 percent, below estimated current-year expenditures. The decrease is primarily due to reductions of: (1) \$565,000 in federal funds for implementation of the Immigration Reform and Control Act (IRCA) and (2) \$450,000 in the reimbursement from the Los Angeles County Transportation Commission (LACTC). The LACTC contracted with DFEH for \$450,000 in the current year to provide nondiscrimination training to LACTC contractors. The department indicates that it plans to renew the contract with the LACTC for the budget year. Consequently, the Department of Finance indicates that, once a new contract is negotiated, it will request an amendment to the Budget Bill to increase the department's reimbursement authority by the amount of the contract.

The Governor's Budget includes an unallocated trigger-related reduction of \$305,000 in funding for the department. This reduction is included in the proposed budget for the department, in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1
Department of Fair Employment and Housing
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Esti- mated 1990-91	Pro- posed 1991-92	Actual 1989-90	Esti- mated 1990-91	Pro- posed 1991-92	
	Enforcement and Administrative Services	228.3	250.3	234.8	\$13,355	\$14,809	
Unallocated trigger-related re- duction	—	—	—	—	—	-305	—
Totals	228.3	250.3	234.8	\$13,355	\$14,809	\$13,793	-6.9%
Funding Sources							
General Fund				\$11,182	\$11,715	\$11,714	—
State Legalization Impact Assistance Fund				—	565	—	-100.0%
Federal Trust Fund				1,920	2,066	2,066	—
Reimbursements				253	463	13	-97.2

FAIR EMPLOYMENT AND HOUSING COMMISSION

Item 1705 from the General

Fund

Budget p. SCS 90

Requested 1991-92.....	\$827,000
Estimated 1990-91	822,000
Actual 1989-90	775,000
Requested increase \$5,000 (+0.6 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1705-001-001—Support	General	\$827,000
Total		\$827,000

GENERAL PROGRAM STATEMENT

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

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

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$827,000 from the General Fund to support the FEHC in 1991-92. This is a net increase of \$5,000, or 0.6 percent, above estimated current-year expenditures. The increase reflects an increase of \$21,000 for salaries and wages, partially offset by an unallocated trigger-related reduction of \$10,000 and a decrease of \$6,000 for operating expenses and equipment.

OFFICE OF THE STATE FIRE MARSHAL

Item 1710 from the General
Fund and various funds

Budget p. SCS 91

Requested 1991-92.....	\$16,043,000
Estimated 1990-91	14,358,000
Actual 1989-90	12,234,000
Requested increase \$1,685,000 (+12 percent)	
Total recommended reduction.....	1,761,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1710-001-001—Support	General	\$4,625,000
1710-001-198—Support	California Fire and Arson Training	1,442,000
1710-001-199—Support	California Fireworks Licensing	285,000
1710-001-209—Support	Hazardous Liquid Pipeline Safety	1,508,000
1710-001-890—Support	Federal Trust	99,000
Reimbursements	—	8,084,000
Total		\$16,043,000

Analysis
page

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

1. *Construction inspection and plan review services for the University of California and California State University systems. Reduce reimbursements by \$1,586,000.* Recommend reduction because the request for 18 additional personnel-years (PYs) is based on workload projections that have not been justified. Budget-year workload may decrease given the defeat of bond measure in the November 1990 election. 129
2. *Plan review for the Office of Statewide Health Planning and Development. Reduce reimbursements by \$175,000.* Recommend reduction because the request for 2 additional PYs is based on increased project workload which has not been substantiated. 130
3. *Delay in Plan Reviews.* The Office of the State Fire Marshal should investigate reasons for excessive delays in processing current workload. Recommend that the OSFM report to the Legislature, at the time of budget hearings, on the OSFM's role in implementing Ch 1650/90 (AB 2565, Eastin) and identify steps necessary to improve the OSFM's overall plan review process. 130

GENERAL PROGRAM STATEMENT

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

OFFICE OF THE STATE FIRE MARSHAL—Continued

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

The office has 188.7 PYs in the current year.

OVERVIEW OF THE BUDGET REQUEST AND THE FIVE-YEAR CAPITAL OUTLAY PLAN

The budget requests \$16 million for support of the OSFM in 1991-92. This is an increase of \$1.7 million, or 12 percent, above estimated current-year expenditures. Table 1 represents a summary of departmental expenditures by program and funding source for the three-year period ending June 30, 1992.

Table 1
Office of the State Fire Marshal
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Pro-posed 1991-92	Actual 1989-90	Est. 1990-91	Pro-posed 1991-92	
	Public Fire Safety	164.8	188.7	215.6	\$12,234	\$14,358	
Funding Sources							
General Fund				4,599	4,889	4,625	(5.4)
California Fire and Arson Training Fund				1,281	1,450	1,442	—
California Fireworks Licensing Fund				246	288	285	(1)
Hazardous Liquid Pipeline Safety Fund				1,097	1,796	1,508	(16)
Natural Disaster Reimbursements-Loma Prieta				78	—	—	—
Federal Trust Fund				107	99	99	—
Reimbursements				4,826	5,836	8,084	39

The Governor's Budget includes an unallocated trigger-related reduction of \$73,000 in funding for the OSFM. This reduction is included in the proposed budget for the OSFM in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). Significant adjustments to the budget which are not discussed elsewhere in the analysis are as follows:

- An increase of \$217,000 and 3.7 PYs to perform increased administrative support duties in the Fiscal Services and Management Information Services Divisions.
- An increase of \$94,000 and 0.9 PYs to extend a limited-term position for inspection of pipeline construction. This will extend the limited-term position established July 1, 1988 through June 30, 1993.

- An increase of \$159,000 and 1.9 PYs to allow for implementation of Ch 858/90 (AB 357, Eaves), which requires that the OSFM respond to all fires, explosions, and ruptures involving a liquid pipeline or refining facility.
- An increase of \$98,000 in reimbursements and 1 PY for plan-check services for school construction projects performed through the OSA.
- An increase in spending authority of \$298,000 in reimbursements to cover increased workload associated with the operation of the California Fire Academy classes at Asilomar.

ANALYSIS AND RECOMMENDATIONS

Staffing for Increased UC and CSU Workload Not Justified

We recommend a reduction of \$1,586,000 (reimbursements) and 18 personnel-years for plan review and construction inspections of new projects at the University of California (UC) and California State University (CSU) because the workload projections have not been substantiated.

The budget contains a combined \$1,586,000 (reimbursements) and 18 PYs for the OSFM to increase plan reviews and construction inspections for new UC and CSU capital outlay projects. Under existing law, the OSFM conducts plan reviews of new projects, as well as inspections of existing state buildings.

The current request for 10 additional PYs for UC and 8 additional PYs for CSU is based on respective five-year plans that, in part, assumed the future passage of several higher education bond measures—one of which the voters defeated in the November 1990 general election. According to the OSFM, those plans included new construction projects over the next five years totaling \$1.5 billion for UC and \$1.4 billion for CSU. Had the November bond measure passed, and if subsequent bond measures were approved, these plans could have been implemented, resulting in new construction projects averaging \$300 million and \$280 million annually for UC and CSU, respectively. This level of funded projects would have represented workload consistent with annual levels approved since 1986-87. Instead, the 1991-92 budget proposes \$131 million in new construction for UC and roughly the same amount for CSU, and represents an actual *decrease* in volume compared to recent years for both segments. This suggests that no augmentation of the OSFM plan review and construction inspection staff for new UC and CSU projects is warranted at the present time.

It should be noted that the UC and CSU capital improvement programs may increase in the future with funding from future bond measures or other financing methods. It is clear, however, that significant increases in new construction projects will not occur until after the 1991-92 budget year. Should these programs increase in the future, a request for an increase in the OSFM plan review may warrant legislative consideration. As discussed below, however, the entire plan review process in the OSFM needs to be reviewed and modified to improve the process.

OFFICE OF THE STATE FIRE MARSHAL—Continued**Increase in OSHPD Workload Not Substantiated**

We recommend a reduction of \$175,000 (reimbursements) and 2 personnel-years for plan reviews of new construction projects performed under contract for the Office of Statewide Health Planning and Development (OSHPD) because neither the OSFM nor the OSHPD has substantiated the increased workload projections.

The budget contains \$175,000 (reimbursements) and 2 PYs for the OSFM to increase its contractual plan review support of OSHPD-related construction projects. According to the State Fire Marshal's staff, the OSHPD has estimated that it will receive a minimum of \$1.5 billion dollars in construction projects for the 1991-92 budget year. In response to our request for information, neither the OSHPD nor the OSFM had provided data to substantiate this assumption at the time this analysis was prepared. In addition, no data has been made available that compares this estimate to current project levels. We therefore have no basis to conclude that an increase in plan review personnel is necessary at this time.

Delays in Initial Plan Review Turn-around Warrant Attention

We recommend that the OSFM report to the Legislature, at the time of budget hearings, on its role in implementing Ch 1650/90 (AB 2565, Eastin) and identify steps necessary to improve the OSFM's overall plan review process.

The OSFM is required to review plans for all new state-owned buildings, as well as for all health care facilities in the state to verify compliance with fire and life safety codes. These services are currently provided directly through the OSFM for UC, CSU, and OSHPD projects, and through the OSFM staff at three Office of the State Architect (OSA) offices for school projects (K-12 and California Community Colleges).

Although projects vary in size and complexity, there is at present no standard timeframe against which reviews are performed. According to the OSFM, projects for the UC presently have a 32-day on-shelf waiting time prior to *initial* review, while projects for the CSU lie idle for 54 days. Furthermore, the OSFM has notified campuses of the California Community Colleges to expect a six-month turn-around for completion of the plan reviews. The reason for delays in the OSFM plan reviews is not altogether known. Possible causes include incomplete submittals, understaffing of plan review functions, poor management of the plan review process, and a lack of coordination across the various agencies performing plan reviews. Delays in delivering completed plan reviews have caused postponement of projects, reversions of construction funds, and increased project costs to the affected agencies and to the state.

Chapter 1650, Statutes of 1990 (AB 2565, Eastin), requires that the OSA, in conjunction with the OSFM and the OSHPD, prepare a plan to improve the allocation of state agencies' resources in order to meet the state's responsibilities for review and approval of school and hospital design and construction. This plan is to be completed by July 1, 1991.

We recommend that, at the time of budget hearings, the OSFM report to the Legislature on the role that the OSFM will have in implementing the OSA's plan. Furthermore, because the OSFM performs plan review services for projects beyond schools and hospitals, we recommend that the OSFM's report to the Legislature include a proposal to improve performance of its overall plan review process. Finally, in our analysis of the OSA budget (Item 1760), we have recommended increasing the OSA's spending authority under the K-14 plan check function. This recommendation is an attempt to have the plan-checking requirements completed in a timely manner. In conjunction with this recommendation, the OSFM should confer with the OSA and report to the Legislature as to the impact our recommendation will have on the OSA interagency agreement with the OSFM for the K-14 plan-checking requirement.

FRANCHISE TAX BOARD

Item 1730 from the General
Fund

Budget p. SCS 96

Requested 1991-92.....	\$218,427,000
Estimated 1990-91	214,337,000
Actual 1989-90	182,490,000
Requested increase \$4,090,000 (+1.9 percent)	
Total recommended increase	2,732,000
Estimated potential revenue gain from recommendations ..	13,800,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1730-001-001—Support	General	\$213,332,000
8640-001-001—Support	General (Political Reform Act)	1,200,000
1730-001-200—Support	Fish and Game Preservation	28,000
1730-001-800—Support	U. S. Olympic Committee	21,000
1730-001-803—Support	State Children's Trust Fund	25,000
1730-001-823—Support	California Alzheimer's Disease and Related Disorders Research	32,000
1730-001-905—Support	California Election Campaign	18,000
1730-001-983—Support	California Seniors	20,000
Statutory Appropriation—Support	Delinquent Tax Collection	1,208,000
Statutory Appropriation—Support	Vietnam Veterans' Memorial Account	27,000
Reimbursements	—	2,516,000
Total		\$218,427,000

FRANCHISE TAX BOARD—Continued

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS	<i>Analysis page</i>
1. <i>Unallocated Reduction. Increase Item 1730-000-001 by \$2,732,000.</i> Recommend augmentation to offset unallocated reduction because it costs more than it saves.	135
2. Taxpayer Information System. Recommend that the FTB report at budget hearings on project status and fiscal implications.	137

GENERAL PROGRAM STATEMENT

The Franchise Tax Board (FTB) is responsible for administering California's Personal Income Tax (PIT), Bank and Corporation (B&C) tax, Homeowners' and Renters' Assistance (HRA) programs, and the Political Reform Act (PRA) audit program.

The PIT and B&C tax programs administered by the board account for approximately 56 percent of total General Fund revenues. In 1991-92, these programs are projected to produce revenues of \$25.5 billion, including \$20 billion from the PIT and \$5.5 billion from the B&C tax. Approximately \$24.1 billion of these revenues are accounted for by voluntary self-assessments by taxpayers, while the remaining \$1.4 billion will be raised from assessments issued by the board's audit, collections and filing enforcement programs.

The board consists of the Director of Finance, the Chairman of the State Board of Equalization and the State Controller. An executive officer is charged with administering the FTB's day-to-day operations, subject to supervision and direction from the board. The FTB has 4,206 personnel-years in the current year.

MAJOR ISSUES

- Unallocated reduction costs more than it saves.
- Taxpayer information project's future uncertain.

OVERVIEW OF THE BUDGET REQUEST

Total expenditures by the FTB are proposed at \$218.4 million for the budget year, which is \$4.1 million, or 1.9 percent, more than estimated current-year expenditures. The Governor's Budget includes an unallocated trigger-related reduction of \$2.7 million in funding for the FTB. This reduction is included in the proposed budget for the board in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

The budget request includes funding for 4,205 personnel-years in 1991-92. This is one personnel-year *less* than is estimated for the current

year. This reduction is generally attributable to the removal of one-time costs associated with workload deficiencies in the current year.

The budget proposes an appropriation of \$213.3 million from the General Fund, which is an increase of \$7.1 million, or 3.4 percent, over estimated General Fund expenditures for the current year.

During 1991-92, the board also expects to receive \$2.5 million in reimbursements from other agencies, \$1.2 million as a transfer from the PRA (Item 8640), \$1.2 million from the Delinquent Tax Collection Fund, and \$171,000 from various special funds.

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

Expenditures by Program. As Table 1 shows, the PIT program accounts for the largest single portion of the board's budget (71 percent of the total budget request). Most of the remaining expenditures are attributable to the B&C tax program (26 percent). The FTB's activities under the PRA and the HRA programs account for a relatively small amount (2 percent) of its total budget. In addition to the funding for these mandated programs, a portion of the FTB budget (1 percent) is

Table 1
Franchise Tax Board
Program Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Pro- posed 1991-92	Actual 1989-90	Est. 1990-91	Pro- posed 1991-92	
Personal Income Tax.....	2,652	2,914	2,899	\$129,710	\$154,162	\$157,882	2.4%
Bank & Corporation Tax.....	859	887	894	48,013	54,327	57,323	5.5
Homeowners' and Renters'							
Assistance.....	36	39	38	1,806	2,120	2,238	5.6
Political Reform Act.....	18	17	17	1,078	1,176	1,200	2.0
Contract Work.....	52	46	43	1,883	2,552	2,516	-1.4
Administration (Distributed).....	287	303	314	(13,898)	(15,822)	(16,606)	5.0
Unallocated Reduction.....	—	—	—	—	—	-2,732	—
Totals.....	3,904	4,206	4,205	\$182,490	\$214,337	\$218,427	1.9%
Funding Sources							
General Fund.....	3,818	4,127	4,129	178,576	205,075	213,332	4.0
Reimbursements.....	52	46	43	1,935	2,608	2,516	-3.5
Political Reform Act (General Fund).....	18	17	17	1,078	1,176	1,200	2.0
Delinquent Tax Collection.....	10	10	10	852	5,311	1,208	-77.0
Fish and Game Fund.....	1	1	1	12	26	28	7.6
Vietnam Veterans' Memorial Account.....	1	1	1	5	27	27	—
U.S. Olympic Committee Fund....	1	1	1	4	21	21	—
State Children's Trust Fund.....	1	1	1	10	24	25	4.2
California Alzheimer's Disease and Related Disorders Research.....	—	—	—	8	31	32	3.2
California Election Campaign....	1	1	1	3	18	18	—
California Seniors Fund.....	1	1	1	7	20	20	—

FRANCHISE TAX BOARD—Continued

used for support of services which the board provides on a contractual basis to other agencies.

Source of Funds. Table 1 also shows that nearly all of the FTB budget (about 96 percent) is supported directly from the General Fund. These funds are used for the PIT, B&C and HRA programs. The PIT program also receives support from the Delinquent Tax Collection Fund (\$1.2 million) which finances an enforcement program that assigns PIT collection accounts to private collection agencies. The amount FTB will receive in the budget year has been significantly reduced from the \$5.3 million current-year estimate because of lower-than-anticipated collection fees to be paid to private agencies. The Delinquent Tax Collection Fund is supported by the delinquent taxes actually collected by the agencies.

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

Sixty-seven percent of the board's General Fund budget is for two FTB functions — processing and auditing tax returns. As Table 2 shows, 35 percent of the FTB's total General Fund budget is for return processing and taxpayer assistance, and 32 percent is for audits. About 28 percent is for collecting delinquent taxes (collections function) and 5 percent is for programs to make sure that individuals and businesses file tax returns (filing enforcement).

Table 2
Franchise Tax Board
Program Functions Supported by the General Fund^a
1991-92
(dollars in thousands)

Function	PIT Program		B&C Program		HRA Program		Total	
	Budgeted Expenditures	Percent of Total	Budgeted Expenditures	Percent of Total	Budgeted Expenditures	Percent of Total	Budgeted Expenditures	Percent of Total
Processing/Taxpayer Assistance.....	\$61,635	39.4%	\$11,168	19.5%	\$2,238	100.0%	\$75,041	34.7%
Audit.....	39,358	25.1	29,488	51.4	—	—	68,846	31.9
Collections.....	46,050	29.5	13,463	23.5	—	—	59,513	27.5
Filing Enforcement.....	9,460	6.0	1,328	2.3	—	—	10,788	5.0
Exempt Corporations.....	—	—	1,876	3.3	—	—	1,876	0.9
Administration (Distributed)...	11,772	—	(4,355)	—	(169)	—	(16,316)	—
Totals.....	\$156,503	100.0%	\$57,323	100.0%	\$2,238	100.0%	\$216,064 ^b	100.0%
Percent of General Fund Expenditures.....		73%		26%		1%		100.0%

^a Exclusive of Political Reform Act activities.

^b This amount is \$2,732,000 higher than the General Fund appropriation (\$213,332,000) because it does not reflect the unallocated reduction.

Proposed Changes to the Budget. Table 3 identifies the changes that account for the proposed increase of \$4.1 million in the FTB's budget. It shows a net decrease of \$396,000 in baseline expenditures, which is primarily attributable to the removal of one-time costs associated with current-year deficiencies (\$7.1 million), and a reduction in anticipated

enforcement expenditures funded by the Delinquent Tax Collection Fund (\$2.6 million). These reductions are partially offset by a \$9.2 million increase in other baseline expenditures. Table 3 also shows \$8.2 million in workload adjustments, and a reduction of \$3.8 million for program changes. This reduction is primarily due to the proposed \$2.7 million unallocated reduction, and \$1.1 million in reduced enforcement expenditures.

Table 3
Franchise Tax Board
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Reimbursements Transfers, and Special Funds</i>	<i>Total</i>
1990-91 Expenditures (Revised)	\$205,075	\$9,262	\$214,337
<i>Baseline Adjustments:</i>			
Employee compensation increase	3,350	69	3,419
Merit salary adjustments	4,604	—	4,604
One-time costs	-7,099	—	-7,099
Ongoing adjustments	346	2	348
Limited term positions	—	-2,607	-2,607
OE&E price increase	939	—	939
Subtotal, baseline adjustments	(\$2,140)	(-\$2,536)	(-\$396)
<i>Workload Adjustments:</i>	\$8,373	-\$127	\$8,246
<i>Program Changes:</i>			
CALSTARS implementation	51	—	51
Audit workplan	118	—	118
Enforcement workplan	307	-1,504	-1,197
Unallocated reduction	-2,732	—	-2,732
Subtotal, program changes	(-\$2,256)	(-1,504)	(-\$3,760)
1991-92 Budget Request	\$213,332	\$5,095	\$218,427
<i>Change from 1990-91:</i>			
Amount	\$8,257	-\$4,167	\$4,090
Percent	4.0%	-45.0%	1.9%

ANALYSIS AND RECOMMENDATIONS

Unallocated Reduction Threatens Revenue Collections

We recommend that the Legislature augment the FTB's budget by \$2,732,000 to offset the unallocated funding reduction, because this reduction will cost far more than it "saves." (Increase Item 1730-001-001 by \$2,732,000).

For the budget year, the administration has reduced the General Fund budget requests of most state agencies by imposing an unallocated reduction. In the past, the FTB has been exempted from these types of across-the-board reductions, on the basis that the reductions likely would have to be taken out of the board's revenue-generating programs, such as audits and collections. In particular, the FTB was exempted from the 3-percent statutory reduction in the current year for this very reason. However, the board has received no such exemption for 1991-92, and its General Fund budget request has been reduced by \$2,732,000.

At the time this *Analysis* was prepared, neither the FTB nor the Department of Finance (DOF) had prepared a specific plan for imple-

FRANCHISE TAX BOARD—Continued

menting the proposed reduction. However, since the FTB has a small range of discretionary programs, it appears the board's primary option for accommodating the funding shortfall would be to reduce audit activities. On the other hand, if the board is not allowed to redirect funds away from the audit program (in order to maintain revenues), it instead may have to cut back on the level of services provided to the public through its taxpayer assistance programs, particularly the toll-free Telephone Information Center. Given the adverse consequences of program reductions in either one or both areas as detailed below, we do not believe that the reduction is justified.

Audit Reduction Would Shortchange General Fund. If the board's audit program absorbs the full \$2.7 million reduction, approximately 1,567 audits will not be conducted and \$13.8 million in audit recoveries would be foregone. This revenue loss has been reflected in the budget's estimates of General Fund revenue for 1991-92. Clearly, from a fiscal standpoint, it makes little sense for the General Fund to give up more than *five times* in revenue than what it saves in administrative costs.

Taxpayer Assistance Would Suffer an Additional Budget Reduction. While filing enforcement and collections phone calls will still be answered at the budgeted 85 percent response rate, the FTB has redirected 11.9 personnel-years in the current year from the Telephone Information Center to other activities in order to fund what it considers to be higher-priority workloads in the department. These personnel-years would have been used both in the current and budget years to answer general assistance calls in the center.

Because the DOF did not approve funding for additional personnel-years for the general assistance calls in the Information Center, the FTB's budgeted service level (that is, the response rate) for general assistance calls will be reduced from 62 percent to 52 percent. In the event that the FTB chooses to require all or a portion of the unallocated reduction to be absorbed by the Telephone Information Center, the percentage of calls answered would be even further reduced. The public assistance provided through the Information Center is a critical element of the state's self-assessed PIT, B&C Tax, and HRA programs. To the extent that potential taxpayers are frustrated in their attempts to contact the department, their motivation and ability to comply with the state's tax laws is reduced. Since the self-assessed tax programs account for 95 percent of the revenue FTB collects for the General Fund, limiting public access to the Information Center could have an adverse effect on revenues.

Our recommendation to augment the board's budget is not to suggest that it is impossible for the board to absorb any portion of the funding reduction without adverse revenue or program consequences. A small portion of the reduction may in fact be absorbed in this fashion. Given the magnitude of the reduction, however, the board clearly will be forced to reduce its programs and, more than likely, its revenue producing capacity, to accommodate the loss of funds.

Under these circumstances, we believe the reduction makes little sense from an overall fiscal or policy perspective. Accordingly, we recommend that the Legislature augment the FTB's budget by \$2,732,000 to restore the unallocated reduction.

Benefits of FTB's Taxpayer Information Project Questioned

We recommend that the FTB report at budget hearings on the status of the Taxpayer Information System project and its fiscal implications.

Since August 1982, the board has been in the process of developing an integrated Taxpayer Information System (TI), similar to the one used by the Internal Revenue Service, to replace its current "accounts receivable," "withhold" and other peripheral tax systems which are now over 20 years old. The FTB argues that these existing systems are obsolete, inadequate, inefficient and nonresponsive to the programmatic needs of the agency.

Since its inception, the project has been redesigned three times. According to Office of Information Technology (OIT), in the last revision of the project (June 1987) total project costs were estimated at \$20 million and total project benefits were estimated at \$28 million, including 112.2 personnel-years in staff reductions. The project was to be implemented by September 1990.

In November 1990, the FTB submitted a Special Project Report (SPR) for the TI project which indicates that project implementation will be delayed until June 1992. In December 1990, the OIT informed the FTB in its response to the SPR that it could not approve of the project's continuation. The OIT took this action because of concerns in regard to additional cost overruns (the OIT estimates that the project now has a net cost of \$9.2 million), implementation delays, or a potential system failure due to the uncertainty of the technological environment. The OIT's response to the SPR concludes, "We are, therefore, unable to approve the continuation of the TI automation project until: (1) the concerns, described above, have been addressed and solutions approved by the DOF, or (2) this project is replaced by smaller, less risky and more cost effective projects through the submittal of separate FSRs."

Subsequently, the FTB issued a response memorandum to OIT and the DOF which asserts that OIT's analysis of the situation is incorrect. Specifically, the FTB states that: (1) the scope of the project has not changed from the approval of the 1987 FSR, (2) the OIT's analysis of project costs are significantly overstated, (3) the project will result in net benefits to the state (the FTB estimates this to be \$18 million over the life of the project), and (4) the OIT's analysis significantly overstates the work yet to be completed.

Although the DOF has approved funding in the budget for the 108 personnel-years currently working on the TI project, the OIT memorandum also requested the FTB to submit a plan detailing the transition of the program personnel dedicated to the TI project into other departmental activities by January 18 of the current year. If the final determination does result in discontinuation of the TI project, however, the

FRANCHISE TAX BOARD—Continued

Legislature may wish to consider other alternative uses of the \$3.8 million and 108 personnel-years included in the budget for this project. Because of the implications of this situation for the board's funding request, we recommend that the FTB report at budget hearings on the status of the TI project and its fiscal implications.

Capital Outlay

The Governor's Budget proposes an appropriation of \$380,000 in Item 1730-301-036 for capital outlay expenditure in the FTB. 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 GENERAL SERVICES

Item 1760 from the General
Fund and various funds

Budget p. SCS 103

Requested 1991-92.....	\$534,912,000
Estimated 1990-91	499,609,000
Actual 1989-90	444,273,000
Requested increase \$35,303,000 (+7.1 percent)	
Recommended reductions from the General Fund	3,637,000
Increase in special funds.....	550,000
Recommendations pending.....	12,441,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1760-001-001—Departmentwide. For direct support of department operations, for payment to Service Revolving Fund	General	\$838,000
1760-001-002—Departmentwide. For maintaining and improving properties (1) acquired under the Property Acquisition Law or (2) declared surplus prior to disposition by the state.	General (Property Acquisition Law Account)	895,000
1760-001-003—Departmentwide. For maintaining, protecting, and administering state parking facilities.	General (Motor Vehicle Parking Facilities Moneys Account)	4,765,000
1760-001-006—Office of State Architect. For verifying that plans of structures purchased with state funds are accessible for use by the physically handicapped.	General (Access for Handicapped Account)	1,149,000
1760-001-022—Office of Telecommunications. For support of Emergency Telephone Number program.	General (State Emergency Telephone Number Account)	1,006,000
1760-001-026—Departmentwide. For payment of claims and operating expenses resulting from the Motor Vehicle Liability Self-Insurance program.	General (State Motor Vehicle Insurance Account)	

Item 1760

STATE AND CONSUMER SERVICES / 139

—Budget Act Appropriation		3,331,000
—Government Code Section 16379		11,052,000
1760-001-036—Office of State Architect. For asbestos abatement, PCB program, underground tank removal, and proactive assets management.	General (Special Account for Capital Outlay)	10,491,000
1760-001-120—Office of State Architect. For direct support of specified plan checking services.	Architecture Public Building (School Building Program Account)	9,213,000
1760-001-122—Office of State Architect. For support of hospital plan checking.	Architecture Public Building (Hospital Plan Checking Account)	2,876,000
1760-001-344—Office of Local Assistance. For support of State School Building Lease-Purchase program.	State School Building Lease-Purchase	10,255,000
1760-001-397—Office of California State Police. For state police training activities.	California State Police	118,000
1760-001-450—Departmentwide. For support to test and certify gas valves.	Seismic Gas Valve Certification	90,000
1760-001-465—Departmentwide. For support of energy assessment programs.	General (Energy Resources Program Account)	1,361,000
1760-001-602—Office of State Architect. For support of operations.	Architecture Revolving	23,084,000
1760-001-666—Departmentwide. For provision of goods and services to agencies.	Service Revolving	391,947,000
1760-001-739—Office of Local Assistance. For support of School Building Aid program	State School Building Aid	764,000
1760-001-768—Architectural Consulting and Construction Services. For support of earthquake rehabilitation.	Earthquake Safety and Rehabilitation Fund	556,000
1760-001-791—Architectural Consulting and Construction Services. For seismic surveys.	Higher Education Capital Outlay Fund	113,000
1760-001-961—Office of local assistance. For support of State School Deferred Maintenance program.	State School Deferred Maintenance	173,000
1760-011-344—Architectural consulting and construction services. For seismic surveys.	School Building Lease Purchase Fund	112,000
1760-011-602—For support of department excluding Office of State Architect.	Architecture Revolving Fund	2,618,000
1760-101-001—Telecommunications. For short-term loan to the Emergency Telephone Number program.	General Fund	(4,590,000)
1760-101-022—Local assistance for reimbursement of Emergency Telephone Number program	General (State Emergency Telephone Number Account)	57,085,000
1760-490—Reappropriations of various Budget Act items from Architectural Public Building Fund for completion of building permit and certification system.	General	832,000
Ch 1289/90 to the Office of Building Standards for safety inspections.	Architecture Public Building Fund, Architectural Examiners Fund, Contractors License Fund, Professional Engineers and Land Surveyors Fund.	100,000
Ch 1653/90 to the Executive Office for administration	Guaranteed Return Trip Fund	40,000
Reimbursements		48,000
Total		\$534,912,000

DEPARTMENT OF GENERAL SERVICES—Continued

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS	<i>Analysis page</i>
Property Management Services	
1. <i>Office of the State Architect. Reduce Item 1760-001-602 by \$2,691,000.</i> Recommend reduction of 28.9 personnel-years for prison construction inspection due to project delays. Also withhold recommendation on \$521,000 (5.5 personnel-years) under Item 1760-001-602 because schedule for construction of the Los Angeles Reception Center is unknown.	148
2. Office of the State Architect. Earthquake Bonds—Local Program Administration. Recommend the Legislature approve \$443,000 (5.7 personnel-years), but authorize three professional positions as three-year limited term rather than permanent.	149
3. Office of the State Architect. Seismic Survey Programs. Withhold recommendation on \$338,000 (4.7 personnel-years) pending a receipt of revised work schedule for the K-12 survey program and a reassessment of funding required in 1991-92. Also recommend that seismic surveys include all UC and CSU buildings as originally intended in the 1990 Budget Act.	149
4. <i>Office of the State Architect. Reduce Item 1760-001-006 by \$8,000, Item 1760-001-120 by \$70,000, and Item 1760-001-122 by \$20,000.</i> Recommend reduction because the Structural Safety and Access Compliance Sections' proposed move from the Los Angeles state building is unwarranted.	151
5. <i>Office of the State Architect. Augment Item 1760-001-006 by \$623,000 and Item 1760-001-120 by \$5,037,000.</i> Recommend augmentation of spending authority for fee-based funds to expedite projected budget-year plan-check workload. Also recommend the Legislature adopt Budget Bill language limiting use of plan-check funds and adopt supplemental report language expressing Legislative intent regarding expenditure of plan-check funds and requiring submittal of a quarterly status report.	152
6. Office of Real Estate and Design Services. Recommend that the Legislature adopt supplemental report language requiring the Proactive Assets Management Program to issue a progress report by November 1, 1991.	154
7. <i>Office of Energy Assessments. Reduce Item 1760-001-666 by \$240,000 (5 positions).</i> Recommend reduction of funds because department plans to establish construction management unit which is duplicative of other state functions.	155
8. <i>Office of Buildings and Grounds. Reduce Item 1760-001-666 by \$264,000.</i> Recommend reduction of funds to begin	157

- operation of new Caltrans building, because building will not be occupied in the budget year.
9. Office of Buildings and Grounds. Reduction in funds for special repair projects could lead to deferred maintenance in state office buildings and increased future maintenance/repair costs. 157
 10. Office of Buildings and Grounds. Recommend deletion of five special repair projects because either (a) projects were already budgeted in current year, (b) projects are improperly funded from Building Rental Account, or (c) department has not provided justification for them. Recommend the Legislature redirect the \$338,000 associated with these projects to other high priority projects within the Special Repair program. 158
 11. Office of Buildings and Grounds. Recommend the Legislature direct the Department of General Services to require the tenants of the new state office building in Los Angeles to pay the bond costs, as well as the annual maintenance/operations costs, for the building. The first bond payment is due in the budget year. 160

Statewide Support Services

12. Litigation Costs for Motor Vehicle Claims. Recommend adoption of supplemental report language requiring the Office of Insurance and Risk Management to evaluate various alternatives to reduce litigation costs. 162
13. Procurement Options Warrant Review. Recommend adoption of supplemental report language requiring the office to evaluate specified alternatives to reduce future workload. 163
14. State Printer Contracting. Withhold recommendation on \$6.5 million proposed for the State Printer pending review of alternatives for reducing the increasing dependence on outside printers. 164
15. *Funding Source for Governor's Budget Document. Reduce Item 1760-001-001 by \$550,000 and increase Item 1760-001-666 by \$550,000.* Recommend shifting specified printing costs from the General Fund to the Service Revolving Fund. 164

GENERAL PROGRAM STATEMENT

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

The DGS has 4,480.3 personnel-years in the current year.

DEPARTMENT OF GENERAL SERVICES—Continued**MAJOR ISSUES**

- The OSA does not have sufficient spending authority in 1991-92 to expedite its projected K-14 plan-check workload.
- Reduction in special repair budget for state office buildings could lead to creation of deferred maintenance and higher costs to maintain/repair the state's infrastructure.
- Rental charges to departments occupying state-owned office buildings will increase significantly due to the administration's decision to use the Building Rental Account to fund bond payments for the new state office building in Los Angeles

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$534.9 million from various funds to support activities of the Department of General Services in 1991-92. This is \$36 million, or 7.2 percent, above estimated current-year expenditures.

Departmental Expenditures by Program

Table 1 shows department expenditures, by program, for the past, current, and budget years. The programs with the largest proposed budget-year expenditures are Telecommunications (\$133 million), Buildings and Grounds (\$72 million), Building Rental (\$78 million), Procurement (\$55 million), and State Printing (\$53 million).

As Table 1 indicates, the largest change in proposed program expenditures is the \$25 million increase in Property Management Services. The increase is due primarily to an \$18.3 million increase in Building Rental charges and a \$5 million increase in Architectural Consulting and Construction Services. In addition, significant increases are proposed among Support Services in Fleet Administration (\$2.6 million), Insurance and Risk Management (\$2.3 million), Procurement (\$1.8 million), State Police (\$1.6 million), and Support Services (\$1.6 million).

The Governor's Budget includes an unallocated trigger-related reduction of \$14,000 in funding for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Chapter 458, Statutes of 1990 (AB 2348, Willie Brown).

Table 1
Department of General Services
Distribution of Program Expenditures
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change From 1991-91	
				Amount	Percent
<i>Property Management Services</i>					
Architectural consulting and construction services.....	\$33,857	\$43,738	\$48,745	\$5,007	11.4%
Building rental.....	47,455	59,727	78,040	18,313	30.7
Building standards.....	545	571	630	59	10.3
Buildings and grounds.....	63,998	71,498	72,432	934	1.3
Energy assessments.....	2,582	3,990	3,765	-225	-5.6
Local assistance.....	10,159	10,647	11,192	545	5.1
Project development and management....	2,769	3,964	4,232	268	6.8
Real estate and design services.....	10,209	10,476	10,892	416	4.0
Subtotals, property management services.....	\$171,574	\$204,611	\$229,928	\$25,317	12.4
<i>Statewide Support Services</i>					
Administrative hearings.....	\$6,219	\$7,925	\$8,251	\$326	4.1%
Fleet administration.....	26,217	29,081	31,700	2,619	9.0
Insurance and risk management.....	16,453	13,258	15,547	2,289	17.3
Legal services.....	1,656	1,485	1,530	45	3.0
Management technology and planning....	8,147	8,794	9,035	241	2.7
Procurement.....	53,247	52,775	54,615	1,840	3.5
Records management.....	2,516	3,137	3,108	-29	-0.9
Small and minority business.....	1,717	1,772	2,114	342	19.3
State police.....	26,021	27,581	29,198	1,617	5.9
State printing.....	52,106	52,564	52,645	81	0.2
Support services.....	17,363	18,911	20,498	1,587	8.4
Telecommunications.....	110,133	133,379	132,511	-868	-0.7
Subtotals, statewide support services....	\$321,795	\$350,662	\$360,752	\$10,090	2.9%
<i>Administration</i>					
Administrative services.....	\$5,000	\$4,165	\$4,570	405	9.7%
Executive.....	2,121	1,923	1,977	54	2.8
Fiscal services.....	7,613	7,435	7,639	204	2.7
Subtotals, administration.....	\$14,734	\$13,523	\$14,186	\$663	4.9%
Totals, all programs.....	\$508,103	\$568,796	\$604,866	\$36,070	6.3%
Distribution of Intrafund Services.....	-63,830	-69,418	-69,940	522	0.8
Reimbursements.....	-432	-231	-48	-155	-79.2
Unallocated reduction.....	-	-	-14	-14	-
Total Net Expenditures.....	\$443,841	\$499,147	\$534,864	\$35,717	7.2%

Funding Sources for Departmental Expenditures

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

DEPARTMENT OF GENERAL SERVICES—Continued

Table 2 presents a summary of the department's total expenditures, by source of fund, for the prior, current, and budget years. The table indicates that 22 percent of the department's costs are funded by direct support, with the balance — 78 percent — supported from "earned" revenues.

Table 2
Department of General Services
Total Expenditures, by Source of Funds
1989-90 through 1991-92
(dollars in thousands)

<i>Funding Source</i>	<i>Actual 1989-90</i>	<i>Est. 1990-91</i>	<i>Prop. 1991-92</i>	<i>Percent of Total 1991-92</i>
<i>Direct Support</i>				
General Fund.....	\$14,783	\$2,577	\$838	0.2%
General Fund (Special Accounts)	70,198	77,414	79,347	14.8
Architecture Public Building Fund	11,880	11,726	12,897	2.4
Energy Resources Programs Account.....	1,041	1,374	1,361	0.3
State School Building Aid Fund.....	728	812	764	0.1
State School Building Lease-Purchase Fund..	8,790	9,594	10,367	1.9
State School Deferred Maintenance Fund....	334	177	173	0.0
Special Account for Capital Outlay	0	9,000	10,491	2.0
Various Special Funds/Accounts	368	903	977	0.2
Subtotals, direct support	\$108,122	\$113,577	\$117,215	21.9%
<i>Revolving Funds</i>				
Architecture Revolving Fund	\$16,740	\$21,205	\$25,702	4.8%
Service Revolving Fund.....	318,979	364,365	391,947	73.3
Subtotals, revolving funds.....	\$335,719	\$385,570	\$417,649	78.1%
Total Expenditures.....	\$443,841	\$499,147	\$534,864	100.0%

Program Distribution of Departmental Personnel

Table 3 identifies the allocation of staff among departmental functions for the prior, current, and budget years. It shows that 4,579.5 personnel-years are proposed for the budget year—a net increase of 99.2 personnel-years (2.2 percent) above the current-year level. About 46 percent of the department's staff are budgeted in property management services, and about 49 percent in statewide support services, with the balance in administration.

Table 3
Department of General Services
Distribution of Personnel-Years, By Program
1989-90 through 1991-92

<i>Program</i>	<i>Personnel-Years</i>			<i>Change from 1990-91</i>	
	<i>Actual 1989-90</i>	<i>Est. 1990-91</i>	<i>Prop. 1991-92</i>	<i>Amount</i>	<i>Percent</i>
<i>Property Management Services</i>					
Architectural consulting and construction services.....	333.7	390.1	426.3	36.2	9.3%
Building standards	5.7	6.7	6.7	—	—
Buildings and grounds.....	1,198.6	1,252.0	1,265.8	13.8	1.1
Energy assessments.....	11.9	17.4	17.4	—	—

Item 1760

STATE AND CONSUMER SERVICES / 145

Project management and development...	33.3	50.5	53.6	3.1	6.1
Local assistance	180.5	189.9	190.9	1.0	0.5
Real estate services	<u>140.1</u>	<u>144.0</u>	<u>144.8</u>	<u>0.8</u>	<u>0.6</u>
Subtotals, property management services	1,903.8	2,050.6	2,105.5	54.9	2.7%
Statewide Support Services					
Administrative hearings	56.5	75.6	75.6	—	—
Fleet administration	153.1	150.3	150.3	—	—
Insurance and risk management	23.7	23.2	23.2	—	—
Legal services	20.7	19.5	19.5	—	—
Management technology and planning ...	126.1	132.7	132.7	—	—
Procurement	286.3	285.5	301.0	15.5	5.4%
Records management	38.2	42.7	42.7	—	—
Small and minority business	19.9	24.3	27.1	2.8	11.5
State police	395.5	419.6	423.3	3.7	0.9
State printing	408.3	408.3	408.3	—	—
Support services	184.6	191.7	191.7	—	—
Telecommunications	<u>376.3</u>	<u>417.8</u>	<u>431.1</u>	<u>13.3</u>	<u>3.2</u>
Subtotals, statewide support services ...	2,089.2	2,191.2	2,226.5	35.3	1.6%
Administration					
Administrative services	79.0	70.9	79.9	9.0	12.7%
Executive	24.4	25.0	25.0	—	—
Fiscal services	<u>135.7</u>	<u>142.6</u>	<u>142.6</u>	—	—
Subtotals, administration	<u>239.1</u>	<u>238.5</u>	<u>247.5</u>	<u>9.0</u>	<u>3.8%</u>
Totals	4,232.1	4,480.3	4,579.5	99.2	2.2%

Proposed Budget Year Changes

Table 4 shows the changes in the proposed 1991-92 budget resulting from baseline adjustments, workload changes, and program changes by major funding categories. The table shows a net increase in General Fund expenditures of \$194,000 above current-year expenditures, a \$3.4 million or 10 percent net increase in Special Funds, and a \$32 million or 8.3 percent net increase in Revolving Funds. The major changes which explain the net increase include the following:

- An \$18 million increase in the Building Rental Account (BRA) for the debt service on the Ronald Reagan Office Building.
- A \$3.7 million increase for the State Architect for additional prison inspections.
- A \$3 million increase in vehicle purchases for the Department of Corrections.
- A \$1.8 million increase in computer parts for Support Services.
- A \$1 million increase for Procurement workload increases.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 4
 Department of General Services
 Proposed 1991-92 Budget Changes
 (dollars in thousands)

	<i>General Fund</i>	<i>Special Funds</i>	<i>Revolving Funds</i>	<i>Totals</i>
1990-91 Expenditures (Revised)	\$79,991	\$33,586	\$385,570	\$499,147
Distribution of Intrafund	—	—	69,649	69,649
Total Expenditures 1990-91	\$79,991	\$33,586	\$455,219	\$568,796
<i>Baseline Adjustments</i>				
Pro rata charges	—	—	\$3,010	\$3,010
Price increase	\$696	\$322	3,627	4,645
Miscellaneous adjustments	(502)	(8,260)	(11,521)	(20,283)
Subtotals, baseline adjustments	\$194	(\$7,938)	(\$4,884)	(\$12,628)
<i>Workload Changes</i>				
Administrative hearings	—	—	\$583	\$583
Risk management	—	—	528	528
Fiscal services	—	—	385	385
Small and minority business	—	—	35	35
Procurement	—	—	1,031	1,031
Support services	—	—1,811	1,811	—
State police	—	5	782	787
State printer	—	—	6,450	6,450
State printer (election materials)	—	—	(7,109)	(7,109)
Management, technology, and planning	—	—	237	237
Telecommunications (install and maintain) ..	—	—	2,179	2,179
Telecommunications (acquisition reduction) ..	—	—	(3,401)	(3,401)
Building and grounds	—	—	1,745	1,745
Project development	—	—	310	310
State architect ^a	—	10,338	9,859	20,197
Local assistance	—	514	—	514
Fleet administration	—	—	2,959	2,959
Subtotals, workload changes	—	\$10,857	\$18,384	\$29,241
<i>Program Changes</i>				
Procurement and energy (natural gas)	—	—	\$134	\$134
Procurement (SB 1844 implementation)	—	—	83	83
Procurement, OSMB, and Architect (AB 1933)	—	—	621	621
Local assistance (AB 3111 implementation) ..	—	82	—	82
State architect (earthquake administration) ..	—	443	—	443
Building Rental Account (Ronald Reagan building debt service)	—	—	18,094	18,094
Subtotals, program changes	—	\$525	\$18,932	\$19,457
Total Expenditures	\$80,185	\$37,030	\$487,651	\$604,866
Distribution of Intrafund ^b	—	—	(\$70,002)	(\$70,002)
1991-92 Expenditures (proposed)	\$80,185	\$37,030	\$417,649	\$534,864
Change from 1990-91				
Amount	\$194	\$3,444	\$32,079	\$35,717
Percent	0.2%	10.3%	8.3%	7.2%

^a These items are zero-based annually because they are not permanent increases.

^b Includes \$14,000 unallocated reduction and \$48,000 reimbursements.

ANALYSIS AND RECOMMENDATIONS**PROPERTY MANAGEMENT SERVICES**

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

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

- Office of Project Development and Management (OPDM).
- Office of Local Assistance (OLA).
- Building Standards Commission (BSC).

Auditor General Reports on OLA, OPDM and the Office of the State Architect (OSA)

In early 1991, the Auditor General is scheduled to release the results of two reviews: one regarding the OLA and a second concerning implementation of the state's capital outlay program by the OPDM and the OSA. Although these reports were not released at the time this analysis was written, they should be available prior to legislative hearings on the department's budget. We will review the findings of the reports and prepare a supplemental analysis of the department's budget request for the OLA, the OPDM, or the OSA if appropriate.

OFFICE OF THE STATE ARCHITECT

The Office of the State Architect provides five major services:

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

The budget proposes \$48.7 million for support of the OSA activities in 1991-92. This is an increase of \$5.0 million, or 11 percent, above the OSA's projected spending in 1990-91. The OSA has 390.1 personnel-years in the current year.

Major changes in the OSA budget for 1991-92 are:

- A net increase of \$3,687,000 (33.1 limited-term personnel-years) to provide inspections at state prison construction sites.

DEPARTMENT OF GENERAL SERVICES—Continued

- A reappropriation of \$832,000 for development of an automated building certification system for schools and hospitals.
- An increase of \$466,000 for increased facilities rental costs.
- A net increase of \$237,000 for administering programs related to earthquake safety.
- A net decrease of \$538,000 for the three hazardous materials abatement programs.
- A one-time increase of \$131,000 for an equipment purchase.

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

Too Many Inspectors Requested for Prison Construction

We recommend a reduction of \$2,691,000 (28.9 personnel-years) under Item 1760-001-602 from the Architectural Revolving Fund, because (1) construction of two new prisons is delayed due to failure of the November 1990 Prison Construction Bond Act and (2) the Department of Corrections has not decided whether to proceed with the renovation of 11 conservation camps.

We withhold recommendation on an additional \$521,000 (5.5 personnel-years) for inspection at a new reception center in east Los Angeles because the project is currently in litigation and the construction schedule is unknown.

The budget requests \$9.8 million (99.7 limited-term personnel-years) to provide construction inspection services for 11 new state prisons and for the renovation of 11 conservation camps. Construction of new prisons in Susanville and Madera, which were primarily to be funded from proceeds of the November 1990 Prison Construction Bond Act, cannot proceed due to voter disapproval of the prison bonds. In addition, renovation of the conservation camps, which was funded from bonds approved by the voters in June 1990, is also delayed because the Department of Corrections is reconsidering whether to proceed with this program. The OSA will therefore not need the 27.6 personnel-years for inspection services for the two new prisons and the 11 conservation camps. Finally, construction of the San Quentin Joint-Use Facility is not scheduled to start until December 1992. Therefore, the 1.3 personnel-years projected by the OSA for this project will not be needed in the budget year.

Our recommended reduction of 28.9 personnel-years and \$2,691,000 is based on the most recent schedules available from the Department of Corrections and the workload projections submitted by the OSA for these projects. Our recommendation would leave 70.8 personnel-years for prison construction inspection, including one personnel-year to staff renovation of the High Rock Conservation Camp. The Legislature appropriated funds for this project in Ch 1003/89 (SB 1694, Keene), and renovation will continue throughout 1991-92.

Los Angeles Reception Center. The budget proposes \$521,000 (5.5 personnel-years) for inspection services for the Los Angeles Reception

Center (east Los Angeles). This request is based on a projected construction start of *July 1990*. Construction has not begun, however, due to litigation concerning the project's environmental impact report. We withhold recommendation on the OSA's construction inspection request pending resolution of this litigation and subsequent revision to the project construction schedule. We anticipate that this information will be available prior to budget hearings.

Earthquake Bonds—Local Program Administration

We recommend approval of \$443,000 (5.7 personnel-years) from the Earthquake Safety and Public Buildings Rehabilitation Fund of 1990 for the OSA to administer bond funds designated to improve the earthquake safety of local government buildings. We further recommend that three of the proposed professional positions be established for a three-year limited term and that two professional positions and one clerical position be permanently established.

The budget proposes \$443,000 to establish six permanent positions (five professional and one clerical) within the OSA to administer the local government buildings portion of the Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990, which was approved by the voters in June of 1990. The bond act includes \$50 million in financial assistance to local governments for earthquake safety-related improvements to local essential services, emergency, and public safety buildings. Local governments are to share at least 25 percent of approved project costs.

The OSA's administrative responsibilities include establishing (1) guidelines for local government applications, (2) criteria for prioritizing applications, and (3) procedures for fiscal control of local government grants. The OSA will also perform technical reviews of grant applications and establish a priority list of projects eligible for funding consideration by the Governor and the Legislature.

The staffing request and schedule prepared by the OSA appear reasonable and we recommend approval of the \$443,000 as proposed. We recommend, however, that three of the professional positions be established for only a three-year limited term. According to the OSA's schedule, by the 1994-95 budget year, the only ongoing program activities will be the administration of local government grants. Two professional positions and one clerical position should be sufficient staff for program administration at that time. If additional funds are designated for this local government program in the future, extension of the three limited-term positions may be warranted.

Seismic Survey Programs

We withhold recommendation on \$338,000 (4.7 personnel-years) from three bond funds for the OSA to continue the seismic survey programs of K-12 school buildings and all state-owned buildings pending a revised work plan for K-12 school surveys. We also recommend that the surveys include all UC and CSU buildings as originally proposed and approved in the 1990 Budget Act.

DEPARTMENT OF GENERAL SERVICES—Continued

The budget includes \$338,000 (4.7 personnel-years) for the OSA to continue its programs to assess the earthquake safety of California's public school and state-owned buildings. The budget amount is divided equally between three bond funds: the State School Lease-Purchase Fund (for K-12 schools), the 1990 Higher Education Capital Outlay Bond Fund (for UC, CSU, and community college buildings), and the Earthquake Safety and Public Buildings Rehabilitation Fund of 1990 (for all other state-owned buildings). The 1990 Budget Act appropriated \$544,000 to commence these programs, including \$218,000 for consulting services and \$326,000 for 4.7 personnel-years.

According to the OSA's program schedule, current-year activities are to include establishing priority-setting criteria, developing and distributing survey forms, and evaluating initial survey results for state-owned buildings and reviewing the OSA's file card information for public schools. Using the survey results and the priority-setting criteria, the OSA will report to the Legislature on those buildings that require more detailed investigations, including review of building plans and in-depth site evaluations. No funds for the detailed investigations are included in the budget, but the department indicates that, depending on the progress of its surveys in the current year, it may request additional funding for 1991-92 in a Department of Finance Budget Change Letter. The OSA's goal is to establish, by June 1992, a list of buildings that would be the highest priorities for earthquake-safety improvements. We have two concerns with the OSA's proposal as discussed below.

K-12 Surveys on Hold. For 1990-91, the K-12 portion of the survey program (\$180,000) was appropriated from the General Fund. At the time this analysis was written, the department indicated that the administration had frozen the expenditure of these funds and that the funds will not be available in the current year. Since these funds were intended to finance a consultant review of the OSA's K-12 file cards, that review, and therefore the K-12 survey program, cannot proceed in 1990-91. This delay will affect the proposed schedule and workload for 1991-92. We therefore withhold recommendation on the department's budget request pending a revised work schedule for the K-12 program and a reassessment of funding required in 1991-92.

UC and CSU Buildings. The seismic survey program approved by the Legislature in the 1990 Budget Act was to include a survey of *all* 18,000 state-owned buildings, *including* UC and CSU buildings. As in 1990-91, one-third of the seismic survey program for 1991-92 is to be funded from higher education bond funds. The OSA's budget proposal indicates, however, that the first phase of the survey will "reduce the inventory to 14,000 buildings by removing all UC and CSU buildings." We recommend that UC and CSU buildings be included in the OSA's survey as originally intended so that all state buildings are assessed using the same methodology and prioritized with the same criteria.

No Additional Office Space Needed in Los Angeles

We recommend a total reduction of \$98,000 from the OSA's three plan-checking funds because the Structural Safety and Access Compliance Sections' proposed move from the Los Angeles state building is unwarranted. (Reduce Item 1760-001-006 by \$8,000, Item 1760-001-120 by \$70,000, and Item 1760-001-122 by \$20,000.)

The budget proposes a total increase of \$466,000 to finance additional facilities operating expenses for the OSA's Structural Safety Section/Access Compliance Section. This additional cost would be financed with fees collected for plan-checking services on school and hospital building projects. The OSA currently maintains plan-checking offices in Sacramento, San Francisco, and Los Angeles. According to the department, the proposed increase is associated with the opening of an additional plan-checking office in the San Diego area, the relocation to a larger office in San Francisco, which occurred in October 1990, and a relocation of the Los Angeles office, which is proposed for this June.

Opening a San Diego office will allow the OSA to more conveniently serve its clients in that area. This move also addresses a provision of Ch 1650/90 (AB 2565, Eastin), which requires the OSA, the State Fire Marshal (SFM), and the Office of Statewide Health Planning and Development (OSHPD) to consolidate their plan-checking functions at two separate locations in southern California. The three agencies currently have plan-checking staff in the Los Angeles state building. We recommend approval of the augmentation to cover increased costs associated with the new San Diego office and the larger San Francisco office. We have the following concerns, however, with the OSA's proposed move from the Los Angeles state building into a private office building in the Pasadena/Glendale area.

The OSA Does Not Require Additional Space in Los Angeles. The OSA maintains that the Los Angeles state building has insufficient contiguous space to absorb *potential* growth in their plan-checking staff. The Governor's 1991-92 budget, however, proposes no additional positions for either the OSA or the OSHPD and only two additional positions for the SFM. With the redirection of 36 positions from Los Angeles to the new San Diego office, there will be about 25 *fewer* positions to accommodate in the Los Angeles state building.

Plan Required by AB 2565. AB 2565 requires the OSA, in conjunction with the OSHPD and the SFM, to prepare a plan for improved allocation of their plan-checking and construction inspection resources. The plan is to address (1) increasing resources to southern California and (2) options for consolidating the OSA, the OSHPD, and the SFM field offices into single locations. The plan is to be submitted to the Legislature by July 1, 1991. This planning effort should address the costs and benefits to the plan-checking process of any proposed new office or relocation of existing offices. The OSA's proposed move from Los Angeles is premature, however, prior to legislative receipt and review of the AB 2565 plan.

DEPARTMENT OF GENERAL SERVICES—Continued

Based on the above, we recommend a reduction of \$98,000 for increased facilities operating costs associated with the move from Los Angeles to the Pasadena/Glendale area.

Plan Checks Should Be Expedited

We recommend the following augmentations for the OSA spending authority from fee-based funds in order to help expedite K-14 structural safety and handicapped access plan checks in 1991-92: \$5,037,000 to Item 1760-001-120 (structural safety) and \$623,000 to Item 1760-001-006 (handicapped access).

We also recommend that the Legislature adopt Budget Bill language limiting the use of these funds and adopt supplemental report language (1) expressing legislative intent with regard to expenditure of the funds and (2) requiring a quarterly status report from the OSA.

The OSA's Structural Safety Section is required to review plans and specifications for K-14 schools pursuant to state statutes. In addition, the Access Compliance Section in the OSA must also review these plans to ensure appropriate access is provided for handicapped individuals. These reviews are financed from fees charged to project sponsors. The structural review fees are deposited in the school account of the Architectural Public Building Fund and the access review fees accrue to the Access for the Handicapped Account of the General Fund. The annual Budget Act provides the OSA with expenditure authority to cover its projected plan-checking costs.

When a project sponsor submits a complete set of project documents to OSA for review, that project is placed in line with other projects awaiting review. The period between receipt of a complete submittal and the start of plan-checking is referred to as "bin time". The OSA's goal is to have a *maximum* bin time of four weeks. The OSA attempts to meet this goal by: working overtime, hiring retired annuitants, hiring private sector structural engineers on an overtime and weekend basis, and/or contracting plan reviews out to private engineering firms. At the time this analysis was written, the average bin time at each of OSA's three plan-checking offices was about *11 weeks*. Because the OSA approval is required before projects can proceed for construction bids, these plan check delays may contribute to increased costs (due to inflation) and delay the occupancy of needed facilities.

There are several factors that contribute to the current excessive bin time. First, many of the OSA's structural engineers were temporarily redirected to perform building inspections after the Loma Prieta earthquake. This redirection created a large backlog in 1989-90. Second, OSA indicates that the volume of work submitted to date in the current year exceeds its projections. Third, the OSA has been unable to fill all approved plan-checking positions, and therefore must rely on additional overtime and outside contracts to expedite its workload. Unfortunately, the OSA expended its authorized contract funds early in 1990-91.

The OSA estimates that (1) it will have a backlog of \$600 million worth of K-14 projects at the start of the budget year and (2) it will receive plans

in 1991-92 for K-14 projects with a total construction value of \$2.2 billion. The Governor's Budget includes total expenditure authority in the school plan-checking account to check only \$1.8 billion worth of projects. Based on these estimates, the OSA will have a \$1 billion backlog at the end of 1991-92.

Under this scenario, even though the OSA receives plan check fees when the plans and specification are submitted, the OSA will be unable to check all plans (up to \$1 billion worth of projects). This is because the OSA will not have the authority to spend those fees that will be received but are in excess of the proposed spending authorization. In order to enable proceeding with these projects in a more timely manner, we recommend that the OSA be given expenditure authority to fully fund the anticipated workload in 1991-92, including any 1990-91 backlog. Based on the above estimates and the OSA's average plan-check fee for schools and handicapped access respectively, we estimate that the OSA will require authority in 1991-92 to spend an additional \$5,037,000 in the school account and \$623,000 in the handicapped access account. Consequently, we recommend that Item 1760-001-120 (structural plan-checking) be increased to \$14,250,000 and Item 1760-001-006 (access plan-checking) be increased to \$1,772,000. Moreover, because the SFM must check these same plans, we have recommended under our analysis of the SFM budget (Item 1710-001-001) that the SFM advise the Legislature, prior to hearings, regarding the implications of this added workload on the SFM plan-check function. The SFM cost is paid through the fees paid to the OSA under an inter-agency agreement.

We also recommend that the Legislature adopt the following Budget Bill language to limit the OSA's use of the plan-check funds to those actions that will most expeditiously process its 1991-92 workload. These actions would include filling vacant plan-checking positions, increasing overtime work, and/or hiring private individuals/firms, but would not include increasing the authorized permanent staff within the OSA.

Items 1760-001-006

- (1) The amount appropriated in this item shall not be used to increase the seven authorized plan-checking positions within the Office of the State Architect, Access Compliance Section.

Items 1760-001-120

- (1) The amount appropriated in this item shall not to be used to increase the 84 authorized plan-checking positions within the Office of the State Architect, Structural Safety Section.

Finally, we recommend adoption of the following supplemental report language expressing legislative intent (1) regarding the expenditure of plan-checking funds and (2) requiring the OSA to regularly submit a quarterly status report.

It is the intent of the Legislature that the Office of the State Architect allocate its plan-check fee revenues for K-14 schools to expedite the completion of plan checks in the most cost-effective manner. This would include (1) filling vacant plan-checking positions and (2) increasing overtime work, contracts with private individuals/firms, and contracts with the State Fire Marshal as needed.

DEPARTMENT OF GENERAL SERVICES—Continued

The Office of the State Architect is to submit a report documenting the status of its K-14 school plan-checking operations. The report should include the following information for both the structural and handicapped access plan-checking functions: (1) the bin time for each of the prior three months, (2) the current backlog (in dollar value of construction and number of projects), and (3) a summary of steps undertaken or planned, such as increasing overtime or external contracts, to reduce bin time. The report, covering the period July 1, 1991 through September 30, 1991, should be submitted to the Legislature by October 10, 1991 and should be updated and resubmitted each quarter thereafter.

OFFICE OF REAL ESTATE AND DESIGN SERVICES

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

The budget proposes \$10.9 million in 1991-92 for support of the OREDS, consisting of \$9.1 million from the Service Revolving Fund, \$491,000 from the General Fund, Special Account For Capital Outlay, \$895,000 from the General Fund, Property Acquisition Law Account, and \$454,000 in transfers from other DGS units. This is an increase of \$400,000, or 3.8 percent, over current-year expenditures. The increase includes \$170,000 to make permanent three limited-term positions to work on the Employment Development Department's leasing program and \$73,000 and one position to assist in ensuring lessor compliance in state-leased facilities.

Legislature Needs Information on Future Direction of Asset Management Program

We recommend that the Legislature adopt supplemental report language requiring the Proactive Asset Management Program to issue a progress report by November 1, 1991.

The mission of the Proactive Assets Management (PAM) Program, which originally received funding in the 1989 Budget Act, is to more aggressively identify and manage under-utilized state properties and, by leasing and selling these properties, to increase state revenues.

The budget includes \$696,000 for continuation of the PAM program within the OREDS. These funds consist of \$205,000 from the Property Acquisition Law (PAL) Account and \$491,000 from the General Fund, Special Account For Capital Outlay. The PAL Account receives revenues from three sources: (1) reimbursement of the OREDS's expenses associated with real estate sales, (2) property management rental income, and (3) lease payments from leases for state property. Each of these program functions also bill against the PAL Account to recover actual costs of operation. Previously, the PAL Account has provided all of the funding for the PAM program. Due to a lack of available funding in the PAL Account, however, the budget, for the first time, proposes to use the

SAFCO as a funding source for the PAM program. Future projections of PAL Account revenues and expenditures indicate that alternative sources of funding for the PAM program will continue to be required for the next few years.

The OREDS indicates that, in the budget year, the PAM program will continue its review of state properties listed in the Statewide Property Inventory in San Francisco, Sacramento, San Diego, Los Angeles, and selected other areas of the state. The purpose of these site visits is to determine whether state properties are underutilized and, for those underutilized properties, to recommend potential development proposals. Options for developing underutilized state property include: (1) using the property to consolidate several state departments in one location, (2) long-term leasing to a private developer, or (3) sale of the property. The PAM program has not yet made a policy decision on the direction it will take in recommending what development options to pursue.

In order to assist the Legislature in its review of the PAM program's development policy during consideration of the 1992-93 budget, we recommend adoption of the following supplemental report language requiring a report to the Legislature:

By November 1, 1991, the Department of General Services shall report to the Legislature on (1) the different development alternatives available for state properties, (2) proposed guidelines for recommending each of these alternatives, (3) a list of the properties identified to date as meriting development proposals, and (4) a proposed schedule and action plan for undertaking development of these properties. The report shall include recommended guidelines and procedures to ensure legislative oversight of the asset management program and recommendations for long-term funding of the program.

OFFICE OF ENERGY ASSESSMENTS

The Office of Energy Assessments (OEA) is responsible for improving the efficiency of state operations by developing cost-efficient energy programs. The budget proposes \$3,765,000 for support of the OEA in 1991-92, consisting of \$964,000 from the Energy Resources Programs Account (ERPA) in the General Fund and \$2,801,000 from the Service Revolving Fund (SRF). This is a decrease of \$225,000, or 6 percent, below estimated current year expenditures. This decrease is due primarily to elimination of consultant contracts for the Natural Gas Procurement Program.

Another Construction Management Group Is Unnecessary

We recommend a reduction of \$240,000 and 4.7 personnel-years in Item 1760-001-666 because establishment of a construction management group in the Office of Energy Assessments is unnecessary and duplicative of other state functions.

Background. The Office of Energy Assessments was established in the Department of General Services (DGS) to increase energy efficiency in state government. The OEA reviews department's energy strategies, investigates and evaluates potential capital outlay project opportunities,

DEPARTMENT OF GENERAL SERVICES—Continued

prepares technical and economic analyses and makes recommendations to the Public Works Board (PWB) for the financing of energy-savings projects with Energy Efficiency Revenue Bonds. After the PWB approves a project, the responsible department (such as the University of California, the California State University, or the Department of General Services) manages the design and construction of the project. The OEA's role at that point is to evaluate proposed changes in scope, cost, or operating savings to ensure that the project remains cost-beneficial.

In the 1990 Budget Act, the Legislature approved the OEA's request for five new positions to enable the OEA to increase its ability to develop energy-savings proposals. At the time this *Analysis* was written, these positions had not yet been filled. Moreover, the OEA has provided information showing that the positions will be used to create a new Scheduling and Construction Management Division rather than to increase the number of new proposals that will be developed. This division will have, as one of its primary responsibilities, management oversight of energy bond projects during the design and construction phases. The OEA states that it needs to increase its construction management expertise in order to ensure that projects proceed in a timely manner.

Our analysis indicates that creation of this division is unnecessary and duplicative of functions performed by staff in the various departments that currently implement these energy projects. Those departments have professional staff to implement the design/construction of these energy projects along with other major capital improvement projects under their purview. Moreover, these departments have an incentive to complete the projects on time, because they are required by contract to pay the annual bond payments whether the project is completed or not. Thus, delays in project completion could end up costing the departments, because they would not be receiving the energy savings to offset the bond payment.

Consequently, we find that no additional benefit would be provided by establishing another management group to oversee these projects. We therefore recommend that the Legislature reduce Item 1760-001-666 by \$240,000 to delete these five positions.

OFFICE OF BUILDINGS AND GROUNDS

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

The budget proposes total expenditures of \$72 million for support of the OBG in 1991-92. This is an increase of \$934,000, or 1.3 percent above estimated current-year expenditures. The proposed increase includes \$88,000 to fund increased rental costs for the Region I office, \$1.4 million to fund increased utility costs, and \$264,000 to begin maintenance and operation of the Caltrans District 4 Office Building in Oakland. The budget also includes \$2.3 million for special repair projects at state office

buildings, which is a decrease of about \$3 million below the amount budgeted for special repair projects in the current year.

Funds For Maintenance of New Caltrans Building Unnecessary.

We recommend a reduction of \$264,000 in Item 1760-001-666 because the Office of Building Grounds does not need to purchase equipment and maintenance services for a new Caltrans Office Building in the budget year.

The budget includes the redirection of two positions and increased expenditure authority of \$264,000 under Item 1760-001-666 for the OBG to purchase equipment and maintenance services for a new Caltrans Office Building in Oakland. The building, Caltrans District 4 headquarters, is expected to be completed in August 1992. The funds would be used to prepare the building for occupancy, including purchasing such items as janitorial supplies and contracts for window-washing services.

Information provided by Caltrans indicates that they do not intend to occupy the facility until October 1992. Based on this information, our analysis indicates that these services are not needed in the budget year. Although the two additional positions are necessary prior to building occupancy, they will be redirected from other state office buildings closed due to the Loma Prieta earthquake. The positions therefore do not require any increased expenditure authority. Consequently, we recommend a reduction of \$264,000 in Item 1760-001-666.

SPECIAL REPAIRS

The budget includes \$2.3 million for 62 special repair projects. Special repairs are projects that continue the usability of a facility at its original designed level of service. (In contrast, capital outlay projects include new construction and alterations, extensions and improvements of existing structures).

Budget Reduces Number of Special Repair Projects

In order to reduce the increase in the rental rate charged to tenants of state-owned office buildings, the budget does not include funds to sustain past practice concerning special repairs of these buildings. This could create deferred maintenance in state-owned buildings and eventually result in higher costs to maintain/repair the state's infrastructure.

The budget proposes expenditures of \$2.3 million for special repair projects at state-owned buildings. This is about \$2.7 million less than the average amount requested for special repairs over the past five years and \$1.7 million less than the request for any one year during that period. The DGS has six criteria for ranking special repair projects. These include: (1) projects necessary to prevent harm to a building's users or to avoid damage to State property, (2) projects necessary to correct items that enforcing jurisdictions have cited as out-of-code compliance, (3) projects to keep buildings secured, (4) energy conservation projects that have a payback period of seven years or less, (5) projects to increase the comfort of building occupants, and (6) projects to improve aesthetics and preserve historically significant structures.

DEPARTMENT OF GENERAL SERVICES—Continued

In the past few years, the budget has included special repair projects addressing each of these priorities. This has enabled the DGS to largely avoid creating a deferred maintenance problem in state office buildings. In order to control the increase in the rent charged to tenants of state-owned space, however, the proposed budget funds only those projects necessary to prevent harm to building tenants, or cause immediate damage to a building. With only minor exceptions, projects addressing code deficiencies, building security, and other priorities are not proposed for funding.

While the budget's approach may save money in the short-run, the result will likely be the creation of deferred maintenance in state-owned office buildings. This approach appears to run counter to the administration's stated policy of *preventing* maintenance problems before they end up resulting in the need for high-cost repairs to the state's infrastructure.

A. Projects For Which We Recommend Approval

We recommend approval of 57 special repair projects totaling nearly \$2 million. These projects are summarized in Table 5 and range from \$2,000 to test dry standpipes in the San Bernardino state office building to \$497,000 to replace the roof of the Los Angeles state office building.

Table 5
Department of General Services
Office of Buildings and Grounds
1991-92 Special Repair Projects
Projects for Which We Recommend Approval
(dollars in thousands)

<i>Type of Project</i>	<i>Number of Projects</i>	<i>Department Request and Analyst Recom- mendation</i>
1. Heating, ventilation, air conditioning repairs.....	19	\$449
2. Roof repairs/replacement	2	587
3. Electrical repair and load test.....	12	536
4. Elevator Projects.....	2	10
5. State Capitol projects.....	6	129
6. Miscellaneous.....	16	264
Totals.....	57	\$1,975

B. Projects For Which We Recommend Deletion

We recommend deletion of five projects that either (1) are not properly funded from the BRA, (2) were funded in the current year, or (3) lack adequate justifications. We further recommend that the Legislature redirect the \$338,000 associated with these project to fund other priority I and II projects within the Special Repair Program.

We recommend deletion of funds for the following projects:

- \$102,000 to retrofit pneumatic controls in the Los Angeles state office building.
- \$146,000 to retrofit lighting fixtures in the Education Building.
- \$57,000 for roof and expansion gate repairs at the State Garage. This project has merit and should be funded from another source.

- \$23,000 to overhaul hot water boilers for the Los Angeles EDD Building
- \$10,404 for plans and specifications for window and wall insulation for Office Buildings 8 and 9 (future cost unknown).

A brief discussion of the above projects follows.

Retrofit Pneumatic Controls. The budget requests \$102,000 to retrofit pneumatic controls on air handlers at the state office building in Los Angeles. This project was funded in the 1990 Budget Act and does not require additional funding in the budget year.

Retrofit Lighting Fixtures. The budget requests \$145,000 to install new energy-efficient lighting in the Education Building at 721 Capitol Mall. According to the DGS, the project was not considered for the Energy Efficiency Revenue Bond Program because it did not have a payback period of less than 10 years. Since the project does not appear to be cost-effective and lacks additional justification, we recommend deletion.

State Garage Projects. The budget requests \$57,000 for two projects at the State Garage in Sacramento to (1) repair the roof of the Fleet Administration Office and (2) repair expansion gates protecting the auto-shop area. Although these projects appear to have merit, they should not be funded from the BRA, but instead from the Office of Fleet Administration's facilities and maintenance budget. We therefore recommend a reduction of \$57,000 in Item 1760-001-666 and an increase of \$57,000 in Item 1760-001-003, Motor Vehicle Parking Facilities Monies Account.

Retrofit Boilers. The budget requests \$23,000 to overhaul hot water boilers in the 1525 South Broadway (EDD) Building in Los Angeles. The Legislature, in Ch 1039/89 (AB 706, Lancaster), authorized the sale of the 1525 South Broadway Building with the receipts to be deposited into the Employment Development Department Building Fund. This fund is to be used for the acquisition, construction, or renovation of EDD buildings. If the project is critical, it should be funded in the current year from existing special repair funds. If it is not critical, we recommend the project not be undertaken since the building is scheduled to be sold in the budget year and since the proceeds from the sale will benefit the EDD and not the tenants in other state-owned buildings.

Window and Wall Insulation. The budget requests \$10,000 to develop plans and specifications for window and wall insulation for State Office Buildings 8 and 9. The future cost of this project is unknown. The budget request indicates neither the extent of the problem nor how the proposed solution, additional insulation, addresses that problem. In addition, the DGS indicates that this project does not have a payback period of less than 10 years. Because the project is not cost-effective and lacks additional justification, we recommend deletion.

Funds Should Be Redirected. As discussed earlier in this *Analysis*, the amount proposed for special repair projects does not represent prior funding levels for sustaining the maintenance of state buildings. Consequently, rather than reduce the budget by the \$338,000 associated with the above projects, we recommend that the Legislature redirect this amount within the special repair budget to fund other Priority I and II

DEPARTMENT OF GENERAL SERVICES—Continued

projects, as identified in the OBG's five-year plan. This will help to continue the state's past practice of funding needed special repair projects.

BUILDING RENTAL ACCOUNT**Increased Statewide Rental Rate Subsidizes Tenants of New State Office Building in Los Angeles**

We recommend that the Department of General Services charge the tenants of the new state office building in Los Angeles an annual rental rate to pay the full bond debt service costs, as well as annual maintenance/operations costs of the building. We also recommend that, prior to legislative hearings, the department prepare a report detailing the budget adjustments that would be necessary for tenants in state-owned space to meet this policy.

The budget requests \$18 million in Item 1760-001-666 to repay the annual bond payment (\$17.9 million) and to purchase property insurance (\$119,000) for the new state office building in Los Angeles (the Ronald Reagan Building). The first payment is due in September 1991.

Background. Construction of the Ronald Reagan Building was financed through lease-purchase bonds. The annual payment to bondholders is approximately \$18 million per year. Construction of state office buildings generally has been financed through a lump-sum appropriation as part of the state's capital outlay program. As a result, the only annual costs normally budgeted for state buildings are the costs for cleaning, maintenance and providing utilities. These costs are financed through the BRA which receives funds from rent charged to occupants of state office buildings.

Over 20 years ago, the state used a form of lease-purchase financing to construct eight multi-agency buildings. Only one of these buildings has not been fully repaid. The proposed 1991-92 budget for the BRA includes \$324,000 for this one building (Santa Ana).

The annual cost for the subsequent revenue bond-financed state office building (San Francisco), however, is not paid from the BRA. Rather, when this building was occupied, the Legislature directed the DGS to charge the occupants the full annual costs for bond debt service and maintenance/operations costs for the new building. We recommend that the Legislature continue this policy for the new state office building in Los Angeles.

Setting Rental Rate At Full Cost Offers Advantages. There are two significant advantages to charging the building tenants the full cost of this building rather than the alternative of increasing rental rates for all departments throughout the state. First, when the cost of maintenance, utilities and debt payments for a limited number of agencies far exceeds the same costs for the other state agencies in the BRA, the limited number of agencies are effectively subsidized. The average maintenance, utilities, and debt payment cost for all agencies in the BRA, including the bond repayment for the Reagan Building, is projected to be \$1.39 per

square foot per month in 1991-92. If, however, the tenants in the Ronald Reagan Building paid the full cost of bond repayments, maintenance, and utilities, the rate for those tenants would be approximately \$3.24 per square foot per month, while the statewide rental rate would be approximately \$1.08. Thus, funding the cost through the statewide BRA results in a subsidy of approximately \$2.16 cents per square foot per month.

The effect of this subsidy is compounded by the fact that not all tenants in state-owned space received budget increases to fund the additional rental rate. For example, the EDD received an increase of \$2.4 million to pay for the increased BRA rate, while the Department of Developmental Services (DDS) did not receive an increase. The DDS estimates that it will have to cover the additional \$296,000 in rental costs by making reductions in other program areas. Other departments will have to make similar reductions in order to subsidize the tenants of the new state office building in Los Angeles.

The second advantage to this policy is that it protects the purpose of the BRA, which is to cover the state's costs for the maintenance, operation, and repair of state-owned office buildings. If the capital costs for new state office buildings continue to be financed through the BRA, then other BRA expenditures, such as utilities, maintenance and special repairs, will have to be reduced to keep the rental rate competitive with market rates. The Governor's Budget already reflects this approach, by reducing expenditures for special repairs by about \$3 million. This problem will be exacerbated if additional projects funded from lease-revenue bonds, such as the Archives and State Library buildings (both of which have been funded), are financed through the BRA. For example, paying off the annual bond costs for each of these buildings through the BRA would increase the state rental rate by approximately \$0.25 per square foot per month. It is important that the Legislature make a policy decision now, so that options for financing new state office buildings can be developed in a timely manner.

Consequently, we recommend that the Legislature direct the DGS to charge tenants of the Ronald Reagan Office Building rent equivalent to the cost of bond repayments, maintenance and utilities for the building. This would be consistent with prior legislative direction on the San Francisco Building. We also recommend that, prior to legislative hearings on the budget, the DGS report on the adjustments that would be necessary in each agency's budget to accommodate this policy.

SUPPORT SERVICES PROGRAM

The support services program provides a variety of service and control functions to state agencies statewide through the following 12 offices: Administrative Hearings, Fleet Administration, Insurance and Risk Management, Legal Services, Management Technology and Planning, Procurement, Records Management, Small and Minority Business, State Police, State Printing, Support Services and Telecommunications.

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

DEPARTMENT OF GENERAL SERVICES—Continued

- Administrative Hearings
- Fleet Administration
- Legal Services
- Management Technology and Planning
- Records Management
- Small and Minority Business
- State Police
- Support Services
- Telecommunications

Litigation Costs for Motor Vehicle Claims Continue to Increase

We recommend that the Legislature adopt supplemental report language requiring the Office of Insurance and Risk Management to report to the Legislature by September 1, 1991 on alternatives for reducing litigation costs incurred in defending the state against motor vehicle insurance claims.

The Governor's Budget proposes a 14 percent increase of \$205,000 in the current year and a 36 percent increase of \$528,000 in the budget year for the Office of Insurance and Risk Management (IRM) to pay for litigation costs incurred in defending state agencies against motor vehicle accident claims. The office bills state agencies for these costs and pays the Attorney General to defend the state against these claims.

This office provides centralized management of insurance for state agencies and related services for state and local agencies. Specifically, it analyzes insurance needs, negotiates insurance purchases for client agencies, offers insurance advice and consultations, and administers the Defensive Driver Training Program, the State Workers' Compensation and Safety Program, and the Motor Vehicle Liability Self-Insurance Program. Of these, the Self-Insurance Program (MVSIP) accounts for over 80 percent of the office's budget for insurance claims and litigation costs.

Litigation costs are the fastest rising cost in this office's budget. These costs have increased from \$1.1 million in 1988-89 to \$2 million in the budget year. These increases are due to a 57 percent increase in workload and a 19 percent increase in billing rates. For the third consecutive year, the office has received or requested both deficiency appropriations for the current year and augmentations for the budget year.

The DGS indicates that the primary reason for this rapid increase is the effect of Ch 1335/86 (AB 3300, Willie Brown) on the timing of civil litigation. This legislation, the Trial Court Delay Reduction Act, set timetables to speed up civil trial procedures and reduce case backlogs. According to the DGS, the act has resulted in vehicle cases being settled or tried in court within two years, rather than the five years allowed, prior to the legislation. The department believes that legal, court, and claims costs have increased significantly because (1) many more cases are being processed per year and (2) the time available to settle out of court and avoid some of these costs has decreased.

Despite these repeated increases, the office has not considered alternative methods of addressing this problem. For example, the office could

consider increasing the number of risk analysts to process claims faster before they get to the litigation stage. In addition, the office might hire its own attorneys to handle these claims. Alternatively, the office, in conjunction with the Attorney General's staff, could examine the increase in caseload more closely to determine if state employer or management practices might somehow be altered to reduce accident claims and lower the state's liability.

Based on our review, we believe that the Legislature should require the DGS to evaluate alternative means for addressing the increasing litigation costs. We therefore recommend that the Legislature adopt the following supplemental report language for Item 1760-001-026:

The Office of Insurance and Risk Management (IRM) shall evaluate and report to the Legislature on alternative staffing, employee training, management practices, or other remedies for reducing litigation costs incurred by the Attorney General in defending the state against motor vehicle insurance claims. The IRM shall provide the report by September 1, 1991.

Procurement Options Warrant Review

We recommend that the Legislature adopt supplemental report language directing the Office of Procurement (OP) to conduct evaluations of specified alternatives for addressing increased future workload.

The budget proposes to add 13.5 personnel years, convert five limited term positions to permanent, and spend \$1.8 million primarily for workload increases and program expansion.

Our analysis also indicates, however, that the OP has not evaluated any alternatives to increasing staff in order to address its workload. For example, the following two alternatives could be a more cost-effective means for addressing the increased demand for service.

- *Delegate procurement authority* to agencies that have demonstrated the capacity to handle that authority and thus reduce OP's workload for purchasing line staff. The OP has delegated procurement authority to some agencies in the past. Other agencies have requested delegations but the OP indicates that it has not yet evaluated these requests.
- *Increase the ceiling on bid purchases exempt from OP review.* According to OP statistics, the number of purchase bids which require OP review has decreased from 10,000 annually to under 6,000. According to OP, this decrease in workload is due to an increase in the ceiling on bid purchases exempt from OP review. The ceiling was increased from \$5,000 to \$10,000 in 1987-88. This increase, according to the OP, has reduced the staff requirement by three personnel-years.

Based on our review, we believe the OP should evaluate the advantages and disadvantages of (1) delegating additional procurement authority and (2) increasing the ceiling on bids exempt from review. Accordingly, we recommend adoption of the following supplemental report language in Item 1760-001-666:

DEPARTMENT OF GENERAL SERVICES—Continued

The Office of Procurement shall report to the Legislature by September 30, 1991 on the programmatic and fiscal effects which would likely result from implementing the following alternatives:

- a. Increasing the number of agencies that have procurement authority delegated by the OP.
- b. Increasing the ceiling on procurement exemptions.

State Printer is Less Competitive

We withhold recommendation on \$6,450,000 proposed from the Service Revolving Fund for the Office of State Printing pending review of alternative methods to reduce or eliminate the need for additional outside contracting.

The budget proposes an increase of \$6,450,000 for material purchases and direct charges. The budget proposal includes an increase of \$5,487,000 in payments to outside printers and a \$963,000 increase for materials used internally by the OSP.

The Office of State Printing was initially established on the basis that a centralized support agency could provide quality printing services at a lower cost than could be achieved by state agencies contracting individually for such services. To the extent that this premise is still valid, the significant growth in privately contracted printing services appears to run counter to the original reason for establishing a centralized, internal, printing function. Due to the specialized nature of certain work products and scheduling conflicts during peak demand times, it would be unreasonable to expect to have sufficient equipment and personnel to eliminate privately contracted printing work entirely. However, the continued growth in the use of outside printers (a proposed total of \$11.7 million in 1991-92) indicates that the state may be losing competitive advantage with the private sector. If so, that undermines some of the value of having an internal, centralized operation.

Payments to outside printers have grown dramatically in recent years. Outside printing has grown from 4 percent of the office's budget in 1982-83 to 22 percent in the budget year. The OSP indicates that it uses outside printers if it cannot meet the timing or price that the client requires. The continued increase in the use of outside printers suggests that the OSP expects to be less able in the near term to meet client demands.

Accordingly, we believe that the OSP should report to the Legislature by April 1, 1991 indicating why it is increasing its reliance on outside contractors and what alternatives are available to reverse or mitigate this trend. We, therefore, withhold recommendation on the \$5,487,000 proposed increase for outside contractors and the \$963,000 for materials pending receipt of the OSP's evaluation.

Printing Costs for Governor's Budget

We recommend that the Legislature shift the funding source for printing specified copies of the Governor's Budget from the General Fund to the Service Revolving Fund for a General Fund savings of

\$550,000. (Increase Item 1760-001-666 by \$550,000 and reduce Item 1760-001-001 by \$550,000.)

The budget proposes \$550,000 from the General Fund for the OSP to print, bind, and distribute copies of the Governor's Budget for a variety of executive and legislative offices.

Our analysis indicates that the Service Revolving Fund (SRF) is a more appropriate funding source for this activity because the cost of producing the Governor's Budget for use by legislative and executive agencies is a cost necessary to the basic operation of state government. Generally, costs of this nature (referred to as central administrative services) are charged to all state funds on the assumption that the benefits accrue to all state funds and the programs supported by them.

The costs of providing the Governor's Budget could be charged to all funds by shifting the funding source for support of this activity to the SRF. In the budget year, this action would save the General Fund \$550,000. Thereafter, the OSP would proportionately increase its printing charges to client agencies to recover the costs borne by the SRF. This action would result in 44 percent of the costs (\$250,000) being charged to special fund agencies and 56 percent of the costs (\$300,000) being charged to General Fund agencies. Consequently, this action would result in ongoing net General Fund savings of \$250,000. It would increase the Legislature's ability to fund other General Fund priorities. A similar proposal was adopted in the 1990 Budget Act which shifted the funding source for Capitol building maintenance and certain State Police services from the General Fund to the SRF.

Capital Outlay

The Governor's Budget proposes several appropriations under Item 1760-301-036 for capital outlay expenditures. Please see our analysis of the proposed General Services Capital Outlay Program in the capital outlay section of this *Analysis* which is in the back of this document.

STATE PERSONNEL BOARD

Item 1880 from the General
Fund

Budget p. SCS 129

Requested 1991-92.....	\$15,850,000
Estimated 1990-91	15,674,000
Actual 1989-90	15,366,000
Requested increase \$176,000 (+1.1 percent)	
Total recommended reduction.....	None
Recommendations pending.....	15,850,000

STATE PERSONNEL BOARD—Continued
1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1880-001-001—Support	General	\$10,639,000
Reimbursements	—	5,211,000
Total		\$15,850,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis
page*

1. Staffing Review. Withhold recommendation on \$15.8 million proposed for support of the State Personnel Board pending receipt and review of a revised staffing proposal. 167

GENERAL PROGRAM STATEMENT

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

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

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

The board has 222.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$15.8 million for support of the State Personnel Board in 1991-92. This is \$176,000, or 1.1 percent, above estimated expenditures for the current year. The proposed expenditures consist of an appropriation of \$10.6 million from the General Fund and \$5.2 million in reimbursements. The General Fund amount is \$11,000, above current-year expenditures. This amount represents a 0.1 percent increase over current-year expenditures. Reimbursements are expected to increase by \$165,000 or 3.3 percent, above estimated current-year amounts.

The increase in the SPB budget is due primarily to an increase in workload and the full-year costs of salary increases granted in the current year. This increase is partially offset by the \$218,000 unallocated trigger-related reduction. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Chapter 458, Statutes of 1990 (AB 2348, Willie Brown).

Table 1 summarizes expenditures and personnel-years for each of the board's programs, for the past, current, and budget years. The baseline

adjustments and workload changes proposed for the budget year are displayed in Table 2.

Table 1
State Personnel Board
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Merit system administration	154.0	153.7	153.7	\$14,167	\$14,391	\$14,712	2.2%
Local government services	—	—	—	1,043	917	969	5.7
Administrative services	71.8	69.2	69.2	4,333	4,432	4,511	1.8
Distributed administrative service.....	(71.8)	(69.2)	(69.2)	-4,177	-4,066	-4,124	1.4
Unallocated trigger-related reduction	—	—	—	—	—	-218	—
Totals	225.8	222.9	222.9	\$15,366	\$15,674	\$15,850	1.1%
Funding Source							
General Fund				\$11,768	\$10,628	\$10,639	0.1%
Reimbursements				3,598	5,046	5,211	3.3

Table 2
State Personnel Board
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	Reimburse- ments	Totals
1990-91 Expenditures (Revised)	\$10,628	\$5,046	\$15,674
<i>Baseline Adjustments</i>			
Personnel Services	\$229	\$30	\$259
Unallocated trigger-related reduction.....	-218	—	-218
Subtotals, baseline adjustments	(\$11)	(\$30)	(\$41)
<i>Workload Changes</i>			
Hearing reporters	—	\$25	\$25
Criterion validation and test construction	—	19	19
Court interpreters	—	52	52
On-line exam service	—	1	1
Technical training	—	34	34
On-line automated section exam processing.....	—	4	4
Subtotals, workload changes	(—)	(\$135)	(\$135)
1991-92 Expenditures (Proposed)	\$10,639	\$5,211	\$15,850
Change From 1990-91:			
Amount	\$11	\$165	\$176
Percent	0.1%	3.3%	1.1%

ANALYSIS AND RECOMMENDATIONS

Staffing Review

We withhold recommendation on \$15.8 million proposed for support of the State Personnel Board pending receipt and review of a revised staffing proposal for the budget year.

In enacting the 1990 Budget Act, the Legislature expressed its concern regarding the ability of the SPB to meet its constitutionally and statutorily

STATE PERSONNEL BOARD—Continued

established program responsibilities. These concerns arose, primarily, because the Governor's Budget for both 1989-90 and 1990-91 effected major reductions in SPB staffing and program resources. Accordingly, the Legislature in the *Supplemental Report of the 1990 Budget Act* stated legislative intent that the SPB be fully funded in relation to its legal responsibilities and requested that the:

- SPB zero-base its budget proposal for its appeals and hearing functions to ensure sufficient staffing to meet statutory requirements and timeframes.
- State and Consumer Services Agency and the Department of Finance review SPB's budget proposal for inclusion in the Governor's Budget for 1991-92.
- Legislative Analyst's Office analyze the adequacy of the staffing proposals in her *Analysis of the 1991-92 Budget Bill*.

The Governor's Budget proposal for SPB does not reflect a zero-based budget for the SPB's appeals and hearings functions. The SPB indicates that the time required to complete its review precluded consideration of the zero-base proposal in the normal budget development cycle. It expects to complete its review and submit a revised budget request this spring. Consequently, we withhold recommendation on \$15.8 million proposed for the SPB pending receipt of its revised budget proposal.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Item 1900 from various funds	Budget p. SCS 134
<hr/>	
Requested 1991-92.....	\$54,622,000
Estimated 1990-91	56,224,000
Actual 1989-90	46,830,000
Requested decrease \$1,602,000 (-2.8 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1900-001-001—Social Security administration	General Fund	\$27,000
1900-001-815—Retirement administration	Judges' Retirement Fund	282,000
1900-001-820—Retirement administration	Legislators' Retirement Fund	177,000
1900-001-830—Retirement administration	Public Employees' Retirement	46,451,000
Ch 1006/89 for administration of Medicare coverage for teachers	Public Employees' Retirement	138,000
1900-001-950—Health benefits administration	Public Employees' Contingency Reserve	5,961,000
Government Code Section 22840.2 for administration of PERS-Care	Public Employees' Health Care	330,000
1900-001-962—Retirement administration	Volunteer Firefighters	76,000
Reimbursements	—	<u>1,180,000</u>
Total		<u>\$54,622,000</u>

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

- | | <i>Analysis
page</i> |
|---|--------------------------|
| 1. Amortization of Gains/Losses. Find that the budget proposal to amortize gains and losses over a five-year period will result in General Fund costs, not savings, in 1991-92. Find also that the General Fund required to support the state's expenditure plan is underestimated by \$71 million. | 172 |
| 2. Interest Assumption. Recommend that the PERS advise the Legislature during budget hearings on (1) whether there is an actuarial or economic basis for increasing the interest assumption to 9.5 percent and (2) what effect the proposal may have on future benefit payments. | 173 |
| 3. Interest Assumption for Local Agencies. Find that the budget proposal will produce unanticipated savings in contributions by schools (\$65 million General Fund) and other local employers (unknown tens of millions of dollars). | 174 |
| 4. Assumption Updates. Recommend that the PERS accelerate its schedule for updating economic assumptions and synchronize its schedule for all actuarial adjustments to more effectively match decisions that change member benefits with those that affect employer contributions | 175 |

GENERAL PROGRAM STATEMENT

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

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

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

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

The PERS is managed by a 13-member Board of Administration. Members are appointed, elected by specified membership groups, or assigned by statute. The PERS has 757 personnel-years in the current year.

MAJOR ISSUES

- Budget proposal to amortize gains or losses will result in General Fund costs, not savings, in 1991-92.
- Budget proposal to amortize gain or losses underestimates General Fund requirements for the state's expenditure plan by \$71 million.
- Budget proposal to increase annual rate of interest from 8.5 percent to 9.5 percent will save General Fund contributions but could reduce purchasing power protection in future years.
- Proposal to increase interest assumption will also reduce K-14 school employers costs by \$65 million and reduce local public agencies costs by unknown tens of millions of dollars in 1991-92.

OVERVIEW OF THE BUDGET REQUEST

Table 1 summarizes the prior, current and proposed budget-year expenditures for PERS. It shows that the Governor proposes \$41.5 million to finance the system's Retirement program, \$6.6 million to support the Investment program, and \$6.5 million to finance the Health Benefits program. The other single largest item is \$23 million for administration that is distributed among the system's other programs.

Table 1
Public Employees' Retirement System
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Year			Expenditures			Change From	
	Actual	Est.	Prop.	Actual	Est.	Prop.	1990-91	Percent
	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	Amount	Percent
Retirement	558.4	552.6	565.8	\$37,139	\$41,772	\$41,186	-\$586	-1.4%
Social security	8.5	12.8	7.0	426	447	344	-103	-23.0
Health benefits	103.3	105.0	109.5	4,308	6,840	6,518	-322	-4.7
Investment operations	68.5	75.9	79.3	4,957	6,338	6,574	236	3.7
Administration (not distributed)	—	11.0	—	—	827	—	-827	—
Administration (distributed to other programs)	(264.2)	(244.7)	(262.3)	(19,829)	(22,373)	(23,027)	(654)	(2.9)
Totals	738.7	757.3	761.6	\$46,830	\$56,224	\$54,622	-\$1,602	-2.8%
Funding Sources								
General Fund				\$56	\$54	\$27	-\$27	-50.0%
Judges' Retirement Fund				262	277	282	5	1.8
Legislators' Retirement Fund				158	176	177	1	0.6
Public Employees' Health Care Fund				—	314	330	16	5.1
Public Employees' Retirement Fund				41,257	47,832	46,589	-1,243	-2.6
Public Employees' Contingency Reserve Fund				4,233	6,302	5,961	-341	-5.4
Volunteer Firefighters' Length of Service Award Fund				10	75	76	1	1.3
Reimbursements				854	1,194	1,180	-14	-1.2

Table 2
Public Employees' Retirement System
Proposed 1991-92 Budget Changes
(dollars in thousands)

	All Funds
1990-91 Expenditures (Revised)	\$56,224
Baseline Adjustments	
Employee compensation adjustment	\$604
Adjustments for one-time expenditures	140
Pro rata decrease	(2,784)
Salary savings revision	(559)
Contract services	433
Travel	181
Data Processing	(241)
Miscellaneous	(103)
Subtotal, baseline adjustments	(\$2,329)
Workload Changes	
Printing costs	\$5
Personnel staff	41
Date entry staff	51
Technology support staff	63
Subtotal, workload changes	\$160
Program Changes	
Internal auditor support	503
Investment contract auditor	64
Subtotal, program changes	\$567
1991-92 Expenditures (proposed)	\$54,622
Change from 1990-91:	
Amount	(\$1,602)
Percent	-2.8%

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Table 2 summarizes the significant changes proposed in the PERS budget in 1991-92. The largest proposed change is a decrease of \$2.8 million in pro rata charges. These are charges assessed by the Department of Finance for services provided by certain state agencies like the State Controller and the State Treasurer. Other significant changes reflected in Table 2 include a \$433,000 increase for contract services, an increase of \$604,000 for the full year costs of salary increases granted in the current year, an increase of \$567,000 for expanding the internal audit function, and a decrease of \$559,000 related to departmental salary savings.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of \$54.6 million (including \$1,180,000 in reimbursements) from various funds for the administrative support of the PERS in 1991-92. This is \$1.6 million, or 2.8 percent, below estimated current-year expenditures.

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

Below we analyze the budget proposal affecting state and local agencies' contributions for benefits.

Budget Proposes Change in Amortization Period for Actuarial Gains/Losses

We find that the budget proposal to amortize gains and losses over five years is likely to increase rather than decrease General Fund costs for 1991-92 through 1996-97. We find also that General Funds required to support the state's expenditure plan is underestimated by \$71 million.

Budget Proposal. The Governor's Budget proposes to reduce the state's employer contributions for retirement benefits by \$127 million (\$70 million General Fund) by amortizing actuarial gains anticipated for the 1989-90 fiscal year over a five-year period beginning in 1991-92. The PERS Board of Administration approved a similar amortization period for 1988-89 gains, thus, reducing contributions by \$133 million (\$73 million General Fund) annually for five years, beginning in 1990-91. The budget also proposes that the PERS amortize all future gains or losses over five-year periods.

The actuarial gain or loss represents the amount by which a retirement system's performance exceeds the actuarial assumptions in any fiscal year, thus, requiring an adjustment in the employer contribution rate. Historically, the PERS has amortized annual actuarial gains or losses over the time period used to amortize the system's unfunded liability. That period currently is 40 years. By amortizing the gains or losses over a shorter period of time, the contribution rates would be raised (for a loss) or lowered (for a gain) more sharply than if they were spread out over a longer period of time.

Analysis. Based on our review, we find that this proposal is flawed because it will (1) *increase* rather than *decrease* costs for five years beginning in 1991-92 and (2) reduce the stability of employer contribution rates from year to year.

- **Proposal Increases General Fund Costs.** The PERS indicates that the actuarial adjustment for 1989-90 will be a loss and not a gain as the Governor's Budget assumes. According to the PERS, the Governor's Budget assumption does not take into account a significant change in certain noneconomic assumptions used by the PERS to estimate the net actuarial gains and losses for 1989-90. Taking these factors into account, the PERS indicates that it will realize an actuarial loss of \$79 million (\$43 million General Fund). Thus, if PERS were to implement the *budget proposal*, this loss would be concentrated in a five-year period rather than the remaining 39-year amortization period, effectively increasing rates for that period, above what they would have been otherwise. Consequently, the General Funds required to support the state's 1991-92 expenditure plan is underestimated by about \$71 million. Of this amount, \$70 million is due to assumed gains which will not materialize and \$1 million is due to the actuarial loss, which the PERS presumably will amortize over its normal funding period.
- **Reduces Stability of Employers' Rates.** In previous *Analyses*, we have indicated that smoothing out annual fluctuations in the employers' contribution rates results in a more stable retirement system because its funding needs are known, to a large degree, from year to year. The budget proposal would accentuate annual changes in the system's funding needs.

Budget Proposes Increase in Interest Assumption

We recommend that the PERS advise the Legislature during budget hearings on (1) whether there is an actuarial or economic basis for increasing the interest assumption to 9.5 percent and (2) what effect the proposal may have on future benefit payments.

Budget Proposal. The Governor's Budget proposes to increase from 8.5 percent to 9.5 percent the rate of return on assets (interest assumption) used to calculate funding needs for the PERS. This action would effectively lower the state's employer contribution and the budget projects that state savings of \$156 million (\$86 million General Fund) will result in 1991-92.

Analysis. Based on our review of the budget proposal, we find that in addition to the budget savings there are several other issues that the Legislature should consider in evaluating this proposal.

- **Interest Assumption Should Reflect The Average Return Expected Over a 40-Year Period.** The budget proposal to increase the interest assumption is based on past investment performance which has yielded returns ranging from about 11 percent to 13 percent over the past eight years. Our review indicates that although historical investment performance has exceeded the existing interest assump-

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

tion, it is not clear that it will continue to exceed the proposed 9.5 percent rate of return assumption by a prudent margin in the future. For example, much of the extraordinary investment returns in the last four years has been due to divestment of stocks in firms doing business in South Africa which for the most part is completed. According to the PERS', the interest assumption should reflect the average return expected over the balance of the amortization period. By basing the proposal on recent past performance only, the increased interest assumption may not reflect expected performance over the balance of the amortization period.

- ***Proposal May Affect Ability to Provide Future Benefits To Certain Retired Members.*** The Investment Dividend Disbursement Account (IDDA) within the Public Employees' Retirement Fund provides funding to augment retirees' allowances so that they maintain at least 75 percent of their original purchasing power. The IDDA is funded through earnings on employee contributions in excess of the assumed interest rate. These excess funds continue to flow into the IDDA until a five-year reserve of future benefits is achieved. Further excess earnings on employee contributions then flow into the Extraordinary Performance Dividend Account (EPDA) providing retirees additional protection up to 80 percent of original purchasing power. According to the PERS, the IDDA and the EPDA reserves are fully funded. Therefore, the budget proposal will not affect the payment of benefits in the near future. However, by reducing the flow of funds into these accounts, the proposal could affect, to some degree, the ability to pay these additional benefits in the long term.
- ***Proposal Could Increase Incentive for Members to Withdraw Contributions.*** Since the assumed rate of return is also used to calculate the amounts owed to members who leave the system before retirement, the proposal would result in future increases to balances in individual member accounts. These higher balances may provide an additional incentive for members to withdraw their contributions when leaving state service in lieu of retirement. Member withdrawals can have a significant effect on the system. Generally, early withdrawals of member deposits produce a gain for the system because the employer's contribution is retained in the system. To the extent that the actual early withdrawals exceed the assumed rate of early withdrawals, the system will experience an actuarial gain.

Recommendation. Based on our review, we find that the Legislature needs more information on several issues related to the Governor's proposal. Accordingly, we recommend that the PERS advise the Legislature during budget hearings on (1) whether there is an actuarial or economic basis for increasing the interest assumption to 9.5 percent and (2) what effect the proposal may have on future benefit payments.

Proposed Interest Assumption Produces Unanticipated Savings

We find that the proposed change in the interest assumption will result in savings of \$65 million for K-14 schools and unknown tens of millions of dollars for other local public agencies.

The proposed change in interest assumptions would be applied to school and other local government employers whose employees comprise about one-third each of the PERS membership. This is because the PERS applies all economic assumptions to all employers and member retirement classes. Virtually all school districts use the PERS as the retirement system for their nonteaching personnel. Over 1,000 local governments contract with the PERS for retirement benefits. If the interest rate increase were applied to the employers' contributions for these members, we estimate that the schools would save about \$65 million and local agencies would save unknown tens of millions of dollars in the budget year.

Contribution Rates Influenced by Timing of the PERS Statistical Updates

We recommend that the PERS consolidate its schedule for updating actuarial assumptions annually so that the system and the Legislature can more effectively match decisions that change member benefits with those that affect employer contributions.

Employer contribution rates are recalculated annually by the PERS based on the latest data regarding a variety of factors. Investment earnings, new benefit costs, member behavior, and economic factors are all recalibrated periodically, though not necessarily during the same time intervals. For example, new benefit costs and investment earnings are calculated annually. Member behavior patterns regarding rates of withdrawals from the system, life expectancy, disability retirement, service retirement, or other so-called, noneconomic assumptions, were reevaluated in 1990-91 and will be examined every three years thereafter. Economic factors such as inflation rates, interest rates, and salary increases will be computed in 1991-92 and triennially thereafter. Consequently, in a given year, a changing array of factors influence the direction of contribution rate adjustments in a manner that is difficult to predict.

For example, the PERS indicates that state payroll is assumed to grow by 4 percent annually. Since payroll is an economic assumption that is scheduled to be recalculated along with others in 1991-92, the revised assumptions will not be incorporated into the employer contribution rates until 1992-93. However, if the Governor's Budget assumption for no raises for state employees were incorporated into the calculation of 1991-92 employer contributions, the state would save 4 percent or about \$40 million.

We believe that the PERS should accelerate its update of economic assumptions to the current fiscal year and consolidate its schedule of all actuarial adjustments annually in the future. This would capture whatever changes in these assumptions are indicated by the data for incorporation into the 1991-92 rates. More importantly, perhaps, is that this would give the system a comprehensive update of all relevant indicators, economic and noneconomic, every fiscal year. By doing so, the PERS, and the Legislature, would obtain a more accurate assessment of the cumulative effect of benefit changes, member behavior, and economic conditions. This comprehensive view would allow the PERS and the Legisla-

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

ture to make more informed policy decisions to better balance new benefits with manageable adjustments to state contributions. We recognize that this change in procedure will have a budgetary impact on the PERS. Accordingly, the PERS should report to the fiscal committees on the budgetary impact of this new procedure.

STATE TEACHERS' RETIREMENT SYSTEM

Item 1920 from the State
 Teacher's Retirement Fund
 and other funds

Budget p. SCS 142

Requested 1991-92.....	\$222,522,000
Estimated 1990-91	204,405,000
Actual 1989-90	182,277,000
Requested increase \$18,117,000 (+8.9 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1920-001-835—Retirement administration	State Teachers' Retirement	\$27,914,000
Education Code Section 24701 COLA administration	State Teachers' Retirement (Retirees' Purchasing Power Protection Account)	97,000
1920-001-963—Annuity administration	Teacher Tax-Sheltered Annuity Administration	66,000
Reimbursements	—	239,000
Education Code Section 22206 purchasing power protection	State Teachers' Retirement	119,206,000
Total		<u>\$222,522,000</u>

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for providing retirement benefits to public school teachers. Currently, the STRS serves over 340,000 active and retired members. The system is managed by the State Teachers' Retirement Board, and is under the administrative jurisdiction of the State and Consumer Services Agency.

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

The STRS has 370.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The \$222.5 million budget for the STRS includes \$194 million for purchasing power benefits and \$28.3 million for the STRS administration. Funding for purchasing power benefits is provided by statute and the funding for the STRS administration is requested in the Budget Bill.

Table 1 shows STRS expenditures, by program, for the past, current, and budget years. Table 1 also indicates that the STRS proposes to fund 373.5 personnel-years in the budget year — a net increase of 3.1 personnel-years from the current-year level.

Table 1
State Teachers' Retirement System
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Estimated 1990-91	Proposed 1991-92	Change From 1990-91	
				Amount	Percent
<i>Administration</i>					
Executive office.....	\$395	\$598	\$598	—	—
Legal office.....	828	910	910	—	—
Administration and program analysis.....	313	551	551	—	—
Administrative services.....	524	766	766	—	—
Public Affairs.....	523	733	683	(\$50)	-6.8
Fiscal services.....	5,722	5,547	3,452	(2,095)	-37.8
Audit services.....	277	409	409	—	—
Subtotals, administration.....	\$8,582	\$9,514	\$7,369	(\$2,145)	-22.5%
<i>Investment Services</i>	\$1,030	\$2,050	\$2,127	\$77	3.8%
<i>Client Services</i>					
Administration.....	\$635	\$543	\$566	\$23	4.2%
External operations.....	2,501	2,715	2,790	75	2.8
Member services.....	6,061	7,270	7,643	373	5.1
Subtotals, client services.....	\$9,197	\$10,528	\$10,999	\$471	4.5%
<i>Operation Systems</i>					
Administration.....	\$129	\$200	\$200	—	—
Accounting.....	1,696	2,128	2,348	\$220	10.3
Data processing.....	5,435	5,271	5,273	2	—
Subtotals, operation systems.....	\$7,260	\$7,599	\$7,821	\$222	2.9%
Purchasing Power Protection for Retirees..	<u>\$156,208</u>	<u>\$174,714</u>	<u>\$194,206</u>	<u>\$19,492</u>	<u>11.2%</u>
Total Expenditures.....	\$182,277	\$204,405	\$222,522	\$18,117	8.9%
<i>Funding Sources</i>					
<i>Teachers' Retirement Fund:</i>					
<i>Supplemental Benefit Maintenance Account</i>					
.....	\$156,208	\$174,714	\$194,206	\$19,492	—
<i>Program Administration</i>	26,069	29,691	28,316	(1,375)	-4.6%
<i>Retirees' Purchasing Power Protection Account</i>					
.....	97	97	97	—	—
<i>Teacher Tax-Sheltered Annuity Fund</i>					
.....	59	66	66	—	—
Reimbursements.....	305	239	239	—	—
Personnel-years.....	334.5	370.4	373.5	223.1	0.8%

**STATE TEACHERS' RETIREMENT SYSTEM—Continued
ANALYSIS AND RECOMMENDATIONS**

We recommend approval.

STRS Administration. The budget requests \$28.3 million from the State Teachers' Retirement Fund (STRF), two other special funds, and reimbursements for administrative support of the STRS in 1991-92. This is a net decrease of \$1.4 million, or 4.6 percent below estimated current-year expenditures. The proposed amount includes funding for client services (\$11 million), investment management (\$2.1 million), administration (\$7.4 million), and system operations (\$7.8 million).

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

- \$2.2 million decrease in pro rata charges.
- \$616,000 reductions in expenditures for technical adjustments to employee compensation and equipment.
- \$343,000 in workload increases in data processing and accounting support.
- \$290,000 in program changes through computer software for member services and administration of one-year final compensation.

**Table 2
State Teachers' Retirement System
Proposed 1991-92 Budget Changes
(dollars in thousands)**

	<i>State Teachers' Retirement Fund</i>	<i>STRS Purchasing Power</i>
1990-91 Expenditures (Revised)	\$30,093	\$174,714
<i>Baseline Adjustments</i>		
Pro rata charges.....	(\$2,249)	—
Purchasing power protection.....	—	\$19,492
One-time expenditures:		
Equipment.....	(123)	—
1990-91 employee compensation adjustments	(493)	—
Salary increases	658	—
Staff benefits	287	—
Miscellaneous.....	(88)	—
Subtotals, baseline adjustments.....	(\$2,008)	\$19,492
<i>Workload Changes</i>		
Data processing	170	—
Accounting.....	173	—
Subtotals, workload changes.....	\$343	—
<i>Program Changes</i>		
One-year final compensation (AB 123)	115	—
Computer software for member services	175	—
Subtotals, program changes	\$290	—
1991-92 Expenditures (Proposed).....	\$28,718	\$194,206
Change from 1990-91:		
Amount.....	(\$1,375)	\$19,492
Percent.....	-4.6%	11.2%

Purchasing Power Protection. Chapter 115, Statutes of 1989 (SB 1407, Cecil Green), and Chapter 116, Statutes of 1989 (SB 1513, William Campbell), established a funding mechanism that provides purchasing power protection benefits to retired teachers. Prior to these acts, the Legislature provided purchasing power benefits primarily through appropriations in the annual Budget Act. Of the \$204 million shown in Table 1 for 1990-91, \$174 million is for purchasing power protection. During 1991-92, \$194 million in purchasing power protection is appropriated by statute from the STRF — an 11 percent increase over the current year. This increase is due to the inflation estimate for benefits in 1991-92.

The statutes create the Supplemental Benefit Maintenance Account. This account is funded with transfers from the STRF sufficient to ensure that retired members of the STRS receive benefit payments equal to at least 68.2 percent of the value of their initial benefit. These transfers will be repaid with interest through scheduled annual payments from the General Fund. During the budget year, the General Fund will repay \$117 million to the STRF.

STATE TEACHERS' RETIREMENT SYSTEM—REVERSION

Item 1920-495 from the State
Teachers' Retirement Fund

Budget p. SCS 144

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes to revert \$42,750 to the State Teachers' Retirement Fund (STRF) from the unencumbered balances of a legislative appropriation. Chapter 1004, Statutes of 1989 (AB 50, Elder), appropriated \$100,000 from the STRF to reimburse local employers for the costs of negotiating alternative benefits for affected State Teachers' Retirement System members.

**DEPARTMENT OF VETERANS AFFAIRS AND VETERANS'
HOME OF CALIFORNIA**

Items 1960-1970 from the
General Fund and various
special funds

Budget p. SCS 147

Requested 1991-92	\$1,327,753,000
Estimated 1990-91	1,243,345,000
Actual 1989-90	1,065,646,000
Requested increase \$84,408,000 (+6.8 percent)	
Total recommended reduction	None

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

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1960-001-001—Support	General	\$2,606,000
1960-001-592—Support	Cal-Vet Farm and Home	1,132,000
1960-101-001—Local assistance	General	1,680,000
1970-011-001—Veterans' Home	General	28,056,000
1970-011-036—Veterans' Home	Special Account for Capital Outlay	242,000
1970-011-890—Veterans' Home	Federal Trust	11,849,000
Reimbursements		8,669,000
Total, Budget Bill appropriations		(\$54,234,000)
Continuing Appropriation—Support	Cal-Vet Farm and Home	\$19,640,000
Continuing Appropriation—Loans	Cal-Vet Farm and Home	1,249,739,000
Continuing Appropriation—Support	Cal-Guard Farm and Home	118,000
Continuing Appropriation—Loans	Cal-Guard Farm and Home	4,022,000
Total		\$1,327,753,000

*Analysis
page*

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

1. **Legislative Oversight.** The Department of Veterans Affairs received 2 percent of the available funds from a new program that provides home loans to low-income, first-time home buyers. 182

GENERAL PROGRAM STATEMENT

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

1. **Cal-Vet Farm and Home Loan.** This program provides low-interest farm and home loans to qualifying veterans, using proceeds from the sale of general obligation and revenue bonds.
2. **Veterans Claims and Rights.** This program assists eligible veterans and their dependents in obtaining federal and state benefits by providing claims representation, county subventions, and direct educational assistance to qualifying veterans' dependents.
3. **The Veterans' Home.** The home provides approximately 1,350 California war veterans with several levels of medical care, rehabilitation services, and residential services.
4. **Cal-Guard Farm and Home Loan.** This program provided low-interest farm and home loans to qualifying National Guard members, using proceeds from the sale of revenue bonds. The Military Department advises that in 1986 it decided to stop providing new loans under this program because of a lack of interest by guard members due to the fact that interest rates required under the program were not competitive. As a result, no new loan applications have been accepted since May 1, 1986, and the current program involves only maintenance and servicing of the existing loan portfolio.

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

The department has 1,277.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$1.3 billion from various state and federal funds for support of the DVA and the Veterans' Home of California in 1991-92. This is an increase of \$84.4 million, or 6.8 percent, above estimated current-year expenditures. The increase reflects the following changes:

- An increase of \$131,000, or 0.5 percent, in *General Fund* support for the Veterans' Home. This primarily results from full-year costs of salary increases provided in the current year. The Governor's Budget also includes an unallocated trigger-related reduction of \$562,000 in funding for the DVA and the Veterans' Home. This reduction is included in the proposed budget for the DVA and the Veterans' Home in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).
- An increase of \$83.4 million, or 7 percent, in *special funds*. Nearly all of this increase is in the Cal-Vet loan program, primarily to reflect increased loan costs.
- An increase in *federal funds* of \$446,000, or 3.9 percent, the result of an increase of one-time expenditures from the current year to equip various facilities at the Veterans' Home.
- An increase in *reimbursements* of \$244,000, or 2.9 percent, primarily reflects increased receipts from member fees at the Veterans' Home.

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

Table 1
Department of Veterans Affairs
Summary of Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

<i>Expenditures by Funding Source</i>	<i>Actual</i> 1989-90	<i>Est.</i> 1990-91	<i>Prop.</i> 1991-92	<i>Percent</i> <i>Change</i> <i>From</i> <i>1990-91</i>
General Fund				
Administration	\$2,546	\$2,621	\$2,606	-0.6%
Veterans Service Offices	1,750	1,750	1,680	-4.0
Veterans' Home	<u>25,567</u>	<u>27,925</u>	<u>28,056</u>	<u>0.5</u>
Subtotals, General Fund	(\$29,863)	(\$32,296)	(\$32,342)	(0.1%)
Veterans Farm and Home Building Fund				
Administration	\$19,060	\$26,549	\$20,772	-21.8%
Loans, debt service, taxes	<u>992,063</u>	<u>1,160,547</u>	<u>1,249,739</u>	<u>7.7</u>
Subtotals, Cal-Vet Fund	(\$1,011,123)	(\$1,187,096)	(\$1,270,51)	(7.0%)

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

California National Guard Members Farm and Home Building Fund

Administration	\$95	\$118	\$118	—
Loans, debt service, taxes	3,594	4,007	4,022	0.4%
Subtotals, Cal-Guard Fund	(\$3,689)	(\$4,125)	(\$4,140)	(0.4%)
Federal Trust Fund—Veterans' Home	\$11,858	\$11,403	\$11,849	3.9%
Special Account for Capital Outlay	\$105	—	\$242	— ^a
Reimbursements				
Administration	\$228	\$230	\$234	1.7%
Local assistance	577	562	561	—
Veterans' Home	8,203	7,633	7,874	3.2
Subtotals, Reimbursements	(\$9,008)	(\$8,425)	(\$8,669)	(2.9%)
Totals, Expenditures	\$1,065,646	\$1,243,345	\$1,327,753	6.8%

^a Not a meaningful figure.

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

Table 2
Department of Veterans Affairs
Program Summary
1989-90 through 1991-92
(dollars in thousands)

<i>Programs</i>	<i>Actual</i> <i>1989-90</i>	<i>Est.</i> <i>1990-91</i>	<i>Prop.</i> <i>1991-92</i>	<i>Percent</i> <i>Change</i> <i>From</i> <i>1990-91</i>
Cal-Vet Farm and Home Loan	\$1,011,123	\$1,187,096	\$1,270,511	7.0%
Cal-Guard Farm and Home Loan	3,689	4,125	4,140	0.4
Veterans Claims and Rights	4,254	4,382	4,411	0.7
Veterans' Home	46,475	47,742	49,253	3.2
Veterans' Home of Southern California	105	—	—	—
Administration (distributed)	(2,077)	(1,955)	(1,994)	(2.0)
Unallocated reduction	—	—	-562	— ^a
Totals	\$1,065,646	\$1,243,345	\$1,327,753	6.8%
<i>Personnel-Years</i>				
Cal-Vet Farm and Home Loan	266.0	278.5	278.5	—
Cal-Guard Farm and Home Loan	4.1	2.4	2.4	—
Veterans Claims and Rights	32.4	35.4	35.4	—
Veterans' Home	947.1	961.0	961.0	—
Administration (distributed)	(34.1)	(34.2)	(34.2)	—
Totals	1,249.6	1,277.3	1,277.3	—

^a Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

Legislative Oversight

The department received 2 percent of the available funds from a new program that provides home loans to low-income, first-time home buyers.

Chapter 30, Statutes of 1988 (SB 1692, Roberti), established the Home Purchase Assistance (HPA) Program to provide home buying assistance

to both California veterans and other first-time home buyers receiving assistance through the California Housing Finance Agency (CHFA). The program is designed to make the purchase of homes more affordable to first-time buyers. We have found that the DVA has received a small amount of the total funds available through the HPA Program to loan out to qualifying veterans. We include the discussion of this issue under the DVA's budget, because the CHFA's budget is exempt from the annual budget review process under the provisions of Section 51000 of the Health and Safety Code.

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

The HPA Program provides low interest deferred-payment loans to first-time home buyers who purchase housing financed by the CHFA or the DVA. Voters approved two continuous appropriations of \$25 million each for the program in the Housing and Homeless Bond Act of 1988 and the Housing and Homeless Bond Act of 1990. Chapter 30 also provides that the CHFA administer the HPA Program and contract with the DVA to provide services to veterans or provide services directly.

DVA Has Received 2 Percent Of The Funds Available. Last year in the *Analysis of the 1990-91 Budget Bill*, we found that although Chapter 30 requires the CHFA and the DVA to work together to ensure that qualifying veterans receive information and services from the HPA, the two departments had not communicated with each other regarding the program. The Legislature adopted supplemental report language in the *Supplemental Report of the 1990 Budget Act* requiring the DVA and the CHFA to report quarterly on their plans for coordinating the administration of the HPA Program and the number of loans the DVA awarded to veterans. Subsequently, the departments reported that they entered into an interagency agreement in August 1990 and that the DVA received \$500,000 of HPA funds to provide home purchase assistance to low-income first-time veteran home buyers. The DVA advises that since the departments were unsure of the demand for HPA loans among veterans, they decided to start with the relatively small contract of \$500,000.

By December 31, 1990 the DVA had committed all of the \$500,000 to 24 qualified veterans. The DVA advises that after the Housing and Homeless Bond Act of 1990 passed in June authorizing an additional appropriation of \$25 million, it requested an additional \$5 million from the CHFA. By that time, however, the CHFA had already committed all but \$500,000 to banking institutions. Therefore, the DVA could only receive an additional \$500,000 allocation, bringing its total to \$1 million of the \$50 million available for the HPA Program, or 2 percent of the total funds. The DVA estimates that the additional \$500,000 allocation will be committed to California veterans by the end of February 1991.

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

Neither Chapter 30 nor the bond acts addressed how much of the total funds available would be provided to the DVA to loan to qualifying veterans. The DVA advises that it requested \$5 million from the CHFA because that was its estimate of the need for HPA loans among veterans. Veterans, however, are also eligible to access the HPA loans through the CHFA, although neither the DVA or the CHFA have an estimate of how many veterans have received HPA funds through the CHFA. Therefore, veterans may ultimately receive more of the HPA funds than the \$1 million allocated to the DVA. If the Legislature chooses to place similar bond acts on the ballot in the future, it may wish to consider being more explicit on (1) the administrative responsibilities of the departments involved and (2) how much of the total funds available should be allocated to the DVA for loans to qualifying veterans.

Capital Outlay

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