

## SECTION I

### THE 1947-48 BUDGET AND THE BUDGET BILL

#### AN EXPLANATION OF THE CONSTITUTIONAL REQUIREMENTS FOR AN EXECUTIVE BUDGET AND OF THE ACTUAL DOCUMENTS

##### Introduction

It appears to be desirable for two reasons to repeat and revise in this report Section I of our report on the 1945-47 Biennial Budget.

First, because there are a large number of new members in the Legislature who are for the first time considering the State Budget and it is our desire to make this report helpful to them.

Secondly, because this is the first Annual Budget for the State the Legislature has had before it, and we wish to revise our analysis to fit the changed condition and help orient all our thinking to this changed condition.

In order to understand the Budget and the Budget Bill as introduced by the Governor, it is necessary to have a full understanding of the following:

- (a) The Constitutional requirements providing for the Executive Budget and the Budget Bill;
- (b) The exact basis upon which the Budget was produced; that is, the policies and instructions followed by the Director of Finance, the Governor's budget maker, in preparing the Budget;
- (c) What is the Budget Bill, why does it appear in the particular form in which it was introduced, and why is the total amount therein less than 30 percent of the aggregate amount of the Budget Document?

Of the above three matters, the third is probably the most important. We will discuss these matters serially in this Section.

##### Constitutional Provision for Executive Budget

The constitutional provision requiring the Executive Budget was approved by the people in 1922 for a Biennial Budget, and it was amended by vote of the people at the General Election in November, 1946, providing for an Annual Budget. This amended provision is presented here in its entirety so that the Legislature may interpret the Budget and this analysis and the Budget Bill in the light of this constitutional requirement. Article IV, Section 34, as amended November 5, 1946, provides:

*"The Governor shall, at each regular session of the Legislature, submit to the Legislature, with an explanatory message, a budget containing a complete plan and itemized statement of all proposed expenditures of the State provided by existing law or recommended*

by him, and of all its institutions, departments, boards, bureaus, commissions, officers, employees and other agencies, and of all estimated revenues, for the ensuing fiscal year, together with a comparison, as to each item of revenues and expenditures, with the actual revenues and expenditures for the last completed fiscal year and the actual and estimated expenditures for the existing fiscal year. If the proposed expenditures for the ensuing fiscal year shall exceed the estimated revenues therefor, the Governor shall recommend the sources from which the additional revenue shall be provided." (Italics ours.)

### **Budget Does Not Contain All Recommended Expenditures**

In the above quotation we have italicized the provision which requires a complete Budget of all proposed expenditures by the State where provided by existing law or recommended by the Governor. Since the first Executive Budget for the Biennium 1923-25 of the late Governor Friend Richardson down to the Budget under consideration for 1947-48 only two Budgets have conformed to this requirement.

In our analysis of the 1945-47 Budget and the Appropriation Bill accompanying it, we stated that it did not include all of the proposed expenditures recommended by the Governor at the time the Budget was presented. We listed at that time a number of items which the Governor recommended in his message before the Legislature which were not found in the Budget Document. We again repeat the same general statement but we must this time limit the statement for the reason that this Document more nearly complies with the constitutional requirement than the previous Budget. However, the Governor has again recommended a number of items that do not appear in the Budget or the Budget Bill.

The Governor has recommended a health service and a vast expansion of the Highway System and they are not included in the Budget Document or in the Budget Bill.

It was clearly the intent of those who framed the budget provision in the State Constitution that a complete budget giving an entire plan of all proposed expenditures provided by existing law or recommended by the Governor and the means of financing the same with the recommended sources from which additional revenues were to be provided would be before the Legislature. This is clear from the wording of the amendment itself. It is logical to expect this so that the Legislature might have the recommendation of the Chief Executive covering the entire financial plan of the State. The Legislature then could at one time view the relative tax burden on the several classes of taxpayers and could resolve what is necessary in adjusting the various expenditures for the objects desired and in the end control the total appropriations and the resultant tax levies. *It was never intended that the financial plan of the State should be considered piecemeal, thereby making it impossible for the Legislature to see at one time what the total tax burden of the people would be.*

### **New Items Included in the Budget**

This Budget Document does contain a more nearly complete financial plan, the principal exceptions being the two items mentioned above. Many other matters entirely omitted from the current Biennial Budget are

included in this Budget. For example, there is a schedule of estimated unbudgeted balances covering June 30, 1947 to June 30, 1948. There is a section discussing salaries and wages and giving interpretations. Allocations from the Postwar Employment Reserve are presented although they do not require additional appropriations. A section is presented showing miscellaneous current expenses. This will be found on page 946 of the Budget. These items are in accord with the Budget Bill and legislative appropriations made in 1945 and the Governor's recommendations for the Fiscal Year 1947-48.

Miscellaneous revenues are presented on page 948. The Postwar Construction Program for 1947-48 is also included on page 949. There is included for the first time, beginning on page 953, the report of the Public Works Board to the Governor showing the status of the Unified Construction Program authorized by Chapter 145, Statutes of 1946.

On page 969 there is presented a summary of the reserves for contingencies in the several funds and the recommendations for 1947-48. Beginning on page 977 there is presented a detail of allotments from the Salary Increase Fund. On page 980 is a detail of allotments from the Salary Restoration Fund. Beginning on page 1001 is a summary of shared revenues.

Beginning on page 1002 is a very important balance sheet of the Correctional Industries Revolving Fund showing it as it existed June 30, 1946, and a forecast of surplus as of June 30, 1947, and June 30, 1948. The revolving fund of the Printing Division is presented in detail beginning on page 1010. The Division of Purchases revolving fund begins on page 1016. On page 1019 the financial status of the Business and Professions Building is shown. On page 1022 begins the detail for the Division of Farm and Home Purchases of the Department of Veterans' Affairs. This appendix closes with a statement showing the operation of the State Harbor Commissioners in San Francisco.

The Governor's Message to the 1947 Legislature found in the Journals of January 6, 1947, gives a number of recommendations which would require additional appropriations but which are not included in the Budget Document or in the Budget Bill. It is true that most of these items require legislation to make them effective or to determine the amount to be appropriated. It is probably for this reason the Governor has not included these proposed expenditures in the Budget and the Budget Bill, although the constitutional provision requiring the Executive Budget to contain "a complete plan, and an itemized statement of all proposed expenditures of the State provided by existing law or recommended by him" is definite. The Constitution does not go on to say the Budget shall be complete, except that those expenditures recommended by the Governor which require legislative enactment shall be omitted. To leave these out of the Budget and the Budget Bill, and yet to recommend them for expenditure, means that the Governor presents a Budget to the Legislature on the basis of which he talks about surpluses and reserve funds and tax reductions which cannot be made effective if items of expenditure which he has previously recommended before his Budget is presented to the Legislature or later are subsequently enacted.

### Items Recommended for Expenditure Not in the Budget

There are many items which the Governor recommends for expenditure which are not in the Budget and many of them are also omitted from the Appropriation Bill. There are some items contained in the Appropriation Bill that are not in the Budget. This last is such a peculiar situation that it requires some explanation.

The Governor states that the total of his Budget for the fiscal year is \$641,599,026. This is the total that is shown in the Budget. There is one item of appropriation, however, amounting to \$128,446,250 that does not appear in the Budget as an expenditure. This will be found in the Budget Bill as Section 4, pages 65 and 66 and page 951 of the Budget. This section appropriates this sum from the General Fund to the Postwar Employment Reserve to augment an appropriation made in Section 6 of Chapter 145, Statutes of 1946, and augments a schedule \* shown in Section 6 thereof as follows:

|   |              |
|---|--------------|
| University of California-----   | \$33,107,000 |
| Department of Education-----  | 16,417,000   |
| Department of Mental Hygiene-----   | 31,700,000   |
| Department of Corrections-----  | 10,422,250   |
| California Youth Authority-----   | 3,650,000    |
| Veterans' Home-----   | 2,060,000    |
| State Department of Finance for State Capitol, office, and<br>other buildings-----  | 7,900,000    |
| Department of Natural Resources-----  | 1,650,000    |
| Department of Motor Vehicles-----   | 1,703,750    |
| Department of Agriculture-----  | 315,000      |
| State Agricultural Society and Exposition Park—Sixth Dis-<br>trict Agricultural Association-----  | 1,750,000    |
| Adjutant General and National Guard-----  | 5,000,000    |
| Department of Public Health-----  | 2,800,000    |
| Miscellaneous repairs and improvements of which not more<br>than \$500,000 shall be available to the University of Cali-<br>fornia----- | 9,971,250    |

This is clearly an appropriation and provides that the money can be spent under the above cited statute up to June 30, 1951. If the Administration concluded it desirable to spend this sum, and it was physically possible, all of it could be spent in the next fiscal year or the budgeted year. However, this item, together with the appropriation provided for in Section 5 of the Budget Bill, page 66, which transfers \$75,000,000 to the Revenue Deficiency Reserve but does not provide for its expenditure, are both considered in the Budget as surplus.

Actually the accumulated General Fund surplus which the Governor states on page viii of the Budget will amount to \$318,567,265 as of June 30, 1947, will be reduced by these recommended appropriations. The Budget will be increased by the amount of \$128,446,250 through the approval of Section 4 in the Budget Bill.

We agree with the Governor that this is in effect a reserve, but we cannot agree that this is the effect of the appropriation or that it does not increase the Budget by this sum, making the total budget \$742,045,276 † in place of \$641,599,026.

\* Out of this \$1,000,000 is included as expended from the total Postwar Reserve. Augments means here adding to existing items and adding new items not considered by the Legislature previously.

† One million dollars deducted for National Guard armories.

We believe that this correction should be made in the Budget, and that the item should be shown therein or else the appropriation should be specifically set up as a reserve in the Budget Bill. In our comparing and discussing the expenditures provided by the Budget Bill, we are considering that both appropriations made by Section 4 and Section 5 of the Budget Bill are in the nature of reserves, although we recognize that this is not actually the fact as respects the appropriation made by Section 4.

An example of an expenditure recommended by the Governor but not set up is found where he suggests in his message that a thorough study be made of the tax situation in California, but there is no provision for the establishment of such a committee or an appropriation for it either in the Governor's Budget or the Appropriation Bill.

There is nothing in the Budget or the Budget Bill to pay for the Planning Commission which the Governor suggests be transferred to his office. Nor is there a recommendation for appropriations to finance a new activity suggested for the Governor's office to provide for assembling statistical information and carrying on research activities.\*

The Governor in his message suggests that the most critical problem in the State is housing, and he suggests that a revolving fund be provided for the Department of Finance to assist in this matter. Neither the appropriation for the revolving fund nor the cost of administration of it are included in the budget of the Department of Finance, although this could be provided very simply in the same way that other revolving funds are created.

The Governor suggests also that the Legislature implement the Urban Redevelopment Act passed by the Legislature in 1945. Surely this would take money, but it does not require any further legislation. Why is it not in the Budget?

The Governor suggests that the building codes be rephrased, but he does not suggest the agency to do this nor an estimate of the cost.

In the message to the Legislature the Governor makes a passionate plea for the revamping of the State's Highway System and announces that he is calling a special session to consider this matter. Certainly a part of this program must fall within the budgeted fiscal year 1947-48, and clearly the constitutional requirements for the Budget indicate that this should be placed in the Budget.

The Governor proposes that additional subsidies be paid to counties to provide an additional health service, but no place in his Budget does he make a specific recommendation for an appropriation or give the Legislature the benefit of his advice on a specific program and its estimated cost. In this message he states, "I recommend that an adequate appropriation be made for this purpose." Yet, if this is done the entire financial program will not be as the Governor says it will be in this same message in the following, "The Budget as presented to you for the year ending June 30, 1948, will be a balanced budget \* \* \* our estimates show that it will be possible during the coming year to continue the tax reductions made in 1943 and reenacted in 1945. I believe it is in order to continue these reductions." If he does recommend such appropriations, should they not be in the Budget according to constitutional requirement?

\* Apparently this has been added in part already by a deficiency allowance in the current biennium and is reflected in Research Secretaries and assistants added to the Governor's office.

In addition, the Governor recommends an enlargement of the subsidy to the counties for the care of tubercular patients. We find that this item is included on page 993 of the Budget as an estimated additional cost of subsidies under a proposed new rate in the sum of \$1,550,000. The Governor also recommends in his message to the Legislature that additional out-patient clinics for mental patients be established at San Diego, Fresno, Sacramento and a second unit at Los Angeles with mobile units to serve smaller communities. This item, at an estimated cost of \$151,623 for the one year is included in the Budget on page 565. If these new items which he recommends are included in the Budget, as we believe they should be under the constitutional provision, why are not the other items which we have previously mentioned also included?

The Governor also recommends a new service in the Division of Forestry for the small owners of timberland comparable to the county farm advisors for agriculture. This new service is included in the Division of Forestry Budget, page 732, with the recommendation for six new employees and a starting cost in excess of \$18,000 a year. We wish to point out this is only the entering wedge, and this cost will soon be up to hundreds of thousands of dollars per year.

The Governor also recommends that there should be additional hospitals in the local communities, the State participating in the program and assuming one-half of the necessary contributions. This item is properly to be found in the Budget in the sum of \$2,000,000 on page 993.

The Governor, however, in addition recommends a prepaid health service supported by a tax and administered by the State. Although the proposal is modified from that which appeared in the 1945 Session, we can repeat again what we then presented in our budget analysis on that subject.

#### *"Health Service*

There is nothing in the Budget either to pay for the costs of administration or to pay for the benefits of the recommended health service.

This omission from the Budget of the health service is particularly significant for the bill which the Governor has had introduced into the Legislature providing for it also recommends the levy of a new tax for its support. The matter of recommending new taxes or sources of revenue where present tax levies are insufficient is required in the last sentence of Section 34 of Article IV of the Constitution above presented."

This new service as presented in the several bills is so loose and open that one cannot estimate accurately what it may cost, but it will be many millions a year more than the proposed tax will produce.

There is also found in the Governor's Message a statement renewing his recommendation made at the 1946 Special Session of the Legislature that funds be made available to the poorer school districts for the construction of school buildings. No recommended amount is given in the message, and the item is not included in the Governor's Budget or in the Appropriation Bill. This item alone could use up all of the surplus estimated for the 1947-48 Fiscal Year.

Likewise the Governor recommends that the State assume a substantial part of the cost of special education for some 32,000 children suffering from mental retardation. Again there is an absence of any estimated amount of the cost or any recommendation as to where the State will secure the necessary funds or how they will carry this obligation in the future. This item is not included in the Budget or in the Appropriation Bill.

The Governor repeated his previous recommendation for the creation in the Department of Natural Resources of the Division of Recreation to coordinate this activity amongst state agencies and to serve cities and counties in developing outdoor recreation. This is to be over and above what is already being done by the State in the Division of Parks and Beaches and in the State Department of Education. Nowhere can we find this matter in the Budget or in the Appropriation Bill or an estimate of the cost.

In his message to the Legislature at the beginning of the 1945 Session the Governor made a similar recommendation without including it in the Budget and without this time recommending the department that should handle it. The Legislature did not then approve it. We repeat our remarks, for again they are appropriate:

"There is no item in the Budget or in the Appropriation Bill to meet another expenditure found in the same message in the following terms: 'I recommend to you the creation of a division in State Government to be charged with the responsibility of fostering and encouraging the expansion of recreational programs.' Certainly the creation of a division of this sort in as broad terms as presented by the Governor, not only will require an appropriation but must provide proper officers and employees, office space, transportation, and other necessary items. Moreover, it should be coordinated into the existing framework of State Government and the cost thereof should be charged to that particular department and should show as a proposed increased expenditure."

There should be proper adjustments in the other parts of the Budget of this department for overhead, accounting, etc., to care for the added administrative costs. One cannot add large new agencies or functions to any state department without causing added expenditures for just housekeeping.

In his message to the Legislature the Governor, following the recommendation of the Agricultural Research Commission, recommends an appropriation of \$1,500,000 for agricultural research. He recommends that the Agricultural Research Commission should be made permanent and given the responsibility of keeping the University of California informed of the practical every-day research needs of the California farmer. In this instance the Governor includes this as Item 119 in the Appropriation Bill in the sum of \$1,567,455 for agricultural research by the University of California, and this is shown in the Budget on page 357. *However, in this instance legislation is required.* The appropriation Item 119 calls for making permanent the Agricultural Research Study Committee and not the Commission as called for in the Governor's Message. Moreover, we find, when we turn to page 86 of the Budget presenting the previous expenditures of the Agricultural Research Study Committee, that the Governor does not include any recommendation for

funds to continue it. Somebody is mixed up, for apparently Item 119 requires the authorization of the Agricultural Research Study Committee before any of this \$1,567,455 can be expended. Yet the Governor fails to provide in his Budget any funds for this committee to function.

The Governor again renews his recommendation made at the 1945 Session of the Legislature that a Commission on Political and Economic Equality be established for the purpose of investigating, studying and reporting to the Legislature and the Governor conditions as they find them. The Governor contends that he has no means and that the Legislature has no means of obtaining objective information on the subject. The Governor does not make a recommendation in his Budget or the Appropriation Bill for any sum to pay for such commission.

We might call attention to the fact that the Governor is in error in contending that the Legislature has no means of obtaining information on this subject as it is fully within the province of the Legislature to appoint an interim committee with full power to make such inquiry. The Legislature also may use its research and investigating facilities as already established. The Governor also under the large powers vested in the Chief Executive may call on the many research divisions of the many departments concerned for assistance. Using services already established would avoid much duplication.

The Governor in his Message to the Legislature recommended that Section 65 of the Labor Code, which provides that the State can mediate labor disputes *only when requested by all parties*, should be amended to permit the State to do so upon the request of any party to a labor dispute. In this instance the Governor apparently assumes that such amendment will be enacted, as he requests, by the Legislature, for he includes the sum of \$10,555 in the Budget, pages 496-7, for this service, although only \$533.84 was spent during the 1945-46 Fiscal Year, and it is estimated that only \$8,470 will be spent during the 1946-47 Fiscal Year. No individual amount as a separate item is included in the support items for the Department of Industrial Relations. We do not believe that this amount is necessary or should be appropriated unless the law is changed as the Governor suggests. If this item should be included in the Budget, as we agree it should be with proper notation explaining it, we believe all other items of expenditure recommended by the Governor should be included in the Budget as the Constitution requires.

Although the Governor includes no item in his Budget or the Appropriation Bill, he recommends that the Legislature create a commission to provide for celebrations during the next four centennial years.

### **Budget for All Proposed Expenditures Essential**

In our opinion all of these proposals of the Governor which require increased expenditures for the coming fiscal year should have been definitely calculated by the financial officers of the State as part of their definite responsibility and they should be a part of the entire financial program of the State for the next fiscal year which the Governor recommends to the Legislature. We are unable to estimate the cost of all of them in their entirety with the information in hand. We have written a



letter to the Director of Finance asking for that information. Our letter and a copy of his reply follows:

LEGISLATIVE BUDGET COMMITTEE

February 19, 1947

*Mr. James S. Dean, Director of Finance  
Department of Finance  
State Capitol, Sacramento, California*

DEAR MR. DEAN: In analyzing the Governor's Budget we are again presenting our view that under the constitutional requirement of Article IV, Section 34, as amended in 1946, there should be included in the Governor's Budget all of the expenditures recommended by him, and we find that the Governor in his message to the Legislature, published in the Senate Journal January 6, 1947, page 23, recommended appropriations for the following purposes that we do not find either in the Budget or in the Appropriation Bill:

1. Prepaid health service.
2. Expanded highway system.
3. Planning Commission.
4. Revolving fund for housing.
5. Implementing of Urban Redevelopment Act.
6. Rephrasing of building codes.
7. Subsidies to counties for additional health services.
8. Political and Economic Equality Commission.
9. Commission providing for four centennial years.
10. Division of Recreation, Department of Natural Resources.
11. Tax Commission.
12. School buildings for poorer school districts.
13. Care of retarded children.

In some instances these matters require legislation in order to establish them. In other instances, however, where legislation is required items that are recommended in the Governor's message published in the Senate Journal, January 6, 1947, are included in the Budget and the Appropriation Bill. We are writing this communication for the purpose of determining if we have made any errors in checking the Budget and the Appropriation Bill and have overlooked some of these items. We are also unable to estimate the cost which the Governor believes is sufficient and necessary to carry them on. If it is possible, we would like to secure such estimates so we may advise the Legislature as to the total of appropriations which the Governor in effect does recommend.

We wish to again compliment you and your staff on presenting a very much improved budget document. Our more extensive and closer examination reveals that there is included in this document many items which we felt should have been included in the previous biennial budget, and we believe that this is a much better document to give the Legislature for consideration.

It is our desire to present our report to the Legislature and to the committees of the Regular Session as soon as possible after March 3d when the Special Session convenes. Since this will expedite consideration of the Budget, I am sure you will approve our desire and will render us your usual splendid cooperation.

Very sincerely yours,

ROLLAND A VANDEGRIFT, Legislative Auditor.

DEPARTMENT OF FINANCE

SACRAMENTO 14, February 25, 1947

*Honorable Rolland A Vandegrift, Legislative Auditor  
Sacramento, California*

Subject: New Legislation Recommended  
by Governor

DEAR MR. VANDEGRIFT: It is not possible at this time to give the amount of appropriations which will be required for the several new state activities recommended by the Governor listed in your letter of February 19, 1947. As you can observe by the bills introduced to cover the several subjects, many of them are in skeleton form. Until

it is known to what extent the Legislature will authorize the new proposal, the cost of carrying out new legislation cannot be measured accurately.

The amounts shown in many of the bills obviously are guesses and as yet are not supported by detailed budgets. It is for this reason that specific appropriation items were not included in the Budget Bill, as the provision under which the expenditures are to be made have not been developed in all details, and the amounts required have not been determined.

Studies in cooperation with those most interested in the legislation are now being made to determine what items of expenditures will be required to carry out the proposals if approved by the Legislature. It will not be possible to give you the appropriations required in time for you to include the information in your report to the Legislature. As soon as the information is available it will be sent to you.

There are three additional items which were not included in your letter. These are as follows:

|                              |                         |
|------------------------------|-------------------------|
| Waste disposal .....         | (A. B. 1787—S. B. 990)  |
| Aeronautics Commission ..... | (A. B. 984—S. B. 721)   |
| Educational Radio .....      | (A. B. 1514—S. B. 1382) |

Your comments regarding the Budget Document just submitted to the Legislature are appreciated. Your suggestions as to how the document may be improved always are welcome. Each year an attempt is made to improve the budget and to include such additional information as will enable the members of the Legislature to review it more intelligently.

Sincerely yours,

JAMES S. DEAN, Director of Finance

*We believe that the sum total of the entire expenditures as recommended by the Governor should be added to the Budget as presented and included in the Appropriation Bill so that the Legislature may have before it to consider at one time the total of the expenditure program of the State as provided by existing law or recommended by the Governor. This is necessary if the Legislature is to be able to see the whole financial requirements of the State and to review the requested appropriations as a whole and see what effect they have upon the financial structure of the State and the resultant tax requirements and the estimated surplus at the close of the fiscal year.*

### **Budget Will Be Much Larger Than Governor's Estimate**

It is the opinion of the Legislative Auditor that if the Budget as presented by the Governor, calling for an expenditure of \$641,599,026, is approved and all appropriations therefor made by the Legislature, that the three following results will occur:

1. The actual expenditure program as presented in the Budget will be discovered to be considerably in excess of \$641,599,026. This excess will bring the expenditure program, within the limits of the Budget itself, to more than \$700,000,000. It is significant that in considering the last Biennial Budget on page 8 of our report we made the same statement in the same amount for the Biennial Budget which we now make for the first Annual Budget. It is significant to note that our previous prediction of \$700,000,000 was exceeded by \$3,839,767 when we eliminate appropriations for the state building program, flood control and the \$90,000,000 to the counties and cities. Again we repeat that the Budget can be less than our \$700,000,000 estimate either by reductions in the budget recommendations of the Governor or by withholding expenditures or by the Administration actually abandoning others.

2. There is no doubt that if the Governor's Budget is approved in the amount recommended, the actual expenditures for the Fiscal Year 1947-48 will as a matter of course be exceeded by the amount of the special appropriations approved by the Legislature. Under normal conditions these would run to at least \$20,000,000, and apparently in light of the appropriation bills already introduced into the Legislature they will run in excess of \$50,000,000.

#### **Previous Budgets Greatly Exceeded**

Under the present Administration the total of its first Budget as presented in the Budget Document for 1943-45 on page xiii and on page A-3, Schedule I, amounted to \$463,947,005. The Budget for 1945-47, page A-3, shows that actual and estimated expenditures for 1943-45 will be \$587,347,003, or an increase over the Budget of \$123,399,998. The Budget for 1945-47 called for an expenditure of \$683,710,643 on page iii and on page A-3, Schedule I, of the Budget Document. The actual and estimated expenditure for this current biennium, 1945-47, found on pages A-3 and A-41 of the Budget for the Fiscal Year 1947-48 amounts to \$830,032,455, or an increase of \$188,433,429 over the amount originally recommended by the Governor's Budget for the biennium. This final figure includes the amounts recommended in the Budget by the Governor, the expenditures added by the Legislature, and all of those expenditures recommended in the Governor's Biennial Message which subsequently the Legislature approved. We estimated in our previous report on page 8 that these would finally be between \$150,000,000 and \$185,000,000 more than the Budget total as originally presented, and that the final expenditure program would be from \$834,000,000 to \$884,000,000. We now find that according to the figure above quoted on pages A-3 and A-41 of the Budget for the coming fiscal year that it is only \$4,000,000 short of our minimum estimate, and that there are already deficiency bills and additional appropriations pending to be added to the expenditure program that will throw the final figure above our minimum and within the range of our estimate. Undoubtedly it would have fallen approximately midway in our estimate range if it had been possible for the State to carry out any considerable part of its building program.

3. We again estimate that if the program of expenditures as recommended by the Governor in the Budget and in the Budget Bill for 1947-48 and in his Budget Message and in his message to the Legislature of January 6, 1947, are all approved and expended, the actual expenditures for the year should turn out to be between \$90,000,000 and \$150,000,000 more than the Budget total or from \$731,000,000 to \$791,000,000. This will be without allowing anything for the health program which will, under the present bills, only be effective the last half of the fiscal year. It does not allow anything for relief. It does not include \$90,000,000 additional for a highway program.

It is our opinion that a considerable amount of appropriations, actual and estimated, for capital outlay in the current Biennial Budget, 1945-47, will not be expended, and in fact, we believe they should not be expended by June 30, 1947. If not expended these will be carried forward into the next fiscal year. Therefore, a considerable amount of appropriation for

capital outlay for the Fiscal Year 1947-48 will probably not be expended, and will be carried forward to the next fiscal year. We believe that if prices are not reduced materially for building, that the State should delay everything except the most imperative necessities. If this is done the actual expenditure program which will be made for 1947-48 will be reduced by that amount.

We would like to point out that our previous estimate for the 1945-47 Budget on the same basis for actual expenditures was only \$4,000,000 more than the actual and estimated expenditures for the biennium as shown on page A-41 of the present Budget. Our lowest estimate was \$834,000,000 and our maximum estimate \$884,000,000. While the figure given in the Budget now before the Legislature is \$830,000,000, this will be increased by all the deficiency allowances made by the Legislature and appropriations made effective for expenditure prior to June 30, 1947.

We also pointed out on page 9 of our report on the 1945-47 Budget that if there was in addition to the expenditure program described any considerable amount of large special appropriation items for assisting cities and counties, building of highways or providing for comprehensive state-wide planning for flood control, it was certain the grand total of appropriations for the biennium could exceed \$1,000,000,000. It turned out that the actual expenditure program as represented by fixed charges and appropriations available for expenditure was \$1,067,000,000 plus.

There did not result from this a full consumption of surplus and the requirement of additional taxes for the reason that the war ended sooner than we expected and the reconversion problems were far less severe than anticipated. Business conditions were maintained at a high level, and revenue flow was accelerated beyond anything the State had previously experienced.

It is our belief that the appropriations available to meet expenditures during the coming fiscal year ending June 30, 1948, likewise may reach \$1,000,000,000 for the one year if we include appropriations for an expanded highway program, for a comprehensive state-wide plan for flood control and water development, assistance for veterans in housing and further additional appropriations to the state building program to meet increased prices and to cover all items recommended by the Governor but not previously included in the total. This latter includes the assumption by the General Fund of the obligation to carry the highway bonds.

### **Financial Condition Good at Present Because of Reserves**

The financial condition of the State is such that the current revenue, together with reserves, would provide ample means of meeting such a spending program for one year. However, we wish to point out that the Governor's Budget alone requires an expenditure of \$80,109,948 from reserves, and the General Fund will only receive \$38,761,000 in excess of the expenditures provided for in the Budget. If it should occur that the Legislature appropriates for current revenues anything in excess of \$38,761,000, the expenditures would then be in excess of revenues. If at the same time the Legislature approves the proposed highway program and diverts some \$14,000,000 in taxes from the General Fund for this

purpose and some \$4,000,000 more in liquor licenses for local government, it would require either the levying of additional taxes for General Fund purposes or the securing of this amount from the reserves.

### **Proposed Expenditures From Reserves One-time Expenditures**

Any other appropriations likewise would reduce the free balance carried forward from 1945-47 Biennium or must reduce the reserves. Fortunately, the proposed Budget expenditures from reserves are non-recurrent in nature. A good many of the proposed additional expenditures, such as the \$40,000,000 to cover interest and redemption of highway bonds and expenditures for additional buildings, are also one-time expenditures, and need not be repeated in succeeding years. It appears therefore that the current and immediate accruing state tax yields for the balance of the current fiscal year and for the budgeted Fiscal Year 1947-48 appear to be so abundant that they do not impose a very realistic consideration in favor of economy and the control of expenditures if we confine our financial planning to one year.

We feel that it is our obligation, however, to point out that with the expenditure program which is possible of approval, together with diversion of tax revenues from the General Fund and the ever increasing cost of fixed charges, particularly for education which in 10 years will be approximately double the present requirement, together with the fact that the expanded services of government provided for in the coming year will carry forward an increasing rate in succeeding years, tax increases and a possible deficit are inevitable. Every time a new building is provided or a new service is added by the State, it should be realized that it will require the appropriation of money to care for this building and to pay for the services which are housed in it.

While at this time the revenue picture appears favorable for 1947-48, it is expected that revenues will decline toward the end of this year. Undoubtedly the tax yield will not be at the same high rate for the succeeding fiscal year. The State's future financial outlook in relation to increased expenditures is not encouraging. The increased costs of State Government, together with a decrease in available revenue, may in the near future throw the State into the "red." Unless we conserve it now, at that time there may be little or no reserve to draw upon. Unless the Legislature at this current session gives full recognition to the possibilities of the future and sets aside a sufficient reserve to cushion the shock of insufficient revenues and a more limited tax base from which to secure moneys for the General Fund, heavy tax increases cannot be avoided.

### **Legislature Not Responsible for All Additional Appropriations**

In regard to the omission of setting up money in the Budget for recommended expenditures presented by the Governor in his message, it must be remembered that some proposals are still in a formative stage and the cost thereof could not have been accurately predicted at the time the Budget was presented. However, this is not true of all of them, for some can be calculated as close as many items that are in the Budget. All of these recommended items that are approved by the Legislature and made effective will add to the total of the appropriations for the

year, and as they are the recommendations of the Governor, then they should be a part of the expenditure program of the Administration and a part of the Executive Budget. They should not go into the category of expenditures which too often in the past have been labeled as having been added to the Governor's Budget by the Legislature, and the responsibility for the increase placed on the Legislature.

If the Governor at any time recommends additional expenditures he should share the responsibility for such increase in expenditures as is produced by such recommendation.

### **Budget Bill Can Be Amended**

It may be that the Governor intends to have his Budget Bill amended to include the additional appropriations which he has recommended, for under the Constitution this power is given to the Governor in Article IV, Section 34, in the following words: "*The Governor may at any time amend or supplement the Budget and propose amendments to the Budget Bill before or after its enactment, and each such amendment shall be referred in each House to the committee to which the Budget Bill was originally referred.*"

It might be said that these recommendations for expenditures which the Governor has proposed, and which do not appear in the Budget or in the Budget Bill, were omitted for the reason that they require legislation and the Chief Executive does not wish to be in the position of presenting in his Budget items which anticipate legislation.

We suggest that if such legislation as is required is approved, that the additional appropriations required be considered as amendments to the Budget so as to keep the entire financial plan of the State before the Legislature.

### **Budget Document Good**

In general we must compliment the Governor on the Budget Document. Statistically it is quite complete. Moreover, it contains some essential information conforming to the constitutional requirement above quoted, and which has not appeared in many prior budgets. In fact there is included in this document a considerable amount of information which we specifically listed in our prior report as having been omitted from the 1945-47 Budget.

### **HIGHWAY EXPENDITURES PRESENTED IN BUDGET**

In our last report on page 10 we pointed out that there was additional information on highways included in the Budget covering some nine pages, that is, from pages 704 to 713 inclusive. We called particular attention to page 713 which set up for the first time unbudgeted surplus and reserves for postwar highway construction. We stated, "This particular tabulation will do more to clarify the financial position of the Division of Highways than any information which has been made available to the Legislature for many sessions." We wish to suggest that the Legislature again refer to page 713 of the Budget for the current 1945-47 Biennium as a starting point for the consideration of the Budget for the Division of Highways for the Fiscal Year 1947-48. This, together with material presented on the Division of Highways in the Budget Document

on pages 869 to 885, inclusive, a total of 17 pages, will give the Legislature a fuller picture of this function of the State Government than has been previously available. We particularly recommend consideration be given to page 885 which gives the statement of unbudgeted surplus in the State Highway Fund. A full consideration of this financial statement should do much to clear up the misunderstanding on this situation.

It should be noted that this estimate of Highway expenditures was prepared prior to December, 1946, and it requires further adjustments upward due to the unprecedented increase in receipts from the Motor Vehicle Fuel Tax. Such adjustments were made on January 22, 1947, in the sum of approximately \$3,500,000 by the Highway Commission.

### **Explanations Lacking in Budget Document**

This Budget Document presents more information than the prior Budget. However, we still wish to insist that the Budget Document will be more useful if there is included more explanatory material, particularly where items are unusual; are new; or terminate; or where changes have been made in organization, terminology or otherwise from what has appeared in the Budget immediately preceding. Such explanations are particularly desirable for the information of the Legislature for the reason that the Budget is now being made on an annual basis for the first time. This is a departure from previous practice. Herewith are listed a few of the items that very well might have been presented in the Budget with brief explanations for the assistance of all concerned with it:

#### *Federal Funds*

(1) Wherever federal or outside funds are received they should be included in the Budget Document with a statement as to how they are received, what matching is required on the part of the State, how they will be expended and with an estimate of such funds available for the year, and whether or not the appropriation by the State should be made contingent upon receiving such federal funds. It frequently occurs that federal funds will be made available only if the State appropriates additional funds. Therefore, should such funds be appropriated without taking into consideration that the appropriation is made in order to receive federal funds? If this is not done it may not be possible to use such funds to meet the requirements for matching federal funds. Explanations should be given for any changes in such allotment requiring increases or decreases in State contributions. Frequently misleading statements appear concerning the expenditures available to any one department for the reason that the true picture has not been presented as respects funds to be received from the Federal Government or from state sources. This has been particularly true with funds received by the Division of Highways from the Federal Government.

#### *Carryover Balances*

(2) The Budget should also show where any carryover balances are available from all sources, including those that are automatically extended and those that should be reappropriated.

### *New Functions*

(3) The Budget should indicate clearly all of the functions which have been added since the last Budget showing how they came into existence and who was responsible. The Budget should also give the Governor's recommendations either for their elimination or continuance, or whether they should be replaced by something else or possibly expanded.

For example, on page 86 of the Budget is included the Agricultural Research Study Committee for 1945-46 and 1946-47, but nothing is proposed for 1947-48. Yet if we turn to Item 119 of the Appropriation Bill we find that this proposed appropriation to the University of California in the sum of \$1,567,455 for agricultural research is *to be expended upon authorization of the Agricultural Research Study Committee*. Just what is the situation? Is the committee to be extended? How did the committee come into being in the first place? What is the Governor's recommendation?

- (a) How did the Public Works and Acquisition Division of the Department of Finance, shown on page 444 of the Budget, come into existence?
- (b) Why is the Division of Service and Supply being eliminated in the Department of Finance, shown on page 445 of the Budget?
- (c) How did the Local Allocations Division of the Department of Finance come into existence, and what are its functions?
- (d) How did the alien land law enforcement activity of the Department of Justice come into being, and why is nothing included specifically in the Budget, and how much is carried for the Fiscal Year 1947-48 under support?
- (e) What does the Governor recommend as respects child care centers? On page 985 of the Budget, there is a blank for the Fiscal Year 1947-48 without comment. Yet inspection of child care centers is continued in the proposed Budget for the Fire Marshal and for the Department of Education.

### *Adjutant General*

(4) Under the office of the Adjutant General, page 657 of the Budget, there is a section devoted to Maintenance and Operation of Installations. Personnel is practically double for 1947-48 over what it was for the prior year. However, there is no item for capital outlay for armories. The Governor makes a recommendation for such capital outlay as part of the Postwar Building Fund which he does not add to his Budget as an expenditure but considers as a reserve as previously explained. Armories will be needed during the budget year and some of this appropriation will undoubtedly be expended. The Budget allows \$1,000,000 for this from the Postwar Reserve on page 949.

### *State Guard*

(5) While the constitutional requirement for the Executive Budget does not require the Governor to give an explanation showing his recom-



mentation on any appropriation that lapses unless he believes it should be continued, it appears that it would be highly helpful to the Legislature if they had the benefit of his recommendation and his reasons for the continuation or lapsing of such appropriations.

Just what happened to the State Guard? How does it occur that without legislation affecting the State Guard or National Guard no expenditures have been shown for 1946-47, page 659 of the Budget, while expenditures are shown for the National Guard beginning on page 658 for this same year? What was the Attorney General's ruling on this?

#### *Community Canning Center Inspection*

(6) What is the Community Canning Center Inspection, and why is this wartime activity being continued? Who actually supplies the funds and do the funds cover all the services rendered, pages 842 and 845 of the Budget?

#### *School for Cerebral Palsied Children*

(7) How did the School for Cerebral Palsied Children come into existence in Northern and Southern California, and why the continuance of the costs for the Southern California School at more than twice the cost of the Northern California School, pages 337 to 341 of the Budget? The brief explanation given is helpful but could be enlarged with profit.

There are many more items of this sort which could have been readily ascertained and explained at the time the Budget was being made. It is not profitable at this time to make a further list.

#### *Increases in Expenditure Without Appropriation*

(8) We believe that there should be a clear statement set forth in the Budget explaining the operation of every activity of State Government which does not require appropriation but does require the use of state money already appropriated, that is, either from a revolving fund or by the use of state property or by the use of income secured through activity of the said agency or by any other means. This Budget does set forth in most satisfactory terms the operation under the several revolving funds. This is a distinct improvement.

However, there is no satisfactory statement of the ever-expanding operation of the Bureau of Right-of-Way of the Division of Highways as landlord, which has resulted from the investment of millions of dollars for rights of way with residence thereon. This activity must be carried forward for a number of years and which apparently from the irregularities recently discovered has not been subjected to proper control or satisfactory audit by the Department of Finance. We believe that such operations as this, particularly when they are of such magnitude, should be presented to the Legislature in the Budget Document with full explanation so that the possible accruals of revenues from this source may be considered and, if it is desired by the Legislature, definitely allocated. Moreover, the Legislature should set the policy of management and disposal of properties where the dissipation of such large sums may be involved.

### *Changes in Services*

(9) We also believe there should be an explanation where some service has been discontinued in a department or has been transferred to another department and an adjustment made in the comparative financial requirements, so that the true picture can be at once recognized by the Legislature. For example, the expenditure of the Department of Finance for the Rector Canyon Dam made during the current biennium is a one-time expenditure and does not show in the Budget for the coming Fiscal Year. Also Sutter's Fort and Indian Museum, shown on page 687 of the Budget in the Division of Beaches and Parks, previously appeared for 1945-47 under the Department of Finance for Buildings and Grounds. A note to this effect and an indication that adjustment had been made for comparison purposes but have been excluded from the totals does appear in this case in the Budget Document.

However, we find no note on pages 452-453 of the Budget under Buildings and Grounds of the Department of Finance indicating that a reduction has been made and how much, due to the transfer of Sutter's Fort to the Division of Beaches and Parks. The number of employees transferred is not indicated.

### *Property Accounts*

(10) A statement should be included in each budget setting up satisfactory property accounts, both real and personal, for every department of the State. The change from the previous Budget should be shown. All surplus property and its recommended disposition should be included so that the Legislature will know this particular aspect of the State's finances.

### *Unit Costs of Operation*

(11) We also wish to suggest that unit costs of operation of the several agencies of the State be presented wherever it is possible. The per capita cost for state institutions are generally presented, but other unit costs should be developed by the Division of Administrative Analysis in the Department of Finance. These should be presented in the Budget so that legislators and the public may have a better understanding of the cost of government.

### *Personnel*

(12) One great weakness in the current Budget, and one that has appeared in all other Budgets of the State since we have had the Budget is that increases of personnel have largely been based on an increase over what has been allowed previously. Personnel secured in order to catch up on accumulated work or to do some special job have usually been continued on the staff and further increases have been allowed over and above these unusual increases. Where such allowances have been made in the Executive Budget and the money therefor included in the Appropriation Bill, it is only fair to the legislators to indicate to them clearly these circumstances and to provide in the appropriation that such positions shall be terminated when this excess load is eliminated or the special job is done. Certainly this new base should not be allowed to obtain for the

securing of additional personnel. It is true that the Department of Finance endeavors to make such adjustment, but the responsibility should be shared with the Legislature and certainly this information should be available in the Budget Document, for the legislators cannot be expected to discover it otherwise.

What is needed for every department and agency of the State is the establishment of a basic work load survey and an adjustment of the personnel of each department based on its actual needs and not on the number of employees it previously had. We are happy to report that the Director of Finance has made a considerable number of surveys of work loads in various departments as the basis for budgeting for personnel. These have been very helpful in considering the present Budget, but they have not been complete nor have they been as thorough as is required. They are a step in the right direction.

There are many other specific items which could be listed as what should be included in the Budget, but we can summarize by saying the Budget should be an overall picture of the financial condition of the State, together with a review of the financial activities for the current period and a complete presentation of the financial operations recommended for the succeeding Budget period. For these reasons the Document itself should be as fully and as readily understandable as possible. The Budget Document would be much more useful and probably used more if there were included the explanations suggested above and others covering all changes from the 1945-47 Budget and an explanation of all items.

In short, the Budget Document, although it has no actual force of law, is the basis of the estimates for the Appropriation Bill. It should be used for the control of appropriations, and it is a guide in the exercise of budgetary control by the Department of Finance. We believe that this document should be prepared as carefully as if it were to be enacted into law. In fact, we feel that the Legislature should incorporate the Budget Document itself into the Appropriation Bill. Our definite recommendation on this, with reasons, will be presented subsequently.

### **Basis of the Budget—Policies and Instructions of the Governor**

To fully understand the Executive Budget for any particular period, it is essential to know just what policies and instructions were followed in preparing the Budget. Some definite basis must be established if a satisfactory Budget is to be presented. A review, therefore, of any Budget must be made with full consideration of the policies contained therein and the instructions followed in making it. These are presented in part in the letter of transmittal from the Director of Finance to His Excellency, Governor Earl Warren, found on pages x and xi of the Budget Document. For further explanation we must turn to the Governor's Budget Message itself.

It is particularly necessary to have a full understanding at this time, for the State is to operate under its first Annual Budget and in the first postwar budget period.

Revenues are now accruing to the Treasury on the basis of a postwar income and a postwar spending of the people. In contrast with the current Biennial Budget, which is based partly on the continuance of war-time conditions and partly on the transition period, the cost of government for the budgeted fiscal year is based upon a full return to peacetime

conditions. No longer can allowance be made for the inability to secure personnel, equipment and supplies. However, inability to build because of construction costs and the inability to secure adequate housing for state expansion have had to be considered as Budget limitations. Let us briefly see what principles were followed in preparing this Budget and how, therefore, they must be interpreted.

#### POLICIES AND INSTRUCTIONS FOLLOWED

The Director of Finance says in his letter of transmittal to the Governor, "The State Budget for the Fiscal Year beginning July 1, 1947, and ending June 30, 1948, has been prepared in accordance with your policies and instructions." He further explains this in the following:

(a) It is now possible to prepare the State's financial program on the basis of a single fiscal year. This change allows a more precise appraisal of the State's expenditure needs and revenue prospects than is possible under the former Biennial Budget.

(b) It (the Annual Budget) will allow a closer association with the Legislature and more frequent consultations on fiscal problems.

(c) It will also facilitate administration of the expenditure program given legislative approval.

(d) In the preparation of this Budget allowance has been made for future growth of the state population at approximately the prewar rate of increase.

(e) Salaries and wages for state employees have been projected on the basis of pay scales in effect November, 1946, but a lump sum allowance has been included to cover the cost of salary increases granted by the State Personnel Board since that date.

(f) The Budget computations for forecasting prices at which the State will buy its required food, clothing, supplies and equipment during 1947-48 is made during the period of rising prices and is based on the broad assumption as follows:

(1) Food estimated at a price of 15 percent above the controlled prices of April through June of 1946 but *15 percent below uncontrolled levels of August and October of 1946.*

(2) Clothing estimated at the price level of October, 1946.

(3) Other items estimated at a 25 percent price increase from the 1945-46 average and at 5 percent less than that prevailing in November, 1946.

(g) Workload measurements have been applied more widely and more accurately than has been possible in the past so that personnel and equipment proposed by the various departments and agencies was appraised directly in terms of the volume of work done or in prospect.

(h) Wartime activities of state agencies were eliminated in preparing the Budget program. Specifically the Farm Production Council

is eliminated from the new Budget, its operations to be discontinued June 30, 1947.

(i) A specific and detailed report upon emergency and other contingency reserves committed directly to the Director of Finance has been included.

(j) The Salary Restoration Fund of \$2,836,167 established by the Legislature for use in the event it became necessary to fill positions found to be vacant at the time the present Budget was adopted under the control of the Department of Finance is reported as required by law, and it is reported that less than half of the sum has been used and \$1,782,000 will be returned to the General Fund. (It appears from this report that this procedure recommended by the Legislative Auditor and concurred in by the Department of Finance has proven effective.)

(k) The appropriation of \$10,940,322 provided to cover costs to the General Fund of salary adjustments effected by the Personnel Board in equalizing state pay scales with those of private industry and other governmental units was inadequate (for 1945-47) to cover the entire cost, and the director states, "It has been possible to meet a substantial part of the cost of these increases from salary savings accruing as a result of vacant positions and no additional appropriation will be necessary."

This indicates two significant things. First, that the *specific appropriations by the Legislature for salary adjustments made by the Personnel Board in a specific amount was not considered a limitation on the administration, but the salary increases, and at least some of them for classifications which never appeared in the Budget and never were approved by the Legislature and requiring larger amounts in salary, were met by using salary savings which resulted from vacant positions.* The second significant thing is that *positions that were requested by the department were left vacant in such a large amount that increases in salary beyond what the Legislature approved could be paid.* This demonstrated that in general, although probably not in every specific instance, the *departments requested more personnel than they needed for they did get along satisfactorily with less.* This indicates that there was an overbudgeting for personnel or else the departments in order to pay more money to fewer people were willing to get along with less help.

*It is suggested that the Legislature consider this in connection with the present Budget.*

(l) The Budget for the current biennium made no specific provisions for increase in commodity prices but allocated a lump sum of \$1,750,000 to cover price increases and emergency needs. It is stated that the amount was not sufficient to meet the increased cost of food and clothing for the institutions or higher rentals on space occupied in privately owned office buildings, and the expansion of personnel for several important activities which experienced an abnormally large growth in workload, and that a deficiency appropriation of \$3,000,000 for the current fiscal year will be required.

No further explanation is given for the unexpected large increase in the institutions beyond budget estimates or the expansion of personnel or of activities which experienced an abnormally large growth in work

load. Since the Biennial Budget specifically limited all of the activities of the various departments and agencies where there were specific appropriations, and with few exceptions special fund activities could only be expanded by the Governor's approval of a deficiency, it appears that adequate budgetary control might in many instances have been more fully exercised and would have been if the appropriations made by the Legislature had been followed as absolute limit on expenditures. We must ask—Is the Budget for 1947-48 made with the same policy of liberality to allow more money rather than limit the expenditures to appropriations?

The detail of these emergency fund allotments will be found on page 970 of the Budget. An examination thereof will show that they include a considerable number of large items which were not approved by the Legislature, and some of which were specifically turned down by the Legislature, such as the development of a master airport plan by the Reconstruction and Reemployment Commission costing \$40,000, establishment of a Sacramento office by the Department of Industrial Relations in the sum of \$8,984, and allotment to the Division of Industrial Safety of \$32,802 for rent and travel of safety inspectors, and \$3,256 for four additional positions in the Division of Narcotic Enforcement when such increase was specifically turned down by the Legislature.

#### LEGISLATURE SHOULD ADOPT STRICTER METHOD OF CONTROL

There is included an item of \$143,826 to the Division of Forestry to make up for abatements on employees' maintenance deduction and from services to the Federal Government not realized. Why was personnel not cut when the services to the Federal Government either were not rendered or were not paid for? The sum of \$89,463.35 is allocated to the Division of Water Resources for numerous expenditures made on surveys which were either limited in appropriations made therefor by the Legislature or were not included at all, some of which the Legislature did consider specifically.

In other words, the budgets of the departments concerned were increased by this procedure to the sum of \$4,340,094, some \$3,000,000 of it over and beyond the emergency fund appropriated by the Legislature. A specific review of these items will convince the Legislature that if it wishes to control appropriations it must adopt some stricter method than it did for the current biennium. *If a deficiency of \$3,000,000 can be allowed without referring it to the Legislature, then it is theoretically possible to go to any lengths.*

Moreover, an analysis of the population increases, in certain institutions does not show that the actual population exceeded the estimates used in the Biennial Budget.

For example, the Napa State Hospital for the year 1945-46 was budgeted for 4,050 patients. They actually had 4,054. For 1946-47 they were budgeted for 4,150, and their actual and estimated resident population is 4,010. The cost was budgeted for 1945-46 at \$394 per patient, and the actual cost turned out to be \$395. For 1946-47 they were budgeted at \$405, and it is now estimated at \$503, which we believe to be too high. See page 443 of the Budget for 1945-47 and page 593 for the year 1947-48.

The Norwalk State Hospital was budgeted for 1945-46 at 2,415 patients, while they had 2,476. For 1946-47 it was budgeted for 2,440 while they actually had 2,235. Again the per capita costs show a tremendous increase for the current fiscal year—which we believe is not justified. The Budget for 1945-46 was \$454, and it actually turned out to be \$462. For 1946-47 it was budgeted at \$472, and it is now estimated to be \$650. See page 451 of the Budget for 1945-47 and page 601 of the Budget for 1947-48.

Patton was budgeted in 1945-46 for 3,963. It actually turned out to be 4,175. For 1946-47 it was budgeted at 4,088, and their actual and estimated is 4,140. See page 458 of the Budget for 1945-47 and page 609 of the Budget for 1947-48.

Stockton State Hospital was budgeted for 1945-46 for 4,430. They actually had a decrease in 1945-46 to 4,395. They were budgeted in 1946-47 for 4,530, and their actual and estimated is 4,350. See page 466 of the Budget for 1945-47 and page 617 of the Budget for 1947-48.

This is sufficient to demonstrate that while there was some increase in total population, there were actual decreases at some institutions below the population budgeted for, and the bare statement that the emergency and deficiency allotments were allowed on account of commodity and population increases are not entirely accurate. The population allowed in the Budget in some instances was exceeded slightly and in most instances was not actually obtained.

Price increases were experienced particularly in food, but there was also little endeavor to hold down purchase of more expensive items.

It can be seen by a consideration of the above statements that there is no clear enunciation in the Director of Finance's transmittal letter of just what overall policies were followed and are included in the Director of Finance's statement that the *Budget was prepared in accordance with the Governor's policies and instructions*. It appears to us, and we suggest that for the better understanding of those who analyze the Budget and the Legislature who consider it specifically for the basis of appropriations, that the Director of Finance in future Budgets should outline clearly just what policies and instructions he did follow in preparing the Budget for the Governor so that the Legislature may at once determine whether it wishes to approve a Budget on such a basis or may wish to make changes throughout the Budget by immediately providing for different policies in the expenditure of the State's funds.

#### THE GOVERNOR'S STATEMENT AS TO HIS POLICIES FOLLOWED IN THE BUDGET

Following is a very brief outline taken from the Governor's Message, pages iii to ix of the Budget Document, covering the Governor's expressed policies:

- (1) The Budget is made in accordance with provisions of the State Constitution.
- (2) It is the first State Budget prepared on an annual basis.
- (3) It is the first peacetime Budget of this administration.
- (4) It is the first Budget which reflects broadly the catching up with peacetime needs.

(5) It is the first Budget to reflect in dollars the magnitude of services required by a population in excess of 9,000,000.

(6) It is a Budget which reflects the inflated dollar.\*

(7) It reflects a \$85,000,000 increase in payments to local government, including \$53,000,000 for public schools adopted by initiative on November 5, 1946.

(8) It includes an increase in capital outlay of \$39,500,000 from postwar constructions funds.

(9) It shows an increase of \$28,000,000 in operating expense caused by added population and for replacement of worn out equipment.

(10) Uncontrollable items designated as fixed charges and continuing appropriations required by the Constitution and existing statutes are required in an amount of \$58,000,000, or 18 percent over the current year.

(11) Controllable items are increased to meet greater demands from population growth and war induced changes in our economy, including sums for veterans, increased enrollment in colleges and other state schools.

(12) The Budget restores all essential peacetime services.

(13) The Budget is made applying the test of administrative efficiency and need to each item proposed.

(14) The Budget for goods is made upon current price levels.

(15) The Budget includes an amount for needed repairs and replacements which must be considered in many instances regardless of price.

(16) The Budget for the institutions allows for an increase of 3,418 persons for 1947-48 over 1946-47.

(17) The Budget includes \$28,550,000 for salary increases granted since the beginning of the war period. (All such increases are apparently continued and some allowance made for further increases.)

(18) The Budget for capital outlay is made from earmarked wartime surpluses and a part of the already approved postwar construction program, and each item is recommended only after careful consideration of needs and with a policy in mind that the State should not compete for material and labor except in matters of urgency. On this basis the total recommended is \$69,252,180 for the university, state colleges, special schools, Department of Corrections and institutions for the mentally ill.

(19) The Budget is based on the fullest use of all existing funds available for highway maintenance and construction. (Apparently this recommendation is made without regard to the fact that highway costs are at the present time at the maximum in the history of the State, and it is estimated by the engineering experts for the Collier Fact-Finding Committee on Highways, Streets and Bridges that such maximum costs will be maintained until well into the Fiscal Year 1947-48.)

\* The dollar is in fact cheapened and not inflated—price is inflated.



(20) It is also recommended that the fullest use be made of existing revenues derived from state-owned land for beach and park development.

(21) The amount recommended for the care of the needy aged, blind, and needy children is based solely upon a population increase in these classes.

(22) There is also a recommendation for an increase in the State's subsidies for the treatment of tuberculosis. (This is included although the Legislature has not had the matter of additional subsidies before it and allowed such policy.)

(23) There is also included an allowance of additional state funds for local governments to match federal grants for hospital construction. (Here again the Legislature has not determined the policy of approving such subsidy.)

(24) In mental hygiene, allowance has been made to employ additional physicians, nurses and attendants over and above the schedule of service provided for the current biennium.

(25) There is also included an amount for increasing out-patient clinics by the Department of Mental Hygiene. (This calls for the establishing of five additional ones, which was disallowed for the current biennium by the Legislature at the regular session and was subsequently disallowed at the special session of 1946, both times on the basis that neither the out-patient clinic at the Langley-Porter Hospital in San Francisco or that provided for Los Angeles have been fully established, nor are they at the present writing fully established. The one at Los Angeles is far from being a full-going concern.)

(26) There is included a recommended increase in payments to local governments for public health. (This increase for the one year is approximately 70 percent.)

(27) The Budget recommends an increase for the Highway Patrol over and beyond the 624 patrolmen set as the limit by the Legislature in the last appropriation bill. It also provides for the complete replacement of motorcycles with automobiles. It also allows more money for examination of drivers and more rapid licensing of automobiles. (Apparently no thought is given in either case to considering the possibility of a more effective examination of the classes of drivers who should be given more adequate tests and to substituting a more rapid and cheaper method of registering automobiles by a more efficient mechanical means.)

(28) The Budget allows the Department of Natural Resources some large sums to replace what they call obsolete fire fighting equipment, which is over and above the extraordinary allowance made for fire fighting equipment during the war. (This equipment in our opinion cannot be considered obsolete until a better type has been proven.)

(29) The Budget also allows for the acquisition of more cut-over forest lands and for reforestation but places no such restrictions on it. Approximately 80 percent of the money appropriated previously for the acquisition of cut-over land was used to buy virgin timber contrary to the declaration of the Legislature made at the time of the appropriation.

(30) A sum is also allowed for reforestation. (The Legislature has not yet *definitely* approved the State Division of Forestry engaging specifically in reforestation.)

(31) There is also a provision for expansion of forestry management by advisory service on a plan similar to the county agricultural advisers. (The Legislature has not approved such a procedure or considered the possible distribution of costs and responsibilities in a similar way to that which has been done in the case of the agricultural agents.)

(32) Revenue forecasts as a basis for the Governor's Budget follow the prediction made by the financial experts of the Department of Finance on the same basis as prevailed in 1946. The Budget on this basis allows for approximately a 10 percent decline in the volume of revenue. The total margin of General Fund receipts over expenditures proposed is calculated on this.

(33) Because of the healthy condition of revenue and the Annual Budget, the Governor recommends continuance of the present reduced tax levies of 1943 and 1945. It is estimated to produce a tax saving in the budget year of \$96,650,000. (The Governor does not deduct from this the necessary additional taxes required to meet other expenditures he has recommended.)

(34) The Governor recommends that the entire General Fund surplus of \$318,567,265 as of June 30, 1947, be used to complete the postwar construction program and to provide a reserve for unforeseen contingencies. This is provided in the Budget Bill in Sections 4 and 5. In this he recommends that an additional \$22,490,250 be allocated for the revision and expansion of projects which he states are already approved and for which the original allocation has been found to be insufficient. (In this the Governor appears to be assuming that the Legislature has approved specific projects. However, in the bill setting up the appropriation for this purpose the Legislature specifically refrained from such approval, merely appropriating in lump sum and placed upon the Administration the full responsibility for approving or disapproving specific projects. The matter of consideration of such revision and expansion has not yet been considered by the Legislature or any committee thereof.)

(35) There is also recommended the addition of \$7,800,000 for National Guard armories and a new Department of Public Health building and laboratory. See pages 949 and 951 of Budget. The laboratory is to be located in the San Francisco Bay area. (The Legislature has not considered either of these items as to their need, their location or their cost or the time of their construction. Both are included in the Budget Bill and are available for expenditure but are not added into the Budget total of \$641,599,026.\*

(36) The Governor also recommended a bookkeeping transfer of \$34,000,000 from the General Fund to the Postwar Employment Reserve representing an appropriation already made by the Legislature of 1946 as part of the \$154,000,000 construction program. (This would change

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\* \$1,000,000 for armories is included.

the control set up in the appropriation over such funds unless the Legislature concluded to continue such in the transfer. This suggestion appears desirable to facilitate handling of these funds.)

(37) From surplus the Governor recommends that \$75,000,000 be immediately earmarked as a *revenue deficiency*. This he states is made with the following long term consideration in mind:

- (a) That a 20 percent decline in business activity would reduce state income by \$100,000,000.
- (b) That fixed charges against the General Fund are increasing and will continue to increase even in the face of business recession.
- (c) Any substantial reversal in business conditions will automatically create the need for a program of unemployment relief.

(38) In the recommendation for the creation of the deficiency reserve, the Governor refers to the 10 years of deficit financing and calls it elementary prudence to be prepared for the rainy day which will come if history repeats itself.

(39) There have been eliminated from the Budget all special war-time agencies. (Some services performed by them have been continued, however.)

(40) Only a small part of the total Budget is for new activities in State Government.

(41) The Governor states that during the past two years he has endeavored to follow the intent of the Legislature in relation to appropriations and has interpreted the legislative fiscal policies both in letter and in spirit. (We wish to state here that there has been a greater effort to do this than by past administrations but there have been some cases where our views differ on this.)

#### **POLICIES ENUNCIATED MAY NOT HAVE BEEN FOLLOWED COMPLETELY**

These policies and instructions of the Governor for the preparation of the Budget may not have been followed completely in a document calling for the expenditure of \$641,000,000 in one year. The necessities under which it is prepared do not always permit strictest adherence to policies and instructions established on an overall basis. A complete and careful review has been made to determine this and to coordinate recommendations with the Budget Document and the Appropriation Bill. If it is found that such policies have not been followed constantly, then if such policies are approved by the Legislature, changes should be made and amendments made in the Budget Bill to bring them into harmony with these general policies and instructions.

#### **LEGISLATURE MAY APPROVE DIFFERENT POLICIES**

Should the Legislature see fit to disagree with some of these policies set forth by the Governor, then they should be traced through the entire

Budget and Budget Bill and changes be made to conform with the policy change approved by the Legislature.

For example, the Legislature may decide that the construction program in the very large amount recommended by the Governor is not all urgently needed in the light of the excessive construction costs, and the Legislature may determine by proper review just what projects are actually so urgent that the State should pay approximately twice the prewar prices. *If the Legislature should do this, the capital outlay items should be reduced accordingly, or a definite formula based on a reduction of construction costs should be set to determine when building should be commenced.*

The same principle may be applied to the highway construction program, and in fact, the Legislature might even decide to exercise some budgetary control over highway expenditures and write this entire item into the Appropriation Bill in accordance with the recommendation of the Collier Fact-Finding Committee on Highways, Streets and Bridges, and previously suggested on several occasions by the Legislative Auditor.

The Legislature also may determine that the allowance made for commodity prices is excessive in light of the present declining prices. The Legislature may also decide that the expansion in the quality of services throughout the State, which in some activities is as high as 70 percent in cost to the State in one year, may be going a little too fast. If the Legislature makes any such decision in such matters of policy, then these should be translated into changes in the Budget and in the Appropriation Bill. If these changes include items which are not in the Appropriation Bill, then such controls as are desired should be written therein to see that the will of the Legislature is carried out.

### **Legislature May Require Stricter Economy Under the Annual Budget**

The Legislature may logically conclude that the benefits claimed for the Annual Budget shall be shown by a greater manifestation in the Budget by providing for a stricter budgeting than is apparent in the Budget presented. Particularly can this be true when for the first time in many years there is a decrease in the percentage of uncontrollable and fixed charges due to the fact that the controllable charges are increased in such a large amount.

### **Peacetime Economy Means Lower Revenues**

We have not yet returned to a peacetime economy as it existed prior to the war. We have maintained a high production and a high ratio of employment, with resultant accruals of larger revenues than ever before in the history of the State. However, it is possible and it appears to be very probable that there will be some decline in these factors in the budgeted year 1947-48. This may be followed by a further decline in business, and if history should repeat itself we may again have a period when income would fall so low that the present tax sources will not be sufficient to meet the expenditures.

In our report on the present Biennial Budget we included a schedule of California state tax collections from 1901-1944. We are now bringing this table down to 1946 by eliminating the first nine years and covering the period from 1910-1946. We are also repeating from our previous report the statement given therein covering finances of the State from 1929 to 1941, the beginning of the war period.

"From 1929 to 1941, the State did not collect in any one year enough revenue to meet state expenditures. In the last year of Governor Young's administration, the State spent approximately \$4,000,000 more than it collected and cut into the then surplus by this sum. By 1933 the State had used its surplus of approximately \$30,000,000 and had a deficit of approximately \$11,000,000. It is true that this surplus was used largely for capital outlay. From this date until 1941 the State had a deficit which finally reached almost \$100,000,000. This deficit arose in spite of the fact that during this period, 1929-1941, the State enacted many new taxes and increased the rates on other established taxes.

"The new taxes were:

- (1) The sales tax.
- (2) The use tax.
- (3) The gift tax.
- (4) The personal income tax.
- (5) The two liquor excise taxes.
- (6) The liquor license fees.
- (7) The automobile in lieu tax.
- (8) The motor vehicle transportation license tax.
- (9) The use fuel tax.
- (10) The corporate income tax.
- (11) The race track tax.
- (12) The private car tax.

There also was imposed a pay roll tax, now 2.7 percent on the employer and 1 percent on the employee, for the special purpose of establishing an Unemployment Insurance Fund.

The taxes that were increased were:

- (1) The corporation franchise tax.
- (2) The inheritance tax.
- (3) The bank tax.

The only tax levied in 1933 not levied today by the State is the utility property tax which was returned to the local property tax rolls."

A schedule of the taxes levied and the taxes collected from the several sources from 1910 to 1946 is shown in the table on the following pages.

CALIFORNIA STATE TAX COLLECTIONS.1910-1946

(Source: The State Controller)

| Year<br>ending<br>June 30 | <i>Ad valorem tax</i> |                    | Poll<br>tax | Inheritance<br>tax | Insurance<br>premium<br>tax | Motor<br>vehicle<br>licenses | Corporation<br>tax | Utility<br>gross<br>receipts<br>tax | Bank<br>tax | Corpora-<br>tion<br>franchise<br>tax |
|---------------------------|-----------------------|--------------------|-------------|--------------------|-----------------------------|------------------------------|--------------------|-------------------------------------|-------------|--------------------------------------|
|                           | Railroads             | Common<br>property |             |                    |                             |                              |                    |                                     |             |                                      |
| 1910                      | \$437,744             | \$8,436,048        | \$687,953   | \$883,640          | \$435,365                   | \$30,496                     | \$745,605          | -----                               | -----       | -----                                |
| 1911                      | 487,920               | 7,891,194          | 739,324     | 1,506,993          | 111,947                     | 41,135                       | 872,130            | -----                               | -----       | -----                                |
| 1912                      | 70,583                | 1,396,860          | 843,604     | 1,083,244          | 521,349                     | 62,806                       | 802,013            | \$6,617,483                         | \$1,628,787 | \$1,619,539                          |
| 1913                      | 64,843                | 1,297,054          | 856,876     | 1,586,875          | 602,904                     | 84,736                       | 798,886            | 6,988,014                           | 1,686,283   | 1,603,517                            |
| 1914                      | 63,468                | 1,264,962          | 845,485     | 1,796,479          | 760,300                     | 1,205,762                    | 741,083            | 8,856,824                           | 1,766,371   | 1,557,483                            |
| 1915                      | 63,345                | 1,212,380          | 553,552     | 2,783,090          | 813,494                     | 2,004,195                    | 9,461              | 9,141,992                           | 1,826,059   | 1,708,071                            |
| 1916                      | -----                 | 55,523             | -----       | 3,145,211          | 1,019,643                   | 2,126,657                    | 558,307            | 9,863,268                           | 2,222,677   | 1,862,074                            |
| 1917                      | -----                 | 37,892             | -----       | 3,830,952          | 1,056,577                   | 2,721,061                    | 776,606            | 10,412,164                          | 2,229,971   | 1,928,874                            |
| 1918                      | -----                 | 17,821             | -----       | 2,725,407          | 1,178,391                   | 3,401,807                    | 758,188            | 10,924,774                          | 2,184,217   | 2,104,653                            |
| 1919                      | -----                 | 12,370             | -----       | 3,409,911          | 1,359,130                   | 4,050,781                    | 757,039            | 12,107,027                          | 2,238,124   | 1,930,278                            |
| 1920                      | -----                 | 11,369             | -----       | 2,678,159          | 1,645,958                   | 5,406,942                    | 846,907            | 13,553,271                          | 2,335,815   | 1,994,217                            |
| 1921                      | -----                 | 8,437              | -----       | 6,804,732          | 1,996,652                   | 6,447,611                    | 936,733            | 15,519,133                          | 2,606,890   | 2,244,796                            |
| 1922                      | -----                 | 4,254              | -----       | 6,344,644          | 3,206,480                   | 7,687,731                    | 990,731            | 21,248,120                          | 3,630,832   | 3,020,745                            |
| 1923                      | -----                 | 3,149              | -----       | 4,777,950          | 3,392,054                   | 9,820,725                    | 1,118,084          | 22,144,812                          | 3,740,288   | 3,088,282                            |
| 1924                      | -----                 | 9,883              | -----       | 6,463,326          | 3,537,757                   | 6,497,622                    | 1,263,087          | 22,753,502                          | 3,809,672   | 3,359,498                            |
| 1925                      | -----                 | 4,588              | -----       | 6,423,141          | 4,519,393                   | 7,612,319                    | 1,315,581          | 27,777,791                          | 4,106,727   | 3,856,446                            |
| 1926                      | -----                 | 3,194              | -----       | 7,420,167          | 4,483,505                   | 8,183,108                    | 1,357,319          | 28,501,331                          | 4,287,439   | 3,874,690                            |
| 1927                      | -----                 | 4,671              | -----       | 8,460,954          | 5,042,533                   | 8,554,999                    | 1,375,345          | 29,713,490                          | 4,319,046   | 3,987,694                            |
| 1928                      | -----                 | 3,740              | -----       | 10,967,705         | 5,586,705                   | 8,833,902                    | -----              | 30,893,794                          | 4,360,572   | 4,646,130                            |
| 1929                      | -----                 | 8,361              | -----       | 13,180,226         | 6,359,702                   | 10,020,592                   | -----              | 32,369,113                          | 4,758,204   | 4,574,358                            |
| 1930                      | -----                 | 4,685              | -----       | 11,647,011         | 6,700,811                   | 9,825,647                    | -----              | 33,306,031                          | -----       | -----                                |
| 1931                      | -----                 | 3,273              | -----       | 13,735,791         | 7,186,960                   | 9,725,978                    | -----              | 35,301,741                          | -----       | -----                                |
| 1932                      | -----                 | 2,809              | -----       | 10,093,790         | 7,133,587                   | 9,289,018                    | -----              | 32,366,315                          | -----       | -----                                |
| 1933                      | -----                 | 1,137              | -----       | 5,778,786          | 6,725,024                   | 8,870,497                    | -----              | 29,492,284                          | -----       | -----                                |
| 1934                      | -----                 | 509                | -----       | 4,135,772          | 5,734,651                   | 8,639,952                    | -----              | 29,035,857                          | -----       | -----                                |
| 1935                      | -----                 | 479                | -----       | 4,945,034          | 5,413,245                   | 9,162,602                    | -----              | 27,913,372                          | -----       | -----                                |
| 1936                      | -----                 | 1,150              | -----       | 6,561,327          | 6,464,254                   | 10,420,170                   | -----              | -----                               | -----       | -----                                |
| 1937                      | -----                 | 2,642              | -----       | 5,743,981          | 6,638,820                   | 11,841,510                   | -----              | -----                               | -----       | -----                                |
| 1938                      | -----                 | 1,631              | -----       | 10,479,524         | 6,749,349                   | 11,786,283                   | -----              | -----                               | -----       | -----                                |
| 1939                      | -----                 | 1,168              | -----       | 8,371,589          | 7,631,077                   | 11,667,639                   | -----              | -----                               | -----       | -----                                |
| 1940                      | -----                 | 1,161              | -----       | 10,529,965         | 7,891,428                   | 12,736,643                   | -----              | -----                               | -----       | -----                                |
| 1941                      | -----                 | 1,309              | -----       | 11,449,476         | 8,124,777                   | 13,894,041                   | -----              | -----                               | -----       | -----                                |
| 1942                      | -----                 | 1,791              | -----       | 8,040,900          | 8,693,191                   | 13,943,334                   | -----              | -----                               | -----       | -----                                |
| 1943                      | -----                 | 1,786              | -----       | 6,245,960          | 9,958,487                   | 13,714,651                   | -----              | -----                               | -----       | -----                                |
| 1944                      | -----                 | 866                | -----       | 9,761,538          | 9,796,896                   | 14,282,536                   | -----              | -----                               | -----       | -----                                |
| 1945                      | -----                 | 686                | -----       | 9,833,490          | 11,643,411                  | 14,321,146                   | -----              | -----                               | -----       | -----                                |
| 1946                      | -----                 | 1,222              | -----       | 13,938,388         | 13,745,085                  | 16,134,591                   | -----              | -----                               | -----       | -----                                |

**CALIFORNIA STATE TAX COLLECTIONS 1910-1946—Continued**

(Source: The State Controller)

| <i>Year<br/>ending<br/>June 30</i> | <i>Gasoline<br/>tax</i> | <i>Motor<br/>transportation<br/>tax</i> | <i>Bank and<br/>corporation<br/>tax</i> | <i>Liquor<br/>taxes</i> | <i>Liquor<br/>licenses</i> | <i>Retail<br/>sales and<br/>use taxes</i> | <i>Race track<br/>taxes</i> | <i>Motor<br/>vehicle<br/>"in lieu"<br/>tax</i> |
|------------------------------------|-------------------------|---|---|-------------------------|----------------------------|---|-----------------------------|--|
| 1910                               |                         |   |   |                         |                            |   |                             |  |
| 1911                               |                         |   |   |                         |                            |   |                             |  |
| 1912                               |                         |   |   |                         |                            |   |                             |  |
| 1913                               |                         |   |   |                         |                            |   |                             |  |
| 1914                               |                         |   |   |                         |                            |   |                             |  |
| 1915                               |                         |   |   |                         |                            |   |                             |  |
| 1916                               |                         |   |   |                         |                            |   |                             |  |
| 1917                               |                         |   |   |                         |                            |   |                             |  |
| 1918                               |                         |   |   |                         |                            |   |                             |  |
| 1919                               |                         |   |   |                         |                            |   |                             |  |
| 1920                               |                         |   |   |                         |                            |   |                             |  |
| 1921                               |                         |   |   |                         |                            |   |                             |  |
| 1922                               |                         |   |   |                         |                            |   |                             |  |
| 1923                               |                         |   |   |                         |                            |   |                             |  |
| 1924                               | \$5,540,901             | \$81,011                                |   |                         |                            |   |                             |  |
| 1925                               | 12,717,790              | 121,667                                 |   |                         |                            |   |                             |  |
| 1926                               | 15,003,499              | 12,081                                  |   |                         |                            |   |                             |  |
| 1927                               | 16,904,358              | 102,593                                 |   |                         |                            |   |                             |  |
| 1928                               | 25,304,092              | 1,622,982                               |   |                         |                            |   |                             |  |
| 1929                               | 31,151,481              | 1,001,522                               | \$2,304,582                             |                         |                            |   |                             |  |
| 1930                               | 33,874,307              | 1,080,370                               | 6,841,408                               |                         |                            |   |                             |  |
| 1931                               | 38,640,664              | 1,087,591                               | 6,601,595                               |                         |                            |   |                             |  |
| 1932                               | 37,209,108              | 1,037,948                               | 4,779,892                               |                         |                            |   |                             |  |
| 1933                               | 35,520,658              | 807,215                                 | 3,359,212                               | \$59,872                | \$16,298                   |   |                             |  |
| 1934                               | 36,567,377              | 1,734,045                               | 4,017,292                               | 973,622                 | 1,942,200                  | \$33,243,760                              | \$259,657                   |  |
| 1935                               | 36,602,767              | 1,931,921                               | 4,886,825                               | 1,530,823               | 3,801,097                  | 56,471,540                                | 1,005,103                   |  |
| 1936                               | 42,367,873              | 2,145,297                               | 14,984,862                              | 8,994,160               | 4,172,127                  | 70,417,199                                | 1,587,373                   | \$8,115,067                                    |
| 1937                               | 44,191,885              | 2,428,488                               | 17,401,337                              | 10,074,940              | 6,291,931                  | 84,592,898                                | 1,933,260                   | 10,801,202                                     |
| 1938                               | 47,136,901              | 2,418,362                               | 21,453,651                              | 9,832,459               | 5,594,770                  | 89,365,743                                | 2,527,803                   | 11,163,880                                     |
| 1939                               | 47,180,298              | 2,405,918                               | 20,099,823                              | 9,854,134               | 5,634,035                  | 87,981,986                                | 2,990,893                   | 10,772,803                                     |
| 1940                               | 50,620,167              | 2,571,178                               | 20,436,074                              | 10,309,938              | 5,684,101                  | 93,773,337                                | 2,810,246                   | 12,842,072                                     |
| 1941                               | 53,651,546              | 2,818,351                               | 22,814,401                              | 11,246,567              | 5,665,676                  | 109,233,942                               | 3,805,824                   | 15,597,693                                     |
| 1942                               | 57,453,912              | 3,558,043                               | 34,065,799                              | 12,162,825              | 5,643,965                  | 132,576,353                               | 1,703,847                   | 14,402,650                                     |
| 1943                               | 45,444,228              | 4,971,262                               | 52,819,849                              | 16,434,637              | 5,525,504                  | 135,636,953                               | 1,077,685                   | 12,980,363                                     |
| 1944                               | 42,472,957              | 5,743,577                               | 67,293,534                              | 15,406,870              | 5,926,285                  | 135,086,342                               | 2,372,392                   | 14,595,339                                     |
| 1945                               | 43,967,426              | 6,389,498                               | 57,647,503                              | 19,301,964              | 6,483,563                  | 150,314,238                               | 7,142,622                   | 15,448,527                                     |
| 1946                               | 59,219,126              | 6,800,963                               | 55,415,943                              | 21,632,914              | 8,488,135                  | 178,812,541                               | 22,758,059                  | 18,410,366                                     |

(Source: The State Controller)

(Source: The State Controller)

\* These large sums resulted from settlement of certain disputed tax claims in favor of the State.

~~to include income tax, gift tax, estate tax, and other taxes levied by the state or federal government; and~~



### The Previous State Deficit

“The State deficit of 1933-41 was brought about by the six following conditions:

1. The decline in general prosperity which reduced the income of the people and consequently tax returns.
2. The assumption by the State of more and more costs of Government which previously had been carried by local government. This was particularly true in the assumption of school costs, aid to the needy aged, and the construction of highways, but it also included many other items.
3. The assumption of the obligation of assisting in the relief of needy due to unemployment.
4. The increase in the services of the State Government in almost innumerable ways.
5. The increased cost of providing services due primarily to increases in wages and salaries and the granting of more privileges to State employees, including shorter hours, more holidays, more liberal sick leave, longer vacations, pay for overtime, a generous retirement plan, and the normal upgrading of salary scales through the fact that employees have increased years of seniority.
6. The rapid increase in population of the State following the first world war.”

If the Legislature considers all of these conditions of the past and applies them to the present, and recognizes that the present flush income of the State results from a continued wartime economy, and when it disappears, normal revenue will probably not meet normal expenditures much less the increases in government, it may establish more definite economy procedures to meet the decline in revenue and check further increase in the cost of State Government.

All of the fiscal officers and technicians of the State, dealing with taxes and revenues, concur in the prediction that revenues of the State will decline with the end of flush demand carried over from the war. The Governor concurs in this as shown by the statement in his message to the 1945 Legislature in the following words:

‘Government will of necessity be more expensive as time passes, and unless every dollar of our present income is spent prudently we will soon be operating on a deficit as we did for 10 consecutive years prior to the war. Any new spending habits set up now must be projected into the future and paid for indefinitely. I, therefore, urge that all requested appropriations, both in and out of the budget, be scrutinized as carefully as though we were not operating on a surplus.’

Following the conclusions above stated, including the Governor’s suggestion that all requested appropriations, both in and out of the Budget, be scrutinized as carefully as though the State were not operating on a surplus, and with the added conclusion that the establishment of any broader expenditure program now will eventually result in increased

taxes concurrent with declining economic ability of the people to support them, undoubtedly means the Legislature must adopt a stricter economy than is found in the Governor's Budget."

The Governor again in 1947 repeats his warning that history may repeat itself and suggests that the Legislature take account of this and set up additional reserves and in particular provide for the rainy day of declining revenues. We call your attention to the fact that the six reasons given in our prior report for the bringing about of the state deficit have in part already occurred, and that they can very readily occur in the not too distant future. In fact, all of these conditions have occurred with the exception of the first, that is, the decline in general prosperity which reduced the income of the people and consequently tax returns. The State has assumed more and more cost of government previously carried by local government. This has been particularly true in the further assumption of school cost and the cost of aid to the needy aged and further assumption by the State is being proposed in a much larger way for the construction of highways.

The third reason given, the assumption by the State of the obligation for assisting in the relief of the needy due to unemployment, has been fully provided for by a bill approved by the *Legislature* which can be brought into effect by the Governor. One buffer has been provided in establishing a fund from which to pay unemployment insurance benefits.

The fourth reason for the deficit, the increases in the services of State Government, has occurred in almost innumerable ways. More has been added by action of each session of the Legislature, not only in expanding services of government but in establishing new services, and in amounts that, although they are easily met in this time of prosperity, will seem burdensome in a declining economy.

The fifth reason, the increased cost of services due to increases in wages and salaries and more privileges to employees in the several ways mentioned, has been further increased as is shown in the schedule in the Governor's Message and in his statement that over \$28,000,000 of the increase in the Budget is due to the increase in salaries allowed during wartime.

In addition to this, the State has recently assumed the obligation of the accumulated deficit of the teachers' retirement plan, and one-half of its current costs. This is an increasing fixed charge.

Numerous bills are in the Legislature increasing the benefits of the State Employees' Retirement plan, part of it fully charged to the State. Many other salary and wage increases, including the proposal that all state employees be placed on a 40-hour week, have already been adopted or are before the Legislature.

Reason six, that the deficit was brought about by the rapid increase of population of the State following the first world war, has been repeated and with emphasis due to the increased population that occurred during the second world war and immediately following it. This, in fact, means practically doubling the financial requirements for elementary and high school education alone within eight years. There are many other costs which have increased in proportion to population without there being a corresponding increase in revenue returns resulting from population growth.

At this time we could add a seventh reason which will assist in bringing about a state deficit. This is the fact that we have changed since 1941 from predominantly an agricultural society to an industrial society with many added government costs flowing therefrom, more than sufficient to offset the higher tax base resulting from this change.

For example, an industrial society has a larger ratio of mental cases, a larger relative amount of crime, of dependents, of maimed and crippled persons from industrial accidents and a larger ratio of industrial diseases and of higher costs arising from a change in our social structure. For example, the urge for the continuance of child care centers established as a wartime measure rests partly upon the change in our social structure.

### **Better Budgeting Through an Annual Budget and Annual Appropriations**

So far in the procedure of preparing the Annual Budget, there has been limited manifestation that the desirable and promised better budgeting, better budgetary control and greater economy are being produced. Only occasionally have amounts requested by the various departments first made on a biennial basis shown a reduction for 1947-48, the first year of the biennium, to coincide with the shorter period of estimate required by the Annual Budget. A review of the percentage increases in this Budget, which are shown in this analysis compared with other biennial increases in prior Budgets, will demonstrate this fact. There were some instances where reductions were made for the reason that the situation could be considered in the succeeding year. There were other instances, however, where the argument was advanced that an appropriation should be allowed or continued for another year when it could be again reviewed and then reduced if found too large.

The only real advantage which is manifest so far in budgeting is probably a more accurate estimate of revenue. While this is desirable, it is also disadvantageous, for it allows using a short view in financing governmental activities which are generally established on a long-range basis. The financial support needed should therefore be considered on a comparable long range basis. The Governor in his Budget Message recognized the necessity of viewing income on the long time basis in the light of continually increasing fixed charges and the population growth of the State.

### **No Large Results From an Annual Budget Unless Legislature Acts**

In our opinion, no significant results will flow from merely having an Annual Budget unless the Legislature itself takes action to guarantee effective results. The Legislature, however, is handicapped in relation to any Budget for the reason that such a large part of it is fixed charges. Some 58 percent of this entire Budget as presented by the Governor is made up of fixed constitutional charges and continuing legislation. The Legislature, therefore, only acts on 42 percent of the Budget. This explains the reason why the total Budget amounts to \$641,599,026 while the total Appropriation Bill only amounts to \$381,360,129, or only 59.44 percent of the entire Budget.

In making the necessary adjustments by deducting the net for the two items, Sections 4 and 5, in the Budget Bill considered by the Governor as reserves, the total of the Appropriation Bill then amounts to \$177,913,888. This is only 27.73 percent of the Budget in the amount as stated by the Governor. Fuller explanation of this is presented subsequently.

The proportion of the Budget contained in the Budget Bill total as introduced is far larger than it has been for many years. This is partly due to the two reserves previously explained and due to the enlarged capital outlay program and to increases in other controllable appropriations recommended by the Governor.

### **Relationship Between the Budget and the Budget Bill**

In our report to the Joint Legislative Budget Committee covering the 1945-47 Budget, we explained carefully on pages 26 to 30 inclusive the relationship between the Budget and the Budget Bill. This same situation continues to exist. However, this Administration has followed the Budget closer than has been done previously.

The Budget has no legal recognition as controlling the amounts set up therein. Only the Appropriation Bill provides the real control. There never can be an effective control of the expenditure program of the State by the Legislature until the Legislature actually reexamines this function of legislation and controls all expenditures. This will require constitutional amendments or a new Constitution.

The percentage of the Budget controlled by the Legislature has continually grown less up to the present Budget. Controllable items show an increased amount in this Budget. The reason for this normal condition in the past arises through the fact that these controlled items increase directly with population, and then every so often the amounts required are increased either through changing the formulae as in the case of aid to the aged, by legislative enactment or by constitutional amendment as in the case of Proposition No. 3 on the November 5, 1946, ballot. This provision increased the support of schools to \$120 for average daily attendance for all branches of the public school system, including the kindergarten not previously given an allotment. It added \$53,000,000 to the fixed charges for 1947-48.

### **Analysis of the Budget and the Budget Bill Follows the Stated Assumptions and Encompasses Budget Committee Principles**

In making our analysis of the Governor's Budget and the Budget Bill which accompanied it, the assumptions made by the Director of Finance previously stated and as defined in the Governor's Message have been accepted, but with the following specific interpretations and limitations.

- a. We accept the assumption that the period 1947-48 will be a period of continuing prosperity with some downward trend within the year.
- b. Wartime agencies should terminate with the end of the present fiscal year, and none of them should be carried forward to 1947-48.
- c. The continuance of any functions of wartime agencies should be acted upon specifically by the Legislature.

- d. We agree that the State should reassume its normal functions, but we assume that wartime employees should not be continued and any additions to any staff should be based on actual demand and workload.
- e. We concur in the continuance of salaries at the present scale, but we maintain that the total amount paid in salaries should be held within the total appropriation made by the Legislature for such purposes, and savings should accrue if, under the authority of the Personnel Board, salary adjustments should be made downward during the budgeted year.
- f. We concur that allowances should be made in the Budget for further growth in the State's population at the postwar rate of increase.
- g. We agree that commodities have to be bought at going prices, but we contend that there was no apparent reason for including an item for increase on all purchases for the whole year 1947-48, and that prices will probably be lower for the budgeted year than they are now.
- h. The workload principle being developed by the Department of Finance for measuring the needs of agencies is sound, but it has not been sufficiently refined or applied. We believe a cut in personnel and a restoration only on definite showing will produce large savings.
- i. In relation to capital outlay and construction we cannot agree with the Governor's recommendation that all of the amount requested is urgently needed, and we repeat our recommendation (i) on page 18 of our previous report that "we reserve the right to differ on what is urgent \* \* \*, particularly while prices are so very high and materials scarce." We recommend that no expenditures be made above a building index of 400 and then only for absolute necessities until the index falls below 350.
- j. The condition that all expenditures recommended are for essential needs of the State, we differ with in many items. These will be detailed in the following analysis.
- k. There is general agreement that the Governor's expressed statement that money should be conserved for our future building program and for a rainy day, and we likewise concur in his estimate that a reduction of 20 percent in business activity will result in a loss of \$100,000,000 in revenue. The Governor does not repeat his statement found in the current Biennial Budget that strict economy should be practiced as if we had no surplus, and we find many items in the Budget that cannot be considered consistent with strict economy. These we have pointed out in our detailed consideration of the Appropriation Bill which follows:

### **Instructions of the Budget Committee as to the General Principles to Be Followed in Reviewing the Budget**

The general principles expressed by the Budget Committee which have been followed in making this report coincide with those presented in our previous report. They are adjusted only to meet the postwar period and repeated here for ready reference so that our detailed analysis may be properly interpreted:

1. The operation of every department, division, commission, agency, and board of the State should be reviewed with the idea of making effective all possible economies.

2. Duplication, overlapping, and unnecessary functions should be eliminated.

3. Surplus employees should not be allowed.

4. Extravagant use of supplies, material, and equipment should be reduced.

5. Recognition should be given to the fact that, although the shooting part of the war has ended, we still have the cost of the war to pay and economy of operations should be continued in order to help us get out of debt and pay for the war.

6. The positions of state employees who were engaged in the war effort and who are not required for peacetime operations should be left vacant.

7. Every energy should be dedicated to preserving the wartime accumulated surpluses.

8. State governmental activities made necessary by the war effort which are no longer necessary should be entirely eliminated.

9. State agencies which assumed additional responsibilities as a result of the war should now eliminate these services.

10. Wartime functions that can be urged as necessary for peacetime activity should be considered solely on their merit, and they should not be continued merely because they came to be desirable while being operated as a wartime activity.

11. No new services of government or expansion of services should be established on the basis of the flush wartime revenues that have been enjoyed and are still accruing.

12. Personnel employed for wartime activities should not be continued.

13. Positions that were vacant during the war should not be refilled unless each and every position can be specifically justified.

14. If any department or agency operated satisfactorily during the war with a reduced personnel, they should be able to do so after the war, particularly as postwar employees are found to be of higher efficiency than wartime employees.

15. Returning military personnel should receive their old positions back, but duration employees should not be retained through creating new positions, and such duration employees should be eliminated as soon as possible.

16. The present building fund should not be expended for capital outlay due to the present excessive prices except so much thereof as is absolutely necessary to meet emergencies.

17. It does not appear to be necessary to establish a special emergency fund for continuing increases in the price of commodities. It appears now that prices will recede rather than increase.

18. Consideration should be given to substituting cheaper commodities for expensive ones where equal results can be secured since there is now a broader selection than there was during the war.

19. Fixed motor vehicle valuation should be continued until the new proposed cost price valuation and depreciation method being considered by the Legislature is adopted.

20. The lack of housing has caused the Legislature to recede from its previous action that no dormitories should be provided either at the University of California, state colleges or special schools. The committee holds, however, that these services should be self-supporting and the State should not go into this business any further than is absolutely necessary due to housing shortages. It holds firmly that the State should never subsidize dormitories.

*21. The committee, in addition to reiterating these general principles, has further instructed the Legislative Auditor to view the present Budget in the light of the inevitable effect of deflation and to make such recommendations for Budget reductions as will produce as nearly as possible an expenditure program which can be carried by the State in normal times without incurring deficit financing.*

In short, the general policies to be followed were expressed by a member of the committee in two short sentences, "The only policy to follow is to practice economy and cut expenditures to the bone. The Legislature should scrutinize the Budget very carefully and resort to economy and cut the Budget down substantially."

### **What Is the Budget Bill and Why Is It Less Than 30 Percent of the Amount of the Budget Document, Excluding Reserves\* in Both Instances?**

The constitutional requirement in relation to the Executive Budget found in Section 34 of Article IV of the Constitution provides that the Budget Bill shall be accompanied by an Appropriation Bill covering the proposed expenditures to be known as the Budget Bill. It also provides that *until the Budget Bill has been finally enacted, no other appropriation bill except emergency bills recommended by the Governor, or appropriation for the expense of the Legislature or pay of the Legislators,*

\* Reserves including an item for postwar employment amounts to 53.35 percent of the Appropriation Bill and have been excluded to get a fair estimate of relative financial conditions.

*shall be passed.* The provisions of this section are quoted herewith so that they may be readily available.

**THE BUDGET BILL—MUST BE PASSED PRIOR TO PASSAGE  
OF OTHER APPROPRIATION BILLS**

“The Budget shall be accompanied by an Appropriation Bill covering the proposed expenditures, to be known as the Budget Bill. The Budget Bill shall be introduced immediately into each house of the Legislature by the respective chairman of the committees having to do with appropriations, and shall be subject to all the provisions of Section 15 of this article. The Governor may at any time amend or supplement the Budget and propose amendments to the Budget Bill before or after its enactment, and each such amendment shall be referred in each house to the committee to which the Budget Bill was originally referred. Until the Budget Bill has been finally enacted, neither house shall place upon final passage any other appropriation bill, except emergency bills, recommended by the Governor, or appropriations for the salaries, mileage and expenses of the Senate and Assembly. No bill making an appropriation of money, except the Budget Bill, shall contain more than one item of appropriation, and that for one single and certain purpose to be therein expressed.”

The Budget Bill for the 1947-48 Fiscal Year is Assembly Bill No. 1250 in the Assembly, and Senate Bill No. 666 in the Senate. These bills are identical. In general they conform to the constitutional provision. They require explanation in order to answer certain obvious questions that arise as soon as the Budget and the Budget Bills are considered together and in conjunction with the constitutional requirements for an Executive Budget. These questions that arise continuously are as follows:

(1) Why does the Budget Bill appear in the particular form in which it is presented?

(2) How can a document of such small size (seventy-one and one-quarter bill-size pages) enact into law a financial plan for the State which requires 1048 pages, each twice the size of the Budget Bill pages, to present it?

(3) Does the Budget Bill in any way enact into law the Budget Document or is the Budget Bill all that is passed by the Legislature and actually becomes law?

(4) Is everything in the Budget Document found in the Budget Bill which is before the Legislature? If not, why not?

(5) If particular items in the Budget Bill are enacted into law, does that mean that the department or agency concerned will have this money to spend as they please, or must they spend it under the plan shown in the Governor's Budget Document?

(6) What if an item appears in the Governor's Budget and does not appear in the Budget Bill?



(7) Why is the total of the Budget Bill excluding reserves less than 30 percent of the total of all items in the Budget Document, also excluding the same reserves?

(8) Why is it that there is no provision in the Budget Bill for emergency funds for any of the special funds but there is such provision for the General Fund?

(9) What is the actual effect of the Budget Document and the Budget Bill?

(10) Finally, does the Legislature have authority to determine exactly how money will be expended or can it only act on the items presented in the Budget Bill?

There are undoubtedly more questions that might logically be asked in this connection. However, an answer to these will go a long way to produce a better understanding of the Executive Budget and Budget Bill which the Legislature enacts and the resultant control of appropriations.

### **Why Does the Budget Bill Appear in the Particular Form in Which It Is Presented?**

The Budget Bill under the provisions of the Constitution, is the only bill that may contain more than one item of appropriation. This explains why it is different from other appropriation bills which may contain only one item of appropriation and that for one fixed and certain purpose. This does not explain otherwise why the particular form is used. The explanation lies simply in the fact that this is the established page size for all bills and the form which has developed since the Executive Budget was required by the constitutional amendment passed November 7, 1922, making effective the Executive Budget. The form has varied but little since the first Budget Act.

#### *Form Can Be Changed*

The Budget Bill could appear in a much different form. In most prior years it has appeared in a somewhat different form through omitting the classification of appropriations under the different items in the specific tabulations and merely showing lump sum appropriations. The procedure of showing the specific classifications of expenditures:

- (a) Salaries and wages;
- (b) Operating expense;
- (c) Equipment;

was used in 1941-43 as a legislative method of establishing more definite control of appropriations. It was omitted from the 1943-45 Appropriation Bill. It did not appear in the 1945-47 Budget Bill as submitted by the Governor. It was amended in by the Legislature. This form is used in the present Budget Bill for 1947-48.

In light of the fact that the State now has an Annual Budget and there is less need for elasticity and greater opportunity for more specific and definite control, it is quite logical for the Legislature to establish even more definite controls over appropriations and to consider changing the form of the Budget Bill to accomplish this purpose.

Sections 2.5, 2.6, 2.7, 5, 5.5 and 13.5 were specifically written into the Budget Bill for 1945-47 to provide for a better budgetary control and to require that the members of the Legislature be informed of transfers between the several classifications in the schedule above presented and other adjustments made in the budget allotments for which appropriations were contained in the Budget Bill.

Not all of these provisions are included in the Budget Bill for 1947-48 as introduced, but most of the essential ones have been included in the document as originally submitted by the Administration. These control sections are presented herewith to indicate what additional legislative control has been developed in recent years by the Legislature and is continued in this Budget Bill as originally introduced. In fact, most of the increase of some 51 pages in the amended Budget Bill for 1945-47 over the bill as introduced, and the 41 pages in the 1947-48 Budget Bill as introduced over the original 1945-47 Budget Bill results from these control sections. These control sections in the 1947-48 Budget Bill are :

“SEC. 7. In providing that certain appropriations in Section 2 of this act are to be expended in accordance with a schedule set forth after each such appropriation items, *it is the intent of the Legislature*, except as specifically provided in other sections of this act relating to the category “salaries and wages,” *to limit thereby the amount of money to be expended from each such appropriation item for certain specified object categories, such as “salaries and wages,” “operating expenses,” or “equipment,” using in that connection the same terms as used in the detailed budget of the officer, department, division, bureau or other agency to whom the appropriation is made, as contained in that document entitled “State of California Budget for the Fiscal Year July 1, 1947 to June 30, 1948,” submitted by the Governor to the Legislature at the Fifty-seventh Session. Each such schedule in this act is a restriction or limitation upon the expenditure of the respective appropriation made by this act, does not itself appropriate any money, and is not itself an item of appropriation.*

As used in such schedules :

“Salaries and wages” shall include all expenditures for payment of officers and employees of the State but does not include compensation of independent contractors rendering personal services to the State under contract.

“Operating expenses” shall include all expenditures for purchase of materials, supplies (including expendable equipment), services (other than services of state officers and employees), and all other proper expenses (other than the acquisition of unexpendable tangible property).

“Equipment” shall include all expenditures for the acquisition or replacement of nonexpendable tangible property.

For the purpose of further interpreting the meaning of the words, terms, and phrases used in such schedules, reference is hereby made to the aforementioned budget document, the uniform accounting system prescribed by the Department of Finance under the provisions of Section 13290 of the Government Code, and the appro-

prate portions thereof. The State Board of Control shall establish such interpretations as are necessary to carry out the provisions of this section and shall furnish the same to the State Controller and to every state agency to whom appropriations are made under this act.

SEC. 8. The Director of Finance may, pursuant to a request by the officer, department, division, bureau, board, commission, or other agency to whom an appropriation is made herein, authorize the augmentation of the amount available for expenditure for an object category designated in any schedule set forth for such appropriation in Section 2 by transfer from any of the other designated object categories within the same schedule. The Director of Finance shall present to the Joint Legislative Budget Committee assembled in meeting a report on all authorizations given pursuant to this section during the preceding quarter.

SEC. 14. \* \* \* Each fiscal year budget shall provide for a Salary Savings Reserve to which shall be transferred on a document initiated by the agency and approved by the Department of Finance the unencumbered balance remaining in each allotment for salaries and wages at the close of each quarter or other period of time covered by the allotment. The unencumbered balance remaining in each budget allotment for salaries and wages shall be computed by deducting from the amount of the allotment the expenditures and accrued obligations for salaries and wages chargeable to such allotment for the period covered thereby. The amount in the Salary Savings Reserve shall not be available for expenditure except upon transfer to allotments for salaries and wages approved by the Department of Finance. Such transfers shall be approved only after it has been demonstrated to the satisfaction of the Department of Finance that the allotment to be augmented is insufficient to meet necessary expenditures for salaries and wages.

No money in any Salary Savings Reserve may be expended to pay increases in salary ranges established after July 1, 1947, unless the Department of Finance certifies to the State Personnel Board prior to the adoption of such increased salary range that funds will be made available to pay the increased salaries resulting therefrom.

SEC. 18. The State Board of Control may with the recommendation of the Director of Finance, authorize the transfer of unneeded funds from an appropriation for support, or for construction, improvements, repairs, and equipment, for an institution, school or college within any of the following agencies to a similar appropriation for another institution, school or college within the same agency:

(a) Department of Corrections, exclusive of the Youth Authority, upon request of the Director of Corrections;

(b) California Youth Authority, upon request of the Director of the Youth Authority;

(c) Department of Education, upon request of the Director of Education;

(d) Department of Institutions,\* upon request of the Director of Institutions.”\*

### *Control of Abuse in Use of State Automobiles*

There also appears in the Budget Bill two new sections establishing a better control. Section 15, page 70, establishes a better control of the purchase of automobiles and reads as follows:

“SEC. 15. No purchase order for acquisition or replacement of motor vehicles shall be issued against any appropriation made herein until the Department of Finance has investigated and established the necessity therefor.”

While this section should be effective in controlling the original purchase of motor vehicles, in our opinion it is not sufficient for it does not express the legislative intent as to limitation on the relative classes of automobiles for the different classes of employees and work to be done, nor does it provide any means of eliminating the tremendous abuse in the use of state automobiles.

Your Legislative Auditor emphatically suggests that there should be a specific provision in the Appropriation Bill to the effect that a schedule of classes of cars shall be determined by the Director of Finance or the Board of Control, and that no money appropriated by this act shall be used for the purchase of any automobile outside of or in exception to this schedule. Secondly, the Board of Control shall establish rules and regulations for the operation of state automobiles for the purpose of eliminating abuses, and that no money shall be spent from any appropriation provided in this bill for the expense of an automobile which is used in violation of these rules. Such controls can be written into the Appropriation Bill and can be made effective.

### *Transfer of Funds Where Law Changed*

Section 22, page 71 of the Budget Bill, is another new provision which sets up a method of adjusting funds whenever a change is made by law in the fund from which the support of an office or state agency has been made. Section 22 reads as follows:

“SEC. 22. Whenever by law a change is made in the fund from which the support of any office, board, commission or other state agency is properly payable, any appropriation made herein for the support of such office, commission or other state agency, or the applicable portion thereof, shall become payable from the fund designated in that law. The State Board of Control shall determine the adjustments to be made in the appropriations provided for herein as a result of any such change in law and shall certify the same to the State Controller, who shall thereupon make the necessary entries upon his records.”

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\* This is apparently an error in the original bill and should be amended from Institutions to Mental Hygiene.

### *Control of Capital Outlay*

Capital outlay has always been set up in the Budget Bill as a separate expenditure item for the several departments and agencies. It is so designated in the Budget Bill for 1947-48.

There is, however, written into this Appropriation Bill a new procedure for capital outlay established first by the appropriation made in Chapter 145 of the Statutes of 1946 setting up appropriations from the Postwar Employment Reserve and the General Fund for state buildings. This establishes a new kind of control and yet provides elasticity in such expenditures for capital outlay. This act creates a State Public Works Board consisting of the Director of Finance, Director of Public Works, Real Estate Commissioner, two members of the Senate appointed by the Committee on Rules and two members of the Assembly appointed by the Speaker. The legislative members participate in the work of the board to the extent that such participation is not incompatible with their positions as members of the Legislature.

The Director of Finance administers the act and allocates the funds. The Board determines when and if any construction, improvements and purchase of equipment shall be undertaken.

In Section 3 in the Appropriation Bill for 1947-48 the unexpended balance of the funds appropriated by Section 6, Chapter 145 of the Statutes of 1946 is transferred to the Postwar Employment Reserve *and continues to be available for the purposes for which it was appropriated.*

Section 4 appropriates from the General Fund the sum of \$128,446,250 to be transferred to the Postwar Employment Reserve in augmentation of the appropriation made in Section 6, Chapter 145 of the Statutes of 1946, and a schedule of amounts is set forth in the section.

This has the effect of imposing upon these appropriations only the limitations included in the above-mentioned statute.

Determining what projects or building shall be built or the priority therefor has not been made by the Legislature, nor have any of these particular items in the list been approved by the Legislature, for Section 3 of the above Statute contains the following:

“In enacting this act the Legislature does not approve or disapprove any of the projects or buildings mentioned in the “overall priority lists” or supplemental “balance of program” lists set forth in the statement of capital expenditures required by state agencies submitted by Director of Finance to the First Extraordinary Session Fifty-sixth Legislative Session, January, 1946, as printed in the Senate Journal for January 7, 1946, beginning at page 26 and in the Assembly Journal for January 7, 1946, beginning at page 35; but the Legislature commits such approvals and the establishment of priorities to the State Public Works Board.”

Thus, the Legislature clearly commits the responsibility of making approval and costs of projects, establishment of the priorities and all other matters to the State Public Works Board.

This should be kept in mind in interpreting the Governor's statement on page vi of his Budget Message that there is contained in the \$128,446,250 recommended, \$22,000,000 for the revision and expansion of projects *already approved*. Such approval cannot be attributed to the

Legislature. The administration is clearly responsible for what shall be built, when it shall be built and what price shall be paid.

This item is not included in the Budget as an expenditure or is it deducted from the surplus or added to the Budget as we have previously explained. An item for armories in the sum of \$1,000,000 is included from the total Postwar Employment Reserve.

### *Limitations Can Be Placed on Expenditures*

The Legislature has the authority to place limitations on expenditures in specific terms as well as in general terms. The Legislature has in times past placed certain prohibitions on various items of appropriations, and has provided that no money appropriated shall be spent for a particular purpose. An example is found in the Budget Bill for 1941-43 on page 23, under Item No. 96, which reads as follows:

“No money appropriated by this act is available for expenditure for the salary of a Confidential Representative, Division of Labor Statistics and Law Enforcement, Department of Industrial Relations.”

Similar prohibitions are found in Items Nos. 97, 98 and 100 of the same bill.

In the Budget for the 1943-45 Biennium, Chapter 62, Statutes of 1943, on page 9, under Item 100, a similar prohibition is found.

### *Controls Provided by Legislature*

As a result of including the schedules dividing appropriations, and the limitations above mentioned, the Budget Bill for 1941-43 contains 64½ pages in comparison with 27 for 1943-45, and 31½ as introduced for 1945-47. The 1945-47 Budget Bill, however, totalled 75 pages when it was finally enacted in the law. These additional 44 pages were brought about by writing in the schedules dividing appropriations as mentioned above, and in writing in the several restrictions previously quoted.

The Budget for the Fiscal Year 1947-48, as we have previously mentioned, comprises 71½ pages as it is first introduced. It already contains the schedule divisions for appropriations and most of the limitations amended into the 1945-47 Budget Act by the Legislature.

The authority of the Legislature to place further limitations and to even include items that are not now the subject of appropriation, but are included in the Governor's Budget under the ruling that they are continuing appropriations, can be exercised by the Legislature when it desires. A letter from the Legislative Counsel in answer to our inquiry on this matter is presented herewith as indicative of the authority the Legislature may exercise when it sees fit.

OFFICE OF LEGISLATIVE COUNSEL  
SACRAMENTO 2, CALIFORNIA, October 30, 1946.

HONORABLE ROLLAND A. VANDEGRIFT, *Legislative Auditor*  
*State Capital, Sacramento, California*

### *Control of Highway Expenditures*

DEAR MR. VANDEGRIFT: You have asked us to advise you what legislation is necessary to enable the Legislature to establish full control of the expenditure of funds for the construction and maintenance of state highways.

All that is necessary to accomplish this objective is to include in the Budget Bill such appropriations as may be considered proper from the State Highway Fund for the maintenance and construction of highways. No other legislation is necessary.

The construction and maintenance of highways is paid for primarily out of the State Highway Fund, although some General Fund money is made available for that purpose, as for example in connection with the postwar planning and construction program. The law relating to the State Highway Fund is not essentially different in its provisions from the law regarding other special funds. The proposed expenditures from that fund are included in the budget submitted by the Governor to the Legislature, these figures appearing at page 712 of the Budget for the current biennium.

The Legislature has not, however, included in the Budget Bill itself an item or items of appropriation from the State Highway Fund for highway construction purposes. As you know, the inclusion in the Budget Bill of an item of appropriation from a special fund limits the amount that may be expended from that fund during the biennium to the amount of the appropriation subject to the power of the Department of Finance upon request to make additional sums available from the special fund as deficiency allocations.

In this connection you may be interested in Senate Bill No. 423 of the 1941 Regular Session. This bill, as amended March 25, 1941, copy of which is enclosed, provides for the submission of a State Highway Budget by the California Highway Commission to the Governor and sets forth in detail the contents of the budget. The bill further provides for a biennial report showing the amount of actual expenditures, unobligated balances, and disposition of any surplus funds.

Very truly yours,

FRED B. WOOD, Legislative Counsel  
By LAWRENCE G. ALLYN, Deputy

LGA :ehc

### *Line Item Budget*

The Legislature can enact in the Budget Bill as many limitations and as much detailed specification for the expenditure of money as it wishes. The extreme in such control would be enacting a line item Budget. At the present time this would be difficult to administer for the reason that the accounting system of the State is not geared to functioning such a control. If it should be enacted into law it would be necessary to expand the accounting system and to increase the staff and equipment of both the Controller and the Department of Finance and concentrate on this task. The Department of Finance would have to exercise, in the first instance, a strict budgetary control. At the present time control is exercised through the quarterly and annual budgets, and the approval by the Department of Finance of transfers, establishment of new positions, and any expenditures for any items other than regularly approved Budget items.

The Controller determines the legality of expenditures on the basis of the appropriation act where these are contained in the Budget Bill, and in other instances on the basis of the appropriation, be it either by constitutional provision or continuing legislation. If the Line Item Budget was adopted, the Controller would have to set this up specifically on his books and check every payment so as to see that it did fall within these specific appropriations. He would have to expand his accounting set-up tremendously, likewise his system of controls and his total staff. It is doubtful if he could carry this into effect at once or if at all under the present conditions.

### **Annual Budget Makes More Legislative Control Possible**

The adoption of the Annual Budget provision by vote of the people now makes it possible to budget closer and likewise the period between readjustments is shortened so that no great harm can accrue through a stricter control. Certainly there would be less harm through a strict control and a resultant saving of money than would accrue through a looseness of control and a possible unnecessary expenditure of the taxpayers' money in many instances.

In urging the approval of the Annual Budget the proponents urged that many benefits would accrue through better budgeting. Such benefits cannot be realized unless there is both better budgeting and better control of expenditures.

The Legislature is responsible for the financial program of the State. It cannot exercise this responsibility unless it takes steps to definitely control expenditures. Controlling expenditures means a good budget in the first instance, a proper functioning of the budget and prevention of the allowance of deficiencies.

### **Deficiencies Negate Budgetary Control**

We note in the current Budget, despite its unprecedented size, that the Governor has allowed in round sums \$3,000,000 in deficiencies. The Legislature should be assured that when it makes an appropriation, this appropriation will control unless there are overwhelming reasons for allowing additional money from the Emergency Fund or in the way of a deficiency. Every possible economy and the shifting of funds should be used before resorting to the approval of a deficiency. Consideration shall be given to eliminating allowance of deficiencies entirely.

With the adoption of the Annual Budget, the possibilities of the Legislature exercising more definite control through the consideration and approval of a Line Item Budget are more feasible. If a Line Item Budget is not adopted in its entirety, it still can be adopted for segments of the Budget, including the whole or the part of a department, office or agency. It is suggested that the Legislature give serious consideration to this procedure when it finds that this is the most expeditious way of carrying the Legislative intent into effect.

Any intermediate steps in fixing appropriations beyond the item and categorical schedule of appropriations proposed in the Budget Bill and the Line Item Budget would require additional accounting and auditing staff in both the Department of Finance and the Controller's Office.

The establishment of schedules within the items of appropriation has been demonstrated for two bienniums as being useful. Their continuance in the Budget Bill for 1947-48 is one step in giving the Legislature more control. The Department of Finance and the Controller are both staffed to function such an appropriation bill.

The next intermediate step beyond dividing the lump sum appropriations by the schedule of categories would be to give the Governor's Budget as finally amended by Legislative appropriations full effect at law and to require the Department of Finance to follow this budget with each item considered as an appropriation in setting up the fiscal year budgets. The former objection that this would not allow any elasticity to meet the requirements for adjustments and transfers is no longer completely valid.



### **Budget Should Be Further Improved**

There are many reasons, now that the budget is on an annual basis, why it should be better prepared, more exact, more complete, and more nearly an effective controlling document, and in general a basis for controlling expenditures. The budget is now only for a one-year period. The Legislature will be back in session in March following the regular session and in January following the adjournment of the budget session. A much more accurate procedure of appropriations can be established, for these will now cover only one year. The Legislature will be available during the Budget Year for considering any changes or adjustments that are required.

### **Budget Document Could Be Made Appropriation Bill**

The Legislature could act specifically on the Appropriation Bill and could make the Budget Document itself by reference the controlling instrument. The Budget Document would have to be amended to include the recommendations of the Governor for additional appropriations which were approved by the Legislature and to include the final action of the Legislature itself. All this could be coordinated in the one finally amended Budget Document.

At the present time there is no easy way whereby the Legislature can effectively control in advance even very large deviations from its approved plan of expenditures as set forth in the Budget Bill. This bill is in lump sums for many items. For others, these lump sum appropriations are divided into three or four categories. Some other general restrictions are placed on certain parts or certain items of expenditures running through the entire Bill.

### **Legislative Control of Appropriations Negated**

The lump sum appropriation procedure leaves the Administration free to make the expenditures as it sees fit within the framework of existing law and under the few restrictions in the Budget Bill. Besides having the power to adjust expenditures within the administrative framework in a very large way, the Administration in the case of the General Fund has the Emergency Fund to call upon for additions and allotments for General Fund purposes. In the case of Special Funds, the Governor may allow deficiency amounts under the authority of Section 11006 of the Government Code up to their entire available funds. Moreover, he may also allow deficiencies in General Fund items, as has been done during the current biennium in the sum approximating \$3,000,000. Thus we see that the actual appropriation made by the Legislature and as based on the budget and as limited by the terms of the Appropriation Bill is avoided.

### **New Activities Established Without Legislative Approval**

The Legislature frequently returns in a subsequent session to find that many new activities have been entered into, new positions established, new functions established, or established functions greatly expanded over and beyond what was presented to the Legislature as the basis for appropriation. It sometimes occurs that activities which were actually presented

to the Legislature either in the Budget Bill or in special appropriation bills, and which were specifically turned down and refused passage and appropriation denied by the Legislature, are subsequently approved and established by the executive branch after adjournment of the session. We find a record of expenditure therefor in the subsequent Budget Document presented to the Legislature under the constitutional requirement of the budget for the subsequent period. This is the first notice the Legislature had that the function or service was set up despite their disapproval. We wish to say that the present Administration has been freer from this than have other prior Administrations. There are instances where the limitations set by the Legislature for the current biennium were not completely adhered to.

### **Difficult to Limit Appropriations by General Law**

It is difficult to prevent this avoidance of appropriation limitation by general legislation and still allow enough elasticity for proper administration. The difficulty faced by the Legislature in establishing some definite control is illustrated by the reply of the Legislative Counsel to a communication of ours dated November 29, 1946, requesting that a bill be drawn to prevent the establishment by administrative action of any additional classes of employees other than as provided in the Budget.

The reply of the Legislative Counsel is presented herewith to show the difficulties that must be met if we continue to use the lump sum appropriation bill:

#### **OFFICE OF LEGISLATIVE COUNSEL**

Sacramento 2, California, January 18, 1947

HONORABLE ROLLAND A VANDEGRIFT, *Legislative Auditor*

*State Capitol, Sacramento, California*

*Creation of New Classes of Employees—No. 163*

DEAR MR. VANDEGRIFT: Under date of November 29, 1946, you wrote us asking that we consider the preparation of a bill which would provide, in effect, that no new class of employee shall be created by administrative action, which class is not provided for in the annual Budget Bill.

This will confirm our oral discussion in which we pointed out that under the existing practices with reference to consideration of the Governor's Budget and the passage of the Budget Bill, it is not possible to accomplish the desired object.

It might be possible to provide that no expenditures could be authorized from any appropriation to pay the salary for a class of position not provided for in the budget. This, however, would not reach the situation where a proposed new position is set forth in the budget and is rejected by the Legislature in determining the amount to be appropriated for support of the agency. The budget itself is not amended and the Budget Bill merely appropriates a sum for support of the particular agency.

It might be feasible to write into the particular items in the budget a prohibition against expenditure of that item to pay the salary of specified classes of positions, but it does not appear feasible to draft a general prohibition to this effect.

One possible solution occurs to us. If it is possible for the Legislative Budget Committee to prepare and submit a report prior to adjournment of the changes in the budget made in the course of the consideration of the Budget Bill, a bill could be drafted to require it to do so and to provide further that the Director of Finance should not authorize the expenditure of funds for the salary of any person in a position shown in that report as eliminated at the committee hearings on the Budget Bill. We are not entirely certain that such a provision would be upheld in view of the New York case of *People v. Tremaine*, 168 N.E. 817, but are inclined to think that it might be held valid, particularly if the law further provided that the report should be adopted and approved by a roll call vote of each house of the Legislature.

If it appears that such a proposal is too restrictive in view of unanticipated situations that might arise during the year, such a measure could provide either that expenditures for such new positions shall not be made unless a report, with the reasons, is filed with the Legislative Budget Committee or that the restriction should not apply to the use of the Emergency Fund.

If you desire a bill prepared along these lines, please let us know.

Very truly yours,

FRED B. WOOD, Legislative Counsel  
By LAWRENCE G. ALLYN, Deputy

LGA :mv

In this instance we are not referring to emergency positions created by the expenditure of money from the Emergency Fund, on approval of the Director of Finance, for the purpose it was intended. We will point out that entirely new classes of employees, providing services over and beyond what was presented to the Legislature as a basis for the approval of the appropriation requested, are established between budget periods. They then appear in subsequent budgets as if they had been previously approved by the Legislature. Frequently they are then acted upon by the Legislature through approval of an appropriation requested for their continuance. In fact they become so buried in the Budget that they come into being without ever having specifically had a review by any legislative committee either as to their establishment or for their continuance. Although the amount involved in such action during the past two years has been greatly reduced over former years, still the fact remains that the will of the Legislature has not been completely followed. Under some future administration the divergence from legislative approval of appropriations might be much wider. We are proposing that the situation be corrected as a matter of principle, and that the Legislature assume its valid and historical function of controlling the purse strings.

The objection will be raised that to make the Budget Document the controlling document will not allow enough elasticity to meet the requirement for adjustments and transfers that could be met by giving authority to some established body to consider and approve transfers, adjustments, emergency funds, allotments and deficiencies. This is the argument advanced when the Biennial Budget was in effect. Certainly it is not of the same validity with an Annual Budget.

While in 1943 the Governor objected to the Line Item Budget and legislative control through enacting his Budget into law, he modified his views somewhat in 1945, and in his Budget Message on page vii we find the following:

*"For many years the advisability of installing a 'line item' Budget has been discussed and the proposal still has its advocates. I, too, am of the belief that the expenditures of state money should be in accordance with the wishes of the Legislature and that the general purpose for which, and the amounts in which, it is spent should be fully respected by the Governor and other state officers. This I have sincerely endeavored to do. If we were operating under an Annual Budget I believe the controls could reasonably be more strict than at the present time,"* but it is my opinion that it would be wholly impractical to have a 'line item' Budget

\* Italics ours.

when estimates of expenditures must be projected in the Budget for a period of two and one-half years, and especially in these uncertain times.

However, after operating under your current Biennial Budget, I am of the opinion that it would not unduly hamper the administration of the State Government if the Legislature desired to limit spending for each agency within the following categories:

1. Salaries and wages;
2. Operating expenses;
3. Equipment;
4. Capital outlay.

If the Legislature desires to incorporate such limitations in the Budget I shall be happy to acquiesce."

The Legislature followed the Governor's suggestion as we have previously mentioned and did establish the scheduled categories as explained.

We wish to call attention to what the Governor said in his message about Annual Budgets, so we point out again specifically his words, *"If we were operating under an Annual Budget I believe the controls could reasonably be more strict than at the present time, but it is my opinion that it would be wholly impractical to have a 'line item' Budget when estimates of expenditures must be projected in the Budget for a period of two and one-half years, and especially in these uncertain times."*\*

Both reasons for his objection to a Line Item Budget have disappeared. We are now operating under an Annual Budget and estimates no longer have to be projected for two and one-half years. Also the uncertain times which the Governor referred to have to some degree passed.

The Treasury has a larger surplus than any of us anticipated, and the only uncertainty even in the Governor's mind appears to be when the time of declining revenues will arrive. To meet this he urges a strict conservation of surpluses and the establishment of additional reserves. On the other hand he allows the Legislature in his recommendation no leeway for making their own normal appropriations. Nor does the Governor consider the future financial demands of the State resulting from the approval during the wartime period of many additional state services and the enlargement of previous ones. This procedure is continued in the recommendations of the Governor in his Budget and in his inaugural address to the Legislature in the items above listed. This adoption of additional and expanded services is certain to call for ever increasing expenditures on the part of the State and is even more likely to create financial difficulties and a future deficit than will the elimination of reserves through expenditures which do not establish continuing requirements for expenditure. The most effective way to conserve surpluses, as the Governor recommends, is to establish a sound spending program coordinated with the present and future financial abilities of the State so as to provide for a complete control of expenditures. It is the function of the Legislature to do this.

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\* Italics ours.

## **Governor Through Director of Finance Has Exercised Budgetary Control and Sought Legislative Intent**

The Legislative Auditor has observed with considerable care the functioning of the Budgets for 1943-45 and 1945-47, and we repeat what we stated in our prior report that budgetary control has been exercised by the Governor's finance officers in close harmony with the views of the Legislature.

There have been fewer variations from the expressed wishes of the Legislature as found in appropriations and in the records of the Ways and Means Committee of the Assembly and the Finance Committee of the Senate than has been the case with most previous budgets. In many instances in exercising budgetary control, even when other appointees of the Governor have endeavored to secure additional allotments of funds, the Director of Finance has taken every means of determining what was the legislative intent when it made a limited appropriation. Upon determining this intent, the Director of Finance has turned down many requests which would have resulted in the expenditure of many additional large sums of money. In this he has been supported generally by the Governor.

There have been some exceptions where allotments have been made from funds that could have been saved if a stricter interpretation of appropriations had been followed. Generally such interpretation of the legislative intent was not available. There also are some instances where allotments were made from the Emergency Fund for purposes not set up in either the Budget Document or the Budget Bill.

### **Appropriations Increased by Allowing Deficiencies**

We also note that there were more additions allowed in appropriations by emergency allotment and deficiencies than were allowed in 1943-45, and a number of these items would not have been allowed under a more strict budgeting and control by the Legislature.

Some items of this nature, for example, include employment of special referees for the Supreme Court, \$2,983; additional stenographers, First District Court of Appeal, \$1,400; liquidation of the War Council, \$15,733; State Employees' Retirement System, \$51,200, including a new position for a Chief in the Actuarial Claims Division; Personnel Board, \$193,861, including \$188,646 for an increased workload and increased program. Part of these we agree were justified by the ending of the war and part of these we are sure could have been avoided by a change in procedure.

For the various institutions there are large allotments made with the explanation they were to meet costs due to price and population increase. Previously we have indicated that the population increase for the state institutions is only slightly in excess of the Budget estimates and in some instances it is actually lower.

An examination of the procedure used in the purchase of food and in the increased quality allowed indicates that not all of the increase was due to price but part was due to increased feeding in amount and quality. There was allotted to the Department of Education \$55,285 for the administration of a school lunch program. In the Retail Sales Tax Division of the Board of Equalization \$87,317 was allowed for additional

employees and increased operating expense due to increased permits and returns.

There is an allowance of \$8,984 to the Department of Industrial Relations for the establishment of a Sacramento office. We previously recommended that the whole Department be moved to Sacramento. None of the economies of such a move will be obtained by merely having a branch office here.

In the Department of Justice, \$3,256 was allowed, including additional positions for the Division of Narcotic Enforcement. After long consideration additions to this force were turned down by the Legislature.

The Division of Forestry was allowed \$264,445, including \$143,826 to make up for anticipated abatements from employees' maintenance deductions and from services to the Federal Government not realized. The Legislature made a most generous appropriation to this department, and part of it was based on assurance of the realization of this sum. The legislative committee considering this approved the total appropriation on the basis of actually receiving this abatement, and may have reduced the Budget otherwise.

The Division of Water Resources has been allotted a \$89,463 deficiency covering a number of individual studies, including some where appropriations were requested before the Legislature and denied.

The total of all these deficiencies and allotments from the Emergency Fund as shown on page 975 of the Budget amounts to \$4,340,094.40. The details will be found on pages 970-975 of the 1947-48 Budget.

### **Annual Budget Should Prevent Deficiencies**

Now that the State is on the Annual Budget basis it seems clear that such Emergency Fund and deficiency allotments need not be expected or allowed in such large sums in the future. The Legislature can very well take note of this procedure which allows appropriations to be exceeded, and enter into the Appropriation Bill the necessary directions and controls so that there will be no question as to the legislative intent and the amount of money that is to be expended by any one department or agency. With few exceptions we are of the opinion that economies could have been made in every agency and department of the State so as to have reduced materially the amounts above required, and in many instances could have eliminated them entirely. It is apparent that the only way to control expenditures by the Legislature is to definitely control them by the amounts appropriated and prevent such procedure.

### **Legislature Can Make Budget Bill Its Own**

To sum up, the Legislature can make the Budget Bill its own, with the exception of some rather small constitutional limitations. The fact that few changes have been made in the appropriation procedure by previous Legislatures does not mean that the power to control appropriations and to direct appropriations very definitely and specifically does not repose in the legislative body. In fact, the several cases that have reached the Supreme Court very definitely hold that the Legislature controls the purse strings, even as respects many so-called constitutional appropriations. The appropriations that are to the greatest degree exempt from legislative control are those for the Public School

System, but even here the Legislature can exercise more control than they have in previous years.

### **Legislature Can Control Some So-Called Fixed Charges**

The Legislature does have the authority to control some so-called fixed charges other than those required by the Constitution. In some instances the amount of money actually expended in accordance with the constitutional provision can be regulated and controlled by the Legislature to a large degree through defining the terms of allotment, the purposes for which it is to be spent and the inclusion of definitely established procedure.

In our opinion the Legislature should exercise all possible control and require an annual review of fixed charges that are set up by continuing legislation.

It should also review fixed charges that are set up by constitutional requirement so as to determine if the greatest possible returns are being secured and if the greatest possible economy is being practiced; and above all, if all the results secured are in line with what the Constitution requires and what the Legislature intended in providing for its administration.

### **Legislature Has a Responsibility for Expenditures**

It does not appear that the Legislature is relieved of the responsibility of determining how the State's money should be spent and directing the spending thereof so as to secure the results the people wish merely because the people determined by constitutional amendment that a certain amount of money should be allocated for a specific purpose.

The mere allocation of funds does not determine that results will be secured. The administrative responsibility and procedure are essential. Providing for this is normally a legislative function, and the periodic review of it for purposes of remedial legislation is clearly a legislative responsibility.

In all of the expenditure programs required by the Constitution which we have examined, we find that the people expect the Legislature to review such expenditures and to pass the necessary administrative acts to distribute equitably the allocated money. This is particularly true as respects the Public School System. The degree of equalization and its basis must be determined by the Legislature. A determination of the basis on which money shall be distributed and defining this basis is a legislative responsibility. Providing for the administration so it will be honest and equitable is a legislative responsibility. By legislative enactment it is required that a certain percentage of teaching time shall be devoted to certain fundamental subjects. We recommend that the Legislature review each year the state program of educational expenditures, for it is the largest classification of expenditure for any one purpose.

**How Can a Document of Such Small Size as the Budget Bill Enact Into Law a Financial Plan for the State Which Requires 1048 Large Sized Pages to Present?**

#### *Budget Bill Not a Financial Plan*

We have asked the question "How can a document of such small size (71½ bill-sized pages) enact into law a financial plan for the State

which requires to present it 1048 pages, each twice the size of the Budget Bill pages?" It is significant to note that the Budget Bill for 1945-47 as introduced comprised only 31½ bill-sized pages, but by the time it was enacted into law, amendments, additions and control features were inserted which resulted in the final document being 51 pages larger or an increase in size of more than one and two-thirds. The Budget Bill as introduced in 1947-48 for one year is more than twice the size of the Biennial Budget Bill for 1945-47. The reason for this is that the Administration has seen fit to include many of the provisions that were added by the Legislature to the 1945-47 Budget Bill. In our opinion this provides a number of improvements in the way of establishing budgetary control.

The fact is that this Budget Bill of just a few pages does not enact into law a financial plan for the State. It only provides for appropriations for lump sum items divided into the several categories for the departments and agencies of the State where an annual appropriation is required in order to provide financial support for such agency.

The Budget Bill does not include all of the departments and agencies of the State. Some are not included at all. In other instances only a fraction of their budget, which is presented in the Budget Document, appears in the Budget Bill. For example, one will look in vain in the Department of Public Works, page 55 of the Budget Bill, Items 288 to 303 inclusive, to find any item for the Division of Highways. The Legislature, however, has full authority to make such appropriations for the Division of Highways and to place such limitations on these as they desire. Reference to the Governor's Budget under Public Works on pages 869 to 885 inclusive will show that these are devoted to Highways. An expenditure program for Highways of \$63,952,933 for the Fiscal Year 1947-48 from State sources, and an additional \$23,000,000 from Federal sources, is found on page 870 of the Budget.

#### *Department of Employment*

A similar situation is true for the Department of Employment. There are two appropriations, Items 121 and 122, in the sum of \$120,200. However, in the Governor's Budget the Department of Employment makes up the section from pages 365 to 387 inclusive and provides for the expenditure of \$15,396,347 for administration alone, an increase of over \$2,500,000 from the current fiscal year. This is almost two and one-half times the expenditure for the 1945-46 Fiscal Year. This does not take into account the proposed expenditure from the Unemployment Reserve Fund, which is now in excess of \$775,000,000 and which is supported by a pay roll tax on employers at various rates based on a merit rating system up to a high of 2.7 percent. Since this tax is lower through stabilization of employment by an employer, the unjust allowing of demands through interpretations of laws, or improper administration caused by defects in the law, or administrative failure thus becomes an important matter of legislation. Corrective legislation is now pending in the Legislature in a number of bills resulting from an investigation made by the Legislative Budget Committee. Should not an expenditure program of this importance be reviewed annually by the Legislature as part of the budget procedure? Would this not make possible the correction of abuses and the modernization of the program in keeping with the will of the people as expressed through the Legislature?



### **Does the Budget Bill in Any Way Enact Into Law the Budget Document?**

The Budget Bill does not enact into law the Budget Document in any way. The Budget Document is merely the source of the estimates for the preparation of the Budget Bill which itself contains appropriations of only 27.73 percent of the Budget Document.\* *The Budget Document itself has no effect at law.* It can literally be thrown into the wastebasket once it is presented by the Governor. There is no requirement in the law that anything in it be followed or observed. Only the lump sum appropriations with such limitations thereon and divisions thereof as are enacted into law in the Budget Bill must be followed.

No legislator should be confused and be led to believe that the Budget Bill enacts into law the full financial plan of the State for the period covered. As now set up, it only provides for lump sum appropriations divided into the several categories and with such controls as have been indicated. No other budgetary control is enacted other than what appears in the Budget Bill. Budgetary control as exercised by the Department of Finance already exists under other statutes.

We again wish to state that this Administration has used the Budget Document in interpreting the will of the Legislature. The Budget Bill, together with amendments to it and special appropriations and the control therein and the Budget, have been used by the Department of Finance to set up the fiscal year budgets.

### **Is Everything in the Budget Document Found in the Budget Bill?**

The answer is "no". Only approximately 28 percent of the total financial plan of the Budget Document is found in the Budget Bill appropriations.† The other items in the Budget Document are provided for by constitutional provisions or other statutes setting up requirements for expenditures or continuing appropriations. Other matters could be presented in the Budget Bill if the Governor so directed that they be placed therein, or if they are amended into the Budget Bill. If they are amended into the Budget Bill, then this operates to set up such controls as are therein contained.

The Legislature can put into the Budget Bill all the items covering the full financial plan of the State, and with few exceptions it can direct how the money shall be spent and can establish various controls thereon.

Many existing continuing appropriations can be discontinued by legislation and the amounts therefor be included in the Budget. The Legislative Auditor has recommended to the Budget Committee that a number of such legislative fixed charges be repealed and on instruction from that committee has had bills prepared to accomplish this purpose. These have already been introduced into the Regular Session of the Legislature.

\* This is on the adjusted basis of eliminating reserves as previously explained.

† See prior explanation—27.73 percent is exact percentage.

**If Particular Items in the Budget Bill Are Enacted Into Law, Does That Mean That the Agency Concerned Will be Allotted This Money to Spend as They Please or Must They Spend It Under the Plan Shown in the Governor's Budget?**

The answer is "no" to both parts of the question. This answer, however, should be explained. If the money is appropriated for an individual department or agency, the administrators of the department or agency generally believe that they will have this sum of money to spend. Some of them believe they can spend it as they determine, and some of them, particularly appointees of the Governor, feel that they at least will be allowed to spend it under the plan shown in the Governor's Budget. Neither of these conditions prevails.

**Department of Finance Exercises Budgetary Control**

After an appropriation is made for a department or agency, under existing law an Annual Budget is prepared by each agency. These are amended and approved by the Department of Finance. They may or may not follow the plan shown in the Governor's Budget, and even if they do they can be changed by the Department of Finance when the Department feels that such is required.

**Deficiencies May Be Authorized**

In other words, the appropriations made by the Legislature provide the limits except that General Fund agencies may receive supplementary money from the Emergency Fund item in the Budget and deficiencies may be authorized by the Governor and special fund agencies may receive supplementary funds under deficiency allotments as provided in Section 11006 of the Government Code. Section 11006 reads as follows:

"11006. Appropriation Deficiencies: Creation: Payment; Prerequisites to Authorization. With the written consent of the Governor, the Director of Finance may in writing authorize the creation of deficiencies in any appropriation of money made by law in cases of actual necessity and shall authorize the payment of deficiencies out of any money which may be appropriated for such purposes. No deficiency shall be authorized except upon the written authority, first obtained, of the Director of Finance and of the Governor. Any indebtedness attempted to be created against the State in violation of this section is void, and shall not be allowed by the director or the Controller."

The General Fund emergency item is limited while the special fund deficiency except where annual appropriations are required may include all the money available in any particular special fund. Frequently this amounts to many times what the Legislature has appropriated. The Legislature can place a limit on expenditures from special fund balances, and it can also provide that Section 11006 of the Government Code shall not operate beyond fixed limits. During the current biennium the financial plan set up in the Governor's Budget as amended by the Legislature generally has been followed. However, there have been deficiency allotments previously mentioned and other additional expenditures and the

diversion of moneys from a program specifically approved by the Legislature for expenditure emphasizing different activities within the same department. Some of these are explained on the basis of hostilities ending sooner than was anticipated. While this is true the Budget for 1945-47 was made on the basis that hostilities would cease by the end of the second year of the biennium.

**What If an Item Appears in the Governor's Budget and Does  
Not Appear in the Budget Bill?**

If an item appears in the Governor's Budget which is included in a Constitutional appropriation or in a continuing appropriation made by statute, the expenditure can be made if it does not appear in the Budget Bill. In fact, the expenditure could be made if it did not appear either in the Governor's Budget or in the Budget Bill. The Governor's Budget has no legal effect whatever on expenditures. If this were a special fund item requiring an appropriation, and it did appear in the Governor's Budget but did not appear in the Budget Bill, a deficiency under Section 11006 of the Government Code could be allowed if it could be shown that there was provision at law for the expenditure but no appropriation had been made or an insufficient appropriation had been made.

If, however, no appropriation was made in the Budget Bill for a General Fund item and there was no limitation in the Budget Bill prohibiting it, the Director of Finance could allow money from the Emergency Fund if the expenditure was provided for under authority of some agency of the State. He could not, however, allow any expenditure of money from the Emergency Fund where no appropriation had been made or where there was no authority at law to perform the services to be paid for. For example, recently the Director of Finance was asked to allow an allotment of funds from the Emergency Fund for flood control work in a specified place. No appropriation had been made for this and apparently there was no authority at law to carry on such work. However, there was authority to allow the Division of Water Resources to make a survey of the underground waters and other waters in this watershed. No appropriation had been made for this purpose but money was allowed from the Emergency Fund to make such a survey which is really preliminary to the control of flood waters.

**Why Is the Total of the Budget Bill Less Than 30 Percent  
of the Total of All Items in the Budget Document?**

*Budget Bill Only 27.73 Percent of Budget*

The grand total of all items in the Budget Bill or the Appropriation Bill for 1947-48 is \$381,360,138. This includes the two items in Sections 4 and 5 considered by the Governor as reserves. They are made up of the appropriation to the Postwar Building Reserve for state buildings in the sum of \$128,446,250 and \$75,000,000 for a Revenue Deficiency Reserve. The grand total of all items in the Governor's Budget according to the statement in that document is \$641,599,026. On this basis the Appropriation Bill is 59.44 percent of the total of the Governor's Budget. However, the Governor does not include the appropriation for state buildings in his Budget, although in fact it is an expenditure. Adding it

to his Budget, we find the grand total to be \$770,045,276. The Appropriation Bill is 49.52 percent of this total.

Disregarding the fact that the money appropriated to the Postwar Building Reserve is available for expenditure, and agreeing that in fact it will not be spent, and recognizing that the \$75,000,000 Deficiency Reserve is actually reserve, and deducting these two items in the sum of \$203,446,250 from the total of the Appropriation Bill of \$381,360,138, we have an adjusted Appropriation Bill of \$177,913,888. This clearly the Governor considers to be available for the expenditure program for the Budget. This we find to be is only 27.73 percent of the Budget as stated by the Governor. In considering these two items as reserves as the Governor does, we then find that the net Appropriation Bill is less than 30 percent of the Budget Document.

The smallness of the Appropriation Bill in comparison with the Budget provokes more questions than any other for it indicates the relative amount of the Budget which the Legislature acts upon. It indicates how the authority of the Legislature in controlling the purse strings has gradually been reduced through constitutional appropriations and continuing legislative appropriations.

Without here discussing further the matter as to whether or not certain other items before mentioned as having been omitted should be included in the Governor's Budget, and items which would have materially increased the figure above that stated throughout the Budget, we will present in general terms the reasons why this great difference exists. Subsequently we will point out where our estimates on the Budget differ from the Governor's.

Since this is the first Annual Budget and the First annual budget Appropriation Bill, it may be well to explain the relative amount of the Budget and the Appropriation Bill for 1945-47 so that we will get the relationship. Please keep in mind that the items for 1945-47 were for an entire two-year period, while the Budget now under consideration is for the one Fiscal Year July 1, 1947 to June 30, 1948.

The grand total of all items in the Appropriation Bill for the 1945-47 Biennium was \$202,003,999, or this was \$79,356,130 less than the total of the Budget Bill for the one year 1947-48. The grand total of all items in the Governor's Budget for 1945-47 was \$683,710,643, or only \$42,111,617 less than the Budget submitted for the one-year period 1947-48. The Budget Bill for 1945-47 was 29.54 percent of the Budget. The reason that the Budget Bill for 1947-48 is 59.44 percent of the Budget, as stated by the Governor, while that for 1945-47 is only 29.54 percent, arises from the fact that the Governor included in his Appropriation Bill for this coming fiscal year a larger number of items for extraordinary expenditures including the two items considered as reserves, thus increasing the relative amount of controllable expenditures to those generally considered as fixed charges or noncontrollable. In the prior Budget and Appropriation Bill there was not included such a large proportion of this class of items.

The Budget Bill for 1947-48, like prior Budget Bills, only includes those items requiring an appropriation by the Legislature in order to carry into effect the proposals found in the Governor's Budget. In fact, it does not include all of these. For example it does not include the

amount required to set up the Agricultural Research Study Committee in a specific item.

### Legislature Given Up Control of Expenditures

The primary reason why the Budget Bill is less than 30 percent of the total of all items in the Budget Document is that the Legislature does not have to act on the other part of the Budget in order to make the money expendible. This has already been done either through constitutional provision or by previous legislation setting up continuing appropriations. To this extent the Legislature has either been restricted by the Constitution or has abdicated its powers of control of expenditures. The Legislature can materially reassume its control over expenditures at any time it desires to do so. In some instances amendment of the Constitution is required. In many instances this can be accomplished by merely writing a control into the Appropriation Act. In other instances it will be necessary to repeal continuing appropriations. Following the instructions of the Budget Committee there has been introduced into the Legislature a number of bills to repeal continuing appropriations and to place the control thereof in the annual Appropriation Bill.

The following tabulation presents clearly comparisons between the amount to be appropriated by the Budget Bill and those proposed for expenditure in the Governor's Budget for the fiscal year beginning July 1, 1947, and ending June 30, 1948 compared with 1945-47.

### Comparison of Budget and Appropriation Bill 1945-47 Biennium With Budget and Appropriation Bill for Fiscal Year 1947-48

|  | <i>Appropriation Bill<br/>1945-47, Assembly<br/>Bill No. 500 or Sen-<br/>ate Bill No. 294.</i> | <i>Appropriation Bill<br/>1947-48, Assembly<br/>Bill No. 1250 or Sen-<br/>ate Bill No. 666.</i> |
|--|--|---|
| Grand total of all items Appropriation Bill  | \$202,003,999  | \$381,360,138   |
| Total Appropriation Bill less reserves-----  | 181,121,116  | 177,913,888   |
| Total General Fund items-----  | 154,627,191  | 340,020,217   |
| Total special fund items-----  | 47,376,808   | 41,339,921  |
| <br>Total Reserves-----  | <br>\$20,882,308   | <br>\$203,446,250   |
| Percent General Fund items of total<br>Appropriation Bill -----  | 76.54  | 89.16   |
| Percent General Fund items less<br>reserves of Appropriation Bill less<br>reserves -----                       | 73.84  | 76.76   |
| Percent of special fund items in<br>Appropriation Bill -----   | 23.45  | 10.84   |
| Percent special fund items of total<br>less reserves -----   | 26.15  | 23.24   |
| Percent Appropriation Bill is of<br>Budget -----   | 29.54  | 49.52*  |
| Percent Appropriation Bill less<br>reserves is to total Budget-----  | 26.49  | 27.73   |
| Percent General Fund in Appropria-<br>tion Bill of General Fund items in<br>Budget adding reserve to Budget--- | 31.17  | 59.44*  |

\* Calculated on adjusted total Budget (\$841,589,026 plus \$128,446,250 = \$770,045,276).

|  | <i>Appropriation Bill<br/>1945-47, Assembly<br/>Bill No. 500 or Sen-<br/>ate Bill No. 294.</i> | <i>Appropriation Bill<br/>1947-48, Assembly<br/>Bill No. 1250 or Sen-<br/>ate Bill No. 666.</i> |
|--|--|---|
| Percent General Fund items less reserve in Appropriation Bill to General Fund in Budget----- | 27.70  | 35.32   |
| Percent special fund items of Appropriation Bill to special fund items in Budget -----       | 26.3   | 23.65   |
| Percent General Fund items in Appropriation Bill to total Budget--                           | 22.61  | 52.99   |
| Percent General Fund Items in Appropriation Bill less reserves are to total Budget-----      | 20.18  | 21.29   |
| Percent Special Fund items of Appropriation Bill are to total Budget not adjusted-----       | 6.93   | 6.44  |

#### GOVERNOR'S BUDGET

|  |               |               |
|--|---------------|---------------|
| Grand total all items-----   | \$683,710,643 | \$641,599,026 |
| Total General Fund items-----  | 503,628,999   | 386,662,757   |
| Total General Fund items less reserves---  | 482,746,116   | 386,662,757   |
| Total Special Fund items-----  | 180,081,644   | 174,826,321   |
| Reserve Fund Expenditures-----   | 20,882,883    | 80,109,948    |
| Percent General Fund items are of the total Budget-----                          | 70.61         | 60.27         |
| Percent General Fund items less reserves are to total Budget less reserves ----- | 72.83         | 68.86         |
| Percent Special Fund items are to total Budget -----                             | 26.33         | 27.25         |
| Percent Special Fund items are to Budget less reserves-----                      | 27.17         | 31.14         |
| Percent Reserve Funds are to total Budget -----                                  | 3.05          | 12.48         |

#### **Why Is There No Provision in the Budget Bill for Emergency Funds for Any of the Special Funds but There Is Such Provision for the General Fund?**

This has already been partially explained above. If there was no Emergency Fund for General Fund expenditures, there would be no way of providing money where appropriations were insufficient due to emergencies, or where no appropriation had been made where the law provided for some service or action on the part of the State.

No Emergency Fund is required for special funds where there are continuing appropriations either specifically or through having the whole income appropriated for a special purpose because Section 11006 of the Political Code, as above explained, provides for allowing deficiencies for each such fund. It was explained that the Legislature can change Section 11006 if it desires, and can set up emergency funds for special funds either in their entirety or for certain specified ones.

In effect the Department of Finance in exercising budgetary control uses the balances in special funds as emergency funds when desired.

### **What Is the Actual Effect of the Budget Document and the Budget Bill?**

The Budget Document has no force at law. It merely has a moral effect since it is used as the estimate for drawing the Budget Bill. The Budget Bill has the full force of law in all of its items and parts, the same as if they were individual appropriations.

### **Does the Legislature Have Authority to Determine Exactly How Money Will Be Spent or Can It Only Act on Items Provided in the Budget Bill?**

This has been answered in several of the questions above. It may be summed up by saying that the Budget Bill is merely the recommendation of the Chief Executive for appropriations to make the Budget Document effective. The Legislature receives it and it becomes its property the same as any other bill. It can change it, modify it, or completely remake it as it sees fit. *The Governor, on the other hand, may at any time amend or supplement both the Budget Document and the Budget Bill before or after its enactment, and each amendment in each house must be referred to the committee to which the Budget Bill was originally referred.* Once introduced into the Legislature, such amendments also become the property of the Legislature.

There are, however, two additional powers reposing in the Governor in relation to the Appropriation Bill. The Governor can veto the act in its entirety as any other bill and send it back for reconsideration. This in practice, however, is almost futile for the constitution limitation on State appropriations from the General Fund are such that they now require originally a two-thirds vote to approve any State Budget. The Governor, however, under Article IV, Section 34, of the Constitution may reduce or eliminate any one or more items of an appropriation while approving other portions of the Appropriation Bill. He cannot, however, after the Budget Bill is passed by Legislature without approval by the Legislature add to an appropriation.

There is reserved to the people the right of referendum on any item of appropriation in the Budget Act other than for the usual current expenses of the State. We find no record of this ever having been done. There is individually no determination as to what items in the Budget would fall outside of the class of appropriations *other than for the usual current expenses of the State.*

The Legislature, as the division of government that controls appropriations not otherwise determined by the Constitution, has far greater powers over the purse strings of the State than have ever been exercised. *Much of the authority to control appropriations has been abandoned by the Legislature itself by setting up continuing legislation, but this power to control appropriations can be recaptured any time the Legislature as a body so determines.*

### **Recommended Improvements in the Budget Document to Facilitate Better Understanding and Consideration Thereof**

In considering the Budget Document itself and the Appropriation Bill for 1947-48, we have already pointed out that there are very definite

improvements. We recommend that further progress be shown in the next Budget and Budget Bill so that the Budget Document itself will be more readily understood and will be more useful to the Legislature and the public in considering the Appropriation Bill and other special appropriations.

In this connection it is suggested that the Legislature require the following specific changes:

1. The Budget Document shall show the entire State program of expenditures for the ensuing fiscal year as proposed by the Governor both at the time of its introduction and also to include those expenditure items which he proposes subsequently during the session. At the time the Governor proposes any expenditure he should be required to submit amendments to the Budget as provided in Article IV, Section 34 of the Constitution. This would mean full compliance with the constitutional requirements for an Executive Budget. This procedure would keep before the Legislature at all times the full financial program recommended by the Administration and for which the Administration assumed responsibility.

This would require the Governor to place in his original Budget all expenditures which he recommended at the time the Budget is prepared and he would be required to show the revenues which he recommended for the support of his entire Budget. Then it would be impossible for the Governor to make up a Budget Document which, under the constitutional provision, is supposed to include the entire financial program of the State, and at the same time recommend in his inaugural speech many other expenditures without recommending the source of revenue or the necessary taxes to pay for them. It would make it impossible to include in the Budget recommended expenditures from one source of revenue and then subsequently recommend another program of expenditures, together with recommendation for the diversion of taxes which in the Budget are shown to accrue for other purposes. Such procedure throws the Budget entirely out-of-line without the formal recognition that this is the result.

2. Consideration should be given to further require that if the Governor has other recommendations for expenditures made subsequent to the presentation of his Budget that these additional expenditures or recommendations for the same shall be in the form of budget amendments rather than special and independent bills. If they are budget amendments they can then be coordinated into the overall financial program for the State. This is in accord with the above explained authority of the Governor to at any time offer amendments or supplement to both the Budget Document and to the Budget Bill before or after it is enacted.

3. Following this procedure the Budget Document itself should indicate all the expenditures that are new or are for enlarged services which the Governor proposes, together with his reasons for including them and the source of their financial support. Following this procedure the only special appropriation bills would be those items which the various members of the Legislature themselves were willing to propose over and beyond the financial program presented by the Administration.



Under the present circumstances we are frequently talking about the Governor's Budget amounting to a certain sum as shown in the original Document. This is considered as the entire recommendation by the Governor for expenditures by the State for the budgeted period. However, we have universally found in the past, and at the present time, that the Governor has recommended, sponsored and supported a number of other expenditure items, often running into many millions of dollars which are, in fact, a part of his expenditure program but are generally considered as the amount the Legislature adds to the Governor's Budget.

4. In this same connection we recommend that the Legislature itself in considering appropriations which are introduced as special bills be made as amendments, additions and adjustments to the Budget and the Budget Bill wherever possible. This same rule and procedure should apply to all bills which provide for additional expenditure or reduction of expenditure of fixed and continuing appropriations by an upward or downward adjustment in requirements. This should include formula increasing the amount of aid to the blind, the aged, or tuberculosis subsidies or any such allocations that are accomplished by means other than actual changes in appropriations. This procedure would also assist in keeping the entire financial plan of the State before the Legislature and the people.

5. Likewise the Legislature should adopt a policy that they will not pass a bill which requires the State to perform an additional service or an expanded service which will require the expenditure of money unless provision be made for the appropriation of such money and where necessary, for the imposition of a tax or license or fee for the providing of the necessary funds. Such actions as are provided by such legislation should again be taken into account in the Budget and in the Appropriation Bill, keeping the financial plan of the State fully presented.

6. The Budget Document also should include a complete Budget for the so-called fixed charges, setting out how this money is to be allocated, distributed or expended under existing law, together with any recommended changes on the part of the Administration. Then the Legislature would have before it for consideration and review the allocation of such funds, together with the Governor's recommendations concerning such expenditures. They might then consider what adjustments are desirable and they could act upon them accordingly, including the presentation of constitutional amendments to the people for revision where this appeared necessary.

In cases where fixed charges are increased automatically by definition in terms of allotment or by change of established legal procedure, and the Governor has any recommendations regarding such definition or procedure, then such recommendations should appear in connection therewith. For example, the Governor has included in his Budget on page 993 and in the Appropriation Bill, Item 332, a sum for subsidies to counties for maintenance of tubercular sanatoria, in the amount of \$3,050,000. The Budget Item states it is to be expended in accordance with Division IV of the Health and Safety Code. The Budget Document, however, shows that the amount required under Division IV, Sections

3100 and 3300 of the Health and Safety Code for 1947-48 amounts to \$1,500,000. Below this in the Budget we find the Governor's proposal setting forth a new procedure for allotting this subsidy at new rates which will provide \$2.50 for the first 100 patients, \$2.00 for the second 100 and \$1.50 for all additional patients per day per county, and this will require the additional \$1,550,000 appropriation. It will also require additional legislation to make it effective.

This is exactly the procedure we recommend be followed throughout. We suggest, however, in addition that the Appropriation Act likewise be amended to show as a separate item this additional expenditure. We suggest that this item be amended to \$1,500,000 and a separate item be set up in this instance numbered 332.1, to read "For subsidies to counties for maintenance of tubercular sanatoria, Department of Public Health, \$1,550,000, which together with Item 332 to be expended so as to provide \$2.50 each for the first 100 patients; \$2.00 for the second 100 and \$1.50 for all additional patients per day per county."

Another example would be in connection with changing the relative responsibility clause in the law providing for aid to the needy aged which would materially increase or decrease the amount required for its support. Likewise a change in the definition of what constitutes average daily attendance would materially effect the amount of money to be allocated on that basis.

We have previously made other more detailed recommendations as to what should be included in the Budget Document. These cover mostly specific recommendations that can be included by the Administration without requiring any change in the law, and many of them will of necessity appear in the Budget and Budget Bill if the above recommendations are required by law.

#### RESULTS THAT CAN BE SECURED

If any or all of the above recommendations are made effective, the following results will be secured.

1. There will be further continued improvement in the Budget Document and in the Budget Bill.

2. Such improvement will make possible a better and fuller consideration of appropriations by the Legislature and the public.

3. The Legislature itself will assume a larger share of its rightful authority in the making and in the control of the financial program of the State.

4. It will make possible the large benefits that should accrue through the adoption of the Annual Budget which probably will not materialize unless the Legislature takes action.

5. A sounder and more effective expenditure program geared more closely to the tax structure and the ability of the taxpayers will be secured.

6. The State will not in times of flush revenue dissipate its excess income and establish agencies and services of government which it cannot pay for in normal times.

7. The highest possible governmental services can be rendered by the State in a balanced program through all of the many governmental activities with a greater degree of equity and with the smallest possible tax burden.