

SUMMARY OF RECOMMENDATIONS  
IN THE  
ANALYSIS OF THE 1985-86 BUDGET BILL

FEBRUARY 1985

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## INTRODUCTION

In the Analysis of the 1985-86 Budget Bill, we report the results of our detailed examination of the Governor's spending proposals for the coming fiscal year. This document summarizes, by program area, the principal findings and recommendations set forth in the Analysis. It also shows how approval of these recommendations would affect the state's fiscal condition.

### Impact of Recommendations--All Funds

Table 1 shows the net effect of our recommendations on all funds reflected in the budget. As the table shows, approval of our recommendations for changing the Budget Bill would reduce expenditures or increase revenues by a total of \$553 million. The total reflects:

- o \$620.9 million in recommended expenditure reductions;
- o \$82.3 million in recommended expenditure augmentations; and
- o \$14.5 million in recommended revenue increases.

In addition, we recommend a number of changes in existing law. If approved, these changes would reduce expenditures or increase revenues by \$34 million.

Thus, the net effect of all recommendations set forth in the Analysis would be increases in revenues and reductions in expenditures totaling \$587 million.

Table 1

Impact of Legislative Analyst's Fiscal Recommendations  
All Funding Sources  
1985-86  
(in thousands)

	<u>General Fund</u>	<u>Special Funds</u>	<u>Selected Bond Funds</u>	<u>Subtotal (State Funds)</u>	<u>Non-Governmental Cost Funds</u>	<u>Federal Funds</u>	<u>Total All Funds</u>
<b>Expenditures:</b>							
Recommended Reductions	-\$369,240	-\$150,697	-\$27,586	-\$547,523	-\$10,613	-\$62,790	-\$620,926
Recommended Augmentations	<u>38,274</u>	<u>36,023</u>	<u>100</u>	<u>74,397</u>	<u>704</u>	<u>7,222</u>	<u>82,323</u>
Subtotals, Impact of Recommendations on Expenditures	-\$330,966	-\$114,674	-\$27,486	-\$473,126	-\$9,909	-\$55,568	-\$538,603
<b>Revenues:</b>							
Recommended Reductions	--	--	--	--	--	--	--
Recommended Augmentations	<u>14,451</u>	<u>--</u>	<u>--</u>	<u>14,451</u>	<u>--</u>	<u>--</u>	<u>14,451</u>
Subtotals, Impact of Recommendations on Revenues	\$14,451	--	--	\$14,451	--	--	\$14,451
Net Effect on Fund Condition	\$345,417	\$114,674	\$27,486	\$487,577	\$9,909	\$55,568	\$553,054

## Impact of Recommendations--State Funds

Looking only at state funds, our recommendations would increase revenues or reduce expenditures by \$488 million. This amount reflects:

- o \$547.5 million in expenditure reductions;
- o \$74.4 million in expenditure augmentations; and
- o \$14.5 million in revenue augmentations.

In addition, our recommendations for legislation would result in an increase of \$34.2 million in state revenues.

Table 2 compares the expenditure reductions recommended for 1985-86 with the changes in expenditures which we have recommended in previous years.



Table 2

Impact of Legislative Analyst's  
Recommendations on Expenditures  
1960-61 to 1985-86

	Budget Expenditures As Introduced (Includes Bond Funds)	Net Recommended Changes <sup>a</sup> Amount
1960-61	\$2,477,121,574	-\$13,704,029
1961-62	2,592,304,521	-67,984,491
1962-63	2,885,523,247	-71,388,639
1963-64	3,250,402,049	-68,277,367
1964-65	3,662,436,261	-16,672,683
1965-66	4,026,827,774	-41,434,678
1966-67	4,617,913,743	-67,703,128
1967-68	4,624,606,742	-30,329,479
1968-69	5,669,536,034	-6,278,104
1969-70	6,225,633,118	-21,243,891
1970-71	6,480,325,654	-27,352,080
1971-72	6,738,651,775	183,073,546
1972-73	7,616,673,213	71,029,894
1973-74	9,258,835,538	-42,681,312
1974-75	9,812,470,681	-85,447,959
1975-76	11,302,826,536	-46,383,525
1976-77	12,609,102,748	-103,934,695
1977-78	14,298,927,110	66,764,939
1978-79	16,180,354,097	-220,431,221
1979-80	15,456,886,915	-416,368,208
1980-81	24,004,298,729	-581,847,138
1981-82	24,653,047,519	-377,704,476
1982-83	27,045,026,000	-675,017,000
1983-84	25,738,105,000	-492,097,000
1984-85	30,272,631,000	-319,568,000
1985-86	33,599,704,000	-473,126,000

a. Does not include recommended reductions made subsequent to release of the Analysis.

### Impact of Recommendations--General Fund

Table 3 shows the impact of our recommendations on the state's most important fund--the General Fund. It indicates that if all of our recommendations, including those calling for a shift of money between funds, were approved, the amount available in the General Fund would be increased by \$349 million. This money would then be available for the Legislature to use in achieving its priorities.

The \$349 million reflects:

- o \$345.7 million in recommended reductions to appropriations;
- o \$37.2 million in recommended augmentations to appropriations;
- o \$22.4 million in funding source shifts away from the General Fund;
- o \$14.5 million in recommended revenue augmentations; and
- o \$3.3 million in recommended transfers to the General Fund.

An additional \$34.2 million in General Fund revenues would be made available if the Legislature were to enact the legislation which we recommend in the Analysis. (A single recommendation accounts for nearly all of this increase. In our analysis of the Payment of Interest on General Fund Loans, we recommend that legislation be enacted precluding the use of the Reserve for Economic Uncertainties for meeting cash needs of the General Fund.)

Table 3

Impact of Legislative Analyst's Fiscal Recommendations  
on the General Fund  
1985-86  
(in thousands)

<u>Nature of Recommendation</u>	<u>Impact on General Fund</u>
Expenditures:	
Reductions	-\$345,738
Augmentations	37,206
Change Funding <u>Source</u>	<u>-22,434</u>
Subtotal, Impact of Recommendations on Expenditures	-\$330,966
Revenues:	
Reductions	--
Augmentations	<u>14,451</u>
Subtotal, Impact of Recommendations on Revenues	\$14,451
Transfers	<u>3,330</u>
Net Effect on General Fund Condition	\$348,747

Impact of Recommendations--By Program Category

Table 4 summarizes, by program category and funding source, our recommendations which would have an impact on expenditures.

Table 4  
 Impact of Legislative Analyst's Recommendations on Expenditures  
 by Category  
 General Fund and Special Funds  
 (in thousands)  
 1985-86

	<u>General Fund</u>	<u>Special Funds</u>	<u>Total</u>
Judicial/Executive	-\$10,022	-\$56	-\$10,078
State and Consumer Services	1,190	2,121	3,311
Business, Transportation, and Housing	-768	-18,528	-19,296
Resources	-13,829	-6,170	-19,999
Health and Welfare	-108,475	10,377	-98,098
Youth and Adult Correctional	-17,578	--	-17,578
K-12 Education	-37,188	--	-37,188
Higher Education	-55,422	16	-55,406
General Government	-11,553	69	-11,484
Tax Relief	-77,321	--	-77,321
Miscellaneous	--	270	270
Capital Outlay	<u>--</u>	<u>-102,773</u>	<u>-102,773</u>
Totals	-\$330,966	-\$114,674	-\$445,640

Table 4 shows that the largest recommended reductions are in health and welfare (\$98 million), tax relief (\$77 million), higher education (\$55 million), and K-12 education (\$37 million).

### Impact of Recommendations--Personnel-Years

We also recommend an increase in the state workforce amounting to 492 personnel-years (net). This increase is the result primarily of: recommendations that funds in the Department of Transportation's budget be used to retain or hire state workers rather than rely on overtime or contract out for services (365 personnel-years); a recommendation that the Department of Mental Health retain 399 state hospital beds (200 personnel-years); and a recommendation that the Department of Social Services retain staff assigned to the adoption program (73 personnel-years). Additional smaller increases and smaller offsetting reductions are recommended in a number of instances.

### Recommendations Pending

We have withheld recommendation on \$7.3 billion in reductions and augmentations proposed in the Governor's Budget. We have done so wherever information needed to establish the need for the requested amount has not been provided. In each of these cases, we will submit supplemental analyses of the proposed funding levels, once the necessary information becomes available. In all likelihood, these supplemental analyses will include recommendations for further reductions in the Governor's Budget for 1985-86.

### Underfunded Items

In a number of instances, it is unclear how the level of service proposed in the Governor's Budget can be supported within the amount budgeted. The potential shortfall adds up to approximately \$130 million.

JUDICIAL

Judicial

(Item 0250/page 5)

	1983-84 <u>Actual</u>	1984-85 <u>Estimate</u>	<u>Proposed</u>	1985-86 <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$43,910	\$55,104	\$69,162	\$68,223	-\$939
Personnel- years.....	639.9	672.5	744.8	728.3	-16.5

Highlights of Our Recommendations

1. Supreme Court Research Attorneys

We recommend deletion of \$339,669 from the General Fund to delete seven Supreme Court research attorney positions. The Supreme Court requested the additional positions because of (a) a reported increase in workload, (b) the need for more experienced attorneys to replace student externs, and (c) the recent passage of State Constitutional Amendment 29 which gave the court new discretion in accepting cases. Our analysis found that the court had failed to justify the need for the new positions (Analysis page 8).

2. Appointed Counsel Plan

We recommend that the Judicial Council report to the legislative fiscal committees prior to budget hearings on several unresolved issues regarding its plan to provide appointed counsel to indigent appellants. Our review indicates that the Judicial Council has made progress in developing a statewide appointed counsel case matching and assistance program. In the current year, the Judicial Council is entering into contracts with private administrators to recruit, screen, and assist private counsel appointed by the court to defend indigent appellants before the Supreme Court and two districts of the courts of appeal. In the Analysis, we recommend that the Judicial Council report on specific plans for ensuring that qualified counsel are available in districts where no contract for such services is in place, and the courts' policies for establishing rates of payment for appointed counsel and instituting future increases (Analysis page 13).

Judicial Council--Capital Outlay

(Item 0250-301/page 20)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$1,720	--	-\$1,720

Highlights of Our Recommendations

1. San Francisco State Building Remodel (-\$218,000)

The Governor's Budget requests \$218,000 for working drawings for a project to provide an additional 13,000 square feet of office space in the San Francisco State Building. Preliminary planning funds of \$193,000 are available in the current year.

At the time our Analysis was prepared, the preliminary plans had not been completed. Consequently, the Legislature has no more information on this project than it had last year. We recommend that funds for working drawings be deleted, for a savings of \$218,000 (Analysis page 20).

2. Orange County Courthouse Remodel (-\$1,502,000)

The budget includes \$1,502,000 to modify space in the old Orange County Courthouse in Santa Ana to accommodate the Third Division of the Fourth Appellate District. The Budget Act of 1984 appropriated \$146,000 for preliminary plans and working drawings for this project.

Preliminary plans and cost estimates have not been submitted for this project to justify the funds requested. Thus, the Legislature has no more information on this project than it had last year. We recommend that \$1,502,000 requested for construction be deleted (Analysis page 20).

Contributions to Judges' Retirement Fund

(Item 0390/page 21)

	<u>1983-84</u> <u>Actual</u>	<u>1984-85</u> <u>Estimate</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$18,832	\$22,921	\$22,921	--	--

Highlights of Our Recommendations

1. New Retirement Plans

The existing retirement benefit structure available to current members of the Judges' Retirement System (JRS) does not provide tax advantages or flexibility to judges. In addition, the state is at present fiscally liable for all past and future funding shortfalls of the JRS. Therefore, we recommend enactment of legislation providing new retirement options for future judges which would (1) offer greater choice and flexibility to future judges in designing their individual retirement programs and (2) control the state's future financial exposure under the JRS (Analysis, page 23).



EXECUTIVE

Secretary for Business, Transportation and Housing

(Item 0520/page 30)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86 Recom- mendation	Difference
Expenditures... (thousands)	\$746	\$888	\$943	\$943	--
Personnel- years.....	16.6	19	19	19	--

Highlights of Our Recommendations

1. Consultant Services Unjustified

We recommend a deletion of \$300,000 in reimbursements to contract for consultant services because (a) the plan for using the funds is not specific and (b) the need for the services proposed has not been justified. The Secretary is requesting \$300,000--\$60,000 each from the Departments of Corporations, Savings and Loan, Insurance, Real Estate, and State Banking--for private consulting services to develop a "strategic planning" approach for dealing with changes in the environment within which financial service institutions operate.

Our review shows that, while the changing financial services market confronts the state with serious policy issues regarding the relationship between state and federal regulatory authorities and the effectiveness of the existing state regulatory structure, which warrant examination, the Secretary's request lacks specific descriptions of, and cost estimates for, the proposed efforts. Therefore, it is not known what exactly it is the state would be getting for the money. Instead, the proposal would allow the Secretary to retain an advisor for various policy issues identified at his discretion. Consequently, we recommend the requested amount be deleted (Analysis page 32).

Office of Economic Opportunity

(Item 0660/page 47)

	1983-84 <u>Actual</u>	1984-85 <u>Estimate</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$161,137	\$152,513	\$125,139	\$125,591	\$452
Personnel- years.....	200.3	190.3	184.0	--	--

Highlights of Our Recommendations

1. Administrative Expenses

The Office of Economic Opportunity (OEO) proposes to spend \$1.9 million in federal Community Services Block Grant (CSBG) funds for administrative activities. This proposal would allocate 6 percent of the CSBG grant for administration despite the federal limit of 5 percent on administrative funds under the program. The office indicates that carry-over CSBG funds allow OEO to spend more than 5 percent of the grant in a state fiscal year without exceeding the administrative cap on a federal fiscal year basis.

Our analysis indicates that the additional support the funds proposed for CSBG in excess of 5 percent are not needed to administer the program. Moreover, we presume that in establishing the cap on CSBG administration, the Legislature intended to limit administrative costs. Therefore, we recommend a reduction of \$365,000 in order to keep CSBG administrative support within the 5 percent limit. We further recommend that \$817,000 (the \$365,000 proposed reduction and \$452,000 proposed to be carried forward in 1986-87) be distributed to local CSBG programs (Analysis page 54).

Office of Emergency Services

(Item 0690/page 55)

	<u>1983-84</u> Actual	<u>1984-85</u> Estimate	<u>Proposed</u>	<u>1985-86</u> Recom- mendation	<u>Difference</u>
Expenditures... (thousands)	\$10,799	\$28,106	\$24,257	\$20,748 <sup>a</sup>	-\$3,509
Personnel- years.....	129.1	154.5	172.9	171.4 <sup>a</sup>	-1.5

a. Also recommendations pending on \$806,000 and 20 positions.

Highlights of Our Recommendations

1. Public Facilities Repair Funds

We recommend a reduction of \$3,463,000 from the General Fund so that the budget will reflect a more realistic estimate of funds needed for repair of public facilities in the budget year. Under the Natural Disaster Assistance Act, the OES administers a program of aid to local agencies for the repair and restoration of public real property damaged by natural disasters.

The budget proposes to transfer \$7,684,000 from the General Fund to the Public Facilities Account for 1985-86. The requested amount would increase the balance of funds available in the account to \$11,635,000, the same level which was made available in the current year. However, based on a review of expenditures from the Public Facilities Account in recent years, current-year disbursements represent an unusually high level of disaster assistance activity. The average of the past five years' disbursements, as adjusted for inflation, indicates a need for \$3,463,000 less than is requested in the budget (Analysis page 60).

Department of Justice

(Item 0820/page 65)

	<u>1983-84</u> <u>Actual</u>	<u>1984-85</u> <u>Estimate</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$105,096	\$127,467	\$138,042	\$136,702	-\$1,340
Personnel- years.....	2,879.2	3,028.1	3,030.0	3,016.8	-13.2

Highlights of Our Recommendations

1. Word Processing Equipment

The budget proposes to implement the second year of a four-year Integrated Office Systems project at a cost of \$1.9 million in 1985-86. This project will replace and expand the department's various word processing systems with standardized equipment. In addition to the amount budgeted for this project, the department is also requesting \$438,000 in 1985-86 to replace, upgrade, or expand its existing word processing systems. Because this proposed expenditure duplicates the function of the Integrated Office Systems project, we recommend a reduction of \$438,000 from various funds (Analysis page 72).

State Controller

(Item 0840/page 76)

	1983-84 <u>Actual</u>	1984-85 <u>Estimate</u>	1985-86		
			<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$44,213	\$49,807	\$50,254	\$48,034	-\$2,220
Personnel- years.....	1,146.3	1,208.6	1,197.4	1,171.9	-25.5

Highlights of Our Recommendations

1. State Mandated Costs Audit Program

The Governor's Budget proposes to establish a new system of "state mandate apportionments" (SMA) to replace the "actual cost" claims process for many mandated programs. This system is discussed in our analysis of Item 9680, State Mandated Local Programs. Our analysis indicates that implementation of the SMA system would result in a 94 percent reduction in the mandated cost claims auditing workload of the Controller.

On this basis we recommend a reduction of \$1,063,000 to eliminate 24 desk (15.0) and field (9.0) positions that will no longer be needed, due to changes in the method of providing reimbursement.

2. Oil and Gas Royalty Audits Program

The budget proposes reestablishment of 13.0 limited-term positions for oil and gas royalty audits in 1985-86, at a cost of \$799,000. In line with the state's 1982 agreement with the U.S. Department of Interior (DOI), the budget proposes to split the funding of these positions between the General Fund and the Federal Trust Fund.

The Controller's Office has informed us, however, that the DOI has agreed to provide full federal funding of direct audit costs, beginning in February 1985. As a result of this increase in the federal reimbursement rate, we recommend that (a) the General Fund appropriation to the Controller be reduced by \$400,000 and (b) the appropriation from the Federal Trust Fund be increased by \$400,000, for a General Fund savings of \$400,000.

Board of Equalization

(Item 0860/page 89)

	<u>1983-84 Actual</u>	<u>1984-85 Estimate</u>	<u>Proposed</u>	<u>1985-86 Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$74,939	\$87,519	\$90,851	\$89,829	-\$1,022
Personnel- years.....	2,666.6	2,780.9	2,755.6	2,755.6	--

Highlights of Our Recommendations

1. Unallocated General Fund Reduction

We recommend an augmentation of \$269,000 to meet the cost of expected price increases for in-state and out-of-state travel expenses because the expected revenue exceeds the cost. The budget proposes to eliminate all funding for price increases associated with travel expenses, which amounts to a total of \$296,000. The board estimates that a very high proportion of its travel expenses is tied to the production of audit revenues. As a consequence, the board proposes to implement the funding reduction by redirecting money away from other funded discretionary activities, rather than reduce travel. The board indicates that it would eliminate 8.3 auditor II positions to make up for the funding shortfall.

Our analysis indicates that such a staff reduction would, nevertheless, have adverse revenue effects. Auditing returns ensures uniform compliance with tax laws, thereby protecting the revenue base. When auditing staff is reduced, more productive accounts are left unchecked and the state loses revenue which it otherwise would collect. Elimination of 8.3 auditor II positions can be expected to decrease General Fund revenues by \$934,000, with a net loss to the state of \$638,000 (Analysis page 93).

### 3. Howard Hughes Case

An out-of-court settlement of the Howard Hughes Inheritance Tax Case was approved by the Los Angeles Superior Court (probate court) in December 1984. Under the terms of the settlement agreement, the Summa Corporation (part of the Hughes estate) is required to make certain on-site and off-site improvements to a piece of commercial and residential property in Playa Del Rey. These improvements are to be made in order to maximize the market value of the property, which is being held in trust for the state.

The budget requests \$265,000 to reestablish five positions to monitor the Summa Corporation's compliance with the terms of the settlement agreement. Our review of the information provided by the Controller, however, indicates that a senior auditor and a staff counsel should be sufficient to protect the interests of the state under the terms of the settlement agreement. Therefore, we recommend a reduction of \$100,000 to eliminate three positions which will not be needed in the budget year.

California Debt Limit Allocation Committee

(Item 0959/page 113)

	1983-84 Actual	1984-85 Estimate	1985-86		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	--	\$79,000	\$121,000	--	-\$121,000
Personnel- years.....	--	1.0	2.0	--	-2.0

Highlights of Our Recommendations

1. Staffing Needs for Committee Have Not Been Established

We recommend deletion of the \$121,000 proposed to support the California Debt Limit Allocation Committee (CDLAC), because the need for funds to support the committee has not been established. The CDLAC was established by the Governor in July 1984, in order to ensure the state's compliance with the recently established federal limits on the volume of bonds issued by state and local agencies for certain private activities.

We believe the budget request is premature because the Legislature should be given the opportunity to review the committee's purpose, determine its source of funding, and evaluate options for complying with the federal requirement before it decides whether or not ongoing funding for the CDLAC is needed. Furthermore, we believe that the need to provide funding for the CDLAC has not been established, given that (1) the federal limit on private activity bonds is not likely to pose problems for local jurisdictions, (2) the committee's responsibilities and workload do not appear to justify a full-time staff, and (3) existing commissions could absorb the CDLAC's workload. For these reasons, we recommend that the \$121,000 proposed to support the committee in 1985-86 be deleted (Analysis page 114).



STATE AND CONSUMER SERVICES

Department of Consumer Affairs

(Items 1110-1655/page 127)

	1983-84 <u>Actual</u>	1984-85 <u>Estimate</u>	<u>Proposed</u>	<u>1985-86 Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$72,998	\$102,145	\$105,023	\$106,747 <sup>a</sup>	+\$1,724
Personnel- years.....	1,452.5	1,684.8	1,583.9	1,613.3	+29.4

a. Recommendations pending on \$18,529,000.

Highlights of Our Recommendations

1. Bureau of Automotive Repair--Feasibility Study on Inclusion of Diesel-Powered Vehicles in the SB 33 Program Needs Clarification

We withhold recommendation on \$300,000 requested for a feasibility study to determine whether it is technologically and economically feasible to include diesel-powered vehicles in the Biennial Vehicle Inspection Program (BVIP), as required by Ch 892/82 (SB 33).

Our analysis indicates that, although the bureau plans to study the feasibility of including diesel-powered vehicles in the BVIP, the plan is not specific. In addition, we think the study should be coordinated with the Air Resources Board (ARB) which tests diesel emission control devices, and the South Coast Air Quality Management District which develops increased controls over diesel emissions through periodic inspection. Accordingly, we recommend that the bureau submit additional information on the proposed study and a plan for coordinating the study with ARB and the South Coast Air Quality Management District (Analysis page 142).

2. Bureau of Automotive Repair--Certificate of Compliance Fee Should Be Reduced

We recommend that the Biennial Vehicle Inspection Program's (BVIP) certificate of compliance fee of \$6 be lowered to \$4 in order to reduce the reserve in the Vehicle Inspection Fund to a more reasonable level. Chapter 892/82 authorized the Bureau of Automotive Repair to charge motorists up to \$6 for the certificate of compliance in order to operate the BVIP. Because of uncertainties regarding the needed level of program expenditures, the bureau initially set the fee at the \$6 maximum.

Our analysis indicates that the Vehicle Inspection Fund will have a projected reserve of \$22 million as of June 30, 1986. A lower fee of \$4 would generate estimated annual revenues of about \$27.2 million, not including revenue from other sources, to cover expenditures of \$27.1 million. Thus, a reduction in the fee would still leave a reasonable reserve in the fund. Accordingly, we recommend that the Legislature adopt Budget Bill language directing the bureau to reduce the fee for the certificate of compliance from \$6 to \$4 in 1985-86 (Analysis page 143).

Franchise Tax Board

(Item 1730/page 156)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$92,568	\$110,547	\$117,822	\$119,321	\$1,499
Personnel- years.....	2,855	3,076	2,957	3,005	48

Highlights of Our Recommendations

1. Additional Audit Resources A Good Investment

We recommend an augmentation of 49.5 personnel years and \$1,526,000 to the Franchise Tax Board (FTB) audit program. Our analysis indicates that it would be in the state's interest to provide FTB with additional audit resources, for several reasons. First, audit coverage has been on the decline due to funding cutbacks, which have required FTB to redirect funds away from the audit program in order to pay for cost increases in other program areas. As a result of reduced funding for audit activities, the level of audit coverage has fallen. Second, the addition of audit personnel would produce revenues well in excess of what the personnel would cost. FTB's audit workplan for 1985-86 shows that audit coverage on the margin would return \$8 for every \$1 of audit costs.

For these reasons, we recommend an augmentation to FTB's budget of \$1,526,000 and 49.5 personnel-years, which would restore the level of resources for audits to what existed prior to funding cutbacks in 1983-84. This would bring in additional revenues of \$13.4 million in 1985-86 and \$19.1 million thereafter (Analysis page 164).

Department of General Services

(Item 1760/page 168)

	1983-84 Actual	1984-85 Estimate	1985-86		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$260,275	\$321,272	\$339,601	\$334,481 <sup>a</sup>	-\$5,120
Personnel- years.....	3,839.2	4,165.4	3,946.7	3,940.0	-6.7

a. Recommendation pending on \$2,996,000,

Highlights of Our Recommendations

1. New Management Information System (-\$389,000)

The budget includes \$1,239,000 for development and operation of a new management information system for the OSA. This system is proposed to replace the current automated accounting system operated by the Teale Data Center which will not be operational after June 1985 when the Data Center installs new equipment. The initial cost of the system is \$1,239,000 including development costs, new computer hardware and software, and the first year's operating and maintenance costs.

Our review of the Office of State Architect's (OSA) performance has pointed to the need for improvements in the office's management of capital outlay projects. The necessary replacement of the existing automated accounting system provides the opportunity for improving project information systems. The budget proposal, however, includes several components that would not address either of these needs and have not been adequately justified. The proposed budget contains \$79,000 for additional word processing, \$133,000 for structural safety section plan checking, and \$155,000 for computer-assisted drafting/design. The OSA has not provided sufficient information to substantiate the need to automate these systems. Consequently, we recommend that the \$389,000 requested for these systems be deleted from the proposal (Analysis page 177).

2. Custodial Service Changes Require Further Justification and Information

The budget proposes two major changes in custodial services: (1) 59 custodial positions will be eliminated as a result of productivity increases (53.4) and increased salary savings (5.6), and (2) the Office of

Buildings and Grounds proposes to contract with the private sector for janitorial services to the new Franchise Tax Board building and the new state office building in San Francisco on a pilot basis.

According to the information provided by the department, the reduction in janitor positions reflects the office's ability to provide custodial services in the 1982-83 fiscal year with 43 fewer janitor positions than authorized. The department concludes that improved efficiencies will also result in a commensurate reduction in authorized positions during the budget year. We are unable to confirm, however, that the staff reductions were made possible by productivity increases. The department has not been able to identify the specific areas within its program where productivity increases result in reduced staffing requirements. We therefore recommend that, prior to legislative hearings on the budget, the department identify the specific productivity increases and efficiencies which make possible the reduction in positions. Pending review of this additional information, we withhold recommendation on the proposed reductions in funding and positions for janitorial services.

The department's proposal includes \$839,000 for contracts providing janitorial services, window cleaning and grounds maintenance for the new Franchise Tax Board building and the new state office building in San Francisco. Although our analysis suggests that the nature of janitorial services and grounds maintenance may lend itself to contracting with the private sector, the department has not provided sufficient information to demonstrate that contracting would be cost-effective. Because bids received on contract janitorial services planned for the new Van Nuys state office building are promising, however, we recommend that the Legislature (1) approve the request for \$839,000 to fund a contract for providing custodial services and grounds maintenance, and (2) adopt Budget Bill language requiring the department to submit a report at least 30 days prior to the award of a contract which details the specific costs and benefits associated with the proposed contract.

Funding for building maintenance contracts of \$652,000 is included in the department's proposed budget. Building maintenance involves activities aimed at maintaining and preserving the useful life of building systems such as heating, ventilation and air-conditioning systems, electrical systems and plumbing systems. In addition to being cost-effective in the short-run, any contract for building maintenance functions must also support the long-term objectives of the Office of Buildings and Grounds--to preserve the state's capital investment in buildings. Therefore, before the department proceeds to contract out building maintenance work, it needs to develop and submit to the Legislature (1) appropriate contract performance measures and (2) a plan for monitoring performance. Pending receipt of this information from the department, we withhold recommendation on the \$652,000 budgeted for

### 3. Repairs and Corrections to New State Office Buildings (-\$1,525,000)

The department's request includes \$1,525,000 for 13 special repair projects related to new state office buildings. Eleven of the 13 projects,

totalling \$1,493,000, involve questions as to whether the state is financially liable for these design and/or construction errors. In view of the significant number of serious deficiencies in these buildings, the OSA should review each problem addressed by the department's special repair requests and indicate to the Legislature how these deficiencies were allowed to occur, and why they were not identified during design or construction. The OSA should also provide assurances to the Legislature that (1) the state is, rather than the contractor or architect, is financially responsible for the cost of correcting these problems, (2) the proposed modifications will correct the problems, (3) the proposed costs for correction are appropriate, and (4) problems of this nature will not be allowed to occur in other projects. Any funds needed to make these facilities "complete and operable" should be requested in the capital outlay portion of the budget. For these reasons, we recommend deletion of \$1,493,000 requested for work in new office buildings.

The remaining projects at issue, estimated to cost \$32,000, include (1) installation of 150 fluorescent light fixtures to replace the lighting system installed during construction of the new Energy Commission Building in Sacramento (\$22,000), and (2) an amount to repair door frames improperly installed in the San Jose state office building (\$10,000). No information has been provided to indicate that the light system approved by the OSA for the new Energy Commission Building is inadequate. The appropriate course of action for the state to take with respect to the door frames, we believe, is to pursue remedial action by the project contractor, at no cost to the state.

For these reasons, we recommend deletion of these two projects for a reduction of \$32,000 (Analysis, page 186.)

#### 4. The State Should Expedite the Purchase of Leased Phones

The state currently uses approximately 200,000 telephones. About 85 percent of these telephones are leased, despite the fact that it is in the state's financial interest to purchase this equipment. Generally, the cost of purchasing a telephone can be recouped within a period of months (in most cases, from 9 to 24 months) through the savings in lease payments. It is estimated that telephone purchases by the state could result in potential savings of several million dollars annually.

In order to finance state telephone purchases and realize major annual savings in state communications costs, it is necessary to provide "up front" funding. Accordingly, we recommend that the Legislature direct the Department of Finance to establish a revolving fund, pursuant to authority provided to the department in Chapter 1286, Statutes of 1984. State agencies could then borrow from the revolving fund in order to finance telephone purchases, repaying the loan from amounts currently budgeted for lease payments. We further recommend that the Department of General Services and the Department of Finance report during budget hearings on (1) the appropriate level at which to capitalize the fund, and (2) the number of additional staff needed by the Office of Telecommunications to administer an expedited telephone purchase program (Analysis page 197).

Department of General Services--Capital Outlay

(Item 1760-301 and 1760-311/page 202)

	1983-84 <u>Actual</u>	1984-85 <u>Estimate</u>	<u>Proposed</u>	<u>1985-86 Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$16,207	(pending)	-\$14,330

Highlights of Our Recommendations

1. New Elevator--Resources Building (-\$410,000)

The budget proposes \$410,000 to design and install a new elevator in the Resources building in Sacramento. The request is based on a consulting engineer's recent study indicating that the nine existing elevators are obsolete and inefficient and prone to continual breakdown and malfunctions. The consultant recommended that (1) the existing elevators be upgraded and modernized to correct these problems, and (2) a tenth elevator be installed.

The budget includes \$1,736,000 under item 1760-001-666 to upgrade and modernize the elevator system as recommended by the consultant. This work appears justified and should proceed. The need for a tenth elevator, however, is not obvious. Before spending \$410,000 for a new elevator, the department should complete the repair and modernizations of the existing system. On this basis we recommend that the \$410,000 included for this work be deleted (Analysis page 206).

2. Franchise Tax Board, Phase II (-\$594,000)

The budget request \$594,000 to develop preliminary plans for Phase II of the Franchise Tax Board (FTB) facility. The Phase II facility would be approximately 385,000 gross square feet and would be constructed adjacent to the Franchise Tax Board's Phase I facility currently under construction at a site near Highway 50 and Mayhew Road in Sacramento. The department's estimated future cost for working drawings and construction is \$21,517,000.

The purpose of the Phase II building is to consolidate the records storage/document retrieval and warehouse space needs of the FTB. Presently, the FTB stores records in leased space and at the state records center and leases space for its warehousing functions. A December 1981 study prepared for the Office of the State Architect regarding the new Franchise Tax Board facility concluded that the records storage and retrieval operations of the FTB were primarily manual in nature and did not make use of technological innovations in the area of records storage. The

department has not indicated whether any of the issues raised in the feasibility report have been addressed by the FTB or if any changes have been made in the board's current method of records storage and retrieval. Clearly, such changes could affect the amount of records storage and retrieval space which would be needed in the Phase II building.

Our review indicates that the department should reevaluate the present method for records storage and retrieval, before proceeding with the Phase II project. We therefore recommend that this item be deleted for a reduction of \$594,000 (Analysis page 207).

### 3. Underground Storage Compliance (-\$12,000,000)

The budget requests \$12 million for underground tank testing, monitoring, permitting and replacement. Chapter 1046, Statutes of 1983, established a program for the regulation and control of hazardous substances stored in underground tanks. The requested funds would finance the first year of a multi-year program to comply with regulations to be issued by the Water Resources Control Board (WRCB) pursuant to Ch 1046/83.

No information has been provided to either describe the work that would be conducted under this project or to justify the budget amount. The department has presented no data on the number, location or contents of underground tanks for which the state is responsible. Moreover, at the time this analysis was written, the WRCB regulations were in draft form. Until the regulations are final, the need for testing, monitoring, obtaining permits and/or replacing underground tanks cannot be determined.

In short, \$12 million in state funds should not be set aside for a program which has not yet been developed. Once the regulations are final, and the department has obtained information on the extent of the problem that must be addressed, the Legislature will be able to assess the need for funds. Lacking the final regulations, information on the scope of the problem and an expenditure plan, we recommend deletion of this request for a reduction of \$12 million (Analysis page 208).

### 4. Replacement of PCB-Contaminated Equipment

The budget proposes \$850,000 for replacement of electrical transformers containing PCB fluids. The department has submitted no information to either describe the work that would be performed with these funds or justify the \$850,000 in the budget.

Moreover, given the Department of General Services' track record, it is not clear that additional work in this area would be accomplished in the budget year. Since 1981, the Legislature has appropriated approximately \$7.8 million to replace leaking, hazardous or PCB-contaminated equipment. The department, however, has only been able to spend approximately 50 percent of these funds and the Legislature has been forced to reappropriate previously appropriated monies on more than one occasion. This record hardly provides reassurance that the department would accomplish any substantial portion of the work for which it is requesting funds in the 1985 Budget Bill.



In any case, lacking either a description of the work to be conducted, or justification for the amount requested, we recommend elimination of this item for a reduction of \$850,000 (Analysis page 209).

5. Status of New State Office Buildings is Uncertain

In the 1984 Budget Act, the Legislature provided a total of \$1,112,000 to complete preliminary plans for three new state office buildings in downtown Sacramento. These buildings would provide office space for the Board of Equalization (Site 4), the State Lands Commission and Solid Waste Management Board (Site 1D), and the State Library and Board of Control (Site 5).

The Governor's Budget, however, does not request funds for working drawings and/or construction for these office building projects. Based on recent project schedules, preliminary plans for Site 1D have been completed and preliminary plans for Site 4 and Site 5 will be completed in April 1985 and June 1985, respectively. Thus, adequate information on the amount needed for working drawings and construction could be made available to the Legislature on two of the three projects before action must be completed on the Budget Bill.

The state currently leases 3.3 million square feet of office space--nearly one-quarter of the privately owned office space--in Sacramento and the cost for this space has been rising steadily. The Legislature has recognized the advantage to the state in meeting ongoing space needs through state-owned facilities and has provided funds for projects designed to reduce annual state costs by constructing new state office buildings.

For these reasons, we believe the department should provide the Legislature with its plan for developing the three buildings noted above. This information should be sent to the Legislature before hearings on the department's budget (Analysis page 210).

State Personnel Board

(Item 1880/page 212)

	1983-84 Actual	1984-85 Estimate	1985-86		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$21,935	\$21,999	\$20,416	\$20,306	-\$110
Personnel- years.....	474.8	420.0	314.9	(pending)	(pending)

Highlights of Our Recommendations

1. Staffing Reductions

The budget proposes to reduce the 1985-86 staffing level of the State Personnel Board in three different ways:

- o Increase the salary savings rate from 5.0 percent in the current year to 7.8 percent in the budget year;
- o Eliminate 42.1 positions by accelerating implementation of the decentralized employee selection program; and
- o Eliminate 55.4 positions by authorizing a Joint Powers Authority to provide personnel services to local government in lieu of SPB staff.

Our analysis indicates that SPB may not have the resources it needs to perform its statutory functions. Therefore, we recommend that the Department of Finance and the State Personnel Board report prior to budget hearings on the impact that certain proposed personnel reductions would have on the board's ability to perform its statutory responsibilities (Analysis page 214).

Public Employees' Retirement System (PERS)

(Item 1900/page 218)

	<u>1983-84</u> <u>Actual</u>	<u>1984-85</u> <u>Estimate</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$28,267	\$33,629	\$33,465	\$33,314 <sup>a</sup>	-\$151
Personnel- years.....	692.5	724.1	693.3	693.3	---

a. Recommendation pending on \$917,000.

Highlights of Our Recommendations

1. Delete Contingency Budgeting of Data Processing Funds (-\$151,000)

We recommend deletion of \$151,000 budgeted from the Public Employees' Retirement Fund (PERF) for potential data processing workload, because it is contingency budgeting. Such budgeting is inappropriate because it (1) weakens legislative control over expenditures and (b) may needlessly inflate the size of the budget (Analysis page 222).

Department of Veterans Affairs--Capital Outlay

(Item 1970-301/page 239)

	1983-84	1984-85	1985-86		Difference
	<u>Actual</u>	<u>Estimate</u>	<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	--	--	\$4,698	(pending)	-\$1,222

Highlights of Our Recommendations

1. Primary Electrical Service (-\$692,000)

The budget proposes \$700,000 under Item 1970-301-036(9) to increase the primary electrical service at the Veterans' Home. The project provides for the installation of new primary switch gear, primary electrical distribution cables, underground ducts and oil selection switch.

Construction of the acute care hospital addition and other remodeling work will change significantly the electrical load demands at the home. The department has not submitted adequate information to describe (1) existing electrical capacities and demands or (2) projected electrical needs based on the new projects in the revised master plan. Nor has the department identified whether the proposed third-party-financed cogeneration project will have an effect on the electrical distribution at the home. Consequently, we recommend deletion of the funds requested for working drawings and construction.

Completion of preliminary plans for most of the master plan projects by the end of the budget year will provide information on future electrical loads which will be needed to assess the home's primary electrical service needs. Consequently, we recommend that \$8,000 be provided to update the existing preliminary plans. These preliminary plans should provide the necessary information for the Legislature to consider a request for working drawings and construction funds in the 1986 Budget Bill (Analysis page 245).

BUSINESS, TRANSPORTATION AND HOUSING

Department of Transportation

(Item 2660/page 303)

	1983-84 Actual	1984-85 Estimate	1985-86		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$981,571	\$1,171,238	\$1,199,507	\$1,185,252	-\$14,255
Personnel- years.....	15,834	15,521	15,343.1	15,343.1	+365.0

Highlights of Our Recommendations

1. Too Much Work Done by Cash Overtime

We recommend an increase of 200 personnel-years and a corresponding reduction in cash overtime to reflect actual ongoing staff support needed for capital outlay project development and engineering.

The department requests that an equivalent of 300 personnel-years of project development and engineering work be done by cash overtime in 1985-86, at over \$7.5 million. Our review shows that overtime work is needed to accommodate unanticipated increases in workload or when the workload is seasonal or of a one-time nature. These considerations, however, do not apply, for the most part, to engineering design work. In addition, cash overtime is often paid at one-and-one-half times the regular salary level, and therefore tends to be more costly relative to the use of regular staff. Thus, we do not think that cash overtime should be used as an ongoing budget approach to meet workload requirements. Accordingly, we recommend capital outlay staffing be increased by 200 personnel-years and the cash overtime amount be reduced accordingly (Analysis page 324).

2. Right-of-Way Maintenance

We recommend a reduction of \$1,125,000 because the department will not incur various equipment-related costs for work which will be contracted out in 1985-86.

For 1985-86, the department proposes to reduce staff by 45 personnel-years and to contract out an equivalent amount of maintenance work on unimproved properties at a cost of \$1,644,000. Our review shows that, if the work is contracted out, the department would not need to incur \$1,125,000 on various equipment and operating expenses. Accordingly, we recommend the amount be deleted (Analysis page 326).

### 3. Contracting Out Maintenance Would Cost More

We recommend a reduction of \$368,000 and the restoration of 20 personnel-years because the department can use less costly methods to accomplish the maintenance work.

In the current year, the department has reduced its staff support for mowing to control weeds in nonlandscaped areas by 20 personnel-years and \$575,000. Instead, the work is to be accomplished by increased spraying and use of chemicals. The department now maintains that this method is not workable and proposes to contract out the same amount of work in 1985-86 at a cost of \$1 million. We think that the department can achieve the 20 personnel-years equivalent of work cheaper if it uses its own staff, at a projected cost of \$632,000, and should not spend nearly 60 percent more than it needs to get the job done. Accordingly, we recommend that \$368,000 be reduced and 20 personnel-years be restored (Analysis page 326).

### 4. Computer Equipment Lease or Purchase

We recommend an augmentation of \$5 million so that needed computer equipment can be purchased in the most cost-effective manner. We further recommend adoption of Budget Bill language prohibiting the expenditure of funds until the Office of Information Technology (OIT) has reviewed a detailed cost-benefit analysis of options for acquiring the equipment and notified the Legislature of its findings.

The department is implementing a computer-aided design and drafting system statewide to facilitate engineering and project development activities. For 1985-86, it is requesting \$2.5 million to lease-purchase a portion of the equipment over five years. Our review shows that the lease-purchase method of equipment acquisition is not the most cost-effective method. If it purchases the equipment outright, at an estimated cost of \$7.5 million, there would be future savings of \$9.5 million. Accordingly, we recommend an augmentation of \$5 million to enable the department to acquire the needed equipment in the most cost-effective way, and we recommend the Legislature adopt Budget Bill language to limit the use of the funds only after a cost-benefit analysis of the lease-purchase versus purchase alternatives has been reviewed by the OIT, and has provided the Joint Legislative Budget Committee with its finding (Analysis page 330).

### 5. Record System Purchase Premature

We recommend a reduction of \$1.5 million for the purchase of an automatic record system because the proposal is premature.

The department proposes to purchase an automatic microfilm filing and retrieval system for its records and plans. Our review shows that the department has not conducted a feasibility study and a cost-benefit analysis of the system. We also found that the department failed to indicate, in its budget request, that the total cost of the whole system

will be significantly more than requested--at \$10 to \$15 million. Without an analysis of the feasibility, and the cost and benefit of the system, we think the funding request is premature (Analysis page 332).

#### 6. Department Lacks Leasing Authority

We recommend deletion of \$400,000 requested for consultants to implement joint development projects at state facilities along the route of the San Francisco Peninsula Commuter Rail Service.

The department proposes to lease out land or air rights associated with its San Francisco Peninsula Commuter Rail Service. The budget requests \$400,000 for consultants to assess the potential value of such leases, to develop the necessary lease documents, and to assist the department in lease negotiation. Of the total request, \$200,000 would be for services related to current properties along the Peninsula Commuter Service right-of-way, and another \$200,000 for services related to properties the department plans to acquire (adjacent to the Transbay Terminal building) for a new San Francisco underground terminal for the commuter service.

Our review indicates that the department does not have statutory authority to lease the properties included in its proposal, although it is authorized to lease properties in its highway rights-of-way. While the department indicates that it is seeking such authority, the Legislature has not yet granted it. Therefore, the request for funding is premature.

We further recommend that the Legislature enact legislation providing clear guidelines to be followed in making decisions regarding commercial development of state lands because this type of leasing arrangement may become more attractive and more prevalent as the department identifies other potential revenue-generating properties (Analysis page 336).

#### 7. Staff Benefits Overbudgeted

We recommend a reduction of \$7,589,000 to correct for overbudgeting of personal services. The department has budgeted for staff retirement at a rate higher than provided by the Department of Finance guidelines, resulting in overbudgeting of staff benefits by \$7,589,000 (Analysis page 340).

Department of the California Highway Patrol

(Item 2720/page 348)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$345,922	\$409,097	\$423,121	\$419,647 <sup>a</sup>	-\$3,474
Personnel- years.....	7,549.1	7,756	7,627.5	4,622.9 <sup>a</sup>	-4.6

a. Recommendation pending on \$973,000 and seven personnel-years.

Highlights of Our Recommendations

1. Airplane Purchases Lack Justification

We recommend a reduction of \$1,025,000 requested for four new fixed-wing aircraft for the department's Inland, Border, Golden Gate, and Northern Divisions. Our analysis indicates that the department has not clearly established the need for the additional airplanes, nor has it demonstrated that the additional aircraft would be cost-effective.

One reason given by the department to justify purchase of the additional aircraft is that it would allow the elimination of 12 traffic officer positions, and thus contribute toward the Governor's work force reduction effort. The Governor's Budget, however, does not reflect the reduction of 12 California Highway Patrol (CHP) traffic officer positions.

The department also maintains that the additional aircraft would permit increased aerial surveillance of certain highways throughout the state which presently have a low frequency of patrol by ground units. The department, however, does not adequately explain why existing ground patrols on these low-traffic highways are not sufficient and must be augmented by aerial surveillance.

In the absence of information documenting the need for, and cost-effectiveness of, an expanded fixed-wing fleet, we cannot recommend that funds for this purpose be approved (Analysis page 357).

2. Vehicle Purchases Overbudgeted

We recommend a total reduction of \$442,000 requested for vehicle purchases. The budget proposes expenditures of \$12,549,458 to (a) replace



1,326 assorted vehicles, and (b) purchase 42 additional vehicles. Our analysis indicates that (a) the amount budgeted for the purchase of motorcycles is overstated by \$245,000, (b) the replacement of a sedan (at \$7,000) for a Multi-Disciplinary Accident Investigation Team will not be needed since the team is scheduled to be eliminated, and (c) the department has not provided adequate justification for purchasing 24 additional compact sedans (Analysis page 354).

### 3. Elimination of Los Angeles Helicopter Premature

We recommend the Legislature defer action on the CHP's proposal to delete \$316,000 budgeted for the Los Angeles helicopter until the CHP has secured a written agreement with a local law enforcement agency that provides for continuation of services currently supplied by this helicopter.

The CHP is proposing to eliminate operation of the helicopter used for traffic management in the Los Angeles metropolitan area for a savings of \$316,401, and seven personnel-years, as part of its plan to comply with the Governor's directive to reduce personnel-years. The department indicates that there are several allied law enforcement agencies in the Los Angeles area that can take over the duties of the CHP helicopter. Our analysis indicates, however, that the CHP has not reached an agreement with any of these agencies. Without such an agreement, there is no assurance that the important services provided by the CHP helicopter will be continued in 1985-86 and subsequent years (Analysis page 356).

Department of Motor Vehicles

(Item 2740/page 366)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$218,865	\$257,593	\$280,770	\$279,987	-\$783
Personnel- years.....	7,025.2	7,322.4	7,155.6	7,155.6	--

Highlights of Our Recommendations

1. Lease Costs Are Excessive

We recommend a reduction of \$427,000 because the amount proposed by the department for lease costs is overbudgeted. The budget proposes \$3,610,553 for leasing offices and other facilities at 84 locations in 1985-86, and for sharing six other facilities with the California Highway Patrol. Our analysis indicates that the department will not be able to occupy five of the facilities until a later date than assumed by the department in preparing its budget. In addition, the department incorrectly estimated the lease costs for three facilities that it will share with the CHP. As a result, total lease costs will be \$3,183,553, or \$427,000 less than the amount budgeted (Analysis page 370).

Department of Motor Vehicles--Capital Outlay

(Item 2740-301/page 371)

	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>		
	<u>Actual</u>	<u>Estimate</u>	<u>Proposed</u>	<u>Recom-</u>	<u>Difference</u>
				<u>mendation</u>	
Expenditures... (thousands)	--	--	\$5,006	(pending)	-\$1,714

Highlights of Our Recommendations

1. New Field Office--Pomona (-\$1,583,000)

Item 2740-301-044(3) requests \$1,583,000 for working drawings (\$73,000) and construction (\$1,510,000) for an 11,000 net square foot Department of Motor Vehicles (DMV) field office and 85 parking spaces in Pomona. Acquisition and preliminary planning funds were provided for the Pomona field office in the 1984 Budget Act. The DMV's schedule, however, does not anticipate that a site for the facility will be acquired until the end of the current fiscal year. Since preliminary plans have not been started, the Legislature does not have the information it needs to determine the amount for working drawings and construction. Under the circumstances, we cannot recommend approval of the request, and recommend deletion of the \$1,583,000 (Analysis page 374).

RESOURCES

Tahoe Regional Planning Agency

(Item 3110/page 383)

	1983-84	1984-85	1985-86		Difference
	<u>Actual</u>	<u>Estimate</u>	<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$481	\$528	\$674	\$674 <sup>a</sup>	--

a. Recommendation pending on this entire request.

Highlights of Our Recommendations

1. Tahoe Regional Planning Agency Future Clouded

We withhold recommendation on the entire \$674,000 requested for the Tahoe Regional Planning Agency (TRPA), pending clarification of (a) the effects of any settlement to the pending litigation currently delaying implementation of the regional plan and (b) the continuing effect of the preliminary injunction on the agency's workload for project review and direction of future long-range planning activities if no settlement occurs (Analysis page 385).

California Tahoe Conservancy--Capital Outlay

(Item 3125-301/page 388)

	<u>1983-84</u>	<u>1984-85</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
	<u>Actual</u>	<u>Estimate</u>			
Expenditures... (thousands)	--	\$5,000	\$25,000	\$15,000	-\$10,000

Highlights of Our Recommendations

1. Lake Tahoe Acquisitions (Placer and El Dorado Counties)

We recommend deletion of \$10 million requested from the Lake Tahoe Acquisitions (Bond) Fund for the purchase of various undeveloped lots and environmentally sensitive lands in the Lake Tahoe basin because (a) at least \$15 million appropriated for these purposes in the 1984 Budget Act still will be available for expenditure in 1985-86 and (b) the Tahoe Conservancy has not established priorities or criteria for its land acquisition program (Analysis page 389).

Energy Resources Conservation and Development Commission

(Item 3360/page 401)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$19,496	\$40,483	\$39,097	\$38,215 <sup>a</sup>	-\$882
Personnel- years.....	284.7	351.0	352.1	356.1	4.0

a. Recommendations pending on \$547,000.

Highlights of Our Recommendations

1. Employees Cheaper Than Contracting

We recommend a reduction of \$257,000 from the \$360,000 requested for contracts to analyze a backlog of energy use data, because this work could be done by four personnel-years of graduate student assistants at a cost of only \$103,000 (Analysis page 410).

California Waste Management Board

(Item 3380/page 415)

	<u>1983-84 Actual</u>	<u>1984-85 Estimate</u>	<u>Proposed</u>	<u>1985-86 Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$3,743	\$4,099	\$3,904	\$3,904 <sup>a</sup>	--
Personnel- years.....	75.6	71.3	63.2	63.2 <sup>a</sup>	--

a. Recommendation pending on \$472,000 and nine positions.

Highlights of Our Recommendations

1. Contracts with Water Boards Could Improve Compliance Inspections

We withhold recommendation on \$472,000 from the General Fund and nine positions requested for compliance inspections, pending receipt of information from the board that (a) analyzes the costs and benefits of contracting with the regional water quality control boards (RWQCBs) to perform inspections and (b) specifically describes the inspections and quantifies the resulting workload. Contracting with the RWQCBs to conduct inspections probably would reduce costs and increase the effectiveness of inspections (Analysis page 417).

Air Resources Board

(Item 3400/page 420 )

	<u>1983-84 Actual</u>	<u>1984-85 Estimate</u>	<u>Proposed</u>	<u>1985-86 Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$49,317	\$44,968	\$50,492	\$48,106 <sup>a</sup>	\$2,386
Personnel- years.....	532.6	544.3	551.7	558.2 <sup>a</sup>	6.5

a. Recommendations pending on \$1,702,000 and 5.6 personnel-years.

## Highlights of Our Recommendations

### 1. Inappropriate Use of Motor Vehicle Account

#### a. Stationary Source-Related Activities

We recommend a reduction of \$2,330,000 from the Motor Vehicle Account (MVA) in the State Transportation Fund and an equal increase from the General Fund in order to shift funding for new or expanded activities which are not related to motor vehicles from the MVA to the General Fund. We also recommend that the Air Resources Board identify prior to budget hearings the amount requested from the MVA to support existing activities not related to motor vehicles.

The MVA receives its revenue from motor vehicle registration and drivers license fees collected by the Department of Motor Vehicles. Article XIX of the California Constitution generally restricts the use of the MVA to purposes directly related to motor vehicles, streets and highways, mass transit guideways and the mitigation of the environmental effects of vehicles and transportation facilities. The use of funds from the MVA for purposes that are not related to motor vehicles appears inconsistent with Article XIX of the California Constitution, and is a contributing factor to the future deficit expected in the MVA (Analysis page 424).

#### b. Biennial Vehicle Inspection Program

We recommend deletion of \$2,386,000--\$1,885,000 from the Motor Vehicle Account (MVA) and \$501,000 from the Vehicle Inspection Fund (VIF) for vehicle testing and support activities related to the biennial inspection program--and that reimbursements be increased by \$2,386,000 in order to (a) shift the source of funds for this program to the VIF and to consolidate funding for the inspection program within the Bureau of Automotive Repair in the Department of Consumer Affairs.

The biennial inspection program is intended to be self-supporting from fees deposited in the VIF. Consequently, the vehicle testing conducted by the board to evaluate the biennial inspection program should be funded from the Vehicle Inspection Fund (Analysis page 427).

### 2. Contracting More Costly

We recommend (a) a reduction of \$385,000 requested for contracts to develop air pollution control measures and update emission inventory estimates and (b) establishment of 6.5 limited-term positions in order to realize savings from conducting the work in-house, rather than through contracts (Analysis page 428).



Department of Forestry

(Item 3540/page 437)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$138,623	\$169,523	\$178,238	\$174,811 <sup>a</sup>	-\$3,427
Personnel- years.....	3834.4	3814.3	3857.1	3857.1	--

a. Recommendation pending on \$1,320,000 and proposed deletion of 58.2 personnel-years.

Highlights of Our Recommendations

1. Increase Reimbursements from Local Agencies for Local Firefighter Training

We recommend a reduction of \$2,424,000 from the General Fund and an increase of \$1,985,000 in reimbursements from local agencies. This will (a) require local agencies to finance their proportionate share of the new Joint Apprenticeship program and (b) delete funds requested to reimburse the California Firefighters Joint Apprenticeship Committee (JAC). The department has agreed to provide an expanded training program for new employees in specific classes under an out-of-court settlement with the California Department of Forestry Employee Association arising out of a reverse discrimination suit. We estimate that approximately 81 percent of the 200 employees that will be trained under this program will be assigned to local agencies that contract with the CDF for fire protection. We recommend that the local agencies pay for the increased cost of training those new employees that will be assigned to them. In addition, the department has not explained the need for, or proposed use of, the \$439,000 requested to reimburse the JAC (Analysis page 450).

2. Fire Lookout Staff Reduction

We withhold recommendation on \$1,320,000 in contract funds requested to operate fire lookouts, pending (a) clarification of the proposal and (b) a demonstration that contracting is a feasible and cost effective substitute for 58.2 personnel-years of staff now used to operate these lookouts (Analysis page 445).

State Lands Commission

(Item 3560/page 460)

	<u>1983-84</u> Actual	<u>1984-85</u> Estimate	<u>Proposed</u>	<u>1985-86</u> Recom- mendation	<u>Difference</u>
Expenditures... (thousands)	\$11,071	\$12,424	\$15,393	\$13,322	-\$2,071
Personnel- years.....	244.3	244.4	239.4	239.4	--

Highlights of Our Recommendations

1. Preleasing Studies Off Northern Santa Barbara Coast

We recommend the deletion of \$1,335,000 from the General Fund requested for environmental, biological, and geological studies in preparation of leasing state tide and submerged lands in northern Santa Barbara County for oil and gas development. The State Lands Commissions (SLC) and the Coastal Commission currently are embroiled in litigation over whether the SLC must obtain a development permit from the Coastal Commission before leasing other tide and submerged lands in Santa Barbara County. Until this dispute is resolved, the proposed preleasing studies are premature (Analysis page 466).

2. Geothermal Well Studies

We recommend deletion of \$220,000 requested for contracts to study geothermal resource potential on specified leased lands at The Geysers steamfield because the lessees, not the state, should conduct these studies if they are needed (Analysis page 467).

3. Computer and Word Processing Request

We recommend the deletion of \$416,000 requested for enhanced computer and word processing equipment because the commission (a) has not completed a feasibility study report in support of the request and (b) does not have an adequate commissionwide information systems plan (Analysis page 468).

Department of Fish and Game

(Item 3600/page 473)

	<u>1983-84</u> <u>Actual</u>	<u>1984-85</u> <u>Estimate</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures...	\$56,821	\$68,725	\$75,354	\$72,916	-\$2,438
Personnel- years.....	1445.7	1552.4	1490.8	1490.8	--

Highlights of Our Recommendations

1. Habitat Development Projects

We recommend the deletion of \$2.3 million requested for maintenance, restoration, and improvement projects on department-owned and federally owned lands because the proposed projects can be financed from \$12.1 million in bond funds currently available to the Wildlife Conservation Board (Analysis page 484).

2. Endangered Species Program Funding Shift

We recommend a reduction of \$586,000 from the General Fund (\$411,000) and the Environmental License Plate Fund (\$175,000) and a corresponding increase of \$586,000 from the Fish and Game Preservation Fund because revenue from the income tax checkoff for endangered species is the appropriate funding source for these activities under Ch 1162/84 and Ch 1240/84 (Analysis page 484).

3. Fish and Game Preservation Fund Deficit

We recommend that the Department of Fish and Game and the Department of Finance report to the budget subcommittees on the administration's plans for increasing revenues or reducing expenditures in order to avoid a deficit in the Fish and Game Preservation Fund (FGPF) during 1985-86. The budget proposes total expenditures from the FGPF (which derives its revenue from fishing and hunting licenses, permits and privilege taxes) of \$57.5 million in 1985-86. This amount, however, includes \$5.5 million borrowed from special dedicated accounts in the FGPF for general expenses in 1985-86. The budget does not provide a plan to repay these special accounts. If the budget did not borrow these funds, the FGPF would be \$5.2 million in the red for 1985-86. Furthermore, if a 6.5 percent increase in employee compensation is approved for 1985-86, then this deficit grows to \$7.1 million.

Wildlife Conservation Board--Capital Outlay

(Item 3640-301/page 488)

	<u>1983-84</u> <u>Actual</u>	<u>1984-85</u> <u>Estimate</u>	<u>1985-86</u>		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	--	--	\$18,820	\$950	\$17,870

Highlights of Our Recommendations

1. Land Acquisition and Development

We recommend deletion of \$14,870,000 requested for project planning, habitat acquisition or development because (a) the board cannot effectively manage this level of expenditure, (b) carryover funds from 1984-85 will be available in 1985-86, (c) the board has not identified the specific projects to be funded, and (d) the Department of Fish and Game's resources might not be adequate to manage existing and newly acquired or developed properties (Analysis page 490).

2. Fishing Piers

We recommend the deletion of \$3 million requested from the Parklands (Bond) Fund of 1984 for coastal fishing piers because no information or cost estimate on the proposed projects are available (Analysis page 493).

State Coastal Conservancy

(Item 3760/page 508)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$2,532	\$13,090	\$14,635	\$13,332 <sup>a</sup>	-\$1,303
Personnel- years.....	34.8	43.0	40.0 <sup>a</sup>	40.0	--

a. Recommendation pending on \$12,427,000 and 33.4 personnel-years.

Highlights of Our Recommendations

1. More Information Needed on Conservancy's Expenditure Plan

We recommend that the conservancy report on its planned 1985-86 expenditures in each of its legislatively established program areas. We withhold recommendation on \$12,427,000 requested from various funds for support and local assistance, pending review of this information (Analysis page 512).

State Coastal Conservancy--Capital Outlay

(Item 3760-301/page 518)

	<u>1983-84</u> <u>Actual</u>	<u>1984-85</u> <u>Estimate</u>	<u>1985-86</u>		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$769	\$4,029	\$7,000	\$7,000 <sup>a</sup>	--

a. Recommendations pending on \$7 million.

Highlights of Our Recommendations

1. More Information Needed on Proposed Bond Fund Expenditures

State Coastal Conservancy (Bond) Fund of 1984. We recommend that the conservancy report to the fiscal committees on (a) its planned expenditures in each of its legislatively established program areas and (b) the criteria it will use in selecting capital outlay projects for funding. We withhold recommendation on the \$3 million requested in this item for capital outlay projects, pending review of this information (Analysis page 518).

Fish and Wildlife Habitat Enhancement (Bond) Fund. We recommend that the conservancy report on (a) the estimated scope and cost of each capital outlay project it proposes to fund in this item, (b) the criteria it will use to select projects for funding, and (c) the procedure it will use to assure that alternatives to direct acquisitions are considered as required by the bond act's provisions (Ch 6/84). We withhold recommendation on the \$4 million requested in this item pending review of this information (Analysis page 519).

Department of Parks and Recreation

(Item 3790/page 520)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86 Recom- mendation	Difference
Expenditures... (thousands)	\$111,349	\$149,782	\$135,478	\$128,173	-\$7,305
Personnel- years.....	2,782.8	2,717.8	2,713.3	2,709.6	-3.7

Highlights of Our Recommendations

1. Certain New Positions for Park Operations Are Not Justified

We recommend a General Fund reduction of \$655,000 and deletion of 8.7 new positions at various parks because (a) delays in the completion of certain projects have postponed the need for some positions and (b) the department has not justified the need for other positions. As part of this recommendation, we recommend deleting \$339,000 and 5.2 positions requested for the department to take over the operation of Surfriders Beach (adjacent to Malibu Lagoon State Beach) from the County of Los Angeles. We believe the proposal for staffing Surfriders Beach is premature because the department has not completed negotiations with the county for a new comprehensive agreement for the operation of other state beaches in Los Angeles County (Analysis page 528).

2. Increase for Conversion of Radio Equipment Is Not Justified

We recommend deletion of \$2,007,000 requested from the General Fund for conversion of the department's radio system because the department has not identified the ultimate costs of the conversion program nor justified its need. We further recommend that the department explain to the fiscal committees why it began the conversion program without legislative approval (Analysis page 537).

3. Funds for Deferred Maintenance Are Not Justified

We recommend deletion of \$3,255,000 requested from the General Fund for deferred maintenance/special repairs because the department has not substantiated the need for these funds (Analysis page 538).

Department of Parks and Recreation--Capital Outlay

(Item 3790-301/page 549)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$52,072	\$126,837	\$29,619	\$26,575 <sup>a</sup>	-\$2,044

a. Recommendations pending on \$13,153,000.

Highlights of Our Recommendations

Item 3790-301-036--Special Account for Capital Outlay

1. Empire Mine State Historic Park (Nevada County)--Mine Shaft Access

We recommend a reduction of \$121,000 to delete working drawings for an elevator providing access to an historic mine shaft because the proposed elevator is too expensive relative to the marginal benefit that it would provide for park visitors. We recommend approval in the reduced amount of \$84,000 to fund needed safety improvements to the existing stairway access to the mine shaft (Analysis page 553).

2. Millerton Lake State Recreation Area (Fresno County)--Administration Building

We recommend deletion of \$300,000 requested for construction of a new administration building because the proposed design and cost are excessive (Analysis page 556).

3. Plumas-Eureka State Historic Park (Plumas County)--Structural Stabilization of Mohawk Stamp Mill

We recommend deletion of \$294,000 requested for stabilization of the Mohawk Stamp Mill because the department has not identified the ultimate scope and cost of the project (Analysis page 557).

4. San Onofre State Beach (San Diego County)--Campground

We recommend a reduction of \$220,000 for nonconstruction work which the department has not justified. We withhold recommendation on the remaining \$1,386,000 requested, pending review of completed plans and cost estimates. We further recommend that the department report at budget hearings on why it did not act to receive a total of up to \$300,000 of nonstate funds that was available for this project (Analysis page 558).



5. Statewide Natural Systems Rehabilitation

We recommend deletion of \$895,000 requested for various natural systems rehabilitation projects because the department has not provided adequate information on the scope and cost of the projects (Analysis page 560).

6. Woodson Bridge State Recreation Area (Tehama County)--Working Drawings for Erosion Control

We recommend deletion of \$200,000 requested for working drawings because the request is premature until an updated erosion control study funded by the Legislature in the 1984 Budget Act has been completed and reviewed (Analysis page 562).

Item 3790-301-140--Environmental License Plate Fund

1. Emerald Bay State Park (El Dorado County)--Vikingsholm Parking Lot and Trail

We recommend deletion of \$500,000 requested for expansion and repaving of a parking lot and trail at Emerald Bay State Park because the department has not provided current plans or a detailed cost estimate for the project (Analysis page 563).

Item 3790-301-263--Off-Highway Vehicle Fund

1. Martin Ranch (Fresno and San Benito Counties)--Acquisition

We withhold recommendation on \$7,015,000 requested for acquisition of the 46,290-acre Martin Ranch property, pending review of (a) the feasibility study funded by the Legislature and (b) a revised appraisal being prepared by the Department of General Services (Analysis page 566).

Santa Monica Mountains Conservancy

(Item 3810/page 576)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$300	\$515	\$517	\$517	--
Personnel- years.....	8.8	9.2	9.2	9.2	--

Highlights of Our Recommendations

1. Continuation of the Conservancy's Program

We recommend the enactment of legislation (a) extending the conservancy's sunset date from July 1, 1986, to July 1, 1990, and (b) requiring that at least one-half of the amount appropriated each year to the conservancy be from the Santa Monica Mountains Conservancy Fund (SMMCF), which receives revenue from conservancy projects. An extension of the sunset date is needed to allow the conservancy to (a) expend \$10 million of bond monies approved by the voters in 1984 for capital outlay projects and (b) complete other high priority projects needed to implement the Santa Monica Mountains Comprehensive Plan. The requirement that one-half of the conservancy's appropriations be from the SMMCF will (a) strengthen the incentives for the conservancy to carry out projects in an effective and timely manner, (b) require the conservancy to consider the ultimate disposition and management of lands it acquires, and (c) reduce the need to use state funds for the conservancy's program which can be used for other high priority state needs (Analysis page 578).

Department of Water Resources--Capital Outlay

(Item 3860-301/page 595)

	1983-84 <u>Actual</u>	1984-85 <u>Estimate</u>	1985-86		
			<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$3,314	\$4,356	\$11,535	\$5,486 <sup>a</sup>	\$6,049

a. Recommendation pending on \$1,130,000

Highlights of Our Recommendations

1. Merced Stream Channel Improvement

We recommend a reduction of \$2,500,000 from the Special Account for Capital Outlay (SAFCO) to delete funds requested for the Merced Stream Channel Improvement Project because the department has not justified the amount requested. Generally, the requested funds will be used to pay the state's share of the cost for lands, easements, rights-of-way, and relocations. The department, however, has not provided a description of the lands, easements, and rights-of-way to be acquired and the relocations to be completed in 1985-86 (Analysis page 596).

2. Sacramento-San Joaquin River Riparian Habitat

We recommend deletion of \$500,000 requested from the Environmental License Plate Fund for environmental mitigation in connection with the Sacramento-San Joaquin River Bank Protection Project. The department requests \$500,000 to acquire 270 acres of land with riparian vegetation to mitigate environmental impacts of this project. We recommend deletion because (1) the State Reclamation Board (the state agency responsible for the project) has not identified any significant adverse environmental impacts from the project that warrant mitigation, (2) there is no justification for the specific request, and (3) other funds are available for this purpose (Analysis page 598).

3. Fairfield Streams Group Flood Control Project

We recommend deletion of a reappropriation of \$2,235,000 for the Fairfield Streams Project because (a) a final design has not been prepared for the project, (b) the request is based on outdated cost estimates, and (c) it is not clear how the funds will be used (Analysis page 600).

#### 4. Sutter Bypass--Weir Number 2 Replacement

We recommend a reduction of \$800,000 of the \$900,000 requested for replacement of Weir Number 2 at Sutter Bypass because the construction request is premature. The design for the new weir is incomplete and the amount needed for construction cannot be determined. We recommend approval of \$100,000 for project design and planning (Analysis page 597).

State Water Resources Control Board

(Item 3940/page 601)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86 Recom- mendation	Difference
Expenditures... (thousands)	\$14,019	\$26,547	\$28,197	\$28,167 <sup>a</sup>	-\$30
Personnel- years.....	664.1	757.4	813.0	817.2 <sup>a</sup>	4.2

a. Recommendation pending on \$851,000 and 20.9 personnel-years.

Highlights of Our Recommendations

1. Enforcement Workload Estimate is Unreliable

We withhold recommendation on 12.7 additional personnel-years and \$851,000 for enforcement activities. The board's enforcement workload estimates are outdated or unreliable and the board is compiling new data to better estimate the enforcement workload (Analysis page 607).

2. Contract with TRPA is Premature

We recommend reinstatement of 4.2 personnel-years for enforcement activities in the Tahoe Basin. The budget proposes to use the savings (\$153,000 from the General Fund) from eliminating 4.2 personnel-years to contract with the Tahoe Regional Planning Agency (TRPA) to implement unspecified portions of the Tahoe Basin Water Quality Management Plan. The Attorney General currently is suing TRPA on the basis that TRPA's regional plan fails to adequately implement water quality requirements in the Tahoe Basin. Furthermore, the board did not show that delegating enforcement activities to TRPA would provide enforcement comparable with using state employees (Analysis page 610).

HEALTH AND WELFARE

Health and Welfare Agency Data Center

(Item 4130/page 616)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$25,836	\$32,405	\$33,996	\$32,149	-\$1,847
Personnel- year.....	192	216.3	201.6	212.5	10.9

Highlights of Our Recommendations

1. Personal Computer Expenditures

We recommend that the Health and Welfare Agency Data Center (HWDC) appropriation be reduced by \$1.8 million to eliminate funds requested for the purchase of personal computers, because the funds needed to finance these expenditures are not reflected in the budgets of HWDC users.

The proposed 1985-86 budget for HWDC includes \$1.8 million for microcomputer purchases which have not been budgeted for the department for the purchase of HWDC services. This method of budgeting funds for microcomputer purchases presents the Legislature with two problems. First, it does not give the Legislature an opportunity to review the appropriateness of microcomputer expenditures within the various departments since the departments do not identify the funds to be used for purchasing microcomputers from the HWDC. Second, the budget proposal would allow the administration to authorize the redirection of departmental funds for operating expenses and equipment to microcomputer purchases without allowing the Legislature to review these budget adjustments. It is important for the Legislature to be notified of budget savings realized by the departments in case it wishes to redirect these savings to fund its own priorities, rather than purchase additional microcomputers (Analysis page 618).

Department of Aging

(Item 4170/page 627)

	1983-84 <u>Actual</u>	1984-85 <u>Estimate</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$8,760	\$22,806	\$33,268	\$32,129	-\$1,139
Personnel- years.....	78.5	111.6	137.2	--	--

Highlights of Our Recommendations

1. Multipurpose Senior Services Program (MSSP)

The MSSP provides case management services to the frail elderly who are Medi-Cal eligible in order to enable these people to remain in their communities and prevent unnecessary institutionalization. This program will expand in the budget year as a result of caseload increases. We recommend a reduction of \$430,000 in General Fund monies for site expansion because the department lacks statutory authority to expand MSSP sites. This recommendation will not reduce the number of persons who receive MSSP services because the funds are for site administration, not services for clients (Analysis page 641).

We also recommend a reduction of \$64,000 in MSSP case management funds to reflect the availability of General Fund monies from Ch 1626/84 (Analysis page 642).

2. Federal Reimbursements

The federal government pays 50 percent of the costs associated with the positions that administer the MSSP and Adult Day Health Care (ADHC) programs; it will also pay for a portion of the costs of other positions within the department that provide supervision and services to the MSSP and ADHC programs. The department, however, has not reflected the availability of these funds in its budget for 1985-86.

The department currently has an interagency agreement with the federal Department of Health and Human Services which allows for overhead cost reimbursements of 29 percent. Based on this formula, we recommend that the department's General Fund appropriation be reduced by \$415,000 to reflect the availability of federal reimbursements for these overhead costs (Analysis page 643).

### 3. Nutrition Programs

Area agencies on aging (AAAs) receive federal and state funds for nutrition and social services programs. Our review indicates two problems with the AAA expenditure of funds for local nutrition and social services programs. First, local AAAs are not spending a significant portion of their allocations for these programs--about \$2 million each in 1982-83 and 1983-84. Second, AAAs have shifted relatively large amounts--almost \$4.0 million in 1984-85--of their federal funds from nutrition to social services programs.

In light of these findings, we recommend that (a) the department provide the Legislature with a plan for assuring that the AAAs spend their allocations and (b) the department provide the Legislature with a report on how General Fund monies for nutrition programs are being used to meet designated priorities (Analysis pages 643, 646).



Department of Health Services

(Item 4260/page 665)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86 Recom- mendation	Difference
Expenditures... (thousands)	\$3,005,755	\$3,144,232	\$3,395,254	\$3,368,705	-\$26,549
Personnel- years.....	3,742.0	3,899.4	3,776.0	3,777.5	1.5

Highlights of Our Recommendations

Department Support

1. Technical Budget Issues

We recommend a reduction of \$934,000 (\$542,000 General Fund) because the department overbudgeted \$931,000 in communications and \$3,000 for payments to the Building Standards Commission. The department increased the communications item by an arbitrary amount above the level authorized by the price letter and provided no justification for the increase (Analysis page 677).

Preventive Health Services

1. Cost-of-Living Adjustments

We recommend a reduction of \$7,225,000 in the amount requested from the General Fund to reflect revised estimates of funding requirements for cost-of-living adjustments (COLAs). The budget requests \$45,074,000 from the General Fund for (a) a 5.35 percent increase in AB 8 county health services funds, based on the formula specified in statute, and (b) a 4 percent increase for other programs. We identified instances of overbudgeting for COLAs in the (a) AB 8 County Health Services program, (b) adolescent pregnancy projects, (c) California Children's Services (CCS) and Genetically Handicapped Persons' program (GHPP), (d) state subvention for public health, and (e) Child Health and Disability Prevention (CHDP) program (Analysis page 690).

2. Family Health Initiative

We withhold recommendation on the Family Health Initiative program pending receipt of the proposed implementing legislation and additional information regarding the proposal. The budget proposes to consolidate seven preventive health categorical programs (Maternal and Child Health, CHDP, Dental Disease Prevention, Immunization Assistance, Preventive Health

seven preventive health categorical programs (Maternal and Child Health, CHDP, Dental Disease Prevention, Immunization Assistance, Preventive Health Care for the Aging, Family Planning, and Primary Care Clinics) into a block grant to be administered by the counties, effective January 1, 1986. The department proposes to implement the proposal through statute, but the bill was not available at the time the Analysis was written.

Our analysis indicates that in order to evaluate this proposal, the Legislature needs additional information on (a) restrictions on the use of funds, (b) funding allocations, (c) eligibility and service standards, (d) state responsibilities, and (e) reporting, audit, and oversight provisions. The department should address these issues in its information submission (Analysis page 694).

### 3. Adolescent Pregnancy

We recommend approval of the \$3,828,000 in federal Maternal and Child Health block grant monies proposed to support adolescent pregnancies but recommend that the General Fund cost of \$1,215,000 be deleted from the budget because the pilot projects do not yet warrant ongoing General Fund support. Our analysis indicates that (a) the data used to justify the proposed program and budget represent only one project's experience, which may not be replicated elsewhere, (b) the "life-options" program may have problems reaching its target population and appears to overlap with family planning information and education programs, and (c) the cost per client appears to have been miscalculated by approximately \$400,000 (Analysis page 703).

### 4. County Health Services Transfer

We withhold recommendation on the county health services transfer proposal pending receipt of the required implementing legislation and additional information regarding the proposal. The budget proposes to consolidate three programs providing local assistance to local health jurisdictions (AB 8 County Health Services, Medically Indigent Services, and the state subvention for public health) into one program with funding of approximately \$890 million, effective January 1, 1986. As part of this consolidation, the budget proposes to delete 19.5 positions from the Office of County Health Services for a savings to the General Fund of \$440,000 in 1985-86 and \$926,000 in 1986-87. The legislative proposal required to implement these changes was not available at the time we prepared the Analysis.

Our analysis indicates that the proposal does not warrant approval for three reasons: (a) the legislation necessary to implement the proposal was not available, (b) the department was unable to answer specific questions or provide information that the Legislature needs in order to evaluate this proposal, and (c) our review indicated that the proposal would result in significant problems including (1) the potential loss of interest earnings to the General Fund, (2) minimal and unsatisfactory audit and reporting requirements, and (3) weakened program and maintenance-of-effort requirements. The department should address our specific concerns in its information submission (Analysis page 710).

## 5. County Medical Services Program Shortfall

We withhold recommendation on the department's request for a proposed \$3 million augmentation to the County Medical Services program (CMSP), pending receipt of additional information. We further recommend that prior to budget hearings, the department submit data needed to evaluate the feasibility of contracting for tertiary services. The budget requests a \$3 million augmentation for the CMSP because program expenditures are expected to exceed funds available from medically indigent services allocations of participating counties and interest earnings for 1985-86.

Our analysis indicates that the CMSP has exercised reasonable care in controlling its costs. We were unable to identify any methods for reducing costs in the short term that would not have a significant impact on services. Beyond the short term, negotiating CMSP rates for specific tertiary services appears to be the most feasible option for controlling costs. We therefore recommend that the department provide, prior to budget hearings, the data that the California Medical Assistance Commission needs in order to complete its evaluation of the feasibility on contracting for tertiary services. Furthermore, we withhold recommendation on the \$3 million requested until more recent data are available in the May expenditure estimates (Analysis page 713).

## 6. Farmworker Health Insurance

We recommend deletion of \$2,052,000 from the General Fund proposed for the farmworker health insurance pilot project because the department does not have a plan for spending the funds. The proposal submitted during hearings on the current-year budget contained a cooperative plan for financing health insurance premiums that specified that government contribute 60 percent of the project's cost, growers 25 percent, and farmworker employees 15 percent.

Our analysis indicates there is little justification for this project. Specifically, (a) the department has neither a project budget or work plan, (b) the \$513,000 allocated in the current year has not been spent, (c) the department was unable to answer elementary questions regarding the project, (d) no funding other than the state's has been secured, (e) no statutory authorization exists for the project other than language in the 1984 Budget Act, (f) the amount proposed in the budget is inconsistent with the original proposal in that it would fund 80 percent of the project's cost whereas the proposal limited the total government share to 60 percent, and (g) it is unclear at this point if the local and federal governments plan to participate and whether their funds will be in addition to, or replacement of, the money the budget proposes as the state's share (Analysis page 718).

## 7. Drinking Water Standards

We recommend a reduction of \$1,008,000 in General Fund support for consultant contracts to develop drinking water standards because the department will be unable to productively spend the full amount in the budget year. The budget requests \$4,008,000 and nine positions to develop

35 maximum contaminant levels for organic chemical contaminants found in drinking water.

Our analysis indicates that the department's proposal to develop additional standards is appropriate. The department's implementation schedule, however, shows that it will be unable to encumber all of the proposed contract funds during the budget year; therefore, we recommend a reduction of \$1,008,000 (Analysis page 721).

### Toxic Substances Control

#### 1. Taxes, Fees, and Revenues

We identify and discuss a number of issues regarding the taxes and fees that support the department's hazardous waste and Superfund programs. The major problem is that revenues to the Hazardous Waste Control Account (HWCA) will be insufficient to fund budget-year expenditures unless legislation is enacted to continue fee rates that sunset on April 1, 1985. We discuss the following specific issues related to developing a fee assessment method: (a) consolidation of the HWCA and the Hazardous Substance Account, (b) whether the HWCA system should operate through regulation or a statutory formula, (c) which wastes should be subject to taxation, (d) caps and floors on taxes and fees, (e) whether costs of operating the regulatory program should be reflected in the tax structure, (f) tax/fee rates for different types of wastes, and (g) the method of revenue collection (Analysis page 729).

#### 2. Hazardous Substance Cleanup Bond Act

We discuss in detail a number of policy and fiscal issues regarding the department's proposed expenditure of \$100 million in bond funds authorized by the voters to clean up contaminated sites. Some of these issues are: how much flexibility should the department have to change the expenditure plan, is the department's new ranking methodology appropriate, should the Legislature appropriate funds for remedial action prior to the department developing a process to set cleanup standards, and can the department expend \$100 million as rapidly as it has planned? For many of the policy issues, we have no analytical basis upon which to recommend a course of action to the Legislature (Analysis page 735).

We also identified the following fiscal issues:

- o Bond Repayment. We recommend that the Legislature appropriate an additional \$5 million from the HSA for bond debt service to comply with the bond act and reduce demands on the General Fund by a like amount. We further recommend that the department and the Department of Finance identify the amounts available from other non-General Fund sources to reduce the remaining \$2.5 million budgeted for debt service (Analysis page 745).
- o Support Staff. We withhold recommendation on the funding source for 93.5 proposed positions because some of the workload

justification provided by the department includes existing workload that is not appropriately funded by the bond act (Analysis page 743).

### 3. Superfund

We withhold recommendation on \$10,189,000 in expenditures from the Hazardous Substance Account, \$21.8 million in federal funds, and \$10,850,000 in responsible-party funding because the department has not submitted an expenditure plan for these funds.

In order for the Legislature to review this program's 1985-86 expenditures, the department should submit a revised proposal containing (a) site-specific spending plans, (b) a description of changes in HSA-funded contracts and staff functions due to implementation of the bond act, and (c) a corrected fund condition statement with revenue, expenditure, and carry-over reserve detail for 1983-84, 1984-85, and 1985-86 (Analysis page 743).

## Medi-Cal

### 1. The May Estimates

We recommend that the subcommittees defer final action on \$2.0 billion (General Fund) proposed for the Medi-Cal program until the Department of Finance submits in May 1985 revised estimates of 1985-86 expenditures (Analysis page 754). In addition, we recommend the Department of Finance, in the May estimates, identify all outstanding federal-state Medi-Cal funding disputes and other potential sources of revenue so that the Legislature will have a better basis for determining funding requirements for the Medi-Cal program (Analysis page 755).

### 2. Technical Budget Reductions

We recommend a reduction of \$3,698,000 (\$1,015,000 General Fund) in Medi-Cal health care expenditures consisting of (a) \$1,799,000 (\$900,000 General Fund) to reflect a delay in the implementation of primary care case management contracts, (b) \$157,000 (\$79,000 General Fund) to reflect additional recoveries, (c) \$1,669,000 in federal funds due to a decrease in Multipurpose Senior Services program (MSSP) costs, and (d) \$73,000 (\$37,000 General Fund) to reflect various prepaid health plan program changes (Analysis page 769).

### 3. County Administration Cost Control Plan

We recommend a General Fund reduction of \$2,500,000 in state subventions for county administration to reflect a recommended use of 1980-81 as the base year in the administrative cost control plan. We further recommend that the department use 1984-85 as the base year for the administrative cost control plan used to formulate the 1986-87 budget request (Analysis page 772).

#### 4. Prepaid Health Plan (PHP) Rates

We recommend that the Legislature adopt Budget Bill language directing the department to (a) revise its methodology for determining fee-for-service (FFS) equivalent costs so as to include only FFS costs that are likely to be avoided if additional Medi-Cal beneficiaries enroll in PHPs, for a savings of \$5,250,000 (\$2,625,000 General Fund), and (b) set rates for each eligibility category no higher than estimated PHP costs for each category, for a savings of \$2,800,000 (\$1,400,000 General Fund).

For the first time, the department has proposed PHP rates that are equal to the costs that the department calculates to be the FFS equivalent costs for all four categories of beneficiaries: family, aged, blind, and disabled. By law, rates paid to PHPs must equal their actuarially determined costs, not to exceed equivalent FFS costs. In previous years, PHP rates have been below the FFS equivalent costs.

There are two major changes to the PHP rate-setting methodology in 1984-85. First, the 1984-85 methodology reflects a new approach to the calculation of FFS equivalent costs. In the past, the department has included in equivalent FFS costs an amount to reflect the administrative costs that the state would save for each Medi-Cal eligible that enrolled in a PHP. These savings result from fewer FFS claims processed, less utilization review activities, and reduced checkwriting and postage costs. The department's new 1984-85 methodology includes in the FFS equivalent costs additional state administrative costs that could be saved only if the entire FFS Medi-Cal population enrolled in capitated programs. Adding these administrative costs to FFS equivalent costs increases the FFS cost limit by \$1.63 per month, thereby allowing a similar increase in PHP rates. This increase in rates resulted in a \$5 million increase in total PHP costs for 1984-85 and 1985-86.

Second, the 1984-85 PHP rates for blind and disabled enrollees have also been set at a level that is above what the department estimates will be the PHPs' cost of serving these categories of enrollees. This change results in an increase of \$2.8 million in total PHP costs for 1984-85 and 1985-86.

Our analysis finds that these changes in the rate methodology are inappropriate. First, the new methodology reflects FFS costs that could be saved only if all Medi-Cal beneficiaries enrolled in capitated health systems. There is nothing in current law to suggest that this is the Legislature's objective.

Second, every additional person who switches from FFS to the PHP system increases state costs by \$1.68 per month. Paying such a premium might be appropriate if it could be shown that California's PHPs offer a higher quality or more accessible care than the FFS system. We are not aware of any evidence, however, that indicates that California's PHPs offer such advantages over the Medi-Cal FFS system. Paying such a premium might also be justified if it were reasonable to expect all FFS eligibles to enroll in PHPs or other capitated systems within a reasonable amount of

time. Our analysis indicates, however, that statewide enrollment in capitated health systems is unlikely to occur within the next 5 or 10 years, if ever.

Finally, we believe that the increase in rates for blind and disabled beneficiaries above the actual costs of serving these groups does not conform to the statutory requirement that rates be based on "the expected costs and expected frequency of utilization (by aid category, age, and sex)." We see no reason to change the department's past policy of setting rates for these categories at a level equal to PHP cost experience (Analysis pages 765-768).

Department of Developmental Services--  
Excluding State Hospitals

(Item 4300/page 789)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$240,209	\$296,182	\$344,460	\$338,728	\$5,732
Personnel- years.....	406.8	416.5	428.9	428.9	--

Highlights of Our Recommendations

1. Cost-of-Living Adjustments (COLAs)

We recommend a reduction of \$3,362,000 from the General Fund to reduce cost-of-living adjustments (COLAs) for residential care providers in excess of the 4 percent discretionary COLA proposed for other programs. The department is currently conducting audits of residential care facilities to determine what it costs to provide for the basic living needs of developmentally disabled clients receiving residential care. The results of this audit will be released by the department in the spring. Until these results are available, there is no analytical basis for increasing residential care rates by more than the standard 4 percent proposed as a discretionary COLA for other local assistance programs in the budget (Analysis page 795).

2. Prevention Programs

We recommend deletion of \$2,370,000 (General Fund) proposed for the expansion of prevention programs. The budget proposes to add \$350,000 to the regional centers' purchase-of-service budget and 63 positions in regional centers to provide prevention services to 1,900 pregnant women and children. Our analysis indicates that the proposal (a) does not appear to be the most effective and efficient means of increasing necessary services and (b) is duplicative of the family health initiative proposed by the Department of Health Services (Analysis page 803).



Departments of Developmental Services and Mental Health  
 (Items 4300-111, 4440-011, and 4440-121/page 806)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$548,004	\$631,172	\$631,721	\$625,890	\$5,741
Personnel- years.....	16,810.0	18,863.0	17,559.0	pending	pending

Highlights of Our Recommendations

1. Staffing Decreases for Programs Serving Developmentally Disabled

We withhold recommendation on elimination of 436 state hospital positions and savings of \$6,657,000 pending the receipt of additional data on population trends. Currently, the number of state hospital clients placed in community facilities is well below projections. If the number of community placements does not increase substantially, much of the proposed state hospital staffing reduction will not be justified under existing staffing standards.

We also recommend that the department explain the reason that no level-of-disability adjustment is proposed for 1985-86. This staffing adjustment recognizes that the developmentally disabled state hospital population is gradually becoming harder to care for. If previous budget practice had been followed, approximately 84 of the 436 positions proposed for elimination would have been retained due to the level-of-disability adjustment.

2. Mental Health State Hospital Staffing Initiative

We withhold recommendation on addition of 209 new positions at a 1985-86 cost of \$4,825,000 pending receipt of additional information and completion of our review of hospital plans to utilize additional resources provided in the current year.

3. Mental Health Bed Buy-Out Proposal

We recommend that the Legislature reject a proposal to eliminate 399 state hospital beds at Camarillo and Napa State Hospitals and increase funding for similar services through county mental health programs. The proposal is not adequately defined and it would increase costs with no identified increase in benefits. Our recommendation results in a net reduction of \$5 million General Fund.

Department of Developmental Services--Capital Outlay  
 (Item 4300-301/page 833)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$20,291	(pending)	-\$12,098

Highlights of Our Recommendations

1. Children and Adolescent Projects at Camarillo and Napa State Hospitals  
(-\$7,369,000)

The budget proposes a total of \$7,369,000 for three capital outlay projects to remodel bedspace for children and adolescent clients at Camarillo and Napa State Hospitals. Item 4300-301-036(3) includes \$6,627,000 for fire/life safety and environmental improvements to the childrens' unit at Camarillo State Hospital; Item 4300-301-036(4) includes \$557,000 to remodel four living units for use as "swing space" and lease three trailers at Camarillo; and Item 4300-301-036(11) includes \$185,000 to revise preliminary plans and workings drawings for a project to provide fire/life safety and environmental improvements to Building 195 at Napa State Hospital for adolescent acute psychiatric care clients.

Population Unclear. As of January 1985, there were 319 children/adolescent clients at Napa and Camarillo State Hospitals. The Governor's Budget proposes to reduce the children/adolescent client population at these hospitals by a total of 193. This proposal raises serious questions regarding the need to remodel additional bedspace at Napa and Camarillo. Based upon previously approved remodeling projects and those projects proposed in the budget, the department's current capital outlay proposal would remodel 133 beds more than the number needed to serve the planned population. The department should clarify for the Legislature the number and location of beds it now believes are needed for children and adolescent clients in the state hospital system.

Camarillo. The 1984 Budget Act contained \$232,000 for a study and preliminary plans for the childrens' unit at Camarillo. This study has not been submitted to the Legislature and the Office of State Architect's schedule indicates that preliminary plans will not be completed until August 1985. This schedule will not provide the Legislature with sufficient information to determine an amount for working drawings and construction for this project. Moreover, the proposal to eliminate 193 children/adolescent beds casts doubts on the department's current intentions regarding the childrens' unit population at Camarillo.

For these reasons we recommend deletion for the \$6,627,000 requested in connection with the childrens' unit at Camarillo. Since the swing space and trailer lease proposed under Item 4300-301-036(4) would be needed only if the project to alter the childrens' unit proceeds, we recommend deletion of this item for an additional savings of \$557,000.

Napa. The department intends to remodel building 195 at Napa to provide 132 beds for the adolescent acute psychiatric program. As indicated above, it is not clear how the department's proposal to eliminate a combined 193 adolescent/childrens' beds at Camarillo and Napa would affect the scope or need for this project. Consequently, we recommend deletion of Item 4300-301-036(11) for a reduction of \$185,000 (Analysis page 837).

2. Upgrade/Repair Steamplant Boilers--Camarillo State Hospital (-\$505,000)

The budget proposes \$505,000 for preliminary plans, working drawings and construction to upgrade and repair three boilers at Camarillo State Hospital. The project includes removal of one boiler and repair and/or installation of new controls on the remaining boilers. Our analysis indicates that the proposed project is of a maintenance repair nature and should be funded on a priority basis in the department's support budget. Consequently we recommend that the item be deleted for a savings of \$505,000 (Analysis page 838).

3. Fire and Life Safety and Environmental Improvements, Cottage G-- Stockton State Hospital (-\$2,570,000)

The budget proposes \$2,570,000 for working drawings and construction to remodel the Cottage G skilled nursing facility (SNF) at Stockton State Hospital in order to make fire and life safety and environmental improvements. According to the department, there currently are 103 SNF clients at Stockton State Hospital. By curtailing admissions and through transfers to community facilities, the department plans to reduce the SNF population to 80. The remaining population would then be accommodated in the remodeled Cottage G.

Under the statewide fire/life safety and environmental improvement program completed in July 1982, the state remodeled 7,443 hospital beds for developmentally disabled (DD) clients. Of this amount, 2,073 beds were remodeled for SNF clients. The most recent DD hospital population figures indicate however, that there are approximately 158 vacant SNF beds in the state hospital system.

Clearly, there are a sufficient number of remodeled SNF beds throughout the state hospital system to accommodate the clients located in Cottage G. In view of this, it would be more cost-effective for the department to curtail admissions, and transfer the existing clients either to community facilities or to other state hospitals. On this basis we recommend deletion of this item for a savings of \$2,570,000. (Analysis page 840).

4. State Hospital System has Sufficient Space to Allow Phasing Out--  
Stockton State Hospital

In the Supplemental Report of the 1984 Budget Act the Legislature directed the department to evaluate the feasibility of and potential net savings from a program to reduce unit costs for support of clients at Stockton State Hospital in order to bring expenditures in line with expenditures at other state hospitals. If this proved not to be feasible, the department was required to evaluate the option of closing the facility by transferring clients to other state hospitals and community facilities. The department's report indicates that although some reduction in support staffing and operating expenditures can be achieved, the costs at Stockton State Hospital will continue to be excessive when compared with the costs at other state hospitals. Apparently, the costs to operate this hospital will continue to be significantly higher than what they are at other state hospitals.

Based on the department's most recent population projections, there will be 478 vacant beds in the DD hospital by the end of the current year. This vacancy will increase to 693 beds by the end of the budget year. Moreover, given the seven-year downward trend of the DD population in state hospitals, and the department's projections that population will continue to decline, it is reasonable to expect an increased number of vacant beds in the system. Thus, there will be sufficient capacity in the system to accommodate the 562 DD clients at Stockton State Hospital.

Given the high costs at Stockton and the large number of vacant beds elsewhere, we believe consideration should be given to phasing out Stockton State Hospital. To permit legislative consideration of this option, we recommend that the department develop a five-year plan to phase out Stockton State Hospital. The department should submit this plan to the Legislature by November 1, 1985. (Analysis page 841).

Department of Mental Health--Excluding State Hospitals

(Item 4440/page 844)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$340,645	\$392,282	\$462,115	\$461,119	\$996
Personnel- years.....	601.5	636.2	336.6	336.6	--

Highlights of Our Recommendations

1. Forty Million Dollar Augmentation

We withhold recommendation on the \$40 million augmentation requested for local mental health programs until the department submits a spending proposal that identifies which categories of mentally disabled clients most urgently need service and the services most urgently needed by that clientele.

2. Transfer of Savings to Counties

We recommend deletion of \$996,000 from the local assistance item for mental health services because the department has not justified transfer of state administrative savings to county programs. The budget contains no explanation whatsoever of the use of the funds.

Department of Mental Health--Capital Outlay

(Item 4440-301/page 855)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$26,362	(pending)	-\$380,000

Highlights of Our Recommendations

1. Install Modular Office Buildings--Atascadero State Hospital  
(-\$275,000)

The budget proposes \$275,000 for preliminary plans and working drawings to install nine prefabricated modular buildings at Atascadero State Hospital. The modular buildings would be used as patient treatment activity centers. Areas currently used for this purpose would be converted into patient bed space.

Funds for this project were included in the Governor's 1984-85 Budget. The Legislature, however, deleted this project on the basis that the increased maintenance costs associated with modular units resulted in modular buildings being more expensive than permanent facilities on a life cycle cost basis. The department's proposal for the budget year contains no new information to indicate that this project should be reconsidered by the Legislature.

Moreover, the department indicates that in 1986-87, it intends to request a major remodeling project to reduce bed capacity at Atascadero and provide space on each unit for patient treatment activities. Consequently, the proposal to construct modular buildings appears to run counter to the department's future plans for the hospital.

For these reasons, we recommend that the preliminary plan working drawing funds for modular buildings be deleted for a savings of \$275,000. (Analysis page 857).

2. Fire and Life Safety and Environmental Improvements, R & T Building--  
Metropolitan State Hospital (-\$259,000).

The budget proposes \$259,000 to prepare working drawings for fire, life safety, and environmental improvements for the Receiving and Treatment (R & T) Building at Metropolitan State Hospital.

In our analysis of the support budget for the state hospitals (Analysis page 858), we discuss the need for a full scale review of the state hospital system, given the increasing costs incurred per client and the seven-year downward trend in hospital population. The results of this study could mitigate the need to remodel the R & T Building at Metropolitan.

To date, facilities with a total of 508 beds have been or currently are being remodeled at Metropolitan. In addition, the budget includes funds to remodel an additional 376 beds, bringing the total number of remodeled beds at Metropolitan to 884. Based on the department's most recent population estimates, (there are currently 929 clients at Metropolitan) the remodeled space for 884 beds (without the R & T building) should be sufficient during fiscal year 1986-87.

Consequently, we recommend deferral of the working drawing funds to remodel the R & T building for a reduction of \$259,000 (Analysis page 858).

Employment Development Department

(Item 5100/page 862)

	1983-84 Actual	1984-85 Estimate	1985-86		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$118,821	\$130,756	\$110,847	\$90,206	-\$20,641
Personnel- years.....	12,090.7	11,182.2	9,825.7	9,797.2	-28.5

Highlights of Our Recommendations

1. Staff Reductions

The Employment Development Department (EDD) proposes to eliminate 1,635.6 positions from the level authorized in the 1984-85 Budget Act. As a result of our review of the proposed reductions, we:

- o Recommend approval of proposals to eliminate 1,062 positions from EDD's support budget, due to administrative efficiencies, the expiration of programs, declining UI program caseload, and transfers of program responsibilities to other state departments.
- o Withhold recommendation on 560 positions proposed for deletion because EDD did not provide sufficient information needed by the Legislature to determine whether the reductions are justified.
- o Recommend restoring 26.9 positions to provide services to those needing help in finding jobs.
- o Recommend adoption of Budget Bill language so that EDD cannot further reduce services to unemployed individuals as a means of achieving whatever reductions in positions are approved by the Legislature (Analysis page 867).

2. Technical Budgeting Recommendations

We reviewed the EDD proposal to ensure that the budget is internally consistent. As a result, we recommend a reduction of \$8.0 million from all funds and 55.4 positions from the department's administrative support budget, as follows:

- o Recommend reduction of \$7.1 million and 48.4 positions that should have been deleted as a result of EDD's proposed position reductions.
- o Recommend deletion of \$906,000 and 7.0 positions due to other technical errors (Analysis page 879).

### 3. Automation

The department proposes to spend \$7.7 million in state funds to support automation activities in the Job Service, Unemployment Insurance (UI), and tax collection programs. Our analysis of these automation proposals indicates that the department has not adequately assessed the alternatives available to the state in automating the Job Service and UI programs. Therefore we recommend (a) deletion of \$5.0 million proposed in support of these two projects and (b) adoption of Budget Bill language delaying implementation of the two projects pending submission of a report to the Legislature concerning alternative automation designs.

In addition, we recommend using \$2.7 million in federal Reed Act funds in lieu of state funds proposed in support of the automation of EDD's tax collection program (Analysis page 883).



Department of Rehabilitation

(Item 5160/page 901)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$61,175	\$75,128	\$82,747	\$82,411 <sup>a</sup>	-\$336
Personnel- years.....	1,701.8	1,709.5	1,583.1	1,541.1	-42.0

a. Recommendation pending on \$60,811,000.

Highlights of Our Recommendations

1. Staff Reduction

The Department of Rehabilitation (DOR) proposes to reduce departmental staffing levels by 164.4 positions. Our analysis indicates that DOR has not provided sufficient information to allow the Legislature to review the department's proposed cuts. Therefore, we recommend DOR provide the fiscal committees with information (a) demonstrating that specified workload can be absorbed by remaining staff, (b) indicating the effect of reduced levels of services associated with specified staff cuts, and (c) demonstrating that using funds to purchase rehabilitation services is more cost-effective than assigning state staff to supply those services directly (Analysis page 905).

2. Attrition Blanket

The department proposes to establish a 42-position, \$1.1 million (\$228,000 from the General Fund, \$912,000 in federal funds) attrition blanket in case attrition and other transfers are not sufficient to reduce DOR's staff support by the full 168.4 positions. Our analysis indicates that funding the attrition blanket would result in the DOR supporting positions that it believes are not needed for the administration of its programs. The department indicates that, without this blanket, these central office positions would be funded by holding field office positions open, resulting in reduced services to the disabled.

In order to prevent the funding of unneeded positions, we recommend deletion of the 42-position attrition blanket, as well as the \$1.1 million in funds budgeted in support of the positions. Furthermore, in order to prevent the reduction in services to disabled individuals, we recommend

adoption of Budget Bill language prohibiting DOR from redirecting field office support to the department's central office (Analysis page 907).

Department of Social Services

(Item 5180/page 917)

	<u>1983-84</u> Actual	<u>1984-85</u> Estimate	<u>Proposed</u>	<u>1985-86</u> Recom- mendation	<u>Difference</u>
Expenditures... (thousands)	\$2,955,450	\$3,265,793	\$3,584,458	\$3,535,439 <sup>a</sup>	-\$49,019
Personnel- years.....	2,999.9	3,235.5	3,050.7	3,131.7	81.0

a. Recommendation pending on \$1,251,270,000.

Highlights of Our Recommendations

1. AFDC-Family Group Caseload Overestimated

We recommend a reduction of \$55.8 million (\$26.3 million from the General Fund and \$29.5 million in federal funds) in order to make the economic assumptions on which the AFDC-Family Group (AFDC-FG) caseload estimates are based consistent with the assumptions used by the Department of Finance (DOF) in preparing the rest of the budget.

The Department of Social Service (DSS) estimate of AFDC-FG caseloads is based, in part, on a projected unemployment rate that is substantially higher than the rate used by the DOF in preparing most of the budget's estimates of revenues and expenditures. We recommend, however, that the Legislature use the DOF's projection of unemployment in estimating the AFDC-FG caseload for 1985-86, rather than the projection used by the DSS. By using the DOF estimate, the Legislature would (a) make the budget internally consistent and (b) avoid double-budgeting for economic uncertainties. In the event that the DOF's economic projections prove to be wrong, the state could use a portion of the \$1.04 billion reserve for economic uncertainties (proposed under Control Section 12.3 of the budget) to pay for the costs of higher-than-anticipated AFDC-FG caseloads (Analysis page 935).

2. Child Support Collections Underestimated

We recommend a reduction of \$24.1 million (\$11.9 million from the General Fund and \$12.2 million from federal funds) in the AFDC program in order to reflect savings from higher-than-anticipated child support collections. Our analysis indicates that the budget underestimates child support collections for two reasons. First, the budget overestimated (\$9.5

million General Fund, and \$10.0 million federal funds) the number of AFDC recipients who will be affected by the new \$50 child support disregard. Under the new federally required \$50 disregard, the first \$50 of child support paid to an AFDC family is not counted as income and may, therefore, be retained by the family without an offsetting reduction in the family's AFDC grant. Second, the budget underestimated (\$2.4 million General Fund and \$2.2 million federal funds) basic child support collections. Specifically, the budget assumes that basic collections will not increase in 1985-86 despite the fact that these collections have increased in four of the last five years, at an average rate of 5.1 percent per year (Analysis page 937).

### 3. State/County Foster Care Cost Sharing

We recommend that the DOF report to the fiscal committees during budget hearings on how it proposes to finance the state's share of foster care costs that is required by current law. The budget assumes that the state's share of nonfederal costs will be reduced from 95 percent to 50 percent effective January 1, 1986. According to the Legislative Counsel, however, "The state is obligated to pay 95 percent of (the nonfederal foster care costs)... until January 1, 1987." As a result, the budget contains \$52.6 million less in General Fund support than required by current law (Analysis page 938).

### 4. Federal Reimbursement for SSI/SSP Payment Errors

We recommend a General Fund reduction of \$6,958,000 to account for the anticipated receipt in 1985-86 of federal reimbursements for erroneous payments in the SSI/SSP program.

The federal government periodically samples SSI/SSP caseload data in order to identify errors made by the Social Security Administration in granting eligibility or in making payments to eligible individuals in the SSI/SSP program. Based on these reviews, the federal government estimates the amount of state funds that it has paid out in error and thus the amount of reimbursement to which a state is entitled.

The budget does not include reimbursements for the April 1984 through September 1984 period. Our analysis indicates that the state should budget reimbursements for this period because (a) the department will have ample time (13 months) to negotiate an acceptable reimbursement amount with the federal government and (b) the history of reimbursements for errors indicates that the reimbursement for this period will most likely be received in 1985-86. The department estimates that the amount of this reimbursement will be \$6,958,000 (Analysis page 946).

### 5. County Administrative Costs

We recommend that, prior to budget hearings, the DSS provide the fiscal committees with a plan for reducing administrative costs in the five most expensive counties in the state. Our analysis indicates that five counties--Alameda, San Francisco, San Mateo, Marin, and Mono--incur state

General Fund administrative costs in excess of \$20 per AFDC case. These costs include costs for direct administration (eligibility worker salaries and benefits and associated overhead costs) and the indirect costs associated with erroneous payments to recipients. We estimate that bringing the costs of these counties into line with the average county's costs (approximately \$16 per case) would result in savings to the state of \$3.5 million annually (Analysis page 960).

#### 6. Savings Due to Statewide Time-per-Task

We recommend a General Fund reduction of \$2,028,000 to reflect estimated savings due to the department's implementation of statewide time-per-task standards in the In-Home Supportive Services (IHSS) program.

Based on a pilot project in three counties, the department indicates that significant state savings can be achieved by implementing statewide time-per-task standards for the IHSS program. Preliminary results show that time-per-task limits for laundry, food shopping, and other shopping and errands will reduce the number of hours awarded to some clients without adversely affecting their ability to live independently in their own homes. As a result, the department estimates that state savings of \$3.9 million to \$6.5 million can be achieved in 1985-86. The department expects to complete the required changes to IHSS regulations and implement the time-per-task standards by January 1, 1986.

Based on the department's expected implementation, we believe one-half of the lower amount of state savings should be reduced from the budget to reflect the savings due to implementation of statewide time-per-task standards. Accordingly, we recommend a General Fund reduction of \$1,950,000 from the social services item and \$78,000 from the COLA item (Analysis page 976).

#### 7. Child Welfare Services Underfunded

We recommend that the DOF advise the fiscal committees how it proposes to meet the service level requirements for the Child Welfare Services program given the \$35.1 million shortfall in funding for this program.

Based on our review, we conclude that the Child Welfare Services program is underfunded by \$35.1 million, all funds, for 1985-86. The underfunding results from the administration's decision to limit the state's contribution to cost-of-living adjustments (COLAs) granted by county welfare departments in prior years to their employees. The 1985-86 budget provides state funds for a 9 percent COLA, even though counties granted salary and benefit increases to their employees that totaled 34 percent between 1981-82 and 1984-85.

Based on our review, we conclude that the budget's proposal to limit the state's share of county-granted COLAs is questionable for two reasons: (a) the proposal is inconsistent with the budget's proposal for fully funding prior-year COLAs in other county-administered welfare programs and

(b) the proposal would not provide adequate funds to ensure that the counties will provide the child welfare services required by current law (Analysis page 969).

#### 8. Community Care Licensing Underfunded

We recommend that the DSS report to the fiscal committees on how it proposes to meet its projected caseloads, given its proposed funding level.

The DSS projects that the counties will license 11.6 percent more family day care (FDC) homes in 1985-86 than in 1984-85. The department estimates that the counties will license the same number of foster family homes (FFHs) in 1985-86 as in 1984-85. Based on the department's calculations of worker-to-caseload ratios for FDC and FFHs, costs per worker, and caseload estimates, we estimate that the family day care licensing function appears to be underfunded by \$568,000, while the foster family home licensing function appears to be overfunded by \$105,000. This results in a net underfunding of \$463,000 in this item (Analysis page 984).

#### 9. Transfer of State Adoptions Program To Counties

We recommend that the Legislature reject the budget's proposal to transfer responsibility for providing adoptions services in 30 counties from the state's district offices to the counties themselves. Our analysis indicates that (a) the state can provide these services at a lower cost and (b) the state district offices can take advantage of economies of scale not available to the 30 small counties affected by the proposal, thereby making more adoptive placements per worker than the counties. We are also concerned that the proposal would result in an increase in the backlog of children awaiting adoption in the affected counties because it does not provide for a transition period between the termination of state services and the beginning of county services (Analysis page 978).

#### 10. California Should Not Defer to the Congress Decisions on COLAs

We recommend that the Legislature delete Budget Bill language which proposes to limit statutory COLAs for SSI/SSP, AFDC, and IHSS grant recipients and Medi-Cal providers because the language would shift the decision on COLAs from the state to the federal government.

The budget proposes to provide a 5.3 percent COLA for AFDC, SSI/SSP, and certain IHSS grant recipients, as required by state law. The Budget Bill, however, also contains control language (Item 5180-181-001, Provision 2) which would restrict the use of General Fund monies for COLAs in the event that federal funds for such increases are reduced or eliminated. The same language is proposed for the "statutory" COLAs required under the Medi-Cal program. The DOF advises us that the purpose of the language is to limit state cost-of-living increases for the specified programs to whatever percentage increase is granted by the federal government, if any.

Our analysis of the proposed Budget Bill language indicates that the language (a) would not accomplish the administration's objectives of

limiting COLAs to AFDC and IHSS recipients and (b) is so ambiguous that it is virtually impossible to determine what the effect of the language would be. Even without these problems, however, the proposed language would not warrant approval by the Legislature. This is because the language, in essence, would shift from the state to the federal government the major policy decision of what COLAs should be provided to AFDC, SSI/SSP, and IHSS grant recipients (and what reimbursement rates to grant Medi-Cal providers).

In our judgment, the Legislature should decide the size of COLAs for California grant recipients, not the Congress and the President. The Legislature should make this decision based on (a) the needs of the grant recipients and providers and (b) the availability of funds (Analysis page 987).

YOUTH AND ADULT CORRECTIONAL

Department of Corrections

(Item 5240/page 990)

	1983-84 Actual	1984-85 Estimate	1985-86		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$604,191	\$793,797	\$911,150	\$895,239 <sup>a</sup>	-\$15,911
Personnel- years.....	10,965	13,597	15,503	15,471 <sup>a</sup>	-32

a. Also recommendations pending on \$82,503,000 and 1,187 personnel-years.

Highlights of Our Recommendations

1. Inmate and Parolee Population Growth

We withhold recommendation on that portion of the department's support budget related to increased costs for inmate and parolee population growth, pending analysis of a revised budget proposal, population projection, and construction schedule, to be included in the May revision. The budget proposes \$81,820,000 from the General Fund and \$683,000 from the Inmate Welfare Fund to provide additional staffing and operating expenses to accommodate the projected increase in the state's inmate and parolee populations during 1985-86.

Our analysis indicates that there are major uncertainties regarding the rate of growth in inmate and parolee populations and the department's plan to house inmates in existing facilities and new prisons scheduled for construction. The population is currently well below projected levels and projections are being reevaluated for the May revision. In addition, the department plans to reexamine its staffing activation schedule using the recently activated California Medical Facility-South at Vacaville as a model, and may propose changes in the May revision. Finally, the department's current record in meeting construction schedules also leaves the activation schedule uncertain. An updated schedule will also be available when the department submits its May revision (Analysis page 997).

2. Atascadero State Hospital Beds



We recommend a General Fund reduction of \$2,236,000 to eliminate overbudgeting for inmate beds at Atascadero State Hospital. Our analysis indicates that funds requested for this program are overbudgeted because the department historically has underutilized contracted beds at Atascadero and is not contemplating any change in policy that might increase use of the beds in the future. The department has contracted with the Department of Mental Health for beds since 1982-83. The department has never used more than 161 of the contracted beds, although it has contracted for 300 beds in the current year and plans to contract for 300 again in 1985-86. We recommend that the budget provide sufficient funds to contract for treatment of 175 inmates at Atascadero in 1985-86. This will result in a \$2,236,000 reduction in the contracted amount (Analysis page 998).

### 3. Additional Staffing for New Southern Maximum Security Complex Prison

We recommend deletion of 32 positions for the new Southern Maximum Security Complex at Tehachapi that have been previously deleted by the Legislature, for a General Fund savings of \$1,289,000. The Legislature approved 460 positions for the new prison in 1984 and specifically deleted 74 positions requested by the department. The 32 positions requested for 1985-86 are among the positions specifically deleted last year. In addition, the proposal results in an inmate-to-staff ratio of approximately 2.73 to 1. This is more staff than the 2.8 to 1 ratio mandated by the 1982 Budget Act and agreed to by the department. The department indicates it will provide additional information of the specific need for each position prior to budget hearings. We will modify our recommendation accordingly, if the information so warrants (Analysis page 1000).

### 4. Felon Supervision Costs

We recommend a General Fund reduction of \$11,503,000 in the felon supervision program in order to provide funding that is consistent with the projected increase in the program's workload. The budget requests \$44,827,000 from the General Fund and \$103,000 in reimbursements for supervision of felon parolees. This is an increase of 77 percent above actual 1983-84 expenditures. Over the same period, however, the budget indicates that the average daily population of felon parolees will increase only 19 percent. The department has been unable to explain why expenditures are increasing by 77 percent and workload in the program is growing by only 19 percent. In addition, the department indicates that there has been no significant policy changes in the program in recent years that should cause such a major increase in program costs. We recommend that the budget for felon supervision reflect more accurately the projected workload increase, along with the increases for inflation and employee salaries and benefits over the same period. Consequently, we recommend that the budget provide \$33,427,000 for felon supervision in 1985-86, or a reduction of \$11,503,000. Should the department provide justification for the disparity between workload and budget increases, we will revise our recommendation accordingly (Analysis page 1004).

Department of Corrections--Capital Outlay  
(Items 5240-301 and 9860-301/page 1008)

	<u>1983-84 Actual</u>	<u>1984-85 Estimate</u>	<u>1985-86</u>		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	--	--	\$21,815	pending	-\$18,757

Highlights of Our Recommendations

1. Status of New Prison Capacity Program

The Legislature has fully funded new prison projects that will provide 16,570 new beds in the prison system. The Governor's Budget indicates that construction of 10 new prisons, together with other projects designed to increase capacity at existing institutions and camps, will add 19,420 beds to the system by the end of 1987.

The department is preparing a new Facilities Master Plan which will (1) provide updated inmate population projections, (2) revise the schedule of occupying new prisons, and (3) identify additional capacity needs beyond those that will be met by the department's current program. The new plan, which should be available prior to budget hearings, will be addressed in a supplemental analysis after we have had an opportunity to review it (Analysis page 1009).

2. Projects to Upgrade Domestic Water Systems and Sewage Treatment Facilities at Existing Prisons (-\$4,379,000)

The budget includes \$4,379,000 for four projects related to upgrading domestic water systems and sewage treatment plants. The projects include:

- o Increase sewage plant storage capacity, Susanville--\$649,000.
- o Expand domestic water system, Soledad--\$581,000.
- o Expand/rehabilitate sewage treatment plant, Chino--\$2,500,000.
- o Purchase additional sewage plant capacity, Frontera--\$649,000.

The department's explanation of the need to fund these projects lacks sufficient information to substantiate the request. In all cases, the department's problem stems from overcrowding of existing institutions. This should be only temporary because substantial additional capacity is planned to be completed in the next two years. Consequently, by the time

construction of the proposed water supply and sewage plant expansion projects are completed, the population at these institutions should have been reduced substantially. Finally, adequate architectural/engineering information has not been developed to substantiate many of the individual requests. For these reasons, we recommend deletion of the funds to upgrade water and sewage systems at these facilities (Analysis page 1012).

### 3. Expansion of Support Facilities, Existing Institutions (-\$847,000)

The budget includes \$847,000 for five projects at four institutions related to upgrading support facilities at these institutions. The projects include:

- o Enlarge visiting room, Susanville--\$28,000 (future cost \$427,000)
- o Additional dining hall, central facility, Soledad--\$119,000 (future cost \$1,233,000).
- o Warehouse, Chino--\$140,000 (future cost \$1,984,000).
- o Records and board room building, Chino--\$60,000 (future cost \$507,000).
- o Warehouse, Frontera--\$500,000.

The department's explanation of the need for these funds is similar to the request for upgrading of domestic water systems and sewage treatment facilities. All of the requested support service facilities are designed to provide additional facilities to alleviate problems caused by overcrowding of existing institutions. When the CDC occupies new prison facilities, overcrowding will be reduced substantially and existing support facilities should once again be adequate to serve the inmate population. In addition, one alternative and potentially less costly means of meeting the prison's support service requirements for warehouse space could be provided through centralized warehouse facilities operated by the Prison Industry Authority. Finally, adequate architectural/engineering information has not been developed to substantiate the individual requests. For these reasons, we recommend deletion of the funds to upgrade support service facilities at these four prisons (Analysis page 1014).

### 4. Capital Program Management--Statewide (-\$1,500,000)

The budget includes \$1,500,000 to purchase services from a capital program management consultant in order to assist the department in implementing the new prison construction program. In the past, these services have been financed through a combination of direct appropriations for planning and allocations within the amounts appropriated for planning and construction of specific prison projects.

The Legislature has no information to indicate what these services are and what they will cost. Consequently, the need for additional funds cannot be established and we therefore recommend deletion of the proposed \$1,500,000 (Analysis page 1018).

5. Augmentations for Previously Approved Projects (-\$10,000,000)

The budget includes \$10,000,000 from the General Fund, Special Account for Capital Outlay (SAFCO), to provide funds to augment projects previously financed from the 1981 and 1984 Prison Bond Act programs. Budget Act language indicates that the funds would be allocated by the Department of Finance upon approval of the State Public Works Board in accordance with existing law.

Currently, there is an unappropriated balance of \$19.6 million in the 1981 Prison Bond Act and \$7.3 million in the 1984 Prison Bond Act. The Governor's Budget proposes appropriation of \$3,700,000 from the 1981 Bond Act. Thus, a total of \$23.2 million would remain unappropriated in the bond funds if the Governor's Budget is approved as submitted. This amount should be sufficient to augment previously approved projects because the rate of construction cost increases due to inflation has slowed substantially. The amount of funds remaining in the bond fund represents approximately 5 percent of the construction amount included in the various appropriations from these funds. We therefore recommend deletion of the additional \$10 million proposed for this purpose from the SAFCO (Analysis page 1020).

Department of the Youth Authority

(Item 5460/page 1027)

	1983-84 Actual	1984-85 Estimate	1985-86		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$242,626	\$271,178	\$275,922	\$274,255 <sup>a</sup>	-\$1,667
Personnel- years.....	4,208.0	4,382.7	4,306.	4,278.3	-28.0

a. Recommendation pending on \$1,756,000.

Highlights of Our Recommendations

1. Population Plan

We recommend that the Youth Authority address the problem of increased population in the budget year by overcrowding its institutional programs rather than its reception center-clinics, for a General Fund savings of \$770,000. In the budget year, the department proposes to handle part of its anticipated increase in population by overcrowding its reception center-clinics at a relatively high level for the entire year. We believe this proposal is inappropriate because (a) programs of education and intensive counseling are not available at the clinics, (b) overcrowding the clinics is relatively more expensive than overcrowding other departmental institutions, and (c) the department's population management plan identifies other possible alternatives for dealing with increased population in the budget year. Accelerating the overcrowding at one of its other institutions by seven months, thereby reducing the level of clinic overcrowding, would result in a net General Fund savings of \$770,000 (Analysis page 1032).

2. Compensatory Education

We recommend that the department report during budget hearings on how proposed position reductions in a federally-funded education program would affect the level and quality of service offered to wards. The Youth Authority receives an allocation of federal funds under the Education Consolidation and Improvement Act (ECIA) to supplement reading, language development, and math remedial services for educationally disadvantaged wards. The department proposes to eliminate 16 positions funded under the ECIA program in 1985-86 as part of the administration's efforts to limit the number of state employees. The budget indicates that the proposed reductions are related to operating efficiencies and can be accomplished

without adversely affecting the level of service provided by the department. The department also indicates that the position reduction is necessary due to a decrease in the amount of federal ECIA funds available in 1985-86.

Twelve of the 16 positions are teaching assistants who work in the classroom and provide specialized tutoring to individual students. Consequently, we question the administration's contention that the proposed reduction will not affect the level of service to wards. Further, if current-year expenditure trends continue, program expenditures will total approximately \$2.6 million in 1984-85, and \$2.7 million would be available in the budget year. Consequently, it is not clear that any ECIA position or program reductions will be needed in 1985-86 (Analysis page 1035).

### 3. Gang Violence Consolidation

We recommend consolidating the state's gang violence suppression efforts in the Office of Criminal Justice Planning (OCJP), and eliminating the Youth Authority's Gang Violence Reduction Project, for a reduction of five positions and \$424,000 in General Fund support. Presently, both the OCJP and the department operate programs for the purpose of reducing the incidence of gang-related violence. The OCJP program is the more extensive of the two, providing assistance totaling \$1 million to 12 projects in the current year. An increase to \$2 million is proposed for 1985-86. The Youth Authority operates one project in the East Los Angeles area with five state employees and a proposed budget of \$424,000 for 1985-86.

In order to streamline gang violence reduction efforts and eliminate program duplication, we recommend that state-level responsibility in this area be consolidated in the OCJP. The OCJP is the more appropriate agency to conduct this type of program because it has (a) statutory authority for gang violence suppression, (b) a competitive selection process, (c) responsibility for comprehensive criminal justice planning, and (d) evaluation requirements. In addition, OCJP's program allows local agencies, rather than the state, to identify local problems and needs in the area of gang violence reduction (Analysis page 1039).

Department of the Youth Authority--Capital Outlay

(Item 5460-301/page 1044)

	<u>1983-84</u> <u>Actual</u>	<u>1984-85</u> <u>Estimate</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$4,901	(pending)	-\$1,345

Highlights of Our Recommendations

1. Adjustment Center at Fred C. Nelles School Has Been Deferred

The 1984 Budget Act included \$134,000 for development of preliminary plans and working drawings for a 30-bed adjustment center at the Fred C. Nelles School in Whittier. An adjustment center is a facility which provides security space for wards requiring temporary lockup or detention. When this project was being considered by the Legislature, the department stated that the project was critical and had a high priority.

According to the most recent Office of State Architect project schedule, preliminary plans are 94 percent complete and working drawings are scheduled to begin in April. The budget, however, does not include a request to fund construction of the adjustment center. Given (1) the department's claim that the need for additional lockup space is critical, (2) the increasing population of the Youth Authority system, and (3) the Legislature's prior action to approve planning funds for this project, it is unclear why the department is not proposing construction funds for this project in the budget year. We recommend that prior to budget hearings, the department provide an explanation to the Legislature as to when it plans to complete the project (Analysis page 1047).

K-12 EDUCATION

State Department of Education

(Item 6100/page 1049)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$9,496,071	\$10,499,398	\$11,447,676	\$11,387,839 <sup>a</sup>	-\$59,837
Personnel- years.....	2,442.7	2,605.5	2,618.5	2,617.1	-1.4

a. Includes recommendations pending on \$586,156,000.

Highlights of Our Recommendations

1. Additional Equalization Aid Not Needed

We recommend deletion of \$21 million in equalization aid to school districts. The Governor's Budget proposes to continue a process of "leveling up" school district revenue limits which was begun in SB 813. (The proposal, however, would provide no equalization aid for large unified and large elementary districts.)

Our review indicates that this additional equalization aid is not needed, for three reasons.

First, it is not clear that additional equalization is needed in order to comply with the Serrano decision. A recent Superior Court decision held that, as of 1982-83, the state had fully complied with the equalization requirements of Serrano. In the absence of the Governor's proposal, the degree of equalization achieved in 1985-86 would still exceed the "full compliance" level determined by the court.

Second, our review of the Governor's proposal indicates that, while it would tend to enhance equalization among certain categories of school districts, it would increase disparities in average revenue limits among types of districts.

Finally, our analysis indicates that, if the Legislature wishes to achieve additional equalization in 1985-86, there are less costly alternatives to the Governor's proposal (Analysis page 1071).



## 2. Provision of Basic Aid Hinders Equalization Efforts

We recommend that the Legislature (1) adopt Budget Bill language limiting the amount of "basic aid" provided to high-wealth school districts and (2) reduce funding for basic aid by \$1,676,000.

Under California's school finance system, each school district is guaranteed an amount of general purpose revenues equal to its revenue limit times its average daily attendance (ADA). This amount is financed through a combination of local property taxes and state aid. For a handful of school districts, the amount of local property taxes received exceeds the revenue limit guarantee. The state does not recapture any of the excess amount, and instead adds to the excess by providing these districts with additional state "basic aid" equal to the greater of \$120 per ADA or \$2,400.

Our analysis indicates that the provision of basic aid to high-wealth school districts is not justified, for two reasons.

First, because the school districts receiving basic aid are clearly able to raise large amounts of revenue from local sources, the provision of basic aid tends to exacerbate wealth-related disparities in educational spending per pupil--and thus is contrary to the requirements of the Serrano decision.

Second, the provision of basic aid in its current form is not required by the California Constitution. A recent opinion by the Legislative Counsel concludes that the constitutional requirement may be met by providing at least \$120 per pupil (or \$2,400) in state aid of any type--including aid provided under categorical programs--which flows through the State School Fund.

By specifying that additional state aid shall be provided a school district only to the extent that it would otherwise fail to receive at least \$120 per pupil (or \$2,400) in total State School Fund aid, the General Fund cost of basic aid would be reduced by \$1.7 million (Analysis page 1074).

## 3. Major Funding Deficit For Voluntary Desegregation Claims

We recommend that the Department of Finance explain how the administration proposes to address a potential deficiency of \$87 million in funding for voluntary school desegregation reimbursement claims. Under current law, school districts are authorized to submit claims for reimbursement for the cost of maintaining voluntary desegregation programs or programs that are designed to combat the harmful effects of racially isolated minority schools.

In 1984-85, the Legislature has appropriated \$12.9 million for payment of voluntary desegregation claims. The Governor's Budget proposes \$7 million for this purpose in 1985-86, bringing the total amount of funding available in the current and budget years to \$19.9 million.

The Commission on State Mandates, however, which reviews all reimbursement claims, has received claims totaling \$76.6 million and anticipates receiving additional claims totaling at least \$30.5 million by the end of 1985-86. Under the Governor's Budget proposal, therefore, only \$19.9 million will be available to provide reimbursement for claims totaling at least \$107.1 million--leaving a deficiency of at least \$87.2 million (Analysis page 1145).

#### 4. Funds For Increasing Minimum Teachers' Salaries Overbudgeted

We recommend that the proposed appropriation for increasing minimum teachers' salaries, pursuant to SB 813, be reduced by \$25.4 million. We further recommend reappropriation of the unexpended balance of the current-year appropriation for this purpose.

Senate Bill 813 provides that the state will reimburse school districts and county offices of education for the costs of increasing the lowest salary on the teachers' pay schedule by 10 percent each year in 1983-84 to 1985-86, to a maximum of \$18,000 (adjusted annually for inflation). The maximum level in 1984-85 is \$19,084. These local education agencies are also entitled to reimbursement of (1) costs to increase any teachers' salaries that would otherwise be below the new minimum salary level and (2) costs of increased contributions to the State Teachers' Retirement System.

The Governor's Budget proposes \$25.4 million for increasing minimum teachers' salaries in 1985-86. Our analysis indicates, however, that the amount appropriated for this program in the current year--\$24.8 million--will be sufficient to fund both the current-year and budget-year requirements (Analysis page 1104).

#### 5. Vocational Education Matching Funds Unnecessary

We recommend deletion of \$3.5 million in vocational education matching funds proposed for special education. Under current federal law, school districts may receive federal funds for vocational education of special education student on a dollar-for-dollar matching basis. The Governor's Budget proposes \$3.5 million from the General Fund to be used as the "local match" for these federal vocational education funds.

Our review indicates that there is no compelling reason why the state should assume the responsibility for providing matching funds. Local school districts have in the past been able to match almost 90 percent of the available federal funds, and they can continue to provide local matching funds. Furthermore, the Governor's proposal removes local incentives to spend these funds in a cost-effective manner, and provides no guarantee that the increase in funding will be spent for special education purposes (Analysis page 1113).

## 6. Funding For County Offices' Longer School Day and Year

We recommend that the proposed appropriation for lengthening the school day and year of special education programs operated by county offices of education be reduced by \$1,750,000.

Senate Bill 813 provides fiscal incentives to school districts to increase the length of the instructional day and year, but excludes county offices of education from participating in this program. In 1985-86, the measure provides \$35 per unit of average daily attendance (ADA) to districts that offer a 180-day school year. In addition, the act provides \$40 per ADA for students in grades K-8 and \$80 per ADA for students in grades 9-12 to districts that meet certain target levels of instructional time.

The Governor's Budget proposes to extend eligibility for these funds to special education programs operated by county offices of education. The budget, however, proposes to fund county office participation in these programs at twice the rate that funds are provided to school districts.

Our review indicates that, while it is appropriate to provide county offices with incentive funds for increasing the amount of instructional time offered in their special education classes, we know of no reason why such funding should be provided at a rate that is twice the rate received by school district special education classes. Moreover, if the Governor's proposal is adopted, school districts will likely insist on receiving higher reimbursements for their special education classes, at a potential state cost of \$12.6 million in 1985-86 (Analysis page 1114).

## 7. Additional Expansion of Adult Literacy Programs Not Justified

We recommend deletion of \$900,000 for the expansion to new local public libraries of the California Literacy Campaign (CLC). The CLC was established by the State Library in September 1983 to assist local public libraries in establishing programs to teach basic reading skills to adults.

The Governor's Budget requests \$3,747,000 from the General Fund to support the CLC in 1985-86. This is a 33 percent increase over the current-year funding level and would provide an additional \$900,000 in grants to local library reading programs and an additional \$35,000 for full-year funding of State Library consultant services.

Our review indicates that the additional \$900,000 in CLC assistance to local libraries is not needed, because the current funding policy already provides for the expansion of support to new libraries. Specifically, the CLC's funding policy is to provide grants for start-up costs only; support is withdrawn gradually over a three-year period. As projects enter their second and third years of support under the CLC, therefore, the funds that are "freed up" will be available for allocation to new local library programs (Analysis page 1187).

Contributions to State Teachers' Retirement Fund

(Item 6300/page 1192)

	1983-84	1984-85	1985-86		Difference
	<u>Actual</u>	<u>Estimate</u>	<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$359,171	\$336,860	\$399,713	\$399,713	--

Highlights of Our Recommendations

1. Legislature Should Provide New Benefit Structures

In order to both provide teachers with benefits they currently do not enjoy (greater choice and flexibility in designing their retirement program, and the opportunity to realize federal tax savings) and control the state's financial exposure under the State Teachers' Retirement System (STRS), we recommend the enactment of legislation providing new retirement options to future public school teachers.

In developing new benefit structures, it is critical that the state ensure that normal costs are paid in full at the local level. While the state undoubtedly will continue to provide state aid to districts in order to help them fund normal costs, the state should no longer be the entity that is liable for shortfalls in the funding of local employee retirement benefits.

Toward this end, the Legislature should seriously consider the recommendations of the "ACR 62 Study Panel," which has prepared final recommendations for new STRS benefit tiers. Generally, the recommendations of the study panel are intended to offer new teachers several benefit plan options. These options, taken together, directly address the problems noted above. Thus, we believe the study panel's recommendations serve as an excellent starting point for legislative consideration of alternative STRS benefit structures (Analysis page 1194).

2. The State Should Limit Its Court-Imposed Liability

The state's statutory payments to the State Teachers' Retirement Fund (STRF), which under current law are scheduled to continue indefinitely, are intended to reduce the STRS unfunded liability. In California Teachers' Association v. Cory, a state appellate court found that these contributions constitute an implicit contract with school teachers, and therefore, cannot be changed by the Legislature--now or in the future.

Our interpretation of the court's decision in this case is that the state was found to have committed itself to paying off the STRS unfunded liability which had accrued at a given point in time. If this interpretation is valid, the decision does not in any way make the Legislature fiscally liable for any funding shortfalls which may accrue in the future.

In order to ensure, however, that the state's liability under this decision is limited, we recommend that the Legislature amend Sections 23401 and 23402 of the Education Code to terminate state payments to the STRF once the current amount of the STRS unfunded liability has been paid off. At that time, the state would have met its contractual obligation. It could then choose to continue making voluntary payments to the system, but it could not be forced by the courts to make payments that it did not wish to make. Based on the latest STRS actuarial valuation, the system's unfunded liability (\$10.1 billion) could be paid off by statutory contributions in about 60 years. Consequently, the Legislature should terminate its obligation to make these judicially required payments by "sunsetting" the current contributions schedule in the year 2045 (Analysis page 1195).

School Facilities--Asbestos Abatement

(Item 6350/page 1204)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	\$10,000	\$10,000	\$10,000 <sup>a</sup>	--
Personnel- years.....	--	--	--	--	--

a. Recommendation pending on \$10 million for local assistance.

Highlights of Our Recommendations

1. Health and Safety Monitoring of Asbestos Projects Needed

We withhold recommendation on the request to allocate \$10 million from the Asbestos Abatement Fund for local assistance, pending a determination of the amount needed to reimburse the Department of Industrial Relations (DIR) for specified activities relating to asbestos abatement projects in schools.

Our review indicates that, without appropriate assistance and monitoring, school districts lack the expertise to ensure that asbestos abatement projects are completed safely and effectively. Improperly completed asbestos abatement activities may increase the exposure of children and school employees to hazardous asbestos.

The Cal-OSHA program administered by DIR is responsible for registration, consultation, monitoring, and enforcement activities relating to school asbestos abatement projects. The budget, however, does not propose to allocate any additional funds to DIR for this purpose.

Our analysis indicates that it would be appropriate to transfer from the Asbestos Abatement Fund to DIR a reasonable amount to reimburse the costs of the specified Cal-OSHA activities. We withhold recommendation on the request to allocate for local assistance the full amount of the Asbestos Abatement Fund, pending a determination of the amount needed for Cal-OSHA reimbursements (Analysis page 1210).

POSTSECONDARY EDUCATION

The University of California

(Item 6440/1229)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86 Recom- mendation	Difference
Expenditures... (thousands)	\$1,110,012	\$1,457,147,000	\$1,627,908	\$1,598,782 <sup>a</sup>	-\$29,126
Personnel- years.....	59,009	57,902	57,652	57,647	-5

a. Recommendation pending on \$2,937,000.

Highlights of Our Recommendations

1. \$25 Million Teaching Hospital Proposal Does Not Provide a Solution to the Problem

We recommend deletion of the proposed \$15 million operating subsidy and \$10 million special capital outlay appropriation for the Davis, Irvine, and San Diego teaching hospitals because the proposal does not provide a short-term solution or a comprehensive long-term solution to the teaching hospitals' financial problems.

We do not believe that the budget proposal addresses either the short-term or long-term problems. In the short term, the budget proposal does not address the university's projection of the 1985-86 deficit. In the long term the university assumes that everything will remain constant and that \$133 million appropriated over seven years will solve its problems. We find no basis for that assumption when cost controls are not addressed. Therefore, we recommend deletion of \$15 million operating subsidy and \$10 million special capital outlay appropriation for the Davis, Irvine, and San Diego teaching hospitals (Analysis page 1262).

2. Student Fees Should Be Set in 1985-86 Using Proposed New Fee Policy

We recommend that (1) student fees be set using the methodology proposed by the fee policy committee, resulting in a General Fund savings of \$9.5 million and (2) the Legislature augment the budget by \$2.1 million to increase the amount of financial aid available in order to offset the effect of the fee increase on students with demonstrated need.

The Legislature directed the California Postsecondary Education Commission (CPEC) to convene a committee in 1984 to develop a long-term student fee policy. The committee's report submitted in December 1984, recommended that (1) fees be set annually according to a specified methodology, (2) the existing graduate fee differentials be eliminated at no cost to the state, and (3) sufficient financial aid be provided to offset fee increases for students with demonstrated need.

We believe that the policy developed by the fee policy committee is reasonable. Consequently, we recommend that UC student fee levels and financial aid in 1985-86 be based on the recommended policy. This would require (1) undergraduate fees to increase by \$91 (7.3 percent), (2) graduate fees to increase by \$31 (2.4 percent), and (3) an increase of \$2.1 million in state support for financial aid to offset the effect of the fee increase on students with demonstrated need. The revenue raised by the fee increase would total \$9.5 million. Thus, the General Fund savings net the \$2.1 million recommended increase for financial aid would be \$7.4 million (Analysis page 1265).

### 3. Faculty Salaries "Competitive Margin" Not Necessary

We recommend that the Legislature budget for faculty salary increases at UC and Hastings College of the Law an amount sufficient to provide a 7.3 percent increase in 1985-86--rather than 8.8 percent--in order to achieve parity with comparable institutions for a General Fund savings of \$5.1 million.

The UC Regents historically have recommended that faculty salaries be increased to achieve average salary parity with the following eight institutions:

Cornell University	University of Illinois
Harvard University	University of Michigan
Stanford University	University of Wisconsin-Madison
State University of New York at Buffalo	Yale University

Faculty salaries at UC are 1.5 percent ahead of the average of the comparison eight in the current year and would have to be increased by 7.3 percent in 1985-86 in order to be equal to the average of the comparison eight.

The Regents and Governor, however, request an increase of 8.8 percent in 1985-86--1.5 percent above the parity figure. In their salary request, the Regents state "It is now vital to sustain this competitive margin (1.5 percent) and not to lose the long-term benefits achieved by this year's substantial gains."

We do not believe that either the Regents or the Governor has made a compelling case for abandoning parity as the basis for setting UC faculty salaries. The UC is and has been a highly regarded university with many departments in the first rank nationally. The parity standard has not prevented it from achieving this preeminence.



We find no evidence whatever that the salary parity standard has held back the university, or that a 1.5 percent competitive margin is needed. Accordingly, we recommend that the Legislature provide sufficient funds to increase UC and Hastings College of the Law faculty salaries by 7.3 percent in 1985-86--the increase needed to achieve parity with the eight comparable institutions-- for a General Fund savings of \$5.1 million (Analysis page 1270).

4. Supercomputer Support Should Be From Regents' Opportunity Fund

We recommend deletion of the \$1 million General Fund augmentation for supercomputing because this activity primarily supports the externally funded research program and consequently should be funded from the Regents' Opportunity Fund.

Our review of this request failed to identify benefits to the state that would be significant enough to warrant an annual \$1 million General Fund expenditure for this purpose. The primary benefit will accrue to those scientific researchers who usually work on federally funded projects. Consequently, the Regents' Opportunity Fund, which derives its revenues from overhead charges against federal contracts and grants, would appear to be a more appropriate funding source.

Accordingly, we do not believe a General Fund augmentation is needed to secure the benefits sought by the university, and therefore we recommend that the \$1 million augmentation for the supercomputer be deleted in favor of support from the Regents' Opportunity Fund (Analysis page 1253).

5. Superconducting Super Collider Site Study Should Be Funded From Regents' Opportunity Fund

We recommend deletion of the \$500,000 General Fund augmentation for use in developing information that might lead the federal government to locate the proposed \$4 billion to \$5 billion Superconducting Super Collider (SSC) in California because this activity primarily supports the externally funded research program, and consequently should be funded from the Regents' Opportunity Fund.

Based on the information provided by the university, it appears that the primary benefits from the SSC would accrue to scientific researchers working on federal contracts and not state General Fund research projects. Consequently, we believe the Regents' Opportunity Fund would be a more appropriate funding source for the siting study. In addition, the Regents should be able to solicit support for the study from other potential users of the SSC, such as Stanford and Cal Tech, as well as from private industry.

Consequently, we do not believe a General Fund appropriation is needed to support the proposed SSC study, and accordingly, we recommend that the \$500,000 augmentation be deleted in favor of support from the Opportunity Fund and non-state sources (Analysis page 1255).

6. Legislative Intent on Preventive Health Residents Not Recognized in Budget

We recommend a General Fund augmentation of \$227,000 in order to provide stipend support for students in preventive medicine in accordance with the policy decision made by the Legislature in 1984.

Medical residents in fields other than preventive medicine at hospitals owned and operated by the university receive 40 percent of their stipend costs from the state. In light of this, the Legislature expressed its intent in 1984 to fund UC public health residency programs in 1985-86 at the same level as medical residents at UC owned hospitals. The budget does not include support for these stipends.

Because the Legislature has determined that the cost of these stipends should be shared, we recommend a General Fund augmentation of \$227,000 in order to provide 40 percent of the stipend cost for the 24 budgeted preventive medicine residency positions in 1985-86 (Analysis page 1251).

The University of California--Capital Outlay

(Item 6440-301/page 1273)

	<u>1983-84</u> <u>Actual</u>	<u>1984-85</u> <u>Estimate</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$151,199	(pending)	-\$18,794

Highlights of Our Recommendations

1. Augmentation of Hospital Reserve Funds (-\$10,000,000)

The budget includes \$10,000,000 from the Special Account for Capital Outlay to fund capital improvements and equipment purchase projects at the five university teaching hospitals.

This capital outlay funding request is coupled with a \$15,000,000 request included in the university's support budget which would provide General Fund support for hospital operations at Davis, Irvine, and San Diego. (Analysis page 1262 and page 1278).

2. Genetics and Plant Biology Building, Berkeley (-\$1,601,000)

The budget proposes \$1,601,000 to finance a portion of the preliminary plans for a new genetics and plant biology building on the Berkeley campus. The 116,480 assignable square foot (asf) building is estimated to cost \$41,326,000 and is to be financed through a combination of state funds and non-state funds on a 50-50 basis.

This building represents the second facility in a three-phase program to provide new instructional and research facilities for the biological sciences on the Berkeley campus. The first phase, funded for construction in the 1984 Budget Act, is the Life Science Building (LSB) addition and the third phase of the program calls for renovation of the existing Life Science Building. The total state funds needed to complete all three phases is estimated at \$127.7 million including short-term financing costs through bond anticipation notes.

The current financing proposal for this building represents a significant change from the one presented when the Legislature approved funds for the LSB addition in 1983. Initially, the LSB addition and the LSB renovation projects were to be funded completely from state funds with the Genetics and Plant Biology Building being funded completely from non-state sources. Thus, the current proposal would require the state to participate in the funding of two major buildings with a substantial portion of the funding needed to complete the project dependent on

non-state funds (\$41.3 million) which the university has not yet secured or identified.

In our judgment, the state should not be placed in a position of participating in the financing of these two buildings. The university's original financing scheme made each of the three phases whole and financially independent. This scheme is far preferable because it limits the state's financial responsibility to completing two projects and establishes a specific goal for the university's fund raising activities--to fund the Genetics and Plant Biology building. We therefore recommend that the Legislature stick with the original plan for financing these facilities and delete the \$1,601,000 for the state's share of preliminary planning for the Genetics and Plant Biology Building (Analysis page 1283).

### 3. Life Science Building Renovation, Berkeley (-\$588,000)

The budget includes \$588,000 for the state's share of preliminary planning for renovating the Life Science Building on the Berkeley campus. The budget proposes that this project be financed through a combination of nonstate and state funds on a one-third/two-thirds cost sharing basis. As discussed above, however, we recommend that when funds are needed for this project, the state provide 100 percent financing in lieu of sharing in the cost of the Genetics and Plant Biology Building. The estimated total project cost for the renovations is \$62.7 million.

Our analysis indicates that the university's request for preliminary planning of the Life Science Building renovations is premature. It would be advantageous for the state to defer funding for preliminary plans until 1986-87, because the start of construction on the renovation project is dependent upon the university's success in financing and completing the Genetics and Plant Biology Building. If the university is not successful in raising sufficient funds for this building, the university may have to revise the state-funded renovation project before initiating preliminary plans. If fund raising activities for the Genetics and Plant Biology Building lag, the scheduled start of construction on LSB renovations and the need for preliminary planning funds would also be delayed. For these reasons, the Legislature has nothing to lose and something to gain by deferring funds for preliminary plans until 1986-87. Accordingly, we recommend the funds for preliminary plans in connection with this project be deleted (Analysis page 1285).

### 4. Projects to Upgrade or Increase Research Space

The budget includes funds for three projects to upgrade space or provide additional space or upgrade space for activities financed from other than state funds. These projects include:

- o Hormone Research Laboratory Improvements, San Francisco (\$825,000). This project would alter 5,000 asf on the San Francisco campus related to recombinant DNA research.

- o Pharmacology Laboratory for Cell Research, San Francisco (\$725,000). This project upgrades approximately 2,855 asf to provide three state-of-the-art research laboratories to conduct basic pharmacology investigations.
- o Kearney Agricultural Center Development (\$383,000). This request is for preliminary planning and working drawing funds for a new 19,225 asf research laboratory building at a university agricultural field station in the central San Joaquin Valley. The estimated future cost for construction and equipment in connection with this project is \$4,217,000.

Our review of these three projects indicates that the projects are primarily aimed at upgrading space and facilities for grant-funded or nonstate funded research activities. According to the Governor's Budget, the university expects to receive \$44.4 million from overhead assessments on federal contracts and grants. In that these projects are intended to continue the viability of the grant-funded programs, the university should be willing to use a portion of these funds to sustain the programs. We therefore recommend that the funds requested for these projects be appropriated as a loan to be repaid by the university from research grant overhead funds (Analysis page 1293).

#### 5. Shields Library Alterations and Expansion, Davis (-\$1,200,000)

The budget includes \$1,340,000 for preliminary planning for an addition to the Shields Library on the Davis campus. The 131,000 asf addition, coupled with existing library space of 149,000 asf, will provide sufficient library space to meet projected needs in 1998-99.

Our analysis indicates that the request for preliminary planning of this \$36.4 million project is premature. When the Legislature approved the university's proposal for construction of regional library facilities, the university stipulated that no additional library space would be requested for any of these volumes and construction funds would not be scheduled for any additional campus library shelving space until the initial annual deposits had been achieved in the regional facilities. As of September 30, 1984, Davis had only deposited 30,000 volumes of its initial target deposit of 40,000 volumes. Before the Legislature considers appropriation of funds for library expansion on the Davis campus, the university should make good on its commitment to house seldom-used books in the regional facilities.

In addition, our review of the proposal indicates that even if the campus meets this commitment, the project needs to be revised substantially. First, the planned library space needs are targeted for 1998-99, while state policy is to consider needs based on two years beyond the year of occupancy, which in the case of the Davis projects would be 1992-93. With this change, the amount of space provided for storage of volumes would be reduced significantly. Second, the proposal fails to take into account the fact that the regional facilities, when fully expanded, will house 11 million volumes. If Davis sustains its initial share of

storage capacity (15 percent), the on-campus storage requirements will be significantly less than proposed in the project. Third, the project includes replacement of "core area stacks" which the university indicates are not adequate for on-campus storage of library materials. Our analysis indicates that the core area stacks represents an ideal location for seldom used volumes which, for one reason or another, the university determines must be kept on campus for some time before transfer to the regional facility.

For these reasons, we recommend deletion of the \$1,340,000 for preliminary planning of the Davis Shields Library addition (Analysis page 1296).

6. Campus Library, San Francisco (-\$1,200,000)

The budget includes \$1,200,000 for preliminary planning for a new 88,300 asf library building on the San Francisco campus. The new facility would replace 52,000 asf of space currently assigned to the library function in existing buildings.

Our analysis indicates that the preliminary planning request for this \$25.3 million building should be deleted because the project should be revised to maximize utilization of existing space currently available for library use. In addition, the university should reduce its request to reflect the projected need for 1992, rather than the year 2000, consistent with the traditional method for planning of capital outlay projects. For these reasons, we recommend deletion of the \$1,200,000 for preliminary planning for the new library (Analysis page 1297).

7. Seismic Safety Corrections, South Hall, Berkeley (-\$346,000)

The budget includes \$346,000 for preliminary plans and working drawings to make seismic safety corrections to South Hall on the Berkeley campus. This building, constructed in 1873, has serious structural deficiencies and does not meet current earthquake safety code requirements. The proposed project would modify the facility to provide approximately one-half of the structural stability required for new buildings. The estimated future cost for construction is \$3.9 million.

The cost of the current proposal represents 140 percent of the cost of a new facility based on cost guidelines for office space. Moreover, even with the costly investment, the building would not meet current seismic code requirements. Because the current proposal is not a prudent investment, we recommend deletion of the funds for a reduction of \$346,000 (Analysis page 1301).

8. High Technology Education Bond Financing

Chapter 1268, Statutes of 1983, authorizes financing of new high technology buildings through the sale of revenue bonds. Thus far, the State Public Works Board has authorized issuance of \$107 million for bond anticipation notes to allow construction of new buildings on the Davis,

Santa Barbara, and Berkeley campuses. The budget proposes that construction funds totaling \$84,750,000 be financed through bonds.

Our analysis indicates that the funds to pay debt service on these bonds should be appropriated from the Capital Outlay Fund for Public Higher Education--the fund established by the Legislature for capital improvements in higher education. On this basis, we recommend the Legislature adopt language in the Budget Bill for both UC and CSU to provide for repayment from the COFPHE fund (Analysis page 1311).

The California State University

(Item 6610/page 1320)

	1983-84 Actual	1984-85 Estimate	1985-86		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$949,984	\$1,151,552	\$1,253,814	\$1,235,720	-\$18,094
Personnel- years.....	33,406.9	32,461.7	32,380.9	32,374.2	-6.7

Highlights of Our Recommendations

1. Lottery Revenues

We recommend that State Lottery Fund revenue budgeted for support of the CSU's minority underrepresentation program and teacher education program be reallocated to instructional equipment replacement (IER), to be replaced by General Fund revenue budgeted for IER. The minority underrepresentation and teacher education programs may continue beyond 1985-86; lottery revenue, however, may prove to be volatile in nature and therefore unreliable as a source of revenue for ongoing programs. Our analysis also indicates that the minority and teacher education programs are not exclusively for the instruction of students, whereas the lottery initiative prohibits the use of lottery revenue for non-instructional purposes (Analysis page 1329).

2. Master Teacher Honorariums

We recommend deletion of \$1.5 million requested to augment CSU's honorarium payments to public school master teachers--classroom teachers who supervise student teachers. The budget proposal would permit CSU to increase the honorarium--a supplement to the teacher's regular salary--from \$30 to \$150 per year, for most master teachers. Our analysis indicates that there are more cost-effective alternatives for increasing the quality of master teaching. Master teachers, moreover, can seek additional remuneration and benefits for extra work-related duties through the collective bargaining process (Analysis page 1335).

3. Student Fees

We recommend that (1) CSU be required to set student fees at \$630 for full-time students and \$372 for part-time students in 1985-86, consistent with the methodology developed at the Legislature's request, by the student fee policy committee, for a state General Fund savings of \$16.4



million and (2) the State University Grant program be augmented by \$2.0 million to provide sufficient financial aid to offset the effect of fee increases on needy students. In December 1984, the student fee policy committee recommended that (1) fees at UC and CSU be set annually, using a specified methodology, (2) existing fee differentials for graduate students be eliminated, and (3) sufficient financial aid be provided to offset fee increases on needy students. The methodology calls for a basic fee increase of 6.1 percent at CSU in 1985-86, plus selected increases to offset the cost of eliminating the graduate differential.

The Governor's Budget proposes (1) no increase in fees, (2) elimination of the existing \$36 graduate differential, and (3) reclassification of students taking 6.0 units from full-time to part-time status, thereby reducing their fees from \$573 to \$333 per year. The cost of these changes would be funded by the state.

Our proposal, if adopted, would essentially implement the policy committee's recommendations for CSU, permitting a net General Fund savings of \$14.4 million (Analysis page 1344).

#### 4. Faculty Salaries

We recommend that the requested 10.5 percent salary increase for CSU faculty be reduced by 0.3 percent. The budget proposes funding for a 10.5 percent increase for CSU faculty salaries in 1985-86, to be implemented in three stages during the year.

Our analysis indicates that the methodology used to compare CSU faculty salaries to those paid by its comparison institutions places undue emphasis on CSU's top-heavy staffing pattern--that is, the relatively high proportion of full professors at CSU. We propose an adjustment for this factor which would result in a General Fund savings of \$160,000 in 1985-86 and approximately \$3.2 million annually thereafter (Analysis page 1355).

California State University--Capital Outlay

(Item 6610-301/page 1359)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86	
				Recom- mendation	Difference
Expenditures... (thousands)	--	--	\$56,408	(pending)	-\$5,070

Highlights of Our Recommendations

1. Statewide Space Needs for Engineering

The budget includes funds for three projects that would provide additional space for engineering. Our analysis of enrollment trends in the engineering field shows that while engineering enrollment has increased substantially, overall campuswide enrollments have remained fairly stable. If this trend continues, the CSU should be able to accommodate the needs for engineering enrollment through redirection of existing building space rather than construction of new space.

Our review indicates that the Legislature needs more information on a systemwide basis before it considers requests for additional engineering space on the various campuses. We therefore recommend that prior to budget hearings the CSU provide the Legislature with specific information concerning engineering enrollments on a systemwide basis (Analysis page 1367).

2. Engineering Addition, Fullerton (-\$321,000)

The budget includes \$321,000 for preliminary planning and working drawings for an engineering building addition on the Fullerton campus. The new 31,500 assignable square foot building would increase capacity on the Fullerton campus by 314 full-time equivalent (FTE) students. The estimated future cost for construction and equipment is \$7.2 million.

Based on state space guidelines, the Fullerton campus has sufficient capacity to meet current and projected campuswide enrollment needs. Consequently, while the type of space existing on the Fullerton campus may not be optimum given the recent shift in enrollment to engineering and computer science, the amount is adequate. CSU should evaluate whether or not existing space which is no longer needed can be shifted to meet student demands or altered to meet needs in specific disciplines. We therefore recommend deletion of the requested funds (Analysis page 1370).

3. Engineering/Computer Science Addition, Sacramento (-\$460,000)

The budget includes \$460,000 for preliminary planning and working drawing funds for a new engineering/computer science addition on the Sacramento campus. The estimated future cost for the 47,147 asf building is \$10.8 million. Our analysis of this request indicates that it is not justified because:

- o The amount of lecture space proposed in the new building is excessive, given state space guidelines.
- o The Sacramento campus currently has an excess amount of space in laboratory capacity, and the proposed building would increase this excess from 25 percent to 29 percent over the need.
- o The need to replace all existing temporary faculty offices needs to be addressed in a separate project.
- o The CSU has not developed any state standards on which to evaluate the need for providing additional self-instruction computer stations on the various campuses.

For these reasons, we recommend deletion of the preliminary plans and working drawing funds for the project. A revised proposal, which addresses the need for alterations, new permanent faculty offices, and a proposal for self-instruction laboratories consistent with some statewide planning guidelines, would warrant legislative consideration (Analysis page 1371).

California Community Colleges

(Item 6870/page 1392)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86 Recom- mendation	Difference
Expenditures... (thousands)	\$1,067,274	\$1,117,196	\$1,157,504	\$1,149,789	-\$7,715
Personnel- years.....	125.5	145.3	143.4	145.4	2

Highlights of Our Recommendations

1. Funding For Average Daily Attendance Growth Overbudgeted

We recommend that the proposed appropriation for average daily attendance (ADA) growth in the community colleges be reduced by \$7.1 million.

The Governor's Budget requests \$18.2 million from the General Fund to support ADA growth in 1985-86. This amount would fund an additional 11,310 ADA statewide--an increase of 1.8 percent over the estimated current-year level. This increase is based on the provisions of existing law which authorize state-funded community college ADA to grow annually at the same rate that the state's adult population is growing.

Our analysis indicates that, while ADA growth will occur in some districts, community college ADA statewide will most likely continue to decline in 1985-86. Community college ADA has fallen each year since 1981-82, from 750,715 to 640,690 in 1984-85. The budget's estimate of 652,000 ADA statewide assumes that the downward trend since 1981-82 will be reversed in the budget year.

We can find no analytical basis for projecting a reversal in the recent trend, and therefore conclude that the Governor's Budget overfunds ADA growth.

Using different assumptions to predict the ADA growth in individual districts, we estimate that the state-funded ADA will increase by approximately 6,700 in 1985-86. This would be a 1.0 percent increase statewide and would require an appropriation of \$11.1 million to be fully funded. Accordingly, we recommend that \$7.1 million be deleted from the \$18.2 million requested in the budget (Analysis page 1392).

2. Proposed \$31.7 Million One-Time Funding Adjustment for ADA Loss  
Needs Clarification

We withhold recommendation on \$31.7 million to restore revenue losses of districts that experience average daily attendance (ADA) declines in 1985-86.

The Governor's Budget requests \$31.7 million from the General Fund to restore, in part, the revenue losses experienced by districts that will continue to lose ADA in 1985-86. These funds would be provided for 1985-86 only; they would not be considered a part of the recipient district's base revenues.

Our analysis confirms the need to provide additional funds to districts that would experience significant losses in base revenues resulting from ADA declines. The Governor's proposal, however, is not specific enough to permit the Legislature to evaluate it. Neither the Department of Finance nor the Chancellor's Office has developed a specific plan for allocating these funds among the community college districts.

We withhold recommendation on the request for \$31.7 million for the one-time funding adjustment, pending receipt of a plan which details what criteria will be used to allocate the funds and which districts will qualify for the adjustment (Analysis page 1393).

California Community Colleges--Capital Outlay

(Item 6870-301/page 1405)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$26,797	(pending)	-\$5,032

Highlights of Our Recommendations

1. Method of Determining State's/District's Share of Capital Outlay Costs Should be Reevaluated

Since the enactment of the Community College Construction Act in 1980, the state's share of community college capital outlay project has increased significantly. The current participation formula, specified in Section 81838 of the Education Code, is based on district weekly student contact hours and each district's ending budget balance relative to the statewide average. Use of this formula has led to a dramatic reduction in the district's share of costs in recent years. In addition, much of the increase in the state's share is due to the inability of many districts to provide their matching share as determined by the Education Code. For example, in fiscal year 1981-82, six districts requested additional state funding for their projects citing an inability to provide their required matching share. This number increased to 12 districts in 1984-85 and nine districts have requested additional state support for the budget year.

If this trend continues, district participation in the community college capital outlay program will become pro forma and the state, for the most part, will have assumed full financial responsibility. This will (1) reduce the number of community college capital outlay projects that can be funded, (2) leave some districts with no state help at all and (3) virtually eliminate local autonomy and local responsibility for community college capital improvements.

We believe the Legislature needs to reevaluate the method used to determine the state's and district's share of community college capital outlay costs. To facilitate this reevaluation, we recommend that the California Postsecondary Education Commission conduct a study of the current method used to fund community college capital outlay projects and report its findings and recommendations to the Legislature by November 1, 1985 (Analysis page 1408).

2. Fire Access and Loop Road Extension, Saddleback Community College District (-\$1,456,000)

The budget includes \$1,456,000 to finance the state's share of working drawings and construction for site development work at Saddleback Community College South campus. The district proposes to fill a 60-foot deep canyon between the new general classroom building (currently under construction) and Marguerite Parkway which borders the north and west side of the campus. After the canyon is filled, the district proposes to construct a roadway to connect Marguerite Parkway with the new general classroom building with the campus drive.

The district's justification for this project rests principally on its contention that without this new road, adequate fire protection to the general classroom building will be jeopardized. Our analysis indicates however, that this additional roadway is not needed. The general classroom building, funded in the 1983 Budget Act, included as part of the project a road for fire access to accommodate fire fighting equipment. This road extends around the perimeter of the building, provides access for fire fighting equipment, and meets all existing fire safety code requirements. Consequently, there is no need for this project and we recommend that funding requested for it be deleted. (Analysis page 1414).

3. Library Secondary Effects, Phase II--Palomar Community College District (-\$1,162,000)

The budget proposes \$1,162,000 for the state's share of a project to complete Phase II of the secondary effects of constructing a new library at Palomar College. The Phase II project would remodel eight separate areas on the campus to provide additional classrooms, laboratories, and offices for faculty and staff.

According to the district's 1985-86 five-year plan, the district is presently over capacity in classrooms and laboratory space by 5,000 assignable square feet (asf) and 7,500 asf, respectively. The Phase II project, however, would increase the district's classroom space by 3,125 asf and its laboratory space by 2,541 asf. In addition, the project would reduce district office space from 106 percent to 103 percent of projected need.

Given the adequacy of the district's existing space, there is no apparent need to create additional space as proposed under the Phase II project. Consequently, we recommend that funding for the project be deleted. If the district has certain specialized laboratory functions which require additional or altered space, a proposal to meet these needs would warrant legislative consideration (Analysis page 1415).

4. Childhood Education Center--Coast Community College District (-\$359,000)

The budget proposes \$359,000 for the state's share of a project to construct a new 4,750 assignable square foot (asf) childhood education training facility at Orange Coast College. The proposed facility would

provide separate areas for parent-child classes, infant-toddler laboratories, preschool laboratories, skills laboratory, separate observation area, a conference room, and offices for program staff.

Our analysis indicates that construction of a new building for childhood education is not justified. Based on district enrollments and state space standards, district lecture space is presently 133 percent of need--an excess of approximately 47,000 asf. Therefore, the district should consider remodeling some of its excess lecture space to provide the additional space needed for the childhood education program. On this basis, we recommend that funding for this project be deleted for a savings of \$359,000 (Analysis page 1416).



Student Aid Commission

(Item 7980/page 1422)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86 Recom- mendation	Difference
Expenditures... (thousands)	\$112,311	\$188,825	\$225,862	\$225,040	-\$822
Personnel- years.....	161	173.3	182.3	174.3	-8

Highlights of Our Recommendations

1. Student Aid Commission Management Needs Improvement

Over the course of our review, we have found that the Student Aid Commission and its staff have demonstrated inept management and poor judgment in administering its programs and complying with legislative intent. Examples of its poor record include:

- o Massive cost overruns on the commission's guaranteed student loan processing contract with the Electronic Data Systems Corporation (EDS).
- o Implementation of the Assumption Program of Loans for Education (APLE) in a way that is contrary to legislative intent and does little to increase the supply of teachers statewide.
- o Failure to comply with the Legislature's directive regarding the study of guaranteed student loan default rates.
- o Failure to award the number of Bilingual Teacher Grants called for by the Legislature in the 1984 Budget Act.

In order to lay the foundation for making needed improvements in the management and operation of this important state agency, the Legislature appropriated \$100,000 in the 1984 Budget Act for a study of the commission. A contract was awarded to the firm of Price Waterhouse on October 29, 1984, and a preliminary report from the contractor will be issued on March 1, 1985. A final report will be issued by June 30, 1985 (Analysis page 1426).

GENERAL GOVERNMENT

Office of Criminal Justice Planning

(Item 8100/page 1445)

	<u>1983-84</u> <u>Actual</u>	<u>1984-85</u> <u>Estimate</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$25,619	\$27,419	\$32,128	\$27,977	-\$4,151
Personnel- years.....	56.7	66.9	71	69	-2

Highlights of Our Recommendations

1. Child Sexual Abuse Training Centers

The budget proposes to continue funding the Child Sexual Abuse Training Centers at a General Fund cost of \$737,000 in 1985-86. We recommend that these centers be funded from the Victim/Witness Assistance Fund instead, because the fund is already used to finance programs with similar objectives and there is an adequate reserve balance in the fund. This recommendation would provide sufficient funding to support the level of program activity proposed in the budget and make additional General Fund monies available for other high priority programs (Analysis page 1450).

2. Child Sexual Assault Prosecution Program

The budget proposes to establish a new program to reduce the number of repeat child sexual abuse offenders by enhancing the prosecution efforts in district attorneys' offices. We recommend that funds proposed for the program be deleted because (a) it does not fall within the statutory responsibilities of the Office of Criminal Justice Planning and (b) the Legislature has not established guidelines for the program. This will result in General Fund savings of \$1,472,000 and a deletion of one proposed new position. If the Legislature wishes to establish this program, funds for the budget year could be included in the authorizing legislation (Analysis page 1452).

3. Local Public Prosecutors and Public Defenders Training

The Governor's Budget proposes to fund the Local Public Prosecutors and Public Defenders Training program throughout the budget year. We recommend a reduction of \$375,000 from the Local Public Prosecutors and Public Defenders Training Fund in order to limit the program to the six-month period (July 1, 1985, through December 31, 1985) authorized under existing law. If legislation is enacted to continue the program, we recommend that funds be provided in that legislation (Analysis page 1453).

4. Community Crime Resistance Program

The Governor's Budget proposes to fund the Community Crime Resistance program throughout the budget year. We recommend a General Fund reduction of \$886,000 in order to limit the program to the six-month period (July 1, 1985, through December 31, 1985) authorized under existing law. If legislation is enacted to continue the program, we recommend that funds be provided in that legislation (Analysis page 1454).

5. Career Criminal Apprehension Program

The Governor's Budget proposes to fund the Career Criminal Apprehension program throughout the budget year. We recommend a General Fund reduction of \$1,317,000 in order to limit the program to the six-month period (July 1, 1985, through December 31, 1985) authorized under existing law. If legislation is enacted to continue the program, we recommend that funds be provided in that legislation (Analysis page 1455).

Agricultural Labor Relations Board

(Item 8300/page 1480)

	1983-84 <u>Actual</u>	1984-85 <u>Estimate</u>	<u>Proposed</u>	1985-86 <u>Recom- mendation</u>	<u>Difference</u>
Expenditures..... (thousands)	\$7,369	\$8,127	\$8,095	\$8,195	\$100
Personnel- years.....	148.7	143.8	141.5	141.5	--

Highlights of Our Recommendations

1. Processing of Unfair Labor Practice (ULP) Charges

While the ALRB still has a large backlog of unprocessed ULP charges, this backlog is still substantially smaller than in 1983-84. We are unable to determine at this time, however, whether the ALRB has adequate staff on an ongoing basis to further reduce the backlog and keep up with current charge filings. This is because the ALRB does not have workload or performance standards for regional personnel. Accordingly, we recommend that the General Counsel adopt such standards and that he report quarterly concerning the status of ULP charge processing. (Analysis, page 1485)

2. Ongoing Compliance Efforts

Currently, there are 80 cases which require some type of compliance effort on the part of regional personnel. In addition, there are approximately 70 more cases which are currently being reviewed by the courts. Our review of the ALRB's compliance program indicates that the agency is not prepared to pursue compliance in these cases because it does not have an active and workable compliance program. We recommend, therefore, that the Board and the General Counsel (1) develop a timetable for implementation of an active compliance policy, including personnel performance standards and case processing guidelines, and (2) periodically report their progress to the Legislature in implementing a compliance program (Analysis, page 1486).

3. Backlog in Compliance Cases Requiring Monetary Remedies (+\$100,000)

Information from the ALRB indicates that there are 37 cases for which regional personnel still must compute the total amount owed under back pay or "make-whole" remedies. Some of these cases have been awaiting specifications for more than a year. Our analysis indicates that the ALRB has made little progress in issuing specifications in these cases, in part

due to a lack of available regional personnel. Accordingly, we recommend that the Legislature make a one-time, \$100,000 augmentation to the agency's budget in 1985-86 in order to pursue compliance in back pay and make whole cases (Analysis, page 1487).

Department of Industrial Relations

(Item 8350/page 1492)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86 Recom- mendation	Difference
Expenditures..... (thousands)	\$98,087	\$116,249	\$119,112	\$116,985 <sup>a</sup>	-\$2,127
Personnel- years.....	2,038.9	2,276.3	2,254	(pending)	(pending)

a. Recommendation pending on \$64,955,000.

Highlights of Our Recommendations

1. Department Needs Plan for Automation

The Governor's Budget proposes approximately \$2 million in new expenditures related to automation projects throughout the DIR. Our review of information provided by the department in response to legislative requests reveals, however, that the DIR has not provided the Legislature with adequate information to evaluate the DIR's automation expenditures, nor has the department integrated various automation projects into a broad, departmentwide approach. Accordingly, we recommend that the Legislature require the department to (1) expend up to \$200,000 for an external consultant's evaluation of automation needs department-wide and (2) refrain from encumbering funds for new automation projects until the consultant's evaluation is complete and the Legislature has been notified of the department's intention for expending funds (Analysis page 1501).

2. DIR Overbudgeted for Data Processing (-\$1.7 million)

Between 1979-80 and 1981-82, the Legislature augmented the DIR's budget by approximately \$1.5 million to develop an on-line case-tracking system for Worker's Compensation Appeals Board district offices. In recent years, these funds have been diverted to various other automation projects within the department. As a result, the WCAB on-line system is not yet operational. Our review of the department's data processing budget indicates that the DIR currently lacks documentation for data processing projects which would justify the continuation of these funds in the department's base. Consequently, we recommend a reduction of \$1.7 million (which includes adjustments for annual price increases) from the department's budget for data processing (Analysis page 1502).

### 3. Repeal of Sunset on Asbestos Workers' Account

In 1980, the Legislature authorized the Asbestos Workers' Account (AWA) and appropriated \$2.6 million in General Fund money to fund the account. The account is administered by the DIR for the purpose of providing interim benefits to workers suffering from asbestosis while they await final settlement or adjudication of their workers' compensation claims. Currently, the account is scheduled to sunset on December 31, 1985. Our review of the AWA revealed that (1) there is still a need for the program to provide benefits to a small group of workers and (2) the AWA is overcapitalized, given the current level of demand for benefits. We recommend, therefore, that the sunset date be extended until December 31, 1988, at which time the Legislature can assess the need for the program. We further recommend that \$1,000,000 of the AWA revert to the General Fund because the level of funding currently available in the account exceeds the demand for benefits (Analysis page 1507).

California Exposition and State Fair

(Item 8560/page 1534)

	1983-84 Actual	1984-85 Estimate	1985-86		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$10,194	\$9,135	\$7,999	7,999 <sup>a</sup>	--
Personnel- years.....	181.0	149.8	149.8	149.8	--

a. See (1) below.

Highlights of Our Recommendations

1. Meaningless Budget Data

We recommend that the Legislature not approve a budget for Cal Expo until the Department of Finance submits (a) a meaningful expenditure plan in support of the Cal Expo budget request and (b) a realistic estimate of current-year expenditures (Analysis page 1536).

2. Early Retirement of Cal Expo Revenue Bonds is Costly

We recommend that the Legislature adopt supplemental report language requesting the State Public Works Board not to retire Cal Expo revenue bonds faster than the prescribed minimum rate, because it would cost the state an additional \$344,000 to retire the bonds early (Analysis page 1537).

3. Proposed Deficiency Legislation

We recommend the Legislature not approve a deficiency appropriation for Cal Expo in 1984-85 until the Department of Finance provides the Legislature with (a) reliable expenditure and revenue estimates for the current year, (b) a full explanation of the cause of the projected deficit, and (c) an operating and management plan that will prevent future deficits from occurring (Analysis page 1539).



Department of Food and Agriculture

(Item 8570/page 1541)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86 Recom- mendation	Difference
Expenditures... (thousands)	\$90,274	\$78,360	\$76,301	\$74,449 <sup>a</sup>	-\$1,852
Personnel- years.....	2,078.5	2,162.5	2,106.1	2,111.1	5

a. Recommendation pending on \$450,000.

Highlights of Our Recommendations

1. County Weights and Measures Programs

We recommend a reduction of \$475,000 to delete funds requested to augment county weights and measures activities because the department has not documented that the augmentation would improve the quality of these programs, rather than merely provide fiscal relief to the counties (Analysis page 1556).

2. Agricultural Border Inspection Station

We recommend a reduction of \$260,000 to delete funds for eight new positions at the department's border inspection stations, because the department has not justified the need for additional staff on a workload basis.

The department currently operates 16 agricultural border inspection stations. The proposed eight additional staff would be located at the existing Truckee, Blythe, and Yermo stations and at the new Dorris and Hornbrook stations that are expected to open next fall. The department has not provided adequate support for its contention that workload at the stations has increased (Analysis page 1550).

Department of Food and Agriculture--Capital Outlay

(Item 8570-301/page 1557)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$9,822	\$7,977	-\$1,845

Highlights of Our Recommendations

1. John E. Thurman Veterinary Lab (-\$1,012,000)

Item 8570-301-036(1) contains \$8,889,000 for construction of the John E. Thurman Veterinary Lab at the University of California, Davis (UCD). The proposed facility will provide approximately 26,000 assignable square feet (asf) of offices, laboratories, and laboratory support and will be constructed adjacent to the existing veterinary medical teaching hospital.

Supplemental report language in 1984 indicated that the estimated future cost of construction was \$7,818,000 for this project. The amount proposed in the budget, however, is \$1,071,000 or 13.7 percent higher than the earlier estimate. Subsequent to our discussions with the department concerning this project, the department has agreed to reduce the amount requested by \$463,000, to \$8,426,000.

This item also includes \$305,000 for the installation of an incinerator to dispose of animal carcasses. Based on information submitted by the department, the new lab should be able to effectively and efficiently make use of an existing UCD incinerator. If after gaining experience in using the UCD incinerator, the department determines that a second incinerator is required, it can be constructed without disturbing the laboratory building. Consequently, we recommend that funds included for the incinerator be deleted for a reduction of \$305,000.

Construction costs for the laboratory facility were based on an anticipated construction cost index for July 1, 1985. Inflation, however, has not increased as expected and thus the amount included for construction of the vet lab is overstated by \$244,000.

For these reasons, we recommend that Item 8570-301-036(1) be reduced by a total of \$1,012,000 (Analysis page 1558).

Public Utilities Commission

(Item 8660/page 1565)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$40,085	\$47,874	\$51,906	\$51,683 <sup>a</sup>	-\$233
Personnel- years.....	887.3	934.1	937.0	941.8	4.8

a. Recommendation pending on \$2,043,000.

Highlights of Our Recommendations

1. More Information Needed on Relocation Expenses

The budget proposes the one-time expenditure of \$2,042,000 for costs associated with the relocation of the Public Utilities Commission's (PUC) headquarters to the new San Francisco State Office Building. Our review of the proposed relocation expenses raises two principal concerns. First, the scheduled occupancy date of the new state building in San Francisco is January 1986. However, the staff of both the Office of the State Architect and the PUC indicate that the occupancy date could actually be delayed by several months. Second, we have received inconsistent information on individual cost components associated with the move.

The commission may be able to address these concerns by providing updated information on the exact date of the proposed move and the actual costs which would be incurred. Pending receipt of such information, we withhold recommendation on the \$2,042,000 proposed for relocation expenses in the budget year (Analysis page 1569).

2. Office Automation Plan Appears to be Stalled (-\$400,000)

The budget proposes \$400,000 in 1985-86 in order to fund Phase II of the commission's three-year office automation plan. This amount apparently will be used to enhance the commission's data filing capability. At the time the Analysis was prepared, the PUC had not yet received approval from the Office of Information Technology (OIT) for the feasibility study report on Phase I of its automation project (for the purchase of microcomputers, word processors, and related equipment). Moreover, detailed documentation regarding Phase II of the overall project has not been submitted; nor is there any indication as to when it will be reviewed by the OIT.

Given the commission's lack of progress to date on Phase I and the absence of any specific justification for Phase II of the office automation plan, we recommend the deletion of \$400,000 from the commission's budget (Analysis page 1570).

3. Rapid Transit Safety Program is Understaffed (\$215,000)

The PUC currently has a five-member staff performing statutorily required rapid transit safety oversight. This staff currently spends approximately 85 percent of its time assuring the safety of operating rail transit systems. Currently, however, there are several rapid transit expansions and new projects being developed throughout the state. In order for the PUC to fulfill its statutory responsibility for providing safety review of these new rail projects, we believe the commission should increase its existing rapid transit staff. It appears to us that the unit's workload is approximately double what existing staff can handle. Consequently, we believe that the unit needs five additional personnel--four engineer positions and one clerical position. Accordingly, we recommend that the commission's budget be augmented by \$215,000 in order to adequately address the statewide rapid transit safety workload (Analysis page 1572).

Office of Administrative Law

(Item 8910/page 1604)

	1983-84 Actual	1984-85 Estimate	1985-86		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$1,714	\$2,591	\$2,880	\$2,609	-\$271
Personnel- years.....	38.2	50.6	55.2	50.2	-5.0

Highlights of Our Recommendations

1. AB 1013 Regulations Review Program

Despite being authorized in the current year to hire two additional attorneys to commence its review of "informal" regulations, OAL chose to leave one position vacant and reassign the second to other office activities. Consequently, OAL has made no progress in implementing this program, which was to have been started in January 1983. Accordingly, we recommend that the office report at budget hearings on what actions it plans to implement this program in the current and budget years (Analysis, page 1607.)

2. Budget-Year Request for AB 1013 Program Overstates Needs (-\$125,000)

For 1985-86, OAL is requesting five positions for the AB 1013 reviews. Our review of the workload standards used by OAL indicates that they overstate the staff time needed to perform this review. Our analysis suggests that only two attorney positions are warranted. Therefore, we recommend that three positions be deleted for a General Fund savings of \$125,000 (Analysis, page 1608).

Military Department--Capital Outlay

(Item 8940-301/page 1614)

	<u>1983-84</u> <u>Actual</u>	<u>1984-85</u> <u>Estimate</u>	<u>Proposed</u>	<u>1985-86</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$18,065	(pending)	-\$2,980

Highlights of Our Recommendations

1. Armory Building Acquisition--San Jose (-\$2,930,000)

The budget includes \$2,930,000 to acquire a six-acre site for a replacement armory in San Jose. The department indicates that this request is part of a program where an armory in a "highly desirable" location will be sold, and the proceeds used to fund the state share of a replacement facility in the same locale plus a new armory elsewhere in the state.

The department has not provided any information to indicate why the existing facility is inadequate or cannot be remodeled to meet the needs of the department. Moreover, no information has been developed to indicate the potential revenues to be generated if the existing facility is sold. We therefore have no basis on which to judge the need to relocate the armory and recommend deletion of the proposed acquisition funds, a reduction of \$2,930,000 (Analysis page 1616).

TAX RELIEF

Tax Relief

(Item 9100/page 1618)

	1983-84 Actual	1984-85 Estimate	Proposed	1985-86 Recom- mendation	Difference
Expenditures... (thousands)	\$1,129,182	\$842,579	\$928,424	\$851,103	-\$77,321

Highlights of Our Recommendations

1. Senior Citizens' Property Tax Assistance

We recommend that this item be reduced by \$695,000 to correct for overbudgeting. Although program participation and expenditure rates have declined steadily since the approval of Proposition 13 in 1978, the budget anticipates that this program's declines have "hit bottom," and proposes an appropriation identical to estimated current-year expenditures. However, more recent data than was available when the budget was prepared provide evidence of continued, though moderated, declines in program expenditures. We recommend that these declines be reflected in the appropriation for this item (Analysis page 1618).

2. Senior Citizens' Property Tax Deferral

We recommend a reduction of \$996,000 to correct for overbudgeting. Program eligibility has been expanded to include mobilehome owners in the current year and disabled persons in the budget year. To accommodate the increased participation by both the senior homeowners and these newly eligible participants, the budget proposes a 16 percent expenditure increase. Using more recent data than were available when the budget was prepared, we expect both lower current-year expenditures, and growth in budget-year expenditures at a slower 8.9 percent growth rate. Accordingly, we recommend a \$996,000 reduction (Analysis page 1621).

3. Senior Citizens Renters' Tax Assistance

We recommend a reduction of \$2,530,000 in the amount requested for this program to correct for overbudgeting. Participation and expenditure levels for this program have declined steadily in recent years. Early Franchise Tax Board data, upon which the budget was based, indicated that the historical rate of participation and expenditure had moderated through the current year. Accordingly, the Department of Finance had anticipated no expenditure decline for 1985-86. The FTB, having revised its estimates, now expects that expenditures will decline by \$2,530,000 in the budget

year. We believe that this estimate of budget-year expenditures provides a more reasonable estimate than that reflected in the Governor's Budget. Accordingly, we recommend a \$2,530,000 reduction (Analysis page 1622).

#### 4. Renters' Tax Relief

We recommend a reduction of \$4.6 million to correct for overbudgeting. The Department of Finance predicts expenditures with the aid of a computerized forecasting model. A comparison between historical data and the model's predictions evidenced the model's tendency to overestimate expenditures by 1.2 to 3 percent. Our analysis indicates that the model's estimates should be adjusted downward by 1 percent to correct for this tendency. On this basis, we recommend a \$4.6 million reduction (Analysis page 1628).

#### 5. Alternative Energy Tax Credits

We recommend a reduction of the \$68,500,000 included in the budget to fund the solar and energy conservation tax credits, because the funding for these credits should be considered in connection with the legislation needed to implement the budget proposal. The administration proposes to fund the credits through a Budget Act appropriation in lieu of the open-ended tax credit now available to taxpayers when they file their tax returns. The proposed appropriation is equal to one-half of the \$137 million in foregone revenues that would result from the current tax credit mechanism in 1985-86. Thus, the budget assumes that a 50 percent reduction could be achieved through the budget bill. However, state taxpayers still would be allowed to deduct the full amount of their credits. At the time the Analysis was prepared, the administration had not requested that the Legislature amend the law in order to achieve the reduced funding level.

Without the enactment of legislation, the proposed appropriation does nothing to reduce the level of state tax subsidies for solar and energy conservation. On this basis, we believe that the proposed funding for the tax credits is premature and accordingly, we recommend deletion of the \$68.5 million included in the budget for this purpose. Consistent with long-standing policy, the issue of funding for the credits should be considered in connection with the legislation that modifies the credits and how they are financed (Analysis page 1631).



MISCELLANEOUS

State-Mandated Local Programs

(Item 9680/page 1641)

	1983-84 Actual	1984-85 Estimate	1985-86		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$111,407	\$82,498	\$95,374	\$92,638	-\$2,736

Highlights of Our Recommendations

1. Voter Registration Purge

Chapters 1401/76, 780/77 and 3/78 require that the state reimburse counties, at a rate of up to 10 cents per registered voter, for the net costs of using voter registration file purge methods other than what is known as the positive purge method. The cost to counties to implement an alternate method may be greater than the cost of the positive purge method in those years containing a primary election and less in those years containing a general election. Thus, the net costs of using alternate methods are determined on a two-year cycle and reimbursement to counties is budgeted for a two-year period.

The 1984 Budget Act contains an appropriation of \$793,000 to fund this mandate for the period 1984-85 through 1985-86. The Governor's Budget for 1985-86, however, also contains \$793,000 for this purpose. Given that funds for the budget-year costs of this mandate were included in the 1984 Budget Act, we recommend that Item 9680-101-001(a) be reduced by \$952,000.

2. Public Employees' Retirement System (PERS) Retirement Credit for Unused Sick Leave

The budget proposes a \$1.3 million General Fund appropriation to reimburse school districts and superintendents of schools for the costs of Ch 1398/74. Chapter 1398 granted non-certificated (nonteaching) school employees additional retirement credits for accumulated, unused sick leave.

The Legislature, in enacting the 1984 Budget Act, deleted General Fund monies previously appropriated to school districts for the same unused sick leave credits granted to certificated employees belonging to the State Teachers' Retirement System (STRS) by Ch 89/74. In taking this action, the Legislature recognized the absence of a statutory or constitutional requirement for reimbursement, and expressed its intent that school employers pay any additional costs associated with the unused sick leave retirement credit from savings they had indicated would be realized when the bill was considered by the Legislature.

Given the Legislature's action to delete funding for the costs of the STRS sick leave credit, we see no basis for appropriating funds for the PERS sick leave credit. For this reason, we recommend that the Legislature eliminate Item 9680-101-001(k), for a General Fund savings of \$1.3 million.

Augmentation for Employee Compensation, Civil Service, Exempt and Statutory

(Item 9800/page 1649)

	1983-84	1984-85	1985-86		
	<u>Actual</u>	<u>Estimate</u>	<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$316,729	(pending)	(pending)

Highlights of Our Recommendations

1. 1985-86 Employee Compensation Increases

The budget includes \$316,729,000 (\$162,308,000 General Fund) for compensation increases for state employees. This amount would provide for compensation increases of about 6.5 percent to state employees. This is the fourth year that compensation increases for state employees will be subject to collective bargaining. Negotiated changes in employee compensation and other terms and conditions of employment will be submitted to the Legislature for approval in the form of memoranda of understanding (MOUs). We withhold recommendation of employee compensation increases pending submission to the Legislature of MOUs and compensation proposals for nonrepresented state employees (Analysis page 1653).