

CALIFORNIA LEGISLATURE
1948 REGULAR SESSION

ANALYSIS OF THE BUDGET BILL

of the

STATE OF CALIFORNIA

for the

Fiscal Year July 1, 1948, to June 30, 1949

Report of the Legislative Auditor

to the

Joint Legislative Budget Committee

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LETTER OF TRANSMITTAL

SACRAMENTO, CALIFORNIA, February 27, 1948

THE HONORABLE W. P. RICH, *Chairman*,

And Members of the Joint Legislative Budget Committee

State Capitol, Sacramento, California

GENTLEMEN: In accordance with the provisions of Joint Rule 37 of the Senate and the Assembly creating the Joint Legislative Budget Committee, defining the duties of said committee, and giving it authority to employ a Legislative Auditor, I submit herewith an analysis and report on the State Budget and the Budget Bill for the Fiscal Year July 1, 1948, to June 30, 1949.

The duty of the committee in this respect is set forth in Joint Rule No. 37 as follows:

"It shall be the duty of the committee to ascertain facts and make recommendations to the Legislature and to the houses thereof concerning the State Budget, the revenues and expenditures of the State, and of the organization and functions of the State, its departments, subdivisions and agencies, with a view of reducing the cost of the State Government, and securing greater efficiency and economy."

Following your instructions the Legislative Auditor and his staff have worked closely with the Department of Finance in considering the budget for 1948-49 and have prepared this analysis of the Budget Bill providing for the appropriations necessary to make it effective.

We have had the fullest cooperation from the staff of the Department of Finance throughout this work. We have worked with them, sitting in at the budget hearings and participating in making the budget, and we were allowed to participate as if we were part of the budget making process. In this way we know intimately how the budgets for the several state agencies have been made and what is in them. This close association has resulted in general agreement on many items of appropriation as is indicated in our analysis.

We believe that as a whole the budget this year is better prepared than in prior years. We feel that we have had a part in this improvement. Many millions of dollars were cut out of the budgets at these hearings conducted by the Department of Finance, and many adjustments were made that were completely in line with our pronounced principles and suggestions. As a result the several budgets are better balanced and are on a sounder foundation than in former years.

NOT A STRICT ECONOMY BUDGET

We do not mean to infer from this that we would call this a strict economy budget. On the whole it is a liberal budget, and a stricter economy would produce reductions in many places. There are some places in the budget where the Governor has elected to allow the agency approximately what it requested. This is particularly true in the case of the courts and to a large degree in the Department of Public Health and for tuberculosis subsidies. It is also true to a considerable degree in the Department of Mental Hygiene, where an arbitrary goal of improvement has been set and one-fifth of the attainment allowed this year. We do not concur in this procedure. There has already been an increase in the standard of care through a reduction of overcrowding at the institutions and this improvement will continue.

We believe that no overall standard applies, and each institution must be treated separately. There is also allowance in the budget for an increase in the standard of feeding at the institutions despite allowances for increased prices for food.

There are other places in the budget where improvements in service have been allowed over and beyond present standards.

BETTER WORKLOAD DATA

There has been more use made in formulating this budget in determining the need for personnel on the basis of workload; that is, for example the number of audits that should be handled per auditor, the number of junior auditors per supervisor, the amount of stenographic help per principal and many other such measurements of workload have been used. It is our hope that these and other standard measurements will be further developed and budgets will no longer be prepared merely on a percentage increase basis. The studies that we make between sessions of the various departments have assisted materially in determining these better budget procedures.

MORE EFFICIENT METHODS

You will also note from time to time in our analysis that we recommend mechanization of accounting, mechanization of the motor vehicle registration, of crime statistics and in many other places. These are to save manpower and will produce material savings. We also recommend reorganization of entire agencies or parts of agencies, and sometimes we recommend against proposed reorganizations. These are all for the purpose of increasing efficiency and producing economies.

We have also recommended in several places the establishment of better control in the maintenance and use of personal property. Particular reference has been made to automobiles. However, the control and use of other personal property in general is unsatisfactory. The process of getting rid of surplus property and transferring it for the use of other departments is not satisfactory. Improvement in these respects will produce material savings.

ANALYSIS ONLY COVERS BUDGET BILL

The analysis that we present to you only covers the Budget Bill as it was originally introduced and does not cover all of the items that will be in the final bill passed by the Legislature as the Budget Bill. All of the appropriation items for the operations of the agencies that are part of the state budget have been included. There are some few items of capital outlay and some amended amounts that are not included. For example, additional sums requested for brucellosis (Bang's disease in cattle) and for milk control, are not included. No item for study by the Department of Public Health of a new disease called "Q" fever will be found. A further amount for the study of water resources is not yet included, and certain capital outlay items are not there.

The total amount of the original appropriation bill is \$271,600,000 in round numbers. This same appropriation bill complete as introduced by the Governor for the current fiscal year, 1947-48, amounted to \$177,913,888, excluding the two reserve items. In other words, this bill not entirely complete is already approximately \$94,000,000 more for the current year, or an increase of 53 percent. In comparison it is estimated that the population increase for this coming fiscal year will be approximately 5 percent.

Normally, the budget act or appropriation bill runs from 30 percent to 35 percent of the total budget. We see no reason why there would be any great difference this time. If the appropriation bill is 30 percent of the total budget, it is clear that we will then have with capital outlay a total budget of approximately \$1,000,000,000 without considering any added appropriations by the Legislature. The Legislature normally adds from \$20,000,000 to \$50,000,000 to the appropriation bill as originally introduced. Should this occur this year, we will have a Budget Bill of around \$300,000,000 and a budget of over \$1,000,000,000. Part of this budget, however, will be made up of reappropriations from money previously appropriated. However, for comparative purposes it becomes part of the entire budget spending program.

The Budget Bill as introduced last time amounted to \$381,360,138, but this included a postwar building reserve of \$128,446,250 and \$75,000,000 for a revenue deficiency reserve, or a total of \$203,446,250 which would not be spent. The Budget as introduced totaled \$641,599,026. When the entire expenditure program was finally adjusted, it totaled \$771,345,963.

BUDGET GROWN APACE

The budget of the State of California has certainly grown over the years. We have attached below a tabulation showing the Governor's Budget as introduced, the Budget Bill as introduced, the Budget Bill as passed by the Legislature, the amount of special appropriations, and the final total expenditure program for the bienniums 1929-31 to 1945-47 and for the Fiscal Year 1947-48.

GOVERNOR'S BUDGET, BUDGET BILL AS INTRODUCED, BUDGET BILL AS PASSED, AMOUNT OF SPECIAL APPROPRIATIONS AND FINAL TOTAL EXPENDITURE PROGRAM FOR THE BIENNIUMS 1929-31 TO 1945-47 AND THE FISCAL YEAR 1947-48

<i>Biennium</i>	<i>Governor's Budget</i>	<i>Original Budget Bill</i>	<i>Budget Bill as passed</i>	<i>Special appropriation bills</i>	<i>Final expenditure program</i>
1929-31 -----	\$244,075,306	\$70,164,753	\$70,425,501	Not available	\$242,462,724*
1931-33 -----	265,345,955	106,449,946	93,952,167	"	248,510,638*
1933-35 -----	258,655,163	76,328,066	68,835,350	"	318,149,882*
1935-37 -----	347,313,074	79,681,461	111,869,056	\$50,665,653	430,166,322
1937-39 -----	446,466,507	142,355,306	134,400,656	81,914,627	527,493,470 †
1939-41 -----	557,163,355	204,768,088	115,676,337	88,076,509	556,148,113
1941-43 -----	552,570,135	168,741,349	178,477,256	32,031,592	594,338,634
1943-45 -----	463,947,005	157,803,176	143,967,410	132,251,738	583,362,977
1945-47 -----	683,710,643	202,003,999	213,988,823	369,940,554	1,066,636,021
1947-48 -----	641,599,026	381,360,134	385,011,699	126,095,374	771,345,963

* Actual expenditures.

† The Governor reduced the Budget Bill by \$228,000 after passage by Legislature.

It may be interesting to note that the Governor's Budget for 1931-33 was \$265,000,000 and the Budget Bill itself \$106,000,000. This Budget Bill was reduced so that when it finally passed the Legislature it was \$94,000,000 and the final expenditure program turned out to be \$248,000,000. In 1933-35 the Governor's Budget as introduced was smaller than for the prior biennium, dropping from \$265,000,000 to \$258,000,000 and the Budget Bill itself as introduced was reduced by the Director of Finance from \$106,000,000 to \$76,000,000. The Legislature further reduced the Budget Bill to \$69,000,000, and then proceeded to pass special appropriation bills so that the final expenditure program amounted to \$318,000,000.

This was the end of the moderate budget period, and the State has shown continuous increases in the expenditure program until finally in 1945-47 the biennial budget as introduced was \$863,000,000, and the final expenditure program approved amounted to \$1,066,000,000. This was for a two-year period. For this current fiscal year alone the Governor's Budget came in at \$641,000,000 and the Budget Bill at \$381,000,000. The latter was increased to \$385,000,000 before it passed, and the special appropriation bills brought the final expenditure program to \$771,000,000 for the one year. Ten years before it was \$527,000,000 for two years, and this proposed budget will approach \$1,000,000,000 for the one year.

APPROPRIATION BILL ONLY, BEFORE THE LEGISLATURE

May we point out again that all that is before the Legislature is the appropriation bill, approximately one-third of the budget. The remaining two-thirds is made up of fixed charges, either established by the Constitution or by continuing legislation. They include such items as the constitutional requirement for schools, the legislative requirement for aid to the needy aged and the other categorical aids. Not all of these fixed charges are uncontrollable, for the Legislature can reduce somewhat the expenditures for education for the State, or allocate more than the constitutional requirement. The Legislature controls the aid to the aged

and the aid to the orphans and the blind and other categorical aids. The Legislature controls the state apportionment for judges' salaries. The Legislature controls subsidies for tuberculosis and many other subsidies to local government, but to change these it will be necessary to change the legislation setting up these allocations. Many of these changes increase automatically with the growth in population.

Many of the increases in controllable costs likewise increase with population. For example, the State now has approximately 42,000 inmates in the mental institutions. They are increasing at a net rate of almost 2,000 per year so that the State needs to establish a new institution every three years under present conditions. So do the number of needy aged on the roll increase with population. There are now a total of 182,177 on this roll, and these are increasing at about 1,200 per month and will continue to increase at this rate or faster until population stabilizes. Average daily attendance in the schools has grown by leaps and bounds and will approximately double in the next eight years.

GOVERNMENT COSTS RISE WITH INDUSTRIALIZATION

Certain costs of State Government likewise increase at a higher rate than population with the change in the type of our population from predominantly agricultural to industrial. In 1941 we had an industrial revolution in California which continues apace. For example when industry brought into California and established at Pittsburgh the five latest machines for the drawing of wire, five machines so complicated and so near the last word in wire making that it took two years to get the "bugs" out of them, but when in operation able to exceed the world's record in the daily production of wire, we had arrived at world-wide competitive industrialization.

Other examples of such industrialization, including even in agriculture itself, could be cited. We brought with these complex machines the beginning of a new industrialization, new living conditions, and new types of workers. With it came a greater incidence of insanity, increased health problems, increased crime problems, increasing problems of sanitation, increasing problems of congestion, increasing problems in schools and in school housing. We can expect a higher tax bill for all these things, to take care of the higher incidence of insanity, to take care of industrial accidents, and the dependency caused by them, to take care of increased crime and more crowded court calendars, and all other social costs arising from industrialization. This is part of the price the State will pay for industrialization. These increased costs were reflected in the last budget and are further reflected in this budget, and they will appear in all state budgets from now on.

COSTS DUE TO NEW ACTIVITIES

In addition to these costs there are also added costs due to new activities that the State has entered into in the past few years. Some of these grew out of wartime activities and have been continued in some form or other. Some are entirely new, being approved by the last session of the Legislature.

These items which continue from the wartime activity include the following:

- Additional agricultural inspection to keep out pests, particularly in relation to airplane travel.
- A research division in the Governor's Office which is residual from the old Reemployment and Reconstruction Commission.
- The approval of courses and the preparation of teaching materials for apprenticeship training, a warborn activity. Along with this the State supervises private schools which enroll veterans using their GI benefits.
- Local Allocations Division of the Department of Finance for the purpose of making allocation to relieve postwar unemployment.
- Additional inspections in the Department of Industrial Relations started as a wartime activity are being continued.
- Continued expansion in the Division of Mines, Department of Natural Resources, started as an activity for the development of strategic metals.
- Continued activity in the Personnel Board for the replacement of veterans now expanding into a permanent service.
- A new and expanded development of veterans' affairs.
- Child care centers as a permanent appropriation growing out of child care centers established to take care of children of working mothers during the wartime.
- The Disaster Council in the Governor's Office growing out of the War Emergency Council.
- There are probably other residual activities in many other state departments that grew up during the war and are being continued but are very difficult now to discover.

In addition to these there are the following additional activities that appeared in the prior budget that are continued.

- Additional aid in the way of tuberculosis subsidies.
- State aid for local hospitals.
- State aid for the development of local health services.
- Further state aid for the construction of streets and highways by local government.
- State aid to assist in paying the salary of agricultural commissioners.
- Increased state aid for payment of salaries of superior court judges.

The last session of the Legislature added some entirely new services and agencies consisting of:

- Aeronautics Commission
- Centennial Commission
- Added out-patient clinics for the Department of Mental Hygiene
- Separate Highway Patrol
- Redevelopment Agency
- Recreation Commission
- Office of Research in the Governor's Office
- California Academies
- Reorganization of school districts
- Special program for agricultural research at University of California
- State College at Los Angeles
- State College at Sacramento
- Wild Life Conservation Act of 1947

Most of these new organizations are just getting under way and their requested appropriation in this budget is relatively small as compared with what it will be when they are fully established. However, these new agencies add to the over-all cost of State Government. They call for new employees, new automobiles, new desks and office furniture, new offices and continued expense accounts.

STATE EMPLOYEES INCREASE IN NUMBER

The 1947-48 Budget and appropriation bills added over 5,000 new state employees at a cost of approximately \$15,000,000 per year. Already this appropriation bill before the Legislature will add approximately 3,800 employees at a cost of about \$12,000,000 per year. The increase in the number of state employees over those already employed far exceeds the percentage increase in population.

To the above reasons for the increase in the budget may be added one other controlling factor. Salaries and wages in the budget have been allowed on the same base as presently established, but with provision for automatic increases and a considerable amount of reclassifications. These salaries are at the maximum the State has paid and, of course, with the corresponding requirement for contributions to the Retirement Fund. No special amount has been allowed for further general salary increases, but the spiral of state wages continues upward as it parallels industry. The State Employees' Association is asking for a special salary increase item as appeared in the last budget of \$4,586,000 in addition to the \$2,000,000 in the Budget Bill, Item 362.

COMMODITY PRICES MAY GO DOWN

Likewise, the price of commodities has been allowed on the September, 1947, base providing for a percentage increase of 1 percent for food and percentage allowances for other commodities. It is our opinion that commodity prices are more likely to go down as measured by the full year 1948-49 than to go up. Should they go up, additional money will be required, but since we believe they will decline we suggest that provision be made that all savings realized through such decreases shall be sequestered and not spent and shall be returned to the funds from which they were appropriated.

This same general principle should be applied in the purchase of automobiles and other equipment. Where the estimated turn-in value in the budget for such items proves actually to be considerably more than what was estimated, all such excesses should be sequestered as savings. In other words, wherever the turn-in produces more than estimated or a decrease in price produces savings, these savings should not be expended for other things but should actually accrue as savings. It is quite possible that prices may fall further during the Fiscal Year 1948-49, particularly during the last part of 1948 and the first half of 1949.

CAPITAL OUTLAY SHOULD BE HELD IF POSSIBLE

While the appropriation bill contains only relatively small amounts for capital outlay at the present, undoubtedly rather large additional sums will be requested for capital outlay. It is our recommendation that only those items which are absolutely imperative or where the State will actually lose by not building be constructed, and that all other moneys which are available should be placed in the Postwar Employment Reserve in the same fashion as provided in Section 4.5 of Chapter 486 of the Statutes of 1947 "Appropriation Bill," such sum "to be expended for construction, improvements and equipment for state agencies as may hereafter be authorized by the Legislature."

REVENUE ESTIMATES

We have worked very closely with the Department of Finance on revenue estimates and while we believe that these estimates are conservative they are not, in our opinion, as conservative as for the current fiscal year.

The State has in the last year witnessed a falling off in receipts from liquor taxes, horse racing, and some other miscellaneous receipts. However, the sales tax and the corporation and personal income and insurance taxes have not only held up but have continued to show additional increases.

It appears that taking into account all transfers to reserves and accumulated deficiencies there will be a surplus of over \$100,000,000, possibly \$125,000,000 in the General Fund at the close of this fiscal year—June 30, 1948.

The General Fund revenues for 1948-49 will possibly exceed those for 1947-48 and may reach as high as \$490,000,000 to \$500,000,000. However this General Fund revenue will be insufficient to meet the General Fund requirements, particularly if any additional sums above the budget are allowed for distressed school districts.

In other words, there is a current budget deficiency of the General Fund, that is, the annual expenditure program will exceed the General Fund anticipated revenues based on our estimate of from \$25,000,000 to \$50,000,000. All of this can be taken from the approximately \$125,000,000 carry-over surplus, or part of it can be taken from the \$93,000,000 building reserve set up in Section 4.5 of the current appropriation act or from the \$37,800,000 in Section 4 in the Budget Bill to be transferred to the same reserve. This means, however, cutting out a part of needed state buildings for our mental patients, for the university, for the state colleges, for the prisons and the many other state agencies. If the Legislature does not increase the Appropriation Bill by any material amount, there would still remain from the carry-over surplus \$60,000,000 to \$70,000,000 which can be set aside for further building construction of the State. The Budget Bill provides for setting aside \$37,800,000 for this purpose.

CAPITAL OUTLAY REQUESTS LARGE

The requests for additional funds for capital outlay are at least three times the amount of the carry-over surplus. The University of California alone is asking for \$29,000,000 more, and the Department of Education some \$90,000,000. These items for capital outlay are being further screened by the Department of Finance, and we are sure that this department will not approve all of these requests as submitted.

GENERAL FUND EXPENDITURES EXCEED CURRENT INCOME

It is clear that the annual expenditures from the General Fund are now exceeding the General Fund revenue of the State, although such General Fund revenue is accumulating in the greatest amount the State has ever experienced. The State is now drawing from carry-over surpluses and from reserves to meet the General Fund expenditure program. The building program of the State is not being carried into effect equal to

the needs of the State, but when this is accomplished the additional cost of operating these facilities will produce further demands for appropriations which will require an upward tax adjustment.

Allow me to point out that should there be even a minor recession during 1948-49, the revenues as estimated will probably not accrue and reserves will have to be drawn on even further to meet the state expenditure program. Should inflation for any reason continue, revenues will exceed the budget estimates.

Respectfully submitted,

ROLLAND A VANDEGRIFT
Legislative Auditor