

## PRELIMINARY STATEMENT

### *Form of the Analysis*

This report is an analysis of the Budget and Budget Bill of the State of California for the 1958-59 Fiscal Year. In it we have analyzed the Budget Bill item by item including information as to the basis for the budget requests contained in the Governor's Budget and performance or work data supporting the budget request. The report also contains recommendations, with supporting information, designed to secure greater efficiency and economy in appropriations and operations. A general statement entitled *Balancing the Budget With Minimum Use of Reserves* precedes the item-by-item analysis of the Budget Bill. Accompanying this are overall revenue and expenditure totals, fund balances available to meet budget requirements, and trend data on state revenues and expenditures.

### *Budget Committee Instructions*

In line with the expressed wishes of the Joint Legislative Budget Committee the report distinguishes between: (1) workload factors which support proposed expenditures during the coming year based on continuing the programs established in the 1957 General Session, and (2) new or expanded services proposed in the budget for the 1958-59 Fiscal Year. The committee further instructed the staff to recommend how reductions in the budget could be made to secure all reasonable economies and to indicate how the budget might be balanced without new taxes and with the minimum use of available reserves.

In making recommendations as to possible savings, the analysis considers workload requirements not only as they relate to proposed new positions or activities but also as they justify the continuation of established programs. Where it is felt that program accomplishments would justify reappraisal by the Legislature these programs and related expenditures are identified and included as recommended reductions. Information supporting such reappraisal is also included. Any areas in which possible economies can be obtained by sound procedural changes or changes in law are also discussed.

Thus, this report is designed to present to the 1958 Legislature a factual analysis of the Governor's Budget, with a series of recommendations with supporting information whereby the Legislature may determine the level of state expenditures which it considers to be necessary and desirable. This includes a reporting of all surpluses available for balancing the General Fund budget. It also includes proposed changes in law to effect economies which the Legislature may wish to study during the interim as a basis for action in the 1959 General Session.

### *Total of the Budget*

The budget for the 1958-59 Fiscal Year proposes an expenditure program to cost the State \$1,984,576,603. In line with the expressed intent of the constitutional amendment creating the Budget Session, restricting its scope and limiting it to 30 days, the Governor's stated

policy in this budget is generally to provide only for the workload and related adjustments called for within the biennium between the 1957 and 1959 General Sessions. Distribution of the total by the three major categories of the budget shows \$601,795,991 for the State Operations portion, \$293,370,621 for Capital Outlay, and \$1,089,409,991 for Local Assistance. This does not include \$144,533,202 of state construction bond money and other borrowing, as such expenditures are not brought into the budget total. The budget, however, does include annual debt service on these bonds.

### ***Total of the Budget Bill***

The Budget Bill represents that part of the total budget upon which the Legislature must act in the 1958 Session in order that the complete expenditure program contained in the budget will be implemented. Approximately 30 percent of the budget total will be appropriated by the Budget Bill. The remaining 70 percent will be appropriated under existing provisions of law contained in the State Constitution or by existing statutes. The principal expenditures which are provided for by Constitution include \$575.2 million in apportionments in support of public schools. The principal expenditure programs which are provided for under existing statutes include \$268.8 million for the State Highway System, \$182.5 million for the social welfare assistance programs, and \$228.4 million in highway users revenues shared with the cities and counties. The 400 odd items of appropriations contained in the Budget Bill include most of the costs of state operations such as support of the university, state colleges, state prisons, mental hospitals, regulatory functions, etc. The Budget Bill also contains the construction program proposed for these state activities. Since the total of state operations, including capital outlay for these activities, comprises approximately \$895.2 million out of a total budget of \$1,984.5 million, exclusive of \$144.5 million budgeted from bond funds, it can be seen that any major revision in state expenditures will require careful review of both constitutional obligations and continuing statutory appropriations.

### ***General Fund Financial Picture Presented by the Budget***

The Legislature in considering the Budget Bill is generally more concerned with the condition of the General Fund, as revenues accruing to special funds are dedicated to specific purposes with the major portions continuously appropriated through statutory or constitutional direction. Therefore, our preliminary statement, as in the past, is confined to discussion of the General Fund condition.

The General Fund statement in the budget indicates a balanced budget despite the fact that the estimates show that the fund may have a current deficiency of revenues amounting to \$113.1 million in the current year, and \$110.7 million in the budget year. The General Fund is indicated to be balanced in the current, 1957-58 Fiscal Year, by a carryover surplus from last year of \$109.7 million, \$11.9 million in transfers from other funds, plus \$8 million in estimated savings not yet realized in the current year. Balancing in the budget year ending June 30, 1959, is to be accomplished by use of the \$75 million in the Revenue

Deficiency Reserve Fund, transfers from surpluses in certain other funds totaling \$102.7 million, the return of \$20 million which was advanced from the General Fund in 1952 in lieu of selling a like amount of school building bonds, by the use of \$144.5 million in borrowings for capital outlay, and also by using a new device of subtracting \$16.5 million in anticipated budget savings in advance.

Thus, as pointed out, the General Fund financial picture before the Legislature, as portrayed by the 1958-59 Fiscal Year Budget, may be summed up as follows:

1. General Fund outgo is estimated to exceed revenue by as much as \$110.7 million in the 1958-59 Fiscal Year.

2. If this budget is approved, there will be no significant remaining surplus in the General Fund to carry over for the following year, 1959-60.

3. Reserves that might be used for balancing the General Fund, with the exception of \$142,831,122 estimated to remain in the tidelands oil money in the Investment Fund after budget estimates of needs for the year, will be practically exhausted.

4. No new taxes are proposed in the budget, and there is reasonable prospect that if the Legislature holds expenditures to amounts budgeted, it will be possible to complete the 1958-59 Fiscal Year without incurring a deficit. This assumes the economic activity of the State will materialize in line with the budget estimates and assumptions.

5. Although the budget shows a current deficit of \$110.7 million by treating the transfer of \$20.1 million from the Teachers' Retirement System as a reduction in expenditures, we would regard the actual current deficit as \$130.8 million, reflecting this as a transfer.

### **General Fund Trends**

The implications of the present trends in General Fund revenues and outgo are shown in Table I which follows. The table indicates that since 1948-49 there has been an increase in General Fund revenues from \$510.4 million to nearly \$1,200 million estimated for 1958-59, while outgo shows an increase from \$587.6 million to approximately \$1,300 million for the same period.

It will be noted from the table that the General Fund is faced with a \$130.8 million prospective deficiency in current revenues for 1958-59. It should also be noted that this deficiency provides a relatively small portion of the \$216.2 million state building construction program budgeted for 1958-59 as compared to sizable sums appropriated for capital outlay from surpluses of revenues in the past 10 years. Also, it should be borne in mind that with the commitment of practically all of the \$200 million state construction bond issue in the current year and the budget year, additional demands in the future must again, in the absence of additional bond approvals, be met entirely from current revenues which at the present time do not appear to be sufficient to meet General Fund requirements exclusive of capital outlay.

TABLE I—CALIFORNIA'S GENERAL FUND  
INCOME, OUTGO AND SURPLUS—1948-49 TO 1958-59

	Revenue	Expenditures	Outgo Transfers <sup>1</sup> to reserves	Total outgo	Current revenue surplus (+) or deficiency (—)	Adjustments <sup>2</sup>	Cumulative surplus
July 1, 1948 -----	---	---	---	---	---	---	\$143,096,390
1948-49 -----	\$510,440,640	\$507,625,919	\$79,975,867 <sup>3</sup>	\$587,601,786	—\$77,161,146	—\$9,366,383	56,568,861
1949-50 -----	551,240,969	577,171,910	---	577,171,910	—25,930,941	+6,214,151	36,852,071
1950-51 -----	672,064,783	588,508,776	---	588,508,776	+83,556,007	+437,815	120,845,893
1951-52 -----	734,025,725	637,038,802	49,258,938 <sup>4</sup>	686,297,740	+47,727,985	+1,406,542	169,980,420
1952-53 -----	773,977,227	716,575,373	129,739,439 <sup>5</sup>	846,314,812	—72,337,585	—253,582	97,389,253
1953-54 -----	798,083,615	810,662,483	33,192,465 <sup>6</sup>	843,854,948	—45,771,333	+2,186,055	53,803,975
1954-55 -----	879,122,544	854,431,938	49,136,730 <sup>7</sup>	903,568,668	—24,446,124	+47,131,057 <sup>8</sup>	76,488,908
1955-56 -----	1,005,040,608	924,890,722	17,075,600 <sup>9</sup>	941,966,322	+63,074,286	+6,166,218 <sup>10</sup>	145,729,412
1956-57 -----	1,078,908,045	1,032,721,442	86,106,809 <sup>11</sup>	1,118,828,251	—39,920,206	+3,885,619 <sup>12</sup>	109,694,825
1957-58 (Estimated) ---	1,144,524,507	1,180,691,678	96,593,025 <sup>13</sup>	1,276,284,703	—131,760,196	+30,547,991 <sup>14</sup>	8,482,620
1958-59 (Proposed) ---	1,183,487,986	1,286,129,845	28,178,170 <sup>15</sup>	1,314,308,015	—130,820,029	+122,873,647 <sup>16</sup>	536,238

<sup>1</sup> Transfers to the legislative contingent funds treated as expenditures. Miscellaneous minor transfers treated as expenditures or adjustments to surplus. With the exception of \$50,000,000 transferred to the School Bond Retirement Fund, the transfers of 1951-52 and subsequent years represent transfers for expenditure in the year in which transferred rather than sums reserved for expenditure in future years.

<sup>2</sup> Includes adjustments for prior years and changes in methods of accounting for revenues and expenditures and transfers to the General Fund.

<sup>3</sup> \$59,206,003 transferred to the Postwar Employment Reserve, \$13,445,883 transferred to the State Beach and State Park Funds and \$7,323,981 transferred to the Postwar Unemployment and Construction Fund.

<sup>4</sup> \$49,258,938 transferred to the Capital Outlay and Savings Fund.

<sup>5</sup> \$79,739,439 transferred to the Capital Outlay and Savings Fund and \$50,000,000 transferred to the School Bond Retirement Fund.

<sup>6</sup> \$33,192,465 transferred to the Capital Outlay and Savings Fund.

<sup>7</sup> \$45,287,193 transferred to the Capital Outlay and Savings Fund and \$3,849,537 transferred to the Flood Control Fund of 1946.

<sup>8</sup> Transfers are \$27,369,821 from the School Bond Retirement Fund, \$2,374,443 from the Employment Contingent Fund, \$11,946,558 from the State Park Fund, and \$4,121,209 from the State Beach Fund.

<sup>9</sup> \$13,666,591 transferred to the Capital Outlay and Savings Fund and \$3,409,009 transferred to the Flood Control Fund of 1946.

<sup>10</sup> Major transfers are \$3,567,335 from the Beach and Park Funds and \$1,288,297 from the Employment Contingent Fund.

<sup>11</sup> \$80,537,750 for transfer to the Capital Outlay and Savings Fund, and \$5,184,110 for transfer to the Flood Control Fund of 1946.

<sup>12</sup> Major transfers are \$1,382,462 from the Architecture Public Building Fund, \$1,430,454 from the Employment Contingent Fund, and \$557,000 from the Flood Control Fund.

<sup>13</sup> Major transfers are \$84,755,435 for the Capital Outlay and Savings Fund, and \$10,817,000 for the Flood Control Fund.

<sup>14</sup> Major transfers are \$18,873,000 from the Teachers' Retirement Fund, \$10,000,000 from the School Bond Retirement Fund, and \$1,200,000 from the State College Fund.

<sup>15</sup> \$22,774,791 for transfer to the Capital Outlay and Savings Fund and \$5,403,379 for the Flood Control Fund.

<sup>16</sup> Major transfers are \$75,000,000 from the Revenue Deficiency Reserve, \$20,000,000 represents receipt from sale of school bonds, \$20,141,807 from the Teachers' Retirement Fund, and \$5,553,992 from the School Bond Retirement Fund, \$1,323,625 from the Investment Fund, and \$744,835 from the State Building Sinking and Interest Fund.

### **Recommended Reductions in Budget Bill Appropriations**

This Analysis of the Budget Bill distinguishes between: (1) recommended reductions in amounts budgeted to increase over last year; and (2) recommended reductions in existing programs constituting policy reappraisals which can be effected by amending the Budget Bill. The analysis also contains recommendations for reductions in cost or policy reappraisals which will require legislation and, therefore, cannot be accomplished by amending the Budget Bill. These suggested changes in law are intended to provide a basis for helping to meet the extremely difficult financial problem which will be faced in the 1959 Session. Total General Fund reductions proposed which can be made in the budget bill amount to \$33.7 million.

The following is a summary of the reductions recommended by this analysis classified into the three categories mentioned above:

A. Total of recommended reductions in increases proposed in the budget bill; \$23.5 million General Fund, and \$2.1 million special funds.

These consist of a large number of recommended reductions throughout the analysis of the 400-odd items of the Budget Bill which follows, and these are supported in each case by detailed evaluation of workload statistics and comments as to procedures or methods.

B. Total of recommended reductions due to improved efficiency and policy reappraisal; \$10.2 million General Fund and \$25,303 special fund.

These recommended reductions consist of a large number of proposals to cut back into existing costs by changing procedures and policies, all of which can be effected by amending the Budget Bill. Many of these policy changes are relatively minor and some constitute administratively established policies. Other policy reappraisals are very significant and will require more intensive legislative review.

In making recommendations for reductions involving a *reappraisal* of state functions or obligations, as contrasted with recommendations to reduce the cost of state functions on the basis of more *efficient* or *economical operating processes*, it is inherent that a judgment must be formed as to which functions presently performed by the State are most essential and which are traditionally and logically a state rather than a local or federal function. Although these reappraisals appear in numerous agencies throughout the Budget Bill, they conform to a common appraisal of state responsibility and since this is a fundamental matter of legislative policy it is appropriate that it should be stated as a proposition for legislative consideration at the outset of this analysis. It should be borne in mind that this question of "first needs" involves not only *what* is to be performed, but the level at which it needs to be performed in relation to other needs. For example, while higher education is a clearly established state function of the highest priority, the quality of the program (so far as this can be determined through appropriations) and the scope of the educational offerings reach a point where other less essential functions can justify the appropriation of funds to a greater extent than additional appropriations to the University and the state colleges. These are difficult lines to draw, but they are inherent in the budget process, and a first step is at least to distinguish between those functions which are regarded as primary state responsibilities and those which are secondary.

A primary state responsibility would be one which traditionally has been accepted by the State, whether this be in the Constitution or by continuing appropriation or in the Budget Act, where the services performed are statewide in character or where uniformity of services throughout the State is considered to be essential and desirable, and where the tax resources for this purpose should be state taxes for the reason that its support from local tax sources would constitute an undue burden upon the local taxpayer. These would appear to be the considerations which have largely governed the Legislature's determination of those matters which should be supported from state appropriations and those which should be supported from local tax sources. Another guiding principle has been that where responsibility for administering the funds is a local one at least some portion of the funds should be derived locally.

A function which the State is presently supporting, but which we have felt should be reappraised by the Legislature on the basis that it is a secondary state function, would be judged such on the basis that it did not represent a function of essential statewide interest in relation to other matters of paramount state concern, or that the local interest was of sufficient magnitude that it could as appropriately be supported from local tax sources as by state taxes, or where although the function was once a matter of great state interest circumstances have changed so that it is now one of local or personal responsibility.

The following is a list of some of the major functions which we have regarded as being those which the Legislature might well consider as secondary, both in respect to the State's responsibilities and in respect to the magnitude of the current appropriations for the purposes, and which can be dealt with in the Budget Bill.

1. Civil Defense. The analysis of this item proposes reconsideration of the role of the State in relation to that of the federal government with a distinction being made between the local disaster requirements of the State and the national security interests of the federal government.

2. The program of state assistance to local assessors is proposed to be reduced as being excessive in relation to the State's needs for matters of primary state concern.

3. The state-operated mental hygiene clinics are proposed to be closed in view of the State's inauguration of a matching program with local governments to provide a statewide system of combined state-local support for locally operated clinics.

4. It is proposed that the appropriation for the California Cadet Corps be eliminated as being unnecessary in the light of other established programs with similar objectives.

5. It is recommended that local fire training courses conducted by the State be transferred to local government on the basis that this is a local function and many trained personnel are now available to carry out this function locally.

6. The question is raised as to the necessity for continuation of the Recreation Commission in view of the State's primary interest in the development of state beaches and parks, fish and game, and recreational facilities associated with the public school system and the heavy financial commitments associated with these functions.

7. The appropriation to veterans organizations, which in turn act as representatives for veterans in presenting their claims to the Veterans Administration, is recommended for deletion on the basis that existing federal agencies provide this service.

8. The child care program is recommended for deletion as one which by this time should be assumed as a local cost, since there is a statutory provision for local financing, in the event the State does not appropriate for the purpose, and since this is a program which is of principal interest to large metropolitan areas which have available tax resources for this essentially local function.

C. Recommendations which require legislative changes cannot be accurately totalled; however, many of these have been carefully researched in the past and quite accurate estimates of savings formulated. Some provide for the complete elimination of a state service. These recommendations have each been discussed in this report in connection with the budget request of the agency which presently performs the services.

#### ***Balancing the Budget With Minimum Use of Reserves***

Pursuant to instructions from the Joint Legislative Budget Committee to present recommended reductions in the budget which would require the minimum use of reserves to balance the budget, we have prepared the suggested reductions recited above and also are designating here a group of fund balances which might be made available to balance the budget.

These fund balances which we will identify fall into two classes. There are, first, those which constitute so-called reserves, which are not scheduled to be spent for a specific program if they are not transferred for the purpose of balancing the budget. If not transferred, these would carry over next year and be available for budget purposes. Secondly, there are some fund balances which are scheduled to be spent for specific activities, but which in the judgment of the Legislature might be used instead for transfer to the General Fund. If not transferred they will presumably not be available next year. Inherent in the use of these latter is a determination by the Legislature that the purposes served by such transfer is of a higher order than the presently scheduled use of the money.

#### **RESERVES**

##### **1. Revenue Deficiency Reserve.....\$75,000,000**

This, the so-called "Rainy Day Fund," is budgeted by the Governor for transfer to the General Fund. This reserve was set aside by the 1947 Legislature and made available to provide a cushion in the event revenues dropped below budget estimates. This money is also available for disaster relief in the event of a state of extreme emergency.

##### **2. School Bond Retirement Fund.....\$5,553,992**

The remaining balance in this fund is budgeted for transfer to the General Fund in accordance with Chapter 1073 of the Statutes of 1958 to provide for part of the increased costs of school apportionments. It was originally set aside to assist the General Fund in meeting the State's share of the cost of local school construction under the state loan and grant program. This current year \$10,000,000 was transferred to the General Fund for the purpose stated above.

3. *Teachers' Permanent Fund, Special Reserve of* .....\$20,141,607

This, as in the case of 2 above, is to be transferred to help pay for the increased cost of Chapter 1073, Statutes of 1957. The reserve was established in the amount of \$30,000,000 in 1944 from the General Fund, and was intended as a reserve for future state retirement contributions. The State Teachers' Retirement System cannot be said to be on a full reserve basis, and the General Fund is relied upon to meet the need for contributions as the liability matures. This reserve was used this year to provide \$18,673,000 of the increased cost of school apportionments and the remainder is scheduled to be transferred in the budget year.

4. *Soil Conservation Development Fund* .....\$610,000

Elsewhere in this analysis we have referred to the condition and use of the Soil Conservation Development Fund established in 1949 as a revolving fund for loans for equipment for soil conservation districts. We have pointed out that in view of the rather limited participation by districts in the use of this fund and the discouraging record of repayments, it would appear that a reduction in the amount available in the fund would be in the interests of general economy and would relieve the General Fund.

Although this fund was intended as a revolving fund operation, certain items of support are financed from it; namely, one position of equipment specialist and the State's contribution to the Pleasanton Nursery. Sufficient moneys could be left in the fund for the support of these activities plus the estimated amount for loans in 1958-59, still leaving approximately \$610,000 which could be transferred.

5. *Investment Fund, as of June 30, 1959* .....\$142,831,122

This fund represents tidelands oil revenues particularly from the Long Beach oil settlement. Some appropriations for water development have been budgeted from this fund for 1958-59.

**FUNDS SCHEDULED TO BE SPENT FOR OTHER PURPOSES  
IF NOT TRANSFERRED**

1. *Fair and Exposition.* Four percent of the amount wagered at the race tracks by the parimutuel system goes to this special fund, the largest part of which is appropriated annually to county and district fairs and to the support of certain educational institutions. Although the original apportionment law provided for allocations to the county and district fairs on the basis of premiums paid, up to a maximum allocation of \$65,000 for any one fair, there has been sufficient revenue from this source, for each year since 1947 to permit the maximum allocation of \$65,000 to each of the (now) 74 fairs, regardless of premiums paid or expenses of operation. In addition to this allocation for support, approximately \$3,300,000 is distributed to fairs, upon administrative determination of the Director of Finance, for capital outlay for fairs each year.

It would be possible to reduce the allocation to district and county fairs and to restore the premium base of allocation by the device of making an "off the top" appropriation from the Fair and Exposition Fund to the General Fund. The fund statement on page 776 of the budget



shows a normal year-end balance of eight to nine million dollars. Substantially the amount of this balance could be transferred without affecting the amount of scheduled allocations in the coming fiscal year. In the following fiscal year the reduced balance would have an effect upon all allocations which are in terms of a percentage of the "first and second balance" in the fund, including the allocation to the University of California and to the California Polytechnic College. However, if the Legislature so desires, the language of the transfer item and of specific budget items from the fund can be written in such a manner as to guarantee the full amount which would otherwise be received from fixed appropriations for support (Horse Racing Board, Division of Audits, Fairs and Classification Committee, Poultry Improvement Commission, etc.) and which would otherwise be received by educational institutions. This would relieve the General Fund by approximately \$8,000,000 in the first year and approximately \$4,000,000 thereafter. We are informed by the Legislative Counsel that these transfers could be made at a budget session.

2. *Wildlife Restoration Fund.* This fund, which is used for wildlife projects approved by the Wildlife Conservation Board, has its source in horse racing revenues, appropriated from that part which would otherwise go to the General Fund. Under existing statutes \$750,000 per year goes from this source to the Wildlife Restoration Fund, and since 1947 a total of \$14,250,000 has been transferred for this purpose from what are, in effect, General Fund revenues. This is the only instance where support or capital outlay for wildlife purposes, in the interests of the sportsmen, are financed by general revenues rather than by hunting and fishing license fees. The termination of this transfer, or the retransfer to the General Fund, would relieve the General Fund by \$750,000 in the budget year and each year thereafter.

3. *State Fair General Fund Money.* That portion of the parimutuel taxes which is in excess of a 4 percent rate by law has in the past been placed in the General Fund, unless otherwise appropriated. Last session the Legislature adopted legislation diverting \$3,747,843 per year for two years to be combined with \$13,000,000 from the issuance of so-called "revenue bonds" or certificates to provide a sum of approximately \$21,500,000 for the partial construction of a new State Fair. Total estimated costs for the fair range from \$30 million to \$75 million. To date, attempts to market the revenue bond portion of this financial plan have proved unsuccessful. It would now appear that it is extremely likely that the General Fund may be called upon ultimately to finance the major cost of the construction of the State Fair. Without the revenue bond money it would be impossible to produce an operable fair, and as in the case of the Winter Olympic Games the State would be called on to carry the project to completion. Moreover, the historic record of successive deficits from State Fair operations does not support a sound financial basis for revenue type bonds (other than General Fund revenue). However, substantial economies might be obtained from a complete revision of the local and State Fair program from which sums could be derived out of the Fair and Exposition Fund to support a fair program independent of General Fund revenues. The development of a more realistic and effectively co-ordinated statewide fair system might well provide the

shows a normal year-end balance of eight to nine million dollars. Substantially the amount of this balance could be transferred without affecting the amount of scheduled allocations in the coming fiscal year. In the following fiscal year the reduced balance would have an effect upon all allocations which are in terms of a percentage of the "first and second balance" in the fund, including the allocation to the University of California and to the California Polytechnic College. However, if the Legislature so desires, the language of the transfer item and of specific budget items from the fund can be written in such a manner as to guarantee the full amount which would otherwise be received from fixed appropriations for support (Horse Racing Board, Division of Audits, Fairs and Classification Committee, Poultry Improvement Commission, etc.) and which would otherwise be received by educational institutions. This would relieve the General Fund by approximately \$8,000,000 in the first year and approximately \$4,000,000 thereafter. We are informed by the Legislative Counsel that these transfers could be made at a budget session.

2. *Wildlife Restoration Fund.* This fund, which is used for wildlife projects approved by the Wildlife Conservation Board, has its source in horse racing revenues, appropriated from that part which would otherwise go to the General Fund. Under existing statutes \$750,000 per year goes from this source to the Wildlife Restoration Fund, and since 1947 a total of \$14,250,000 has been transferred for this purpose from what are, in effect, General Fund revenues. This is the only instance where support or capital outlay for wildlife purposes, in the interests of the sportsmen, are financed by general revenues rather than by hunting and fishing license fees. The termination of this transfer, or the retransfer to the General Fund, would relieve the General Fund by \$750,000 in the budget year and each year thereafter.

3. *State Fair General Fund Money.* That portion of the parimutuel taxes which is in excess of a 4 percent rate by law has in the past been placed in the General Fund, unless otherwise appropriated. Last session the Legislature adopted legislation diverting \$3,747,843 per year for two years to be combined with \$13,000,000 from the issuance of so-called "revenue bonds" or certificates to provide a sum of approximately \$21,500,000 for the partial construction of a new State Fair. Total estimated costs for the fair range from \$30 million to \$75 million. To date, attempts to market the revenue bond portion of this financial plan have proved unsuccessful. It would now appear that it is extremely likely that the General Fund may be called upon ultimately to finance the major cost of the construction of the State Fair. Without the revenue bond money it would be impossible to produce an operable fair, and as in the case of the Winter Olympic Games the State would be called on to carry the project to completion. Moreover, the historic record of successive deficits from State Fair operations does not support a sound financial basis for revenue type bonds (other than General Fund revenue). However, substantial economies might be obtained from a complete revision of the local and State Fair program from which sums could be derived out of the Fair and Exposition Fund to support a fair program independent of General Fund revenues. The development of a more realistic and effectively co-ordinated statewide fair system might well provide the

financial basis for marketing the revenue bonds as well as providing additional construction funds. Accordingly, the Legislature might consider reappropriating the \$7.5 million back to the General Fund.

4. *Department of Employment Contingent Fund.* This fund receives penalties and interest assessments from administration of employment taxes under the Unemployment Insurance Laws. Although the direct tax receipts are deposited to a trust fund with the federal government, the penalty and interest assessments are deposited to the Department of Employment Contingent Fund and are available to the department, or for any other state purpose, upon appropriation by the Legislature. The fund shows an estimated balance of \$1,055,520 as of June 30, 1958, and estimated receipts of \$986,000 during 1958-59. At the present time these funds are being used largely for a program of capital outlay to provide state-owned branch office facilities for the Department of Employment.

In view of the fact that administration of Unemployment Insurance is entirely supported from federal receipts, including amounts necessary for the leasing of privately owned branch office facilities, the transfer of this fund, in whole or in part, to the General Fund, would not affect administration or the level of operations of any governmental function. For the Fiscal Years 1954-55 and 1956-57, \$4,992,176 was transferred to the General Fund from this source with no discernible effect on unemployment insurance administration.

#### **Revenues and Revenue Estimates**

Revenues for the State for the 1958-59 Fiscal Year are estimated to total approximately \$1,860,100,000. This is compared with an estimated total of \$1,793,700,000 for the current fiscal year, indicating an anticipated increase of \$66.4 million for 1958-59. The estimate of revenues for 1958-59 shows approximately \$1,183,500,000 for the General Fund and a total of approximately \$676.5 million for special funds.

General Fund revenue trends for the 10-year period 1948-49 through 1958-59 are shown by major tax source in Table II which follows. The table shows General Fund revenues for 1958-59 estimated at approximately \$1,183.5 million as compared with an estimated \$1,144.5 million for the current fiscal year. This represents an increase of \$39 million or 3.4 percent for 1958-59.

TABLE II  
SOURCE OF INCOME TO CALIFORNIA'S GENERAL FUND

1948-49 TO 1958-59

(In millions)

	Alcoholic beverage control taxes and licenses	Bank and corpora- tion fran- chise and income taxes	Inherit- ance and gift tax	Insur- ance tax	Personal income tax	Retail sales and use tax	Other	Totals
1948-49-----	\$17.6	\$75.8	\$21.8	\$20.2	\$50.1	\$294.6	\$30.3	\$510.4
1949-50-----	16.4	74.8	19.9	22.9	60.5 <sup>a</sup>	325.5 <sup>a</sup>	33.3	553.3
1950-51-----	19.9	98.2 <sup>a</sup>	21.7	23.9	75.9	399.2	33.7	672.5
1951-52-----	18.2	120.1	29.2	25.7	90.9	417.7	32.4	734.2
1952-53-----	19.7	119.1	23.5	29.2	94.6	460.1	27.8	774.0
1953-54-----	19.5	125.0	24.1	34.3	96.2	465.1	33.9	798.1
1954-55-----	20.7	133.7	30.2	38.5	106.7	492.9	56.4 <sup>b</sup>	879.1
1955-56-----	39.3	157.1	36.3	39.1	127.8	564.2	41.2	1,005.0
1956-57-----	41.5 <sup>c</sup>	167.4	38.5	42.5	143.3	600.1	45.5	1,078.9
1957-58 (Est.)--	41.2	177.4	44.7	46.0	157.8	626.3	51.1	1,144.5
1958-59 (Est.)--	42.4	174.2	42.4	50.0	165.2	654.3	55.0	1,183.5

<sup>a</sup> Revenues affected by tax rate increases.

<sup>b</sup> Includes the sum of \$19,418,604 in released impounded oil royalties.

<sup>c</sup> Reflects the effect of rate increase in excise taxes on distilled spirits.

The revenue estimates for the current year and the budget year, while based upon substantially the same revenue structure, compared with the two prior fiscal years, reflect a definite slowdown in the Nation's and the State's high rate of economic expansion. The budget assumptions for the 1958-59 Fiscal Year are indicated to be predicated upon a slightly increase in volume of business and personal income for both the State and the Nation. Indicators of national economic activities, as reflected in the budget estimates and assumptions, show a gross national product of \$434.3 billion for 1957, a gain of \$19.6 billion or 4.7 percent over 1956, while the estimate of \$442 billion for 1958 indicates an anticipated gain of \$7.7 billion or 1.8 percent over 1957. The estimates attribute approximately half of the current year's increase to higher prices and half to larger physical output of goods and services. Consumer expenditures, or expenditures for goods and services which make up approximately 65 percent of the gross national product, are expected to rise from \$267.2 billion in 1956 to \$281.1 in 1957, and \$289 billion in 1958. Figures for private investment in construction indicate a drop from \$65.9 billion in 1956 to \$64 billion in 1957 with a further drop of 5.3 percent to \$60.6 billion for 1958. Investment in producers equipment indicates a 5 percent drop in 1958 from 1957, while government purchases of goods and services on the federal, state and local levels combined, show steady increases from \$80.2 billion in 1956 to \$90.4 in 1958. Estimates of personal income at the national level indicate an increase of \$15.9 billion or 4.9 percent for 1957 over 1956 and \$8 billion or 2.3 percent for 1958 over 1957. California's share of the Nation's total personal income is running around 10 percent, and is estimated to reach \$35.7 billion in 1958 as compared with \$34.6 billion and \$32.5 billion for 1957 and 1956, respectively. Per capita income, estimated at \$2,429 for 1958, is slightly less than that for 1957.

In view of uncertainties in the degree of the present slowdown of the rate of expansion in the business of the Nation and the State and the timing and degree of recovery which might take place in 1958, it appears that the budget assumptions and estimates of revenues for the 1958-59 Fiscal Year are reasonable. However, it should be borne in mind that General Fund tax receipts are very responsive to economic activity and a variation of as much as 2 percent from the estimates of General Fund revenue for the 1958-59 Fiscal Year could mean as much as \$24 million more or less revenue.

### **State Bonded Indebtedness**

As of November 30, 1957, the net bonded indebtedness of the State amounted to \$1,146,380,529. This was composed of \$483,505,000 in general obligation bonds and \$673,571,000 in self liquidating harbor improvement and veterans welfare bonds. Against these amounts \$10,695,471 was available from sinking funds which will be virtually depleted in the budget year. Bonds authorized and unsold as of this date included \$100,000,000 in school building aid bonds, \$200,000,000 in state construction bonds, and \$300,000,000 in veterans welfare bonds. Bonds sold just prior to the date of the schedule in the budget were issues of \$35,000,000 in school construction bonds at an average interest cost of 3.6758 and \$50,000,000 in veterans welfare bonds at an interest cost of 3.6501. On January 22, 1958, an additional issue of \$100,000,000 in veterans welfare bonds was sold at an average interest cost of 3.07. The trend in total bonds authorized and net bonded debt outstanding as of November 30th each year from 1947 is shown in Table III which follows. These do not include bonds issued under authority of certain state instrumentalities, such as the Toll Bridge Authority, which are a pledge against specified revenues and are not general obligations of the State.

TABLE III  
STATE OF CALIFORNIA BONDED INDEBTEDNESS

<i>November 30th</i>	<i>Amount Authorized</i>	<i>Amount Outstanding *</i>
1947 -----	\$381,105,000	\$106,246,440
1948 -----	381,105,000	133,563,793
1949 -----	631,105,000	181,739,915
1950 -----	654,300,000	323,376,077
1951 -----	654,300,000	389,986,609
1952 -----	989,300,000	498,584,534
1953 -----	969,300,000	559,119,507
1954 -----	1,224,300,000	659,422,592
1955 † -----	1,224,300,000	785,355,680
1956 -----	1,994,300,000	871,482,584
1957 -----	1,988,300,000	1,146,380,529

\* Net bonded debt, or debt less amounts available in sinking funds for payment of principal.

† December 31st.

### ***Some Notes on the Form of the Item-by-Item Analysis and the Application of the "No New Services" Concept***

The analysis of each Budget Bill item includes a determination of whether the proposed increase is a workload factor or whether it represents new or increased level of services. In respect to salaries and wages, this determination can generally be made accurately and reasonably easily based on workload data submitted with the budget request.

The concept of allowing no new services is sometimes difficult of application in the case of equipment requests. For this reason we have found it desirable to establish a set of criteria to apply to this determination in order that it may be made uniformly among all the agencies and provide a sound and understandable distinction between that which is necessary to maintain existing standards of service and that which would represent an increased level of service.

Five criteria have been established, at least one of which would have to be met to qualify the equipment requests for inclusion in the budget under a strict application of a "no new services" concept. We have recommended against the budgeting of funds for equipment unless it meets the following standards of necessity:

1. Needed to replace an existing piece of equipment which is worn out beyond the point of economical repair or rehabilitation. This fact should be evidenced by agency figures on actual repair experience during the span of use of the equipment. This, coupled with bona fide estimates of the cost of repairs and added life expectancy of the equipment after repairs, should be compared to the average life and cost of the requested new piece of equipment on an amortized basis.

2. Needed to equip a proposed new position which has been completely justified on a workload basis only.

3. Needed to perform an existing function at an increased rate or capacity due to increases in population or other demonstrated workload factors.

4. Needed to perform or assist in performing an existing function at such an increased rate or capacity that there will be direct budgetary savings, evidenced by reduced appropriations and expenditures, at least equal to the amortization of the initial cost of the equipment during its normal life expectancy plus the annual cost of repairs and maintenance on the equipment during its normal expected span of use.

5. Needed to materially reduce any substantial risk or hazard which if allowed to continue would undoubtedly lead to annual losses or the equivalent thereof, in excess of the amortized acquisition costs plus the annual repair and maintenance costs, on the equipment during its normal expected life, or which would constitute an actual and avoidable physical hazard to persons.

It should be noted that some agency budget requests contain supporting detail which makes a determination of necessity much more feasible than in other agencies. It is our observation that a more uniform and thorough review of equipment needs should be made at the grass-roots level within the agencies. Some institutions appear to have little knowledge of the basis upon which equipment is being requested with the net result that substantial amounts of it are eliminated in the budget process.