

assistance in cattle feeding techniques to ranchers in Baja California.

(3) *Investment and Tourism.* The commission continued to work with the Mexican government on the stabilization of economic investments and improvements in the tourist industry. In November 1973 it sponsored a conference on tourism and the environment. During the September 1973 earthquake and flood crisis in parts of Mexico, the staff assisted California residents in obtaining information on friends and relatives in the affected areas.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

For the budget year, the commission requests \$46,801, which is \$897 or two percent above estimated current expenditures. This increase consists of \$816 for operating expenses and \$81 in salary increases.

New activities scheduled during the current and budget years include (1) development of athletic exchange programs by the commission-established International Sports Committee, (2) translation of Mexican air regulations into English, and (3) assistance to the States of Arizona and New Mexico in the development of similar commissions and programs.

The commission also is participating in the implementation of an \$80,000 Federal Office of Economic Opportunity grant for a teacher exchange program. The grant, which is assigned to the Town Affiliation Association of Los Angeles, will involve teachers from both sides of the border from the preschool through community college levels. *Did they get it?*

**DEPARTMENT OF JUSTICE**

Items 37 and 38 from the General Fund and the State Transportation Fund

Budget p. 15 Program p. I-47

Requested 1974-75 .....	\$39,020,232
Estimated 1973-74 .....	37,589,189
Actual 1972-73 .....	29,198,064
Requested increase \$1,431,043 (3.8 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

	<i>Analysis page</i>
1. Workload and Staffing Standards. Recommend department undertake a study of workload and staffing standards of the legal divisions and report to the Legislature by January 1, 1975	50
2. Reimbursements for Criminalistic Laboratory Services. Recommend legislation authorizing the department to charge fees equal to the cost of criminalistic laboratory services.	57
3. Law Enforcement Intelligence Unit. Recommend the Organized Crime and Criminal Intelligence Branch distribute	61

**DEPARTMENT OF JUSTICE—Continued**

the costs of the Law Enforcement Intelligence Unit to member agencies for providing staff services.

**GENERAL PROGRAM STATEMENT**

The Department of Justice, under the direction of the Attorney General, provides legal and law enforcement services to state and local agencies. As the chief law officer of the state, the Attorney General interprets laws and renders opinions; represents the state in criminal and civil proceedings before the California and federal appellate courts; and provides legal advice and assistance to the various state departments, boards and commissions.

The department also assists local agencies in the investigation and prosecution of investment and consumer frauds and other business crimes, registers and reviews charitable trusts and health plan organizations, enforces state antitrust laws, administers the state tort liability program and a program of aid to victims of violent crimes, and investigates complaints of discrimination to protect the constitutional rights of individuals.

To assist local agencies in law enforcement, the department maintains fingerprint and criminal record files for identification purposes, compiles criminal statistics, conducts investigations, and maintains laboratory and photographic services. It also enforces the state narcotics laws and administers the California Law Enforcement Telecommunication System (CLETS). As identified in Table 1, the department's three major programs are administration, legal services, and law enforcement, each of which is discussed in sequence in this analysis.

**ANALYSIS AND RECOMMENDATIONS**

The department proposes a General Fund expenditure of \$39,020,232, representing an increase of \$1,431,043 or 3.8 percent over General Fund expenditures in the current year. However, the department proposes a total expenditure from all funds of \$56,161,016, which is an increase of \$5,716,712 or 11.3 percent over the current-year estimated expenditure of \$50,444,304. The total departmental expenditures include:

- (1) A General Fund appropriation of \$35,633,245 (Item 37, which erroneously reflects an appropriation of \$35,639,269 in the Governor's Budget),
- (2) \$3,386,987 from the Motor Vehicle Account of the State Transportation Fund (Item 38),
- (3) A balance from a prior year's appropriation of \$6,024,
- (4) \$1,206,086 in reimbursements for the administration and payment of tort liability claims, and
- (5) \$15,928,674 in reimbursements consisting of
  - (a) \$8,158,413 in fees for processing fingerprints and providing legal and investigative services to other state agencies, and
  - (b) \$7,770,261 in reimbursements for special projects from the state Office of Criminal Justice Planning (formerly the California Council on Criminal Justice), and the state Office of Traffic Safety.

**Table 1**  
**Department of Justice**  
**Summary of Expenditures by Unit**

<i>Unit</i>	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Increase over current year</i>	
	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>	<i>Amount</i>	<i>Percent</i>
General administration (undistributed) .....	\$463,596	\$597,439	\$467,494	\$-129,945	-21.8
Special projects (administration) .....	—	16,247	87,321	71,074	437.5
Legal services.....	14,765,845 <sup>a</sup>	17,159,792 <sup>a</sup>	18,541,892	1,382,100	8.1
Civil law.....	6,559,233 <sup>a</sup>	7,234,959 <sup>a</sup>	7,411,079	176,120	2.4
Criminal law.....	4,321,763	5,107,259	6,338,334	1,231,075	24.1
Special operations.....	3,672,320	4,400,307	4,668,581	268,274	6.1
Special projects.....	212,529	417,267	123,898	-293,369	-70.3
Law enforcement.....	25,176,452	32,670,826	37,064,309	4,393,483	13.5
Crime prevention and control.....	365,953	320,158	330,354	10,196	3.2
Enforcement and investigation.....	5,547,932	6,041,236	6,694,688	653,452	10.8
Investigative services.....	858,669	1,041,105	1,119,735	78,630	7.6
Identification and information.....	11,509,561	10,685,038	11,832,030	1,146,992	10.7
Organized crime.....	551,931	1,433,473	1,667,033	233,560	16.3
Consolidated data center.....	1,495,855	7,766,258	7,861,427	95,169	1.2
Special projects.....	4,846,551	5,383,558	7,559,042	2,175,484	40.4
<b>GRAND TOTAL.....</b>	<b>\$40,405,893</b>	<b>\$50,444,304</b>	<b>\$56,161,016</b>	<b>\$5,716,712</b>	<b>11.3</b>

<sup>a</sup> Includes \$796,086 and \$906,086 for 1972-73 and 1973-74, respectively, for tort liability claims transferred to the departmental budget.

## DEPARTMENT OF JUSTICE—Continued

The Governor's Budget includes amounts and man-years for the special projects in total expenditures for the department's major programs (administration, legal services, and law enforcement) for the current year but not for the budget year. In order to facilitate the making of valid comparisons of expenditures between the two years, we have included funds for special projects in the legal services and law enforcement program totals as reflected in Table 1.

We have also distributed these special projects by program element as reflected in Table 2. The sum of \$7,861,427, which is transferred from Items 37 and 38 to Item 39 for support of the Law Enforcement Consolidated Data Center is included in the departmental totals and discussed in Item 39 in this analysis.

**Table 2**  
**Special Projects Funded Primarily With Office of Criminal Justice Planning Funds**  
**Department of Justice**

Organizational unit	1973-74		1974-75	
	Amounts	Man-years	Amounts	Man-years
Division of Administration				
District attorney investigator training program .....	\$16,247	—	\$87,321	4.5
Division of Criminal Law				
Legal information for law enforcement officers .....	165,240	—	123,898	0.5
California organized crime trials unit ....	252,027	3	—	—
Division of Law Enforcement				
The Crime Prevention Unit				
Community resources development institute .....	—	—	60,591	2
Vandalism study .....	—	—	69,271	3
Consumer information program for senior citizens <sup>a</sup> .....	429,267	—	—	—
Enforcement and Investigation Branch				
Visual investigative analysis technique	156,829	6.8	240,000	12
Narcotic enforcement beat patrolman training .....	—	—	353,340	12
Investigative Services Branch				
Uniform blood-alcohol program <sup>b</sup> .....	510,415	29.4	499,069	22
Statewide criminalistic laboratory system .....	2,216,424	56.4	3,352,243	86
Identification and Information Branch				
Bureau of Criminal Statistics				
Combined police arrest and disposition system .....	126,938	12.6	—	—
Jail space utilization study .....	94,249	4.5	—	—
Criminal justice audit system .....	—	—	708,940	39
Juvenile arrest register probation evaluation .....	—	—	170,957	8
Pilot jail information system study ..	—	—	263,994	13
Bay area probation information system .....	—	—	338,262	4
Data analysis center .....	—	—	100,000	4

Uniform crime reporting .....	—	—	250,000	10
Offender-based transaction statistical system .....	—	—	461,731	37
State technical assistance capability Management and administration statistics system .....	—	—	75,000	5
Bureau of Identification				
Criminal justice information system	221,444	19.2	—	—
Fingerprint automation, prototype and conversion .....	—	—	269,498	10
Organized Crime and Criminal Intelligence Branch				
Project search—organized crime index	21,464	1.6	—	—
Integrated program to combat organized crime .....	1,386,395	11.1	—	—
Establishment of local agency liaison unit .....	127,733	19	—	—
Out-of-state intelligence officer training .....	92,400	—	—	—
California narcotic information network .....	—	—	158,300	10.7
Automation of the bureau's files .....	—	—	152,846	4.5
Totals .....	\$5,817,072	163.6	\$7,770,261	289.2

<sup>a</sup>Funded by the U.S. Department of Health, Education and Welfare.

<sup>b</sup>Funded by the state Office of Traffic Safety.

### New Positions

The budget shows a transfer of 176.5 positions from the Identification and Information Branch of the Division of Law Enforcement (Items 37 and 38) to the Law Enforcement Consolidated Data Center (Item 39) and a reduction of 14.5 positions for stolen vehicle and fingerprint activities due to modest decreases in workload in these areas. Because the department is also requesting 176.5 new positions for the budget year, these actions result in a net decrease of 14.5 in authorized positions. Of the proposed new positions, 54.5 would be financed through reimbursements and the remainder from the General Fund.

### ADMINISTRATION

The administration element contains the executive office, through which the Attorney General determines all departmental policy and directs all departmental activities. Included in this office are the Attorney General, his chief deputy, a legislative coordinator, and an information officer. A position of "campaign director" is mentioned in the discussion of the department's executive office on page 58 of the Governor's Program Budget (Volume I) but no such position is reflected in the department's "salaries and wages" budget supplement. We have discussed this matter with the department and are advised that the position reference is an error which the department is unable to explain but is seeking to clarify.

Administrative management and support services are provided by the Division of Administration through five sections: (1) opinion administration, which coordinates the preparation and release of all legal opinions produced by the department, (2) management services, which is responsible for departmental management improvement, (3) library services,

**DEPARTMENT OF JUSTICE—Continued**

which maintains research facilities for the legal staff, (4) manpower services, which is responsible for all personnel matters, and (5) administrative services, which includes legal office services such as stenographic and typing services for the attorneys and all fiscal functions.

The division proposes a total expenditure of \$9,745,873, which represents an increase of 13.5 percent over the \$8,590,455 estimated expenditure for the current year. Of the total amount, \$6,099,583 and \$3,178,796 are distributed to the Legal Services and Law Enforcement Divisions, respectively. General Fund expenditures amount to \$467,494, which is a decrease of \$129,945 or 21.8 percent from the \$597,439 estimated expenditure for the current year. Not included in these amounts are \$87,321 in Office of Criminal Justice Planning funds for a project to train district attorney investigators.

The division proposes a total of 45.5 new positions (five of which have been administratively established during the current year). Of this total, 28 clerical positions are proposed for the legal services unit which provides clerical support for the department's three legal services divisions, and 1.5 are for the law library. The remainder, all accountant and supportive staff, are for fiscal services. These positions are proposed as supportive staff to the other new positions requested by the department.

**Workload and Staffing Standards**

*We recommend that the department be required to undertake a study of workload and staffing standards in its legal divisions and report to the Legislature by January 1, 1975.*

Last year, we recommended that two junior staff analyst positions for the management services section be approved on the condition that they be used to develop workload and staffing standards for the entire department, particularly for the legal service divisions. Over a period of years, we have pointed out that the department, and especially the legal service divisions, has not developed adequate workload and staffing standards to justify requests for additional positions. However, because the department has not yet developed adequate work plans for these studies, we recommend that it be required to undertake the study, with emphasis on the Civil Law and Special Operations Divisions, and report to the Legislature by January 1, 1975. This would enable the Legislature to utilize these new standards in evaluating the department's 1975-76 budget request.

**LEGAL SERVICES PROGRAM**

The Legal Services Program consists of (a) Civil Law, (b) Criminal Law, and (c) Special Operations elements. The \$18,417,994 proposed for this program as shown in the Governor's Budget represents an increase of \$1,258,202 or 7.3 percent over estimated expenditures for the current year. These figures are not directly comparable because, as reflected in the Governor's Budget, current-year totals contain Office of Criminal Justice Planning funds and budget-year totals do not. As reflected in Table 1 on page 47 of this analysis, the proposed expenditure for the division, including special project funds, totals \$18,541,892 and represents an increase of \$1,382,100 or 8.1 percent over estimated current year expendi-

tures.

**Civil Law Element**

This element, which is administered by the Division of Civil Law, represents most state agencies, boards and commissions as general counsel in the civil law field. It conducts litigation in behalf of the state in all state and federal courts, including the United States Supreme Court, and renders legal opinions to state agencies, officers, legislators, district attorneys and county counsels. It also advises the Governor on the constitutionality of laws passed by the Legislature. Reimbursements are received for legal services provided to state agencies which are supported by special funds.

The element also represents the state and its employees in the field of tort liability, and provides the Board of Control with information which assists in the disposition of claims by victims of crimes of violence and "good samaritans" who act to prevent the commission of crimes. It also provides legal services necessary for processing claims against the Subsequent Injury Fund. This fund, which is a General Fund cost, pays awards authorized by the Workmen's Compensation Appeals Board.

Divisional programs are administered through seven sections: Professional and Vocational Licensing, Government Law, Public Welfare Law, Tort and Condemnation Law, Business Law, Public Licensing, and Tax Law.

A budget-year expenditure of \$7,411,079, which represents an increase of 2.4 percent over current-year expenditures of \$7,234,959, is proposed for this division.

The division proposes a total of five new positions, one of which was established administratively in the current year. Included are two new clerical positions for the Tort and Condemnation Law Section to handle additional workload anticipated in the Victims of Violent Crime and Subsequent Injury programs and three new attorney positions for the Business Law Section. The latter three positions are proposed to provide legal services as follows: 0.5 attorney man-year for the Pollution Control Financing Authority, 0.5 man-year for the Educational Facilities Authority, and two positions for the Real Estate Recovery Fund. Five new positions which would be paid through reimbursements, are proposed to handle the increased workload reflected in Table 3. The reduction in man-years reflected in the table results from salary savings of \$179,148 for this element which is equivalent to 14.8 man-years. These savings result from money saved through personnel turnover (which results in lower beginning salaries) retirements and temporary vacancies in authorized positions.

**Table 3**  
**Civil Law Element**  
**Workload, Staffing and Cost Data**

	<i>Actual</i> <i>1972-73</i>	<i>Estimated</i> <i>1973-74</i>	<i>Estimated</i> <i>1974-75</i>
Legal opinions .....	193	211	211
Cases closed .....	4,551	4,960	5,030
Expenditures (including reimbursed expenditures) .....	\$6,559,233	\$7,234,959	\$7,411,079
Total man-years .....	134.7	162.4	153.8

## DEPARTMENT OF JUSTICE—Continued

## Criminal Law Element

The activities of the Criminal Law Element are administered by the Division of Criminal Law. The Attorney General, through this division, represents the state in all criminal appeals from felony convictions and in connection with writs in criminal proceedings before state and federal courts. The division assists the Governor's office in extradition matters, provides advice to district attorneys in criminal law cases, and may serve as prosecutor in criminal trials if a district attorney is disqualified or otherwise unable to handle the proceedings. The division also maintains the Central Registry which collects data concerning parents who have deserted or abandoned their children to aid local jurisdictions in child support enforcement.

Proposed budget-year expenditures for this program total \$6,338,334, which is an increase of \$1,231,075 or 24.1 percent over estimated current-year expenditures of \$5,107,259. Not included in this total is \$123,898 in Office of Criminal Justice Planning funds for a legal education program for law enforcement officials.

## New Positions

The Division of Criminal Law is proposing a total of 27 new positions. One attorney is proposed to staff a new Election Frauds Unit established to enforce the provisions of the Waxman-Dymally Campaign Disclosure Act (Chapter 1186, Statutes of 1973, AB 703). One new analyst and a clerical position are proposed for the Central Registry to establish a uniform statistical child support reporting system as required by Chapter 1193, Statutes of 1972. This system will facilitate the analysis of the performance of county child support programs. The act requires district attorneys to submit monthly statistical summaries of their child support case and collection activities to the Attorney General for analysis.

Twenty-two of the new positions are proposed to handle increased caseload in criminal writs and appeals resulting largely from U.S. Supreme Court decisions which entitle a parolee to a hearing before his parole may be revoked (*Morrissey vs. Brewer*) and to be represented by an attorney before the hearing in most cases (*Gagnon vs. Scarpelli*).

The division anticipates that the *Morrissey-Gagnon* decisions will result in 700 additional writs and appeals in 1974-75. The remaining two new positions (both attorneys) are proposed on a reimbursable basis to provide advice, consultation and training to the Departments of Corrections and Youth Authority on the *Morrissey-Gagnon* decisions. These, as well as other divisional workload and cost data, are shown in Table 4.

Table 4  
Criminal Law Element, Workload Data

	Actual 1972-73	Estimated 1973-74	Estimated 1974-75
Briefs received .....	3,798	4,532	5,013
Briefs filed in appellate and supreme courts .....	3,615	4,290	5,013
Backlog, June 30 .....	1,007	1,240	1,240
Criminal trials .....	57	60	60
Expenditures .....	\$4,321,763	\$5,107,259	\$6,338,334
Man-years .....	132.5	153.6	166.5



As shown in Table 4, the division is anticipating a backlog of 1,240 cases at the end of the budget year. Because each attorney handles approximately 2.75 cases (writs and appeals) per month and the division proposes a total of 152 attorneys (not counting supervisory and supportive staff), the 1,240 cases represent a backlog of a little less than 90 days. This backlog could pose a serious problem for the division if the courts strictly apply Rule 37a of the California Rules of Court, which requires the Attorney General to file a brief within 30 days after an appellant has filed his appeal. At the present time, mostly because of their own backlogs and calendaring problems, the courts allow extensions of up to 90 days.

#### **Special Operations Element**

The Special Operations Element seeks to protect the public's rights and interests through legal representation in five program components: (1) public resources law, (2) land law, (3) statutory compliance, (4) environment and consumer protection, and (5) special services.

The public resources law component provides formal and informal legal assistance to those state agencies which administer and enforce the laws and programs relating to the use and protection of the state's air, water, agricultural, timber, fish, and wildlife resources.

The land law component handles all litigation arising from the administration of state-owned lands by the State Lands Commission. In addition, it is involved in the legal questions pertaining to public rights in private lands arising from the court-established doctrine of implied dedication. This concept may have substantial implications for privately owned lands throughout the state, particularly lands adjacent to bodies of water.

The statutory compliance component investigates the financial practices of charitable trusts to insure that these institutions are in fact charitable (as defined by law) and that they operate in compliance with state tax laws. The environment and consumer protection component is responsible for representing the public's interest in consumer fraud, environmental matters and antitrust suits.

The division proposes a budget of \$4,668,581, which represents an increase of 6.1 percent over estimated current-year expenditures of \$4,400,307. The division is proposing to continue into the budget year six attorney positions that were established administratively in the current year to provide legal services for the California Coastal Zone Conservation Commission. Costs for these positions, which would be assigned to the Public Resources Law Section, would be reimbursed by the commission. An additional attorney position is proposed for the Land Law Section on a reimbursable basis to handle legal services for the State Lands Commission.

Finally, a new registrar position (General Fund) is proposed for the Statutory Compliance Section to handle increased workload for registra-

**DEPARTMENT OF JUSTICE—Continued**

tion of health care service plans under the Knox-Mills Health Plan Act. There were 58 such health plans registered at the end of 1971, 87 at the end of 1972, and 167 at the end of 1973. The requested registrar position would relieve attorneys from performing routine health plan registration functions, thus enabling them to perform legal work associated with the program. Workload and cost data for the division are reflected in Table 5. The reduction of man-years reflected in the table results from salary savings of \$115,209 or 9.5 man-years. These savings result from money saved through personnel turnover (which results in lower beginning salaries) retirements and temporary vacancies in authorized positions.

**Table 5**  
**Special Operations Element: Selected Workload, Staffing and Cost Data**  
**Department of Justice**

	<i>Actual</i> 1972-73	<i>Estimated</i> 1973-74	<i>Estimated</i> 1974-75
Public Resources:			
Cases closed .....	181	190	230
Dollar recoveries for client agencies .....	\$281,259	\$300,000	\$300,000
Land Law:			
Opinions rendered .....	36	40	40
Active cases.....	102	94	100
Statutory compliance:			
Registrations .....	14,400	15,500	16,000
Audits performed .....	2,800	2,800	2,800
Estimated recoveries of antitrust actions filed since 1965-66.....	—	—	\$33,320,000
Environment and consumer protection:			
Consumer protection civil penalties col- lected .....	\$69,237	\$70,000	\$70,000
Investigations .....	381	390	410
Total expenditures (all components).....	\$3,672,320	\$4,400,307	\$4,668,581
Man-years .....	95.6	108.1	106.6

**LAW ENFORCEMENT PROGRAM**

The Division of Law Enforcement, the department's largest and most complex, provides identification, analytical, investigative, laboratory, statistical, communications and criminal records services to local, state and national criminal justice agencies. These functions are carried out by six divisional elements: (1) crime prevention and control, (2) enforcement and investigation, which provides special field investigations of illicit activities for law enforcement agencies, (3) investigative services, which furnishes specialized, criminalistic laboratory and other technical services, (4) identification and information, which is responsible for all functions concerning the storage or analysis of information contained in the department's massive criminal history and fingerprint files, (5) organized crime and criminal intelligence, which conducts and analyzes intelligence data on organized crime activities, and (6) the Law Enforcement Consolidated Data Center, which provides data processing and telecommunications services to all divisional functions. Funds for support of the center are reflected in Item 39.

The division proposes a total expenditure of \$37,064,309 for this program

which represents an increase of \$4,393,483 or 13.5 percent above the estimated current expenditures of \$32,670,826 for the current year. The Governor's Budget shows a decrease because it has included \$5,383,558 in special project funds in the current year but excludes \$7,559,042 in such funds in the budget year. The \$29,505,267 total reflected in the Governor's Budget includes (1) \$23,388,524 from the General Fund, (2) \$3,386,987 from the Motor Vehicle Account of the State Transportation Fund, and (3) \$2,729,756 in reimbursements for fingerprint and investigative service. Of the latter, \$1,850,000 will result from fingerprint fees. A total of 91 or 51.6 percent of the department's proposed new positions are for this division.

#### **Crime Prevention and Control**

The Law Enforcement Division houses the Crime Prevention and Control Unit, which provides overall coordination and direction to public and private agencies for obtaining community involvement in reducing the rate of crime in the state. It also prepares and distributes numerous crime prevention publications including a quarterly journal, "Crime Prevention Review." Aided by the Commission on Peace Officer Standards and Training, the unit also offers a training program for local law enforcement officers stressing "sociological and urban planning approaches" to crime prevention.

The unit proposes an expenditure of \$330,354, which is an increase of 3.2 percent over estimated expenditures for the current year. Not included in this amount is \$129,862 in special project funds from the Office of Criminal Justice Planning for a Community Resources Development Institute for police-community relations and a study of vandalism in public schools.

#### **Enforcement and Investigation**

This element, which is comprised of the Bureaus of Investigation and Narcotic Enforcement, proposes an expenditure of \$6,694,688, an increase of 10.8 percent from the estimated current-year expenditure of \$6,041,236. The increase largely reflects the replacement of equipment, including investigators' automobiles. Not included in this total are \$593,340 in Office of Criminal Justice Planning funds for special projects.

*Investigation.* The Bureau of Investigation, which prior to reorganization of the division comprised a part of the former Bureau of Criminal Identification and Investigation (CII), provides field investigative services to local enforcement agencies in the solution and prosecution of crimes, particularly crimes perpetrated by criminals or criminal groups which operate in more than one county or area or whose activities are of major significance. The bureau also supervises the activities of the division's organized crime agents and the investigators who work with civil law programs such as tort liability, Subsequent Injury Fund, antitrust, and charitable trusts.

The bureau is requesting three investigative and one stenographic position to handle additional workload. Two of the investigators are proposed to enforce the criminal provisions of the Waxman-Dymally Campaign Disclosure Act (Chapter 1186, Statutes of 1973, AB 703).

## DEPARTMENT OF JUSTICE—Continued

*Narcotic Enforcement.* The Bureau of Narcotic Enforcement infiltrates groups involved with narcotics traffic, develops intelligence and gathers evidence to apprehend major narcotics violators. The bureau also administers a triplicate prescription system to prevent diversion of legal supplies of narcotics into illegal channels; maintains a file of narcotic registrants and licentiates; conducts formal instruction and on-the-job training to local and state enforcement personnel in techniques of narcotic enforcement; and cooperates with federal, local and foreign agencies which have responsibilities in this area of law enforcement.

Major emphasis is placed on ascertaining sources and arresting suppliers of illicit narcotics and dangerous drugs, rather than on apprehending and arresting users. In addition to its Sacramento headquarters, the bureau maintains field offices in San Francisco, Los Angeles, Fresno, San Diego and Santa Ana.

Projections by the Bureau of Criminal Statistics indicate that narcotic arrests will continue to increase in practically all categories, particularly

**Table 6**  
**STATEWIDE DRUG ARRESTS STATISTICS**  
**BUREAU OF NARCOTIC ENFORCEMENT AND LOCAL AGENCIES**  
Department of Justice  
1969-1973

<i>Item</i>	<i>1969</i>	<i>1970</i>	<i>1971</i>	<i>1972</i>	<i>Estimated 1973<sup>a</sup></i>
Total arrests.....	122,883	136,164	137,561	145,588	174,300
Adult .....	86,129	99,505	102,761	113,140	129,200
Juvenile.....	36,754	36,659	34,800	32,448	45,100
Drug category <sup>c</sup>					
Marijuana					
Adult .....	38,170	48,859	46,143	52,027 <sup>b</sup>	64,100 <sup>b</sup>
Juvenile.....	17,006	20,162	18,454	21,034	31,300
Opiates					
Adult .....	11,164	12,796	15,124	16,637 <sup>b</sup>	-
Juvenile.....	943	779	875	1,180	-
Dangerous drugs					
Adult .....	27,777	27,603	31,609	23,652 <sup>b</sup>	-
Juvenile.....	13,503	10,793	11,127	6,663	-
Other					
Adult .....	9,018	10,247	9,885	3,935 <sup>b</sup>	-
Juvenile.....	5,302	4,925	4,344	3,571	-
Adult misdemeanor drug law viola- tions .....	-	-	-	17,889	-
Opiates and danger- ous drugs (felo- ny) .....	-	-	-	-	49,800
Misdemeanors					
Adult .....	-	-	-	-	21,700
Juvenile.....	-	-	-	-	7,400

<sup>a</sup> Based on first quarter 1973 data.

<sup>b</sup> Felony arrests only. Adult misdemeanor drug law violations are grouped together.

<sup>c</sup> Because of changes in the Health and Safety Code by Chapter 1407, Statutes of 1972, drug arrest statistics are reported in only two categories, marijuana, and opiates and dangerous drugs. Under this law, it is no longer possible to distinguish between adult and juvenile felony arrests in the opiates and dangerous drug category.

in the dangerous drug and opiate (heroin) arrest categories. Table 6 shows the actual and estimated number of arrests by calendar year. The level of arrests is influenced by the enforcement policies of local governments and the number of personnel assigned to this work at both the state and local levels.

#### **Investigative Services**

The Investigative Services Element provides expert, criminalistic, court testimony, and other technical services to criminal justice agencies in the state. It maintains a laboratory for analyzing evidence and provides latent fingerprint, handwriting analysis, identification of spurious document, polygraph and photographic services to support the division's investigative functions.

The department plans to expand its criminalistics laboratory mainly because a 1971 Office of Criminal Justice Planning (formerly California Council on Criminal Justice) study demonstrated that almost half of the 420 local police and sheriff's departments and 45 of 58 district attorneys do not have adequate access to criminalistics laboratory services. Through a 42-month, \$8,221,000 Office of Criminal Justice Planning grant, the department has expanded the laboratory facility in Sacramento and established full-service laboratories in Redding, Fresno, Santa Barbara, Riverside and Salinas, and plans to open facilities in Santa Rosa and Modesto in the budget year. Using a federal three-year Office of Traffic Safety grant amounting to \$1,755,000, the department has also established a network of six special satellite laboratories to provide blood alcohol testing for drunken driving arrests. The state will assume full costs of the criminalistics laboratory program in the 1977-78 fiscal year.

The Investigative Services Element is proposing a total expenditure of \$4,971,047, up \$1,203,103, or 31.9 percent, over estimated expenditures of \$3,767,944 for the current year. This total includes (1) \$1,119,735 from the General Fund, (2) \$3,352,243 from the Office of Criminal Justice Planning for development of the criminalistics laboratory system, and (3) \$499,069 from the Office of Traffic Safety for the uniform blood-alcohol program. About two-thirds of the total cost for this element is for construction of new laboratory facilities, equipment and other startup costs. Consequently, total costs are expected to decline to about \$3,377,000 beginning in 1977-78 after the developmental stage of the program. The element proposes one new clerk-typist II to provide clerical support for the photography section. This position would be financed from the General Fund.

#### **Reimbursements for Criminalistic Laboratory Services**

*We recommend legislation authorizing the department to charge fees equal to the cost of providing criminalistic laboratory services to local police agencies for a General Fund savings of approximately \$3,377,000 beginning in 1977-78.*

As we note above, the departmental full-service criminalistic laboratory system will be fully operational at the end of the 1976-77 fiscal year and federal support will terminate. At that time, an alternative source of funding of the program will need to be found to offset the effects of the loss

**DEPARTMENT OF JUSTICE—Continued**

of federal funds. We recommend legislation authorizing the department to charge fees equal to the full cost for providing criminalistic laboratory services as federal funds terminate. These fees would be paid by local governmental agencies which are the beneficiaries of the service. Because local agencies are not required to use these facilities, we believe that such costs would not be subject to provisions of Section 2231 of the Revenue and Taxation Code, which require the state to pay increased costs mandated on local governments by new state legislation.

**Identification and Information**

The Identification and Information Element is the department's largest with over 1,000 positions assigned to its two components: (1) criminal statistics and (2) identification.

A total of \$11,832,030 is proposed for this element, which represents an increase of \$1,146,992 or 10.7 percent over estimated expenditures of \$10,685,038 for the current year. Not included in this total is \$2,673,382 in Office of Criminal Justice Planning funds for special projects. Reflected in the totals is an increased General Fund expenditure of \$101,338 for eight man-years and a reduction of the same amount in reimbursements resulting from the passage of Chapter 1204, Statutes of 1973, (SB 197) which prohibits the charging of a fee for fingerprinting applicants for a license to operate a foster care home. As a result of a departmental reorganization during the current year, 176.5 positions were transferred from this element to the Law Enforcement Consolidated Data Center (Item 39).

An additional 14.5 positions will be discontinued in this element in the budget year because of decreased workload in the criminal fingerprint and automated stolen bicycle file units. Partially offsetting these staffing adjustments are 85 proposed new positions discussed in the respective bureaus below.

*Criminal Statistics.* The Bureau of Criminal Statistics compiles, analyzes, interprets and reports statistical facts on crime and delinquency and the operations of criminal justice agencies in California. It collects data from city, county and state agencies that administer criminal justice including law enforcement and correctional agencies and all levels of courts. Annual reports are published which describe the changing aspects of crime and delinquency in California and the effectiveness of law enforcement, judicial, and correctional institutions in dealing with criminals and delinquents.

The bureau proposes expenditures of \$1,296,172 for its on-going program and \$2,403,884 in anticipated Office of Criminal Justice Planning funds for several special projects (see Table 2, page 48).

Proposed are nine new clerical positions at a General Fund cost of \$120,698 in the budget year to continue development of the arrest and disposition system which was started on a pilot basis in 12 counties and financed for the past three years by Office of Criminal Justice Planning funds. These new positions will enable the bureau to expand the system statewide. The system utilizes a single reporting form to replace three separate reports which have been submitted to the bureau by law enforce-

ment agencies and expands the arrest data elements which are reported. The system also serves as a control over the offender-based transaction statistical system which is being designed through Office of Criminal Justice Planning funds (amounting to \$461,731 for 37 man-years in the budget year) to track each offender through the California criminal justice system from point of entry to point of exit. The bureau is also proposing a \$25,000 expenditure in the budget year for overtime pay to handle many of the special studies which are requested by various administrative and legislative officials and which cannot be programmed into the bureau's ongoing workload.

*Identification.* The Bureau of Identification, through its four sections (fingerprints, records, special services, and record analysis and coding), is responsible for processing and storing fingerprints; maintaining histories of criminals; providing aid to local, state and federal police officers; and locating and identifying missing and wanted persons and stolen property.

The fingerprint section is responsible for processing fingerprints and making tentative identification through fingerprint comparisons in criminal cases. It also processes noncriminal fingerprints for law enforcement, licensing and regulatory agencies. The noncriminal fingerprint program is totally reimbursed by fingerprint fees which are estimated at \$1,850,000 in the budget year. However, no fee is charged for processing criminal fingerprints. Twenty-one new positions are requested for handling additional workload associated with the processing of noncriminal fingerprints. Four positions will be discontinued in the budget year as a result of a change in staffing practices regarding the criminal fingerprint program. The net increase cost for the new fingerprint positions would be borne entirely from reimbursements.

The records section maintains a central records system by which law enforcement and other governmental agencies may verify the identity of individuals and whether they have criminal records. The records consist of a file of 4.6 million individual record folders, a file containing 8.5 million fingerprints and a soundex file containing 8.5 million names. In responding to requests by law enforcement agencies, these records are searched for information to identify an individual or to learn if he has a past criminal record. Thirty-five new positions are proposed to handle increased workload in this bureau, 15 of which will be reimbursed from fingerprint processing fees.

The special services section assists law enforcement officers in locating stolen property and missing or wanted persons who have committed crimes or who have failed to provide for their families. Through screening crime reports, it provides information for the automated wanted persons, property and firearms systems and maintains a communications center for receiving requests for information contained in the bureau's vast files and for transmitting information to law enforcement agencies in the state.

The special services section maintains "mug files" on all convicted felons and well known criminals and information on persons convicted of arson, narcotics violations, sex crimes and child abuse. It also serves as a coordinating agency between dealers in weapons and law enforcement agencies and processes applications for permits to carry concealable weapons.

**DEPARTMENT OF JUSTICE—Continued**

Five new positions are requested to handle additional workload in this section (one criminal identification specialist, a supervising teletype operator, and three clerks).

The Record Analysis and Coding Section's main function is to convert records maintained by the bureau into an automated criminal history system. This program resulted from 1966 legislation which authorized the State Criminal Justice Information (CJIS) study to be funded jointly by the state and federal government under the Omnibus Crime Control and Safe Streets Act. CJIS is designed to provide a central statewide criminal history file with telecommunication links through the California Law Enforcement Telecommunications System (CLETS) to all law enforcement agencies in the state. Its objectives are: (1) to provide needed criminal history and information to all criminal justice decisionmakers when it is needed, and (2) to protect the rights of privacy of individuals by placing strict security and confidentiality controls on criminal justice information. To date, the section has converted a total of 403,854 criminal history records of the approximately 1.4 million records of serious offenders which it has identified for conversion.

Fifteen new positions are proposed to meet additional workload in updating criminal history records already automated and to establish new records on persons with no prior police record directly on the computer, avoiding the less efficient "batch process" method which is now used for updating records of persons with prior criminal histories. Workload for the element is reflected in Table 7.

**Table 7**  
**Bureau of Identification**  
**Selected Workload, Cost and Staff Data**  
**Department of Justice**

<i>Item</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Estimated 1974-75</i>
Fingerprints and records			
Criminal fingerprints processed.....	879,422	889,809	897,207
Noncriminal fingerprints processed .....	481,162	501,360	518,147
Name searches .....	1,039,971	1,080,063	1,122,361
Record analysis and coding			
Selection and control of conversion records .....	151,862	206,630	209,630
Data base entries—coding new arrests ..	147,112	206,630	209,630
Special services			
Teletype transactions .....	1,155,351	1,222,000	1,258,600
Dealer records, sale of firearms.....	210,100	230,000	251,000
Concealed weapons licensed.....	52,000	62,400	74,880
Property and firearms requests .....	20,000	24,000	32,000
Pawn reports.....	1,000,000	1,130,000	1,276,900
Child abuse .....	10,120	11,132	12,245
Missing persons.....	17,386	19,374	21,602
Failure to provide cases .....	68,608	69,200	69,800
Expenditures.....	\$11,509,561	\$10,685,038	\$11,832,030
Man-years.....	850	838.7	907.1



**Organized Crime**

The Organized Crime and Criminal Intelligence Branch is charged with the responsibility of gathering and analyzing intelligence data on organized crime in California. It operates with two bureaus: (1) the Field Operations Bureau and (2) the Criminal Intelligence Bureau.

The Field Operations Bureau provides field intelligence using 11 field agents who gather criminal information from a wide variety of sources for analysis and evaluation by the Criminal Intelligence Bureau. The bureau maintains a pool of specialized surveillance personnel and equipment for temporary loan to law enforcement officers throughout the state. It also provides law enforcement officers training in the use of this equipment and methods and techniques for recognizing and combating organized crime.

The Criminal Intelligence Bureau compiles, evaluates, disseminates and stores criminal intelligence information for three areas: (1) rackets, (2) civil disorders, and (3) bomb data analysis. Its major objectives are to identify indicators of the presence of organized crime and to act as a clearinghouse for organized crime information. It also conducts research to address specific organized crime problems and performs crime pattern analysis in studying methods and operations as a means of identifying criminal organizations.

The element proposes a total expenditure of \$1,667,033, which is an increase of \$233,560 or 16.3 percent from the current year's estimated expenditures of \$1,433,473. Not included in the total expenditures for the budget year are Office of Criminal Justice Planning funds of (1) \$158,300 to establish a centralized system for collecting and disseminating information on all persons associated with major narcotics traffic and (2) \$152,846 to automate the bureau's organized crime files. The division proposes one new clerical position (General Fund) to update more than 2,000 Law Enforcement Intelligence Unit cards annually. These cards, which contain information on persons known to be associated with organized crime, are distributed to more than 222 police agencies in the United States and are used to suppress organized crime activities.

**Cost Sharing for the Law Enforcement Intelligence Unit**

*We recommend that the Organized Crime and Criminal Intelligence Branch distribute the costs (\$60,000 annually) of the Law Enforcement Intelligence Unit to member agencies for providing staff services.*

The Law Enforcement Intelligence Unit was established in 1956 by several California law enforcement agencies as a means of sharing information on criminals whose activities cross jurisdictional boundaries. Over the years, membership of the organization has grown to include out-of-state law enforcement agencies, and at the present time, 122 of its total of 222 members are out-of-state agencies. Its members now represent agencies throughout the United States and Canada. The unit shares information on the activities of organized crime.

The Department of Justice furnishes staff support to the unit now totaling four man-years at a cost of approximately \$60,000 annually. In the budget year, the department estimates that it will distribute 950 publica-

**DEPARTMENT OF JUSTICE—Continued**

tions, 14,000 bulletins and 84,000 cards. (These contain intelligence information on organized crime activities including individuals associated with such organizations.) We recommend that the Department of Justice establish procedures to enable it to recover the costs of the staff support furnished the unit. The average cost to each member agency would amount to less than \$275 annually.

**LAW ENFORCEMENT CONSOLIDATED DATA CENTER**

Item 39 (Transfer from Item  
37)

Budget p. 17 Program p. I-73

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Transfers and reimbursements	
Requested 1974-75 .....	\$7,861,427
Estimated 1973-74.....	7,766,258
Actual 1972-73 .....	1,495,855
Requested increase \$95,169 (1.2 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The Law Enforcement Consolidated Data Center is one of four consolidated data centers established by Chapter 787, Statutes of 1972, and prescribed by the Implementation Plan for the Consolidation of Electronic Data Processing in the State of California approved by the administration in April 1972. This legislation also provides that this center shall be directed by a data center director appointed by the Director of the Department of Justice (DOJ).

The primary objective of this center is to provide centralized management of data processing equipment and services for the Department of Justice, California Highway Patrol (stolen vehicle processing only) and local law enforcement entities.

From a practical standpoint, this center has been in operation for some time because the data processing center within the Department of Justice provides these services using UNIVAC Series 70 computers.

An upgrade of this equipment in December 1971 has provided sufficient capacity to permit the efficient operation of the California Law Enforcement Telecommunications System, the Criminal Justice Information System and the Stolen Vehicle File (the CHP Auto-Status System was converted to the Department of Justice computer in October 1972).

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

There is no direct appropriation to support the Law Enforcement Consolidated Data Center. The Governor's Budget proposes an expenditure program for the data center totaling \$7,766,258 in the current year and \$7,861,427 in the budget year (an increase of 1.2 percent) with the funds to be transferred from the support items for the Department of Justice

(Item 37).

The substantial increase in funding level over the 1972-73 fiscal year (\$1,495,855) is because the center was only in partial operation during that year. During the current year, all activities relating to data processing within the Department of Justice together with 176.5 man-years of authorized positions were transferred to the new consolidated data center bringing the total staff of the center to 239.5 man-years. A total of 240.5 man-years are authorized for the budget year, an increase of one position to alleviate increased workload in the computer center in Los Angeles. Message volume over the California Law Enforcement Telecommunications System shows an increase in total messages for August 1973 of 4,838,000, compared to a total of 2,165,000 for August 1972—an increase of 123.4 percent.

We have examined the recent long-range electronic data processing (EDP) plan which was released by the center in December 1973. According to this plan, development of the various systems shows steady progress. A feasibility study relative to the needs for enhanced EDP equipment will not be required until calendar year 1975.

**COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING**

Item 40 from the Peace Officers' Training Fund

Budget p. 18 Program p. I-75

Requested 1974-75 .....	\$1,657,510
Estimated 1973-74.....	1,935,788
Actual 1972-73 .....	1,383,560
Requested decrease \$278,278 (14.4 percent)	
Total recommended augmentation .....	\$82,520

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis page*

1. Eliminate Duplicate Certification. Recommend commission cease issuance of certificates of completion for individual courses and limit itself to issuance of the basic, intermediate, advanced, management and executive general certificates. 70
2. Tighten Reimbursement Procedures. Recommend legislation requiring local jurisdictions receiving POST reimbursement funds to make an annual accounting to the POST Administration Division verifying that such funds are used to support police training, equipment and other appropriate police needs only. 71
3. Proposed New Positions. Recommend transfer of proposed new stenographer II from the executive element to the Education and Training Division. 72
4. Advisory Committees. Recommend commission establish 74

**COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING—Continued**

- rules and guidelines governing the role, membership and organizational requirement for advisory committees, such rules to be included in the POST regulations.
5. Course Curriculum. Recommend Education and Training Division carefully review and report on the course content of all executive development courses and seminars, middle management courses and seminars and supervisory courses to ascertain their relevance and applicability to the functional needs of police officers. (Report to be submitted to the Joint Legislative Budget Committee by December 1, 1974.) 75
  6. Advanced Officer Course. Recommend commission increase the minimum required hours and frequency of this training. 76
  7. Technical/Special Courses. Recommend commission review course offerings and incorporate appropriate course subject matter in the curriculum of the advanced officers course to cut the number and course hours of technical/special courses, and offset the cost of expanding the advanced officer course. 76
  8. Basic Course. Recommend commission require sponsors of the basic course to include more mock situation training to teach practical police methods of crime control. 76
  9. Course Evaluations by Graduates. Recommend commission request local training officers to have recent graduates of POST-certified courses provide written evaluations equating training with job performance. 77
  10. Course Auditing. Recommend Education and Training Division increase onsite audits to include one-third of all POST-certified courses offered each fiscal year, and thereby enable the commission to more capably ascertain the propriety of subject matter, quality of instructors and facilities, and currency of course outlines. 77
  11. *PC 832 Training Program*. Augment by \$82,520. Recommend retention of one senior law enforcement consultant, one law enforcement consultant II, one senior stenographer and one clerk-typist II to sustain ongoing workload of this program. 78
  12. Staffing Adjustments. Recommend transfer of four unfilled law enforcement consultant II positions from Police Standards Division to Education and Training Division. 81
  13. Organizational Changes. Recommend abolition of the Personnel Standards Bureau and the transfer of its function from the Police Standards Division to the Education and Training Division. 81
  14. Personnel Standards Bureau—Staff Adjustments. Recommend abolition of the Personnel Standards Bureau as described in previous recommendation, and reassignment of 82

- staff between Education and Training Division and Administrative Counseling.
15. Special Project Change. Recommend transfer of Project MORE (Minority Recruitment Project) from the Police Standards Division (i.e. Administrative Counseling Division per our recommendation) to the Center for Police Management of the Technical Services Division. 83
  16. Computer Use Study. Recommend that Item 41 (local assistance) of the 1974 Budget Bill be amended to allow POST to expend up to \$10,000 from the appropriation contained in that item for a study of a computerized records program. 83
  17. Priorities for Staff Projects. Recommend commission identify those projects in the POST program which can best meet training, personnel standards and management needs of local law enforcement, and direct staff to develop the projects which can best meet such needs. 84

#### GENERAL PROGRAM STATEMENT

The Commission on Peace Officer Standards and Training (POST), a nine-member body appointed by the Governor, is responsible for raising the level of competence of local law enforcement officers by establishing minimum standards of physical, mental and moral fitness for the recruitment and training of city, county and special-district peace officers. These standards apply to all police jurisdictions pursuant to Chapters 477 and 478, Statutes of 1973 (AB 2135 and 2136), and to those jurisdictions which receive state aid for peace officer training pursuant to the provisions of Chapter 1823, Statutes of 1959. California jurisdictions participating in this program are reimbursed by the commission from the Peace Officers' Training Fund for the costs of training all personnel, except volunteers and those employed on a part-time basis. Such reimbursements, presently consisting of up to 60 percent of salary and up to 100 percent of per diem, tuition and travel costs, may be made for not more than 400 hours of training for the basic course, 100 hours for the supervisory course, and 40 hours for the advanced officer course. Also reimbursed are the costs of such additional courses (up to 120 hours each) as the middle management and executive development courses, and certain technical courses involving training in riot control, narcotics investigation and other areas. The sum of \$8,966,054 is proposed for this local reimbursement program in the budget year (Item 41).

The operating and administrative expenses for the commission's presently authorized staff of 88.5 positions are also supported by the Peace Officers' Training Fund, which derives its revenues from a penalty assessment of \$5 for each \$20 or fraction thereof of criminal fines and \$1 for each \$20 or fraction thereof of traffic fines levied by municipal and justice courts. Chapter 1059, Statutes of 1973 (SB 1640), will provide additional revenues by allocating 25 percent of juvenile traffic fines obtained from specified traffic violations to the Peace Officers' Training Fund.

The commission's operations are grouped into four program areas: (1)

**COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING—Continued**

Administration Division, (2) Education and Training Division, (3) Technical Services Division, and (4) Police Standards Division. The Governor's Program Budget does not identify the Police Standards Division as a program component, but the commission informs us that this division consists of the personnel standards program (referred to as the Personnel Standards Bureau by the commission), and the administrative counseling program (called Administrative Counseling Bureau by the commission). Our analysis will use the POST nomenclature when referring to these programs, which are summarized under separate headings below.

**ANALYSIS AND RECOMMENDATIONS****House Resolution No. 81**

In compliance with House Resolution No. 81, adopted by the Assembly September 10, 1973, directing the Legislative Analyst to review the programs and certification practices of the Commission on Peace Officer Standards and Training and to ascertain their relevance to the needs of law enforcement, we undertook a special review of the commission's program during the 1973 interim. The following issues and recommendations were developed in the course of this review, during which we interviewed commission staff, studied the commission's organizational structure, and consulted over 60 local police officers (representing more than 20 police agencies) concerning POST-training courses and their training needs. We also attended classes involving 10 different POST-certified courses to obtain onsite experience in actual classroom settings.

**Budget Request**

The \$1,657,510 requested for support of the commission's activities in the budget year is \$278,278 or 14.4 percent below estimated current-year state costs of \$1,935,788. The decrease is attributable to lower costs amounting to \$143,885 for personal services and \$134,393 for operating expenses and equipment. The decrease in personal services reflects the phasing out of 10 limited-term positions authorized last year for the PC 832 Training Program. This program has a statutory deadline of July 1, 1974, for training 40,000 auxiliary policemen in the use of firearms and the laws of arrest. As noted below, we are recommending retention of four of these positions because of continuing workload needs. Three positions from Project STAR (discussed later in this analysis) are also scheduled to be terminated by August 31, 1974. The lower expenditures in operating expenses and equipment result primarily from the reduction in staff and the concomitant reductions in travel expenses and contractual services for reduced programs such as Project STAR and the PC 832 Program.

**Federal Funds and Reimbursements**

In addition to the state support, the commission expects to receive \$73,928 in reimbursements for a total expenditure program of \$1,731,438, which is \$772,393 or 30.8 percent lower than total estimated expenditures of \$2,503,831 for the current year. Whereas federal grants totaled \$250,000 in the current year (for Project STAR), none is scheduled for the budget year.

The \$73,928 in reimbursements, which represents a decrease of \$244,115 from the current-year estimate, consists of grants from the California Council on Criminal Justice for various projects, including the Center for Police Management, and the Minority Recruitment Project (Project MORE) discussed later.

Table 1 indicates the commission's growth pattern since 1967-68.

#### **Recent Legislation and Current-Year Adjustments**

Estimated state expenditures in the current year have increased by \$113,844 over the amount originally budgeted due to an allocation for salary raises authorized during the 1973 legislative session.

Chapter 1075, Statutes of 1973 (AB 2205), will increase annual costs to the Peace Officers' Training Fund by an estimated \$180,000. This measure requires the commission to include peace officers of the University of California and of the California State University and College System in the POST program for training and police standards.

Two other legislative measures affecting the POST program also were passed in the current year: (1) Chapter 477, Statutes of 1973 (AB 2135), requires specified peace officers employed after January 1, 1975, to complete a course approved by the commission before exercising peace officer powers; (2) Chapter 478, Statutes of 1973 (AB 2136), requires specified peace officers employed after January 1, 1974, to obtain the basic course certificate within 18 months of employment in order to exercise peace officer powers. Neither measure is expected to increase reimbursement costs to the Peace Officers' Training Fund by an appreciable amount because most of the officers affected are already involved in the POST program.

#### **ADMINISTRATION DIVISION PROGRAM**

Of the total proposed expenditures (excluding local assistance of \$8,966,-054), the sum of \$398,135 or 23 percent is budgeted for the commission's Administration Division. This represents an increase of \$28,201 over the current-year budget and is due primarily to the addition of two proposed new positions, a clerk-typist II and a stenographer II. This division administers the training reimbursements to participating police agencies by maintaining reimbursement records, auditing claims for reimbursement, and processing the payments. It issues "certificates of completion" for individual POST-certified courses, and "general certificates" (basic, intermediate, advanced, management and executive) for attaining specified levels of college credits, POST course credits and years of law-enforcement experience. The division maintains records of education, training and experience on all participating law-enforcement personnel. This division also includes the executive section element, which provides overall direction and supervision to the POST program.

Tables 2, 3 and 4 show selected workload data for the Administration Division Program. As indicated in Table 2, certificates of completion processed represent a considerable workload for the division. As discussed

**Table 1**  
**Peace Officers' Standards and Training Program Growth**

	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75
<i>Administration</i>								
Expenditures (state and federal) .....	\$140,627	\$212,653	\$455,659	\$661,372	\$1,447,226	\$1,930,466	\$2,503,831	\$1,731,438
Percent increase/decrease over previous year .....	—	51.2%	114.3%	46.2%	118.8%	30.6%	29.7%	-30.8% <sup>a</sup>
Man-years (net) .....	8.5	11.9	23.3	29.7	44.8	74	86	78
Percent increase/decrease over previous year .....	—	3.4%	11.4%	6.4%	15.1%	29.2%	12%	-9.3%
<i>Local assistance</i>								
Assistance to cities and counties .....	\$1,596,062	\$2,717,266	\$3,700,000	\$5,170,369	\$7,813,342	\$10,503,497	\$9,887,042	\$8,966,054
Percent increase/decrease over previous year .....	—	70.3%	36.2%	39.7%	51.1%	34.4%	-5.8% <sup>b</sup>	-9.3% <sup>b</sup>

<sup>a</sup> This drop primarily reflects phaseout of the 10 P.C. 832 Training Program positions.

<sup>b</sup> This drop reflects reduced salary reimbursement from a maximum of 100 percent, to a maximum of 60 percent.



below, we are recommending that the commission terminate the issuance of these certificates in all cases involving duplicate certification by the sponsoring agency.

**Table 2**  
**Administration Division Program**  
**Issuance of Certificates and Reimbursement Claims**  
**Commission on Peace Officer Standards and Training**

Item	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75
Certificates of completion processed .....	6,700	12,500	14,500	12,003	16,056	17,475	19,600
General (professional) certificates processed .....	not issued	not issued	not issued	4,516	6,718	8,272	9,125
Reimbursement claims processed .....	6,500	11,000	12,000	21,341	18,646	19,000	20,000
Expenditures .....	—	—	—	—	\$300,554	\$369,934	\$398,135
Personnel .....	—	—	—	—	21.7	21.3	23

#### Current-Year Adjustments in Local Assistance

The estimated current-year expenditure level of \$7,990,000 for the local assistance program shown in Tables 3 and 4 differs from the projection of \$9,887,042 shown in the Governor's Budget. The difference of \$1,997,042 represents three items which are not reflected in our tables: (1) \$206,420 for a State Personnel Board study of POST personnel selection standards, (2) \$229,000 for training courses conducted for POST by the Department of Justice and (3) \$1,561,622 in potential additional local reimbursement costs which would be incurred if the commission decides to increase salary reimbursements from the present level of 60 percent to 75 percent.

It should be noted that the sum of \$12,650,000 was appropriated for support of the local assistance program in the current fiscal year based on a proposed 100-percent reimbursement of salary costs incurred by local agencies. On September 14, 1973, the commission reduced this reimbursement level to 60 percent because of revised revenue and cost projections which revealed that a 100-percent salary reimbursement policy would seriously reduce the balance in the Peace Officer Training Fund. More recent refinements of cost and revenue estimates have indicated that the salary reimbursement can be raised to 75 percent, and this is the basis used in the Governor's Budget for reflecting a current-year expenditure of \$9,887,042 for local assistance. However, the commission's summaries of scheduled expenditures in the current year from which we developed the allocation details shown in Tables 3 and 4 are based on the 60-percent reimbursement level previously established. Although the commission has not formally approved the 75-percent reimbursement level reflected in the Governor's Budget for the current year, such action is anticipated. For the budget-year, a salary reimbursement level of 75 percent is proposed.

Tables 3 and 4 illustrate POST reimbursement expenditures by course category and category of reimbursement. The basic course and technical/special courses are expected to absorb \$6.7 million or 74.7 percent of training course costs for 1974-75 (Table 3). Salary and tuition costs represent almost 87 percent of projected expenditures by category of reimbursement (Table 4).

## COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING—Continued

**Table 3**  
**Local Reimbursement Expenditures by Course Category**  
**Peace Officer Training Fund for Local Assistance (Item 41)**

<i>Item</i>	<i>1971-72</i>	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>
Basic Course.....	\$5,511,613	\$5,642,113	\$3,900,000	\$4,034,724
Advanced officer.....	793,477	1,159,546	800,000	537,963
Supervisory courses .....	336,400	496,894	350,000	268,982
Middle management .....	273,144	935,641	700,000	896,606
Executive development .....	61,958	297,818	240,000	537,963
Technical/special .....	<u>1,771,249</u>	<u>2,358,906</u>	<u>2,000,000</u>	<u>2,689,816</u>
Totals .....	\$8,747,841 <sup>a</sup>	\$10,890,918 <sup>a</sup>	\$7,990,000	\$8,966,054

<sup>a</sup> Approximate figures which do not include late claims. The budget reimbursement level of \$10,503,497 for fiscal year 1972-73 does not reflect the processing of late claims. Therefore, the total reimbursement amount of \$10,890,918 reported by the commission for fiscal year 1972-73 does not agree with that reported in the Governor's Budget. Budget-year totals reflect a 75-percent salary reimbursement level compared to a 60-percent level in 1973-74.

**Table 4**  
**Projected Expenditures by Category of Reimbursement <sup>a</sup>**  
**Peace Officer Training Fund for Local Assistance (Item 41)**

<i>Item</i>	<i>1973-74</i>	<i>Percent of total reimbursement</i>	<i>1974-75</i>
Subsistence (lodging and meals).....	\$878,900	11.0%	\$986,266
Travel and commuter allowance.....	175,780	2.2	179,321
Tuition .....	1,102,620	14.0	1,255,248
Salary .....	<u>5,832,700</u>	<u>72.8</u>	<u>6,545,219</u>
Totals .....	\$7,990,000	—	\$8,966,054

<sup>a</sup> Data have been maintained only since July 1973. The 1974-75 data are based on a 75 percent reimbursement level for salaries.

### Eliminate Duplicate Certification

*We recommend that the commission cease to issue certificates of completion for individual courses which duplicate certification of the sponsoring agency and that it limit itself to the issuance of the basic, intermediate, advanced, management and executive general certificates.*

The Administration Division reports that as a result of recent increases in the number of training courses and course participants it is faced with a backlog of 10,000 certificates of completion which have yet to be issued to recent graduates of POST-certified courses. Little progress is being made toward reducing this backlog because of staff limitations and the fact that 40,000 officers are currently involved in POST-certified training, with over 20,000 completing courses each year as shown in Table 2, "reimbursement claims processed." In addition, the division reports a backlog of 395 applications for the general certificates which only the commission can issue. This backlog represents an estimated two to three weeks delay in the processing of general certificates.

In order to alleviate the backlog, we recommend that the commission

cease issuing certificates of completion for all courses in which the training or sponsoring school or academy also issues certificates. The division reports that most such schools and academies are duplicating their effort. Elimination of this duplication would negate the need for the division to process the majority of an estimated 19,600 certificates of completion (see Table 2) for fiscal year 1974-75 and reduce the current backlog.

#### Tighten Salary Reimbursement Procedures

*We recommend legislation requiring local jurisdictions receiving commission reimbursement for salaries to make an annual accounting to POST verifying that these funds are used only to support police training, equipment and other appropriate police activities. We further recommend that POST report annually on this matter to the Joint Legislative Budget Committee.*

As mentioned earlier, the Administration Division maintains reimbursement records and administers payments to the local governing body of the participating police agency. Table 3 shows reimbursements in 1972-73 to local jurisdictions totaled approximately \$10,890,918. Since the inception of the commission's reimbursement program in 1961 through fiscal year 1972-73, approximately 97,911 peace officers have been trained at a commission cost of \$36,738,750 as indicated in Table 5, which shows the number of officers trained and the amount of local reimbursements since 1961. These figures represent an average training cost of approximately \$375 per man. Table 4 details reimbursements by item category. Up to 100 percent of cost is reimbursable for all items with the exception of salary. As noted earlier, this item was changed in the current year from a reimbursement level of 100 percent to 60 percent, effective September 30, 1973. As previously indicated a salary reimbursement level of 75 percent is proposed for the budget year.

**Table 5**  
**Training Statistics, 1961-1972-73**  
**Commission on Peace Officer Standards and Training**

Calendar year	Number trained	Local reimbursements
1961.....	476	\$95,474
1962.....	1,803	435,494
1963.....	1,896	483,851
1964.....	2,596	789,885
1965.....	2,644	832,372
1966.....	2,982	989,642
1967.....	2,850	988,136
Fiscal year		
1968-69.....	6,408	3,326,226
1969-70.....	16,391	4,025,150
1970-71.....	19,879	5,133,761
1971-72.....	21,340	8,747,841
1972-73.....	18,646	10,890,918
Total.....	97,911	\$36,738,750

The stated purpose of salary reimbursement is to encourage or enable police agencies to participate in training programs by providing funds to

**COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING—Continued**

pay overtime costs for their own officers, or to hire auxiliary police or peace officers from other jurisdictions to fill in for those in training. During our interim study of the POST program we found, upon consultation with several police agencies, that overtime is seldom used and substitute officers almost never used to replace officers who are attending POST courses. In effect, participation in the POST program often results in reduced police coverage, especially in smaller police agencies of 49 or fewer officers, which represent 259 or 63.8 percent of the 405 police agencies active in the POST program.

A corollary problem is that despite the fact salary constitutes by far the greatest proportion of reimbursement expense, no machinery has been built into the program to insure that salary reimbursements are being used by local government to cover overtime costs, employ substitute officers or to otherwise enhance the police program. Under the present system, reimbursements are made directly to the local government involved where they are deposited in the local general fund and used for whatever purpose deemed necessary. No jurisdiction is required to account for how salary reimbursements are spent. Thus, the Peace Officer Training Fund could be subsidizing other local programs, such as garbage collection or highway maintenance, which have nothing to do with training or upgrading of law enforcement personnel.

We believe that tighter reimbursement controls are needed and recommend legislation requiring cities and counties to account to POST on the utilization of salary reimbursements. Such legislation should require that these funds be used to upgrade local law enforcement through the purchase of needed police equipment, and/or the use of overtime or substitute police officers to prevent reduced coverage while officers are in training. Failure to comply with these provisions should result in the loss of that portion of the reimbursement representing salary costs.

Table 3 demonstrates that salary reimbursement clearly constitutes the greatest portion of the reimbursement totals. Since the 60-percent salary reimbursement rule was implemented, salary has represented an average of 72.8 percent of total reimbursements. The Administration Division estimates that in previous years, under the 100-percent salary reimbursement policy, salary costs represented in excess of 90 percent of total reimbursements. These percentages signify that of the approximately \$36.7 million reimbursed during the period 1961-1972, \$25.9 million to \$33.3 million was for salaries of peace officers.

**Stenographer II Not Justified for Executive Element**

*We recommend that the proposed new stenographer II position, requested for the executive element be transferred to the Education and Training Division.*

The budget proposes 4.5 additional man-years, which, with administrative adjustments of two man-years, will result in a net increase of 2.5 man-years. The new positions are proposed for the administration division program (a stenographer II for the executive element and a clerk-typist II for general administration). In view of the fact that the Education and

Training Division stands to lose five support staff because of the termination of STAR and PC 832 projects (the loss would be three under our recommendation discussed later in the Analysis), and because of the workload in the certification and reimbursement elements of the administration division discussed earlier, we support the budget request for 2.5 proposed new positions, provided the stenographer II position is assigned to the Education and Training Division (which is to receive added responsibility per our recommendations regarding this division). The executive element currently has two support staff assigned to three professional staff. We believe two support staff is sufficient to accommodate the workload of the three professional staff, especially in view of the fact that insufficient workload data have been supplied to justify another support staff for the executive element.

#### EDUCATION AND TRAINING DIVISION PROGRAM

This division and its current authorized staff of 24 monitors the quality and suitability of commission (POST) certified courses. In doing so, consultants from this division evaluate both course content and preparedness of instructors at some 128 educational institutions and police academies sponsoring approximately 470 certified courses. (This compares with 352 courses at 118 institutions as of June 1972.) The division also recommends certification of both training institutions and courses, provides training and education counseling to local police agencies, formulates and proposes improved instructional techniques, reviews qualifications of candidate instructors, coordinates with local advisory committees to identify needs for new and diversified police training and recommends decertification of institutions and courses failing to meet commission standards.

The proposed support level of \$321,705 is \$355,162 or 52.5 percent below estimated current-year state expenditures of \$676,867. This reduction is attributable to the phaseout by July 1, 1974, of 10 positions under the PC 832 Program, and the further deletion of three positions by August 31, 1974, under Project STAR. (These programs will be discussed in more detail below.) Other factors contributing to the reduction are: (1) a reduced level of in-state travel associated with the phaseout of the above programs, (2) lower contractual costs, and (3) reduced equipment costs.

**Table 6**  
**Education and Training Division Workload Data**  
**Commission on Peace Officer Standards and Training**

<i>Item</i>	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>
Officers trained (eligible for reimbursement) .....	18,646	19,000	20,000
Officers trained (specialized, not reimbursed) .....	1,500	2,000	2,000
Officers trained (PC 832 Program) .....	4,069	10,000	4,000
Courses examined for certification .....	200	250	250
Onsite course inspections .....	100	400	400
New courses certified .....	100	50	50
Courses decertified .....	28	80	80
Courses modified .....	19	40	40
Courses audited .....	4	30	50
Total certified courses offered .....	352	470	400
Expenditures (including federal funds and reimbursements) .....	\$955,536	\$1,121,867	\$321,705
Personnel man-years .....	16	24	14

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Workload for the Education and Training Division is summarized in Table 6. We note that last year's estimate of the number of officers to be trained was substantially overstated. In fiscal year 1972-73, a total of 24,215 officers received training compared to the 34,200 figure reported last year by the commission.

**Role of Advisory Committees Needs Clarification**

*We recommend that the commission establish rules and guidelines governing the role, membership and organizational requirements for local advisory committees serving police academies and educational institutions. Such rules should be incorporated in the POST regulations.*

As previously stated, the commission's program involves 405 local law enforcement and special district police jurisdictions, 128 training institutions (educational) and police academies, and 470 certified courses. (The number of certified courses jumped 33.5 percent from June 1972, to the present.) For several years, the POST program has utilized on an informal basis local advisory committees composed of representatives of law enforcement agencies, academic, private and interested sectors of the community. Their purpose is to function as a liaison between local police agencies, training sponsors and the Education and Training Division of POST. These committees often develop and propose courses and course content for commission approval and, consequently, have an important influence on the type of training being offered (especially for small agencies which have no training academies and must depend on the program offered by colleges and the large police agencies). In view of the large number of police jurisdictions and training sponsors, the differing needs of large and small police agencies, and the proliferation of training courses, we believe it is essential to have local participation in course development and such participation, if effectively implemented, should aid in resolving problems of course relevancy in a number of areas as noted later in this analysis.

However, these committees are loosely structured and the extent to which they actually represent overall police training needs is in question. Their roles vary throughout the state, some being instrumental in determining what courses are offered. Despite the potential importance of these bodies, the commission has established no guidelines or rules clarifying their role, membership or organizational requirements. Membership is often determined by administrators and academicians in the criminal justice field who tend to have disproportionate representation on the committees. Representatives of several police agencies of 100 officers or less, with whom we discussed the POST program, indicate that they do not have an adequate opportunity to express their training needs to these advisory committees.

The commission's regulations should include a section on advisory committees specifying their method of operation, roles or functions, manner of organization, and appointment of members and presiding officers. Where possible, the commission's education and training consultants

should be de facto members of the advisory committees operating in their areas of assignment.

#### Course Curriculum and Evaluation

*We recommend that the Education and Training Division carefully review the course content of all supervisory, middle management and executive development courses and seminars to ascertain their relevance and applicability to the functional needs of police officers, and report thereon to the Joint Legislative Budget Committee by December 1, 1974.*

Table 7 illustrates the broad categories of courses comprising the POST program.

**Table 7**  
**Certified Course Categories, POST**

Course	Minimum hours of training	Number of courses certified	Must be completed within
Basic <sup>a</sup> .....	200	50	12 months of appointment
Advanced officer.....	20	63	Once every 4 years
Supervisory.....	80	44	18 months of promotion
Middle management.....	100	18	18 months of promotion
Executive development <sup>b</sup> .....	100	7	Optional
Technical/special <sup>b</sup> .....	Unlimited	237 <sup>c</sup>	Optional

<sup>a</sup> Chapter 477, Statutes of 1973, (operative January 1, 1975), requires completion of this course prior to exercising peace officer powers.

<sup>b</sup> Optional courses.

<sup>c</sup> Includes PC 832 program courses.

Supervisory, middle management and executive development courses, which constitute 17 percent of total certified courses, apply, respectively, to first level supervisors, middle-level and department heads and assistant department heads, hence their potential importance. While it is necessary that supervisory problems be assessed and the most current and relevant management techniques be applied for their solution, interviews with course participants reveal that (1) much of the course material is not applicable to practical police situations, (2) course content is often redundant, and could be covered in less time and (3) instructors are often ill prepared and their teaching material outdated. Comments of this kind have been particularly prevalent regarding the middle management and executive development courses, and reflect the need (discussed later in this analysis) for POST consultants to conduct more onsite course audits as a means of identifying and eliminating instructional weaknesses. Combined expenditures for these three categories of courses are estimated at \$1,290,000 for 1973-74, and \$1,703,551 for 1974-75 (see Table 3).

Statistics gathered from the first quarter of the current year reveal that 299 officers attended these courses at a combined cost of \$163,717, or approximately \$546 per person. This is a relatively high cost compared to the 12-year overall average cost of \$375 per person depicted by Table 5. While it is recognized that the 12-year average is not the best reflection of current average costs per person because of inflation and other cost increase factors such as level of salary reimbursement, the \$546 is high enough to warrant scrutiny of the benefits graduates derive from the

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training.

Our review suggests that the benefits of these courses as presently constituted may not justify the comparatively high level of their costs and that a revision and condensation of their content would reduce such costs, thereby allowing a greater allocation of POST funds to advanced, technical and basic courses which generally offer more practical training to rank and file policemen as discussed below.

**Other Needed Curriculum Changes***I. Advanced Officer Course and Technical/Special Courses.*

(a) *We recommend that the commission increase the minimum required number of hours and frequency of training for the advanced officer course.*

(b) *We recommend that the technical/special course offerings be studied to determine appropriate technical subject matter which can be incorporated into the curriculum of a broader advanced officer course.*

The advanced officer course is intended for every officer below the rank of first level supervisor. Currently, every officer, upon completion of the basic course, must complete an advanced officer course of 20 or more hours at least once every four years. The course is designed to provide refresher training and keep officers informed of new laws and court decisions, and new concepts of police technology, community relations, and law enforcement ethics. Interviews with several police officers indicate that 20 hours of training once every four years is inadequate to keep one apprised of either new or old police concepts. We believe that such training warrants a higher priority than it now receives and accordingly recommend that the commission increase the minimum required hours and frequency of training for all officers qualified under POST regulations to take advanced officer course training.

As Table 7 shows, the technical/special courses represent more than 50 percent of total certified courses. While many of these courses are provided for the PC 832 program (training of auxiliary and special district police in the laws of arrest and firearm handling), several of them, such as the breathalyzer course, sex crime investigation, community-police relations and criminal justice information systems, involve elements that are basic to the average policeman's daily activities and thus should be incorporated into an expanded advanced officer course. This approach should reduce the proliferation of technical/special courses, thus improving the course audit and review capabilities of POST's education and training staff. While the technical/special courses are designed to meet local training needs in specialized subjects, an expanded advanced officer course could handle many of the borderline specialized courses, such as the breathalyzer. In reviewing the minimum required hours and frequency of advanced officer training, the commission should investigate decertification of a number of technical/special courses sufficient to offset any net cost increase for an expanded advanced officer course.

*II. Basic Course.*

*We recommend that the commission require sponsors of the basic*



*course to include more mock-situation training in teaching practical police approaches to crime control.*

A complaint by many police graduates of POST-certified courses is the lack of mock situations depicting hypothetical or historical cases to illustrate proper handling of such things as domestic fights, accident and crime-scene investigation, squad car tactics, bomb deactivation, riot and crowd control, approaching a suspect vehicle, etc. Too much of the instruction has been lecture. The commission should require instructors to use more mock situations to teach police techniques. For example, for every three or four hours of classroom instruction provision should be made, where appropriate and possible, for one hour in the field where the officer can be confronted with mock cases.

### *III. Course Evaluations by Graduates.*

*We recommend that the commission request local training officers, or their equivalent, to have a representative number of officers completing POST-certified courses submit statements describing, in specific terms, ways in which the training has or has not assisted in the performance of their law enforcement duties.*

The present course evaluation program involves a threefold approach: (1) course critiques by participating students using an abbreviated departmentalized form; (2) preselected student evaluations, whereby one or more students will be preselected to submit written evaluations; (3) consultant reports in which POST's education and training staff either audits the course in part or whole and submits an evaluation. Of the three, number one is most frequently used and at best supplies a sketchy analysis of the class involved. There is no systematic method to evaluate course quality, although the Education and Training Division is working with the USC Graduate School of Public Administration on methods to tabulate student critiques for computer analysis.

Still, the evaluation forms being used do not lend themselves to substantive analysis, and can supply at best only superficial response of borderline value in measuring the effect of training on job performance.

Consequently, we recommend that not more than 6 nor less than 12 months following completion of POST *mandated* training courses, local training officers be requested to appoint a representative number of graduates to submit written reports to the Education and Training Division specifying ways in which their POST courses have or have not contributed to the performance of their duties. Specifics as to when reports are due and the format of the report should be contained in the POST regulations. We believe that inclusion of this element in the evaluation program will assist the education and training staff to audit course offerings.

### **Need to Increase Level of Course Auditing**

*We recommend that the Education and Training Division increase on-site audits to one-third of all POST-certified courses offered each fiscal year, thereby enabling the commission to ascertain more capably the propriety of subject matter, quality of instructors and facilities, and currency of course outlines.*

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As shown in Table 6, only four courses were audited in 1972-73 with projected auditing levels of 30 in 1973-74 and 50 in 1974-75. While these projections represent a substantial improvement over past practices, 50 courses audited out of some 470 is not sufficient. The education and training division is the backbone of the POST program in that it reviews requests for course certification, ascertains training and education needs of local police agencies, modifies and proposes decertification of courses as needed and conducts onsite audits and inspection of courses certified by the commission to determine their relevance and quality.

This latter function is crucial to the maintenance of quality control, which is a primary role of the Education and Training Division, along with the determination of training needs and review of certification requests. In view of the proliferation of courses, up from 352 to 470 over a period of about 16 months, and the complaints about lack of quality instruction and the relevance of course content, the time is at hand for POST to concentrate on quality control of existing courses. Interviews with local police agencies support the need for a greater effort on the part of POST staff to audit current course offerings. Therefore, we recommend that the Education and Training Division increase onsite audits to one-third of all courses offered in any fiscal year. This recommendation can be implemented through the transfer of four vacant consultant positions, discussed later, rather than by adding new positions.

**PC 832 Training Program has Continuing Staffing Needs**

*We recommend retention of one senior law enforcement consultant, one law enforcement consultant II, one stenographer II and one clerk-typist II to sustain the ongoing workload of this program for an added cost of \$82,520, consisting of \$55,785 for salaries and \$26,735 for in-state travel.*

Chapter 1504, Statutes of 1971, requires all peace officers (including auxiliary reserve forces and special purpose officers, such as aviation security officers) to take POST-certified training in the exercise of powers of arrest and the use of firearms by July 1, 1974, or within 12 months of employment. This program, referred to as the PC 832 Training Program after the Penal Code section which established it, will provide an estimated 25,000 peace officers with this training by July 1, 1974. As previously indicated in Table 6, the commission projects a continuing annual workload under the PC 832 program of 4,000 officers to be trained. This figure is based on an expected annual turnover of about 10 percent of auxiliary and special purpose officers (regular full-time officers receive the equivalent PC 832 training through the basic and advanced officer courses).

Chapter 1504 placed a one-time, heavy certification workload on the commission by requiring the training of approximately 40,000 auxiliary and special purpose officers by July 1, 1974. Therefore, in the 1973-74 Analysis we recommended that the 10 positions approved that year for the PC 832 program be limited until a more accurate evaluation of long-term staffing needs for the program could be made. In accordance with that recommendation, the budget proposes to terminate the 10 positions by July 1, 1974.

However, due to commission projections that 4,000 officers will be trained annually under PC 832, and due to the adoption of Chapter 477, Statutes of 1973 (AB 2135), which requires specified peace officers (city police, sheriff deputies and special district policemen) employed after January 1, 1975, to complete a course approved by the commission before exercising peace officer powers, we recommend retention of one senior law enforcement consultant, one law enforcement consultant II, one senior stenographer and one clerk-typist II to sustain this program and to assist in improving the auditing activity discussed above. We are also recommending in our analysis of the Police Standards Division, below, that four presently unfilled law enforcement consultant II positions in the Police Standards Division be transferred to the Education and Training Division to augment the auditing function.

#### **Project STAR**

Project STAR is a four-year, multistate research effort to define the roles, functions, objectives and skill requirements of the six major classes of criminal justice personnel. The goal is to provide training modules for systematically upgrading the performance of personnel in law enforcement, corrections and the courts. POST has assigned one law enforcement consultant and two support staff to the project, which is scheduled for funding only until August 31, 1974, at which time the project study phase will be terminated along with one professional and two support staff assigned directly to the project. Subsequently, POST's education and training staff plan to test results of the study at various training institutions. Federal funding for this project amounts to \$250,000 for the current year, with no federal funds budgeted for the budget year. Budget-year funding for testing the results of STAR amounts to \$30,219 from the Peace Officers' Training Fund.

#### **POLICE STANDARDS DIVISION PROGRAM**

The Police Standards Division is comprised of three major elements: (1) Administrative Counseling, (2) Minority Recruitment Project (Project MORE) and (3) Personnel Standards Bureau. (As discussed earlier in the Analysis, this division includes the personnel standards and administrative counseling programs listed as Items II and IV in the Governor's Budget.)

Overall budget cost for the Police Standards Division Program, including the administrative counseling, personnel standards and Project MORE elements, amounts to \$764,907 or \$28,513 (3.9 percent) above current year expenditures of \$736,394.

#### **Administrative Counseling Bureau**

This bureau, in accordance with Section 13513 of the Penal Code, provides, on request, three major services to local law enforcement agencies: (1) Identifies, evaluates and recommends courses of action to solve police administrative problems; (2) conducts general surveys involving extensive review and analysis of an agency's total operation, and specialized surveys limited to an examination of specified areas; (3) provides staff assistance to agencies in the implementation of survey recommendations. Currently, the counseling bureau reports that 9 general surveys are in

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process, with 31 police agencies on the waiting list.

The proposed expenditure level of \$512,337 for fiscal 1974-75 is \$16,529 or 3 percent above estimated expenditure of \$495,808 for fiscal 1973-74.

Table 8 shows cost and workload data for this element.

**Table 8**  
**Administrative Counseling Bureau**

<i>Item</i>	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>
Surveys prepared .....	14	15	25
Special studies .....	5	4	10
Expenditures .....	\$403,835	\$495,808	\$512,337
Man-years .....	17	19	19

**Minority Recruitment Project (Project MORE)**

In accordance with Chapter 252, Statutes of 1972, this project was established to provide specific recruitment techniques and programs to assist local law enforcement agencies in the recruitment of minority police candidates. An important goal is to develop models for recruiting minority candidates without lowering POST standards of personnel selection. Santa Ana was selected as the city for a pilot program. Our 1973-74 Analysis recommended that a law enforcement consultant II position requested for the initial two-year study be limited to July 1, 1975, to allow a review of the staffing needs for this project before authorizing the position on a permanent basis. Further discussion concerning this project is found under the heading "Technical Services Division."

Cost data for Project MORE are shown in Table 9.

**Table 9**  
**Minority Recruitment Project**

<i>Item</i>	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>
Expenditures .....	\$81,278	\$149,176	\$145,699
Personnel man-years .....	3.5	4	4

**Personnel Standards Bureau**

Pursuant to Section 13512 of the Penal Code, this bureau inspects the personnel records of local law enforcement agencies receiving state aid to determine if they are adhering to prescribed recruitment and training standards for raising the level of local police competency. It also audits the procedures used by local jurisdictions to select, train and employ law enforcement personnel and provides counseling to improve the methods employed in this administrative process.

Proposed expenditures of \$106,871 for fiscal year 1974-75 are \$15,461 or 16.9 percent above estimated current year expenditures of \$91,410.

Table 10 shows workload and cost data for the Personnel Standards Bureau.

**Table 10**  
**Personnel Standards Bureau**

<i>Item</i>	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>
Compliance inspections .....	283	314	350
Expenditures .....	\$73,445	\$91,410	\$106,871
Personnel man-years .....	4	5	5

**Staffing Adjustments**

*We recommend transfer of four unfilled law enforcement consultant II positions from the Police Standards Division to the Education and Training Division.*

With the phasing out of the PC 832 Training Program staff, discussed earlier, the Education and Training Division will need additional staff both to maintain present counseling and certification services, and to make a much needed improvement in the level of course auditing as discussed earlier. In the Police Standards Division, one law enforcement consultant II position has been vacant since November 1972, while three others have been vacant since July 1, 1973. These positions should be transferred to the Education and Training Division and assigned to the course auditing function. This action would allow the Police Standards Division to maintain existing work levels, while providing the Education and Training Division needed consultants without increasing the overall commission staff, which has almost doubled since fiscal year 1971-72 (See Table 1).

**Recommended Organizational Changes**

*I. We recommend abolishment of the Personnel Standards Bureau and transfer of its function from the Police Standards Division to the Education and Training Division.*

The "Police Standards Division" is misnamed. That title is not descriptive of its primary function, which is providing administrative counseling services to local agencies to upgrade their organizational efficiency and management capability along with implementation of survey recommendations. Consequently, the functions of the Personnel Standards Bureau within the division are incompatible with the primary objective of the division. The more serious problem, however, is that the bureau, in making inspections of personnel records to determine if local agencies are complying with adopted standards for recruitment and training, often overlaps and duplicates the efforts of consultants from the Education and Training Division. Personal interviews and field trips, involving our staff and consultants from the Personnel Standards Bureau and the Education and Training Division, have verified that duplication of effort occurs during visits to local police agencies. Occasionally, consultants from the two divisions will visit the same agency without prior knowledge of any mutual destination. According to workload data contained in Table 10, the Personnel Standards Bureau anticipates 350 compliance inspections in the budget year.

For these reasons, we recommend that the Personnel Standards Bureau be abolished, its staff of five positions reassigned as discussed below and its functions absorbed by the Education and Training Division. The Police Standards Division should be renamed the "Administrative Counseling Division" to clarify its organizational purpose. The Education and Training Division should be renamed the Education, Training and Standards

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Division for the same reason. Elimination of this duplication will allow both divisions to concentrate on their primary objectives.

**II. Personnel Standards Bureau—Staff Adjustments.**

*We recommend abolishment of the Personnel Standards Bureau as described above, and reassignment of its five staff members as outlined below.*

Two law enforcement consultant II positions and one stenographer II from the Personnel Standards Bureau should be assigned to the Education and Training Division to assist with local inspections of police agencies and verify compliance with POST training and recruiting standards, process certification requests for new training courses from educational institutions and police academies, conduct onsite inspections and audits of POST-certified courses and perform other duties as required by the Education and Training Division.

Transfer of these positions would provide three additional staff for the Education and Training Division to use in absorbing the functions of the Personnel Standards Bureau. In order to improve staff efficiency and avoid the necessity of separate staff visits to the 405 local law enforcement agencies which are subject to inspection of personnel records for verification of compliance with POST standards for recruitment and training (as noted above 350 such inspections are scheduled in the budget year), the commission should utilize a spot-check approach, whereby consultants from the Education and Training Division, in the course of conducting audits, counseling local agencies on training, and investigating course certification requests, also inspect the personnel records of local police agencies. In this way, the commission would satisfy Section 13512 of the Penal Code which authorizes the commission to verify, as necessary, that localities receiving state aid are adhering to POST standards of recruitment and training, without attempting to inspect yearly each of over 400 different police agencies.

The remaining two positions from the Personnel Standards Bureau (one senior law enforcement consultant II and one law enforcement consultant II) should be assigned to the Administrative Counseling Division (so titled per our recommendation) to assist with the conduct of management surveys and preparation of survey reports. This assignment of staff would help reduce the backlog of police agencies waiting management surveys by POST administrative counseling staff.

**TECHNICAL SERVICES DIVISION PROGRAM**

This division is the research arm of POST. It engages in management research and development directed towards improving organization, administration, operations and personnel practices of local law enforcement agencies. It differs from the administrative counseling function by dealing with the entire field of police management, whereas the former deals with individual police agencies and their problems.

The division researches management models applicable in a general way to all local law enforcement agencies, and disseminates this research information to all interested police agencies.

The division's activities are grouped into three areas: (1) Internal Support Services which develops internal directives for the commission, publishes POST Scripts (monthly newsletter), conducts general research projects and drafts POST procedures manuals; (2) The Center for Police Management, which conducts major technical research projects and disseminates results to local law enforcement agencies; and (3) The Research Library which supplies research material to assist consultants in the development of specific projects.

Including reimbursements, the funds proposed to support the Technical Services Division in the budget year total \$246,691, which is \$28,945 or 10.5 percent below estimated expenditures in the current year. This lower level of expenditure is due to a reduction in the California Council on Criminal Justice (CCCJ) grant for the Center for Police Management. Under provisions of the grant, two of the center's six positions (one consultant and one clerical) will be supported in the budget year with POST funds. Table 11 shows workload and cost data for the Technical Services Division.

**Table 11**  
**Technical Services Division**

Item	1972-73	1973-74	1974-75
Technical research projects and publications.....	17	20	24
General research projects .....	28	50	90
Graphic arts projects.....	268	270	270
Library research projects.....	52	54	54
Expenditures .....	\$115,808	\$275,636	\$246,691
Personnel man-years .....	5.6	12.7	13

#### Special Project Change

*We recommend transfer of Project MORE (Minority Recruitment Project) from the Police Standards Division (i.e., Administrative Counseling Division per our recommendation) to the Center for Police Management of the Technical Services Division.*

As discussed in our analysis of the Police Standards Division, Project MORE is a research project, with a pilot program being tested by the Santa Ana Police Department, designed to implement a practical program for the recruitment of minority-group police officers. The project goal is to develop a program which all local police agencies can apply to the recruitment of minorities. In our view, the project is properly a task for the Center for Police Management which, as described earlier, conducts major technical research projects and disseminates the results to local law enforcement agencies. Transfer of Project MORE to Technical Services would further clarify and enhance its role as the research arm of POST, and allow the Police Standards Division to concentrate on conducting indepth administrative surveys for local law enforcement agencies.

#### COMPUTER USE STUDY

*We recommend that Item 41 (local assistance) be amended to authorize POST to expend up to \$10,000 from the appropriation contained in that item for a study of a computerized records program.*

The commission maintains all of its records in conventional files. All

**COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING—Continued**

information derived from 120,000 record filecards, thousands of reimbursement claims and certificate requests, and current training courses under certification must be hand-selected and hand-tallied. Hence, selected information is difficult to isolate and time consuming to tabulate. A computerized records program would facilitate program development, control, planning, budgeting, statistical analysis, administrative decision-making and tabulation of course training critiques.

The commission has expressed an interest in contracting with the Department of General Services (Data Processing Center) for an analysis of POST records, but the proposed budget authorizes no expenditure for this purpose. The Department of General Services estimates a cost of \$10,000 for the study. We recommend that the commission be authorized to spend, during the budget year, \$10,000 from the local assistance item (Item 41) to conduct the study.

In conducting this study, the Department of General Services should consult with the USC Graduate School of Public Administration which, as noted earlier, is currently working on methods to tabulate student course critiques for computer analysis. This consultation should lead to the inclusion of training critiques in the computerized records program.

**PRIORITIES FOR STAFF PROJECTS**

*We recommend that the commission identify those projects in the POST program which can best meet the training, personnel standards and management needs of local law enforcement, and direct staff to develop the projects which can best meet such needs.*

As indicated in our Analysis of the 1973 Budget Bill, the commission's growth pattern since 1967-68 has been rapid. The total proposed budget-year expenditure (including reimbursements) of \$1,731,438 is down from estimated total current-year expenditures of \$2,503,831, but still represents an increase of more than 12 times the \$140,627 actually expended in 1967-68. Staff has increased tenfold over the same period. Concurrently, the number and diversity of commission projects have increased to the point that staff resources, particularly in the Education and Training Division, are pressed to meet the demands of such a multiplicity of projects.

Therefore, the commission should identify those projects which most adequately meet the management, personnel standards and training needs of local law enforcement and apply POST resources toward meeting those needs. For example, the Education and Training Division identifies 25 "needs" or projects requiring attention without establishing any order of priority. Attendance at commission meetings during the course of our review of POST operations (pursuant to House Resolution 81), revealed confusion between commission members and staff as to the direction staff is taking in developing projects. In our view, this confusion results from a failure to identify the needs of local law enforcement agencies and develop, on a priority basis, a program designed to meet those needs.



**ASSISTANCE TO CITIES AND COUNTIES FOR PEACE  
OFFICERS' STANDARDS AND TRAINING**

Item 41 from the Peace Officers' Training Fund

Budget p. L-9 Program p. I-79

Requested 1974-75 .....	\$8,966,054
Estimated 1973-74.....	9,887,042
Actual 1972-73 .....	10,503,497
Requested decrease \$920,988 (9.3 percent)	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

This item provides assistance to cities and counties that qualify for state aid for peace officer training pursuant to the provisions of Chapter 1823, Statutes of 1959. Each jurisdiction participating in the program is reimbursed from the Peace Officers' Training Fund for up to 60 percent of the salaries and up to 100 percent of expenses for officers who are selected to participate in training programs. The Commission on Peace Officers' Standards and Training approves the training programs and administers the reimbursements. Pursuant to Chapter 1640, Statutes of 1967, the commission also has responsibility for providing counseling services to local police agencies for the purpose of improving their administrative and operating procedures. The commission is supported by a separate appropriation from this fund (Budget Item 40).

Revenues accruing to the Peace Officers' Training Fund are derived from a penalty assessment of \$5 for every \$20 of criminal fines and \$1 for every \$20 of traffic fines. Chapter 1059, Statutes of 1973, (AB 1640) will provide additional revenues to the Peace Officers' Training Fund (POTF) by allocating 25 percent of juvenile traffic fines obtained from specified traffic violations, to the fund. Potential revenues for the POTF from Chapter 1059 are estimated at between \$1 million and \$1.5 million, which could increase the fund surplus to a level above the \$1.67 million projected for the end of fiscal year 1974-75. Revenues for the budget year are estimated at \$10,513,836, but may not fully reflect potential revenues from Chapter 1059, Statutes of 1973. (Because of the difficulty of estimating the extent to which the courts will utilize Chapter 1059 penalty provisions, the estimated \$1 million to \$1.5 million is not totally reflected in the revenue projection for the Peace Officers' Training Fund.)

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The sum of \$8,966,054 is requested for the budget year from the Peace Officers' Training Fund for allocation to local government. This amount, which represents the foreseeable level of funding to participating law enforcement agencies in the budget year, is a decrease of \$920,988 or 9.3 percent below estimated local assistance expenditures of \$9,887,042 for the current year.

Disbursements to local agencies approximately doubled between fiscal

**ASSISTANCE TO CITIES AND COUNTIES FOR PEACE OFFICERS' STANDARDS AND TRAINING—Continued**

years 1970-71 and 1971-72 as a result of a decision by the commission to reimburse up to 100 percent rather than 50 percent of the salaries and expense of officers selected to participate in training programs. This higher rate has markedly reduced the fund surplus (from \$8,358,131 as of June 30, 1973, to an estimated \$1,780,301 by June 30, 1974). Consequently, the commission reduced during the current year the maximum salary reimbursement from 100 percent to 60 percent which, as discussed under Item 40, may be increased to 75 percent depending on availability of revenue. The commission is authorized to adjust reimbursement levels based on revenue trends and the funding needs of participating law enforcement agencies. As indicated in our analysis of Item 40, we believe that tighter reimbursement controls are needed to insure that local governments are spending reimbursement moneys to avoid reduced police coverage during training, or to otherwise strengthen local law enforcement.

The anticipated revenue of \$10,513,836, together with an estimated fund surplus of \$1,780,301 as of July 1, 1974, will provide sufficient funding for the commission's proposed expenditure program and produce a projected fund surplus of \$1,670,573 at the end of the budget year.

**OFFICE OF CRIMINAL JUSTICE PLANNING**

Items 42-44 General Fund      Budget p. 19 and L-10      Program p. I-82

Requested 1974-75 .....	\$6,436,063
Estimated 1973-74.....	3,463,001
Actual 1972-73 .....	1,249,130
Requested increase \$2,973,062 (85.8 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Accountability. Recommend Office of Criminal Justice Planning (OCJP) be under an agency secretary. 89
2. Regional Board Representation. Recommend a representative of the Council of Regional Board Chairmen be represented on the Council on Criminal Justice and its executive committee. 91
3. Comprehensive Planning. Recommend first priority be to develop a statewide, comprehensive plan. 91
4. Local Grant Program. Recommend restoration to regions of local "action" funds now used for OCJP local grant program. 92
5. Personnel Policy. Recommend that OCJP and State Personnel Board reassess job specifications to assure that they are recruiting the best available talent. 93
6. Regional Plans. Recommend plans be submitted by re- 93

- gions every three years, and that adequate program guidelines and standards be established.
7. Grant Processing. Recommend completed grant proposals be submitted with annual "action" plans and that projects be funded on a fiscal-year basis. 94
  8. Regional Performance Standards. Recommend standards be established for regional performance and operation. 95
  9. Regional Role. Recommend regional role in grants management, monitoring and evaluation be expanded and improved. 96

#### GENERAL PROGRAM STATEMENT

Chapter 1047, Statutes of 1973, created out of the staff arm of the California Council on Criminal Justice the Office of Criminal Justice Planning (OCJP) to be administered by an executive director appointed by the Governor. The California Council on Criminal Justice remains as a separate entity and acts as the supervisory board to OCJP which, with a present staffing level of 118, constitutes the state planning agency. The council consists of 25 members: the Attorney General, the Administrative Director of the Courts, 13 members appointed by the Governor and 10 members appointed by the Legislature.

Chapter 1047 also prescribed the roles of the council, the state planning agency, and the local criminal justice planning boards. A major objective of Chapter 1047 was to correct organizational and operational problems that had long precluded effective administration of the CCCJ program. The Office of Criminal Justice Planning is thus designated the state planning agency responsible for administering the federal block grant programs authorized under the Federal Omnibus Crime Control and Safe Streets Act of 1968 (Safe Streets Act), as amended in 1973. Subject to broad policy guidance from CCCJ, its objectives are, to (1) develop plans for the prevention, detection and control of crime; (2) encourage coordination, planning and research by law enforcement and criminal justice agencies throughout the state; (3) disseminate information on proposed, existing and completed projects in the criminal justice field; and (4) advise the Governor, Legislature and state law enforcement agencies on criminal justice matters.

Funding for these objectives is derived largely from an annual federal block grant consisting of planning and "action" funds (designated Part B funds and Part C funds, respectively) which is awarded to the state by the federal Law Enforcement Assistance Administration (LEAA). Sixty percent of the federal planning grant (Part B funds) is allocated to the state planning agency and 40 percent to 21 regional criminal justice planning agencies to do comprehensive criminal justice planning. Through this grant the federal government pays 90 percent of the state and, beginning in the budget year, 100 percent of the regional planning expenses. Twenty-five percent of the federal action grant (Part C funds) is allocated to the state and the remaining 75 percent (subject to CCCJ approval of individual grants) to the local agencies for the general purpose of improving law enforcement and the criminal justice system.

**OFFICE OF CRIMINAL JUSTICE PLANNING—Continued**

An additional category of federal money, known as Part E action grants, is also available for state and local correctional facilities and institutions, but these grants are not divided between the state and localities under a set formula. The federal funds now cover 90 percent of all action grants. The state pays 10 percent, if applicable to a state project. For local grants, the state pays 5 percent and the local project proponent 5 percent. In contrast to previous years, all planning and action grants require a cash rather than an "in-kind" match. Prior to 1973-74, local action projects were funded 75 percent federal and 25 percent local match, which could be either cash match or "in-kind." The final category of federal money that appears in the budget is the federal discretionary grant which is awarded to state and local agencies but is administered by OCJP.

**Significant Accomplishments**

Probably the most significant accomplishment of the federal block grant program has been the development of a regional criminal justice planning structure which creates a forum where problems can be discussed. Dialogue having thus been established, a coordinated attack on crime and the development of a local planning capability should continue even when federal funds are withdrawn.

In addition, the federal grant program has fostered the development of statewide and regional communication networks, regional computer installations, intelligence units and crime labs, narcotics enforcement teams and narcotics information networks. Besides aiding in these technological and operational improvements in the system, the grant program has permitted a major emphasis on prevention of crime (improved building security standards, for example) and the diversion of potential offenders from the criminal justice system. Grant funds have been the catalyst for producing new programs and improvements which normally would not have been initiated without the federal "seed" money. Once proven, many projects have been continued on an ongoing basis through state and local funding.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the appropriation amounts requested.*

Because of 1973 amendments to the Safe Streets Act, the match requirement for the state, and thus the size of the state appropriation, has changed considerably. As mentioned earlier, a cash match of 10 percent for state planning and action grants and 5 percent for local action grants is required. The budget proposes three General Fund appropriations totaling \$6,436,063, an increase of \$2,973,062 or 85.8 percent over the current year. The first proposed expenditure, Item 42, is for \$280,507 to match \$2,517,748 in Part B federal planning funds for a total support budget of \$2,798,255. This is an increase of \$18,276 or 0.6 percent above the current support budget. Two positions (criminal justice specialist III) are being deleted under Section 20 of the 1973 Budget Act because they were not filled within the prescribed nine-month period. Item 43 contains an appropriation of \$2,780,556 as a cash match for \$27,156,845 in Parts C and E federal action funds and discretionary grants for the state action program.

State matching funds for ongoing projects totaling \$898,927 are carried over from the 1973-74 fiscal year. The third proposed expenditure, Item 44, appropriates \$3,375,000 for local assistance to match \$60,850,000 in Parts C and E federal action funds and discretionary grants. Balances of \$862,898 from 1972-73 and \$3,225,000 from 1973-74 are carried over for support of the local grant program. Thus, the total amount of state support, including balances from previous years, is \$11,422,888. Federal support is \$90,524,593 for a total support level of \$101,947,481 for the grant program.

Table 1 shows a history of Part B planning grants and Parts C and E action grants, the number of projects funded and the amount of money spent and available for projects.

#### **New Organization Not Reflected**

The program statement in the Governor's Budget does not reflect a staff reorganization that began in April and was completed in September. The office now has three divisions: Administration, Programs and Standards and Planning Operations. The reorganization of the staff, the abolishment of task forces, the creation of a control center to process contracts and many other changes have been made since our last Analysis and are not reflected in the budget document. We will discuss these and other changes later in this analysis, which will be based on the present organization rather than the program budget description. By the time the Analysis is published, the newly appointed executive director will have carried out another office reorganization.

#### **ADMINISTRATION**

Administration contains three functional elements: overall administration, fiscal and support services. Overall administration includes the executive director and his staff who provide the program with policy and direction. The fiscal element accounts for all of the funds, establishes fiscal standards, prepares grant contracts and performs management audits. The timely auditing of grants is one of the more important functions performed by the agency. The support services element includes personnel, purchasing, printing, mailing, filing and clerical pools.

Workload for processing grants is leveling off since the amount of federal funds available has stabilized. The accounting and auditing task is simplified because a cash rather than an "in-kind" match is required. Total staffing for the division is 67.4.

#### **Place OCJP Under Health and Welfare Agency**

*We recommend that the Office of Criminal Justice Planning be made administratively responsible to the Secretary of the Health and Welfare Agency.*

The new executive director, as an appointee of the Governor, should be responsible to an agency secretary to clarify the lines of authority, introduce more accountability into the office's operations and conform to the established state organizational structure. The Health and Welfare

**Table 1**  
**Federal Omnibus Crime Control and Safe Streets Act Moneys Made Available in California**  
**(History of Parts B, C, and E)**

Grant year (fiscal year)	Amount of planning grant Part B	Amount of action grant			Percentage increase over previous year's action grant	Life of actions grants available for expenditure in California	Number of projects awarded	Funds remaining for projects now being processed	Amount of grant expended	Amount not expended by grantees
		Part C general	Part E correctional	Total Part C and Part E						
1968-69 ....	\$1,387,900	\$2,351,610	—	\$2,351,610	—	6/30/69 to 6/30/71	71	—	\$2,002,299	\$349,311 14.6%
1969-70 ....	1,566,000	17,287,000	—	17,287,000	635.1	4/27/70 to 6/30/72	328	—	16,016,812	1,228,188 2.5%
1970-71 ....	2,900,000	32,999,000	\$2,421,000	35,420,000	107.8	8/20/70 and 5/28/71 to 6/30/73	550	—	30,246,238	4,993,762
1971-72 ....	2,957,000	40,060,000	4,721,000	44,781,000	24.7	1/3/72 and 4/11/72 to 6/30/74 <sup>a</sup>	376	26,366,326	18,414,674	—
1972-73 ....	3,975,000	46,495,000	5,470,000	51,965,000	16.0	2/20/73 to 6/30/75 <sup>a</sup>	187	51,732,913	232,087	—
1973-74 <sup>b</sup> ..	3,975,000	46,495,000	5,470,000	51,965,000	0	— to 6/30/76	—	—	—	—

<sup>a</sup> In 1971-72 and 1972-73 advances were awarded to the council pending final approval of the state plan. The second date represents receipt of the total award based upon final plan approval.

<sup>b</sup> 1973-74 moneys are not yet formally awarded.

Agency, which contains the Departments of Corrections and Youth Authority, would be the most appropriate agency for this placement.

#### **Need for Regional Representation on the Council**

*We recommend that a representative of the Council of Regional Board Chairmen be appointed to the council and its executive committee.*

A serious problem in the past has been a lack of communication between the state and regional planning boards, the communication usually being confined between state and regional staff. Antagonism developed because it appeared that arbitrary policy and guidelines were imposed by the state office since there was no regional input at the state (CCCJ) policy level. A Council of Regional Board Chairmen meets periodically, and it would be appropriate for a representative of that council to be a voting member of CCCJ and participate in the deliberations of the CCCJ providing regional input—and regional liaison—at the policy level. This representative could be appointed by the Governor, the Speaker of the Assembly or by the Senate Rules Committee under the appointive powers described previously.

#### **PROGRAMS AND STANDARDS**

The Programs and Standards Division, with a staff of 18, consists of four elements: comprehensive planning, program planning, data collection, and analysis and evaluation. The division is responsible for developing a statewide annual comprehensive plan for submission to the Federal Law Enforcement Assistance Administration containing a detailed description of the state's program for reducing the incidence of crime and strengthening the state's criminal justice system. Such a plan is required as the basis for receiving federal Safe Streets Act funds. In addition, staff act as project managers in the development of state programs and projects, and provide support to the council's planning advisory committees which assist in the development of program policy guidelines and standards. Evaluation has become a number one national priority and California is moving quickly this year in the development of a comprehensive evaluation program with the addition of specialized staff and reallocation of funds as mentioned later in the analysis.

#### **Need to Strengthen Comprehensive Criminal Justice Planning**

*We recommend that statewide, comprehensive criminal justice planning be given first priority and that staff and resources be reallocated accordingly.*

Both state and federal legislation is clear that the primary function of the state planning agency is to develop a comprehensive plan for impacting crime and correcting deficiencies in the criminal justice system. A review of the history of the OCJP program, various studies and audit reports, and even a cursory examination of staffing reveals that planning is not the first priority of the program.

From the beginning of the federal program, so much money was released and so little time allowed to plan that state agencies became primarily concerned with fund flow and project development. Few states developed a strategy to improve the criminal justice system based on an

**OFFICE OF CRIMINAL JUSTICE PLANNING—Continued**

analysis of data, the development of alternative courses of action to achieve desired ends and criteria for measuring performance. Even California's "action plan" is not based on a credible "comprehensive plan," designed to implement a specific set of activities. It is merely a plan for the use of federal block grant funds, which cannot be tied to specific goals and objectives for reducing crime. The plan cannot be considered truly comprehensive unless it addresses the total criminal justice system, identifies the most serious problem areas, and considers all potential sources of funding. The same may be said for most of the regions.

*Poor Allocation of Staff.* The lack of commitment to comprehensive planning is evident in the office staffing. One professional position is budgeted for data collection and analysis and two for comprehensive planning—of a current staff of 118. Nine program specialists provide some input into the planning process by staffing four planning advisory committees. This year these four committees (vestiges of a task force system which we recommended be abolished last year) met to develop program guidelines. Chaired by a council member, these committees averaged five or six in size and the only council member involved usually was the committee chairman. By some unknown process, they listed a series of problems, needs and solutions and put them in a priority order. From this input, the program specialists developed program guidelines and standards for the 1975 state and regional plans. This is not comprehensive planning.

Beside staffing these planning advisory committees, the same people help develop state and local projects. As will be pointed out later, the use of state staff to develop local projects using "council designated funds" is wasteful and inappropriate.

The only other identifiable planning effort involves the use of teams from the Planning Operations Division to provide planning assistance to regions. This, however, does not constitute a statewide comprehensive planning process because the regional plans in the aggregate do not add up to a state program. Similarly, there is no strategy or carefully laid out set of criteria for the use of the 25 percent "state share" of the action funds.

**Restore Diverted Regional Action Funds**

*We recommend that "council designated funds" be returned to the regional allocation of Part C (action) money.*

As stated earlier, federal legislation specifies that 75 percent of the Part C (action) funds be allocated at the local level. The council has taken 20 percent of this allocation (\$5.6 million) which it calls "council designated funds," to develop its own discretionary local grant program. While these action funds are expended locally thereby complying with the federal law, they are not included in the base regional allocation and are, therefore, not included in the regional criminal justice plans. Thus, in reality, the regions are allocated only 60 percent of the action funds (the state, as previously pointed out, already receives 25 percent of the action funds for statewide or state agency programs).

Each of the 21 regions prepares a criminal justice plan, within the



guidelines established by the state, detailing local needs, priorities and projects. The effect of state-developed local projects is to disrupt local planning, to orient project proponents to the state rather than the regions and to increase unnecessarily state workload with local project development, monitoring and evaluation responsibilities. There have been many instances of local projects being developed without coordination with the affected regions, and sometimes in conflict with regional plans. If the Office of Criminal Justice Planning feels it cannot have a coordinated thrust without running its own local grant program, it should set clearer policy guidelines, standards and priorities which will direct regional planning rather than undermine it.

#### **Personnel Policy**

*We recommend that the Office of Criminal Justice Planning and the State Personnel Board reassess job specifications to assure that they are recruiting the best available talent.*

The criminal justice specialist classification has proven too narrow to attract personnel qualified for planning and evaluation because such skills require experience in the criminal justice system. This is one of the problems with the present staff—a lack of planning expertise. The job specifications and the salary ranges are not adequate to attract the kind of personnel the office needs. Because of this, qualified professionals are sometimes acquired on a contract basis as consultants. For example, the office has hired four highly qualified, full-time consultants whose contract salaries range from \$19,000 to \$26,000 to develop the evaluation program. The funds used for support of these positions has been derived from savings resulting from the termination of some 60 task forces which previously reviewed project proposals.

#### **PLANNING OPERATIONS**

The Planning Operations Division has two main elements: a control center and a state and local agency support element. The control center monitors the processing of grants and contracts. Delays in processing and issuing grant funds have been a major problem, but the control center has alleviated it.

The state and local agency support element consists of six teams, five to service the regions and one the state agencies. Their functions include the interpretation of state policy, development of criteria to be met by regional plans, assistance in plan development, review of regional plans and the development of projects into contract form. The nonlocal team performs similar functions in the development of the state plan and projects.

Total staffing for the division is 32.6. Even though it is too soon to develop workload data for the unit, we have noted that workload inequities appear to be developing among the various teams which should be resolved during the budget year.

#### **Adopt Three-Year Plans**

*We recommend that regional plans be submitted every three years and that adequate program guidelines and standards be established.*

Last year, we recommended that regional plans be submitted every five

**OFFICE OF CRIMINAL JUSTICE PLANNING—Continued**

years. We pointed out the waste of resources in repeating the analysis of crime statistics each year, in printing costs and in manpower required for this task. The state went to a two-year plan certification, saying that five years was too long a time and that regional staff "needed practice planning." While we would agree that a five-year planning cycle may be too long, we believe that the two-year cycle is too short and necessitates needless paperwork. First, the mechanical manipulation of facts and figures is not planning, and to do away with it would free staff to do real planning. Second, if a region submits a good three-year plan, it would provide a framework for meaningful program evaluation and eliminate some of the continuing annual pressure for funding projects unsuited to plan objectives. Regions would then have to develop projects based on a plan, rather than a plan based on projects. We will discuss this in more detail later in the analysis.

To this end, OCJP guidelines and standards need to be clarified and have a common interpretation. The program statements need to be brief but still provide a framework so that regions have the latitude to develop meaningful local criminal justice plans that will fit into the overall state plan. Furthermore, for regions to accept these guidelines and standards willingly, they should be more involved in their development than they were this past year.

**Streamlining Grant Processing**

*We recommend that completed project proposals be submitted with the annual "action" plan and that projects be funded on a fiscal-year basis.*

Currently, summaries of projects are submitted with the annual action plans. Often, there is not enough information in the summary, so time is wasted eliciting additional information from the regions and project proponents. Once the plan is certified, the project proposals are written, again submitted for review, and contracts are drawn up. This duplication should be eliminated by scheduling one review of projects at the time the action plans are submitted.

The fact that projects can be started at any time leads to problems of timing and budgeting the cash match for local governments, because the funding is out of phase with the fiscal year. In some instances, this jeopardizes second-year funding since it is conceivable that a project may be approved in one year and eligible for second-year funding even though it has not yet started. For a fiscal-year system to work, careful scheduling of plan review would be necessary to handle peak workload periods.

**Regional Planning**

Federal legislation declares that crime is a local problem and must be dealt with by local action. The Office of Criminal Justice Planning has to have a workable system for allocating planning and action grant money at the local level. It has chosen to utilize a system of 21 planning regions which cover the entire state. The 21 regions vary greatly in staff size, available resources and degree and complexity of criminal justice problems. The regions range from an area with a population of 19,000 and a staff of 2 to Los Angeles County with a population of 7 million and a staff of 18.

Table 2 illustrates the distribution of planning funds by the relative size of the regions.

**Table 2**  
**Regional Planning Allocations**

<i>Budget amount</i>	<i>Number of regions</i>
\$318,900 .....	1
\$101,000 to \$150,000.....	2
\$51,000 to \$100,000.....	8
\$20,000 to \$50,000.....	10

Even though the regions are dependent on the state for criminal justice planning funds, they have a certain amount of autonomy. Their planning boards are made up of locally elected officials (a majority) and other representatives of the criminal justice system and community. The boards hire a regional director who serves at their pleasure, carries out their policies, hires staff, etc. However, as we mentioned earlier, the relationship between the regional boards and the state council is not clear.

#### **Regional Autonomy**

An issue that comes up repeatedly is how much autonomy do the regions have? How much control does the state have over regional operations? As long as regions or, for that matter, project proponents, are recipients of federal grant funds disbursed through the state, there is no question that the state has the legal responsibility and financial accountability for such funds. In addition, it has the legislative mandate (1) to develop a comprehensive statewide plan, (2) to develop corresponding programs and projects for the state and local units of government, and (3) to establish priorities for the improvement of the criminal justice system. If each region were allowed to go its own way, there would be no "statewide comprehensive plan." But on the other hand planning which is not generated by those who will be responsible for administering the program will not be effective planning. In order for the total program effort to be complementary to the state plan and still be relevant to local needs, it is essential that a clear policy framework and sound planning base be established. Up to now, OCJP has not effectively had either. Hopefully, as a result of Chapter 1047, noted earlier, and the recent organizational changes within OCJP, these deficiencies can be overcome.

#### **Need Performance Standards for Regions**

*We recommend that the OCJP establish standards for regional performance and operations.*

Some regions do an outstanding job of planning and cooperating with the state office. Others do not. One reason is that local planning boards often are subject to pressures that sometimes turn planning into a bargaining process whereby projects are chosen first and the plan is written to match the projects. If a region is not performing adequately, the state has no recourse other than to threaten to withhold funds. Ultimately, this has been an empty threat. Furthermore, workload and staffing criteria have not been established for regional operations. Procedures should be estab-

**OFFICE OF CRIMINAL JUSTICE PLANNING—Continued**

lished for correcting deficiencies, and communications should be opened between the state council and the regional boards.

**Enhance the Regional Role**

*We recommend that the regional role in grants management, monitoring and evaluation be expanded and improved.*

Nearly \$5 million in unexpended 1970-71 grant funds reverted to the federal government because OCJP was not able to spend the money in time. The availability of the federal grants is limited to a period of three years. The office has had difficulty in keeping track of the cash flow because of the logistics of managing over 600 projects at any one time. Besides creating an enormous workload, state fiscal management is too remote from the project level. This has led to inaccurate and untimely decisions regarding day-to-day fiscal matters and the orientation of local government to the state rather than the region once a project is funded.

Although the regions have been given responsibility for project monitoring, they do not receive regular and timely fiscal information. This lack of information has diminished the effectiveness of the regions in monitoring projects and assisting proponents.

The ability of the regions to perform grants management, monitoring and evaluation varies greatly. OCJP should strive to increase their effectiveness by (1) augmenting, where feasible, their planning grants to enhance management capability, (2) providing training and technical assistance by the state staff and (3) giving consideration to the possibility of reconstituting or combining some regions that do not have adequate resources or performing some of these functions for those regions. Improvement in the regions' administrative ability would (1) alleviate management problems that currently exist throughout the system by improving responsiveness and efficiency, (2) partially resolve the fund flow problem since each region would be keeping track of the fiscal progress of its projects, (3) clarify the lines of authority and communication, (4) decrease the grants management workload in the state office and (5) increase project effectiveness by providing closer supervision and more timely assistance.

Either the present system of regional planning should be improved and made to work (which is the preferable alternative) or abolished and replaced by OCJP branch offices to do local criminal justice planning. Continuing with the present uncoordinated system will only further fractionalize and subvert regional criminal justice planning to the ultimate detriment of the overall program effort.

## CALIFORNIA CRIME TECHNOLOGICAL RESEARCH FOUNDATION

Item 45 from the General Fund

Budget p. 20 Program p. I-95

Requested 1974-75 .....	\$114,844
Estimated 1973-74 .....	131,417
Actual 1972-73 .....	80,969
Requested decrease \$16,573 (12.6 percent)	
Total recommended reduction .....	None

### GENERAL PROGRAM STATEMENT

The California Crime Technological Research Foundation (CCTRF), a 20-member nonprofit public corporation, was established by Chapter 1661, Statutes of 1967, to foster scientific and technological research relating to the prevention and detection of crime, the apprehension and treatment of criminals, and the administration of criminal justice. Chapter 1119, Statutes of 1971, extended the foundation's existence to 1975, increased the membership of its board of directors from 15 to 20 members, and eliminated the former organizational relationship between CCTRF and the California Council on Criminal Justice (CCCJ), whereby the foundation had acted primarily as the science and technology task force of CCCJ by reviewing all science and technology-related grant applications for federal funds submitted to the council and making recommendations for council action.

### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The foundation proposes a General Fund budget of \$114,844, which is a decrease of \$16,573 or 12.6 percent below estimated General Fund expenditures for the current year. The decrease reflects a nonrecurring expenditure of \$19,125 in the current year provided by Chapter 1400, Statutes of 1972, to study the security of explosives storage facilities. The foundation also anticipates \$5,240,890 in federal funds and \$1,550,000 in reimbursements for services to other state, local and private agencies, which produces a total expenditure program of \$6,905,734, an increase of \$3,677,648 or 113.9 percent. As discussed under the Research and Development program below, the increased level of federal funding reflects all potential additional grants which the foundation may receive, and results in a budget-year request for 52 new positions, all of which would be financed by federal grants.

### ADMINISTRATION PROGRAM

The State General Fund supports only the costs of the administration program, which is staffed with an executive officer, one professional and two clerical positions. The executive officer works with the foundation in identifying areas in the criminal justice system where research and development are needed, acquiring funding and administering projects. We are advised that the foundation is negotiating with federal grant-administer-

**CALIFORNIA CRIME TECHNOLOGICAL RESEARCH FOUNDATION—Continued**

ing agencies (principally the Law Enforcement Assistance Administration) to include in the grant awards for fiscal year 1975-76, amounts sufficient to cover administrative and overhead expenses, thereby eliminating the need for state General Fund support.

**CRIMINAL JUSTICE RESEARCH AND DEVELOPMENT PROGRAM**

The foundation's Research and Development program is funded entirely by federal grants and contracts. These funds, which involve no matching requirements, support Project SEARCH and up to 13 other projects that may be awarded during the budget year. The foundation administers Project SEARCH, a 50-state consortium, whose objectives are to establish national standards and goals for a criminal justice information and statistics system and to develop prototype systems for the application of advanced technology to the administration of criminal justice. Project SEARCH grants total \$2,172,445. Other proposed projects include the development of an interstate organized crime central index (\$748,445), a crime prevention through environmental design project (\$2,000,000), and a variety of criminal justice modeling, evaluation, research, and planning projects with grants ranging from \$60,000 to \$250,000.

**LABORATORY RESEARCH AND DEVELOPMENT**

The foundation's laboratory, supported by federal grants and contracts with other agencies, tests equipment and techniques for reducing and preventing criminal acts. Significant accomplishments include the development of a low cost, highly effective laser fence, the initiation of a building security program which is developing standards for building construction, doors, windows, etc., and a security system for correctional institutions and personnel. Projects proposed during the budget year included the development of a public safety sensor system for detecting fire, intrusion and structural weaknesses and a security system to reduce thefts of explosives.

**Public Defenders**

**ASSISTANCE TO COUNTIES FOR PUBLIC DEFENDERS**

Item 46 from the General Fund      Budget p. L-10    Program p. I-101

Requested 1974-75 .....	\$775,000
Estimated 1973-74.....	775,000
Actual 1972-73 .....	775,000
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

This item reimburses counties for a portion of their expenditures in providing state-mandated (Penal Code Section 987.2) legal assistance to indigents who are charged with violations of state criminal law in superior, municipal or justice courts or are involuntarily detained under the Lanter-

man-Petris-Short Act. The reimbursement, authorized in 1965 by Section 987.6 of the Penal Code, may not exceed 10 percent of the counties' expenditures for such purposes.

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The \$775,000 requested for the budget year is identical to the amounts authorized for the past six fiscal years, during which time county expenditures have increased from \$14,442,835 in 1968-69 to an estimated \$37,015,520 in 1973-74. For the current year, the appropriation represents only 2.1 percent of the amount budgeted by the counties for this purpose. As reflected in Table 1, the state has never contributed the 10-percent maximum permitted.

**Table 1**  
**State Assistance to Counties for Public Defenders**

<i>Fiscal year</i>	<i>Budgeted county expenditures</i>	<i>State contribution</i>	<i>Percent of county expenditure</i>
1968-69.....	\$14,422,835	\$775,000	5.4
1969-70.....	19,732,974	775,000	3.9
1970-71.....	23,983,100	775,000	3.2
1971-72.....	29,004,324	775,000	2.7
1972-73.....	34,699,352	775,000	2.2
1973-74.....	37,015,520	775,000	2.1

Payments to the counties are made quarterly, in arrears, on the basis of 10 percent of actual expenditures. If there is insufficient money to pay the full 10 percent for a particular quarter, the remaining funds are prorated among all claims filed for that quarter. Claims filed for the first quarter of 1973-74 represented county expenditures of \$8,602,640, which resulted in disbursement of the state's total contribution of \$775,000, leaving no state funds available for the remainder of the fiscal year.

When this program was enacted in 1965, it carried a first-year appropriation of \$500,000, which was approximately 7 percent of the counties' 1965-66 budgeted expenditures. While the law does not specify the level of state support, it does manifest the state's interest in defraying a portion of the costs which counties are required to incur in protecting the constitutional rights of needy persons accused of violating state criminal statutes or detained under the Lanterman-Petris-Short Act.

In our Analysis of the 1973 Budget Bill, we recommended an increase of \$1,653,955 in this budget item to approximate 7 percent of the 1972-73 county expenditures for this purpose. The Legislature approved the recommended augmentation which was subsequently item vetoed by the Governor. We recommend no increase for this item in the budget year because of the presently generally improved financial conditions of the counties, due largely to federal revenue sharing, reduced welfare expenditures and increased local property tax relief funded by the state.

**PAYMENTS TO COUNTIES FOR COSTS OF HOMICIDE TRIALS**

Item 47 from the General Fund      Budget p. L-11    Program p. I-102

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Requested 1974-75 .....	\$500,000
Estimated 1973-74.....	350,000
Actual 1972-73 .....	1,170,105
Requested increase \$150,000 (42.9 percent)	
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

Reimbursements for the costs of certain trials are made to the counties under Penal Code Section 4700.2 and Government Code Sections 15200 through 15203. The Penal Code section pertains to trials for crimes committed in the furtherance of or in connection with an escape from custody of the Department of Corrections. The section applies only to cases in which an indictment was filed between November 1, 1970, and June 30, 1971. The Government Code sections provide that the state shall reimburse the counties for the costs of a homicide trial or hearing in cases where such costs exceed the amount of money derived by the county from a tax of 5 cents on each \$100 of property assessed for taxation within the county.

This latter provision was adopted primarily to aid the less-populated counties in carrying the fiscal burden of lengthy and costly homicide trials. The \$500,000 amount requested is to provide for such trial costs as may be incurred in the budget year. Reimbursements totaling \$1,520,105 were made in fiscal years 1972-73 and 1973-74 for county expenses incurred under the Penal Code provision (Angela Davis trial) and the Government Code provision (Juan Corona trial).

**ADMINISTRATION AND PAYMENT OF TORT LIABILITY CLAIMS**

Item 48 from the General Fund      Budget p. 21    Program p. I-103

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Requested 1974-75 .....	\$1,410,000
Estimated 1973-74.....	1,311,500
Actual 1972-73 .....	1,112,269
Requested increase \$98,500 (7.5 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

Chapter 1681, Statutes of 1963, defines the liability of public entities and public employees for tortious acts. In 1973 the state negotiated a three-year insurance policy which protects it against claims between \$2 million and \$50 million at a cost of \$200,000 annually. (A second premium, which will be renegotiated early in 1974 from its present level of \$5,937, covers



the state's liability for accidents involving state-owned and state-hired aircraft.) The state assumes direct liability for payment of claims of less than \$2 million and more than \$50 million, because insurance against the smaller claims has proved too costly and insurance to protect against those exceeding \$50 million (natural catastrophes) is not generally available.

The item provides for administration of the tort liability program, payment of the insurance premiums, and payment of claims against all General Fund agencies except the University of California and a small number of agencies with unique liability problems which are covered by special insurance. Special fund agencies, with the exception of the Department of Transportation which investigates, litigates and pays its own claims, reimburse the General Fund for payments made under the program on their behalf.

#### **ANALYSIS AND RECOMMENDATIONS**

##### *We recommend approval.*

Under a procedure prescribed by Section 945 of the Government Code, all tort claims are filed with the Board of Control. The board's staff forwards the claims to the Attorney General's office (or, in the case of public works claims, to the Department of Transportation) for investigation. Claims may be settled by the board on the recommendation of the Attorney General or legal staff of the Department of Transportation, but if the Board of Control denies the claim the plaintiff may then file suit. This appropriation item is concerned only with claims handled by the Attorney General.

With the approval of the Board of Control, the Attorney General may settle administratively claims not exceeding \$4,000 for General Fund agencies or \$1,000 for special fund agencies. After litigation has begun, but before a judgment is rendered, the Attorney General may also settle claims above these limits with the concurrence of the Department of Finance and the agency involved.

#### **Staffing and Workload**

The Department of Justice has assigned to this function a staff of 34, consisting of 11 attorneys, 10 investigators, 1 claims supervisor and 12 clerical positions. The workload is reflected in Table 1, which shows a continuing increase in the number of claims filed with the Board of Control from 472 in fiscal year 1969-70 to an estimated 750 in 1973-74. Included are 23 claims totaling \$16 million against the state, the Lockheed Shipbuilding and Construction Company, and the Los Angeles Metropolitan Water District for wrongful deaths and injuries arising out of the June 24, 1971, Sylmar Tunnel explosion. Not included are 256 lawsuits involving 615 individual claims relating to the levee failure and flooding of the Brannan and Andrus islands in 1972.

These claims, which total \$60,872,628, have been cross-filed both as tort claims and as inverse condemnation claims and were not included pending determination of which legal doctrine will be pursued or, if both, which legal section would handle the workload involved. The total amount of these claims was substantially overstated last year because in a number of instances duplicate claims had been filed. Such duplications,

**ADMINISTRATION AND PAYMENT OF TORT LIABILITY CLAIMS—Continued**

we are advised, have now been eliminated.

**Table 1  
Department of Justice Tort Section Workload**

	1969-70	1970-71	1971-72	1972-73	Estimated 1973-74
Number of claims received by Board of Control .....	472	480	578	650	750
Dollar amount of claims received .....	\$119,653,827	\$279,607,282	\$188,041,768	\$973,161,265	\$400,000,000
Number of claims paid by Board of Control .....	70	30	43	125	130
Total amount paid by Board of Control .....	\$15,722	\$6,500	\$47,904	\$72,892	\$80,000
Lawsuits filed .....	150	149	264	319	400
Amounts paid on lawsuits, settlements and judgments ..	\$509,276	\$426,431	\$462,737	\$760,000	\$543,536

The proposed expenditure for this program of \$1,410,000 is an increase of \$98,500 or 7.5 percent above estimated expenditures for the current year. Included in this amount are \$405,533 for claims, \$203,914 for the cost of insurance premiums, and \$800,553 for services of the Attorney General. The latter amount includes \$110,000 for expert witness and consultant services to strengthen the state's case against the claims arising out of the Brannan-Andrus Island levee break. An equal amount was appropriated in the current year for the same purpose.

Estimates of expenditures from special funds are not included for the current and budget years due to the difficulty of projecting the nature of claims which may be filed and the special funds involved. Special fund expenditures totaled \$113,583 in fiscal year 1972-73.

**INDEMNIFICATION OF PRIVATE CITIZENS**

Items 49-50 from the General Fund

Budget p. 22 Program p. I-104

Requested 1974-75 .....	\$1,257,000
Estimated 1973-74 .....	1,252,000
Actual 1972-73 .....	842,030
Requested increase \$5,000 (0.4 percent)	
Total recommended augmentation .....	\$595,466

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. *Program Funding Level. Augment Item 49 by \$595,466. Recommend increase to avoid a deficiency.* 103

**GENERAL PROGRAM STATEMENT**

This program, as modified by Chapter 1144, Statutes of 1973, (SB 149, effective July 1, 1974), provides compensation to needy residents of California who are (1) victims of crimes of violence or financially dependent upon such a victim or (2) who legally assume the victim's obligations or voluntarily pay his medical or burial expenses. Under the provisions of Chapter 1144, total recovery for claims by needy residents is limited to \$10,000 for lost wages, \$10,000 for medical expenses and \$3,000 for job retraining or other employment-oriented rehabilitative services. Until the effective date of Chapter 1144, benefits of the program are limited to the victim or his dependents and total recovery is limited to \$5,000 with no provision for rehabilitative services.

From 1965 to 1967, this program was administered by the Department of Social Welfare, but since 1967 it has been the responsibility of the Board of Control. Claims filed with the board within one year of the injury or loss are investigated by the Attorney General and, upon completion of the investigation, a hearing is conducted before the board. If the claim is approved, an award not exceeding the cost of the treatment, loss of wages or support, or other directly related expenses, will be paid, along with attorney fees which may be up to 10 percent of the award but not more than \$500. Of this budget request, \$150,000 is for support of the Attorney General's investigations.

Although the General Fund is responsible for the support of this program, the annual appropriation is partially offset by fines which are levied on the perpetrators of the crimes. Receipts from these fines, which are estimated at \$7,000 for the budget year, are deposited in the Indemnity Fund (Item 50) but transferred to the General Fund for support of this program.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend an augmentation of \$595,466 (Item 49) to avoid a deficiency in this program.*

The proposed General Fund appropriation of \$1,250,000 for fiscal year 1974-75 includes \$50,000 for the funding of claims filed under the "Good

**Table 1**  
**Expenditure Data for Indemnification of Private Citizens**  
**(Aid to Victims of Crimes of Violence)**

Category	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75
Aid to victims of crimes of violence .....	\$79,783	\$171,645	\$385,814	\$525,050	\$742,030	\$1,052,000	\$1,629,186
Citizens benefiting the public.....	—	—	—	—	50,000	50,000	50,000
Attorney General—investigations *.....	—	25,000	35,360	50,000	50,000	150,000	173,280
<b>Funding</b>							
General Fund .....	\$25,000	\$125,000	\$125,000	\$325,000	\$842,030	\$1,250,000	\$1,845,466
Indemnity Fund .....	5,728	5,080	1,414	50	—	2,000	7,000
Emergency Fund .....	49,055	66,565	294,760	250,000	—	—	—
<b>Total.....</b>	<b>\$79,783</b>	<b>\$196,645</b>	<b>\$421,174</b>	<b>\$575,050</b>	<b>\$842,030</b>	<b>\$1,252,000</b>	<b>\$1,852,466</b>

\* Attorney General expenses were not reported separately from total program costs for fiscal year 1968-69.

**INDEMNIFICATION OF PRIVATE CITIZENS—Continued**

Samaritan Act." Such claims were previously funded through the legislative claims process, but pursuant to legislation enacted in 1971 (Chapter 1269) they are now funded in this item.

**Program Underfunded**

Table 1 shows that total expenditures increased from \$79,783 in 1968-69 to an estimated \$1,252,000 in 1973-74, reflecting a growing number and value of claims filed. This increase resulted in the need for Emergency Fund allocations to the program in fiscal years 1968-69 through 1971-72. Because the board has already awarded \$724,293 in the six-month period July 1 to December 31, 1973, an Emergency Fund allocation will probably also be necessary for the current year based on a projection of the six-month trend (two times \$724,293 for claims in the current year plus \$150,000 for the Attorney General equals \$1,598,586 or \$346,586 more than is budgeted). In addition, Chapter 1144, Statutes of 1973, will increase costs of the program in the budget year because, as described above, it extends eligibility for benefits under the program and increases maximum benefits from \$5,000 to \$23,000. The board anticipates that Chapter 1144 will not affect program costs until approximately January 1, 1975, (about six months after its effective date) because of the normal time required to process claims and because of a growing backlog of 700 claims filed under the new law. The board estimates that costs for the revised program will approximate \$2,993,000 by 1975-76.

Based on the above considerations, the proposed funding level of \$1,257,000 appears inadequate and will necessitate a substantial Emergency Fund allocation in the budget year. The administration is aware of the increased level of awards in the current year and was apprised that Chapter 1144 would substantially increase program costs when the bill was signed into law. Failure to reflect program requirements as accurately as possible distorts the budget and diminishes the ability of the Legislature to evaluate correctly program changes and spending priorities. Based on the increased number of claims currently being filed, we expect that the level of program expenditures of \$1,598,586 for the current year will continue in the budget year. Furthermore, the program will require an additional \$253,880, as estimated by the Board of Control, to reflect the increased costs of claims filed pursuant to Chapter 1144, Statutes of 1973, which, as noted above, will not begin impacting the program until approximately January 1, 1975. These estimates of the budget-year expenditure requirements, totaling \$1,852,466, amount to \$595,466 more than is requested in the Governor's Budget.

The Board of Control's \$253,880 figure includes an additional \$23,280 for the Attorney General to cover increased workload for investigating claims as reflected in Table 2.

**Table 2**  
**Attorney General Investigations and Board of Control Actions**

<i>Workload</i>	<i>1971-72</i>	<i>1972-73</i>	<i>1973-74<sup>a</sup></i>
Cases investigated.....	533	724	1,500
Claims denied .....	266	323	650
Claims approved.....	267	401	850
Investigation backlog.....	422	787	900

<sup>a</sup> Estimated by Department of Justice.

**STATE CONTROLLER**

Item 51 from the General Fund

Budget p. 23 Program p. I-106

Requested 1974-75 .....	\$10,203,527
Estimated 1973-74.....	9,493,331
Actual 1972-73 .....	7,236,873
Requested increase \$710,196 (7.5 percent)	
Total recommended reduction .....	\$97,469

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Local Government Reimbursements. Withhold recommendation on three positions requested to handle payment of local government claims required by Chapter 358, Statutes of 1973, until better workload estimate can be made in March. 107
2. *Quarterly Reports. Reduce \$44,393.* Recommend transfer of the responsibility for preparing quarterly reports of estimated and actual revenues and expenditures to the Department of Finance. This transfer would permit deletion of three positions and related expenses requested by the Controller to perform this function. 108
3. *Unclaimed Property. Reduce \$23,876.* Recommend deletion of two positions and related expenses requested to accelerate the inventory of unclaimed stocks and bonds. 109
4. Audits of Local Government Reimbursements. Withhold recommendation on two positions requested for audit of local government claims. See recommendation No. 1 above. 110
5. *Inheritance Tax Property Appraisals. Reduce \$30,500.* Recommend reduction to reflect termination of pilot program to review inheritance tax referees' property appraisals. 111
6. Delinquent Inheritance Taxes. Recommend legislation to raise the interest charge applied to delinquent inheritance taxes. 113
7. *Expand County Report. Augment \$1,300.* Recommend augmentation to permit inclusion of a table expressing county costs in terms of property tax rate equivalents in the annual county financial transactions report. 114
8. Gas Tax Audits. Recommend sample auditing of gas tax subventions to cities and counties. 115
9. PIMS. Recommend withholding approval of funds for the Personnel Information Management System (PIMS) until an up-to-date progress report can be made by our office in April 1974. 116

## STATE CONTROLLER—Continued

## GENERAL PROGRAM STATEMENT

The Controller is an elected constitutional official who is the accounting and disbursing officer of the state. The Controller serves on a number of boards and commissions including the State Board of Equalization, the Franchise Tax Board, State Lands Commission, Pooled Money Investment Board, Board of Control, and the various bond finance committees.

The office is organized into seven divisions, which are responsible for administering three major programs. It draws support from five funds and in addition is reimbursed for services provided to other agencies. Department organization, estimated program expenditures for 1973-74, and proposed program expenditures for 1974-75 are shown in Table 1.

**Table 1**  
**State Controller's Program Budget—All Funds**  
**(in thousands)**

<i>By program, division, and element</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>	<i>Change</i>
I. Fiscal control			
<i>Accounting Division</i>			
Control accounting .....	\$754	\$788	34
Financial analysis .....	264	311	47
Unclaimed property .....	268	303	35
<i>Audits Division</i>			
Claim audit .....	502	527	25
Field audit .....	1,410	1,484	74
<i>Disbursements Division</i>			
General disbursements .....	1,829	1,678	-151
Payroll .....	1,641	1,719	78
Data processing .....	(257)	(282)	(25)
Subtotal, fiscal control .....	\$6,669	\$6,810	\$141
II. Tax administration			
<i>Inheritance and Gift Tax Division</i>			
Inheritance tax .....	\$2,162	\$2,201	\$39
Gift tax .....	306	311	5
<i>Tax Collection and Refund Division</i>			
Tax collection .....	112	57	-55
Gas tax refund .....	704	694	-10
Subtotal, tax administration .....	\$3,284	\$3,264	\$-20
III. Local government fiscal affairs			
<i>Local Government Fiscal Affairs Division</i>			
Financial reporting, budgeting, and accounting .....	\$375	\$478	\$103
Streets and roads .....	415	382	-33
County cost plans .....	92	94	2
Tax-deeded land .....	146	148	2
Subtotal, local government .....	\$1,028	\$1,103	\$75
IV. PIMS project .....	1,031	1,691	660
V. Undistributed administration .....	247	246	-1
Reimbursements .....	-1,324	-1,574	250
Total, all programs .....	\$10,934	\$11,539	\$605
Fund support			
General fund .....	\$9,493	\$10,204	\$711
Motor vehicle transportation tax .....	93	36	-57
Motor vehicle fuel .....	1,075	1,033	-42
State school building aid .....	207	200	-7
Aeronautics .....	66	66	-

**ANALYSIS AND RECOMMENDATIONS****I. FISCAL CONTROL**

The objectives of this program are to maintain an effective system of internal control over the state's financial transactions, and to report accurately the state's financial condition and operations in order to assure fiscal integrity in the administration of the state government. The divisions of accounting, audits, and disbursements carry out the activities of the eight program elements. The allocation of personnel to these elements and budget changes from the current year are shown in Table 2.

**Table 2**  
**Fiscal Control Program Staff**

Division and Program elements	Man-years		Change	Nature of Change
	Estimated 1973-74	Proposed 1974-75		
<b>Accounting Division</b>				
Control accounting .....	41.5	42.5	1.0	New program
Financial analysis.....	9.3	14.0	4.7	New programs
Unclaimed property .....	13.5	15.6	2.1	Workload increase
<b>Audits Division</b>				
Claim audit .....	39.2	41.1	1.9	Workload increase
Field audit.....	67.2	70.4	3.2	New programs
<b>Disbursement Division</b>				
General disbursements .....	47.7	44.0	-3.7	Workload adjustment
Payroll .....	116.3	117.0	0.7	Workload increase
Data processing .....	14.0	14.0	—	—
Total .....	348.7	358.6	9.9	

**Accounting Division**

The Accounting Division is responsible for three program elements: control accounting, financial analysis, and unclaimed property. Eight new positions are requested to handle new programs established by Chapter 358, Statutes of 1973, (AB 2008) and Chapter 788, Statutes of 1972, (AB 13) and workload increases.

**Number of Chapter 358 Reimbursement Claims Unknown**

*We withhold recommendation on three positions requested to handle reimbursement claims filed by local government until a better estimate of workload can be made in March.*

Chapter 358, Statutes of 1973, permits local government to file claims with the Controller for reimbursement of the cost of legislation and executive regulations mandated after January 1, 1973. Twelve bills have been enacted requiring reimbursement for local-mandated programs. Five of these bills became operative January 1, 1974. Claims for reimbursement must be submitted to the Controller within 45 days after the operative

**STATE CONTROLLER—Continued**

date. There have been no mandated executive regulations requiring reimbursement.

There is no basis for estimating at this time the number of claims these 12 bills will generate in 1974-75. However, the number of claims filed in January and February will provide data which can be used as a basis for an estimate of the claims workload.

**Quarterly Reports**

*We recommend a reduction of \$44,393 representing the deletion of three positions and related expenses requested to prepare the quarterly reports required by Chapter 788, Statutes of 1972. We further recommend legislation transferring the responsibility for preparing quarterly reports to the Department of Finance.*

Chapter 788 requires the Controller to prepare quarterly reports on the General Fund comparing state revenues and expenditures for each quarter with the Budget Act in effect during that quarter. The Controller is fulfilling the quarterly reporting requirements of Chapter 788 by asking individual departments to report actual expenditures and revenues each quarter and to estimate expenditures and revenues for the balance of the year.

The first report, for the quarter ending September 30, 1973, was published January 8, 1974, two days before the Governor's Budget was released and three months after the end of the quarter. The Controller's report includes a summary which contains an estimate of unrestricted surplus at June 30, 1974, of \$390.8 million. The Governor's Budget estimates an unrestricted surplus at June 30, 1974 of \$27.6 million. The Controller cautions against accepting the projections in his report at face value because the data submitted by the departments have not been verified, new legislation has been passed in the second quarter which is not reflected in the first quarter report, and the revenue picture has changed since the end of the first quarter:

We believe that the Controller's quarterly reports can serve no useful purpose as an independent source of information because (1) the data reported by the departments have not been verified and cannot be verified without a large increase in staff and (2) experience indicates that the earliest the report can be completed is two months after the end of the quarter. It is not physically possible for most state departments to submit the data required by the Controller within 30 days of the end of the quarter as specified in Chapter 788. Additionally, we believe that only confusion can result from the submission to the Legislature of two estimates of the 1973-74 year-end surplus which differ by \$363.2 million.

We conclude that the quarterly reporting of revenues and expenditures can be done more adequately and efficiently by the Department of Finance for the following reasons: (1) The department presently receives quarterly reports of expenditures from state departments. (2) The department presently estimates revenues and expenditures in the Governor's Budget. (3) The department presently makes revised estimates of revenues and expenditures in May of each year. (4) The department keeps



records of changes in authorized expenditures throughout the budget year and approves expenditures in excess of authorizations in cases of emergencies. (5) The department is in frequent contact with state departments and has a working knowledge of state programs. This knowledge of department programs would permit the department to include in the quarterly reports explanations of any findings where actual revenues or expenditures exceeded estimated revenues or expenditures by significant amounts.

We recommend legislative changes to transfer the responsibility for preparing quarterly reports to the Department of Finance.

#### ***Unclaimed Property***

*We recommend a reduction of \$23,876 representing two positions requested to accelerate the inventorying and determination of the salability of unclaimed stocks and bonds.*

The unclaimed property element is responsible for the administration of laws relating to estates of deceased persons and unclaimed or abandoned property. Under the Unclaimed Property Act, holders of property (banks, insurance companies, etc.) which has not been claimed for a specified period of time must deliver such property to the state. The state may liquidate any noncash items, and the proceeds are deposited in the General Fund. Any owner who appears, however, is entitled to a refund, and a reserve fund of \$50,000 is maintained for this purpose.

Between the passage of this act in 1959 and 1972, the state received approximately 53,000 stock certificates. Before 1972-73, none of these certificates were sold. The Controller's 1972-73 budget added two positions to begin inventorying and preparing for sale these certificates. It was estimated that at least three years would be needed to complete the initial inventory and market evaluation.

The inventory of shares of listed companies or shares traded over the counter is nearly complete. To date \$1,257,000 has been realized from the sale of these certificates. The remaining stock certificates are unlisted shares with unknown values. Most of these remaining certificates are believed worthless.

Based on current information we see no need for accelerating the inventorying of these unlisted stocks. We recommend that the inventory program continue at its current level for 1974-75 until a sample of the unlisted stocks can be inventoried. This sample should provide sufficient information to make an estimate of the value of accelerating the inventory process.

#### **Audits Division**

The Audits Division has two program elements, claim audit and field audit. Four new positions are requested to handle workload increases and new programs established by Chapter 358, Statutes of 1973, (AB 2008) and Chapter 1216, Statutes of 1973 (AB 134).

**STATE CONTROLLER—Continued*****More Claims***

*We recommend approval of two new positions to handle workload increases in the claim audit section of the Audits Division.*

The number of claim schedules processed has increased 15 percent between the 1967-68 fiscal year and the 1972-73 fiscal year without any increase in staff. An additional workload increase of 4 percent is projected in 1974-75. One clerk-typist II position and one claim auditor position will handle this workload increase.

***Number of Chapter 358 Claims Unknown***

*We withhold recommendation on 2 positions requested to perform field audits of state payments to local government for state mandated programs.*

Chapter 358 provides that the Controller may audit the records of local governments to verify the actual costs of state mandated programs. The number of reimbursement claims to be filed by local government is unknown. A more reliable estimate of the audit workload in 1974-75 can be made in March when claims for 7 of the 12 state mandated programs will have been filed.

***Auditing the Federal Government***

*We recommend approval of two positions requested to audit state supplemental payments for the adult aid programs—OAS, AB, ATD, which will be administered by the Social Security Administration, contingent on the finding that these audits will not be duplicated by the Benefit Payments Department.*

Chapter 1216 will subvene an estimated \$446.4 million of state funds to the federal government in 1974-75 to provide supplemental payments to recipients in the federally-administered adult aid categories. The Governor's Budget has requested resources in both the Controller's budget and the Benefit Payments Department's budget to audit these subventions. Neither agency has specified the nature of its proposed audit. We believe all facets of the supplemental payments program should be audited. However, duplication of audit effort should be avoided. We expect to be able to advise the Legislature of our findings by March 1.

***Disbursements Division***

The Disbursements Division has responsibility for three elements in the fiscal control program: general disbursements, payroll, and data processing services.

***Payroll System Being Pushed to Capacity***

*We recommend approval of the one position requested to provide staff services required by the growing complexity of payroll and general disbursements.*

The payroll program element has become increasingly complex because of the increasing number of payroll deductions and pay adjustments.

The one requested position will be utilized one-third of the time in general disbursements and two-thirds in payroll. This increase in staff is

offset by a reduction of four positions in general disbursements due to the end of the additional workload associated with the one-time personal income tax forgiveness provisions of Chapter 296, Statutes of 1973.

## II. TAX ADMINISTRATION

The function of this program is to administer the inheritance and gift tax laws, gasoline tax refunds, delinquent motor vehicle fuel license taxes, the motor vehicle transportation tax, and the insurance premium tax. The allocation of personnel to the program elements and the budget changes from the current year are shown in Table 5.

**Table 5**  
**Tax Administration Program Staff**

Division and program element	Man-years		Change	Nature of change
	Estimated 1973-74	Proposed 1974-75		
Inheritance and Gift Tax Division				
Inheritance tax.....	124	124	—	—
Gift tax.....	17	17	—	—
Tax Collection and Refund Division				
Tax collection.....	6.2	3.2	-3	Workload reduction
Gas tax refund.....	44	42	-2	Workload reduction
Total.....	191.2	186.2	-5	

### Inheritance and gift tax

The Inheritance and Gift Tax Division has two program elements: inheritance tax administration and gift tax administration.

#### Completion of Pilot Program

*We recommend a reduction of \$30,500 to reflect termination of a pilot program to check the accuracy of inheritance tax referees' property appraisals.*

In our 1972-73 Analysis, we recommended a two-year pilot program of contracting for civil service property tax appraisers to review property appraisals submitted by inheritance tax referees. The Controller contracted with the Division of Highways, Department of Public Works, for two professionally qualified appraisers in December 1972.

The 1974-75 budget includes funds for completing the two-year program in the budget year. The Controller's office has suggested, however, that the results of the program to date are sufficient to establish the accuracy of the referee's appraisals, and we concur.

We believe this pilot program accomplished the two purposes of (1) providing information about the quality of referees' appraisals and (2) encouraging referees to make adequate appraisals by raising the prospect that their appraisals might be reviewed. We believe that the Controller should contract for civil service appraisers to perform a similar review of referees' appraisals every three years.

Table 7 shows the minor increased tax resulting from the civil service appraisers' review of approximately one percent of properties appraised by inheritance tax referees in calendar 1972.

**Table 7**  
**Real Estate Appraisal Review**  
**January 1 to December 31, 1973**

<i>Type of real estate</i>	<i>Number of parcels reviewed</i>	<i>Referees' appraisal value</i>	<i>Number showing substantial difference</i>	<i>Increase realized</i>		<i>Tax increase realized</i>	<i>Number reviewed in office</i>	<i>Number reviewed in field</i>
				<i>value</i>	<i>percent</i>			
Agricultural .....	15	\$2,219,750	—	—	—	—	—	15
Commercial .....	138	18,010,918	1	— <sup>a</sup>	— <sup>a</sup>	— <sup>a</sup>	—	138
Condominiums, co-ops and community apartments	7	638,700	1	\$10,500	1.6%	\$1,456	2	5
Industrial .....	41	6,312,455	1	8,000	.1	565	—	41
Residential .....	223	19,311,268	2	21,500	.1	2,727	16	207
Residential income .....	189	21,511,624	3	142,500	.7	17,603	9	180
Unimproved .....	44	3,209,980	—	—	—	—	4	40
<b>TOTAL .....</b>	<b>657</b>	<b>\$71,220,695</b>	<b>8</b>	<b>\$182,500<sup>(a)</sup></b>	<b>.3%<sup>(a)</sup></b>	<b>\$22,351<sup>(a)</sup></b>	<b>31</b>	<b>626</b>

<sup>a</sup> One case still pending.

***Low Interest Rate Encourages Delinquencies***

*We recommend legislation to revise the interest charge applied to delinquent taxes.*

The inheritance tax law, like most other state tax laws, applies a 6 percent interest charge on taxes which are delinquent. Inheritance taxes are due at the time of death of the decedent and become delinquent nine months after death. No penalties are assessed on delinquencies.

The market interest rate on short-term investments has risen dramatically above 6 percent over the past year while timely inheritance tax payments as a percent of accounts receivable have fallen. This suggests that some inheritors, most likely inheritors of large estates, are delaying the payment of taxes to take advantage of the high rate of return their inheritances are bearing.

An interest rate approximating the short-term market rate of interest would reduce the incentive to delay payment of taxes and recoup an amount equal to that the state would have received from investing the unpaid taxes. The prime interest rate has soared to 10 percent in recent months and the state's investments earned over 9 percent in December 1973. We believe an interest rate of 9 percent would currently be reasonable to reduce the incentive to delay payment of taxes and recoup the loss in state revenue from delinquent inheritance taxes.

We recommend that the interest rate applied to all delinquent state taxes be set at a uniform rate which approximates the state's return on funds invested by the Pooled Money Investment Board. We further recommend that the Franchise Tax Board, which is a three-member board composed of the Director of the Department of Finance, the Controller, and the Chairman of the Board of Equalization, be authorized to adjust annually the interest rate applied to delinquent state taxes to reflect changes in market rates of interest.

**Tax Collection and Refund**

The Tax Collection and Refund Division has two program elements: (1) collection of delinquencies for five taxes administered by other agencies and (2) refunding gas taxes to off-highway users.

***Division Workload Decreases***

*We recommend approval.*

The continuing phase-out of the motor vehicle transportation license (truck) tax, which was repealed July 1, 1973, will allow the Controller to abolish two positions which were vacated through attrition in 1973-74 and convert an additional position to an intermittent part-time basis. Another 3.2 positions will be continued through 1974-75 to assure collection of the tax on operations conducted prior to July 1, 1973.

Improved procedures and fewer refund claims will allow two positions in the gas tax refund program to be abolished.

STATE CONTROLLER—Continued

III. LOCAL GOVERNMENT FISCAL AFFAIRS

This program is responsible for (1) prescribing uniform accounting systems for local government, (2) reporting local government financial transactions, (3) developing and approving county cost plans, and (4) administering tax-deeded lands. These functions are encompassed within four program elements. Table 8 shows the division's organization and proposed changes in staff.

**Table 8**  
**Staff of Local Government Fiscal Affairs Program**

Division and program element	Man-years		Change	Nature of change
	Estimated 1973-74	Requested 1974-75		
Local Government Fiscal Affairs				
Division				
Financial reporting, budgeting and accounting.....	16.4	19.4	3.0	New program
Streets and roads.....	17.0	16.9	-0.1	Salary savings
County cost plans.....	5.4	5.4	—	—
Tax-deeded land.....	9.8	9.8	—	—
Total.....	48.6	51.5	2.9	

**Financial Reporting, Budgeting and Accounting**

This program element compiles the city, county, and special district financial reports, certifies local government bonds, and prescribes rules and regulations for uniform accounting in the counties. Continual efforts are made to revise the presentations in the annual reports to provide more meaningful data, and to improve the timeliness of the reports.

**Output Measures**

*We recommend that the Controller include in his budget estimated and actual publication dates for the city, county, and special district reports.*

The publication of local government reports involves a significant amount of audit time on the individual reports submitted by the local government units. In past years the interval between the end of the fiscal year and the publication of the reports has been as long as 18 months.

Records of estimated and actual report publication dates will enable a reader of the budget to determine whether or not the division is accomplishing its goals and the impact increases or decreases in personnel have on report publication dates.

**Property Tax Rate Equivalents**

*We recommend augmentation of the Controller's budget by \$1,300 to expand the annual county financial transactions report to include a table expressing county costs in terms of property tax rate equivalents.*

Such a table would express the cost of county services, such as public safety or welfare, in terms of the property tax rate needed to support the service. This information would (1) provide state and local officials a means of comparing the relative costs of services in different counties and (2) inform the Legislature of the burden different county services put on

a county's tax rate. The Controller has estimated 400 hours of clerk II time would be needed to compute the property tax rate equivalents. Supervisory time would be absorbed by the current staff.

#### ***Audit Property Tax Rate Increases***

*We recommend approval of three positions requested to report and audit local government property tax rates.*

This program element will report local government property tax rates and audit increased property tax rates levied to cover federal- or court-mandated costs as required by Chapter 358, Statutes of 1973 (AB 2008). The estimate of workload increase because of Chapter 358 is very crude because of the absence of any data about the number or cost of federal- and court-mandated programs. However, in light of the state's commitment to limit property tax rates under Chapter 358, we suggest the Controller be staffed at the requested level to promptly audit local government property tax rate increases resulting from court or federally mandated programs. We plan to closely monitor the work of this unit.

#### **County Cost Plans**

Under regulations set forth in Federal Office of Management and Budget Circular A-87, each county government must prepare a county-wide cost allocation plan each fiscal year as a condition precedent to receiving federal reimbursements for indirect costs of federally supported programs. The state agreed to undertake the tasks of assisting the counties in the preparation of cost plans and approving acceptable cost plans. The program began in December 1971 in the Department of Social Welfare. In July 1973 the function was transferred to the Controller's office. It was estimated all counties would have developed acceptable cost plans by December 1974. However, this estimate was too optimistic and the program will continue through 1974-75.

The federal government has not audited any federal expenditures made under the cost plans. Thus, the state has no feedback from the federal government on the adequacy of the cost plans the state is encouraging the counties to adopt. Consequently, it is presently unknown whether the counties are overclaiming or underclaiming for reimbursable overhead costs. It is anticipated that the federal government will audit some counties in 1973-74.

#### **Streets and Roads**

This program element prepares the annual report on city and county expenditures for streets and roads and audits local government use of state subvended gas tax funds. All cities and counties are audited every year.

#### ***Sample Audit Gas Tax Subventions***

*We recommend the Controller audit a 60 percent sample of gas tax subventions to cities and counties rather than the present 100 percent audit.*

Auditing can have three purposes: (1) to recover misspent or owed money, (2) to provide management with information about programs, and (3) to promote compliance with regulations. Audits of gas tax funds

**STATE CONTROLLER—Continued**

spent by local governments do not fulfill the first two purposes. These audits do not result in a recovery of misspent money by the local government. No gas tax funds have ever been returned to the state. These audits do not provide state management with information about street and road activities. Such information is available through the annual streets and roads report of the Controller. The only purpose gas tax audits perform is to promote compliance with spending regulations.

We believe gas tax audits, like most audits, should be made on a sample basis rather than the complete audit presently performed. The optimal level of audit to deter intentional noncompliance is unknown. However, one year's experience of auditing a 60 percent sample of cities and counties should provide sufficient information to make an estimate of the optimal audit level.

***Savings to Be Invested in Cross-Training***

*We recommend that 4.0 man-years saved as a result of a 60 percent sample audit be used for the cross-training of field personnel. We further recommend that records be kept of actual man-hours spent in each program category under this program and the status of the program be reported in the 1975-76 budget request.*

The Local Government Fiscal Affairs Division is making an effort to reduce the specialization within the division by training field personnel to handle city reporting, county reporting, special district reporting, streets and roads reporting, uniform accounting, county cost plans and gas tax auditing. The 4.0 man-years saved as a result of the sample auditing should be used in this cross-training program. Such training should reduce travel time and increase efficiency in all three of the program elements involved.

Records of man-hours spent in each program category under this cross-training program should be kept. We recommend the Controller then report on the accomplishments of this program in conjunction with the 1975-76 budget request.

**IV. PERSONNEL INFORMATION MANAGEMENT SYSTEM PROJECT (PIMS)**

Funds totaling \$1,690,790 are included in the Governor's budget for continued development of the Personnel Information Management System (PIMS). This project was authorized by the Legislature in the Budget Act of 1973 after receipt of a request from the administration for an augmentation to the 1973-74 fiscal year budget of \$995,486. Although funding and project resources are requested in the Controller's budget, the PIMS project is being conducted jointly by the State Controller, State Personnel Board (SPB), Public Employees' Retirement System (PERS) and California State University and Colleges System.

**Paper Blizzard**

We have recommended in previous analyses that an integrated approach to payroll and personnel master files be undertaken in order to simplify and streamline the complex processes of personnel transactions and records. Such an approach, if implemented properly, should eliminate



duplicate efforts, minimize errors and improve system responsiveness.

In our Analysis of the Budget Bill for the 1971-72 fiscal year we pointed out that approximately 2.5 million personnel and related payroll documents representing over six million separate pieces of paper were being generated annually by state agencies. The SPB personnel transaction system was essentially a manual process, although certain portions of it were automated. The automated portions of the SPB process were severely fragmented (as were related payroll and retirement systems) and added to the problem because of their inflexibility and tendency to impede document flow.

#### **PIMS Implementation Committee Formed**

In 1972 the State Personnel Board contracted with a private firm to: (1) provide direction and assistance to the SPB, State Controller's Office, Public Employees' Retirement System, and California State University and Colleges in their joint efforts to conceptualize an integrated EDP personnel information system, and (2) develop a plan for implementing such a system. A PIMS implementation committee composed of representatives of the above entities developed a preliminary system design and implementation plan which provided for implementing the new system on a pilot basis late in 1974.

#### **Logjam Triggers Legislative Action**

While the PIMS implementation committee was continuing its efforts early in 1973, a critical employee payroll situation was developing. Over 10,000 documents became backlogged awaiting processing through the SPB's obsolete computer system. The backlog resulted from a combination of factors including a high error rate on incoming documents, major reorganizations of certain departments, massive movement of personnel into new classifications and changes in the state's pay program. As a result, many employees were not receiving their regular paychecks from the Controller's office and in some cases errors were being made in their payroll deductions.

The Assembly Ways and Means Committee in a special hearing in May 1973 on the personnel/payroll document backlog problems approved the augmentation to the Controller's budget of \$995,486 effective July 1, 1973, and instructed the entities cooperating on the PIMS project to: (1) make procedural and administrative changes to the present system to assure that state employees would be paid accurately and on time, and (2) design and program a new computerized personnel/payroll system.

Short-range PIMS objectives planned initially for implementation by July 1, 1974, include: (1) simplification of personnel/payroll documents and their flow through the system, (2) computerization of the SPB employee personnel roster file, and (3) adoption of a recommended state pay plan that could provide for paying employees more than once per month. Long-range objectives include: (1) automation of the PERS active member roster and employee roster of the California State University and Colleges, (2) development of a central personnel/payroll data base for the SPB and Controller's office, (3) on-line inquiry capability for customer agencies, (4) centralized vacation and sick leave time reporting and (5)

**STATE CONTROLLER—Continued**

automation of the civil service examination and certification process.

**PIMS Implementation Unit Formed**

A PIMS project manager was designated and a project team of 39 members was hired. Certain staff members were selected for their knowledge of specific programs and procedures while others were hired on the basis of their personnel or EDP technical experience. A steering committee was formed consisting of the chief executive or his designee from each of the four participating entities for the purpose of providing policy guidance and direction. An advisory committee also was established consisting of representatives from various user departments and interested groups in order to advise the steering committee and project manager and serve as coordinators with user agencies. Our office was requested to participate on the advisory committee and has done so in a monitoring capacity.

**Significant "Danger Signals" Noted**

During the first few months of the PIMS project's operations we detected the following serious "danger signals."

1. Objectives were not specified clearly.
2. Objectives were being modified frequently and with no apparent reasons.
3. No implementation plan was produced indicating what was to be accomplished and when.
4. Functions of the project team's separate units were unclear and uncoordinated.
5. A private consultant was performing tasks that could have been done much more economically and effectively by state personnel.
6. No project fiscal control process was established nor were there plans to develop such a mechanism for managing the budget allocation.
7. The steering committee and advisory committee were unable to function properly as a result of ineffective and incomplete staff work provided by the project team.

We met with the steering committee during October 1973 in order to: (1) point out the problems we had observed, (2) emphasize the need for much stronger project leadership, coordination and control, and (3) make specific recommendations (which included the requirement for a technical manager) for achieving the improvements required for the project to succeed.

**Technical Project Manager Added**

In December 1973 a technical manager with a considerable amount of experience in implementing new automated systems was added to the PIMS project, reporting to the PIMS project director. Although the PIMS project director and the new manager both are classified presently as data processing manager IV's, their functions are significantly different. The project director continues to be responsible for general project management, while the new manager is responsible for the more technical EDP aspects of the project.

Because of the importance and complexity of the project, we believe the

two managers are justified at this time.

In the brief period since the new manager was hired, we have observed some significant changes in PIMS project operations including the following: (1) key short-term objectives have been specified precisely, (2) an implementation plan has been developed showing the planned sequence, interrelationships and timing of project activities, (3) the project team has been reorganized, and (4) the functions of each unit have been specified clearly in writing.

#### **Automated Personnel Roster System**

A fully automated civil service employee history file is scheduled for implementation in the latter part of 1974. Eight separate personnel documents are to be replaced by one consolidated "turn-around document." The turn-around document is designed to minimize errors and staff time by enabling departments to complete only new or changed personnel information about an employee. In addition to the turn-around document, the new system will automatically generate new information on a form to be sent to the employee informing him of his current personnel status as a result of certain types of personnel transactions.

#### **Recommend Delay in Approval**

*We recommend that the Legislature withhold approval of funds for the PIMS project until early April 1974. By that date our office will complete an up-to-date review of the progress of the project and report the results of this review to the fiscal committees.*

The budget augmentation request for the PIMS project includes funds for the development of the automated system and funds for establishment of a Personnel Services Division (PSD) which will be responsible for receiving personnel documents from the line departments and processing them centrally through the newly automated system. The portion of the increase for the PSD includes authorization for 39 positions and funds totaling \$413,012.

Although the PIMS project appears to be progressing satisfactorily as a result of the changes discussed above, we believe it is too early to make a meaningful evaluation or to recommend an adequate funding level. We therefore will complete a review of project progress and report the results of the review to the fiscal committees by April 1, 1974. Such a review will also include the level of staffing required for the new Personnel Services Division function.

The following are illustrative of questions we will attempt to answer in this review:

1. Planning.—Are the project's short-range and long-range plans logical and clear?
2. Scheduling.—Is the project on schedule and is the schedule realistic?
3. Staffing.—Does the PIMS project and PSD unit have the appropriate number and types of staff?
4. Conversion.—Are adequate provisions being made to convert the data from the present data bases to the new one?
5. EDP equipment.—Will the EDP equipment which is planned proc-

**STATE CONTROLLER—Continued**

- ess input data efficiently and accurately and will the data base of information be readily accessible?
6. Data base design.—Will the data base be designed in such a manner as to permit expansion and integration with other related data bases with a minimum of cost and effort?
  7. Training.—Will the staffs of line agencies be trained adequately to use the new system? Will PSD staff be trained properly before they are required to operate the new system?
  8. Savings.—What personnel savings should result from the installation of PIMS?
  9. Financial condition.—Is there an appropriate method employed to provide a sufficiently detailed accounting of project financial status on an ongoing basis?
  10. Progress reporting.—Is project progress reporting timely, comprehensive and meaningful?

**V. LEGISLATIVE MANDATES**

Table 3 shows the legislatively mandated programs included in the 1974-75 budget.

**Table 3**  
**Legislative Mandated Programs**

<i>Budget item</i>	<i>Related program</i>	<i>Chapter</i>	<i>Bill</i>	<i>1973-74 Expenditure</i>	<i>1974-75 Budget Act appropriation</i>
85	General government .....	16	SB 117	\$2,000	\$2,000
		1169	SB 911	—	4,000,000
179	Industrial relations .....	1021	AB 750	106,000	424,000
		1022	AB 751	1,096,000	2,192,000
		1023	AB 752	1,582,223	6,328,892
		1147	SB 246	14,000	28,000
239	Environmental protection fund ..	1165	SB 702	—	160,000
294	Health .....	954	SB 1365	9,900	20,000
		1061	AB 1762	383,000	766,260
305	HRD .....	1012	AB 580	78,000	156,000
	Transportation (legislation contained appropriation) .....	521	AB 24	—	43,200
	Transportation (no 1974-75 expenditure) .....	1175	SB 1221	50,000	—
Totals, legislative mandates .....				\$3,321,123	\$14,120,352

**VI. SPECIAL STATEWIDE ELECTION**

Local costs budgeted at \$6,710,000 for a special statewide election held in November 1973 also qualify for state reimbursement. Our analysis of Item 56 is on page 123.

**VII. ADMINISTRATION**

The executive office of this division provides general supervision for the six operating divisions and also assists the Controller in his duties as a member of various boards and commissions. The administrative service staff provides auxiliary services for the entire agency including account-

ing, personnel and mail services. Two-thirds of the division's costs are allocated to the three programs of this agency. The direct cost of the Contrôller, his personal staff, plus secretarial support, are not allocated. The basis for allocation is the personnel costs, by fund, of each of the programs elements.

**Executive Office Clerical Help**

*We recommend approval of one stenographer II position to assist with additional workload increase.*

A stenographer II position has been administratively established for the 1973-74 fiscal year. This position is requested as a new position in the 1974-75 fiscal year budget.

**STATE CONTROLLER**

Item 52 from the Motor Vehicle  
Transportation Tax Account  
in the Transportation Tax  
Fund

Budget p. 23 Program p. I-106

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Requested 1974-75 .....	\$36,456
Estimated 1973-74.....	92,990
Actual 1972-73 .....	99,354
Requested decrease \$56,534 (60.8 percent)	
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This appropriation is for the cost of collecting delinquent motor vehicle transportation (truck) taxes. The tax was repealed July 1, 1973. As a result, two positions which were vacated in 1973-74 will be abolished in 1974-75. A third position will be converted to an intermittent part-time basis. Collection of delinquent taxes will require continuation of this function through 1975.

**STATE CONTROLLER**

Item 53 from the Motor Vehicle  
Fuel Account in the Transportation Tax Fund

Budget p. 23 Program p. I-106

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Requested 1974-75 .....	\$1,032,674
Estimated 1973-74 .....	1,074,730
Actual 1972-73 .....	951,149
Requested decrease \$42,056 (3.9 percent)	
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This appropriation is for administration of the gasoline tax audits and gasoline tax refund functions, the details of which are included under Item 51.

**STATE CONTROLLER**

Item 54 from the State School  
Building Aid Fund

Budget p. 23 Program p. I-106

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Requested 1974-75 .....	\$199,822
Estimated 1973-74 .....	207,291
Actual 1972-73 .....	174,863
Requested decrease \$7,469 (3.6 percent)	
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This appropriation covers the auditing and accounting of the expenditures of school districts for property financed by state loans under the State School Building Aid Program.

**STATE CONTROLLER**

Item 55 from the Aeronautics  
Account in the State Transportation Fund

Budget p. 23 Program p. I-106

Requested 1974-75 .....	\$65,999
Estimated 1973-74.....	66,048
Actual 1972-73 .....	75,066
Requested decrease \$49 (0.1 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This appropriation covers auditing and accounting activities for the Airport Assistance Program.

**SPECIAL STATEWIDE ELECTION**

Item 56 from the General Fund

Budget p. L-12 Program p. I-125

Requested 1974-75 .....	\$6,710,000
Estimated 1973-74.....	—

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis page*

1. Withhold recommendation. Recommend Legislature withhold approval of funds requested pending determination of actual local government costs. 123

**ANALYSIS AND RECOMMENDATIONS**

*We recommend that the Legislature withhold approval of the funds requested pending a determination of the actual cost to local government.*

On June 26, 1973, the Governor issued a special election proclamation with the result that on November 6, 1973, a special statewide election regarding the Governor's proposed state expenditure limitation proposal (Proposition No. 1) was conducted.

Because normally the only elections held in a nongeneral election year are local elections, the addition of a statewide measure to the ballot increased the total cost of elections statewide. In addition, a day on which an election is held throughout the state is recognized by many local agencies as an official holiday in accordance with Government Code Section 6700.

Although Section 2231(d) of the Revenue and Taxation Code provides that the state reimburse local government the full costs of programs mandated by executive regulation issued after January 1, 1973, the Governor's Budget states that the proclamation for a special statewide election is not an executive regulation, but "... the Governor has deemed that certain

**SPECIAL STATEWIDE ELECTION—Continued**

costs of the election are reimbursable to local government entities.”

**Claims Exceed Amount Budgeted**

Funds proposed in the Governor’s Budget include \$3,531,000 to reimburse election costs and \$3,179,000 to reimburse the cost of premium pay in those instances where such pay was actually received. The Governor’s Budget does not include funds for the reimbursement of local government to pay for the time lost by those employees who were granted a holiday.

According to the office of the State Controller, claims for reimbursement of the November 6 election expenses totaling approximately \$15,300,000 have been filed with that office by counties, cities, and special districts, with the bulk of these claims submitted by the counties (\$13,929,612). Many of these claims include the payroll cost of employees for whom November 6 was a holiday, rather than the regular working day normally anticipated by local government.

Although some original claims have been revised downward significantly and more revisions are anticipated, the net amount claimed currently by local government in accordance with provisions of the Revenue and Taxation Code still exceeds to a significant degree the amount budgeted. Further, we have been informed by the County Supervisors Association of California that the actual election cost subject to reimbursement is approximately \$6.2 million, as opposed to the \$3,531,000 proposed in this budget, and that \$6.2 million reflects more accurately the total amount which will be subsequently claimed.

Therefore, the total amount of claims filed in accordance with the reimbursement intent of this item could surpass, significantly, the amount actually budgeted. In our judgment, the administration should be prepared to present to the fiscal committees at the time this budget item is heard, information which will clarify any significant difference remaining between the claims filed and the amount budgeted. We therefore withhold recommendation on the item.

**STATE BOARD OF EQUALIZATION**

Item 57 from the General Fund                      Budget p. 25    Program p. I-126

Requested 1974-75 .....	\$32,630,229
Estimated 1973-74.....	31,119,228
Actual 1972-73 .....	27,928,044
Requested increase \$1,511,001 (4.9 percent)	
Increase to improve level of service \$433,188	
Total recommended augmentation .....	\$97,020

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. *Intercounty Equalization. Augment Item 57 by \$116,808.* 128  
 Recommend nine appraiser positions to increase sample size and insure the quality of the board’s assessment ratio



- findings.
2. Auditing Public Utilities. Recommend board establish procedures for auditing utilities not presently covered. 131
  3. *Hearing Officer. Reduce Item 57 by \$19,788.* Recommend deletion of one limited-term legal position on the basis of insufficient demonstration of need. 134
  4. Campaign Audit Legislation. Recommend legislation be enacted to revise existing audit selection criteria and auditing deadlines. 135

### GENERAL PROGRAM STATEMENT

The Board of Equalization, which is the largest tax collection agency in California, consists of five members. Four are elected from geographic districts, the fifth is the State Controller, who serves *ex officio*. All members of the board serve four-year terms and are elected at each gubernatorial election. The chairmanship of the board is rotated among the members annually, with the chairman automatically serving as a member of the Franchise Tax Board, which administers the personal income and bank and corporation franchise taxes.

The main responsibility of the board is the administration of state and local sales and use taxes. Other responsibilities include intercounty equalization of locally assessed property values, assessment and allocation of property values of public utilities, and administration of various other state taxes. These responsibilities are divided among 11 operative programs. In 1974-75, administration of these programs is assigned to a staff of 2,420 at a total cost, from all sources, of \$43 million.

Table 1 provides a breakdown by program of authorized man-years for the current and budget years.

**Table 1**  
**Board of Equalization**  
**Authorized man-years by program**

Program	Authorized Man-years		Change	
	1973-74	1974-75	Number	Percent
1. Local property tax equalization .....	155.3	155.4	+0.1	+0.1%
2. State-assessed property tax .....	82.9	85.3	+2.4	+2.9
3. Sales and use tax .....	1,861.1	1,926.8	+65.7	+3.5
4. Alcoholic beverage tax .....	28.6	28.7	+0.1	+0.4
5. Cigarette tax .....	16.4	16.5	+0.1	+0.6
6. Motor vehicle fuel license tax (gasoline tax) .....	15.4	15.4	—	—
7. Use fuel tax (diesel tax) .....	97.9	97.9	—	—
8. Motor vehicle transportation license tax .....	50.0	17.5	-32.5	-65.0
9. Insurance tax .....	2.3	2.3	—	—
10. Appeals from other government programs .....	10.5	10.5	—	—
11. Administration and support				
(a) Distributed to other programs .....	(167.2)	(167.1)	(-0.1)	—
(b) Undistributed .....	65.4	63.4	-2.0	-3.1
Total .....	2,385.8	2,419.7	+33.9	+1.4

As shown in Table 1, the 2,420 man-years budgeted for all board programs in 1974-75 represent a net increase of approximately 34 man-years, or 1.4 percent, over the 2,386 estimated for 1973-74.

## STATE BOARD OF EQUALIZATION—Continued

## Description of Board Programs

1. *Local Property Tax Equalization Program.* In 1974-75, this program will require 6.4 percent of total authorized man-years. The total cost of the program will be \$3,530,589, with \$3,444,589 to come from the General Fund and \$86,000 from reimbursements. In this program, the board investigates the operations of county assessors' offices, issues rules governing assessment procedures and trains property appraisers. A major element of this program is to determine annually for each county the ratio of assessed value to full cash value of property subject to local assessment. Further details on this element and an analysis of the adequacy of resources used in the determination of these ratios is provided below.

2. *State-Assessed Property Tax Program.* In 1974-75, this program will involve 3.5 percent of authorized man-years. Total cost will be \$1,679,163 from the General Fund. In this program, the board determines the value of the property of public utilities and allocates assessed values to each taxing jurisdiction in which such property is located. For 1974-75, two additional positions are budgeted to expand research efforts associated with the derivation of unit value indicators. Further details on this process and an analysis of this request and the auditing of public utilities are provided below. Another element of this program involves the assessment and collection of the tax on privately owned railroad cars.

3. *Sales and Use Tax Program.* This program represents the primary responsibility of the board in terms of budgeted resources. In 1974-75, it will require 79.6 percent of total man-years. Total cost of this program will be \$33,046,325, of which \$25,821,325 will come from the General Fund and \$7,225,000 from reimbursements. Through this program, the board administers and collects state and local sales and use taxes. In 1974-75, it is estimated that revenue from these taxes will provide \$3.2 billion to the General Fund, \$820 million distributed to cities and counties and \$36.5 million for the San Francisco Bay Area Rapid Transit District. Administration of these taxes entails taxpayer registration, maintenance of accounts, processing tax returns, auditing of accounts and collection of taxes receivable. For 1974-75, an additional 17 permanent and 8 limited-term positions are requested to process increased tax return workload. In addition, one limited-term legal position is requested due to an expected increase in administrative hearings. These requests are analyzed separately below.

Legislation enacted in late 1973 (Chapter 1186) has given the board the additional responsibility of auditing campaign expenditure statements filed by certain candidates and committees. This function has been included as a separate element in the Sales and Use Tax Program. For 1974-75, 36 positions have been requested to implement this new responsibility. A further discussion of this element and an analysis of the adequacy of resources proposed in the budget are included below.

4. *Alcoholic Beverage Tax Program.* This program will require 1.2 percent of total man-years in 1974-75. Total cost will be \$427,729, all of which will come from the General Fund. The purpose of this program is the administration and collection of the state's alcoholic beverage taxes.

It is estimated that \$120 million in General Fund revenue will be collected under this program in 1974-75.

5. *Cigarette Tax Program.* In 1974-75, this program will require 0.7 percent of authorized man-years. Total cost will be \$958,936, all from the General Fund. The purpose of this program is to administer and collect the cigarette tax which, in 1974-75, will provide an estimated \$181 million to the General Fund and \$77 million for distribution to local governments.

6. *Motor Vehicle Fuel License Tax Program.* In 1974-75, this program will require 0.6 percent of authorized man-years. Total cost will be \$265,905, all from the Transportation Fund. The purpose of this program is to administer the 7-cents-per-gallon tax on motor vehicle fuel and the 2-cents-per-gallon tax on aircraft jet fuel. It is estimated that, in 1974-75, this program will produce total revenues of \$772 million for the following funds: Highway Users' Tax Fund, Aeronautics Fund, Harbor and Watercraft Revolving Fund, and the Agriculture Fund.

7. *Use Fuel Tax Program.* This program will require 4.0 percent of authorized man-years in 1974-75. Total cost will be \$1,492,392, all of which will come from the Transportation Fund. The purpose of this program is to administer and collect the use fuel tax, which is imposed on diesel fuel at the rate of 7 cents per gallon, on liquified petroleum gas at the rate of 6 cents per gallon, and on compressed natural gas at the rate of 7 cents per 100 cubic feet. It is estimated that this program will produce \$54 million in 1974-75 for the Highway Users Tax Fund.

8. *Motor Vehicle Transportation License Tax Program.* This program will require 0.7 percent of man-years authorized for 1974-75. Total cost will be \$348,819, all of which is paid by the Transportation Fund. This program was established to administer the transportation tax, a tax of 1.5 percent on the gross receipts of persons engaged in the business of transporting persons or property for hire on the highways of the state.

Chapter 563, Statutes of 1972, (AB 705) repealed this tax, effective June 30, 1973. The planned phase-out of this program over a two-year period was included in the 1973 Budget Act. The 17.5 man-years budgeted for 1974-75 reflect a reduction of 32.5 man-years from the 50.0 man-years provided in the current year. 1974-75 will be the final year of the phase-out, which is proceeding as approved.

9. *Insurance Tax Program.* This program will require 0.1 percent of man-years authorized for 1974-75. Total cost will be \$50,115, all of which will come from the General Fund. The purpose of this program is to administer the tax on gross premiums of insurance companies. It is estimated that, in 1974-75, this tax will produce \$210 million in General Fund revenue.

10. *Appeals From Other Government Programs.* This program will require 0.4 percent of authorized man-years in 1974-75. Total cost will be \$248,372, all from the General Fund. The purpose of the program is to provide procedures whereby taxpayers' and property tax assistance claimants' appeals from decisions of the Franchise Tax Board may be heard. In addition, hearings are also provided to review local assessments of property owned by a city or county, when these assessments are contested.

11. *Administration and Support.* This program will require 230, or 9.5

**STATE BOARD OF EQUALIZATION—Continued**

percent, of total authorized man-years in 1974-75. Approximately 167, or 72 percent, of these man-years are distributed to other programs. The unallocated man-years represent only 2.6 percent of total board man-years. The total cost will be \$3,933,518, of which \$2,970,208 is allocated to other programs. The balance of \$963,310 is all paid by reimbursements.

**ANALYSIS AND RECOMMENDATIONS**

The total proposed board expenditures in 1974-75 will increase by 2.7 percent over estimated expenditures in 1973-74 as shown in Table 2. This overall increase is net after a reduction of \$526,000 in expenditures from the Transportation Fund, resulting from the repeal on June 30, 1973, of the motor vehicle transportation license tax. The General Fund request is shown as \$32,630,299 (an increase of \$1,511,001, or 4.9%, over the preceding year).

**Table 2**  
**Board of Equalization**  
**Change in Expenditures**

Source of funds	Expenditures		Change	
	1973-74	1974-75	Amount	Percent
General Fund .....	\$31,119,228	\$32,630,229	\$1,511,001	+4.9%
State Transportation Fund				
(a) Motor vehicle transportation tax account .....	874,434	348,819	-525,615	-60.1
(b) Motor vehicle fuel account .....	1,725,574	1,758,297	32,723	+1.9
Reimbursements.....	8,156,574	8,274,310	117,736	+1.4
Total expenditures.....	\$41,875,810	\$43,011,655	\$1,135,845	+2.7%
<i>Object of Expenditure</i>				
Personal services .....	\$33,586,297	\$34,535,394	\$949,097	+2.8%
Operating expenses and equipment				
General expense.....	2,652,552	2,751,879	99,327	+3.7
Printing.....	526,019	548,375	22,356	+4.3
Communications.....	900,208	881,130	-19,078	-2.1
Travel .....	1,411,035	1,423,627	12,592	+0.9
Data processing .....	597,345	605,523	8,178	+1.4
Facilities—operation .....	1,938,552	1,997,537	58,985	+3.0
Equipment.....	204,719	227,053	22,334	+10.9
Prorated charges .....	59,083	41,137	-17,946	-30.4
Total expenditures.....	\$41,875,810	\$43,011,655	\$1,135,845	+2.7%

**LOCAL PROPERTY TAX EQUALIZATION****Intercounty Equalization**

We recommend that the budget be augmented by \$116,808 to provide nine property appraiser positions to maintain the reliability of county assessment ratios established under the board's triennial survey program.

For the 1973-74 budget year, the Legislature provided for an augmentation of eight property appraiser positions to improve the quality of intercounty equalization findings and directed the Legislative Analyst to consider this issue in the 1974-75 Analysis. The Governor subsequently vetoed the budget augmentation.

We have undertaken a careful study of the need for an augmentation of the appraisal staff for the purpose of ensuring the quality of assessment

ratios. Because of the continually increasing reliance on these ratio findings and an apparent decrease in the effective man-hours available to maintain the quality of the established ratios, we believe an augmentation is justified.

*The use of assessment ratios.* The board's ratio findings are used primarily to modify, or "equalize," locally assessed values, where the distribution of state aid or the allocation of costs to local jurisdictions is based on a formula which includes assessed values. Table 3 illustrates the growth since 1965-66 of intergovernmental payments which are affected by assessment ratios.

**Table 3**  
**Intergovernmental Payments Affected by County Ratios**  
**1965-66 through 1973-74**  
**(in thousands)**

Year	School Equalization Aid	Other <sup>a</sup> payments	Total
1965-66 .....	\$325,934	53,832	\$379,766
1966-67 .....	355,694	66,000	421,694
1967-68 .....	492,642	71,670	564,312
1968-69 .....	500,937	81,751	582,688
1969-70 .....	584,579	87,330	671,909
1970-71 .....	560,935	92,213	653,148
1971-72 .....	525,680	99,831	625,511
1972-73 .....	599,811	370,600	970,411
1973-74 .....	1,028,444	466,059	1,494,503

<sup>a</sup> Includes pupil transportation aid, repayments on state loans to school districts, grants to libraries, county recoupment tax levies, and counties' share of Medi-Cal costs.

Table 3 also shows the dramatic increase in total distributed payments and costs in 1972-73 and again in 1973-74. These changes were primarily due, respectively, to the allocation of Medi-Cal costs to counties (included in "other payments") and to the enactment of Chapter 1406, Statutes of 1972 (SB 90), which substantially increased school equalization aid.

To the extent that the county ratios established by the board are unreliable, the equity of the distribution of nearly \$1.5 billion will be adversely affected. Thus, we believe a determination of the adequacy of the resources utilized in the process of deriving these ratios is important.

*Establishing County Ratios.* The process of establishing ratios of assessed value to full cash value involves an appraisal by the board's Division of Intercounty Equalization of a small sample of properties selected in each county every three years. Full cash value of all locally assessable property is estimated from the appraised values of the sampled properties. This estimate is projected forward into each of the three years between surveys by means of a mathematical trending process. The trended estimate of full cash value is compared to actual locally assessed value to determine each county's assessment ratio.

*The Reliability of Assessment Ratios.* The reliability of county assessment ratios depends on three basic factors: (1) the quality of the board's appraisal of sampled properties, (2) the size of the sample in each county, and (3) the accuracy of the trending process. If the other factors are held constant, a decrease in the size of the sample will result in a decrease, to

## STATE BOARD OF EQUALIZATION—Continued

some degree, in the reliability of the assessment ratio.

*Decreasing Sample Size.* Table 4 provides a summary of the properties sampled and the man-hours devoted to the appraisal of these properties for a nine-year period.

**Table 4**  
**Properties Sampled by Division of Intercounty Equalization**  
**1965-66 through 1973-74**

Survey year	Sampled properties		Appraisal man-hours per sampled property	
	Number	Per 1,000 assessments <sup>a</sup>	Total	Direct hours as percent of total
1965-66.....	5,668	2.25	20.0	61.5%
1966-67.....	5,629		20.8	59.1
1967-68.....	5,353		22.7	57.3
1968-69.....	5,103	2.02	23.9	57.3
1969-70.....	5,081		24.3	55.1
1970-71.....	5,160		23.7	56.2
1971-72.....	5,318	1.99	24.0	55.8
1972-73.....	5,447		23.9	54.6
1973-74.....	5,096		N.A.	N.A.

<sup>a</sup> Represents a three-year average of the number of sampled properties per 1,000 locally assessed properties.

Table 4 indicates a steady decline in the size of the board's sample both absolutely and as a proportion of local assessments. In the three-year survey period from 1965-66 to 1967-68, 2.25 properties were sampled for every 1,000 assessments. This figure dropped to 1.99 per 1,000 in the period from 1971-72 to 1973-74. Concurrently, total appraisal hours per sample have increased, while direct appraisal hours, as a percentage of total hours, have steadily decreased.

The board indicates that, since the establishment in 1966 of the Office of Appraisal Appeals, which provides a third-party review of board appraisals contested by county assessors, it has been necessary to devote more time to the documentation and review of appraisals. This has reduced the proportion of total man-hours available for direct appraisal effort, resulting in a decline in the number of properties sampled. It is probable that the increase in subventions to local government resulting from the enactment of Chapter 1406, Statutes of 1972 (SB 90), will provide additional impetus to this trend. This is because a substantial increase in the dollar amounts affected by assessment ratios can be expected to increase the incentive for county assessors to contest board appraisals.

We believe there exists a direct relationship between sample size and the quality of the board's ratio findings. Although it is difficult to quantify the exact impact, a continuing decrease in properties sampled as a proportion of total properties will result ultimately in the diminished reliability of assessment ratios. It is apparent for the reasons stated above that the board has had to reduce the quantity of properties sampled in order to maintain the quality of its appraisals.

Because of a projected continuing deterioration in the reliability of the board's ratio findings, concurrent with an increasing reliance on the accu-

racy of these findings, we believe additional resources are justified which will allow for an increase in the number of properties sampled. An augmentation of nine appraisal positions would provide for an increase of an estimated 900 samples. Thus, the sample size would be returned to the level existing in 1965-66 to 1967-68, or about 2.25 properties sampled per 1,000 assessments.

#### **STATE-ASSESSED PROPERTY TAX PROGRAM**

##### **Positions Requested for Researching Unit Value Indicators**

*We recommend approval of two associate property auditor/appraiser positions at a salary cost of \$27,456 to increase research with respect to unit value indicators.*

For the purpose of estimating the market values of public utilities and railroads, the board derives over 700 unit value indicators. The most important of these include: (1) historical cost less depreciation, (2) reproduction cost new less depreciation, (3) capitalized earnings, and (4) market value of stock and debt.

In the past five years, the board estimates that an average of 9,000 man-hours per year has been devoted to research associated with the derivation of unit value indicators. This research includes studies to establish depreciation and life expectancies and analyses of capital structures and rates of return on stock, bonds, and other liabilities.

*Increasing Complexity of Utilities.* Because of the continually increasing complexity, size, and diversification of properties of public utilities, two property auditor/appraiser positions are requested to expand research efforts and to increase field investigations and cost studies.

The state-assessed property tax program, which is a local revenue program administered by the state, contributed approximately \$510 million, or 7.5 percent, of the revenue of local government in 1972-73. Because of the importance to local government of the proper assessment of properties of public utilities, we believe the two positions requested to maintain the adequacy of this process are justified.

##### **Auditing of Public Utilities**

*We recommend that the board establish specific procedures for auditing approximately 270 companies which are not currently audited by the Public Utilities Commission.*

For the purpose of establishing the value of state-assessed properties, the board requires state assessees to submit annual property statements. These property statements include financial statements which contain practically all of the material upon which unitary market value is based.

With few exceptions, the board does not conduct audits of financial statements to verify the accuracy of data contained therein. In our Analysis of the 1973-74 Budget Bill, we recommended that the board report to the Legislature on the effectiveness of the auditing of state assessees. The findings of the board with respect to this report indicate certain deficiencies in this area.

Table 5 provides a breakdown of the effective division of responsibility for auditing state assessees between the board and the Public Utilities

## STATE BOARD OF EQUALIZATION—Continued

Commission, the agency responsible for regulating almost all large utility companies in the state.

**Table 5**  
**Division of Audit Responsibilities**  
**for 1973 State Assesseees**

Type of company	Number of companies	Value of property	
		Amount (millions)	Percent of Total
Audited by PUC			
Gas and electric .....	24	\$9,168.9	49.0%
Telephone .....	31	7,529.1	40.3
Totals, PUC audit .....	55	\$16,698.0	89.3
Audited by SBE			
Telephone .....	5	\$200.9	1.1
Radio-Telephone.....	46	6.6	—
Pipeline.....	30	260.1	1.4
Car .....	4	10.7	0.1
Express .....	3	9.6	0.1
Railroad.....	33	1,255.1	6.7
Private car .....	149	251.9	1.3
Totals, SBE audit .....	270	\$1,994.9	10.7%
Totals, state assesseees.....	325	\$18,692.9	100.0%

As shown in Table 5, 55 gas, electric, and telephone companies which are assessed by the board are included within the PUC's audit program. Total market value of property owned by these companies in California is \$16.7 billion and represents almost 90 percent of the total value of state-assessed properties. The board indicates that the rate-regulation and compliance audits done by the PUC are adequate for property tax purposes.

*Over 80 percent of Assesseees Unaudited.* A total of 270 companies, with almost \$2 billion of market value, are covered only by limited auditing presently done by the board. To the extent that unverified financial data affect the valuation and assessment of properties owned by these companies, local government revenue from the taxation of these properties will also be affected. The board indicates that the records of these companies should be audited and that it plans to do this with existing resources where possible.

The board has no schedule for performing audits and does not have a formal record of the number of audits accomplished. Because \$2 billion represents over 10 percent of the value of total state-assessed property, we believe a specific procedure should be developed by the board for the systematic and timely auditing of these presently unaudited state-assesseees. Any additional resources required for this purpose should be considered for inclusion in the 1975-76 budget.

### SALES AND USE TAX PROGRAM

#### Processing Tax Returns

Following receipt of completed return forms of registered taxpayers, tax returns are first processed through the cashiers' unit and the data center for deposit to the proper fund. The returns, then, continue through several processing units for desk auditing (tax return review), proper allocation



of local funds, responses to taxpayer questions, and finally central filing.

For 1974-75, a total of 25 positions are requested to provide for the processing of projected increases in tax return workload. The following recommendations treat separately requests for 17 permanent positions and eight limited-term positions.

1. Permanent growth in workload.

*We recommend approval of 17 positions to provide for the processing of increased business tax return workload.*

The board estimates a total of 265,000 additional tax returns will be filed in 1973-74 and 1974-75. The additional positions necessary to process this two-year growth are identified by class of position and location in Table 6.

**Table 6**  
**Permanent Positions Requested for Tax Return Processing**

Positions	Class	Location	Salary Cost
10.0	Clerk I/II	(5.0) Cashiers	\$55,560
		(2.0) Checking and typing	
		(2.5) Central files	
		(0.5) Data center	
1.0	Sr. account clerk	Tax return review	7,464
2.5	Calculating machine operator	Tax return review	16,950
2.0	Key data operator	Data center	13,896
1.5	Tax representative	Tax return review	15,732
Totals....	17.0		\$109,602

We believe the estimated growth in tax returns of 265,000, representing a 12 percent increase over actual returns filed in 1972-73, is reasonable. An increase of this magnitude is consistent with the overall growth in the state's economy. The 17 positions requested represent an increase of approximately 5 percent in the man-years allocated to tax return processing.

In addition to allowing for the maintenance of a smooth flow of workload, the board estimates that the additional resources requested for return processing will prevent a General Fund revenue loss in 1974-75 of \$165,000. This figure represents the amount of deficiencies in self-assessed tax which otherwise would not be identified and collected.

2. Temporary Increase in Workload.

*We recommend approval of eight limited-term positions requested to provide for the processing of a temporary increase in sales tax return workload due to rate changes.*

Based on experience with a 1967 sales tax rate increase, the board expects an increase in return processing workload for at least two years, due to rate changes effective on July 1, 1973, October 1, 1973, and April 1, 1974. Sales tax rate changes produce increased workload because of (1) taxpayer confusion resulting in reporting errors and (2) the filing of "split" returns (i.e., return forms providing for the application of two tax rates during the same reporting period). In both cases, processing time per return is increased.

A temporary augmentation for the current year supported the addition

## STATE BOARD OF EQUALIZATION—Continued

of eight positions for the workload increase in 1973-74. The request for 1974-75, the second and final year, includes eight limited-term positions, which are identified as to class and location in Table 7.

**Table 7**  
**Limited-Term Positions Requested for**  
**Return Processing (1974-75 only)**

Positions	Class	Location	Salary cost
2.0	Clerk II	Cashiers	\$11,112
2.0	Sr. account clerk	(1.0) Tax return review	14,928
		(1.0) Local tax	
1.0	Tax representative	Tax return review	10,488
0.5	Clerk-typist II	Checking and typing	3,228
2.5	Calculating machine operator	Tax return review	16,950
Totals ....	8.0		\$56,706

As shown in Table 7, the request for eight clerical positions is attributable directly to the processing of increased tax return workload. In addition to the effect on the flow of workload, the board estimates that these limited-term positions will prevent a General Fund revenue loss of \$300,000 through the identification of returns with a shortage of self-assessed tax.

#### Projected Increase in Administrative Hearings

*We recommend that one limited-term staff counsel II position requested to prevent a projected backlog in administrative hearings be deleted for a salary savings of \$19,788.*

Under existing board procedures, a taxpayer who disagrees with a tax audit determination may petition for a review of the audit findings by a hearing officer. If the issues are not resolved at this time, the taxpayer may request a hearing before the members of the board.

Based on experience with the 1967 sales tax rate increase, the board estimates a permanent increase in hearing caseload will result from three tax rate changes, two effective in 1973 and one in 1974. The full effect of an estimated 150 additional hearings per year is not expected until 1975-76. One staff counsel II position is requested, for 1974-75 only, to handle additional workload as it develops, to provide a period of training, and to reduce the present backlog of hearings. Apparently, the continuation of this position on a permanent basis depends upon the extent to which the predicted increase in workload is actually realized.

If, in fact, the permanent increase in administrative hearings develops, we believe an additional permanent legal position will be justified. However, in view of the apparent uncertainty as to the likelihood of this increase, a decision on the need to augment the legal staff should be postponed until there is sufficient evidence to justify such an augmentation. Therefore, we believe the requested limited-term staff counsel II position should be deleted from the budget and the need for a permanent position of this class reconsidered when an increase in hearing caseload is

clearly in evidence.

#### Expansion of Occasional Sales Unit

*We recommend approval of four clerical positions to provide for an expansion of the Occasional Sales Unit to include the review and assessment of "prorate registrations".*

The Occasional Sales Unit functions in the administration of the use tax on vehicles, vessels, and aircraft, where the sales tax is not collected at the time of sale. With some exceptions, the Department of Motor Vehicles collects the tax due when affected vehicles are registered.

Chapter 1777, Statutes of 1971, clarified provisions of the law with respect to the taxation of certain previously untaxed vehicles registered on a pro rata basis. "Prorate registrations" involve primarily leased commercial fleet vehicles purchased and operated interstate. By expanding the Occasional Sales Unit to include the identification and assessment of selected vehicles in this category (depending upon point of purchase, date of entry into the state, and place of principal use), the board estimates a resulting gain in General Fund revenue of approximately \$800,000 in 1974-75.

The additional budget amount proposed for three clerk II positions, one clerk-typist II position and related operating expense and equipment is \$31,957. Based on an estimated revenue gain of \$800,000, potential net revenues will be approximately \$765,000, or an expected return of \$25 per dollar of cost.

#### Campaign Auditing

Chapter 1186, Statutes of 1973 (AB 703), requires the board to make field investigations and audits of selected campaign statements filed with the Secretary of State by state political candidates and committees. The board's findings are to be reported to the Attorney General and the Secretary of State within a four-month period following the beginning of the audit.

A total of 32 auditor I/II positions and four positions for administration and support are budgeted for the implementation of this new program in

**Table 8**  
**Campaign Auditing Positions Budgeted for 1974-75**

<u>Requested</u>		<u>Available</u>		<u>Purpose</u>	<u>Salary Cost</u>
<u>Positions</u>	<u>Class</u>	<u>Positions</u>	<u>Class</u>		
4	(1) Administrator IV (1) Supervising tax auditor II (1) Senior stenographer (1) Staff counsel II	4	Same as requested	Central administration, review, and legal considerations	\$67,332
6	Tax auditor I/II	4	(1) Supervising tax auditor I (3) Tax auditor II/III	Field review and supervision	\$58,608
26	Tax auditor I/II	19	Tax auditor II/III	Direct field investigation and audit	253,968
Totals....	36		27		\$379,908

**STATE BOARD OF EQUALIZATION—Continued**

1974-75. The auditor positions, which are to provide for field supervision and the auditing and review of campaign statements, are basically entry-level auditor positions. Because of the specialized nature of campaign auditing, the board believes that the use of experienced audit personnel (tax auditor II/III and above) will be necessary to achieve to a satisfactory degree the objectives of Chapter 1186. As shown in Table 8, we estimate that only 23 auditor positions at this higher level will be *available* for campaign auditing within the 1974-75 appropriation. Of these 23 positions, 19 will be available for direct field auditing and investigation.

*Inadequate Resources Available.* The board has projected the workload resulting from this new responsibility based on estimates of the number of audits and the direct man-years required over a four-year period. Because general elections occur every two years for certain state officials and every four years for others, the personnel budgeted should reflect average annual requirements for the four-year cycle. Table 9 compares, for the initial four-year period, estimates of resources *required* for direct field auditing with those which we estimate will be *available*.

**Table 9  
Campaign Field Auditing Requirements:  
Four-Year Cycle**

	Year				Four-year averages
	1974-75	1975-76	1976-77	1977-78	
Number of audits .....	1,670	90	1,430	90	820
Man-years required .....	75	2	57	2	34
Man-years available <sup>a</sup> .....	19	19	19	19	19
Projected deficit:					
Number of man-years .....					-15
Percentage of requirement .....					44%

<sup>a</sup> Direct field audit positions (from table 8)

As shown in Table 9, the board has estimated a four-year average of 34 man-years will be required for direct field auditing. This compares with the average of 19 man-years which we estimate will be available for this purpose, indicating an average deficit of 15 man-years, or 44 percent of man-years required. The board's estimate of required man-years is based on an average of approximately 10 direct man-days per audit. Federal experience in campaign auditing (under the provisions of the 1971 Federal Election Campaign Act) indicates an average of 20 to 25 man-days is required to audit properly campaign statements of presidential and vice presidential committees. Although we recognize the dissimilarities in terms of size and type between federal and state committees and candidates, these figures do suggest that the board's estimates of audit workload are not overstated.

*Sales Tax Audit Disruption.* It is assumed that, even if adequate man-years were available over the entire four-year cycle, an interchange of personnel between the campaign audit function and the sales tax audit program would be necessary to "level out" year-to-year workload. Because of this unavoidable disruption, sales tax audit revenue would fluctu-

ate on an annual basis and could potentially decline in the long run. A decrease in revenue is probable, due to the effect on postponed sales tax audits of the three-year statute of limitations and to the possibility of shifting more personnel than necessary to the campaign audit program at the expense of the sales tax audit program. Moreover, the achievement of an "optimum" level of annual sales tax audit coverage, as we stressed in our 1973-74 Analysis, could be jeopardized.

If the resources requested for campaign auditing are seriously deficient, as we have projected, such disruptive impacts on the sales tax audit program and, consequently, on audit revenues may be substantially compounded.

*Limited Alternatives Available.* Based on a projected deficiency in man-years available for properly auditing the required number of campaign statements, the board is faced with one or a combination of limited alternatives:

1. *A Thorough Audit of All Statements Selected.* In addition to the required interchange of personnel, this would require a *net* reduction in man-years available for use in the sales tax audit program. Based on a projected 44 percent deficiency in man-years available for the campaign audit program, we estimate that this would result in a potential net loss in sales tax revenue of almost \$4 million over the initial four-year cycle.

2. *A Thorough Audit of Approximately 56 Percent of All Statements Selected.* This would minimize sales tax audit revenue loss, but would require the board to establish administratively an audit selection process beyond that provided for by law.

3. *A Minimal Audit of All Statements Selected.* Again, sales tax audit revenue loss would be minimized, but the objectives of the campaign disclosure law would not be realized. Chapter 1186 requires a report on the "accuracy and completeness" of audited campaign statements. Federal audit procedures, designed to accomplish a similar end, indicate the need for more staffing than will be available within the current budget appropriation if all statements selected under existing law are to be audited property.

In order to effectively implement the intent of the campaign audit provisions of Chapter 1186 and, at the same time, stay within the 1974-75 budget appropriation for this purpose, we make the following recommendations.

1. Positions requested for administration and support.

*We recommend approval of one administrator IV position, one staff counsel II position, one supervising tax auditor II position, and one senior stenographer position to provide for central administration of campaign auditing.*

The effective administration of the campaign audit program will require a permanent centralized staff to resolve legal considerations, provide training for audit personnel, and compile and publish audit reports.

2. Resources requested for investigation and auditing of campaign statements.

*We recommend approval of 32 tax auditor I/II positions to augment sales tax audit resources.*

## STATE BOARD OF EQUALIZATION—Continued

The auditing of campaign statements will require an extensive interchange of personnel between the campaign audit and the sales tax audit functions. It is assumed the 32 auditor I/II positions represent an augmentation to the sales tax audit force and will not be used specifically for the campaign audit function. Therefore, we recommend approval of these positions, while recognizing that the salary cost associated with this request will effectively limit campaign audit resources to approximately 23 positions at the more-experienced auditor II/III level and above.

3. A more flexible procedure for audit selection.

*We recommend that legislation be enacted (a) to revise existing selection criteria and to authorize the board to develop procedures, in specified cases, for campaign audit selection on a sample basis and (b) to extend the period within which audits are to be completed from four months to (1) one year for required audits and (2) two years for audits completed on a sample basis.*

A. Revision of Selection Criteria

*An Unstable and Unpredictable Number of Required Audits.* Chapter 1186 requires that *all* campaign statements filed by candidates or committees falling within specified criteria are to be audited. In Table 9, we show that an estimated 3,280 audits will be required over the first four-year cycle, or an average of 820 per year. We believe these figures represent reasonable estimates of the workload for this period. However, due to the volatile nature of political campaigns, it is, and will continue to be, difficult to project accurately the number and type of candidates and committees which will need to be audited. Because of the projected overall deficiency in available audit staff and an erratic and unpredictable workload, we believe certain revisions in the audit selection process are necessary if the campaign audit program is to be administered efficiently and effectively.

*Dual Objectives of Campaign Auditing.* Audits of campaign expenditure statements should accomplish one or both of two basic objectives. In the short-run, they should *disclose* inaccurate or incomplete reporting, thereby allowing for timely corrective measures to be taken. For this purpose, complete audit coverage and the earliest practicable reporting of audit findings is desirable.

In the long run, however, the goal of campaign auditing should be to prevent inaccurate or incomplete reporting, much as the goal of a tax audit program is to promote a high level of accuracy of self-assessed taxes. In this case, complete audit coverage is neither practical nor necessary. A well-publicized audit of a relatively small percentage of all candidates on a sample basis would serve both to encourage proper reporting and advise affected individuals and groups of the requirements of the new campaign disclosure law.

*Proposed Audit Selection Process.* To accomplish both the short- and long-run objectives of the campaign audit program, criteria should be established allowing for a further selection of candidates and committees within that group selected under the existing provisions of Chapter 1186.

Our suggestion would be to select and audit all statements of successful candidates and their supporting committees. These audits would be un-

dertaken and the findings reported on a timely basis. The remainder of those selected under existing law would be audited on a sample basis. Procedures should be developed to provide a systematic process which would preclude discretionary selection.

*A Limited and Flexible Workload.* An important secondary benefit to a revised selection process would be to limit total campaign audit workload and provide the board with the flexibility to adjust further the quantity of workload based on available resources. We believe a selection process of this type would allow the board to meet fully the intended objectives of Chapter 1186 and to do so with funds budgeted for 1974-75.

**B. Extending the Deadline for Auditing Campaign Statements**

Under current provisions of Chapter 1186, auditing (in most cases) is to begin not earlier than 38 days after the general or special election (the deadline for the filing of the third and final campaign statement). A report of the findings is to be submitted to the Secretary of State and Attorney General not later than four months from the beginning of the audit. For the 1974 general election, this means that all necessary auditing must commence after December 13, 1974, with a report to be submitted by April 13, 1975.

*Tax Audit Disruption and Revenue Loss.* Even with a significant reduction in the number of required campaign audits, a large number of auditors will be needed during the required four-month period. (Under existing provisions of Chapter 1186, almost 300 auditors will be required for three to four months during 1974-75 to complete the 1,670 estimated audits shown in Table 9.) The major proportion of these auditors will be "borrowed" from the sales tax audit program, to be "repaid" to this program during the interim periods between elections.

The temporary loan of sales tax audit personnel to the campaign audit function, and consequent postponement of sales tax audits, will inevitably disrupt the sales tax auditing process. It could also result in a net loss of audit revenue over the four-year period of the campaign audit cycle.

The achievement of the "optimal" level and distribution of sales tax audit coverage, an objective we have stressed for many years, requires a clear picture from year to year of the relationship of the number and deployment of auditors to the net return from auditing. To the extent the campaign auditing program requires the shifting of a varying percentage of sales tax audit resources between budget years, this objective will become more difficult to accomplish.

A net loss of sales tax audit revenue is possible for two reasons. In order to balance out the interchange of personnel over the four-year campaign audit cycle, it will be necessary to predict accurately actual campaign audit workload on an annual basis. Because this is unlikely, a net loss of resources to the tax audit program is possible. Secondly, because there is a three-year statute of limitations for sales tax auditing purposes, some audit revenue will be lost permanently to the extent that audits of accounts that are normally audited every three years are postponed.

*Lengthening of Campaign Audit Period.* It is apparent from the existing provisions of Chapter 1186, requiring completion of auditing in a four-month period, that the timely reporting of audit findings is consid-

**STATE BOARD OF EQUALIZATION—Continued**

ered important. However, as discussed above, we believe the goals of campaign auditing can be divided into the dual objectives of (1) timely disclosure in the short run and (2) prevention of incomplete reporting in the long run. An extended two-stage audit period would be consistent with these objectives.

The revision of the audit selection process, as we have recommended, would effectively divide campaign audit workload into two separate categories: (1) a statutorily fixed number of required audits for the purpose of early disclosure of unreported and misreported expenditures and (2) an administratively variable number of audits selected on a sample basis to promote accurate and complete reporting. We believe the extension of the audit period from four months to one year for the first category would allow for reasonably early disclosure. For the second category, where early reporting is not the primary objective, an extension from four months to two years seems appropriate.

Therefore, for the purpose of minimizing both the cyclical disruption of the sales tax audit program and a possible loss of audit revenue, we recommend that legislation be enacted to revise the deadline for campaign auditing as outlined above.

**STATE BOARD OF EQUALIZATION**

Item 58 from the Transportation  
Tax Fund (Motor Vehicle  
Transportation Tax Account)

Budget p. 25 Program p. I-126

Requested 1974-75 .....	\$348,819
Estimated 1973-74.....	874,434
Actual 1972-73 .....	1,202,576
Requested decrease \$525,615 (60.1 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The Board of Equalization administers and the State Controller collects the tax of 1.5 percent on gross receipts from for-hire trucking operations. This tax was repealed on June 30, 1973. This appropriation is to cover the board's cost of administering the final year of a two-year phaseout of the tax, the details of which are included under Item 57.



**STATE BOARD OF EQUALIZATION**

Item 59 from the Transportation

Tax Fund (Motor Vehicle  
Fuel Account) Budget

Budget p. 25 Program p. I-126

Requested 1974-75 .....	\$1,758,297
Estimated 1973-74.....	1,725,574
Actual 1972-73 .....	1,436,781
Requested increase \$32,723 (1.9 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The Board of Equalization administers and the State Controller collects the motor vehicle fuel license (gasoline) tax. The board administers and collects the use fuel (diesel) tax. This appropriation is to cover the board's cost of administering these two taxes, the details of which are included under Item 57.

**SECRETARY OF STATE**

Items 60-61 from the General

Fund

Budget p. 27 Program p. I-152

Requested 1974-75 .....	\$3,238,021
Estimated 1973-74.....	2,969,826
Actual 1972-73 .....	2,941,847
Requested increase \$268,195 (9.0 percent)	
Total recommended augmentation .....	\$400,090

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. *Printing Costs.* Reduce Item 60 by \$24,910. Recommend amount budgeted for printing be reduced to provide more accurate budgeting. 144
2. *Transfer Positions.* Recommend the Legislature direct the transfer to Sacramento of two positions in the elections program assigned currently to the Los Angeles office. 145
3. *Update Response.* Recommend the Secretary of State update its response to recommendations made by our office in a report released December 1, 1972. 145
4. *Ballot Pamphlets.* Augment Item 61 by \$425,000. Recommend additional funds to more accurately reflect printing costs. 146

**GENERAL PROGRAM STATEMENT**

The Secretary of State is a constitutional officer responsible for carrying out various duties prescribed in the Constitution and in the Elections, Business and Professions, Corporations, Public Utilities, and Government Codes. He is custodian of the enrolled copy of the Constitution, all acts

**SECRETARY OF STATE—Continued**

passed by the Legislature, and journals of the Legislature. He has specific responsibilities in each of the following program categories.

**CORPORATE FILINGS**

Attorneys and document examiners on the staff of the Secretary of State examine articles of incorporation and related documents which revise or dissolve corporate entities and attest to their compliance with the appropriate statutes before accepting them for formal filing. In addition, applications for trademarks, corporate names, and other documents required by law are reviewed and registered. Pursuant to legislation enacted during the 1969 Regular Session, information regarding corporate officers and corporate addresses is also maintained.

**ELECTIONS**

By virtue of the many statutory responsibilities vested in him the Secretary of State can be considered the chief elections officer in the state. Responsibilities in this area include the overseeing and coordination of all state elections, the production of various statistical reports required by the Elections Code, the preparation of ballot argument pamphlets, the compilation of a semiofficial and official canvass of election results, and membership on the State Commission on Voting Machines and Vote Tabulating Devices. Additional responsibility was added by the Legislature with the enactment of Chapters 1186 and 1166, Statutes of 1973, which relate respectively to the reporting of campaign financing data and financial disclosure statements required of public officials.

**UNIFORM COMMERCIAL CODE**

Under the Uniform Commercial Code, Uniform Federal Tax Lien Registration Act and the Government Code, the Secretary of State is required to accept for filing as a public record financing statements which perfect security interests in personal property. Notices of state tax liens are also filed. Legislation adopted during the 1972 Regular Session (Chapter 550, Statutes of 1972) requires that the Secretary of State also file writs of attachment.

**NOTARY PUBLIC**

The Office of the Secretary of State has responsibility for the appointment of notaries public, including the issuance of original certificates and renewals. The Secretary of State also provides verification of the authenticity of notary signatures upon request from the public.

**ARCHIVES**

The Chief of Archives, and his staff collect, catalog, index and preserve historic and otherwise valuable papers and artifacts. These documents by law are received from both state and local government. Documents requiring repair are restored and laminated for permanent preservation. Reference services are provided for the public. Advice and direction is received from the California Heritage Preservation Commission of which the Secretary of State is secretary.

### ADMINISTRATION

The Secretary of State and his staff provide policy and supervision to the above functional activities, and perform personnel, budgetary, accounting and other administrative functions for the department including the development and operation of electronic data processing systems which support departmental programs.

### ANALYSIS AND RECOMMENDATIONS

The proposed budget of \$3,238,021 represents an increase of \$268,195 or 9.0 percent over the current year estimated expenditures. The replacement with permanent positions of federally funded positions which will be lost, 5.2 new positions in the elections program to implement recent legislation, and a \$40,000 increase in the amount budgeted for ballot pamphlets (Item 61—\$322,500) account for the major portion of the budget increase.

It is estimated that the Secretary of State will remit to the General Fund revenues of \$5,159,035 during the 1974-75 fiscal year, an increase of 2.8 percent over this year's estimated revenues.

These revenues are derived from statutorily prescribed fees charged for specified filings certifications, and other services. It is estimated that revenues remitted to the General Fund during the 1974-75 fiscal year will exceed Item 60 program expenditures by nearly 77 percent.

### Budget Augmented

Workload problems and personnel resource deficiencies in the Corporate Filings and Uniform Commercial Code programs resulted in an augmentation of \$173,306 by the Legislature during hearings on the budget for the 1973-74 fiscal year. This amount was subsequently reduced by the Governor to \$64,339, a reduction of \$108,967.

Although the augmentation was reduced substantially, the amount remaining, combined with efforts on the part of the office and a less than anticipated workload increase in corporate filings, has apparently served to enable the office to meet its essential responsibilities, with the exception of certain corporate suspensions which we discuss later.

### Special Study Requested

During hearings on the 1973-74 budget, a subcommittee of the Assembly Ways and Means Committee requested that our office conduct a study of the feasibility of transferring certain corporate functions from the Secretary of State to the Department of Corporations and the financing statements activity to some other department.

We concluded in this study (released May 1, 1973) that there was no apparent advantage in transferring the financing statements activity, but that there were certain advantages to be gained by a combination of transfer to and consolidation of certain aspects of the corporate function with the Franchise Tax Board. No advantage was found in transferring any portion of the function to the Department of Corporations.

Recommendations contained in this report were adopted and included in the Supplemental Report of the Committee on Conference (Budget Bill of 1973). The first recommendation was that legislation be enacted to

**SECRETARY OF STATE—Continued**

transfer from the Secretary of State to the Franchise Tax Board the responsibility for the collection of qualification fees required of foreign corporations. The Secretary of State had not been pursuing the collection of such fees and had indicated that 1.1 man years of additional personnel resources would be required to perform the function.

In our opinion, the Secretary of State could have performed the function with existing resources by shifting priorities, and has in fact instituted in the current year a minimal level of effort. However, because the Franchise Tax Board provides the Secretary of State with lists of foreign corporations which have not paid the fee, we continue to believe that the function should be transferred to the board and accomplished within the board's existing resources. We understand that the Secretary of State and the Franchise Tax Board are in the process of drafting such legislation. It is estimated that a collection program will realize a first-year revenue of \$200,000 and \$60,000 annually thereafter.

The remaining recommendations related to a joint effort by the Secretary of State and the Franchise Tax Board with regard to the development of a shared data file of corporate data-related electronic data processing services to be provided by the board. These recommendations have been studied by both organizations and it is anticipated that a feasibility study will be completed by February 1, 1974. The Governor's Budget provides no implementation funds but it is tentatively estimated that the project will cost approximately \$122,000.

**Printing**

*We recommend that the amount budgeted for printing be reduced \$24,910 to \$65,846.*

The Governor's Budget includes \$90,756 for various printing requirements for the 1974-75 fiscal year, as compared to \$61,035 and \$63,129 for the 1973-74 and 1972-73 fiscal years. We have determined that the actual requirement for printing is \$65,846. However, the department maintains that an additional \$7,000 is needed to print a revised corporate checklist for use by attorneys in the preparation of various corporate documents to be filed with the Secretary of State.

We understand that the office does not intend to distribute a new checklist until the 1975-76 fiscal year, however, and it is currently in the process of printing a revised checklist for distribution this year (\$3,000 was appropriated in the Budget Bill of 1973 for this purpose). We therefore suggest that the \$90,756 proposed for printing be reduced to the actual amount required—\$65,846.

**ARCHIVES ACTIVITIES**

The Governor's Budget includes \$25,000 for minor capital outlay which is earmarked for office relocation and the preparation of an archival search room as part of the office's current efforts to establish an archival display facility.

That facility is currently under construction and should be open to the public sometime during the summer of 1974. The archival staff is performing a considerable amount of the display case fabrication to keep overall

costs within budgeted amounts. The same staff will also develop and maintain displays once the facility is completed.

Located at 1020 O Street, the current location of the archival function, the new facility will enable both individuals and groups for the first time to view archival materials previously unavailable for lack of an adequate display area.

#### ADDED ELECTIONS RESPONSIBILITY

Increased workload will result from Chapter 1186, Statutes of 1973, which relates to the filing of campaign financing statements and requires that the Secretary of State: prescribe and supply appropriate forms, prepare and publish explanatory manuals relating to the law, determine whether forms required under the law have been filed and are in conformity on their face, and make forms filed with this office available for public inspection following the day on which they were received, including the Saturday and Sunday preceding a statewide election.

Chapter 1166, Statutes of 1973, requires certain public officials to file with the Secretary of State annual statements which disclose their financial interest. This conflict-of-interest measure requires that the Secretary of State file such statements, make them available for public inspection (including the making of copies for a fee not to exceed 10 cents per page), and disseminate information pertaining to requirements and sanctions contained in the law. This will result in added workload.

#### Staff Relocation

*We recommend that the Legislature direct that the positions of associate governmental program analyst and clerk-typist II assigned currently to the Los Angeles office be transferred to Sacramento.*

Two positions associated with the elections program are assigned to the Los Angeles office of the Secretary of State. All election-oriented documents are processed and filed in Sacramento. We can see no benefits to the elections program by maintaining personnel and office space in Los Angeles. In fact, better personnel resource management and utilization can be made with all personnel in one location.

Further, records of the State Controller indicate that \$665 in travel expenses was claimed by the associate governmental program analyst for travel primarily between Los Angeles and Sacramento during the one three-month period which we examined. This amount does not include air fare. Transfer of the positions should reduce substantially the need for travel and result in an eventual net savings.

#### COST-EFFECTIVENESS STUDY

*We recommend that the Secretary of State present to the Joint Legislative Budget Committee and the fiscal committees of the Legislature an update of its response to the recommendations made by our office in "A Study of the Cost-Effectiveness of the Operations of the Secretary of State," dated December 1, 1972.*

The Supplemental Report of the Committee on Conference (Budget Bill of 1972) recommended that the Legislative Analyst conduct a cost-effectiveness study of the operations of the Secretary of State and report

**SECRETARY OF STATE—Continued**

the findings to the Joint Legislative Budget Committee and the fiscal committees by December 1, 1972.

In that report we made a number of recommendations intended to improve the cost-effectiveness position of the office. The Secretary of State responded in a report issued March 26, 1973. Certain recommendations were accepted and it was indicated that certain of the other recommendations would be implemented where feasible.

We understand that the Secretary of State has updated in draft form this response to reflect the current status of the recommendations, and presentation of a final version of this updated report should prove useful in the budget hearings.

**CORPORATE FILINGS**

Chapter 1159, Statutes of 1969, requires that domestic corporations file with the Secretary of State a statement of the names and complete addresses of its principal officers along with the location and address of its primary office. This information is maintained by the Secretary of State and is available to the general public.

As we noted in our 1972 cost-effectiveness report, attempts to automate this function were not successful and the result has been that corporations which by law should be suspended for failure to file the required information are not suspended. It is our understanding that the office is reluctant to issue suspensions because of the state of its files, and has elected instead to attempt to obtain compliance through mailings. This particular corporate filing function is one of the areas currently under study with respect to the possibility of the Franchise Tax Board providing electronic data processing services.

In concert with the Secretary of State's policy of providing a working forum involving representatives of the office's primary "clients," the office established in the corporate filings program a liaison committee comprised of office staff and representatives of the business community. The purpose of such a committee is to maintain a dialogue and explore possible changes to the program which are of a cost-effective nature.

**BALLOT PAMPHLET**

*We recommend that the Legislature augment Item 61 by \$425,000 to reflect a more appropriate budget for anticipated ballot pamphlet costs.*

Section 3753 of the Elections Code requires the Secretary of State to furnish county clerks with ballot pamphlets for statewide elections. The Governor's Budget includes \$322,500 to cover the cost of printing such pamphlets in the budget year. As shown in Table 1, this item has with one exception been typically underbudgeted.

Of the amount estimated for the current year, \$145,000 represents an estimate of the cost of ballot pamphlets for the November 6 special election called by the Governor on his expenditure limitation proposal (Proposition No. 1). The amount estimated for the 1974-75 fiscal year includes the implementation of new ballot pamphlet requirements in accordance with Chapter 1177, Statutes of 1973.

**Table 1**  
**Ballot Pamphlet Cost Data**

<i>Fiscal year</i>	<i>Budgeted</i>	<i>Actual cost</i>	<i>Amount underbudgeted</i>
1968-69 .....	\$220,000	\$279,000	\$59,000
1969-70 .....	175,000	218,000	43,000
1970-71 .....	240,000	320,167	80,167
1971-72 .....	230,000	230,000	0
1972-73 .....	282,000	512,000	230,000
1973-74 .....	282,500	745,000 <sup>b</sup>	462,500 <sup>b</sup>
1974-75 .....	322,500 <sup>a</sup>	800,000 <sup>b</sup>	477,500 <sup>b</sup>

<sup>a</sup> Proposed

<sup>b</sup> Estimated

Although the difference between the amount budgeted and actual cost has always been covered by the Emergency Fund, we think the differences are beginning to be significant enough to warrant more realistic budgeting. Because the \$800,000 estimated for the 1974-75 fiscal year is an estimate, we believe that the \$425,000 augmentation recommended will be sufficient to minimize the amount which might be drawn from the Emergency Fund.

### CALIFORNIA HERITAGE PRESERVATION COMMISSION

Item 62 from the General Fund

Budget p. 28 Program p. I-158

Requested 1974-75 .....	\$800
Estimated 1973-74.....	800
Actual 1972-73 .....	470
Requested increase—None	
Total recommended reduction .....	None

#### GENERAL PROGRAM STATEMENT

The California Heritage Preservation Commission was created by Chapter 1938, Statutes of 1963, and continued by Chapter 1383, Statutes of 1965. The commission is composed of the Secretary of State, who serves as the commission secretary, representatives of four designated state agencies, a private college or university, six private citizens appointed by the Governor and two members of each house of the Legislature. Members serve without compensation.

The purpose of the commission is to advise the Secretary of State, whose duty it is to preserve historical and otherwise valuable documents, on matters regarding the identification, restoration and preservation of such documents.

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The commission has requested \$800 to provide for travel and general administrative expenses during the 1974-75 fiscal year.

**CALIFORNIA HERITAGE PRESERVATION COMMISSION—Continued**

**Accomplishments**

As noted in the commission's May 25, 1973, report to the Legislature, a number of recommendations made by the commission have been implemented. These recommendations were consistent with the statutory charge that the commission focus on planning for the restoration, preservation and display of historic documents on deposit with the Secretary of State. These accomplishments include a document restoration laboratory, permanent exhibit cases in the State Capitol, and a public exhibit hall now under construction.

**Legislature Requests Study**

The commission has for some time been concerned with the destruction by local jurisdictions of records of historic significance. Its efforts in this area have received added impetus through legislative resolutions (HR 30 and SR 37, 1973 Legislative Session) which request that the commission study all feasible means for assuring the preservation of rare documents on file with local governments. The commission intends to issue a report, including recommendation, by March 1, 1974.

The commission intends also to issue a report of its general activities to the 1974 Session of the Legislature.

**STATE TREASURER**

Item 63 from the General Fund

Budget p. 29 Program p. I-159

Requested 1974-75 .....	\$1,399,316
Estimated 1973-74.....	1,366,518
Actual 1972-73 .....	989,221
Requested increase \$32,798 (2.4 percent)	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

The State Treasurer is charged with the following responsibilities:

1. Provide custody for all money and securities belonging to, or held in trust by the state;
2. Invest temporarily idle state and other designated funds;
3. Pay warrants and checks drawn by the State Controller;
4. Prepare, sell and redeem general obligation bonds of the state;
5. Prevent the issuance of unsound securities by irrigation, water storage and certain other districts.

These responsibilities are implemented through the six programs shown in Table 1.

Proposed net increases of one man-year in the investment services program and one man-year in the trust services program account for the rise in total expenditures for 1974-75. Higher reimbursements partially offset the increase in General Fund support. The proposed staff increases



**Table 1**  
**Program Requirements of the State Treasurer's Office**

Program elements	Man-years			Expenditures		
	Actual	Estimated	Proposed	Actual	Estimated	Proposed
	1972-73	1973-74	1974-75	1972-73	1973-74	1974-75
1. Bond sales and services .....	10.2	11.4	11.4	\$302,959	\$332,126	\$341,288
2. Investment services .....	4.7	5.8	6.8	132,408	173,762	186,701
3. Paying and receiving .....	26.0	34.3	34.3	508,417	596,790	598,556
4. Trust services .....	14.0	15.2	16.2	254,735	295,056	310,968
5. District securities division .....	7.0	7.1	7.1	168,356	186,784	186,803
6. Administration (Cost distributed to other elements) .....	11.9	13.0	13.0	(287,544)	(340,753)	(350,766)
Totals .....	73.8	86.8	88.8	\$1,366,875	\$1,584,518	\$1,624,316
Reimbursements .....	-	-	-	-377,654	-218,000	-225,000
General Fund costs .....	-	-	-	\$989,221	\$1,366,518	\$1,399,316

reflect increased workload and are analyzed in our discussion of these respective elements.

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

#### BOND SALES AND SERVICES

Issuing, selling, servicing and redeeming all general obligation and revenue bonds, California notes and building certificates are the responsibilities of this program element. The projected budget year cost of bond sales service, as well as bond and coupon servicing, totaling about \$42,000, will be reimbursed from the individual bond funds.

#### Bond Interest Rates Expected to Remain Firm

The Treasurer's bond marketing activity is summarized in Table 2. The status of California's bonded indebtedness is discussed under the expenditure summary section of the Analysis.

**Table 2**  
**Treasurer's Bond and Note Sales**  
**(millions)**

	Actual		Estimated		Projected	
	1972-73		1973-74		1974-75	
	Amount	Average interest cost	Amount	Average interest cost	Amount	Average interest cost
General obligation bonds .....	\$155	4.66%	\$328	5.00%	\$455	5.00%
Revenue bonds .....	177.6	5.41	77	6.25	210	6.25

The current high level of bond interest rates is expected to continue through the budget year because increasing amounts of state and municipal bonds issued for financing pollution control, housing and industrial development will compete with a growing volume of long-term corporate bonds.

#### INVESTMENT SERVICES

The main objective of this program is to maximize the interest return on state investments within the statutory framework and considering the state's liquidity needs. The Treasurer, under the direction of the Pooled Money Investment Board (composed of the Treasurer, State Controller

**STATE TREASURER—Continued**

and Director of Finance) is responsible for the investment of temporarily idle state funds.

The investment program provides services for the Pooled Money Investment Account (composed of temporarily unused balances from the General Fund and other state funds which joined the pool) and several other independent state funds, which utilize the Treasurer's services for their investment program. These independent funds include the State Highway Fund, the Condemnation Deposit Fund (money held in trust as a result of condemnation proceedings) and the Unemployment Compensation Disability Fund. During the past fiscal year, some 7,225 investment transactions, totaling over \$88 billion were completed.

**Review of Earning Records**

Table 3 compares the amounts invested, the amounts earned, and rates of earnings for the past two fiscal years.

**Table 3**  
**Investment by the Pooled Money Investment Board**  
**(millions)**

	1971-72			1972-73		
	<i>Average daily amount invested</i>	<i>Earnings</i>	<i>Percent yield</i>	<i>Average daily amount invested</i>	<i>Earnings</i>	<i>Percent yield</i>
Pooled Money .....	\$1,377.3	\$67.3	4.88%	\$2,239.1	\$124.3	5.55%
Condemnation.....	20.2	1.1	5.43	15.3	.8	5.42
Totals * .....	\$1,397.5	\$68.4		\$2,254.4	\$125.1	

\* These figures do not include investments of other funds, such as the State Highway Fund, Unclaimed Property Fund, the Unemployment Compensation Disability Fund and Marketing Trust Accounts. These funds have their own cash management and investment policies and use the Treasurer only for making the transactions, as well as for limited investment counseling. They are not under the supervision of the Pooled Money Investment Board. Total earnings from these independent funds amounted to \$7.7 million in 1971-72 and \$14.5 million in 1972-73.

**Record Earnings Produced in 1972-73**

Skyrocketing interest rates and a substantial increase in the amount of cash available for investment combined to produce record investment earnings in 1972-73. The average daily amount invested by the Pooled Money Investment Board rose to \$2.25 billion for 1972-73 from \$1.4 billion in the prior year. Improved cash flow from a full year of income tax withholding, and a General Fund surplus of \$850 million generated during the year contributed to the higher level of cash available for investment. In addition, the sustained high level of demand for capital from the business and government sectors, combined with a restrictive federal monetary policy, led to a rapid rise in short-term interest rates during the last year. These factors resulted in an 83-percent increase in investment earnings for 1972-73.

Short-term interest rates continued to rise through the third quarter of 1973, contributing to earnings of \$80 million during the first five months of fiscal year 1973-74.

### Budget Year Earnings Uncertain

The outlook for investment earnings is not as bright for 1974. Temporary tax reductions enacted during 1973 will reduce the General Fund surplus by \$726 million during the current year, and the average daily amount available for investment is expected to drop to approximately \$1.7 billion for 1974-75.

Short-term interest rates are expected to decline during 1974 because of easing of monetary policy by the Federal Reserve Board and an overall reduction in the demand for funds.

### Staff Increase Proposed

*We recommend approval of one additional clerical position.*

The Treasurer proposes to add one clerk to the investment services staff to handle the increased documentation work brought about by heavier concentration on short-term securities, especially banker's acceptances. These latter securities were authorized for investment of state funds beginning January 1972. Table 4 shows the current and projected documentation workload for this activity.

**Table 4**  
**Investment Services Workload**

	<i>Actual 1971-72</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Projected 1974-75</i>
Number of investment transactions (excludes time deposit transactions) .....	4,500	7,225	7,586	7,965
Value of investments (billions) .....	\$78.9	\$88.2	—	—

The actual and projected workload increase justifies the need for the requested staff increase. The number of investment transactions will probably increase as projected despite the anticipated reduction in the average daily amount available for investment during the budget year. This is because the Treasurer will continue the heavy concentration in bankers' acceptances and other short-term securities to provide for the state's more critical cash flow needs during the budget year.

### Effectiveness of the Treasurer's Investment Program

The State Treasurer performs the investment activity under the direction and supervision of the Pooled Money Investment Board, within the explicit statutory framework regulating this activity. State law requires the board to invest all available funds in such a manner as to obtain maximum return on investments, consistent with safe and prudent treasury management (Section 16480.2 of the Government Code). Temporarily idle state funds are invested in securities, time deposits or as loans to the General Fund, as determined by the state's current and future cash-flow requirements and the prevailing and anticipated interest rates.

Securities eligible for investment of state funds are limited to specified federal issues, California state and municipal bonds, "prime" commercial paper (as defined), and banker's acceptances. Investment in eligible commercial paper is limited to 15 percent of the total portfolio. (Section 16430 of the Government Code.)

The investment program also includes deposit of state moneys in bank

**STATE TREASURER—Continued**

time (savings) accounts. The total amount to be deposited is determined by the Pooled Money Investment Board, and the allocation of the designated amount among the 114 currently participating banks is determined by the State Treasurer on the basis of open bidding. These state savings deposits must be collateralized with securities by the depository banks. The minimum legal requirement for such collateral is 110 percent of the time deposit. The Treasurer is charged with the responsibility to review periodically the portfolios used by the banks as collateral to insure that changing market conditions have not eroded the value of the securities in the portfolios below the required minimum.

Time deposit holdings consist of three categories. The first category contains a total of \$225 million in deposits, a constant amount that has been designated by the board as the minimum necessary reserves that are consistent with prudent treasury management. The second category contains \$25 million allocated among banks that are participants in the Cal-Job program. The third category is a fluctuating pool of investment resources with funds moved in and out by the Treasurer, as dictated by the state's cash flow needs and the interest rates.

A portion of the temporarily idle state funds is not invested. It is left in non-interest-bearing bank accounts (called "compensating balances") with ten banks which cover the state's day-to-day cash-flow needs and compensate these banks for warrant and deposit handling services. The size of the compensating balances, determined on a formula basis, is governed by the prevailing state prime interest rate.

Investment guidelines and the amount of state funds to be invested are set by a majority vote of the board's members, who are assisted by technical staff of their respective departments. The day-to-day administration of the investment program is the responsibility of the Treasurer. This task requires a comprehensive cash management and investment strategy that is designed to respond to changing money market conditions.

Investment decisions must be made on the basis of careful consideration of several factors. Yield, quality of credit, liquidity, and safety from price fluctuations must all be weighed before decisions are made to invest funds in particular types of securities with specific maturity dates. The investment program must not only respond to changing levels of interest rates but to changing relationships in the structure of interest rates. For example, a "normal" rate structure is one in which the shorter term rates are lower than intermediate or longer term rates. During periods of rapidly changing monetary conditions, however, these relationships may be reversed, as they were during 1973. When the interest rate structure is relatively stable, investment management would be primarily concerned with maximizing longer term investments so as to obtain the greatest yield without jeopardizing the liquidity needed to meet current cash requirements. When short-term rates rise above long-term rates, funds would be shifted into the higher yield short-term investments. Some portion of the portfolio, however, would remain in longer term securities to provide protection from losses due to downward fluctuations in the short-term rates.

We have not attempted to evaluate the Treasurer's investment program by examining individual transactions and attempting to judge the appropriateness of each in terms of the available alternatives. Such an approach, while valid, would require the analysis of a large number of transactions and involve a substantial amount of time. We have, rather, examined the responsiveness of the investment program to changing monetary conditions by comparing, on a monthly basis, the indicated overall yield of the portfolio on specific dates with current prevailing money market rates. Table 5 below sets forth the indicated yield of the Treasurer's investment portfolio at each month end for the 16-month period through October 1973. Also shown are rates for three-month Treasury bills and prime 90-day bankers' acceptances which can be considered representative of short-term money market rates. Rates on one-year treasury bills are shown to illustrate the changing relationships of short and intermediate-term rates.

**Table 5**  
**Comparison of Yield of Investment Portfolio with**  
**Representative Money Market Rates**  
**July 1972–October 1973**

	<i>Indicated yield of portfolio</i>	<i>Representative money market rates</i>		
		<i>3-Month treasury bills</i>	<i>Prime bankers' acceptances</i>	<i>1-Year treasury bills</i>
July 1972.....	4.64%	3.98%	4.73%	4.90%
August.....	4.86	4.02	4.67	4.90
September.....	4.95	4.66	4.84	5.44
October.....	5.11	4.74	5.05	5.39
November.....	5.22	4.78	5.01	5.20
December.....	5.34	5.07	5.16	5.28
January 1973.....	5.54	5.41	5.60	5.58
February.....	5.72	5.60	6.14	5.93
March.....	6.17	6.09	6.82	6.53
April.....	6.45	6.26	6.97	6.51
May.....	6.81	6.36	7.15	6.63
June.....	7.31	7.19	7.98	7.05
July.....	7.94	8.01	9.19	7.97
August.....	8.74	8.67	10.18	8.32
September.....	9.44	8.29	10.19	8.07
October.....	9.25	7.22	9.07	7.17

We believe these data indicate that the management of the investment program is responding adequately to changing interest rate levels and relationships, and that investment decisions are made with the objective of maximizing earnings.

The Treasurer's cash management record may also be reviewed to determine the extent to which idle cash is promptly invested and not allowed to remain in non-interest-bearing bank accounts. This can be accomplished by examining, on a monthly basis, the difference between the required and actual compensating balance amounts. The required balance is the amount prescribed by the Pooled Money Investment Board. The actual balance is the actual average amount deposited as a monthly compensating (checking account) balance. A comparison of these two figures for each month for the last three fiscal years is shown in Table 6.

## STATE TREASURER—Continued

**Table 6**  
**Comparison of Required and Actual Monthly Compensating Balances**  
**for Selected Fiscal Years**  
**(millions)**

Month	1970-71			1971-72			1972-73		
	Required	Actual	Difference	Required	Actual	Difference	Required	Actual	Difference
July .....	\$37.0	\$37.1	\$0.1	\$43.4	\$44.2	\$0.8	\$50.2	\$50.1	\$-0.1
August .....	41.1	41.3	0.2	43.2	43.5	0.3	49.6	51.4	1.8
September ..	40.9	41.0	0.1	43.1	42.7	-0.4	49.4	49.8	0.4
October .....	41.2	41.0	-0.2	45.1	45.9	0.8	48.3	47.7	-0.6
November ..	40.9	39.9	-1.0	44.7	48.0	3.3	46.8	46.4	-0.4
December ..	42.1	43.1	1.0	45.0	43.0	-2.0	48.5	48.1	-0.4
January .....	41.9	42.5	0.6	46.6	48.6	2.0	50.9	58.6	7.7
February ....	41.1	44.4	3.3	45.7	47.3	1.6	49.0	57.6	8.6
March .....	40.3	37.9	-2.4	44.9	41.2	-3.7	50.1	45.6	-4.5
April .....	40.7	40.9	0.2	48.8	47.8	-1.0	50.3	50.5	0.2
May .....	42.0	41.6	-0.4	49.8	49.8	—	51.6	46.8	-4.8
June .....	42.0	43.1	1.1	50.1	49.3	-0.8	51.6	43.2	-8.4
Yearly average .....	\$40.9	\$41.2	\$0.3	\$45.8	\$45.9	\$0.1	\$49.7	\$49.6	\$-0.1

The effectiveness of the cash management activity is indicated by the size of the spread between the required and actual compensating balances. The smaller the amount by which the actual exceeds the required monthly compensating balance, the less cash remains idle and the more money is available for investment. Although this comparison does not show how the available money is invested or the interest rate obtained, it does indicate that the Treasurer has a favorable record in cash management which provides maximum available funds for investment.

#### PAYING AND RECEIVING

This program provides banking services for state agencies. It includes depositing tax collections, redeeming warrants issued by the State Controller and other agencies, and accounting for state time deposits placed in banks throughout California. These activities supplement the investment program by providing the necessary reporting on the state's daily cash position and furnishing information used in calculating the "compensating balance" formula.

#### Review of Warrant-Processing Workload Projections

*Last Year's Projections Fail to Materialize.* Last year the Treasurer estimated the 1972-73 warrant-processing workload would double over the previous year. This was based on the projected number of income tax refunds and on the assumption that the direct payment of Medi-Cal warrants would be expanded from a pilot project to statewide application.

However, the actual increase fell short of projections, because the number of income tax refunds was significantly below the projected number and statewide implementation of the Medi-Cal payment-plan was not approved by the Legislature.

*More Realistic Projections for the Current and Budget Years.* Work-

load forecasts for 1973-74 and 1974-75, shown in Table 7, are believed to be more realistic because they do *not* include potential workload related to activities which are proposed but not yet scheduled for implementation. Potential workload increases include direct payments under the Medi-Cal system and under the Human Resources Development's Unemployment Insurance Benefit Program. If these programs are implemented during the budget year, the Treasurer will ask for an augmentation of its warrant-processing budget.

**Table 7**  
**Projected Workload of the Treasurer's Paying and Receiving Program**  
**(thousands)**

Fiscal year	Agency trust warrants		Controller warrants			Total	Percent increase
	Regular	Disability insurance	Regular	Medi-Cal <sup>a</sup>	With-holding		
1969-70.....	1,322	1,255	6,208	—	—	8,785	—
1970-71.....	1,462	2,649	5,909	—	—	10,020	14.03%
1971-72.....	1,582	2,577	6,077	—	—	10,236	2.16
1972-73.....	1,623	2,627	6,295	385	4,242	15,172	48.39
1973-74 (est.) ....	1,750	2,700	6,660	390	6,500	18,000	18.64
1974-75 (est.) ....	1,870	2,800	7,030	400	5,700	17,800	(1.12)

<sup>a</sup> Projected workload based on pilot project; does not include statewide implementation.

The anticipated 1973-74 workload increase is due primarily to the one-time variable tax rebate on 1973 income, granted by Chapter 296, Statutes of 1973. The budget-year workload is expected to be slightly below the current year's figure, assuming no statewide implementation of the Medi-Cal program.

#### Progress in Solution of Warrant-Processing Problems

**MICR System Implemented.** In our previous Analysis we mentioned that the Treasurer received Department of Finance approval for a new warrant-processing system, utilizing magnetic ink character recognition (MICR) equipment. Purchase of this system was justified on the grounds that it would help the Treasurer in processing the increasing daily warrant workload and in meeting more consistently its 4 p.m. deadline for daily cash position reporting. Meeting this deadline is important in order to make overnight investment decisions and maximize investment income. In addition, the MICR system was expected to reduce unit-processing costs of the warrants. After initial technical and other problems, the new system was fully implemented and operational by May 1973. It is expected to reduce the unit processing cost from last year's average of 2.19 cents per warrant to 2.0 cents per warrant for 1973-74. Also, the system achieved a 50 percent success in meeting the 4 p.m. reporting deadline so far this fiscal year.

**Problem of Computer Access Continues.** The major reason for missing the deadline, according to the Treasurer, continues to be the problem of not having priority access to the General Services computers that are used for the reconciliation phase of warrant processing. The state printing plant is the major user of these computers and has top priority for service. The Treasurer is third on the priority list and, in case of conflict, must wait up

**STATE TREASURER—Continued**

to 1½ hours for service, missing its 4 p.m. deadline. General Services should make a particular effort to accommodate the Treasurer's EDP needs, so that its reporting deadline can be met more frequently. This may result in additional investment earnings for the state that otherwise will be lost.

**TRUST SERVICES**

This program provides for the safekeeping of all state-owned securities in the Treasurer's vault or in approved depositories. The securities are held under agreement between the Treasurer and the banks or trust companies and are under the Treasurer's control.

The total value of securities held at the end of fiscal 1972-73 was 11.2 billion. The Treasurer's use of a TWX communication system for the settlement of securities traded results in considerable savings in transportation and insurance costs, in addition to savings accruing from prompt settlements.

Other trust activities include the preparation and keeping of agreements on the state's time deposits, the control and maintenance of the required collaterals on these time deposits, as well as clipping and processing of coupons for the collection of interest on bonds held. The Treasurer expects to receive approximately \$183,000 in the budget year as reimbursements for collection and transfer-agent costs as well as in escrow fees from the various state agencies for handling of their securities.

**Staff Increase Proposed**

*We recommend approval of one additional clerical position.*

The Treasurer proposes the addition of one clerk to its trust services staff for handling the actual and projected increase of the vault and depository receipt and release workload. Table 8 shows current and projected workload data that justify this addition.

**Table 8**  
**Trust Services Workload**

	<i>Actual</i> 1972-73	<i>Estimated</i> 1973-74	<i>Projected</i> 1974-75
Number of securities processed (thousands)	473	480	490
Value of securities processed (billions) .....	\$104.4	\$117	\$132
Total documentation released and processed	15,810	18,970	22,750

**DISTRICT SECURITIES DIVISION**

The prime function of the division is the technical and fiscal evaluation of construction projects proposed by water and certain other districts. Its main objective is to promote sound financial programs for these districts in order to prevent excessive indebtedness and thereby protect the public against the issuance of unsound securities.

From 1931 to 1969, this function was performed by the District Securities Commission, operating as a separate agency. The 1969 Legislature terminated the commission as a separate entity and transferred the function to the State Treasurer. The authorized staff of 7.1 man-years, located in San Francisco, consists of an executive secretary, assistant executive



secretary, two engineers, an auditor and clerical support.

Table 9 shows funding for the District Securities Division.

**Table 9**  
**Budget Support for the District Securities Division**

	<i>Actual</i> 1971-72	<i>Actual</i> 1972-73	<i>Estimated</i> 1973-74	<i>Proposed</i> 1974-75
Program cost .....	\$171,871	\$168,356	\$186,784	\$186,803
Reimbursement .....	171,924	122,758	—	—
Deficit absorbed by Treasurer.....	—	45,598	—	—
General Fund cost * .....	—	—	186,784	186,803

\* This cost would be offset, to a yet undetermined extent, by revenues from fees the division charges for its services. These fees are deposited in the General Fund as collected. However, due to problems explained below, total fee collections for the current and budget years cannot be projected accurately at this time.

### **Past and Current Budgeting Methods and Fee Collections**

1. *Revenue Method of Budgeting.* Up to 1971-72, the division was supported from the General Fund, with its inspection revenues being treated as General Fund revenues. If revenues from fees failed to cover costs, the difference became an added General Fund cost.

In our 1970-71 Analysis, we recommended that the division be entirely funded by fees charged to the local water districts which use its services. These fees would be treated as reimbursements, and the expenditures of the division would be limited by the amount of fees collected. If actual receipts fell below estimates, the division would have to reduce its expenditures or receive an allocation from the Emergency Fund.

2. *Change to Reimbursement Budgeting.* The Governor's 1971-72 Budget followed our recommendation by placing the division on a reimbursement basis, and this budgeting method was continued for 1972-73.

3. *Fee Collection Dilemma.* Prior to 1971-72, fee collections had been consistently below budget estimates. In 1970-71, for instance, the division's expenditures exceeded fee revenues by \$74,169. The division attributes this problem of fee collection to the unique nature of its work, in that its activities on a particular project extend over several years, and the resulting fee revenues usually are received near the end of the project. This problem had been compounded by tight money markets and lack of federal funds, which resulted in slowdowns in construction activity and payment of inspection fees during past years.

4. *Fee Collection Improves—Return to Revenue Budgeting.* As a result of general improvement in economic conditions, an increase in federal funds and an improved bond market, fee revenues collected by the division covered the revised program costs for 1971-72. To accomplish this, however, it was necessary to leave one engineer's position unfilled for part of the year.

The division reported a favorable rate of fee collections for the first quarter of 1972-73 and expected this trend to continue for the balance of the year. As a result, the Department of Finance proposed that the division's 1973-74 budgeting method be returned to a revenue basis. This meant that inspection revenues once again would be treated as General

**STATE TREASURER—Continued**

Fund revenues, rather than reimbursements.

Originally, we supported the idea of reimbursement budgeting for the division, because we felt this measure would encourage the division to improve its fee collection procedure, and, if necessary, to increase fees to meet expenses. During 1971-72, the division improved its fee billing and collection procedures and increased fees by 15 percent. Accordingly, we supported the return to budgeting on the basis of General Fund support.

**Fee-Collecting Dilemma Returns**

Beginning November 1972, however, the flow of federal funds for construction of many water projects began to slow and later was frozen or reduced. This, combined with high interest rates and a tight capital market, brought a return of the division's fee collection dilemma. As shown in Table 9, in 1972-73 the actual fees collected once again failed to cover the division's operating costs. The deficit had to be covered from the Treasurer's existing budget, because reimbursement budgeting for that year precluded obtaining General Fund support and the Treasurer did not request an Emergency Fund allocation.

**Additional General Fund Support Necessary to Meet 1973-74 Program Costs**

The division expects to receive \$150,911 in fees from projects proposed through December 1973. However, due to the uncertainty regarding the availability of federal funds and private financing, not all of these fees are expected to be collected during 1973-74. In addition, the division cannot anticipate the amount in potential fees from projects proposed beyond December 1973. This situation is expected to lead to additional General Fund cost in 1973-74.

**Continued General Fund Support Warranted**

We feel that the Districts Securities Division is the victim of the current lack of federal funds and tight monetary conditions. The division's fee billing procedure has been improved and billing is up to date. Collection of fees, however, is lagging, due to current lack of federal and private funds. It does not appear that another fee increase at this time, under these circumstances, would solve the dilemma.

Because the division's activities are designed to prevent bond defaults and thus protect the public against the issuance of unsound securities, we believe that continued General Fund financing of this activity is justified through the budget year. If fee collections continue to fall below expenditures through the current and budget years, we believe a reevaluation of the division's program and fee structure would then be in order.

## DEPARTMENT OF FINANCE

Item 64 from the General Fund Budget p. 29 Program p. I-162

Requested 1974-75 .....	\$5,990,711
Estimated 1973-74.....	5,758,176
Actual 1972-73 .....	4,721,532
Requested increase \$232,535 (4.0 percent)	
Total recommended reduction .....	\$100,506

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. *Administrative Division Staffing. Reduce by \$20,400.* Recommend deletion of vacant special consultant position 160
2. *Comprehensive Program Review.* Recommend department issue comprehensive program review reports. 166
3. *Quarterly Progress Report.* Recommend department report quarterly to the Joint Legislative Budget Committee on its progress in implementing its statewide EDP programs. 170
4. *Update Response.* Recommend department update its response to our February 1, 1973 report "Electronic Data Processing Systems in California State Government." 171
5. *EDP Staffing.* Reduce by \$22,559. Recommend one senior data processing systems analyst position be deleted. 172
6. *Travel and Consultant Services. Reduce by \$57,547.* Recommend deletion of all funds requested for EDP unit for out-of-state travel and consultant and professional services. 172

## GENERAL PROGRAM STATEMENT

The Department of Finance is responsible for advising the Governor regarding the fiscal condition of the state and assisting in the preparation and enactment of the Governor's budgetary and legislative programs. In addition, it evaluates state-administered programs for efficiency and effectiveness, as well as provides economic and demographic information. Table 1 summarizes the allocation of staff and expenditures by division within the department.

Table 1  
Department of Finance Budget Summary by Division

Division	<i>Personnel man-years</i>			<i>Expenditures</i>		
	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Executive .....	12.7	13.8	13.8	\$349,354	\$409,382	\$416,638
Budget Division .....	123.2	140.9	142.3	2,693,896	3,086,715	3,124,046
Audits Division .....	82.5	100.5	101.0	1,500,552	1,990,676	2,086,673
EDP units.....	13.0	15.0	15.0	324,597	406,303	410,350
Totals.....	231.4	270.2	272.1	\$4,868,399	\$5,893,076	\$6,037,707
Consolidated Data						
Centers .....	—	—	—	—	—	40,000
Reimbursements.....	—	—	—	-146,867	-134,900	-86,996
Net General Fund costs .....	—	—	—	\$4,721,532	\$5,758,176	\$5,990,711

**DEPARTMENT OF FINANCE—Continued**

The \$232,535 (4.0 percent) net increase in General Fund expenditures for the budget year includes \$176,117 for personal services, \$40,000 for the consolidated EDP center and \$47,904 in reduced reimbursements, offset by a \$31,486 net decrease in operating expenses and equipment. This net decrease is due largely to a proposed \$102,425 reduction in the department's data-processing budget resulting from a reduced scope of the budget data system. Anticipated termination of various services and studies performed by the department during the current year, the costs of which are reimbursed by the recipients, accounts for the projected drop in budget-year reimbursements.

**Administrative Division—Delete Special Consultant**

*We recommend deletion of the vacant special consultant position in the Administrative Division for a General Fund savings of \$20,400 in the budget year.*

This civil service position was created to make a special study on higher education. The study has been completed and the position is now vacant.

State rules regulating these civil service special consultant positions require Personnel Board approval for each individual project. Consequently, this position cannot be filled until the department receives Personnel Board approval for a new project. At this writing, the department has no current or future projects planned which would utilize this position. Therefore, we consider its continued funding unnecessary.

**Review of the Department's Budget Preparation Role**

In our 1973-74 Analysis, we outlined the changing role of the department in the budget-making process. During the 1973 legislative hearings on the department's budget, we reviewed in detail this changing role which included three major phases:

1. *Pre-1969 Years. Active Role in Budget Preparation.* By actively assisting state agencies to prepare their preliminary budget requests, the Department of Finance took a major role in the entire budget-making process. First, it reviewed the preliminary budget requests, reviewed and also prepared program change proposals, and recommended appropriate staff and expenditure levels to the Cabinet and to the Governor. In this manner, agency budgets represented proposed program and staff requirements as reviewed and approved by the Department of Finance. The second aspect of the department's budget-making role involved the actual mechanical assembly of the Governor's Budget.
2. *1969-1971 Years. Budget Preparation Role Delegated to Agencies.* During this period the department's active assistance and review role in preparing preliminary budget requests was reduced and the primary decisionmaking responsibility was shifted to the agency secretaries. The Department of Finance exercised its review input at the cabinet level through the director.

3. *Post-1971 Years. Budget-Making Role Partially Restored.* Beginning in 1972, the department's participation in the budget formulation process was restored, but only in an advisory capacity and upon request of the departments and agencies. While the Department of Finance encourages maximum utilization of its preliminary budget-making advisory services, actual utilization of these services varies widely among state agencies.

The more visible budget-making role of the department is the mechanical compilation of the Governor's Budget and its monitoring of the Budget Bill through the legislative and executive review process until final approval. These activities are performed by the department's Budget Division.

The Budget Data System (BDS), as originally conceived, was intended to take over from the division's professional personnel a number of the mechanical assembly functions and all of the reporting functions in the budgetary process. However, the scope of the BDS has been substantially reduced. Currently, it is designed and funded to perform only a limited reporting function.

In the event the existing scope of the BDS is expanded significantly to include some of the assembly functions, as well as the reporting functions, the workload of the division's budget analysts would be reduced. In that case, an examination of personnel allocation between the Budget and Audits Division, in light of program requirements, would be appropriate.

#### Program Budget Structure Modified

Last year, in response to our criticism, the department introduced a program budget with newly defined categories. These categories and their budgetary requirements are outlined in Table 2.

**Table 2**  
**Summary of Budget Requirements by Program Categories**

Program categories	Personnel man-years			Expenditures		
	Actual 1972-73	Estimated 1973-74	Proposed 1974-75	Actual 1972-73	Estimated 1973-74	Proposed 1974-75
I. Financial plan preparation and enactment .....	66.4	79.0	81.9	\$1,281,197	\$1,618,577	\$1,721,394
II. Financial plan support and direction ..	16.6	20.9	20.0	319,112	453,304	402,303
III. Assessment of state programs.....	115.7	136.2	135.4	2,273,376	2,882,921	3,028,685
IV. Development of supportive data .....	32.7	34.1	34.8	994,714	938,274	925,325
V. Administration (distributed to other programs).....	(12.7)	(13.8)	(13.8)	(349,354)	(409,382)	(416,638)
Totals .....	231.4	270.2	272.1	\$4,868,399	\$5,893,076	\$6,077,707
Reimbursements.....	—	—	—	-146,867	-134,900	-86,996
Net, General Fund costs .....	—	—	—	\$4,721,532	\$5,758,176	\$5,990,711

## DEPARTMENT OF FINANCE—Continued

## PREPARATION AND ENACTMENT OF THE ANNUAL FINANCIAL PLAN

This program is implemented by the Budget Division. Activities include preparation of the baseline expenditure-planning estimates and the review and coordination of individual agency budget submissions. In addition, the division compiles and publishes the Governor's Budget and the Budget Bill, provides revised revenue and expenditure estimates, assists the Legislature during its review of the Budget Bill and compiles a summary of the enacted budget. This program also has the responsibility of analyzing all legislative proposals for fiscal and program implications, both at the time when they are considered, as well as when presented to the Governor for approval.

Table 3 summarizes requirements of this program.

**Table 3**  
**Budget Requirements of the Preparation and Enactment of the Annual Financial Plan**

Program elements	Personnel man-years			Expenditures		
	Actual 1972-73	Estimated 1973-74	Proposed 1974-75	Actual 1972-73	Estimated 1973-74	Proposed 1974-75
1. Allocation plan .....	2.6	2.6	2.6	\$49,684	\$53,399	\$54,654
2. Budget development	33.0	36.3	35.3	637,263	752,428	736,653
3. Legislative process ....	30.8	40.1	44.0	594,250	812,750	930,087
Totals .....	66.4	79.0	81.9	\$1,281,197	\$1,618,577	\$1,721,394
Reimbursements .....				-727	-2,462	-2,778
General Fund costs				\$1,280,470	\$1,616,115	\$1,718,616

The reimbursement figures shown in Table 3 are for certain consulting services performed for local government under this program.

**Significant Workload Increase**

The actual and proposed staff increase in the legislative process element is due to the increased workload brought about by the enactment of Chapter 1406, Statutes of 1972. This statute requires the Department of Finance to estimate local costs for programs mandated by legislative action or by certain executive regulations. A new unit has been organized within the Budget Division to handle this workload. Additional staff was also required to accommodate the growth in bill analysis workload and the increase in legislative assistance-related functions due to adoption of the two-year session.

**FINANCIAL PLAN SUPPORT AND DIRECTION PROGRAM**

The department exercises administrative control of the budget after it is enacted by insuring that expenditures are maintained within approved levels and that programs are implemented consistent with legislation and executive intent. Provisions must also be made for emergency or supplemental funding caused by natural disasters or unforeseen reduction in funding, such as cutback in federal support. Cash management and review of revenue and expenditure patterns are additional responsibilities.

Table 4 outlines the requirements of this program.

**Table 4**  
**Requirements for the Support and Direction of the Annual Financial Plan**

Program elements	Personnel man-years			Expenditures		
	Actual 1972-73	Estimated 1973-74	Proposed 1974-75	Actual 1972-73	Estimated 1973-74	Proposed 1974-75
1. Program maintenance and fiscal affairs .....	15.4	19.7	18.7	\$196,661	\$428,911	\$375,489
2. Cash management .....	1.2	1.2	1.3	22,457	24,393	26,814
Totals.....	16.6	20.9	20.0	\$319,112	\$453,304	\$402,303
Reimbursements .....				-29,436	-15,174	-181
General Fund costs....				\$289,676	\$438,130	\$402,122

The projected drop in 1974-75 reimbursements results from the anticipated termination of the department's participation in a special project funded under the auspices of the federal Occupational Safety and Health Act. The current year's staff increase in the program maintenance and fiscal affairs element is the result of transfer of staff, responsible for the maintenance of the State Administrative Manual, from the Department of General Services to the Department of Finance, as mandated by the 1973-74 Budget Act.

#### ASSESSMENT OF STATE PROGRAMS

This program is envisioned as a systematic, ongoing review of state-administered programs to insure their maximum efficiency and effectiveness. This effort is jointly performed by the department's Budget and Audits Divisions, with input from the EDP review unit. Table 5 summarizes the budget requirements of this program.

**Table 5**  
**Requirements of the Assessment Program**

Program elements	Personnel man-years			Expenditures		
	Actual 1972-73	Estimated 1973-74	Proposed 1974-75	Actual 1972-73	Estimated 1973-74	Proposed 1974-75
1. Program review, special studies .....	61.7	78.2	77.2	\$1,180,065	\$1,616,761	\$1,662,741
2. Financial audits .....	40.7	42.7	42.7	760,470	850,932	900,472
3. Development of state-wide EDP centers ..	13.3	15.3	15.5	332,841	415,228	465,472
Totals .....	115.7	136.2	135.4	\$2,273,376	\$2,882,921	\$3,028,685
Reimbursements ....				-40,154	-101,985	-68,731
General Funds costs				\$2,233,222	\$2,780,936	\$2,959,954

The anticipated reduction in 1974-75 reimbursements is due to termination of a federally funded data processing training program, available to selected Audits Division personnel during the current year.

The current year staff and expenditure increase in the first two program elements of Table 5 reflect the increased emphasis placed by the department on evaluation of state programs.

## DEPARTMENT OF FINANCE—Continued

## Increased Program Review Activities

1. *Period of Changing Emphasis.* When the conversion to program budgeting was made five years ago, the Audits Division of the Department of Finance, in response to executive, legislative and other special requests, was directed to shift review emphasis from fiscal to management audits. This effort, however, was carried to the point of reducing the level of state financial audit activity below an acceptable minimum. Financial auditing activity was restored to an acceptable level during 1972-73. Table 6 shows the effect of these trends on the division's staff.

Table 6  
Record of Audits Division Staff Allocation by Function  
1968-69 through 1973-74

Function	Personnel man-years					
	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74
Financial audits .....	101.4	95	32	27	36	41.0
Management audits .....	—	3	51	50	46	44.5
Total .....	101.4	98	83	77	82	85.5 <sup>a</sup>

<sup>a</sup> Excluding Accounting Systems Branch staff.

2. *Balance Restored.* To accomplish the goal of renewed emphasis on fiscal audits, the division was organized into two branches along functional lines with the professional staff about equally divided. The Financial Audits Branch defines its responsibilities as comparable to those of the financial and compliance aspects of the U.S. General Accounting Office audit function, which are as follows:

- a. *Financial and compliance*—determines (1) whether financial operations are properly conducted, (2) whether the financial reports of an audited entity are presented fairly, and (3) whether the entity has complied with applicable laws and regulations.

It also is involved, along with the Program Review Branch, in the economy and efficiency audit aspect:

- b. *Economy and efficiency*—determines whether the entity is managing or utilizing its resources (personnel, property, space, and so forth) in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in the management information system, administrative procedures, or organizational structure.

The Financial Audits Branch has established a schedule designed to provide complete coverage of all state activities over a four-year cycle. The 1972-73 schedule was approximately 82 percent completed during the fiscal year. A requirement for an unanticipated number of special studies plus inability to fill all authorized staff positions were given as the reasons for not meeting the schedule.

The Program Review Branch, charged with reviewing state programs for efficiency and effectiveness, conducted reviews of 36 programs. Implementation of recommendations developed from these reviews will result in an estimated total positive fiscal impact of \$51 million, according to the Department of Finance. When published, audit reports are dis-



tributed to affected departments, agencies, the appropriate Budget Division analyst, as well as to the interested legislative committees. Subsequent additional follow-up reviews are made of each program reviewed. These followups are also being used by the Program Review Branch to obtain fiscal impact information used to measure the effectiveness of its audits. The Financial Audit Branch, in addition to a final audit report, also prepares and distributes interim management letters, in case any serious discrepancies are uncovered in course of the audit. There is an automatic 60-day followup on these letters. The Financial Audit Branch is also working on methods to measure the effectiveness of its audits.

3. *Prospects for the Current and Budget Year.* The relative emphasis on fiscal audit and program review is being continued into the current year and the same relationship is projected for the budget year.

Although somewhat slowed down by special financial audits requirements, review workload in the division is currently proceeding on schedule. The Program Review Branch is fully staffed and the Financial Audits Branch indicated that it will have its four vacancies filled by the end of January 1974. Positions are upgraded as permitted by the civil service system and the salary structure appears to be equitable.

4. *New Accounting Activity.* Chapter 114, Statutes of 1973 (Senate Bill 778), transferred the state accounting system group of seven professionals from the Department of General Services to the Department of Finance. Established as a branch of the Audits Division, this group has the responsibility of formulating and implementing a state accounting system.

#### **Status of Program Effectiveness Measures**

1. *Change in Approach.* In our 1973-74 Analysis, we pointed out the slow progress of the program effectiveness pilot project. We recommended that the department submit a progress report by October 1, 1973, to indicate accomplishments and future plans for the project.

In reply, the department informed us that changed workload priorities, brought about by legislative action (estimating state-mandated local costs, in particular) forced replacement of the pilot project approach with a limited technical assistance approach. Under the pilot project, the seven participants developed, refined and, in some cases, implemented program effectiveness measures as a cooperative effort with the leadership of the Department of Finance. The intent of this approach was to provide consistently developed measures for all state programs.

Under the new approach, the responsibility for further designing, refining and applying measures of program effectiveness has been delegated to the management of the participating departments. Limited technical assistance is provided to state agencies, upon request, by a five-man, part federally funded unit in the Program Review Branch of the Audits Division. This unit also generates its own projects and reports its findings, if approved both by the Department of Finance and by the affected departments.

2. *Limited Input, Questionable Value.* With the exception of some additional application in the California Highway Patrol's budget, very few new measures of program effectiveness are included in the 1974-75

**DEPARTMENT OF FINANCE—Continued**

budget. The participants are no longer motivated by the pilot project, and technical assistance by the Department of Finance is optional. Progress in the CHP project, for instance, was made with such assistance. Even if available, the program review value of the new measures would be questionable, if they were developed and applied by the agency being reviewed without Department of Finance or other independent assistance.

*Comprehensive Program Review.*

*We recommend that the Audits Division of the Department of Finance issue comprehensive reports covering both performance and fiscal aspects of program management, as well as program effectiveness, and including specific information on the status of program budgeting in the agency.*

*We further recommend that a review committee examine the findings for statewide application.*

The comprehensive report should represent the combined and coordinated efforts of the Program Review Branch and the Fiscal Review Branch, and should, if possible, include all the following elements:

- (1) Evaluation of program effectiveness in terms of accomplishment of program objectives.
- (2) Analysis of the importance and contribution of each program element or activity to the program objectives.
- (3) Analysis of managerial and organizational efficiency in the administration of the activities constituting the elements of the program.
- (4) Adequacy of fiscal control and internal information systems.
- (5) Evaluation of the extent to which program budgeting has been successfully implemented by the agency. This evaluation should include:
  - (a) A determination of the validity and adequacy of program definitions.
  - (b) The extent to which the department's internal accounting system provides accurate program costs.
  - (c) The extent to which departmental management is program oriented and able to use program cost information as a management tool.
  - (d) A preliminary evaluation of the feasibility of developing measures of program effectiveness for the agency.

This report could serve two basic purposes:

- (1) Provide the administration and legislative representatives with relevant information (Items 1-4) for use in budgetary decisions.
- (2) Provide a basis for judging the applicability and successful implementation of program budgeting in the reviewed department (Item 5).

Program budgeting was adopted by the state approximately five years ago. This budgeting technique is designed to focus attention on the goals and objectives of government agencies and on the relationships of costs to the accomplishment of objectives. Although California is considered to be a leader in this area, there is evidence to indicate that the implementation of program budgeting has had limited success. Some dissatisfaction with the system has been expressed by members and staff of legislative

fiscal committees, and there appears to be a need in at least some cases for supplemental cost information for decision making purpose in the legislative budget review process.

Some of the difficulties encountered in using information generated by the program budget system are (1) failure of the agency to define programs and program elements adequately, (2) departmental accounting systems incapable of providing accurate program costs, (3) lack of information which describes the relationships of agency organizational structure to program staff and expenditure data.

We believe there is a need to review, on a systematic and continuing basis, the effectiveness of program budgeting. We further believe that this can best be accomplished by a series of analyses, conducted over a period of time, of the extent to which program budgeting has been successfully implemented by specific agencies. For this purpose, we are recommending that information pertinent to this question be included in the Audits Division regular program review reports.

A review of program budgeting on a department-by-department basis may suggest the possibility that a uniform application of standardized program budget procedures to all state government activities may neither be necessary nor desirable. Evidence indicates that the definition of programs and the presentation of program costs in the budget may be artificial in some departments and serve no useful purpose. In these agencies, budgeting by organization units may be more desirable. It may also be determined that it would be useful to provide information regarding the relationship of organizational costs to program costs to demonstrate the contribution each organization unit is making to the various programs. Such information would facilitate, where appropriate, treating the question of program effectiveness as a separate consideration from the question of managerial efficiency.

We further recommend that these reports be examined by a review committee consisting of representatives from those groups with a direct interest in the budgetary process, i.e. the Department of Finance, the Legislative Analyst, the Senate Finance Committee, the Assembly Ways and Means Committee, and the Assembly Committee on Efficiency and Cost Control. This group could then make recommendations regarding the implementation of program budgeting in the specific department under review.

#### **DEVELOPMENT OF STATEWIDE EDP CENTERS**

##### **Background**

The Department of Finance is responsible for statewide coordination and control of electronic data processing (EDP) for all agencies in California state government except the University of California, the state Compensation Insurance Fund, agencies provided for by Article VI of the Constitution, and the Legislature.

The provisions of Chapter 1237, Statutes of 1971, (AB 1663), Chapter 787, Statutes of 1972, (SB 1503) and Section 4 of the Budget Act of 1973, delegate various specific responsibilities to the Department of Finance. These responsibilities include: (1) the certification that expenditures for

**DEPARTMENT OF FINANCE—Continued**

EDP meet certain criteria and procedures which have been established by the Legislature and which are included in the Supplemental Report of the Committee on Conference (Budget Bill of 1973), (2) the certification that all EDP activities contain adequate safeguards to insure the confidentiality of data (criteria for the safeguards are also contained in the conference committee report), and (3) the determination of the number and classification of personnel necessary to assist departments in carrying out data processing programs.

The Department of Finance assumed control over the state's EDP activities on July 1, 1971, after the Legislature removed funding support for the Office of Management Services. Following establishment of the EDP control and development unit (EDPCDU) as the group in Finance to carry out this responsibility, the Governor appointed a state data processing officer as provided for in Chapter 1237. The civil service position of chief of EDPCDU was also established. Authorized positions for this unit consist primarily of senior and supervising level systems analysts (a total of 15). The expenditure level for the 1974-75 fiscal year has been budgeted at \$465,472, which represents an increase of approximately 12 percent over the amount estimated for the current year.

**1973—A Year of Concern**

In our Analysis of the 1973-74 Budget Bill, we indicated that 1972 was a year of significant accomplishments with regards to EDP. It was the year which resulted in an active effort on the part of the administration to implement a consolidated approach to the use of EDP among state departments, an effort to which the Legislature responded with a combination of enabling legislation and funding.

One primary concern of the Legislature, however, was that any equipment required to implement consolidation be obtained through competitive bidding and this language was incorporated into the 1972 Budget Act. This specific provision was made because of the administration's decision in June 1972 to acquire equipment for the Stephen P. Teale Consolidated Data Center.

As we discuss under Item 230, (Stephen P. Teale Consolidated Data Center) this sole-source activity was the first of four attempts by the administration to acquire computing equipment for the Teale Center. The Department of Finance was the prime mover in the first two attempts and a major participant in the latter two.

**Legislature Provides Relief**

The second and third attempts (each under competitive bidding) ended unsuccessfully amid controversy and allegations from various sources of bias on the part of the administration. Because of an expressed need on the part of the administration to acquire new equipment in the face of impending workload and time constraints, the Legislature waived the competitive bidding requirements for the Teale Center procurement (Chapter 1167, Statutes of 1973) and provided what was considered to be maximum flexibility to obtain the best offer for the state through negotiation with competing vendors.

**Credibility Strained**

Circumstances surrounding this fourth cycle which ended in the selection of a prime vendor (IBM) and two supporting vendors necessitated our writing on December 4, 1973, to the Secretary of the Business and Transportation Agency, with copies to legislative fiscal committees, expressing our concern that the fourth procurement process was not conducted in accordance with the intent of Chapter 1167. In that letter we noted also that certain actions on the part of the Department of Finance indicated bias which had been manifested in a manner incompatible with the presumed objectivity of the procurement process.

We noted further that the Department of Finance had not exercised its considerable influence to encourage negotiations with the several vendors who submitted bids, but was instead instrumental in developing the approach for this fourth procurement cycle which directed vendors to respond with their best offer. Unfortunately this "best offer" approach was a major factor in the decision to not negotiate with all vendors who had submitted proposals.

Concern had been voiced also by the Auditor General, and at a subsequent special legislative hearing of the Assembly Ways and Means Committee convened to discuss this situation (December 1973) there was a general expression of concern with respect to whether there had been an apparent proclivity toward a specific equipment vendor.

The result has been a diminution of the department's credibility in the area of state EDP activities insofar as these activities relate to manufacturers of computing equipment. Unfortunately, this loss of credibility comes at a time when a comprehensive and unified effort must be made if the complex implementation of the Teale Center is to be effective.

**Placement of Function is Appropriate**

Most states and the federal government have determined that the establishment of a strong central EDP authority within a fiscal agency is a logical outgrowth of the need to cope effectively with an increasingly complex and expanding reliance on EDP technology. In California state government, central EDP authority was exercised in other agencies, with unsatisfactory results, before its most recent placement in the Department of Finance.

Despite general concern with the manner in which the department has carried out its EDP responsibility, we do not believe that the state will benefit from another drastic change such as the one which transferred the function to Finance. Rather, the Legislature should continue to monitor closely the manner in which Finance exercises this responsibility and take steps to encourage a proper performance of duties by the EDP Control and Development Unit and the State Data Processing Officer.

Further, department executive management should analyze critically the exercise of this EDP authority because we believe that the department is capable of such self analysis and, with appropriate effort, can correct inconsistencies in performance.

**DEPARTMENT OF FINANCE—Continued****Progress Evident**

Excluding the controversial accomplishments of the State Data Processing Officer and the EDPCDU, there is no doubt that the state's central EDP function has in some areas made significant progress, with indications that more progress will be made in other specific areas.

In response to direction provided by the Legislature (Chapter 1254, Statutes of 1972, and Section 4 of the Budget Act of 1973), Finance has developed a revised model contract for the lease of EDP systems and a new model contract for the purchase of EDP equipment. Additionally, in response to legislative intent as expressed in the Supplemental Language Report of the Committee on Conference (Budget Bill of 1973), the department issued on December 1, 1973, its latest report to the Legislature detailing progress and plans in the area of confidentiality of data. Key accomplishments reported include (1) auditing on a pilot test basis selected state EDP installations with regard to security and confidentiality and (2) an extensive Security Guideline and Checklist.

Despite the difficulties and controversy associated with the Teale Data Center procurement, Finance has informed us that 23 procurements have been completed successfully under competitive bid requirements in accordance with Section 4 of the Budget Act.

**Statewide EDP Costs**

Preliminary data on statewide EDP costs, provided to us by EDPCDU indicate that the average monthly cost of installed EDP equipment statewide was lower in the first quarter of the current fiscal year, than in any of the five preceding quarters. This cost was approximately \$1.4 million less than the highest of these quarterly averages. The implementation of the Teale Data Center will skew equipment costs temporarily, but the average is expected to resume its decrease as replaced equipment is released.

According to the department, the budget year will show significant savings from reduction in the number of EDP personnel resulting from consolidation. Although departmental budgets do not reflect an anticipated reduction, Finance is maintaining the current EDP hiring freeze and intends to permit the hiring on a temporary basis only of EDP personnel in departments scheduled for service from the Teale Center.

**Cost Reporting**

*We recommend that the Department of Finance provide the Joint Legislative Budget Committee with quarterly progress reports on its implementation of the department's statewide EDP responsibilities and programs and that it report in detail by major category the current statewide cost of EDP.*

In accordance with Section 4 of the 1973-74 Budget Act we receive quarterly progress reports from departments with regard to the implementation of EDP systems. The implementation by the Department of Finance of a centrally directed statewide EDP program is certainly of sufficient importance to warrant similar reporting. Further, since the de-

partment has eliminated a previous requirement that each department report on an annual basis as a supplement to its budget an accounting of EDP expenditures, the ability to determine total state EDP costs has been impaired seriously.

Finance is now considering a means to gather relevant cost data which appears to satisfy the need in this area. We believe that the department should also include the cost data obtained in a quarterly report to the Joint Legislative Budget Committee.

#### **Control vs. Development**

Although the title of the EDP Control and Development Unit embraces both "control" and "development," in our opinion there is a tendency on the part of the unit to emphasize control of departmental EDP efforts to the exclusion of development. In some cases, departments have attempted for protracted periods to obtain approval from Finance for the development of EDP systems, only to find themselves engaged in a mass of bureaucratic paper shuffling. Even when the feasibility of a particular system has been demonstrated and net savings identified, the difficulty in obtaining subsequent signoffs serves to delay further the time when savings can be realized. Sometimes the resources expended simply to obtain necessary Department of Finance approval reaches a significant percentage of the total worth of the project.

#### **Balanced Approach Needed**

The problem is rooted in part in (1) the EDP expertise (or lack of it) within a given department, (2) the philosophy with which the Department of Finance exercises its central EDP responsibilities, and (3) the relative newness of competitive bidding with regard to EDP. The result is the stifling or stalling of a certain amount of justifiable EDP development.

In our opinion, the Department of Finance must do more than just criticize department's efforts or disapprove systems obviously unjustified or ill defined. It must also determine appropriate remedies when it becomes apparent that a department is for some reason incapable of meeting the Department of Finance's requirements in order to obtain approval of needed systems. In short, the department needs to adopt a more balanced approach to its handling of statewide EDP, one which provides objective developmental guidance as well as control.

#### **Response Requires Updating**

*We recommend that the Department of Finance respond to the recommendations made in our February 1, 1973, report "Electronic Data Processing Systems in California State Government."*

On February 1, 1973, we issued a report on statewide EDP which made a number of recommendations applicable directly to the Department of Finance. These included the requirement to establish an EDP cost baseline from which the fiscal benefits of consolidation could be made, the need to upgrade personnel in order to provide for more effective use of computer technology by state departments, the establishment of a "computer utility rate board," and the preparation of a multiyear implementa-

**DEPARTMENT OF FINANCE—Continued**

tion plan for the Teale Data Center.

The Department of Finance has responded to several of the recommendations contained in this report and the Governor's Budget does contain funds in the State Personnel Board's budget to improve EDP personnel practices. However, the problems which formed the basis for our recommendations continue to exist and an updated report from the department should indicate progress made to date and also provide commitments for the future.

This report can be brief, but it should address the various issues which we raised and should be available for review at the time the department's budget is heard.

**Reduce Span of Control**

*We recommend the deletion of one senior data processing systems analyst position for a saving of \$22,559.*

We discuss our recommendation that the Division of Information Systems of the California State University and Colleges (CSUC) assume control over the CSUC's use of EDP under Item 359. Because the EDPCDU retains one senior data processing systems analyst position primarily to perform the unit's current control responsibility with regard to the CSUC and because we suggest that steps be taken to minimize paper-shuffling activities, it will be possible to delete one position from the staff of the unit.

**Further Reduction**

*We recommend the deletion of \$2,000 requested for out-of-state travel and \$55,547 requested for consultant and professional services for a total reduction of \$57,547.*

In our judgment, the need for out-of-state travel in this unit is neither demonstrated nor required. Desired information and exposure to new concepts and systems may be obtained through a variety of means including the attendance within the state of key seminars and other forums. Further, there is an obvious need to focus on existing state problems using to the fullest extent possible the unit's personnel resources.

It is recommended that funds for consultant and professional services be deleted primarily because the position of State Data Processing Officer and the EDPCDU were both created in order that the state might have its own "consultant and professional" staff. Further, it appears that many of the contracts which are being considered for the budget year will be for individual amounts less than \$10,000 and therefore not subject to competitive bidding in accordance with Section 4 of the Budget Act (a practice common in the current year). We believe that the sensitive nature of the central EDP function is served best by avoiding the use of such a procedure. The State Data Processing Officer and the EDPCDU comprise the state's central pool of expertise. Reliance on these resources rather than outside consultants will save \$55,547 in funds budgeted for these services.



### DEVELOPMENT OF SUPPORTIVE DATA

This program is responsible for economic, fiscal and demographic research, and provides information requested by the administration, the Legislature, state agencies and other governmental or private entities. When the requested information is required by statutes, or has general, statewide relevance and a wide variety of users, it is provided free of charge. In some cases, however, when it is provided upon special request or is of limited use and value, the department charges for its research services. Table 7 summarizes the requirements of this program.

**Table 7**  
**Requirements of the Supportive Data Program**

Program elements	Man-years			Expenditures		
	Actual 1972-73	Estimated 1973-74	Proposed 1974-75	Actual 1972-73	Estimated 1973-74	Proposed 1974-75
1. Economic research.....	2.3	2.3	2.3	\$44,072	\$47,301	\$48,387
2. Revenue estimating and tax research.....	12.1	13.1	13.1	242,442	281,528	293,100
3. Demographic research	14.8	16.2	16.8	332,526	390,938	434,478
4. Computer support .....	3.5	2.5	2.6	375,674	218,507	149,360
Totals.....	32.7	34.1	34.8	\$994,714	\$938,274	\$925,325
Reimbursements .....				-76,550	-15,279	-15,306
General Fund costs.....				\$918,164	\$922,995	\$910,019

The above reimbursement figures represent income from fees this program charges for special requests for economic, demographic and fiscal information. The significant drop in current-year reimbursement is due to the fact that, as a result of the enactment of Chapter 1406, Statutes of 1972, local entities could no longer be charged for demographic research services performed by this program. In the demographic research element the addition of one professional and one clerical position has been necessitated by the additional population estimating workload generated by the enactment of Chapter 1406, Statutes of 1972.

#### Computer Support

The Budget Data System provides basic computer support to the processes used to develop and monitor the Governor's Budget and fiscal program. After considerable planning to develop a comprehensive fiscal management system for state government, it became apparent that the goals and objectives of the Budget Data System were too broad and ambitious to be successfully implemented at this time.

#### Project Redirected

In a supplemental report on the Budget Data System presented to the fiscal committees hearing this budget item last year, we recommended that the project be redirected and use computer programs already written to aid the process by which the Governor's Budget is developed during the various phases within the department and throughout legislative hearings.

The Department of Finance was agreeable to a reduced level of funding from the amount proposed for the current year and funds to support the system were reduced by \$113,103 during the legislative review of the

**DEPARTMENT OF FINANCE—Continued**

budget. A total of \$218,507 is planned for expenditure during the current year and \$149,360 is budgeted for the 1974-75 fiscal year.

**Present Status**

The system is comprised presently of a data base of fiscal information for the budget, current and prior years. The five subsystems which use this master file are: budget posting, change book process, appropriation control accounting, Schedule 10 processing, and interactive inquiry/response.

Outputs of the system include the budget summary Schedules 3, 6, and 7, the supplemental schedules of appropriations (Schedule 10), change books reflecting Budget Bill changes and special reports, as required. Through the interactive file, information can be selected from the data base and printed using a remote typewriter terminal.

The change books were produced on a weekly schedule during the 1973 legislative session and this subsystem is considered operational. All the subsystems are in final test during this budget cycle against the manual process. Full operation is scheduled for the budget year.

Enhancements to the Budget Data System for which funds are provided during the 1974-75 fiscal year include three additional subsystems: budget planning (\$28,848), state mandated costs on local government (\$29,467) and financial legislation (\$19,389). The operational cost for the budget year for those systems currently developed is \$71,656. We recommend approval of the request for this element.

**COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY**

Item 65 from the General Fund                      Budget p. 31    Program p. I-174

Requested 1974-75 .....	\$114,116
Estimated 1973-74.....	112,950
Actual 1972-73 .....	53,520
Requested increase \$1,166 (1.0 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Consulting Services. Recommend limitation in use of outside consulting services. 175

**GENERAL PROGRAM STATEMENT**

The Commission on California State Government Organization and Economy was created by the 1961 Legislature to review state organization and administrative procedures, and to promote economy and efficiency in state government. The commission makes its recommendations to the Governor and to the Legislature. The commission is composed of five citizens appointed by the Governor, four citizens appointed by the legislature, and two legislative members from each house, with no more than 7

of the 13 members from one political party. Commission members are reimbursed for necessary expenses incurred in the performance of their duties, but receive no salary.

#### ANALYSIS AND RECOMMENDATIONS

##### *We recommend approval.*

The permanent staff of the commission consists of an executive secretary and a senior stenographer. Additional support for the conduct of studies and investigations is obtained on an as-needed basis from other agencies or by contract with outside consultants. During the four years prior to fiscal year 1973-74, consulting fees have been held to minimal amounts by extensive use of personnel from other agencies temporarily assigned to the commission.

The 1973-74 budget proposed \$50,000 for consulting fees. We recommended that the funds be used only for reimbursement of state agencies for personnel loaned to the commission. However, the Legislature placed no restriction on the use of the funds because it was felt the commission should have the flexibility to hire private consultants. The commission has utilized this flexibility by contracting with (1) a retired state employee to perform an audit inventory and (2) a public relations firm to publicize the commission's activities.

##### **Use and Accounting for Consulting Services**

*We recommend that the use of outside consulting services be limited to contracting for professional and technical services necessary for the commission's specific studies and investigations which are not available through other state agencies. We further recommend that the commission include in its 1975-76 budget a report on the use of funds for consulting purposes in 1973-74.*

We believe that the use of state funds to contract with a public relations firm by a commission charged with promoting economy and efficiency in state government is inappropriate. We believe consulting funds appropriated to the commission should be used only to retain professional and technical services not available through state agencies. Additionally, the commission's 1975-76 budget should specify the agencies or private firms the commission contracted with in 1973-74 and the projects on which the personnel worked.

##### **Commission Projects**

The following projects were or will be undertaken by the commission. Additional projects will arise during 1974-75.

	1972-73	1973-74	1974-75
1.	—	—	Income Tax Administration
2.	—	Audit Survey	—
3.	—	Contractor Complaints	Contractor Complaints
4. Highway Right-of-Way	—	Highway Right-of-Way	Highway Right-of-Way
5. School Building Aid	—	School Building Aid	School Building Aid

1. *Income Tax Administration.* Title II of the Revenue Sharing Act provides for federal administration of state income tax laws. The commission will be undertaking a study on the feasibility of contracting with the

**COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY—Continued**

federal government for administration of the state income tax.

2. *Audit Survey.* The commission will survey and study the internal audit activities of the executive branch. The survey will not include audits made by revenue producing departments as related to tax enforcement, nor will it include audits conducted for regulatory purposes. A consultant has been hired to assist the commission.

3. *Contractor Complaints.* At the request of the Assembly Ways and Means Committee, the commission is studying the Contractors' State License Board's effectiveness in processing consumer complaints. Public hearings are being held and a report to the Legislature is expected.

4. *Highway Right-of-Way.* The commission completed a study of the disposal of excess highway rights-of-way. The Division of Highways has implemented new procedures for the disposal of excess rights-of-way, and the commission will be monitoring the success of these new procedures.

5. *School Building Aid.* The commission recently completed phase I of an analysis of the elementary and secondary school building construction and land planning policies and procedures. This study relates not only to school districts which are state-aided, but to those not receiving state aid. It is anticipated that phase II will be ongoing during the 1974-75 fiscal year. This phase will involve the examination of standards relating to the allocation of state funds for elementary and secondary school construction and land acquisition, as well as the sponsorship of legislation to implement recommendations made in the commission's report on the School Building Aid Program.

**COMMISSION ON INTERSTATE COOPERATION**

Item 66 from the General Fund

Budget p. 31 Program p. I-176

Requested 1974-75 .....	\$110,730
Estimated 1973-74 .....	110,730
Actual 1972-73 .....	110,730
Requested increase—None	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This appropriation to the Commission on Interstate Cooperation will be used to pay California's proportionate share of the cost of the Council of State Governments, a national association whose goal is to preserve and strengthen the role of state government in the federal system. The council's activities include: (a) publishing reports on current state problems, (b) publishing reports on federal activities affecting the states, and (c) providing staff support to the following nine affiliated organizations:

- (1) National Governors' Conference,
- (2) National Legislative Conference,

- (3) Conference of Chief Justices,
- (4) National Association of Attorneys General,
- (5) National Conference of Lieutenant Governors,
- (6) National Association of State Budget Officers,
- (7) National Association of State Purchasing Officials,
- (8) Conference of State Court Administrators, and
- (9) Council of State Planning Agencies.

The California Commission on Interstate Cooperation consists of 20 members, as follows: (1) the seven members of the Senate Committee on Interstate Cooperation, (2) the seven members of the Assembly Committee on Interstate Cooperation, (3) five officers of the state appointed by the Governor who hold office at the pleasure of the Governor, and (4) a member of the California Commission on Uniform State Laws. The Governor appoints the chairman of the commission and is himself an honorary, nonvoting member.

Under current law, the commission's responsibilities are to:

- (1) Facilitate the state's participation in the Council of State Governments,
- (2) Confer with the officers of other states and the federal government,
- (3) Formulate proposals for cooperation between California, other states, and the federal government, and
- (4) To report to the Legislature within 15 days after the convening of each regular session. The commission may employ staff and incur other expenses as necessary.

The council operates a regional subdivision called the Western Conference of the Council of State Governments. There are 13 states in the Western Conference, including California. The Western Office of the Council of State Governments serves as staff to the regional subdivisions of the nine affiliated organizations listed in the first paragraph above.

**MILITARY DEPARTMENT**

Item 67 from the General Fund

Budget p. 31 Program p. I-177

Requested 1974-75 .....	\$5,721,833
Estimated 1973-74.....	5,672,965
Actual 1972-73 .....	4,926,562
Requested increase \$48,868 (0.9 percent)	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

The purpose of the Military Department is to provide an effective military organization for deployment within the State of California with the capability to: (1) protect the lives and property of the people in California during periods of natural disaster and civil disturbances, (2) perform other functions required by the California Military and Veterans Code or as directed by the Governor, and (3) provide military units ready for federal mobilization.

**MILITARY DEPARTMENT—Continued**

The Military Department consists of three major units: the Army National Guard, Air National Guard, and administration (office of the commanding general, state military forces). The total proposed budget for the Military Department is over \$89 million. Of this amount, approximately 94 percent is federally funded with the remaining 6 percent from the General Fund. The proposed General Fund appropriation for departmental support is for \$5,721,833, 0.9 percent above the current year.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

**Army National Guard**

The troop strength of the Army National Guard is determined by the Department of the Army to meet the current contingency plans of the United States as developed by the Joint Chiefs of Staff with concurrence of the Governor. The Army National Guard consists of approximately 22,500 officers and men in 184 functional units which are at approximately 93 percent of authorized wartime strength.

The department requests \$3,932,386 for state support of this program. This represents a decrease of \$67,771 (1.7 percent) from the \$4,000,157 estimated for the current year, and reflects a one-time state and federal expenditure of \$900,000 in the current year for an armory security project. Federal funding of \$53,372,915 and reimbursements amounting to \$50,100 produce a total expenditure program of \$57,355,401.

**Air National Guard**

The Air National Guard, as an integral part of the state's military force, consists of air-force-type units allocated to the state by the Department of the Air Force with the concurrence of the Governor. The current staffing of officers and men is limited to 5,092, representing 90 percent of the authorized 5,658. There are 59 units at four flying bases and three nonflying installations through out the state. Federal funding support totals \$28,023,144 in the budget year compared to \$26,417,154 in the current year.

The department requests \$566,633 in General Fund support for this program, representing an increase of \$31,709 (5.9 percent) over the \$534,924 estimated for the current year. This increase represents 25 percent of the cost of relocating a communications squadron to a former Army NIKE site. Unexpected increases in the cost of utilities, fuel, refuse disposal and communications in the current year necessitated a shift of maintenance moneys, resulting in problems of deferred maintenance. A five-year program has been developed to correct this deficiency.

**Office of the Commanding General**

The office of the Commanding General is composed of state active-duty personnel and state and civil service personnel responsible for the management and administration of the Military Department. The department is requesting \$1,222,814, an increase of \$84,930 (7.4 percent). Federal funding of \$509,799 and reimbursements of \$24,479 produce a total expenditure program of \$1,757,092. There is an overall decrease in departmental sup-

port of \$370,792, representing the deletion of 20.2 federally funded positions following the termination of a federal grant for the nationally known Specialized Training Institute at Camp San Luis Obispo, which offered courses in civil management disorder.

The office has two elements: command management, and emergency plans and operations. Under the second element, data are collected and plans, procedures and orders are prepared for the deployment of California National Guard personnel and resources to assist state and local authorities in responding to natural or man-caused emergencies. The entire staff has moved to a new location in Sacramento since the former office was destroyed by fire last year. Other budget decreases reflect the one-time expenses incurred in the current year for remodeling the new office.

#### **Assessment of National Guard Facilities**

The 1973 Budget Conference Committee requested this office to review the National Guard facilities to determine the feasibility of closing or consolidating those not being fully utilized. Underlying the request were two major concerns: (1) the apparent inefficient utilization of armories and (2) the fact that some armories may be located on potentially valuable commercial land which cities may wish to acquire.

In responding to this request, we have examined the following major issues: (1) What are the physical requirements of the state military for armories? (2) What is the policy governing armory location and replacement? and (3) What are some reasonable and equitable solutions in the event there is a conflict over this policy?

*Changing Mission of National Guard.* The need for National Guard facilities has become more critical since the mission of the State National Guard has changed with the advent of the all-volunteer active U.S. Army. There is an increased reliance upon the states for national defense, which means there must be a greater readiness in terms of the level of training and a full complement of the latest equipment at the state guard level. Most of the armories were built when the states had a more passive mission.

The California State Military Department has facilities at 144 different locations throughout the state consisting of three camps, 10 leased facilities, seven air defense sites (two deactivated), eight air guard facilities and 116 armories. Of the 116 armories, 70 were constructed with 25 percent state funds and 75 percent federal funds. Six of these armories have been vacated and leased for nonmilitary use.

Several considerations influence the location of armories, the most important of which is that the facility be readily accessible to a majority of the membership to permit timely and effective responses to emergency situations. Secondly, the location should insure the availability of a sound recruiting base, both in terms of community receptivity and matching of local job skills to the particular needs of the unit. The guard has found, for example, that smaller rural committees may be able to support as large a unit as an urban area because of differences in local attitudes toward military activities. Finally, the location should afford relative freedom to engage in training exercises, consistent with the mission of the unit, with-

**MILITARY DEPARTMENT—Continued**

out impinging on the rights of neighboring residents.

*Utilization of Military Facilities.* To some degree, under-utilization is an inherent characteristic of these facilities and the functions which they serve. In this sense, they may be compared to fire trucks, which serve no viable purpose until an emergency arises. A typical armory has a drill floor the size of a gymnasium along with offices, classrooms, storage rooms and a kitchen. Although armories are used for both military and civilian activities such as weekend drills, military schools, community and school dances, dog shows, health clinics, etc., there are practical considerations limiting usage such as security and storage requirements and military priorities for usage.

There are also practical limits on the extent to which guard units can be consolidated into one facility. The types of units and their training and equipment storage requirements vary greatly. For example, engineer, medical, and infantry units require more storage space than other units. It would not be practical to combine an armor and an artillery unit because of differences in their space and training requirements. Security of weapons and other sensitive equipment is another major problem requiring vaults that meet U.S. Army regulations.

*Replacement of Armories.* Most armories were constructed at a time when unit strength was low and storage requirements less demanding. In recent years, federal requirements regarding the design and construction of armories have become more stringent. Because of these increased requirements, facility replacement costs generally are considerably higher than the cost of the original structure. For those armories built with 75 percent federal funds, the government reserves the right to limit building usage for 25 years unless the facility is replaced without further cost to the federal government. The policy of the State Military Department is the same with respect to those armories constructed with 100 percent state funds.

*Specific Problem Areas Identified.* A thorough evaluation of the utilization of state military facilities would involve an appraisal of each facility and would have entailed more interim field work than time permitted. Therefore, we limited our review to those facilities that appeared most susceptible to "under-utilization" or transfer to local governmental jurisdictions. The following four situations appear to fit this classification:

- (1) The City of Coronado would like to acquire a state-constructed armory occupying a three-acre site which has been encompassed by city growth and is now potentially valuable for commercial use. There is an impasse in negotiations because the city has objected to paying the added cost of complying with new building standards which require five acres and up to 16,000 square feet compared to 7,500 feet in the present facility.
- (2) The City of Concord would like to acquire a state-constructed armory which is now in the middle of its new civic center, next door to the police department. After two or three years of negotiations, they have not been able to locate a comparable facility which meets the guards' current building security requirements.



- (3) The City of Walnut Creek has expressed interest in acquiring an armory that was constructed with state and federal funds. This armory is located between a senior citizens' high-rise apartment and a park. The city would like to have the site for a recreational, arts and crafts facility.
- (4) The City of San Francisco would like to acquire the Mission Street Armory and convert it to a performing arts center. This huge armory was built in 1910 and has a drill floor of 42,000 square feet. The facility is too large for present needs and the military would prefer to have another facility, but the question of supplying a replacement facility has been unresolved.

There appear to be two alternatives for the localities to consider: (1) locate a suitable replacement facility or (2) build a comparable facility which meets the guard's requirements at no additional cost to the state or, if applicable, to the federal government. (The City of Visalia acquired an armory in this manner.) However, the recurring problem in both instances is the question of who pays the difference between the value of the old facility and the increased cost of a new improved one. This issue poses difficulties for the budgets of the affected cities as well as for the budget of the Military Department. For the localities, however, the issue also involves the matter of spending priorities. In some cases, it might be appropriate for the state to consider the possibility of making a loan to the locality to cover the cost difference so that such transfers could be expedited in the future.

**Military Department**  
**MILITARY RETIREMENT**

Item 68 from the General Fund                      Budget p. 31    Program p. I-184

Requested 1974-75 .....	\$606,521
Estimated 1973-74.....	475,008
Actual 1972-73 .....	401,409
Requested increase \$131,513 (27.6 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This program applies only to military personnel ordered to state active duty prior to October 1, 1961. Chapter 2174, Statutes of 1961, provided that commencing October 1, 1961, military personnel ordered to active duty after October 1, 1961, would become members of the Public Employees' Retirement System and military personnel activated prior to that date would have the option of joining the state retirement system or remaining under the Military Retirement System.

There are now 41 people retired under this program and still living. They account for the current year's cost. Eight additional eligible people

**MILITARY RETIREMENT—Continued**

are expected to retire during the budget year. They account for the added cost.

**Military Department  
CADET CORPS**

Item 69 from the General Fund                      Budget p. 31    Program p. I-177

Requested 1974-75 .....	\$121,430
Estimated 1973-74.....	114,192
Actual 1972-73 .....	102,610
Requested increase \$7,238 (6.3 percent)	
Total recommended reduction .....	\$121,430

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. *State Support. Reduce \$121,430.* Recommend state support for California Cadet Corps program be eliminated.                      182

**ANALYSIS AND RECOMMENDATIONS**

The California Cadet Corps is authorized by Sections 500 through 530 of the California Military and Veterans Code. Section 500.1 mandates that “. . . each college, community college, high school and senior high school in this state having 100 or more male students at 14 years of age or older and in which there is not maintained an ROTC unit shall establish a cadet company . . .” The section provides that a cadet company is not required unless a number of qualified male students sufficient to constitute a company voluntarily enroll. Schools with less than 100 male students may establish a cadet company. Participation in the Cadet Corps has declined from 3,823 at 76 schools in 1971, to 2,744 students in 68 schools in 1973. Forty-six percent of student participation in public schools is located in three school districts in the state.

**State Support**

*We recommend deletion of state support for the California Cadet Corps.*

The Military Department provides coordination and educational program direction for participating schools. The educational materials have been developed and the nature of the program is such that those with responsibility in the participating schools should be able to meet student needs using the available materials. Coordination and/or program review could be done by personnel presently in the State Department of Education who provide this type of service for other educational programs. According to figures supplied by the department last year, total cost for the Cadet Corps program in fiscal year 1972-73 was estimated at \$312,679 of which \$101,749 was state cost, \$196,580 public school cost and \$14,350 private school cost. This year the department estimates the public school

share is up 10 percent and the private share down 50 percent.

If state support for the program is deleted, the school districts would need to absorb only approximately \$40,000 or one-third of the state expense. The remaining state funds are directly related to the support of California military personnel. We want to stress that, in our opinion, the Cadet Corps program could continue to operate without state financial support.

**PUBLIC UTILITIES COMMISSION**

Items 70-71 from the General Fund and the Transportation Rate Fund

Budget p. 34 Program p. I-189

Requested 1974-75 .....	\$15,806,617
Estimated 1973-74.....	15,168,966
Actual 1972-73 .....	13,345,707
Requested increase \$637,651 (4.2 percent)	
Total recommended augmentation .....	\$59,612

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis page*

1. *Financial and Compliance Audits. Augment Item 70 by \$59,612.* Recommend four financial examiners to be used solely to conduct financial and compliance audits of the 49 major gas, electric, communication and water-sewer utilities at least once every 24 months. 188

**GENERAL PROGRAM STATEMENT**

The Public Utilities Commission (PUC), created by constitutional amendment in 1911, is responsible for the regulation of privately owned public utilities. The term "public utility" includes such entities as truck, bus, and airline companies, pipeline corporations, electric companies, telephone companies, gas companies, and warehouse companies. For operating purposes, however, the PUC distinguishes between regulation of "transportation" companies and regulation of the remaining "utilities." The commission's primary objective is to insure adequate facilities and services for the public at reasonable and equitable rates consistent with a fair return to the utility on its investment. The regulatory activities and powers of the commission relate to:

- a. Adequacy of service
- b. Rates to be charged
- c. Minimum safety standards
- d. Sale or encumbrance of useful utility property
- e. Issuance of certificates to operate or to construct facilities
- f. Issuance of securities
- g. Financial accounting procedures on which rate decisions are based

**PUBLIC UTILITIES COMMISSION—Continued****Commission Organization**

The commission is composed of five members appointed to staggered six-year terms by the Governor with the advice and consent of the Senate. The commissioners annually elect one of their members as chairman.

The commission's staff of 809 authorized positions is organized into six divisions: Administrative, Transportation, Utilities, Finance and Accounts, Examiner, and Legal. Approximately 70 percent of the staff are located at the commission's headquarters office in San Francisco, 15 percent in the Los Angeles area office, and the remainder in 15 Division of Transportation field offices located throughout the state.

**Programs**

The commission's two major programs are (1) regulation of transportation companies and (2) regulation of utilities. These programs are administered by the Division of Transportation and the Division of Utilities, each of which receives supportive services from the other four divisions. Approximately 59 percent of the commission's staffing and expenditures are allocated to regulation of transportation, while the remaining 41 percent relate to regulation of utilities.

**Operating Procedures**

The commission passes judgment on all changes in operating methods and rate schedules proposed by regulated utilities and transportation companies. It investigates complaints registered against utilities and may also initiate investigations of utility companies on its own volition. In all such cases, data are accumulated by the staff, hearings are held, decisions rendered, and compliance secured through enforcement procedures. Appeal of commission decisions may be made only to the California Supreme Court, whose review power is limited to questions of law.

An application or complaint presented to the commission by or against a utility, for example, would be studied by the Utilities Division. Any financial implications would be reviewed and evaluated by the Finance and Accounts Division. The Legal Division advises the commission on questions of law and assists the staff and other interested parties in presenting their findings before the commission at hearings which are conducted by the Examiner Division. The Administrative Division provides staff supervision, administers commission policies, and maintains housekeeping services.

**Support of the Commission**

The commission is supported by the General Fund and the Transportation Rate Fund. The Transportation Rate Fund finances only those commission activities relating to the rates, charges and practices of highway freight carriers. All other commission functions are supported by the General Fund.

Transportation Rate Fund revenues are derived from a fee on the gross operating revenues of highway freight carriers. Currently, this fee is set at one-third of 1 percent of such revenues. Additional Rate Fund revenue

is produced by a \$4 quarterly "filing fee" which is paid by all highway motor carriers at the time of filing their quarterly reports on gross operating revenue with the commission. Other revenues are derived from a miscellany of penalties, application fees for permits and certificates, registration fees and from the sale of documents.

**ANALYSIS AND RECOMMENDATIONS**

The commission's budget-year request of \$15,806,617 is \$637,651 or 4.2 percent over estimated expenditures of \$15,168,966 for the current year. However, the department anticipates \$20,000 in federal funds for gas pipeline safety analysis and grade crossing safety studies plus other reimbursements totaling \$430,601 (including \$290,601 for fees and sale of Environmental Quality Act reports discussed later in the analysis, and sale of transcripts and payments from the Controller's office for expenses incurred in collecting the uniform business license tax) resulting in a total proposed expenditure program of \$16,257,218. Compared to the current year expenditures of \$15,696,729 (including reimbursements), this represents a total program expenditure increase of \$560,489 consisting of (1) \$365,405 for personal services (mostly attributable to 26 proposed new positions discussed later in this analysis), (2) \$191,284 for operating expenses and equipment, and (3) \$3,800 for funding cost increases for the consolidated data center.

The budget indicates that \$8,768,172 or 55 percent of the net program expenditure (excluding reimbursements) is to be paid from the General Fund (an increase of \$523,600 or 6.4 percent over the current year) with

**Table 1  
Public Utilities Commission  
Program Expenditures**

Program	Actual 1972-73	Estimated 1973-74	Proposed 1974-75	Requested increase over 1973-74	
				Amount	Percent
Regulation of utilities					
Man-years.....	243.1	281.5	301.6	20.1	7.1
Expenditures (Excluding reimb.) .....	\$4,892,647	\$5,893,581	\$6,266,559 *	\$372,978	6.3
Regulation of transportation					
Man-years.....	409.3	411.7	412.8	1.1	.3
Expenditures (Excluding reimb.) .....	\$8,453,060	\$9,275,385	\$9,540,058	\$264,673	2.85
Administration distributed to other programs					
Man-years.....	113	113	113	—	—
Expenditures.....	(\$1,999,342)	(\$2,124,841)	(\$2,169,738)	\$44,897	2.2
Program totals					
Man-years.....	765.4	806.2	827.4	21.2	2.6
Net expenditures .....	\$13,345,707	\$15,168,966	\$15,806,617	\$637,651	4.2
General Fund .....	\$7,089,398	\$8,244,572	\$8,768,172	\$523,600	6.3
Transportation Rate Fund	\$6,256,309	\$6,924,394	\$7,038,445	\$114,051	1.7

\* The Governor's Budget erroneously reflects a proposed General Fund budget-year expenditure of \$6,673,960 for the regulation of utilities program. Reimbursements totaling \$407,401 should have been subtracted from this amount, leaving a net General Fund total of \$6,266,559.

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**PUBLIC UTILITIES COMMISSION—Continued**

the remaining \$7,038,445 or 45 percent to come from the Transportation Rate Fund (an increase of \$114,051 or 1.6 percent over the current year).

Table 1 shows on a program basis the commission's staffing and expenditure data for the past, current and budget years.

After deducting the equivalent of 20.6 positions for salary savings, the commission anticipates utilizing 827.4 man-years in the budget year, an increase of 21.2 man-years or 2.6 percent over the current level of 806.2.

**Staff Increases**

The commission is requesting a total of 26 new state-funded positions for a state cost of \$305,784 (with \$59,580 allocated to the Transportation Rate Fund and \$246,204 to the General Fund), plus continuation of 17 positions added administratively in the current year under Section 28 of the 1972 Budget Act to support increased workload levels resulting from the Environmental Quality Act of 1970 (Chapter 1154). This act, which charges the commission with the responsibility of reviewing applications for construction projects and the evaluation of environmental impact reports by California's utilities, requires that the cost of the program be recovered from environmental impact report fees levied against the applicant utilities, thereby resulting in no increase to the General Fund. The commission estimates revenues from such fees at \$276,763 in the current fiscal year and \$290,601 in the budget year, which is sufficient to cover estimated program costs of \$237,951.

Current-year adjustments also reflect the deletion of three assistant transportation engineers and one transportation analyst III, resulting in a net increase of 39 positions (including the 17 Section 28 positions). The four deleted positions were assigned to a federally funded program established to propose grade-crossing protection guidelines, which is scheduled to terminate this year.

Table 2 identifies the 26 proposed new positions by title and division.

**Table 2  
Public Utilities Division  
Proposed New Positions**

Division	Position	Number	Total cost
Utilities.....	Senior utilities engineer	1	\$19,332
	Associate utilities engineer	3	50,040
	Assistant utilities engineer	3	41,184
	Stenographer II	2	15,312
Finance and Accounts .....	Financial examiner III	5	79,440
	Financial examiner II	2	26,136
	Stenographer II	1	7,656
	Clerk-typist II	1	7,104
Transportation .....	Associate transportation rep.	1	15,888
	Transportation analyst III	3	13,068
	Data processing technician	1	9,312
	Clerk-typist II	3	21,312
Totals .....		26	\$305,784

Utilities

### REGULATION OF UTILITIES PROGRAM

The Regulation of Utilities Program is composed of four elements (1) regulation of rates, which conducts the basic financial analysis of rate adjustment proposals; (2) service and facilities, which is concerned with the adequacy of utility service and facilities; (3) certification, which acts on applications filed by utility companies desiring to construct or extend facilities to areas not previously served; and (4) safety, whose two units, gas safety and electric safety, are responsible for ensuring adherence to minimum standards in the construction, operation and maintenance of utility plants.

The commission proposes to utilize 18 man-years of the 26 proposed new positions shown in Table 2 for the Regulation of Utilities Program. Part of this increase (8 man-years comprised principally of engineers and auditors) will be used to meet workload requirements in the regulation of rates element arising from rate increase applications of utility companies. The commission reports that as of April 1, 1973, major rate increase applications were pending in the amount of \$601,500,000, and that a continued high level of rate increase applications is expected to be filed during the current year because of adverse economic developments such as inflation, higher interest rates, widespread refunding of postwar debt obligations and environmental factors involving undergrounding of utilities, antipollution plant installations, and low-sulfur fuel requirements which affect the operating costs of the utilities. This workload is expected to remain at a high level in the budget year, as demonstrated by the estimated \$7.4 billion level of utility charges to consumers by fiscal year 1974-75 as shown in Table 3.

Other proposed man-year additions to the Regulation of Utilities Program, regulation of rates element, are listed below:

1. Three man-years (all financial examiners) are proposed to conduct compliance audits of utility companies. These audits are vital to the maintenance of utility financial records and important in the adjudication hearings on rate increase applications. The auditing function has not received adequate emphasis because of the necessity to assign financial examiner staff to workload involving rate increase applications. We comment on the level of compliance audits later in this analysis.

2. Seven man-years (five engineers and two clerical) are proposed to assist the commission in evaluating developments in the electrical utility and gas industries relating to the growing scarcity and competition for fuel, and to assist in processing the growing number of rate increase requests caused by these developments. These engineers will evaluate the cost of providing service to consumers (including costs of searching for new sources of energy) and the cost of plant maintenance and construction as legitimate factors in rate increase requests.

Table 3 shows basic workload indicators for the regulation of utility rates. A comparison with previous workload projections reveals that the estimated number of rate decisions for the current fiscal year has been reduced from a high of 150 in 1971-72 to 75, with a modest increase to 85 in the budget year. The commission advises that the generally lower level of rate decisions compared to past years results from the growing length

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**PUBLIC UTILITIES COMMISSION—Continued**

and greater complexity of the rate-case hearings, many of which involve testimony from groups and individuals opposed to the rate increases being requested.

**Table 3  
Public Utilities Commission  
Regulation of Utilities Program Workload Data**

Item	1969-70	1970-71	1971-72	1972-73	Estimated 1973-74	Estimated 1974-75	Percentage change since
							1969-70
Amount of utility charges to consumers (billions)...	\$4.53	\$5.14	\$5.98	\$6.2	\$6.6	\$7.4	63
Number of rate decisions .....	121	80	150	67	75	85	-30
Commission resolutions .....	300	380	448	481	524	555	85
Advice letters .....	1,050	1,320	1,067	980	1,200	1,300	24
Public inquiries and informal complaints .....	11,190	12,090	18,294	25,600	28,750	31,000	177
Expenditures (millions) .....	\$3.24	\$3.44	\$3.21	\$3.62	\$4.52	\$4.89	50
Personnel man-years ..	177	175	161.7	170.7	196.4	217.8	23

**Need More Financial Audits of Major Utility Companies**

*We recommend a General Fund augmentation of \$59,612 (Item 70) for one financial examiner IV, one financial examiner III and two financial examiner II positions, provided that the commission uses these positions solely to audit the financial records of the 49 major gas, electric, communication and water-sewer utilities with the objective of auditing each of these utilities at least once every 24 months.*

The commission reports that of the approximately 520 utility companies under its jurisdiction, 49 service about 99 percent of the state's consumers. Of the \$6.2 billion in utility charges to consumers during 1972-73 (shown in Table 3) more than \$6 billion, or 96.8 percent of the total, was charged by these companies. Concomitantly, the same companies represent, in terms of dollar amounts, a similar percentage of the rate increase applications.

In view of the economic impact which these 49 major utility companies have on total utility charges, the commission should have at its disposal accurate and current data on their financial operations showing sources of revenue, operating costs and compliance with commission regulations. Such information is vital to the commission in considering requests for rate increases and in verifying compliance with commission regulations. Thorough financial audits by the Finance and Accounts Division could supply this information.

Currently, analysis of these data normally occurs after a request for a rate increase has been received, which results in considerable pressure being placed on the engineering and accounting staff to complete the

*Need  
4 more  
man-years*



audit work as soon as possible. Implementation of a financial and compliance audit cycle would provide the commission with more timely substantive data (before a request for a rate increase is received), thereby facilitating the review and hearing processes involved in acting on rate-increase applications.

Table 4, showing the number of utility rate audits conducted by the Finance and Accounts Division for the most recent three-year period, reveals that only seven major utilities were audited in fiscal year 1972-73. Projections for the current and budget years have not been made.

*How many  
74-75?*

**Table 4**  
**Public Utilities Commission**  
**Utility Rate Audits**  
**Finance and Accounts Division**

	1970-71	1971-72	1972-73
Number of audits.....	28	17	28
Major gas, electric, telephone .....	4	3	7
Other utilities .....	24	14	21
Number of man-years			
Devoted to utility			
Rate audits.....	10.7	8.4	14.0
Number of employees			
Assigned to utility			
Audit section.....	13	11	16

The division reports that the difference between actual man-years and the number of positions is attributable to work on certificate proceedings, staff assignment to other Regulation of Utilities Program elements, delay in filling vacancies and general administrative work not chargeable to the audit function. The four positions which we are recommending should be assigned to no other task than the auditing of major utilities.

Although the total number of audits performed in 1970-71 is equal to the number conducted in 1972-73, the number of audits performed on the major electric, gas, and telephone utilities increased only from four to seven. Because audits of those major utilities generally require from 250 man-days to 600 man-days due to their greater complexity, the increased level of these audits in fiscal year 1972-73 was made possible by the addition of five examiner positions. With the seven proposed new examiner positions contained in the budget and the four additional positions which we recommend, the Finance and Accounts Division should have adequate staff to implement a two-year audit cycle for the major utilities. As discussed earlier, three of the seven new positions for the Finance and Accounts Division (all financial examiners) will be assigned to conduct compliance audits of utility companies. Because of the economic impact of the rates charged by the major utilities, the commission should assign the four examiner positions we recommend and at least three of the new examiner positions proposed in the budget solely to the auditing of those utilities on the cyclical basis we have suggested.

**PUBLIC UTILITIES COMMISSION—Continued****REGULATION OF TRANSPORTATION PROGRAM**

The Regulation of Transportation Program is composed of four elements (1) regulation of rates, which conducts the basic financial analysis of rate adjustment proposals for transportation and warehouse services; (2) services and facilities, which is concerned with the adequacy of service of all classes of transportation companies, (3) licensing, which acts on applications filed by for-hire carriers or warehousemen desiring to operate in California and (4) safety whose two units, railroad safety and grade crossing safety are responsible for ensuring adherence to minimum standards in the operation of railroads, rapid transit systems, and railroad highway grade crossing facilities.

As shown in Table 2, the PUC proposes eight additional positions for the Regulation of Transportation Program. The increase consists of (1) one data processing technician for the regulation of rates element to assist and reduce time spent by professional staff in program scheduling and computer operations, and (2) seven positions for the licensing element (one associate transportation representative, three transportation analysts III, three clerk-typists II) to expand the compliance registration staff (not to be confused with the compliance audit staff of the utilities division mentioned previously) and thereby improve the capability of the commission to verify whether transportation carriers are adhering to federal and state statutes governing registration.

The Interstate Highway Carriers' Registration Act, Chapter 1279, Statutes of 1969, charged the commission with the responsibility of regulating the registration of an estimated 16,000 interstate carriers operating in California. This act requires the commission to assure compliance of carriers with federal and state statutes governing license registration and liability insurance. Presently, only two clerical positions have been assigned to keeping records of compliance registration. Inadequate attention has been given to compliance investigations. The roadchecks made have been accomplished primarily by the California Highway Patrol on a spot-check basis pursuant to a cooperative agreement with the commission, but the Highway Patrol is anticipating that the commission will assume this responsibility in the budget year. The requested seven positions will enable the commission to do so and to improve the level of compliance investigations.

Enforcement of the Registration Act is financed from the sale of registration stamps to the 16,000 regulated carriers, the fee for which was recently increased from \$1 to \$2. The commission reports that this increase will yield \$164,000 annually to pay for the proposed expansion in the compliance registration staff.

**COMMISSION ON THE STATUS OF WOMEN**

Item 72 from the General Fund

Budget p. 35 Program p. I-198

Requested 1974-75 .....	\$85,000
Estimated 1973-74.....	85,230
Actual 1972-73 .....	58,088
Requested decrease \$230 (0.3 percent)	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

The Advisory Commission on the Status of Women was established by Chapter 1378, Statutes of 1965, and was to terminate on June 30, 1967. However, the existence of the commission has been extended by subsequent legislation enacted in 1967 (Chapter 854), 1969 (Chapter 721), and 1971 (Chapter 541). The latter enactment deleted the word "advisory" from the commission's title, continued the commission without a termination date, broadened its functions and appropriated \$45,500 from the General Fund for its support. The law requires that the commission report to the Legislature "from time to time, but not less often than every odd-numbered year."

The commission is a 17-member body consisting of two statutory members (the Superintendent of Public Instruction and the Chief of the Division of Industrial Welfare), one public member and three Assemblymen appointed by the Speaker of the Assembly, one public member and three Senators appointed by the Senate Committee on Rules, and seven public members appointed by the Governor. Chapter 382, Statutes of 1973, established staggered four-year terms of office for the public members.

The commission's authorized staff consists of 3.5 positions, including an executive secretary, a full-time consultant added by the 1973 Budget Act, a stenographer and temporary help.

The commission is directed by statute to study:

- (1) Women's educational and employment problems, needs, and opportunities.
- (2) State laws regarding the civil and political rights of women.
- (3) The effect of social attitudes and pressures and economic considerations in shaping the roles assumed by women in society.
- (4) Any laws, practices, or conditions concerning or affecting women which impose special limitations or burdens upon them or upon society, or which limit or tend to limit opportunities available to women.

The commission also acts as an information center, project coordinator and adviser to organizations concerned with women's needs and problems. The 1969 legislation mentioned above authorized the commission to encourage women's organizations and other groups to promote implementation of its recommendations and gather information concerning women's educational, employment and related needs at the local level.

**COMMISSION ON THE STATUS OF WOMEN—Continued****ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

During the 1972-73 fiscal year, the commission conducted several public hearings throughout the state to update its information on problems affecting women and progress toward their solution. The hearings focused on conditions, practices or laws which impose special hardships on women and factors which would increase the ability, or motivation or opportunity of women to contribute fully in and to society.

The commission is initiating new research programs based on input from these hearings. It also is expanding its regular functions of (1) acting as an information center, (2) giving technical and consultive advice, and (3) developing material and projects for local self-help groups. As another consequence of these hearings, the commission plans during the budget year to implement a set of priority projects designed to: (1) assist enforcement of the Employee Relations Act, (2) print and distribute information to local governments on employment of women, and (3) develop a women's talent bank to help place women on public and private boards and commissions. The goal is to identify and discourage discriminatory practices in these areas.

The commission's requested expenditure of \$85,000 is \$230 or 0.3 percent below estimated expenditures for the current year. This decrease reflects reductions in budget-year expenditures for in-state travel, equipment, printing and contractual services. The current-year budget reflects a carryover surplus of \$4,776 from the \$45,500 appropriation contained in Chapter 541, mentioned above, which the commission is using to finance current-year costs attributable to the implementation of its priority projects derived from the public hearings conducted during fiscal year 1972-73. The current-year budget also reflects an augmentation of \$25,500 which the Legislature approved for the consultant position mentioned earlier and related operating expenses to assist the commission in carrying out increased statutory requirements mandated by Chapter 721, Statutes of 1969, and Chapter 541, Statutes of 1971.

## INTERGOVERNMENTAL BOARD ON ELECTRONIC DATA PROCESSING

Item 73 from the General Fund

Budget p. 35 Program p. I-199

Requested 1974-75 .....	\$58,253
Estimated 1973-74.....	57,664
Actual 1972-73 .....	32,197
Requested increase \$589 (1 percent)	
Total recommended reduction .....	\$1,500

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. *Out-of-state Travel. Reduce by \$1,500.* Recommend de- 194  
letion of funds for this purpose.

### GENERAL PROGRAM STATEMENT

The Intergovernmental Board on Electronic Data Processing was established by Chapter 1327, Statutes of 1968, and continued by Chapter 1193, Statutes of 1970. Principal responsibilities of the board are to establish policies, goals and objectives relative to intergovernmental information systems, determine priorities, provide for methods of coordination and review, set systems standards, and provide advice to the Legislature and the Governor on policies, plans and programs involving the use of electronic data processing (EDP) in systems of an intergovernmental nature. The board may also recommend any legislation necessary to ensure the protection of individual privacy and the confidentiality of information becoming a part of an intergovernmental information system.

The board, which consists of 14 members appointed by the Governor, elects its own chairman. Members serve without compensation except that the chairman is reimbursed for actual expenses incurred in the performance of his duties.

A technical advisory committee consisting of representatives of state and local government provides substantial staff assistance to the board.

### ANALYSIS AND RECOMMENDATIONS

The 1970 Legislature reduced the board's budget for the 1970-71 fiscal year by \$37,455 due to fiscal constraints and a lack of accomplishment. The board was directed to reevaluate its purpose and set a limited number of specific objectives which could be accomplished during 1970-71. With limited staff support obtained by contract from the Council on Intergovernmental Relations (the executive secretary was not retained because of insufficient funds), the board attempted to implement the legislative mandate, functioning largely through its technical advisory committee.

**INTERGOVERNMENTAL BOARD ON ELECTRONIC DATA PROCESSING—Continued**

Recognizing the constraints imposed by the limited budget and the board's attempts to comply with legislative intent and redirect its efforts in a more effective manner, we recommended in our Analysis of the Budget Bill for the 1972-73 fiscal year that a \$10,000 augmentation be provided to enable the board to again acquire a full-time executive secretary and clerical support. When anticipated federal funds were not available, the Legislature provided another \$15,000 for a total of \$25,000 in increased funding. With this additional support, the board acquired the full-time services of an executive secretary (since retitled executive director) and a clerical position.

The increased level of funding provided in 1972-73 was continued in the current year and an increase of approximately 1 percent is proposed for the budget year.

**Out-of-State Travel**

*We recommend that funds proposed for out-of-state travel be deleted for a savings of \$1,500.*

The Governor's Budget contains funds totaling \$1,500 for out-of-state travel. We can see no justification for an expenditure of state funds for this purpose. Sufficient exposure to new concepts and governmental information systems can be obtained through the media (trade journals and governmental publications, for example) or by members of the board and the technical advisory committee who may travel as representatives of their respective governmental organizations.

**Board Objectives**

As indicated above, the board was directed by the Legislature to set specific objectives. In addition, the Budget Act of 1973 states in part ". . . in addition to the basic responsibilities assigned the board by law, the funds available to the board shall be used to the fullest extent possible to develop the best possible communications between state and local governmental units in the development and implementation of coordinated data processing systems to achieve the maximum amount of interchangeability between the various levels of government."

In recognition of the continuing concern of the Legislature in this regard, the board's annual report to the Governor (May 31, 1973) identified seven objectives for the current year. The objectives within which the board intends to make specific contributions include security and privacy, welfare and education information systems, geo-coded data, guidelines for contracting and contractor management, the master plan project for criminal justice information systems and, depending on resource availability, an assessment of the need for a general electronic data processing standards program.

We have monitored the board's efforts to achieve its primary objectives and believe that within this limited scope of activity, these efforts are productive and are contributing to better intergovernmental understanding, cooperation and development of EDP systems.

However, there are numerous other areas in which the board could be more active in fulfilling its statutory responsibility. In fact, the board has on occasion been criticized in legislative hearings for not being sufficiently involved in intergovernmental EDP activities.

Although we are not at this time prepared to recommend an increased level of funding, we believe that the board should strive for the maximum degree of involvement within available resources. Further, where the board recognizes a specific responsibility that it is not meeting, it should either increase its effort with volunteer resources or formally request an increased level of support.

**CALIFORNIA ARTS COMMISSION**

Item 74 from the General Fund

Budget p. 37 Program p. I-204

Requested 1974-75 .....	\$1,000,000
Estimated 1973-74.....	1,033,763
Actual 1972-73 .....	209,817
Requested decrease \$33,763 (3.3 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Statewide Survey on the Arts. Recommend the commission report on the results of its planned statewide survey on the arts to the Joint Legislative Budget Committee no later than December 16, 1974. 198
2. Public Meetings. Recommend all commission meetings be open to the public in compliance with Section 8755 (Chapter 9) of the Government Code, and that timely public notice be given of such meetings. 199

**GENERAL PROGRAM STATEMENT**

The California Arts Commission was established by Chapter 1742, Statutes of 1963, to provide leadership and stimulate initiative and interest in the establishment of arts programs and activities at the state and local levels. Chapter 1143, Statutes of 1973, expanded the commission's responsibilities to include a grants program for the funding, promotion and support of the arts in California, discussed in more detail later in this analysis.

**CALIFORNIA ARTS COMMISSION—Continued**

The commission, which is composed of 15 members appointed by the Governor plus two Assemblymen and two Senators appointed by their respective houses, attempts to be representative of all fields of the performing and visual arts. The commission and its presently authorized staff of 11 positions have assisted communities in establishing local art councils and developing cultural programs by providing technical advice and support when requested.

Commission activities are financed from (1) the General Fund, (2) the California Arts Commission Fund and (3) federal grants. The California Arts Commission Fund was established by Chapter 1051, Statutes of 1970, and consists of contributions from financial institutions and other private donors.

The commission's efforts are directed toward two major areas: (1) the sponsorship of arts projects involving four program areas: the performing arts (opera, music, dance, theater), the visual arts (painting and sculpture exhibitions, and touring museum programs), the communications and environmental arts (films, educational TV, documentaries, literature), and special arts projects including such services as consultation and technical assistance to community arts councils; and (2) the issuance of grants in accordance with Chapter 1143, on a two-for-one matching basis, to public and private nonprofit institutions and communities for art-related projects. In the budget year, the commission proposes to conduct a statewide survey of the arts designed to identify the areas of greatest need for funding grants, locate sources of funding support for the arts and make an inventory of arts groups and their activities.

**Program Units**

In order to facilitate these efforts the commission's program is divided into the following three components.

1. *The Community Services Unit* supplies information to the commission on the sponsorship and encouragement of state and local arts projects involving the four arts areas mentioned under (1) above and coordinates the efforts of a resource bank of professional arts advisors who would work through the commission to respond to public and private arts groups requesting assistance. This unit also will coordinate implementation of the results of the statewide survey mentioned previously.
2. *The Grants Program Unit* reviews, corrects and forwards grant requests to the commission via advisory panels and specialist committees of commissioners prior to commission approval of a grant application. It also conducts fiscal reviews of incoming applications and performs audits of all fiscal reports required for grants awarded during each fiscal period.



3. *The Public Information Unit* supplies information to public and private arts groups, as well as the general public, about arts programs and innovations throughout the state.

#### **ANALYSIS AND RECOMMENDATIONS**

##### *We recommend approval.*

The commission's requested General Fund expenditure of \$1 million is \$33,763 or 3.3 percent below estimated General Fund expenditures of \$1,033,763 for the current year. However, the commission anticipates a total budget-year expenditure program of \$1,300,000, which includes \$295,000 in federal funds plus \$5,000 in private donations to the California Arts Commission Fund. This expenditure program is \$32,253 or 2.6 percent above total current-year expenditures estimated at \$1,267,747. Hence, current and budget-year estimates approach parity, with total budget-year program increases attributable to larger private donations and federal funds.

The budget-year revenue of \$295,000 from federal grants (provided by the National Endowment of the Arts—NEA) is \$62,016 or 26.6 percent above the current level of \$232,984. This increase is attributable to higher federal funding of NEA grants projects, which it passes on in equal proportion to all states involved in funding arts programs. Private budget-year donations to the California Arts Commission Fund are estimated at \$5,000 compared to the \$1,000 projected for the current year.

#### **Current-Year Budget Adjustments**

The commission's budget was augmented during 1973-74 by Chapter 1143, Statutes of 1973, (SB 121) which appropriated \$777,819 and specified that \$752,819 of this amount be disbursed by the commission during the current fiscal year as grants to public and private, nonprofit institutions and communities for arts projects. The remaining \$25,000 from the appropriation is to be used for staff and expenses of projects and programs funded from other than commission sources. General salary increases for the commission's staff resulted in a further budget adjustment of \$8,763. These augmentations represent a \$786,582 or 318 percent increase over the \$247,181 originally budgeted to the commission from the General Fund for fiscal year 1973-74.

#### **Position Deletion**

In accordance with Section 20 of the 1972 Budget Act, an assistant arts advisor position was deleted during the current year because it had not been filled for a period of 10 months. Pending completion of the statewide arts survey noted earlier and the development of workload experience under the grants program, we believe the present staffing level is adequate.

**CALIFORNIA ARTS COMMISSION—Continued****Statewide Survey on the Arts**

*We recommend that the commission report the results of its planned statewide survey on the arts to the Joint Legislative Budget Committee no later than December 16, 1974.*

Section 8757, Chapter 9, of the Government Code (Statutes of 1963) directed the commission to conduct a comprehensive survey of public and private institutions engaged in the arts, determine the legitimate cultural and artistic needs of California citizens and ascertain how and what resources can be applied to serve those needs. Until now, no such survey has been undertaken. The commission estimates the cost of the survey at \$75,000 and plans to contract the work to a professional researcher.

The commission reports that community arts councils are rapidly increasing in number. Of the 410 incorporated cities in California, the commission anticipates that at least 250 (compared to 163 in 1972) will have established community arts councils by 1975. The commission anticipates that such growth will increase the number of grant applications, expand the need for grants funding and increase the number of requests for consultation and technical arts assistance, which is further evidence of the need to complete the arts survey. Table 1 shows the number and dollar amounts of grant applications submitted to the commission between October 3, 1973, and January 2, 1974. The deadline for current-year grant applications was January 14, 1974.

As Table 1 demonstrates, the dollar amount of requests far exceeds available grant funds. Consequently, the proposed arts survey will be an important aid in evaluating the nature and future direction of the grants program. For these reasons, the results of the study should be completed in time for evaluation before presentation of the commission's 1975-76 budget request.

**Table 1**  
**California Arts Commission**  
**Grant Proposals Received**  
**(October 3, 1973, to January 2, 1974)**

<i>Category</i>	<i>Proposals received</i>	<i>Total amount of requests</i>
Performing.....	179	\$1,802,062
Visual.....	50	484,320
Communications and environmental.....	44	678,215
Arts councils and special programs.....	66	1,266,469
Totals.....	339	\$4,231,066

We understand that a Department of Finance task force on arts funding (established last year at the request of the Legislature) is planning a study to ascertain the annual amount of state funds, from all sources being spent on arts programs, but the study had not begun as of December 31, 1973. The results of this study should be available for incorporation in the state-wide survey so the total level of state support for arts activities can be identified.

#### **Public Meetings**

*We recommend that all commission meetings be open to the public in compliance with Section 8755 (Chapter 9) of the Government Code, and that timely public notice be given of such meetings.*

Section 8755, Chapter 9 of the Government Code provides that all meetings of the commission are to be open and public, and all persons shall be permitted to attend any meetings of the commission. In practice, however, the commission's four advisory panels and four committees meet in private sessions which are closed to the public. We do not believe that this practice is in keeping with Section 8755. The advisory panels, which represent four arts program areas (performing, visual, communications and environmental, and special arts programs), review applications for grants in areas of their program speciality, passing on these recommendations to the appropriate commission committee. The advisory panels are composed of interested citizens, a commission staff member and a commission member. The four commission committees review recommendations of the advisory panels on grant applications, in turn passing on their recommendations to the full commission. These committees, which are composed of commission members only, often conduct other business out of which policy recommendations are made to the full commission. The full commission will often approve these recommendations with little discussion.

We believe that the advisory panel and committee meetings should be open, with timely public notice thereof, to all interested persons to satisfy the intent of Section 8755 and reduce criticism leveled at the commission that it does not encourage enough community involvement. It is particularly important that the commission establish clearcut criteria for the awarding of grants to applicant art groups in view of the fact that there are 339 applications totaling \$4,231,066, received as of January 2, 1974 (see Table 1), competing for current-year grant funds totaling approximately \$903,819 (\$752,819 from SB 121, \$1,000 from the Arts Commission Fund and \$150,000 from NEA funds).

**HORSE RACING BOARD**

Item 75 from the Fair and Ex-  
position Fund

Budget p. 38 Program p. I-206

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Requested 1974-75 .....	\$519,789
Estimated 1973-74.....	498,587
Actual 1972-73 .....	439,896
Requested increase \$21,202 (4.3 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The California Horse Racing Board, which consists of three members appointed by the Governor for four-year terms, supervises all race meetings in the state where parimutuel wagering is conducted. The board has a staff of 27.8 authorized positions and its main office is in Los Angeles. It maintains mobile offices which are moved from track to track as the racing season progresses throughout the state. These offices are staffed by license clerks and track investigators. The purposes of the board are (1) to protect the betting public, (2) to sanction every person who participates in any phase of horseracing, (3) to act as a quasi-judicial body in matters pertaining to horseracing meets, and (4) to collect the state's share of revenue derived from horseracing meets.

The board's objectives are achieved by three programs: licensing, enforcement, and administration.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

**More Racing Days and New Functions Increase Workload**

The board is absorbing workload increases resulting from additional racing days and new functions. The number of racing days approved by the racing board, subject to the limits specified in the law, has increased from 827 in fiscal year 1971-72 to 903 in 1973-74; a 9.2-percent increase. Eight more racing days are being added in 1974-75.

Section 19665 of the Business and Professions Code (Chapter 1194, Statutes of 1973) requires the Horse Racing Board to regulate the sale of racehorses on racetrack grounds. This function was transferred from the Department of Agriculture.

The second new activity involves the registration of persons other than licensed racehorse owners to "claim horses" at "claiming races." Prior to this new rule, effective January 1, 1974, only licensed racehorse owners could participate in claiming races. A claiming race is a means whereby prospective horse owners can purchase an experienced racehorse. The board requires a person, other than a licensed racehorse owner, who wants to participate in claiming races to register with the board. The board

checks the financial responsibility of the applicant and either approves or rejects the application to purchase a racehorse at a claiming race.

### LICENSING

The board licenses all persons who are participants in activities connected with horseracing. These occupational licenses encompass 37 different job classifications including trainers, jockeys, parimutuel clerks, stable employees, owners, and officials. Licensing offices are in operation at each racetrack during the time a meet is in progress.

In our 1972-73 Budget Analysis we recommended legislation to eliminate the requirement that all occupational licenses be renewed annually. Chapter 303, Statutes of 1972, permits the Horse Racing Board to issue licenses for periods of up to three years.

The board has not to date changed its annual license renewal policy. However, the board is studying its licensing policy and changes are expected by 1975. Implementation of multiyear licenses will reduce the licensing workload and should minimize future requirements for staff increases in this activity. Table 1 shows the growth in licensing activities.

**Table 1**  
**Horseracing Occupational Licenses Issued, Fees Collected, and Personnel**

	<i>Actual</i> 1971-72	<i>Actual</i> 1972-73	<i>Estimated</i> 1973-74	<i>Estimated</i> 1974-75
Licenses issued .....	17,271	17,351	18,000	19,500
Fees collected .....	\$304,735	\$307,365	\$320,000	\$345,000
Board's licensing personnel .....	7.0	8.0	9.0	9.0

### ENFORCEMENT

Supervision of racing activities and of all individuals within the racetrack grounds is the responsibility of the board's bureau of investigation. The racing associations across the U.S. maintain active files on persons inimical to horseracing and circulate this information to California. Racing stewards appointed by the board have the power to suspend occupational licenses for violation of the board's rules. The licensee can appeal the steward's decision to the board. If the board denies the appeal, the licensee may take his appeal to the civil courts.

Table 2 shows the number of racing days and number of disciplinary hearings, which are indicative of the increasing enforcement workload.

**Table 2**  
**Horseracing Days, Disciplinary Hearings, and Horse Racing Board Enforcement Personnel**

	<i>Actual</i> 1971-72	<i>Actual</i> 1972-73	<i>Estimated</i> 1973-74	<i>Estimated</i> 1974-75
Racing days .....	827	897	903	911
Disciplinary hearings by board .....	115	129	145	160
Enforcement personnel .....	9.1	11.0	11.0	11.0

**HORSE RACING BOARD—Continued****ADMINISTRATION**

The board's administrative and business service activities contain the functions that are essential to the operation of all other programs. Staffing requirements are based upon the number of days and length of racing weeks, geographical location and number of racing meetings which may be in progress at any given time. The board currently licenses 24 race meetings and will allocate 7.8 man-years to this program element at a cost of \$153,308 for the budget year.

**BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF  
SAN FRANCISCO, SAN PABLO AND SUISUN**

Item 76 from the Board of Pilot  
Commissioners' Special Fund

Budget p. 38 Program p. I-209

Requested 1974-75 .....	\$38,855
Estimated 1973-74.....	43,172
Actual 1972-73 .....	40,055
Requested decrease \$4,317 (10 percent)	
Total recommended augmentation .....	\$996

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. *Insufficient Funds. Augment Item 76 by \$996.* Recommend "personal services" category be increased to reflect salary increase authorized by the Department of Finance for board's full-time secretary. 203
2. *Administrative Services.* Recommend the board's administrative services be provided by General Services rather than Department of Consumer Affairs. 203

**GENERAL PROGRAM STATEMENT**

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun consists of three members, appointed by the Governor, who receive part-time salaries of \$300 per month. The board maintains an office in San Francisco and has an authorized staff of one full-time secretary.

The board is responsible for supplying qualified pilots for vessels entering or leaving the Bays of San Francisco, San Pablo and Suisun. The law limits the number of licensees to 30 and the minimum is set at 24. Presently, 29 pilots are licensed by the board.

The board administers a single program of licensing and regulating bar pilots. It conducts pilot examinations and acts on disciplinary complaints. It also provides staff services to the Pilotage Rate Committee, a body established in 1961 to prepare recommendations on pilotage rates for submission to the Legislature. This committee is composed of five members appointed by the Governor to four-year terms, two representing the pilots, two the shipping industry, and one representing the public. The public member draws a \$50 per diem when meeting and also receives travel expenses.

**ANALYSIS AND RECOMMENDATIONS**

In fiscal year 1974-75 the board proposes to expend \$38,855, which is \$4,317 or 10 percent below estimated expenditures for the current year. This decrease reflects the deletion of \$5,000 which was included in the 1973-74 budget to send a licensed bar pilot to France to be schooled in piloting supertankers. The funds were not expended in 1973-74 and are not included in the 1974-75 budget because the board has decided against such training.

**Augmentation for Salary Increase**

*We recommend that the "personal services" category of the board's 1974-75 budget be increased by \$996 to reflect the salary increase authorized by the Department of Finance for the board's full-time secretary.*

The 1974-75 budget does not reflect that the board's secretary received a salary increase in November 1973 totaling \$996 annually. The secretary's salary is statutorily established at \$693 per month. However, the salary was increased by the Department of Finance pursuant to Section 11569 of the Government Code which permits the department to grant limited increases in statutory salaries under specified circumstances.

**Reduction of Charges for Administrative Services**

*We recommend that the board's administrative services be provided by the Department of General Services rather than the Department of Consumer Affairs to realize potential savings.*

Presently the board's administrative services (accounting, budgeting, auditing, and legal assistance) are provided by the Department of Consumer Affairs. For these services, the board pays a pro rata share of the department's costs for operating the Division of Administration and the Division of Consumer Services. If the board's administrative services were provided by the Department of General Services, the board would be charged an hourly rate rather than a pro rata charge. The Department of General Services advises us that it can provide administrative services to the board for approximately \$2,000 annually. The Department of Consumer Affairs is charging the board \$3,393 in the current year and proposes to charge \$3,691 in the budget year.

**Support Funds**

The board and the Pilotage Rate Committee are supported by the Pilot Commissioner's Special Fund, revenue for which is derived from a percentage assessment on pilot fees collected directly by the pilots from ships which they pilot. Every vessel passing in or out of the Golden Gate is subject to payment of such fees. The law provides for a maximum assessment of 5 percent on pilotage fees to be paid to the Pilot Commissioner's Special Fund. The current assessment on such fees is 3 percent. The budget document shows an estimated surplus of \$53,754 in the fund at the end of 1973-74. Our recommended increase in the board's personal services category reduces this surplus to \$52,758.

Chapter 862, Statutes of 1973, increased the bar pilotage rate from seven and seven-tenths mills (\$0.0077) to eight and two-tenths mills (\$0.0082) per high gross registered vessel tonnage. Revenues derived from five-

**BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF SAN FRANCISCO, SAN PABLO AND SUISUN—Continued**

tenths mill (\$.0005) per high gross registered ton of the additional charge are to be retained by the pilots to defray increased operating expenses.

**HEALTH BENEFITS FOR ANNUITANTS**

Item 77 from the General Fund

Budget p. 40 Program p. I-213

Requested 1974-75 .....	\$5,452,542
Estimated 1973-74.....	4,977,027
Actual 1972-73 .....	4,137,999
Requested increase \$475,515 (9.6 percent)	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

This statutorily required appropriation provides the state's contribution toward payment of the health insurance premiums of annuitants of retirement systems to which the state makes contributions as an employer. These systems are the Judges' Retirement System, the Legislators' Retirement System, the Public Employees' Retirement System (for retired state employees only), and the Teachers' Retirement System (for retired state employees only).

The objective of this program is to provide a degree of postretirement security for employees and their dependents by defraying up to \$16 per month of the premium of a state-approved health insurance plan. In addition this budget item includes an amount equivalent to 2 percent of the total premiums paid which is deposited in the State Employees' Contingency Reserve Fund for administrative and contingent expenses. The annual support for the Health Benefits Division of the Public Employees' Retirement System (which administers the program) is derived from this fund.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The \$5,452,542 requested for the budget year is to provide payment for part or all (depending on the plan) of the health plan premiums for an estimated 28,659 annuitants of the state's retirement systems. In the current year, an estimated 26,259 annuitants will be covered.

This program is similar to one covering active employees as described on page 369. The difference, however, is in the manner of funding. The state's contribution for the active employee appears in the staff benefits portion of the personal services category of individual agency budgets and is paid by the fund from which the employing agency is supported. This program for retired employees is financed initially by this item from the General Fund. Special fund agencies are assessed pro rata charges for their retired employees which are credited to the General Fund.



**REFUND OF TAXES, LICENSES AND OTHER FEES**

Item 78 from the General Fund                      Budget p. 40    Program p. I-217

Requested 1974-75 .....	\$30,000
Estimated 1973-74.....	30,000
Actual 1972-73 .....	11,805
Requested increase—None	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This item provides a source of funds from which expeditious refund can be made for erroneous payments or overpayment of taxes, licenses, and other fees which are noncontroversial, thereby avoiding the necessity of filing claims with the Board of Control and inserting items in the Claims Bill.

**REQUIREMENTS OF THE GOVERNOR-ELECT**

Item 79 from the General Fund                      Budget p. 42    Program p. I-220

Requested 1974-75 .....	\$125,000
Estimated 1973-74.....	—
Actual 1972-73 .....	—
Total recommended reduction .....	Pending

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

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1. We recommend special review.

**GENERAL PROGRAM STATEMENT**

The California Constitution vests the supreme executive power of the state in the Governor and requires him to submit to the Legislature by January 10 of each year a budget with an explanatory message for the ensuing fiscal year.

The current Governor's term will expire on January 6, 1975, and he has declared that he will not seek reelection. Therefore, the Governor-elect, who will be elected on November 5, 1974, will incur some expenses before his inauguration in preparing a budget to meet the constitutional January 10 deadline.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend special review.*

This \$125,000 appropriation is requested to provide the Governor-elect with sufficient funds to allow him to formulate and prepare a budget document during the two-month period between his election and inauguration. The appropriation would be available for expenditure by the Department of Finance subject to the approval of the Governor-elect.

**REQUIREMENTS OF THE GOVERNOR-ELECT—Continued**

The budget document contains no information on how these funds would be allocated or the basis on which the \$125,000 request was formulated. Approval of this item would establish a precedent of state support for a Governor-elect and therefore poses a policy issue which should be reviewed by the Legislature.

**SENIOR CITIZENS' PROPERTY TAX ASSISTANCE**

Item 80 from the General Fund                      Budget p. L-14    Program p. I-221

Requested 1974-75 .....	\$60,100,000
Estimated 1973-74.....	62,000,000
Actual 1972-73.....	59,149,434
Requested decrease \$1,900,000 (3.1 percent)	
Total recommended reduction .....	6,300,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

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page*

1. *Senior Citizens. Reduce \$6.3 million.* Recommend reduction because budget estimate of average household income of claimants does not take into account the 20 percent increase in Social Security benefits adopted late in 1972.

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**GENERAL PROGRAM STATEMENT**

This program provides property tax assistance to qualified senior citizens through a system of direct reimbursement. Residents 62 years old and over are eligible for assistance if they own and occupy their own homes and if their household income does not exceed \$10,000. The percentage of net property taxes paid by the state varies from 4 percent to 96 percent depending on income. Program expenditures for 1974-75 will represent assistance payments on 1973-74 property taxes, with the percent of assistance determined by calendar year 1973 incomes.

Table 1 shows that the average property taxes for a senior citizen in 1972-73 were \$515 gross, minus an \$88 homeowners' exemption payment, resulting in a \$427 net payment. During 1973-74, the state reimbursed 47.1 percent of these payments or an average of \$201 per claimant. Chapter 1406, Statutes of 1972, (SB 90) increased the homeowners' property tax exemption from \$750 to \$1,750 to begin in 1973-74. This change will substantially reduce net senior citizens' property tax payments and as a result also reduce the assistance provided under this program in 1974-75.

Largely offsetting this total cost reduction is the impact of Chapter 1216, Statutes of 1973, which adds approximately 59,300 homeowners' welfare recipients, 62 and older, who will be able to obtain tax relief for the first time under the Senior Citizens' Property Tax Assistance Law. The addition of the 59,300 new welfare claimants, however, will raise total disbursements to \$53.8 million, according to our estimate, which is still significantly below total disbursements for the current year.