

## PRELIMINARY STATEMENT

The 1973-74 budget reflects large increases in both revenues and expenditures as well as the prospect of a record year-end surplus in the General Fund.

New tax programs approved in 1971 and 1972 have combined with the upswing of the economic cycle to increase revenues above those anticipated. In addition, the passage of federal revenue sharing by the Congress in 1972 is estimated to add over \$440 million to state resources in the two years ending 1973-74.

These additions to resources have more than offset the sharp increases in proposed expenditures. However, the expenditure program does provide major new funding for schools as a start toward implementation of the Serrano decision. Significant increases for property tax relief to both owners and renters are proposed. Larger than usual salary increases are proposed for state employees to make up for past deficiencies. Other programs have been increased to reflect new workload or increased services.

Major reorganizations combining a number of agencies into a new Department of Health and a new Department of Transportation are proposed.

This Analysis provides a detailed accounting of the individual budget proposals and the factors at issue in the budget. In many items we are recommending cost reductions and, in a few, additional funding to correct deficiencies or to strengthen the programs.

## EXPENDITURE SUMMARY

Proposed state expenditures for fiscal year 1973-74, including \$269 million in bond funds, will total \$9,264 million.

In addition, the state will administer or subvene \$4,706 million in federal grants-in-aid, federal reimbursements and special projects.

Together, these components result in an aggregate state program level of \$13,971 million in the budget year.

Details of this aggregate program level are shown in Table 1 and are compared with those of fiscal years 1971-72 and 1972-73.

The category state budget expenditures in Table 1 includes General Fund and special fund financial programs. As defined under usual accounting procedures these are the components of state budget expenditures. The bond programs are listed separately by specific program. State expenditures or subventions of federal funds are also pertinent to the state budget because they finance significant portions of many state programs and are separately identified in the budget detail for specific agencies involved.

### State Budget Categories

The state budget programs, excluding bond funds and federal funds, will reach a level of \$8,995.3 million in 1973-74. This is an increase of \$1,602.1

**Table 1**  
**State of California**  
**Combined Expenditure Summary for Indicated Years**

	1971-72	1972-73	1973-74
State Budget expenditures .....	\$6,374,348,588	\$7,393,194,029	\$8,995,282,259
Bond fund expenditures			
State construction program .....	37,600,029	48,284,025	36,240,100
State Beach, Park, Recreational, and Historical Facilities .....	6,808,710	18,528,873	4,813,428
California Water Resources Devel- opment .....	179,899,445	137,565,154	107,100,325
Central Valley Water Project .....	57,147,687	16,324,023	13,111,803
Clean Water Bond Fund .....	22,842,112	34,450,000	39,117,000
Recreation and Fish and Wildlife En- hancement .....	5,095,068	21,302,832	13,938,668
Health Science Facilities Construc- tion Program Fund .....	—	18,002,000	54,651,000
Total bonds .....	<u>\$309,393,051</u>	<u>\$294,456,907</u>	<u>\$268,972,324</u>
Overall state expenditures .....	\$6,683,741,639	\$7,687,650,936	\$9,264,254,583
Expenditure of federal funds, grants- in-aid, reimbursements and spe- cial projects .....	4,409,369,606	4,644,265,555	4,706,750,411
Totals .....	\$11,093,111,245	\$12,331,916,491	\$13,971,004,994

million or 21.7 percent over 1972-73, which in turn was up \$1,018.9 million or 16 percent over 1971-72.

Included in state budget expenditures are three functional categories; state operations, capital outlay and local assistance as listed in Table 2. Local assistance is by far the largest segment, and is also the most rapidly growing element.

**Table 2**  
**Total Budget Expenditures and Yearly Increases**  
**(in millions)**

	<i>Estimated</i>		<i>Increase</i>		<i>Proposed</i>	<i>Increase</i>	
	<i>1971-72</i>	<i>1972-73</i>	<i>Amount</i>	<i>Percent</i>		<i>1973-74</i>	<i>Amount</i>
State operations .....	\$1,817.4	\$2,115.3	\$297.9	16.4	\$2,336.7	\$221.4	10.5
Capital outlay .....	355.3	494.9	139.6	39.3	495.3	0.4	0.1
Local assistance .....	4,201.6	4,780.7	579.1	13.8	6,157.8	1,377.1	28.8
Legislation not in budget totals <sup>1</sup> .....	—	2.3	2.3	NA	5.4	3.1	NA
Totals .....	\$6,374.3	\$7,393.2	\$1,018.9	16.0	\$8,995.3	\$1,602.1	21.7

<sup>1</sup> 1972 legislation enacted too late to be included in agency budgets (see Table 4).

### GENERAL FUND BUDGET

Proposed 1973-74 General Fund expenditures of \$7,151.1 million comprise 79.5 percent of total budget expenditures and 77.2 percent of overall state expenditures which also includes bond funds.

Outlays from the General Fund were \$5,027.3 million in 1971-72 and increased by \$640.5 million or 12.7 percent to \$5,667.8 million in 1972-73. An even greater expansion of \$1,483.3 million or 26.2 percent is estimated between 1972-73 and 1973-74 with the total reaching \$7,151.1 million.

This rapid growth represents a catching-up phase in financing state programs such as state-funded salary increases which were denied in 1971-72 as well as expanded educational assistance, property tax relief and other

programs. Total General Fund expenditures as well as the amounts in the three budget categories, state operations, capital outlay and local assistance are listed in Table 3.

**Table 3**  
**General Fund Budget Expenditures and Yearly Expenditures**  
**(in millions)**

	<i>Estimated</i>		<i>Increase</i>		<i>Proposed</i>	<i>Increase</i>	
	<i>1971-72</i>	<i>1972-73</i>	<i>Amount</i>	<i>Percent</i>		<i>1973-74</i>	<i>Amount</i>
State operations.....	\$1,419.0	\$1,653.5	\$234.5	16.5	\$1,796.3	\$142.8	8.6
Capital outlay.....	134.0	18.3	-115.7	-86.3	13.8	-4.5	-24.6
Local assistance.....	3,474.3	3,993.7	519.4	14.9	5,335.6	1,341.9	33.6
Legislation not in budget totals <sup>1</sup> .....	—	2.3	2.3	NA	5.4	3.1	NA
Totals.....	\$5,027.3	\$5,667.8	\$640.5	12.7	\$7,151.1	\$1,483.3	26.2

<sup>1</sup> 1972 legislation enacted too late to be included in agency budget (see Table 4).

Local assistance which comprises about 75 percent of total General Fund expenditures continues to expand at a more rapid rate than the other expenditure categories.

The actual General Fund expenditure for capital outlay in 1971-72 was \$14 million instead of the \$134 million shown in the budget. The \$14 million may be compared to \$18.3 million in 1972-73 and proposed expenditures of \$13.8 million in 1973-74, indicating no large deviation from year to year.

The \$134 million shown in the budget includes \$120 million in transfers to other funds including \$40 million to the Bagley Conservation Fund and \$80 million to the Capital Outlay Fund for Public Higher Education. These transfers were made pursuant to Chapter 1, Statutes of 1971, First Extraordinary Session, which reserved \$150 million in one-time personal income tax withholding revenues for capital outlay purposes. The remaining \$30 million was transferred in 1971-72 to the School Building Safety Fund for earthquake safety construction and is included in the local assistance category of the budget.

Table 3 includes \$2.3 million in 1972-73 and \$5.4 million in 1973-74 for legislation not in agency budget totals. This is 1972 session legislation that was signed by the Governor too late to be distributed to the individual agency budgets but the estimated cost is funded by inclusion in the overall General Fund expenditure total. A listing of the legislation and the estimated cost for each item is shown in Table 4.

**Table 4**  
**Legislation Not in Agency Budget Totals**

<i>Bill number</i>	<i>Chapter</i>	<i>Purpose</i>	<i>Cost</i>	
			<i>1972-73</i>	<i>1973-74</i>
Assembly Bills				
227	1358	Aid to needy disabled.....	\$49,000	\$118,000
598	1236	Disposal of waste materials.....	—	50,000
1157	1430	Tunnel and mine safety.....	33,600	82,200
1277	1365	Changes in retirement contribution.....	65,000	262,800
1685	1437	Criminal information records.....	—	200,000
1896	1368	Old age security housing allowance.....	167,000	334,000
1908	1438	Retirement provisions for state college police.....	—	277,000
2065	1226	Fire-arson investigation.....	—	361,000
2284	1258	Bilingual education.....	1,000,000	4,000,000

Senate Bills				
135	1413	Changes in retirement benefits .....	275,000	1,098,000
401	1334	Workmen's compensation, revenue increase .....	—	-2,000,000
520	1354	Earthquake protection zones .....	100,000	—
678 & 680	1263 & 1192	Judges' and legislators' retirement systems .....	—	60,000
772	1376	Community colleges study .....	50,000	50,000
820	1440	Workshop services for needy disabled ....	165,000	165,000
1281	1339	Apprentices as regular average daily attendance .....	361,000	361,000
1510	1155	Claim of Argo Construction Company ....	76,820	—
	Totals .....		<u>\$2,342,420</u>	<u>\$5,419,000</u>

### GENERAL FUND CONDITION

In contrast to a deficit of \$170.4 million at the end of the 1970-71 fiscal year, the General Fund surplus available for appropriation is anticipated at \$851.8 million at the end of 1972-73 and \$1,119.1 million at the end of 1973-74. These amounts are based on the 1973-74 Governor's Budget as proposed, and any changes in the expenditure programs or revenue collections, will directly alter the estimates of surplus.

There are a number of factors contributing to the strong upswing in General Fund resources. Some of the major ones are:

1. Passage of Chapter 1, Statutes of 1971, First Extraordinary Session, which increased taxes and instituted withholding of personal income taxes.
2. Added revenue collections as a result of the upswing in the business cycle.
3. Passage of the federal revenue sharing program which is estimated to add \$231.4 million in 1972-73 and \$210 million in 1973-74 to state resources.
4. Reductions in expenditure programs in 1971-72 and 1972-73 in which workload adjustments were denied in some major programs.

The unrestricted surplus is calculated after adjustments in total resources are made for two special reserves. These are:

1. *Committed reserves (or as cited in the budget, "reserve for unencumbered balances of continuing appropriations")*. These are appropriated but unexpended funds being carried over into a subsequent year for actual expenditure.
2. *Reserve for working capital*. In accordance with Chapter 571, Statutes of 1970, the Controller is required to reduce year-end resources to the actual cash balance at the end of the fiscal year. While the budget is under consideration and before each year is actually closed out by the Controller, the Department of Finance estimates this reserve by subtracting anticipated cash at year-end from total resources. The purpose of the reserve is to limit expenditures to cash available, thus to avoid borrowing at year-end.

Table 5 shows the General Fund surplus anticipated at the end of both

the 1972-73 and 1973-74 fiscal years. The adjustments to account for the various reserves as well as the effect of federal revenue sharing are included. The table lists the current surplus (accrual basis) which is the difference between state income and outgo within the year. This is estimated at \$445 million in 1972-73 and \$108.7 million in 1973-74. If federal revenue sharing funds of \$231.4 million were also included, the current surplus would total \$676.4 million in 1972-73. The combined current surplus in 1973-74 would be \$318.7 million which results from the addition of \$210 million in revenue sharing funds to the \$108.7 million in state funds.

**Table 5**  
**General Fund Surplus**

	<i>In millions</i>	
	1972-73	1973-74
Prior year resources (including unrestricted surplus of \$256.3 million on June 30, 1972) .....	\$600.3	\$1,045.3
Income .....	6,112.8	7,259.8
Outgo .....	5,667.8	7,151.1
Current surplus .....	\$445.0 <sup>1</sup>	\$108.7 <sup>1</sup>
Transfer from Revenue Sharing Fund .....	—	215.0
Year-end carryover surplus .....	\$1,045.3	\$1,369.0
Less year-end committed reserves .....	22.6	5.6
Total year-end resources .....	\$1,022.7	\$1,363.4
Less reserve for working capital .....	402.3	470.7
Year-end unrestricted surplus .....	\$620.4	\$892.7
Federal revenue sharing fund balances		
1972-73 receipts .....	231.4	16.4
1973-74 receipts .....	—	210.0
Total available (year-end) .....	\$851.8	\$1,119.1

<sup>1</sup> These amounts reflect state receipts only. If federal revenue sharing is added the results would become:

<i>Source</i>	<i>(In millions)</i>	
	1972-1973	1973-74
State funds .....	\$445.0	\$108.7
Federal revenue sharing .....	231.4	210.0
Total .....	\$676.4	\$318.7

Additional detail on the income and expenditure totals as shown in Table 5 together with the federal revenue sharing programs is presented in the following sections:

#### 1973-74 Programs

The proposed expenditure of \$7,151.1 million in 1973-74 includes funding for the program augmentations authorized by Chapter 1406, Statutes of 1972 (SB 90), totaling \$1,084 million. This is comprised of:

	<i>Millions</i>
1. School support .....	\$454
New program funds .....	(220)
Property tax relief .....	(234)
Early childhood program .....	25
Educational need factor .....	82
2. Homeowners' exemption increased to \$1,750 in 1973-74 .....	396
3. Rent assistance .....	40 <sup>1</sup>
4. Business inventory exemption .....	68
5. Open space payments .....	7
6. Welfare benefits adjustment .....	12
Total state cost .....	\$1,084

Under the provisions of Chapter 1406, state revenues for 1973-74 were increased by \$673 million as listed below.

	<i>Millions</i>
1. Sales tax rate increase from 3¾ percent to 4¾ percent June 1, 1973.....	\$623
2. Personal income tax.....	- 66 <sup>2</sup>
3. Bank and corporation tax rate increase from 7.6 percent to 9 percent July 1, 1973 .....	116
Total state revenues .....	<u>\$673</u>

<sup>1</sup> Chapter 1406 also provides a \$66 million reduction in personal income tax revenues resulting from renter credit.

<sup>2</sup> Reduction in income tax due to renter credit. Does not include \$40 million of renter rebates.

The difference of \$411 million between \$1,084 million outgo and \$673 million income under Chapter 1406 is to be provided from existing revenues plus federal revenue sharing funds.

Total 1973-74 state income to the General Fund, including that generated from Chapter 1406, is estimated to reach \$7,259.8 million. An additional \$210.0 million is estimated from federal revenue sharing for a total of \$7,486.2 million.

#### **Federal Revenue Sharing Program**

Under the new Federal Revenue Sharing Act of 1972 the state is entitled to a federally estimated \$240 million during the 1972-73 fiscal year. The first payment totaling \$92,443,559 was received in December 1972 and \$88,708,466 came in during January 1973. One additional payment is expected before the end of this fiscal year. However, the federal government is withholding a portion of the entitlement "... for the purpose of making payments to those recipient governments entitled thereto who are not receiving payments at this time and for making any adjustments which may be necessary." Accordingly, both payments received were less than originally estimated, and it is anticipated that these adjustments may reduce the state's receipts as much as \$9 million. The Department of Finance estimates that the state will actually receive \$231.4 million in 1972-73 and \$210.0 million in 1973-74.

The 1972-73 revenue sharing funds that have so far been received by the state are being placed in a newly created "Federal Revenue Sharing Fund." This complies with federal requirements that receipts be deposited in a trust fund. Although this fund is classified as a nonbudget fund, the receipts will be available for appropriation by the Legislature in accordance with state laws and can be transferred, at the time expended, to the General Fund or a special fund. Therefore, even though not classified as such, receipts can be considered available as a General Fund resource. Of the \$231.4 million in revenue sharing funds anticipated for 1972-73, \$215 million is earmarked in 1973-74 in the Budget Bill for local schools and included in the 1973-74 budget as part of total General Fund income and expenditures. The remaining \$16.4 million of the \$231.4 million of 1972-73 receipts and the \$210.0 million for 1973-74 are not earmarked in either year. However, in all cases whether thus earmarked or not these funds will have to be appropriated and then can be transferred from the Federal Revenue Sharing Fund when actually expended in the General Fund or any other fund.

**1972-73 Programs**

*General Fund income for 1972-73* was estimated at \$5,779.9 million in the budget as submitted. In May the Department of Finance increased the estimate to \$5,966.6 million and it is now anticipated that income will total \$6,112.8 million. This is an increase of \$332.9 million (accrual basis) over the amount originally estimated. A comparison of the various estimates by the major revenue sources is shown in Table 6.

**Table 6**  
**1972-73 General Fund Income Estimates**  
(in millions)

	<i>Budget as submitted</i>	<i>May 1972 reestimate</i>	<i>January 1973 reestimate</i>
Alcoholic beverage taxes and fees .....	\$126.0	\$126.5	\$123.4
Bank and corporation tax .....	770.0	787.0	815.0
Cigarette tax .....	173.8	176.4	176.1
Horseracing (parimutuel) fees .....	62.8	63.7	63.0
Inheritance and gift tax .....	291.1	297.5	284.8
Insurance tax .....	187.0	186.5	189.0
Personal income tax .....	1,880.0	1,960.0	1,995.0
Retail sales and use tax .....	2,110.0	2,180.0	2,262.0 <sup>2</sup>
Total other income and transfers .....	179.2	189.0 <sup>1</sup>	204.5
Totals .....	\$5,779.9	\$5,966.6	\$6,112.8

<sup>1</sup> Includes \$9.1 million shifted from reimbursements to revenue.

<sup>2</sup> Includes \$50.8 million in sales tax revenue which is an accrual adjustment to reflect the effect of Chapter 1406, Statutes of 1972 (SB 90).

The more favorable economic picture is especially evident in the anticipated higher personal income tax, retail sales and use tax, and bank and corporation tax collections. However, the most recent estimates are also adjusted to account for the effect of tax legislation enacted during the 1972 session. In this respect, it should be noted that \$50.8 million of the increase shown since May in the retail sales and use tax is due to an accrual adjustment to reflect the effect of Chapter 1406, Statutes of 1972 (SB 90). Although these accrued revenues add to income, they do not add to unrestricted surplus because this is dependent on cash receipts.

*General Fund expenditures for 1972-73* were estimated at \$5,724.3 million in the budget as signed by the Governor in June 1972. The major changes since June, which resulted in a net reduction of \$56.5 million and a revised 1972-73 budget total of \$5,667.8 million, are listed below:

	<i>Millions</i>
Budget as signed by the Governor (June 1972) .....	\$5,724.3
School apportionments .....	-56.7
Social welfare—local assistance .....	-29.7
Legislation enacted since budget signed .....	+51.1
Medical assistance .....	-13.0
Debt service .....	-13.3
Salary increase .....	+4.0
Other adjustments .....	+9.1
Revised total (January 1973) .....	\$5,667.8

The reduction in school apportionments results from lower than estimated public school attendance. Average daily attendance was estimated at 5,338,010 last summer and is now estimated at 5,255,200, a drop of

82,810. The reductions in medical assistance and social welfare programs are due to welfare reforms and decreases in cash grants and caseloads largely arising out of improved economic conditions and smaller family sizes. The reduction in the salary increase funds resulted from the disapproval by the federal pay board of part of the salary increase authorized in the budget. The reduction in debt service reflects lower bond sales, especially in the clean water and school building aid bond programs. In addition, the local schools are repaying a higher portion of total debt service than previously estimated.

The increase of \$51.1 million for legislation is the estimated cost of legislation enacted since the budget was signed. Even though budgeted for 1972-73, some programs will not actually get underway until 1973-74. The increase of \$9.1 million in other adjustments reflects the net effect of numerous increases and decreases in other General Fund programs.

The passage of Chapter 1406 (SB 90) will only have a minimal effect on 1972-73 expenditures. A provision authorizing a \$2 monthly cash grant to all AFDC recipients and all adult aid recipients living in independent arrangements will go into effect beginning June 1973 and will result in estimated costs of only \$0.9 million for 1972-73.

#### **MAJOR GENERAL FUND PROGRAM ELEMENTS**

The two major components of growth in state expenditures are the state's increasing population and the rising prices of goods and services. These two elements directly affect state budget needs. The largest single element of direct General Fund expense is the salaries and wages of state employees.

The state's total population as of July 1, 1973, is estimated at 20.8 million. As of July 1, 1974, the state's population is projected at 21.1 million, an increase of 0.3 million over July 1, 1973. It is estimated that the California Consumer Price Index (1967 prices = 100) will rise from an average of 123.3 in 1972, to 127.6 in 1973, and to 132.2 in 1974, an increase of 3.5 percent and 3.6 percent respectively. Most recent economic trends indicate that these estimates may be conservative.

Salaries and wages, totaling an estimated \$1,454.7 million, comprise 81 percent of total General Fund expenditures for state operations in the 1973-74 fiscal year. This is an increase of 16.4 percent over the estimated \$1,250.1 million expended in 1972-73.

#### **Specific Program Elements**

Expenditures for health, education, higher education, property tax relief, and other major programs discussed in this section comprise 85.8 percent of the total of \$7,151.1 million in General Fund expenditures for 1973-74.

Each of the major program elements as well as programs of special interest is described in the following sections. A detailed analysis of each of the programs can be obtained by referring to the appropriate item in this analysis.

Table 7 indicates the major program changes in General Fund expenditures.

**Table 7**  
**1973-74 Selected General Fund Budget Program Changes**  
**From 1972-73 Expenditure Level**  
**(in millions)**

	<i>Amount of increase</i>	<i>Percent increase</i>
<b>Major program increases:</b>		
Health .....	\$953.9 <sup>1</sup>	NA <sup>1</sup>
Medical assistance.....	(74.1)	(12.5)
Social welfare.....	31.3	4.0
Transportation .....	5.0	NA <sup>2</sup>
Education—apportionments.....	555.3	34.7
University of California—state operations .....	14.1	3.7
State University and Colleges—state operations .....	29.5	7.8
Property tax relief .....	521.5	119.6
Open space.....	9.0	69.2
Salary increases .....	165.7	50.8
Debt service.....	4.2	2.5
	<i>Amount of decrease</i>	<i>Percent of decrease</i>
<b>Major Program Decrease:</b>		
Capital outlay.....	-4.5	-24.8

<sup>1</sup> Not applicable. Department of Health created by consolidation of the Department of Public Health, Mental Hygiene and Health Care Services. Effective July 1, 1973.

<sup>2</sup> Not applicable. Department of Transportation created by consolidation of the Department of Public Works and Aeronautics. Effective July 1, 1973.

	<i>Proposed 1973-74</i>
<b>Department of Health</b>	
State operations .....	\$57,352,598
Local assistance .....	896,569,699
Total .....	\$953,922,297

Effective July 1, 1973, the Departments of Public Health, Mental Hygiene and Health Care Services will be consolidated into a single Department of Health in the Health and Welfare Agency. In addition, certain related health and service programs in the Department of Consumer Affairs and Social Welfare are to be transferred to the Department of Health. This consolidation will bring the major elements of all state health and service programs into one organization.

The new Department of Health will have four health system line organizations administering four major programs: (1) health treatment systems, (2) health financing systems, (3) health protection systems, and (4) health quality systems. In addition, the administrative functions that have supported these program activities are to be consolidated into the health administrative system.

A total 1973-74 General Fund expenditure of \$953.9 million is proposed for the Department of Health. The reorganization of major health programs does not permit a consistent comparison of estimated General Fund program expenditures for fiscal year 1972-73 with proposed expenditures for fiscal year 1973-74. The budget document indicates that there will probably be changes in the organization within each system reflected in the budget prior to the implementation of the Department of Health.

### Health Financing Systems Program

	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Increase</i>	<i>Percent</i>
Medi-Cal (part of new Department of Health)				
Local assistance .....	\$593,335,967	\$667,463,036	\$74,127,069	12.5
Average monthly caseload ....	2,604,100	2,847,100	243,100	9.3

The Health Financing Systems program of the Department of Health will be the primary system responsible for administering and funding California's medical assistance and crippled children's services.

The California Medical Assistance program provides medical care to those financially needy individuals eligible for the program. Persons eligible include (1) public assistance recipients, (2) medically needy welfare-linked persons, (3) medically indigent children, and (4) medically indigent adults.

A total 1973-74 General Fund expenditure of \$667.5 million is proposed for the Medi-Cal program. This is an increase of \$74.1 million or 12.5 percent over fiscal year 1972-73. The most significant factor behind this increase is the projected 9.3 percent rise in the average monthly caseload. This includes a 64 percent increase in the medically indigent category for which the caseload estimates have recently been revised. Other factors include (1) retroactive nursing home reimbursement rate increases, (2) funding for a potential 5 percent increase for noninstitutional providers, and (3) the rising costs in institutions providing health care services.

### Social Welfare

	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Increase</i>	<i>Percent</i>
General Fund				
State operations .....	\$10,622,827	\$11,635,454	\$1,012,627	9.5
Local assistance .....	775,239,137	805,533,955	30,294,818	3.9
Totals .....	\$785,861,964	\$817,169,409	\$31,307,445	4.0

### Department of Social Welfare Caseload Estimates

<i>Monthly average persons aided</i>	<i>Estimated 1972-73</i>	<i>Estimated 1973-74</i>	<i>Increase</i>	<i>Percent</i>
Aged .....	304,716	303,335	-1,381	-0.5
Blind .....	14,175	14,304	129	0.9
Disabled .....	214,949	230,840	15,891	7.4
AFDC .....	1,504,404	1,558,130	53,726	3.6
Totals .....	2,038,244	2,106,609	68,365	3.4

The Department of Social Welfare provides, within the limits of available public resources, reasonable and temporary support and maintenance for economically needy and dependent persons.

A total 1973-74 General Fund expenditure of \$817.2 million is proposed for the Department of Social Welfare. Included in this figure is a 9.5 percent increase in state operations based, in part, on increased activity related to cash grant assistance systems such as increased support for the quality control function and the Children and Family Systems Management Bureau.

Local assistance expenditures are estimated to increase \$30.3 million or 3.9 percent. This increase is partially due to the effects of Chapter 1406 (SB 90) and Chapter 2089 (AB 2089) enacted during the 1972 Session of the Legislature.

Chapter 1406 provides a \$2 monthly cash grant for all AFDC recipients and all adult aid recipients in independent living arrangements to offset the burden of the increased sales tax levied in this legislation. This will result in an increase in General Fund costs of \$12 million.

Chapter 1371 (AB 2089) increases state support of children in foster homes or private institutions at a cost of \$7.0 million to the General Fund.

The proposed budget expenditures must remain tentative because they do not reflect changes resulting from the enactment of P.L. 92-603 (HR 1) and P.L. 92-512 (HR 14370) during the 1972 Session of Congress. P.L. 92-603, Social Security amendments of 1972, abolishes the present adult aid categories and establishes a new single program under the federal social security system. This program, effective January 1, 1974, will significantly affect state payments to adults for fiscal year 1973-74.

P.L. 92-512, the State and Local Fiscal Assistance Act of 1972, establishes a maximum allocation of federal matching funds for social services programs. The budget narrative indicates that the provisions of both P.L. 92-603 and P.L. 92-512 will be explained in a supplemental state report to be presented to the 1973 Legislature.

**Transportation**

	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Increase</i>
Department of Transportation.....	—	\$5,000,000	\$5,000,000

Effective July 1, 1973, the Department of Public Works and the Department of Aeronautics will be consolidated into a single Department of Transportation. This new organization has been created to establish and implement a comprehensive multimodal transportation plan for all of California.

The 1973-74 budget proposes a General Fund expenditure of \$5 million. These funds are to be used for mass transit planning activities which the Department of Finance claims cannot legally be supported from the Aeronautics Account and the State Highway Account. The legislation establishing the department was passed too late to include a detailed budget expenditure plan for 1973-74. However, amendments to the Budget Bill are to be submitted for legislative review.

**Education**

	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Increase</i>	<i>Percent</i>
Local assistance <sup>1</sup> .....	\$1,658,090,454	\$2,225,070,008	\$566,979,554	34.2
Apportionments .....	1,601,920,978	2,157,957,320	556,036,342	34.7

<sup>1</sup> Excludes debt service on school building aid bonds, direct contributions to Teachers' Retirement Fund and Community College Extended Opportunity program.

Local assistance expenditures for education (excluding debt service on school building bonds, \$135 million in direct state contributions to the Teachers' Retirement Fund and the Community College Extended Op-

portunity program) are budgeted to increase 34.2 percent from 1972-73 to 1973-74. State apportionments to public schools are budgeted to increase \$556 million over the same period.

The most significant portion of this increase results from Chapter 1406, which raises the basic state foundation program for schools \$454 million in fiscal year 1973-74. In future years the foundation program will be increased by a factor tied to the percentage increase in state assessed valuation, thus partly avoiding the "slippage" in state school support which has occurred during inflationary periods.

Other provisions of Chapter 1406 include \$82 million to fund comprehensive compensatory education programs for educationally disadvantaged youth and \$25 million to fund the Early Childhood Education program established by Chapter 1147, Statutes of 1972 (SB 1302).

A comparison of the estimated average daily attendance in 1972-73 and 1973-74 is shown below by school level.

**Estimated Average Daily Attendance**

	1972-73	1973-74	Change	Percent
Elementary.....	3,176,300	3,133,400	-42,900	-1.4
High school.....	1,430,000	1,453,500	23,500	1.6
Community college.....	487,900	511,500	23,600	4.8
Adults.....	161,000	167,300	6,300	3.9
Totals.....	5,255,200	5,265,700	10,500	0.2

The total average daily attendance is projected to increase only 0.2 percent between 1972-73 and 1973-74. However, the components of this increase vary from a 1.4 percent decline in the average daily attendance at elementary schools to a 4.8 percent increase in average daily attendance at community colleges.

**Higher Education—University of California**

	Estimated 1972-73	Proposed 1973-74	Increase	Percent
University of California.....	\$384,781,688	\$398,900,000	\$14,118,312	3.7

State expenditures for the University of California are proposed at \$398.9 million. This is an increase of \$14.1 million or 3.7 percent over the 1972-73 appropriation. This increase includes \$7 million in merit salary and promotion increases and \$1.6 million for general price increases to maintain existing programs. Funding of new programs includes \$1 million for the Undergraduate Teaching Incentive program and \$1.5 million for the extended university.

Various measurement criteria are used to determine the appropriate level of state funding for each function of the University. One is the enrollment in terms of full-time equivalents (FTE). A comparison of the FTE enrollment in 1972-73 and 1973-74 is shown below by level.

**Estimated Full-Time Equivalent Enrollment**

	Estimated 1972-73	Proposed 1973-74	Increase	Percent
Lower division.....	31,684	32,392	708	2.2
Upper division.....	45,316	45,564	248	0.5
1st stage graduate.....	20,948	22,735	1,787	8.5
2nd stage graduate.....	9,398	9,223	-175	-1.9
Total.....	107,346	109,914	2,568	2.4

The total FTE enrollment is projected to increase by 2,568 or 2.4 percent between 1972-73 and 1973-74. This increase includes 772 new students in the Extended University program. The FTE enrollment change at each level varies from an 8.5 percent increase at the first stage of the graduate level to a 1.9 percent decline at the second stage of the graduate level.

#### Higher Education—California State University and Colleges

	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Increase</i>	<i>Percent</i>
California State University and Colleges .....	\$378,377,700	\$407,883,744	\$29,506,044	7.8
Enrollment (full-time equivalents) .....	228,170	233,290	5,120	2.2

The State University and Colleges proposed 1973-74 General Fund support budget totals \$407.9 million. This is an increase of 7.8 percent above the 1972-73 fiscal year. The enrollment in terms of full-time equivalents is projected to increase 2.2 percent during the same period.

The additional expenditures will be used to fund price increases and workload growth, reduce slightly the student faculty ratio from 17.94 to 17.82, and provide state grants for first and second year enrollees in the Economic Opportunity program.

#### Property Tax Relief

	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Increase</i>	<i>Percent</i>
Local assistance:				
Senior citizens' property tax relief.....	\$60,000,000	\$62,000,000	\$2,000,000	3.3
Personal property tax relief.....	133,000,000	208,000,000	75,000,000	56.4
Homeowners' property tax relief.....	242,800,000	647,250,000	404,450,000	166.6
Renters' tax relief.....	—	40,000,000	40,000,000 <sup>1</sup>	—
Totals .....	\$435,800,000	\$957,250,000	\$521,450,000	119.6

<sup>1</sup> Chapter 1406, Statutes of 1972 (SB 90), also provides a \$66 million reduction in personal income tax revenues resulting from renter credits.

The state's property tax relief program provides reduced property taxes to senior citizens, personal property (business inventory) owners and homeowners. The principal objectives of this program are to preserve homeownership for senior citizens, and to insure a lower tax burden on business inventories and homeowners compared to other types of property owners.

Chapter 1406, Statutes of 1972 (SB 90), adds a new element to this program by extending \$40 million in tax rebates and \$66 million in personal income tax credits to renters who previously were not eligible for property tax assistance.

General Fund expenditures for property tax relief, including renters tax relief, total \$957.3 million in 1973-74. This is an increase of \$521.5 million over the current year, primarily from the impact of Chapter 1406.

Senior citizens' tax assistance is budgeted at \$62 million, an increase of \$2 million or 3.3 percent over fiscal year 1972-73.

Personal property tax relief is budgeted at \$208 million, a \$75 million

increase over this year. This is primarily due to an increase in the business inventory exemption from 30 percent to 45 percent for the 1973-74 fiscal year as provided by Chapter 1406.

Homeowners' property tax relief has increased by \$404.5 million or 166.6 percent to \$647.3 million in 1973-74. This significant increase is due to a change in the homeowners' exemption from \$750 to \$1,750 under Chapter 1406.

Renters' tax relief is budgeted at \$40 million for 1973-74 from the General Fund. This new program will provide renters with an income tax rebate of \$25 to \$45 depending upon their adjusted gross income.

#### Open Space Program

	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Increase</i>	<i>Percent</i>
Open Space program .....	\$13,000,000	\$22,000,000	\$9,000,000	69.2

Chapter 1, Statutes of 1971, First Extraordinary Session, authorized the appropriation of \$13 million in state funds to partially reimburse tax losses incurred by school districts (losses in excess of specified computational tax rates) and to make acreage payments to cities and counties for land placed under open space restrictions.

Chapter 1406, Statutes of 1972 (SB 90), increases the amount authorized in Chapter 1 from \$15 million to \$22 million for 1973-74. These additional funds are provided because the Chapter 1 authorizations are not sufficient to fully fund acreage payments to cities and counties.

#### Salary Increase

	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Increase</i>
General Fund .....	\$109,902,182	\$165,701,000	\$55,798,818

The Governor's 1973-74 Budget proposal recommends \$165.7 million from the General Fund for salary increases. This amount is 50.8 percent higher than the amount estimated for 1972-73.

The distribution of the salary increase amount and average percentage increase in salaries by group is summarized as follows:

	<i>Amount (in millions)</i>	<i>Salary increase percent</i>
Civil service and exempt .....	\$99.8	14.3 <sup>1</sup>
Statutory .....	0.4	10.0
University of California:		
Faculty .....	11.0	5.4
Nonfaculty .....	19.7	12.1
California State University and Colleges		
Instructional .....	18.9	7.5
Noninstructional .....	15.3	12.1
Judicial .....	0.6	3.5
Total .....	\$165.7	12.4 (weighted average)

<sup>1</sup> General Fund only. The overall percent increase for the civil service and exempt group is 12.9 percent when classes funded from special funds and nongovernmental cost funds are also included.

## Capital Outlay

	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Change</i>	<i>Percent</i>
General Fund capital outlay expenditures .....	\$18,268,716	\$13,745,873	\$-4,522,846	\$-24.8
University of California .....	7,900,000	—	-7,900,000	-100
Department of General Services .....	3,096,655	915,920	-2,180,735	-70.4
Department of Health .....	1,492,200	3,102,700	+1,610,500	+107.9
Department of Corrections .....	495,000	2,004,160	+1,509,160	+304.9
Department of Veterans Affairs .....	170,390	2,725,237	+2,554,847	+1,499

General Fund expenditures for capital outlay are budgeted to decrease by \$4.5 million between fiscal years 1972-73 and 1973-74. The most significant decreases are in the budgets of the University of California and the Department of General Services.

The General Fund, in the budget year, will contribute only 2.8 percent to the total expenditure for capital outlay and nothing to the higher education segment. Indirectly, it contributes significantly by repayment of bond funds for past programs.

### GENERAL OBLIGATION BONDS

State general obligation bonds outstanding on December 31, 1972, totaled \$5,318,153,000, a gain of \$103,541,000 or 2 percent over the \$5,214,612,000 outstanding on December 31, 1971.

During 1972, the state sold \$324.9 million of general obligation bonds at average interest rates ranging from 4.5 percent to 5.5 percent. This is a decrease of \$235.1 million or 42 percent from the \$560 million sold in 1971.

There are two types of general obligation bonds: (1) those in which the debt service (includes interest and redemption payments) obligation is fully paid, or the major portion is paid from the General Fund, and (2) those in which debt service is paid from project or program revenues. The full faith and credit of the state is pledged, however, to make these payments in any case from the General Fund should revenue be insufficient to cover these costs.

State agencies also issue revenue bonds for certain projects on which only the revenue generated from the enterprise is pledged for payment of the bonds. These have been issued for University of California and state college dormitories, parking lots, Cal-Expo facilities, bridges and other construction projects and purposes. The revenue bonds are not included in the totals in this summary but rather are mentioned merely to indicate the different types of debt instruments with which the state is involved.

In addition to legislative approval, general obligation bonds must be authorized by the electorate. Bond issues have been approved in this manner for the development of water resources, school building aid, construction of higher educational facilities and other capital construction, purchasing and developing park and recreational facilities, veterans' farm and home purchases, clean water programs, and for other purposes.

The state general obligation bonded debt by the various program cate-

gories is shown in Table 8. Information is included to show the amount by program of the \$1,261,597,000 in authorized bonds which have been approved but not sold as well as bonds sold and outstanding on December 31, 1972.

**Table 8**  
**General Obligation Bonds of the State of California**  
**by Purpose as of December 31, 1972**

<i>Purpose</i>	<i>Unsold</i>	<i>Outstanding</i>
<b>General Fund bonds:</b>		
State construction .....	—	\$770,300,000
Beaches, parks, recreation and historical facilities .....	—	129,900,000
Higher education construction .....	—	200,295,000
Community college construction .....	\$160,000,000	59,700,000
School building aid <sup>1</sup> .....	350,000,000	1,231,145,000
Recreation and fish and wildlife .....	35,000,000	24,500,000
Clean water .....	150,000,000	97,500,000
Health science facilities .....	155,900,000	—
Totals .....	\$850,900,000	\$2,513,340,000
<b>Self-liquidating bonds:</b>		
Water resources development .....	\$210,000,000	\$1,540,000,000
Veterans' farm and home .....	200,000,000	1,211,300,000
Harbor bond programs <sup>2</sup> .....	697,000	53,513,000
Totals .....	\$410,697,000	\$2,804,813,000
Totals, all bonds .....	\$1,261,597,000	\$5,318,153,000

<sup>1</sup> School districts bear part of the debt service. The General Fund contributes the remainder.

<sup>2</sup> Chapter 70 (SB 180) reduces the amount of unsold bonds authorized in 1909 and 1913 for improvements in San Francisco Harbor and permits the State Treasurer to destroy the unsold bonds for such improvements. The \$697,000 in bonds presently unsold will accordingly be reduced to zero on March 7, 1973, the effective date of this act.

Recent federal and state legislation will have a significant impact on the \$200 million in unsold clean water bonds enabling that bond money to be stretched approximately twice as far as originally envisioned.

Prior to the latest amendment, the Federal Water Pollution Control Act provided that if a state paid 25 percent of the cost of eligible construction projects, the federal government would provide a 55 percent grant. This was amended in the last Congress to increase federal participation to 75 percent with no minimum state participation.

Chapter 1256, 1972 session (AB 740), in turn amended the Clean Water Bond Law of 1970 to require the state to pay at least 12.5 percent of the eligible project cost rather than the minimum amount required by federal law to qualify for the maximum amount of federal assistance available.

The 1972 Session of the Legislature proposed two major general obligation bond issues:

<i>Legislation</i>	<i>Program</i>	<i>Vote by electorate</i>	<i>Amount (in millions)</i>
Chapter 152 (SB 220)	Health science facilities .....	November 2, 1976	\$138.1
Chapter 912 (AB 392)	Beaches, parks, recreational and historical facilities .....	June 4, 1974	<u>250</u>
Total .....			\$388.1

Four major general obligation bond issues totaling \$915.9 million were approved by the electorate during 1972:

<i>Legislation *</i>	<i>Program</i>	<i>Amount (in millions)</i>
Chapter 105 (AB 75)	School building aid and earthquake reconstruction.....	\$350
Chapter 665 (SB 281)	As amended by Chapters 152 and 470 (1972), health science facilities.....	155.9
Chapter 937 (SB 168)	Community college construction .....	160
Chapter 1167 (AB 171)	Veterans' bond act .....	250
Total.....		<u>\$915.9</u>

\* The bond issues were proposed during the 1971 session of the Legislature.

Anticipated sales of general obligation bonds in the last half of the 1972-73 fiscal year are as follows:

Community college .....	\$15,000,000
Health facilities.....	15,000,000
State school building aid .....	<u>50,000,000</u>
Total.....	\$80,000,000

Sales during 1973-74 are anticipated as follows:

Water resources .....	\$20,000,000*
Recreation and fish and wildlife .....	10,000,000
Veterans .....	100,000,000
Community college .....	30,000,000
Health facilities.....	40,000,000
Clean water .....	50,000,000
State school building aid .....	<u>100,000,000</u>
Total.....	\$350,000,000

#### **General Fund Bonds**

The category General Fund Bonds includes those programs for which the redemption and interest charges are entirely or partially paid from the General Fund. Programs for which full debt service is paid from the General Fund include state construction; beaches, parks, recreational and historical facilities; higher education construction, community college construction, recreation and fish and wildlife, clean water, and health science facilities construction. The local school districts bear part of the debt service for school building aid bonds and the state pays the remainder.

Table 9 projects the total General Fund debt service for the period 1971-72 to 1976-77. This projection indicates that debt service charges will total \$175 million in fiscal year 1973-74 and increase to \$219.4 million in 1976-77. Included is all bond debt service fully funded from the General Fund and the General Fund portion of school building aid bond debt service (see Tables 10 and 11). These estimates are based only on currently authorized bond issues and do not include those proposed issues yet to be voted on by the electorate. Should other new issues be authorized and sold, these costs to the General Fund will rise even faster than projected.

**Table 9  
Total General Fund Debt Service**

1971-72 .....	\$159,183,388
1972-73 .....	170,776,002
1973-74 .....	175,014,470
1974-75 .....	199,412,370
1975-76 .....	211,270,254
1976-77 .....	219,420,686

Tables 10 and 11 divide the General Fund debt service into its two major components. Table 10 projects the debt service on those programs fully funded from the General Fund and Table 11 projects those charges for school building aid bonds including the estimated portion projected to be contributed from the General Fund.

**Table 10**  
**Estimated Interest and Redemption Charges on General Fund Bonds Fully Funded by the State 1971-72 to 1976-77<sup>1</sup>**

<i>Fiscal year</i>	<i>Debt service</i>	<i>Debt service on bonds sold as of December 31, 1972</i>	<i>Debt service on anticipated sales<sup>2</sup></i>
1971-72 .....	\$105,749,876	\$105,749,876	—
1972-73 .....	115,694,119	115,068,619	\$625,500
1973-74 .....	122,312,516	115,508,292	6,804,224
1974-75 .....	137,108,761	115,333,761	21,775,000
1975-76 .....	146,490,086	113,377,586	33,112,500
1976-77 .....	154,408,318	111,075,818	43,332,500

<sup>1</sup> Accrual basis. Includes state construction; state beach, park, recreation and historical facilities; clean water; state higher education construction; community college construction; recreation and fish and wildlife; and health science facilities.

<sup>2</sup> Estimated debt service on anticipated \$30 million in sales during the last half of the 1972-73 fiscal year; \$130 million in sales during 1973-74; \$125 million during 1974-75; \$125 million during 1975-76; and \$90.9 million during 1976-77. Does not include debt service from proposed bond issues to be placed before the electorate in 1974 and 1976. Assumes a 5 percent average interest rate on bonds sold.

**Table 11**  
**Estimated Interest and Redemption Charges on State School Building Aid Bonds Partially Funded by the State 1971-72 to 1976-77<sup>1</sup>**

<i>Fiscal year</i>	<i>Total debt service</i>	<i>Debt service on bonds sold as of December 31, 1972</i>	<i>Debt service on anticipated sales<sup>2</sup></i>	<i>General Fund portion<sup>3</sup></i>
1971-72.....	\$112,451,936	\$112,451,936	—	\$53,433,512
1972-73.....	123,751,258	123,333,758	\$417,500	55,081,883
1973-74.....	127,106,954	121,292,829	5,814,125	52,701,954
1974-75.....	138,452,465	120,202,465	18,250,000	62,303,609
1975-76.....	143,955,930	118,318,430	25,637,500	64,780,168
1976-77.....	144,471,931	113,784,431	30,687,500	65,012,368

<sup>1</sup> Accrual basis.

<sup>2</sup> Estimated debt service on anticipated \$50 million sale during the last half of the 1972-73 fiscal year; \$100 million during 1973-74; \$75 million during 1974-75; \$75 million during 1975-76; and \$50 million during 1976-77. Assumes a 5 percent average interest rate on bonds sold.

<sup>3</sup> General Fund portion projected at 45 percent of total debt service for 1974-75 through 1976-77.

# REVENUE ESTIMATES

## Summary

The 1970 recession and the hesitant recovery of the following year gave way in 1972 to a strong, broadly based economic expansion. Nationally, real output of goods and services advanced by 6½ percent, in marked contrast to the 2½ percent growth in 1971 and the fractional decline of 1970. Employment rose by 2.6 million persons during 1972, and the troublesome unemployment rate finally showed significant signs of improving by yearend. The rate of inflation (as measured by prices of all goods and services, i.e., GNP Index) was slowed to 3 percent from the 4½-percent level of 1971.

The outlook for 1973 is for further substantial gains in all sectors of the economy, with gross national product expected to top the current year mark of \$1,151 billion by at least \$110 billion. Forecasters look for real growth of 6 percent and price level increases of about 3½ percent. California is expected to continue to share in this growth, with personal income of Californians pegged at \$111.5 billion, up 9.1 percent from 1972.

General Fund revenues for fiscal 1971-72 bettered year-ago expectations by \$79 million due largely to gains in sales tax collections and higher than anticipated income tax withholding receipts. For the current fiscal year the Department of Finance now is projecting General Fund revenues of \$6,111 million, up \$156 million from the May 1972 estimate. This increase includes \$51 million arising from the accrual of additional sales tax revenues for the month of June 1973 derived from the 1 percent rate increase authorized by Chapter 1406, Statutes of 1972 (SB 90). Other contributing factors are a generally higher level of taxable sales, higher personal income and corporation franchise taxes, and an increase in interest income on the investment of surplus cash.

For 1973-74, total General Fund revenues of \$7,258 million are predicted, including \$673 million attributable to the various provisions of Chapter 1406. Excluding the impact of Chapter 1406 and other new legislation, 1973-74 revenues are expected to rise by 8.9 percent over the current year.

General Fund revenue estimates for the current and budget fiscal years do not include proceeds from the Federal Revenue Sharing Act. These receipts will be deposited in a special trust fund and transferred to the General Fund as appropriated by the Legislature.

*We are in general agreement with the revenue estimates and the underlying economic forecasts prepared by the Department of Finance.*

The recent announcement of the curtailment of mandatory wage and price controls, along with other economic developments occurring after the preparation of the budget forecasts, suggest that the dollar gain in gross national product and consumer prices may be somewhat higher than assumed.

**Analysis of the Department of Finance  
General Fund Revenue Estimates**

**1971-72 Revenues**

The \$79 million gain in General Fund revenues over the January 1972 budget estimate consisted primarily of a jump in personal income tax receipts of \$39 million and a \$43 million gain in sales tax collections. The \$39 million differential in income tax collections is a combination of higher than anticipated withholding receipts partially offset by lower than estimated quarterly declaration payments. The composition of personal income tax collections as forecast in January 1972 compared to actual results is shown in Table 1.

**Table 1  
Composition of Personal Income Tax Collections 1971-72  
(in millions)**

	<i>January 1972 estimate</i>	<i>Actual collections</i>	<i>Difference</i>
Withholding.....	\$392	\$497	\$105
Quarterly declarations .....	214	144	-70
Final returns and audit collections .....	1,376	1,386	10
Less 20 percent forgiveness of 1971 tax liability .....	-235	-241	-6
Total .....	\$1,747	\$1,786	\$39

Sales tax receipts during the first half of calendar year 1972 were bolstered by exceptionally high sales of new automobiles, building materials, and home furnishings. Outpacing all other categories were sales of mobile-homes, trailers, and campers, which were up approximately 35 percent over the first half of calendar year 1971. Sales of other recreational vehicles and farm implements also contributed to the gain.

**1972-73 Revenue Picture Brighter**

The January 1972 budget estimate of General Fund revenues for the current fiscal year was predicated on a gross national product of \$1,146 billion, and a forecast of personal income for California of \$100.9 billion for 1972. Employment gains in the state of 175,000 jobs were predicted with the unemployment rate averaging 6.1 percent. Performance of the economy in 1972 outstripped the forecasts of the Department of Finance and almost all other private economists, both nationally and in California. Gross national product edged over the \$1,150 billion mark, and California personal income rose to \$102.2 billion. New jobs in California totaled 280,000 for the year, and the unemployment rate dipped to 5.9 percent.

As a result of the higher income levels and indications that Californians were spending more freely than expected, revenue forecasts for the current fiscal year were boosted in May 1972 by \$178 million and again in January of this year by \$103 million. Total upward revisions, excluding the effect of legislation, amounted to \$281 million, or about 5 percent more than the original forecast. A history of the Department of Finance revenue estimate for the current fiscal year is shown in Table 2.

**Table 2**  
**History of the Department of Finance 1972-73**  
**General Fund Revenue Estimates**  
(in millions)

<i>Taxes</i>	<i>Original</i>	<i>Subsequent revisions</i>			<i>Revised total</i>
	<i>budget estimate</i> <i>January 1972</i>	<i>May</i> <i>1972</i>	<i>Legislation</i>	<i>January</i> <i>1973</i>	
Sales and use .....	\$2,110.0	\$70.0	\$50.8 <sup>1</sup>	\$31.2	\$2,262.0
Personal income .....	1,880.0	80.0	—	35.0	1,995.0
Bank and corporation .....	770.0	17.0	—	28.0	815.0
Inheritance and gift .....	291.1	6.4	—	-12.7	284.8
Cigarette .....	173.8	2.6	—	-0.3	176.1
Insurance .....	187.0	-0.5	2.0	0.2	189.0
Alcoholic beverage .....	126.0	0.5	—	-3.1	123.4
Horseracing .....	62.8	0.9	—	-0.7	63.0
Private car .....	5.3	—	—	0.5	5.8
Total taxes .....	\$5,606.0	\$176.9	\$52.8	\$78.4	\$5,914.1
Other revenues .....	171.2	0.8	—	24.9	196.9
Total General Fund revenues .....	\$5,777.2	\$177.7	\$52.8	\$103.3	\$6,111.0

<sup>1</sup> Increase of 1 percent in sales tax rate effective June 1, 1972, authorized by Chapter 1406, Statutes of 1972 (SB 90).

Both sales tax collections and personal income tax receipts are now projected at substantially higher levels, with bank and corporation taxes also expected to rise by \$45 million above the January 1972 estimate. Taxable sales of furniture and appliances, building materials and new autos are all substantially higher than originally anticipated, resulting in total upward adjustments of \$101 million in sales tax revenues.

The composition of the total increase in the personal income tax estimate of \$115 million is shown in Table 3.

**Table 3**  
**Composition of Personal Income Tax Collections in 1972-73**  
(in millions)

	<i>January</i> <i>1972</i> <i>estimate</i>	<i>January</i> <i>1973</i> <i>estimate</i>	<i>Difference</i>
Withholding .....	\$1,175	\$1,364	\$189
Quarterly declarations .....	492	449	-43
Final returns and audit collections .....	362	431	69
Refunds .....	-149	-249	-100
	\$1,880	\$1,995	\$115

Withholding receipts are being adjusted upward both for purposes of reflecting growth in personal income as well as incorporating results of experience thus far with withholding collections. The estimate of refunds is being adjusted upwards concurrently to reflect the extent of over withholding that is now estimated for calendar year 1972. The magnitude of these adjustments in estimated withholding receipts and refunds reflects the uncertainties arising from lack of experience with the withholding system. The actual amount of refunds for the first year of withholding will not be known until August of 1973 when the issuance of refund checks is completed. A substantial portion of the gain in the category of final returns and other collections is due to higher collections of audit deficiencies.

Improved cash flow during the year resulting primarily from the implementation of income tax withholding as well as expenditure savings in

several areas accounted for a gain of \$21 million in expected interest income from investments in the Pooled Money Investment account. This amount does not include interest earned on investments of federal revenue sharing receipts which are deposited in the Revenue Sharing Trust Fund.

#### 1973-74 Revenue Estimates

Revenue estimates of the Department of Finance for both the General Fund and Special Funds for the current and budget years are shown in Table 4. As indicated earlier, 1973-74 revenues include the impact of Chapter 1406 (SB 90) which accounts for almost 60 percent of the increase in General Fund revenues during 1973-74. Special fund revenue gains in the motor vehicle fuels tax and vehicle registration and license categories are largely offset by the repeal of the vehicle transportation tax and a \$32 million drop in oil and gas revenues.

**Table 4**  
**Estimated State Revenue Collections During 1973-74**  
(in millions)

General Fund	1972-73	1973-74	Increase	
			Amount	Percent
Sales and use .....	\$2,262.0	\$3,000.0	\$738.0	32.6
Personal Income .....	1,995.0	2,175.0	180.0	9.0
Bank and corporation .....	815.0	995.0	180.0	22.1
Inheritance and gift .....	284.8	311.3	26.5	9.3
Cigarette .....	176.1	178.5	2.4	1.4
Insurance .....	189.0	202.6	13.6	7.2
Alcoholic beverage .....	123.4	127.1	3.7	3.0
Horseracing .....	63.0	63.0	—	—
Interest on investments .....	65.8	64.2	-1.6	-2.4
Health Care Deposit Fund .....	46.4	44.9	-1.5	-3.2
Other sources .....	90.5	96.2	5.7	6.3
<b>Total General Fund .....</b>	<b>\$6,111.0</b>	<b>\$7,257.8</b>	<b>\$1,146.8</b>	<b>18.8</b>
<b>Special Funds</b>				
<b>Motor Vehicle</b>				
Fuels .....	\$759.0	\$798.2	\$39.2	5.2
Registration, weight .....	304.7	320.7	16.0	5.3
License (in lieu) .....	279.1	296.8	17.7	6.3
Transportation .....	31.0	.8	-30.2	-97.4
Cigarette .....	75.4	76.5	1.1	1.5
Alcoholic beverage .....	14.1	13.5	-.6	4.3
Horseracing .....	8.9	12.2	3.3	37.1
Oil and gas revenues .....	96.7	64.7	-32.0	-33.1
Other .....	117.2	107.6	-9.6	-8.2
<b>Total Special Funds .....</b>	<b>\$1,686.1</b>	<b>\$1,691.0</b>	<b>\$4.9</b>	<b>.3</b>
<b>Totals .....</b>	<b>\$7,797.1</b>	<b>\$8,948.8</b>	<b>\$1,151.7</b>	<b>14.8</b>

**Sales Taxes.** The sales and use tax is the state's largest single source of revenue and will account for \$3,000 million, or 41 percent of General Fund income in 1973-74. The increase of \$738 million for the budget year includes \$623 million (accrual basis) attributable to the 1 percent rate increase authorized by Chapter 1406 (SB 90). The gain in sales tax revenue after adjusting for the rate increase amounts to about 7½ percent over the current year. Taxable sales excluding gasoline are expected to rise by 8.6

percent in calendar year 1973 and 6.7 percent in calendar year 1974. The growth in taxable sales will lag behind the 10.3 percent increase in disposable income because of an upturn in the savings rate and the anticipation that a higher percentage of income will be devoted to recreation, travel and other nontaxable services. It is anticipated that a fairly substantial portion of the income tax refunds which are included in disposable income will be added to savings in 1973.

Growth in taxable sales of building materials will be minimal due to the expected drop off in the number of new housing starts. Automobile sales, while expected to continue strong in the coming year will not increase significantly over 1972. Anticipated strength in business investment will boost taxable sales in the manufacturing and wholesaling categories. Table 5 compares taxable sales by major category.

**Table 5**  
**Taxable Sales in California**  
**(in millions)**

	1972	1973	Percentage increase	1974	Percentage increase
Retail stores <sup>1</sup> .....	\$23,755	\$26,320	10.8	\$28,410	7.9
Autos, other vehicles and service stations <sup>1</sup> .....	10,680	12,940	21.2	13,670	5.6
Building materials .....	5,510	5,820	5.6	6,070	4.3
Manufacturing, wholesaling and miscellaneous outlets .....	14,025	15,240	8.7	16,170	6.1
Totals.....	\$53,970	\$60,320	11.8	\$64,320	6.6
Gasoline sales included in totals <sup>1</sup>	\$1,750	\$3,595		\$3,785	

<sup>1</sup> Gasoline sales were subject to sales tax effective July 1, 1972. Approximately 85 percent of gasoline is sold through service stations, the remaining 15 percent through retail stores and other outlets.

**Personal Income Tax.** Proceeds from the personal income tax will contribute \$2,175 million, or 30 percent of General Fund revenues for 1973-74.

Growth of \$265 million in this tax will be partially offset by \$70 million in renter credits provided by Chapter 1406. This statute allows credits against personal income tax liabilities for renters of \$25 to \$45 depending on income. The \$70 million is in addition to \$40 million in renter refund checks which is to be treated as a General Fund expenditure appropriation in the Budget Bill. A further reduction of \$16 million in revenues will result from Chapter 1260, Statutes of 1972 (AB 1724), which allows a credit of up to \$125 per child for the cost of education in private schools. Net revenue from personal income tax is therefore expected to rise by \$180 million in the budget year, an increase of 9 percent.

The increase in personal income tax revenues excluding the impact of 1972 legislation amounts to 13.3 percent, above the rate of gain predicted for personal income in California. This accelerated revenue growth is derived from the progressive rate structure of the tax. In addition, most of the \$40 million increase for calendar year 1973 attributable to the 11-percent rate bracket added by Chapter 1, 1971 First Extraordinary Session, will be included in 1973-74 revenues. Table 6 indicates percentage contributions to personal income tax receipts by source of income.

**Table 6**  
**Percent of Personal Income Tax by Source of Income**

<i>Source of Income</i>	<i>1971</i>	<i>1972</i>	<i>1973</i>
Wages and salaries .....	67.1%	68.8%	69.9%
Proprietors .....	13.8	12.8	12.6
Capital gains .....	5.6	5.9	6.3
Dividends .....	4.8	4.4	3.9
Interest .....	4.6	4.2	3.8
Rent and miscellaneous .....	4.1	3.9	3.5
Total.....	100.0%	100.0%	100.0%

Withholding receipts during the budget year are anticipated to be \$1.5 billion, with refund checks of \$285 million expected to go out to taxpayers in the spring of 1974. The composition of personal income tax collections for the current and budget years is shown in Table 7.

**Table 7**  
**Composition of Personal Income Tax Collections during 1972-73 and 1973-74**  
**(in millions)**

	<i>January 1973 estimate</i>		<i>Increase</i>
	<i>1972-73</i>	<i>1973-74</i>	
Before 1972 legislation			
Withholding .....	\$1,364	\$1,502	\$138
Quarterly declarations .....	449	529	80
Final returns and audit collections.....	431	514	83
Refunds .....	-249	-285	-36
Total .....	\$1,995	\$2,260	\$265
Effect of 1972 legislation			
Renter credit (Chapter 1406) .....		-70	-70
Private school credit (Chapter 1260) .....		-16	-16
Other legislation (net) .....		1	1
	\$1,995	\$2,175	\$180

**Bank and Corporation Taxes.** Chapter 1406 increased the rate of taxation on corporations from 7.6 percent to 9 percent effective July 1, 1973, adding an estimated \$116 million to receipts for the budget year. An additional \$64 million in revenue will be generated by higher levels of taxable corporate income for 1973. The gain in corporate income is estimated by the Department of Finance to be 11.7 percent for calendar year 1973, below the 14 percent gain in corporate profits that is expected nationally. Cyclical fluctuations in corporate profits are typically smaller in California than in the nation as a whole because of the characteristics of industry in the state. California has a lower proportion of corporations in the durable goods industry which is subject to wide swings in profitability during a business cycle. In the recession year of 1970, for example, corporate profits fell 7 percent in California while dropping almost 10 percent nationally.

**1973-74 Special Fund Revenues.** Proceeds from the Motor Vehicle Fuel Tax will rise by \$39 million or 5.2 percent in the budget year, according to Department of Finance estimates. About the same growth rate is expected for motor vehicle registration weight fees. These sources of revenue are not affected by price level increases and therefore do not keep pace with the overall gain in the level of income for the state.

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Total.....	100.0%	100.0%	100.0%

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Total .....	\$1,995	\$2,260	\$265
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Renter credit (Chapter 1406) .....		-70	-70
Private school credit (Chapter 1260) .....		-16	-16
Other legislation (net) .....		1	1
	\$1,995	\$2,175	\$180

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Table 8 contains a detailed comparison of the national forecast of the Department of Finance with the forecasts of the UCLA Graduate School of Management and the United California Bank. These three forecasts, all prepared before year-end, coincide very closely in their projections of the major components of GNP for 1973. The UCB forecast indicates a slightly higher contribution from consumer expenditures and a fractionally lower level of investment than either the Department of Finance or UCLA. A detailed discussion of each major sector of the economy follows the table.

**Table 8**  
**GNP and National Economic Data**  
**(in billions of dollars)**

National data	Actual		Percentage Increase	1973 Forecast <sup>1</sup>		
	1971	1972		D.F.	UCLA	UCB
Gross National Product.....	\$1,050.4	\$1,150.5	9.5	\$1,260.0	\$1,259.9	\$1,260
Consumer expenditures .....	664.9	720.7	8.4	784.5	785.1	787
Private investment.....	152.0	178.4	17.4	196.5	198.6	195
Net exports.....	.7	-3.9		-1.0	-2.1	-2
Government purchases.....	232.8	255.3	9.7	280.0	278.3	280
GNP in 1958 dollars.....	741.7	788.7	6.3	836.5	836.3	836
GNP deflator .....	141.6	145.9	3.0	150.6	150.6	151
Personal income .....	861.4	934.7	8.5	1,015.0	1,012.6	1,010
Disposable income .....	744.4	794.3	6.7	868.5	872.3	863
Savings.....	60.9	54.4	-10.7	63.9	66.8	57
Corporate profits .....	78.6	88.4	12.5	102.0	102.3	105
Consumer price index.....	121.3	125.3	3.3	129.6	129.6	129.5
Employment (000).....	79,120	81,710	3.3	83,820	83,900	84,000
Unemployment (000).....	4,993	4,933	-1.2	4,563	4,500	4,500
Unemployment rate.....	5.9	5.7		5.2	5.1	5.1

<sup>1</sup> Department of Finance, University of California at Los Angeles, Graduate School of Management, and United California Bank.

#### Consumption Expenditures (62.3 Percent of GNP)

Consumer spending, which kept pace with the growth in personal income during 1972, is expected to rise even more rapidly during 1973. Personal income should be up by 8.6 percent this year, supported by a higher level of employment, rising wage and salary levels, and augmented by social security and military pay increases. Disposal income will be boosted by five to seven billion dollars of federal tax refunds resulting from overwithholding during 1972. The Department of Finance predicts that the savings rate will move upward again to 7.4 percent, still well below the 8.2 percent of 1971. Table 9 compares consumer expenditures, incomes, savings and prices.

Rising per capita income, which is expected to be up by about 4 percent, will give consumers more to spend on discretionary items of durable goods and services. Thus a larger share of the consumer's dollar will go for automobiles, appliances, furniture and services such as transportation and recreation, than in prior years.

Automobile sales of 11 million units are forecast during 1973. Although the compact and subcompact autos are capturing a growing share of the total market, the average price is expected to rise because of more optional equipment being sold with each car. Sales of recreational vehicles and equipment are also expected to show gains during 1973. The forecast level

of auto sales assumes there will be no extended work stoppage associated with the auto workers contract negotiations in September of this year.

Although housing starts are expected to drop from the 1972 level the number of new dwellings will be sufficiently high to maintain a large volume of purchases of furniture and appliances.

**Table 9**  
**Consumer Expenditures, Incomes, Savings and Prices**  
(in billions)

	1971	1972	Percent increase	1973	Percent increase
Consumer expenditures					
Durables .....	\$103.5	\$116.5	12.6	\$128.4	10.2
Nondurables .....	278.1	298.9	7.5	323.1	8.1
Services .....	283.3	305.3	7.8	333.0	9.1
Total .....	\$664.9	\$720.7	8.4	\$784.5	8.9
Personal income .....	\$861.4	\$934.7	8.5	\$1,015.0	8.6
Disposable income .....	\$744.4	\$794.3	6.7	\$868.5	9.3
Personal savings .....	\$60.9	\$54.4	-10.7	\$63.9	17.5
Savings rate—% .....	8.2	6.8		7.4	
Consumer price index .....	121.3	125.3	3.3	129.6	3.4

#### Private Investment (15.6 Percent of GNP)

The 17.4 percent rise in private investment provided much of the impetus for the strong expansion of 1972. Investment expenditures are expected to be strong again in 1973 but the growth is forecast at a more moderate 10.1 percent, as can be seen from Table 10. The drop in the rate of increase is attributable to the flattening out of expenditures for residential construction.

**Table 10**  
**Private Investment**  
(in billions)

	1971	1972	Percent increase	1973	Percent increase
Private investment .....	\$152.0	\$178.4	17.4	\$196.5	10.1
Fixed investment .....	148.4	173.2	16.7	187.8	8.4
Residential .....	42.6	53.5	25.6	53.3	-4
Other construction .....	38.4	41.7	8.6	46.4	11.3
Producers durable .....	67.4	78.0	15.7	88.1	12.9
Change in inventories .....	3.6	5.2	44.4	8.7	67.3

Sharply rising sales and the improved business outlook for 1973 are expected to stimulate business investment in plant and equipment. Although the average percent utilization of plant capacity during 1972 was only 77 percent, this average masks a number of production bottlenecks that appear to be developing currently. Auto output is straining capacity, and shortages of goods are developing in the electrical and paper industries, with fuel, oil, natural gas, and lumber also in short supply.

Government regulation of air and water pollution will also add to the requirement for new industrial facilities this year. Although interest rates for new capital are expected to rise, internal funds for expansion will be plentiful due to the highly favorable outlook for corporate profits and cash flow as well as the continuation of the 7 percent investment credit and

restrictions on dividends.

Investment in inventories will be spurred by rising sales volumes and increased business confidence. The ratio of inventories to monthly sales is expected to be maintained at about the current level of 1.5, below the historical averages and down from the 1970 level of 1.7. During the last year it has become apparent that businesses are able to maintain relatively lower inventory levels because of improved control techniques and distribution methods. The need to hedge against price level increases has been much less urgent that it was during the 1968 to 1970 period. Despite these indications of relatively lower inventory requirements, sharply rising sales volumes will generate additions to inventories during 1973 of \$8.7 billion, up \$3½ billion over 1972.

Housing starts for 1973 are projected at 2.1 million units, down from the unexpectedly high level of 2.36 million in the previous year. Although lower than 1972, this number of new housing units is still above the previous record high and is about 50 percent higher than the 1.4 million annual average during the prosperous 1960's. The high demand for new housing can be attributed to the rapid growth in household formations which is expected to continue, and the large number of persons entering the home buying age during the coming year. Indications of overbuilding in some areas and the recently announced freeze on federal housing subsidies will have some negative effect on the rate of new housing starts. Some builders associations have warned that the freeze could reduce housing starts below the two million level. An adequate supply of mortgage funds is expected to be available throughout the year and mortgage interest rates should remain relatively stable.

The Department of Finance expects a higher proportion of single family dwellings and upgrading of quality to raise the unit price of new dwelling units by 15 percent. This increase in average unit value from 1972 will almost offset the reduction in the number of new units, resulting in only a fractional decline in dollar expenditures for residential housing.

#### **Government Purchases (22.2 Percent of GNP)**

State and local governments are expected to make the major contribution to the \$25 billion rise in government purchases for the year. Spending at the federal level will be restrained with defense spending reduced by cut backs in military forces and some decline in procurement. These reductions, however, will be more than offset by both civilian and military salary increases. Efforts by the national administration to hold total federal outlays to \$250 billion for the current fiscal year as evidenced by recent announcements of program cuts in housing subsidies, medical care assistance, and the space program, may hold federal spending in the non-defense area somewhat below that anticipated by the forecasts.

State and local spending will be stimulated by the rapidly improving fiscal conditions of state and local governments. Federal revenue sharing funds will add to the impetus for new programs and improved services by local governments. Table 11 compares purchases of goods and services by level of government.

**Table 11**  
**Government Purchases**  
**(in billions)**

	1971	1972	Percent increase	1973	Percent increase
Federal					
National defense .....	\$71.4	\$76.9	7.7%	\$80.5	4.7%
Other .....	26.3	29.9	13.7	32.5	8.7
Total .....	\$97.8	\$106.8	9.2%	\$113.0	5.8%
State and Local .....	\$135.0	\$148.5	10.0%	\$167.0	12.5%
Total .....	\$232.8	\$255.3	9.7%	\$280.0	9.7%

*Employment.* During 1972 an unprecedented 2.5 million persons entered the labor force. Although the creation of 2.6 million new jobs during the year accommodated the increase in the labor force it did not significantly reduce the number of persons on the unemployment rolls. The unemployment rate averaged 5.7 percent, close to the administration's 5 percent goal for the end of the year. For 1973 the Department of Finance anticipates some slowdown in the rate of growth in the labor force with approximately 1.7 million new jobseekers for the year. The expected addition of 2.1 million persons to the employment rolls will bring the average unemployment rate down to 5.2 for the full year.

The changing composition of the work force makes the outlook for reaching the official "full employment" rate of 4 percent highly unlikely in the foreseeable future. During the last two decades, the number of teenagers in the labor force has increased over 100 percent and the number of adult women by 70 percent, while the increase in the number of adult men in the labor force has been only 20 percent. Unemployment among the 8 million teenagers in the work force was as high as 17 percent in mid-1972.

Employment opportunities in 1973 are expected to be found in all sectors of the economy with relatively large employment increases in retail and wholesale trade and services.

*Corporate Profits.* Profits in 1972 scored a 13 percent gain over the previous year, and the outlook for 1973 is for a continuation of this strong growth. Gains in productivity associated with the expanding volume of output are expected to largely offset higher levels of wages for the year. The Department of Finance expects a 14 percent rate of growth in profits for 1973, which is in the range of 12 to 15 percent quoted by most forecasters. A possible negative factor during the year is potential labor disputes connected with several major contract negotiations scheduled for 1973. The possibility that profit growth will be dampened by the profit margin controls imposed under Phase II of the administration's economic program has been considerably lessened. The effect of Phase III may even improve the profit picture if price increases outpace higher wages this year.

*Prices, Wages, and Interest Rates.* The slowing in the rate of growth in the Consumer's Price Index from 4.3 percent in 1971 to 3.3 percent in 1972 is considered to be evidence of the success of the national administration's wage-price control program. An opposite trend, however, appeared in the wholesale price index largely due to the uncontrolled rise in prices

of agricultural products. For 1973 few economists could see any significant improvement in the rate of increase in consumer prices even before it became known that mandatory controls would be largely eliminated. The difficulties in controlling food prices and the increased demand pressures in other segments of the economy indicated that there would be little likelihood that the rate of inflation would drop below 3 percent. With "voluntary" controls now the order, the prospect for a price level increase under 3½ percent is dim, with some economists predicting an inflation rate of 4 percent for the year.

Wage increases already scheduled for 1973 under long-term contracts will average about 5 percent. Major new contract negotiations for the coming year include the electrical workers in May and June, the teamsters in June, and the United Auto Workers in September. Last fall most economists were inclined to believe that the big unions would not push for wage settlements higher than the 5½ percent ceiling set by the Phase II wage controls. The 5½ percent will apparently remain in effect for Phase III, but as a standard for the voluntary program rather than as a mandatory ceiling. Although unions were expected to press primarily for new benefit programs and improved working conditions, they may now add higher wages to their demands.

Interest rates were creeping upward as 1972 ended with the prime rate generally at 6 percent throughout the country. Some additional upward movement in the short-term rates is expected and long-term rates will also gradually edge up during the coming year. Mortgage rates, however, are expected to be relatively stable.

The Federal Reserve System is expected to move toward a progressively tighter credit policy in 1973 as well as attempting to gain closer control over the growth in the money supply. The growth in the money stock during 1972 jumped from the relatively low 2 percent of the last half of 1971 to an average of about 7 percent through November, with a final surge in December pushing the growth rate over 8 percent for the year. The budget forecast assumes a rate of growth of 6 to 7 percent for 1973.

#### **Analysis of California Economic Conditions**

Economic growth in California is expected to outpace that of the nation in 1973. The Department of Finance expects personal income of California's to rise by 9.1 percent to \$111.5 billion for the year, employment to be up by 233,000 jobs and the average unemployment rate to decline to 5.4 percent.

Rising employment and higher levels of salaries and wages will help boost personal income in California by \$9.3 billion in 1973. Disposable income will be augmented by refunds of overwithheld taxes from both the federal and state governments which in total could add as much as \$1 billion for the year. Like the rest of the nation, Californians will be spending freely on new autos and recreational vehicles, as well as appliances and furniture to furnish the record number of new dwelling units started in 1972.

Table 12 below compares key components of the Department of Finance 1973 forecast for California compared to those of UCLA and the

United California Bank. As was the case for the national outlook the three forecasts for California are in close agreement.

**Table 12**  
**California Economic Data**  
(in billions of dollars)

	1971	1972	Percentage change	1973 Forecasts		
				DF	UCLA	UCB
Personal income .....	94.1	102.2	8.6	111.5	111.4	111.0
Disposable income .....	83.6	88.8	6.2	97.9		
Taxable corporate profits .....	7.5	8.4	12.0	9.4		
Taxable sales .....	46.8	54.0	15.4	60.3		
Employment (000) .....	8,022	8,302	3.5	8,535	8,550	8,420
Unemployment (000) .....	599	516	-13.9	490	498	490
Unemployment rate, percent .....	6.9%	5.9%		5.4%	5.5%	5.5%
Number of building permits (000) .....	255	280	9.8	220		
New car sales (000) .....	1,004	1,080	7.6	1,110		
Consumer price index .....	119.1	123.3	3.5	127.6		126.7

California's civilian population grew by 1.2 percent in 1972, slightly faster than the 1 percent national growth rate. These same growth rates are expected to be repeated for 1973. Growth of California's labor force, which lagged behind the national rate in 1972, is expected to surpass that of the nation during 1973. Table 13 compares growth rates, unemployment and inflation rates for California and the U.S. for 1972 and 1973.

**Table 13**  
**Selected Economic Indicators, California and U.S.**

	1972		1973	
	United States	California	United States	California
Percent growth in:				
Population .....	1.0%	1.2%	1.0%	1.2%
Labor Force .....	3.0	2.3	2.0	2.4
Employment .....	3.3	3.5	2.6	2.8
Personal income .....	8.5	8.6	8.6	9.1
Corporate profits .....	13.3	12.7	13.9	11.7
Unemployment rate .....	5.7%	5.9%	5.2%	5.4%
Increase in consumer prices .....	3.3%	3.5%	3.4%	3.5%

**Employment and Unemployment.** The employment situation in California is somewhat obscured by the problems with the employment data from the California Department of Human Resources Development. Monthly employment figures published by this department are estimates based on statistical sampling procedures. Once a year these estimates are adjusted retroactively on the basis of actual employment data compiled from quarterly unemployment insurance filings. Normally the figures available to the Department of Finance for their economic forecasts have been adjusted to the actual levels of the preceding March. The employment data available for the 1973 forecast, which was prepared in early December 1972, had not been adjusted since March 1971. It was therefore necessary for the Department of Finance to prepare an adjusted employment series for use in the forecasts. The forecast prepared by UCLA which is displayed above also used unofficially adjusted employment data. The United California Bank forecast, however, is based on official unadjusted

data published by HRD and the discrepancy in the projection of the level of employment for 1973 between UCB and the Department of Finance is attributable to this data problem.

Based on the Department of Finance adjusted figures, employment in California is expected to rise by 233,000 jobs during 1973. More than half of this increase will be in the trade and services sector of California's economy. Government and manufacturing employment will each account for another 20 percent of the increase. Employment in the construction industry is expected to be down by 12,000 jobs due largely to the reduced level of residential construction activity anticipated for 1973.

The possible postponement of the space shuttle program would not impact significantly on the California aerospace employment picture for this year. It would, however, delay some of the growth that would have developed in this sector in 1974 and subsequent years. Although the improvement in the unemployment rate in California will match that of the nation, the gap of about two-tenths of a percent that prevailed through 1972 will carry through in 1973. Table 15 displays California employment by type of industry and Table 16 shows the history of unemployment rates in California during the last two years.

**Table 15**  
**California Employment by Type of Industry**  
(in thousands)

Industry	Increase			Increase	
	1971	1972	Amount	1973	Amount
Mining .....	30	30	—	30	—
Agriculture .....	288	281	-7	275	-6
Construction .....	301	327	26	315	-12
Finance .....	386	409	23	429	20
Transportation and utilities .....	454	457	3	464	7
Government .....	1,456	1,492	36	1,538	46
Federal .....	318	317	-1	310	-7
State and local .....	1,138	1,181	43	1,228	47
Services .....	1,278	1,350	72	1,415	65
Trade .....	1,554	1,625	71	1,690	65
Manufacturing .....	1,472	1,519	47	1,569	50
Aerospace .....	440	454	14	470	16
Other .....	1,032	1,065	33	1,099	34
Other nonagricultural .....	802	806	4	810	4
Total employment .....	8,022	8,302	280	8,535	233
Civilian labor force .....	8,620	8,818	198	9,025	207
Unemployment .....	599	516	-83	490	-26
Unemployment rate .....	6.9%	5.9%	—	5.4%	—

**Table 16**  
**Unemployment in California, by Months**

Months	1971		1972	
	Amount (thousands)	Percent <sup>1</sup>	Amount (thousands)	Percent <sup>1</sup>
January.....	681	7.0%	581	6.1%
February.....	696	6.7	603	5.8
March.....	676	7.1	580	6.2
April.....	594	7.4	514	6.3
May.....	604	7.4	494	5.9
June.....	672	7.3	568	6.1
July.....	631	7.0	554	6.1
August.....	608	7.0	509	5.8
September.....	513	7.1	434	5.9
October.....	486	7.0	427	5.9
November.....	507	6.2	470	5.6
December.....	521	6.1	468	5.4

<sup>1</sup> Seasonally adjusted.

**Residential Construction.** Residential construction activity will drop off more rapidly in California than in the nation during 1973, largely because of the high concentration of new housing starts in the state during the last three to four years. A decline in housing permits from 280,000 to 220,000 for 1973 is anticipated by the Department of Finance. Rising vacancy rates for apartments in some metropolitan areas indicates potential over building and will slow the rate of new starts of multiple dwellings. The department estimates that approximately 50 percent of the new housing units authorized during 1973 will be in multiples.

Sales of mobilehomes are expected to be 45,000 during 1973, up from the prior year's level of 38,000. These sales will bring the total of new dwelling units for the year to 265,000. Table 17 illustrates the growth in new dwelling units authorized over the last 10 years.

**Table 17**  
**Number of New Private Housing Units Authorized  
and Mobilehome Sales in California**  
(in thousands)

Year	Housing units authorized			Total	Mobile-homes
	Single dwelling	Multiple units	Percent multiple		
1963.....	128.7	175.5	57.7	304.2	NA
1964.....	112.1	146.0	56.6	258.1	NA
1965.....	94.8	83.3	46.8	178.1	12.2
1966.....	64.8	33.9	34.4	98.7	11.2
1967.....	67.8	43.6	39.1	111.4	11.4
1968.....	86.8	72.9	45.7	159.7	16.1
1969.....	80.1	104.1	56.5	184.2	18.7
1970.....	74.7	119.0	61.4	193.7	20.1
1971.....	113.8	136.2	54.5	250.0	28.7 <sup>1</sup>
1972.....	125.0	155.0	55.4	280.0	38.0