

Miscellaneous

WORKMEN'S COMPENSATION BENEFITS FOR STATE EMPLOYEES

ITEM 263 of the Budget Bill

Budget page 629

FOR SUPPORT OF WORKMEN'S COMPENSATION BENEFITS FOR STATE EMPLOYEES FROM THE GENERAL FUND

| | |
|---|-------------|
| Amount requested | \$1,400,000 |
| Estimated to be expended in 1957-58 Fiscal Year | 1,200,000 |
| Increase (16.7 percent) | \$200,000 |

RECOMMENDED REDUCTIONS..... None

ANALYSIS

The cost of workmen's compensation benefits for state officers and employees whose salaries are paid from the General Fund is estimated at \$1,400,000 for the budget year. This is an increase of \$200,000 or 16.7 percent over the amount estimated to be expended in the current year. The projected increase, percentagewise, is the same as in the last budget.

The State is self-insured for this purpose and the State Compensation Insurance Fund administers the details of handling claims and making payments.

The budget for the first time contains details of compensation payments made in 1956-57 by General Fund agencies.

We recommend approval of the budget as submitted.

**PAYMENTS FOR ADDITIONAL WORKMEN'S COMPENSATION FOR
SUBSEQUENT INJURIES**

ITEM 264 of the Budget Bill

Budget page 634

**FOR PAYMENT OF ADDITIONAL WORKMEN'S COMPENSATION FOR
SUBSEQUENT INJURY AS PROVIDED BY SECTION 4751 OF THE
LABOR CODE FROM THE GENERAL FUND**

| | |
|---|-----------|
| Amount requested | \$860,000 |
| Estimated to be expended in 1957-58 Fiscal Year | 641,000 |
| Increase (34.2 percent) | \$219,000 |

RECOMMENDED REDUCTIONS..... None

GENERAL SUMMARY

The fund is established to pay workmen's compensation benefits for permanent disabilities resulting from industrial injuries to employees who have previously suffered another specific permanent disability. The intent of the law is to encourage the employment of handicapped persons by relieving the employer of liability for the effects of a combination of injuries, some of which do not result from the hazards of his business.

Prior to the amendments of 1955 (Chapter 1092, Statutes of 1955) any pre-existing permanent disability which when combined with a current compensable injury resulted in a combined total permanent disability rating of 70 percent or more became a liability of the subsequent injury fund. The 1955 amendments were designed to limit the liability of the fund:

Workmen's Compensation for Subsequent Injuries—Continued

1. To cases where the subsequent injury was related to a previous disability of an opposite and corresponding member of the body,

2. Or to cases where the permanent disability resulting from the subsequent injury accounted for 40 percent or more of the total disability,

3. By preventing payment from the fund of certain duplicating payments on account of the pre-existing disability,

4. And to prohibit the commutation of payments from the fund to a lump sum.

The 1955 amendments were limited to a two-year period, which period was extended another two years (until 1959) by amendments enacted in 1957 (Chapter 2061, Statutes of 1957) to Sections 4751 and 4753 of the Labor Code.

The progressively increasing annual cost to the General Fund of payments from this fund is set out in the analysis of this item in the 1958-59 Governor's Budget on page 634. The increasing liability for future payments from the fund is illustrated by the following table:

| <i>Fiscal year ending</i> | <i>Compensation awarded, payment not started</i> | <i>Compensation awarded, payment being made</i> | <i>Total outstanding</i> |
|-------------------------------|--|---|------------------------------|
| June 30, 1948 ----- | \$59,294.00 | \$146,252.00 | \$205,546.00 |
| June 30, 1949 ----- | 89,699.00 | 224,124.14 | 313,823.14 |
| June 30, 1950 ----- | 17,011.00 | 301,742.76 | 318,753.76 |
| June 30, 1951 ----- | 179,414.00 | 364,716.07 | 544,130.07 |
| June 30, 1952 ----- | 494,615.00 | 644,182.14 | 1,138,797.14 |
| June 30, 1953 ----- | 513,601.00 | 1,198,178.54 | 1,711,779.54 |
| June 30, 1954 ----- | 780,703.00 | 1,451,501.22 | 2,232,204.22 |
| June 30, 1955 ----- | 891,115.00 | 1,995,557.15 | 2,886,672.15 |
| June 30, 1956 ----- | 1,378,297.00 | 2,684,963.50 | 4,063,260.50 |
| To June 30, 1957 ----- | 1,357,198.00 | 3,564,411.08 | 4,921,609.00 |

The growth in the number of claims against the fund and of awards from the fund is illustrated by the following table:

| <i>Fiscal year</i> | <i>Total claims</i> | <i>Rejected</i> | <i>Net</i> |
|--------------------|---------------------|-----------------|------------|
| 1947-48 ----- | 20 | 7 | 13 |
| 1948-49 ----- | 13 | 3 | 10 |
| 1949-50 ----- | 27 | 11 | 16 |
| 1950-51 ----- | 44 | 27 | 17 |
| 1951-52 ----- | 83 | 43 | 40 |
| 1952-53 ----- | 166 | 93 | 73 |
| 1953-54 ----- | 160 | 67 | 93 |
| 1954-55 ----- | 181 | 56 | 125 |
| 1955-56 ----- | 206 | 17 | 189 |
| 1956-57 ----- | 144 | 12 | 132 |

These tables reflect this year for the first time a decline in the rate of growth of the cost of this program since the limiting amendments were passed in 1955. Chapter 2061, Statutes of 1957, directed the Office of the Attorney General to prepare a report on this matter together with the Department of Finance for submission to the 1959 Legislature. We are informed that this report will be forthcoming. In view of the fact that the amendments result in a decline in the rate of growth of

Workmen's Compensation for Subsequent Injuries—Continued

the cost of the subsequent injury program, *we recommend that consideration be given to make the limitations contained in this amendment permanent.*

ANALYSIS

The estimate of fund requirements for the budget year reflects the experienced decline in the rate of growth of the program cost and appears reasonable.

We recommend approval of the budget as submitted.

REFUND OF LICENSES, TAXES AND OTHER FEES

ITEM 265 of the Budget Bill

Budget page 631

FOR SUPPORT OF REFUND OF TAXES, LICENSES, AND OTHER FEES FROM THE GENERAL FUND

| | |
|---|----------|
| Amount requested | \$15,000 |
| Estimated to be expended in 1957-58 Fiscal Year | 15,000 |

| | |
|----------------|------|
| Increase | None |
|----------------|------|

| | |
|-------------------------------------|------|
| RECOMMENDED REDUCTIONS | None |
|-------------------------------------|------|

ANALYSIS

This request is for an appropriation for the refunding of licenses, taxes, and other fees erroneously collected and paid into the General Fund. In these cases there are no other specific provisions of law by which such refunds can be made.

We recommend approval of this item as budgeted.

LEGISLATIVE CLAIMS

ITEM 266 of the Budget Bill

Budget page 631

FOR SUPPORT OF CLAIMS OF THE STATE BOARD OF CONTROL FROM THE SEVERAL FUNDS

| | |
|---|----------|
| Amount requested | \$35,644 |
| Estimated to be expended in 1957-58 Fiscal Year | 173,902 |

| | |
|-------------------------------|-----------|
| Decrease (79.5 percent) | \$138,258 |
|-------------------------------|-----------|

| | |
|-------------------------------------|------|
| RECOMMENDED REDUCTIONS | None |
|-------------------------------------|------|

GENERAL SUMMARY

The Board of Control acts as a court of claims for the State. Claims approved are then submitted to the Legislature for final action. Disapproved claims may also be presented to the Legislature by the claimants. Final review of all claims approved by the board is made by the Legislature after the board has transmitted a statement of reasons for its actions, as required in Section 16020 of the Government Code.

ANALYSIS

Claims listed in the Governor's Budget are those approved prior to December 1957. Hence there will be three and possibly four regular monthly meetings of the board at which additional claims may be approved before the claims item is heard. These additional claims will be introduced as bill amendments.

PURCHASING REVOLVING FUND

ITEM 267 of the Budget Bill

Budget page 633

ANALYSIS

This item reappropriates the unexpended balance remaining on June 30, 1958, of the appropriation made by Item 279, Budget Act of 1957, for augmentation of Purchasing Revolving Fund, to be transferred by the State Controller in such amounts and for such periods as the Director of Finance may authorize. The appropriation made by this item is to remain available for allocation, reallocation and expenditure until June 30, 1960.

We recommend approval.

ITEM 268 of the Budget Bill

ANALYSIS

This item is identical to Item 281 of the Budget Act of 1957. It provides that the State Controller upon approval of the State Board of Control shall transfer to this item, from any appropriation in Section 2 of this act made from the General Fund, that part of such appropriation intended for the purchase of automobiles. These funds shall be available for augmentation of the Purchasing Revolving Fund.

This item provides the machinery whereby funds appropriated from the General Fund to the various state agencies for the replacement of or purchase of additional automobiles may be used to augment the Revolving Fund which finances the Department of Finance car pool.

We recommend approval.

**Department of Natural Resources
DIVISION OF SMALL CRAFT HARBORS**

ITEM 269 of the Budget Bill

Budget page 470

**FOR TRANSFER TO THE SMALL CRAFT HARBOR REVOLVING
FUND FROM THE STATE LANDS ACT FUND**

| | |
|---|----------|
| Amount requested | \$82,644 |
| Amount budgeted for support of Division of Small Craft Harbors 1958-59 Fiscal Year | \$81,819 |
| Estimated to be expended in 1957-58 Fiscal Year | 48,163 |
| Increase (69.9 percent) | \$33,656 |

Summary of Increase

| | Total Increase | INCREASE DUE TO | | Budget Line page No. |
|--------------------------|-------------------|-------------------------------------|-----------------|-------------------------|
| | | Workload or * salary adjustments | New services | |
| Salaries and wages | \$27,194 | \$5,661 | \$21,533 | 471 19 |
| Operating expense | 12,266 | 11,026 | 1,240 | 471 31 |
| Equipment | -5,804 | -5,804 | -- | 471 33 |
| | \$33,656 | \$10,883 | \$22,773 | |

* Increase in this column due to first full year of operation with existing workload.

Division of Small Craft Harbors—Continued
RECOMMENDED REDUCTIONS

| | |
|---|----------|
| Reduction in budgeted increases----- | \$22,773 |
| Improved efficiency and policy reappraisal----- | None |
| Total reductions ----- | \$22,773 |

| <i>Positions</i> | Summary of Reductions | | <i>Budget</i> | |
|-----------------------------------|------------------------------|-------------|---------------|--|
| | <i>Amount</i> | <i>Page</i> | <i>Line</i> | |
| Associate civil engineer----- | \$7,888 | 471 | 11 | |
| Engineering aid II----- | 4,840 | 471 | 12 | |
| Delineator----- | 5,085 | 471 | 13 | |
| Intermediate typist-clerk----- | 3,720 | 471 | 14 | |
| Related operating expense----- | 1,240 | 471 | 31 | |
| Total recommended reductions----- | \$22,773 | | | |

GENERAL SUMMARY

The Division of Small Craft Harbors was created by the provisions of Chapter 2362, Statutes of 1957, and was activated October 14, 1957. In recognition of the increase in the numbers of small craft in the past few years, the lack of adequate facilities to launch and berth them and the lack of sufficient numbers of small harbors wherein these craft could seek refuge when necessary, the Legislature assigned the responsibility for the acquisition, construction, development, improvement, maintenance and operation of small craft harbors within the State of California to this new division.

The division is also empowered to make loans to cities, counties or harbor districts having the power to acquire, construct and operate small craft harbors.

To determine the general policies for the operation of the division there is a Small Craft Harbors Commission composed of five members appointed by the Governor. As yet, the commission has not established criteria for determining priority in granting loans to city, county or harbor districts for development of small craft harbors. However, the commission has granted loans to such districts from the \$100,000 available for that purpose in the Small Craft Harbor Revolving Fund for preliminary planning of harbors.

Prior to the establishing of this division the State Lands Commission was directed by the Legislature to co-operate with the Corps of Engineers in the development and maintenance of small craft harbors by the provisions of Chapter 826, Statutes of 1951. In 1955 this designation was reaffirmed by the provisions of Chapter 1850, Statutes of 1955 wherein also was established the Small Craft Harbor Revolving Fund without appropriation thereto.

To activate the division, the Legislature appropriated \$40,000 to the Small Craft Harbors Revolving Fund by Chapter 2408, Statutes of 1957, from the State Lands Act Fund. Subsequently, the Board of Control authorized a transfer of \$12,998 from Item 130, Chapter 600, Statutes of 1957, which had been budgeted by the State Lands Division for small craft harbors purposes, to the Division of Small Craft Harbors for support of the division and commission. This provided the division with \$52,998 for operation. As was previously mentioned, \$100,000 was appropriated from the Investment Fund to the Small

Division of Small Craft Harbors—Continued

Craft Harbors Revolving Fund for loans to cities, counties and harbor districts for small craft harbor preliminary planning purposes.

No definite provision was made for continued support of the division, and no specific fund was named to defray its subsequent year's activities. All efforts to provide for continuing appropriations from specific funds, apportioning of unclaimed gasoline tax refunds, etc., failed to become law. However, many alternatives for defraying the activities of the division should probably be thoroughly reviewed so that the most logical source of funds may finally be assigned. In the budget year the division proposes to defray its support expenses from the State Lands Act Fund and supply lending money from the Investment Fund. The Small Craft Harbors Revolving Fund would be the recipient of the appropriations and would be the source from which expenditures would be made.

ANALYSIS

The division proposes to expend \$81,819 in the budget year as compared with \$48,163 in the current fiscal year.

Although the detail for the current year's budget indicates an employment of 9.2 personnel, four of those positions are detailed as new positions in the budget year. In establishing the division, the only specific position provided for was the chief of the division and any additional positions needed were to be added by the chief as authorized by the Director of Natural Resources.

Although Chapter 2408, Statutes of 1957, as passed by the Legislature, provided for continuing appropriations to the division of \$500,000 a year for the budget year and the four succeeding fiscal years thereafter from the State Lands Act Fund, the Governor subsequently deleted the continuing appropriation provision. He also reduced the initial appropriation provided in the same bill of \$75,000 for the current fiscal year to \$40,000. This amount established the level of activity of the division for the remainder of the current fiscal year after activation of the division. The subsequent transfer of \$12,998 from the State Lands Division provided moneys already earmarked for small craft harbor purposes in that agency. Therefore, this latter transfer was not intended to increase the level of operation but merely to centralize funds already appropriated for expenditure by the agency designated for that purpose.

In our opinion, before any increase in the level of service can be justified, first the Legislature must establish policy as to the degree of activity which must be maintained, the size of the lending fund segment of the Small Craft Harbors Revolving Fund and the division must justify the workload correlated therewith. The source of funds for defraying the support activities of the division must be established as well. Since no provision was made for the continuation of the division from any fund it must be assumed that a reappraisal of the desirable source of funds as well as of the degree of activity within the division was expected.

The division personnel are to aid port districts by providing technical and general advice on the preparation of preliminary plans, the avail-

Division of Small Craft Harbors—Continued

able sources of aid from both federal and state agencies, bonding procedures, etc. Since the agency has been in existence such a short time and since no specific workload statistics can be correlated with the ability of the personnel to cope with the demands on the division, we recommend that until such time as legislative policy is clearly established, the staff of the division be held to the present level consisting of the chief, a staff assistant, one chief engineer—underwater construction, a senior stenographer-clerk and an intermediate typist-clerk. *This would result in the deletion of the proposed associate civil engineer, the engineering aid II, the delineator and intermediate typist-clerk positions for a saving in salaries and wages of \$21,533, and in operating expenses of \$1,240 for a total saving of \$22,773.*

Economies and Improvements Requiring Legislation

As was stated above, there are several alternatives which could be considered for providing a source of revenue for supporting the activities of the division.

It is our opinion that the benefited small craft owners who will have the harbor facilities at their disposal should be the primary source of funds. In recognition of this concept, several other states have so provided in expanding their small craft harbor programs. In Michigan, the construction activities of the Michigan Waterways Commission are financed entirely by and to the extent of the proceeds from the sale of watercraft licenses and the proceeds of direct boat taxes. Under the "Privilege Tax Law" of Michigan, a three-cent-per-gallon tax is levied on the sale of all marine fuels in lieu of all other state fuel taxes. One major drawback to this method has been the apparent laxity of the licensed marine fuel dealers in keeping accurate sales records. However, Michigan has been quite pleased with its revenue-producing methods and has been able to expand its harbor facilities very rapidly.

Other possible sources of revenue which have been considered are:

1. Unrefunded gasoline taxes.

It is estimated that only a small percentage of gasoline-powered boat owners apply for a rebate of taxes paid on gas used in their craft. The Controller is authorized to refund state gasoline taxes paid on any gasoline not used in motor vehicles operated on highways in the State.

In respect to legislation to apportion unrefunded gas taxes on fuel used in watercraft to the division for its use, it should be noted that there exists a precedent wherein provision is made through Chapter 1465, Statutes of 1949, to allocate to the several counties of the State amounts considered to have been collected as tax on aviation fuel and not claimed for refund, for airport purposes.

It has been estimated by the Board of Equalization that there are approximately 200,000 watercraft in the small boat category, the majority of which are equipped with outboard or inboard motors. The Controller has just recently been recording the refunds on gas tax to commercial users and sport craft users separately to attempt to determine an average refund so that an estimate of marine tax collected on noncommercial watercraft can be more accurate than at present.

Division of Small Craft Harbors—Continued

Following is a tabulation of the total number of gallons on which pleasure and commercial marine fuel users, combined, claimed tax refunds:

| <i>Year</i> | <i>Gallons</i> | <i>Refund at \$0.06 gal.</i> |
|---------------|----------------|----------------------------------|
| 1949-50 ----- | 5,779,932 | \$346,795.92 |
| 1950-51 ----- | 5,848,922 | 350,935.32 |
| 1951-52 ----- | 5,445,662 | 326,739.72 |
| 1952-53 ----- | 5,317,954 | 319,077.24 |
| 1953-54 ----- | 4,990,940 | 299,456.40 |
| 1954-55 ----- | 5,153,562 | 309,213.72 |
| 1955-56 ----- | 4,787,542 | 287,252.52 |
| 1956-57 ----- | 5,171,334 | 310,280.04 |

The Controller has found that the number of pleasure craft refunds made exceed those for commercial craft by a ratio of approximately 2.5:1, but in amount the average commercial refund is about four times as great. However, because of the quantity of gasoline used by individual commercial crafts it is reasonable to assume that the majority in that category apply for refund whereas it is known that a smaller proportion of pleasure boat owners make application.

This source of financing, although convenient administratively, involves the difficulty that the burden is not in direct proportion to the use of marine fuel, but is rather in inverse proportion, since it is the small rather than the large users who fail to claim refunds. Since there are no records to verify that any specified part of the motor vehicle fuel tax collections, not claimed for refund, represents tax paid on fuel used for marine uses, any apportionment from the fuel tax would be based upon an arbitrary legislative determination. This, in turn, might involve constitutional questions as to the use of motor vehicle fuel tax for nonhighway purposes.

2. Another alternative which has been considered would be to provide for a marine fuel tax, in effect, by removal of provisions for refunds for such uses.

This also has the advantage of administrative simplicity but might require a constitutional amendment.

The average number of watercraft, both sport and commercial, on which gasoline tax refunds are made is approximately 7,000 annually. These 7,000 applicants receive a total annual average of \$300,000 based upon a total annual average use of 5,000,000 gallons of gas at \$0.06 per gallon. It is estimated that 80 percent of the 200,000 craft involved are propelled by gasoline motors. Undoubtedly, the majority of those using a large amount of gas take advantage of the refund at the present time. Therefore, in considering the 80 percent of 200,000 or 160,000 gasoline-powered boat users, less the 7,000 large quantity users, it appears that there are approximately 153,000 small quantity users who do not make application for refunds.

To insure that the total assumed marine gasoline usage is not inflated, it is felt to be very conservative to estimate that the average use of the 153,000 other gasoline motor-powered watercraft will be at least 15 gallons each per year. Therefore, at 15 gallons times \$0.06 per gal-

Division of Small Craft Harbors—Continued

long times 153,000 limited use watercraft plus \$300,000 attributable to large use watercraft, this involves a conservative estimate of \$417,700 of gasoline tax paid annually on fuel used in watercraft.

3. Licensing of all small craft.

At the present time, county assessors are empowered to collect personal property taxes on boats, and since according to Chapter 6 of the Revenue and Taxation Code all owners of watercraft are required to register their boats with the county assessor, it should not be too difficult to establish the machinery to license such boats. Since automobile registration fees are used for activities affecting motor vehicles it would appear logical to assess watercraft to defray the expenses of the agency responsible for providing facilities or for providing money on a loan basis to develop facilities to benefit small watercraft.

Licensing of small watercraft by boat size might be initiated by the Legislature. The State of Michigan has such a licensing ranging from \$5 on each boat with an overall length of 16 feet to 20 feet, to a charge of \$1 per foot and \$1 per ton additional on craft with an overall length in excess of 65 feet.

It is further suggested that an annual charge might be initiated for registering all watercraft motors for an amount at least equal to the costs of administering such a program to identify each motor along the same lines as automobile registration, to provide the State with information of motor ownership to aid the State in determining trends of powered craft activity so that not only can the State maintain fairly accurate records of the quantity and location of motors, but it can make periodic checks with gasoline motor users to determine the accuracy of the marine gasoline apportionment.

Another important advantage this registration would effect is that any transfers of motors by sale would have to be recorded with the State, and cross-checking would reveal if the purchaser had registered his boat which could be followed up by a law enforcement official if such were not the case. It would also serve as a deterrent to the steadily increasing theft of motors.

**Department of Natural Resources
DIVISION OF SMALL CRAFT HARBORS**

ITEM 270 of the Budget Bill

Budget page 470

**FOR TRANSFER TO THE SMALL CRAFT HARBOR REVOLVING FUND
FROM THE INVESTMENT FUND TO PROVIDE LOANS FOR SMALL
CRAFT HARBOR PRELIMINARY PLANS**

| | |
|---|-----------|
| Amount requested ----- | \$100,000 |
| Estimated to be expended in 1957-58 Fiscal Year ----- | 100,000 |

| | |
|----------------|------|
| Increase ----- | None |
|----------------|------|

RECOMMENDED REDUCTIONS

| | |
|--|-----------|
| Reduction in budgeted increases ----- | \$100,000 |
| Improved efficiency and policy reappraisal ----- | None |

| | |
|------------------------|-----------|
| Total reductions ----- | \$100,000 |
|------------------------|-----------|

Division of Small Craft Harbors—Continued
ANALYSIS

Chapter 2375, Statutes of 1957, appropriated \$100,000 from the Investment Fund to the Small Craft Harbors Revolving Fund to be used by the Small Craft Harbors Commission for loans to "cities, counties, or districts having power to acquire, construct, and operate small craft harbors, for the planning of small craft harbors and facilities in connection therewith, and connecting waterways, if the commission finds that the project is feasible."

The commission had made loans approximating \$15,000 and taken several other applications under submission by the end of calendar year 1957 in accordance with its authority to do so.

However, in providing this initial \$100,000 for the purpose quoted, the Legislature did not establish such a transfer on a continuing annual basis nor did it designate the fund from which future lending moneys were to be made available in the event they are requested.

We feel that positive policy determination must be established by the Legislature relative to the ultimate size of the revolving fund portion of the Small Craft Harbors Revolving Fund; the part of such revolving fund which is to be earmarked for loans for preliminary planning purposes; the part of the revolving fund which is to be earmarked for loans for development of small craft harbors; the portion of the fund to be earmarked for state planning and construction, and the part which is to constitute support expenditures for the division; the source of appropriations to the fund and the method of transfer of the moneys from the selected source.

It is true that according to Section 5882 of Chapter 2362, Statutes of 1957, no loans can be advanced to local interests except for preliminary planning purposes, and no moneys can be expended for the acquisition of real property and the construction and development of small craft harbors by the State except by specific appropriations by the Legislature. However, the level of fund activity should be established so that the Legislature could appraise the fund's individual expenditure components within the levels established, for sound budgeting.

Until the policy problems outlined above are resolved we recommend disapproval of any further appropriations from the Investment Fund or from any other fund for the purposes of Chapter 2362, Statutes of 1957, and therefore, recommend deletion of the \$100,000 requested in this item. In our opinion all of these policy questions cannot be appropriately determined by action on a single budget item in the budget session.

PROVISION FOR SALARY INCREASES

ITEMS 271-272 of the Budget Bill

Budget page 635

**FOR SUPPORT OF SALARY INCREASE FUND FROM THE
GENERAL FUND**

RECOMMENDED REDUCTIONS -----\$10,471,756

Provision for Salary Increases—Continued
GENERAL SUMMARY

The request for \$10,471,756 from the General Fund for a salary increase fund is based upon the recommendation by the State Personnel Board that this amount is necessary in order that state salaries may be kept in line with salaries paid in private industry and other governmental jurisdictions.

The State Personnel Board is required by Section 18712 of the Government Code to report annually to the Governor and the Legislature on the position of state salaries in relation to those in private industry and other governmental jurisdictions. The board in its report of December 23, 1957, has recommended that funds be appropriated for a general 3 percent salary increase for state employees.

ANALYSIS

The State Personnel Board's salary jurisdiction relates only to civil service and state college salaries, thus in its report of December 23, 1957, there is no specific recommendation made with respect to the University of California nor exempt employees. The amount requested in the budget provides for carrying out the board's recommendation for General Fund employees whose salaries are set by the Personnel Board and a sufficient amount to provide comparable adjustments to University of California employees and for employees exempt from civil service whose salary is set other than by the Personnel Board. The item also includes \$250,000 for special salary adjustments for civil service employees paid from the General Fund.

Item 271 of the Budget Act proposes \$7,500,702 from the General Fund for civil service and exempt employees. Item 272 proposes \$2,971,054 from the General Fund for the University of California employees. The total cost of salary adjustments for General Fund and Special Fund employees is \$18,422,175, including contributions to State Employees' Retirement Fund.

In past years the Legislature has consistently appropriated funds to implement the recommendations of the Personnel Board in its annual report and has on several occasions appropriated amounts in excess of the amounts requested by the board, including \$2,525,000 appropriated in 1956 and \$260,000 last year. The staff of the board conducts regular salary surveys in October and March of each year. The October survey for 1957 consisted of a field analysis of industrial wages in the San Francisco Bay area and a recheck of the March, 1957, survey of the Los Angeles area. A total of 79 benchmark jobs, representative of major occupational groups, were surveyed last October in the Bay area. A comparable sample had been used in the Los Angeles area in March.

The surveys of industry wages that were conducted by the Personnel Board in March, 1957, and October, 1957, in both the San Francisco Bay and Los Angeles areas indicated that wages in private industry continued to rise in 1957 but at a slower rate than in 1956. This is shown in the following table:

| Survey | Percentage increase | |
|---|---------------------|------|
| | 1956 | 1957 |
| San Francisco Bay area, March-October (7 months)----- | 3.4 | 2.6 |
| Los Angeles area, March-October (7 months)----- | 3.7 | 2.1 |

Provision for Salary Increases—Continued

Also according to the board this trend toward smaller wage increases appears to be pronounced in the nonmetropolitan areas and in smaller business units throughout the State.

The surveys showed that salaries in private industry have increased, on the average, 2.3 percent from March, 1957, to October, 1957. It can be seen that, on the basis of measured trends from 1950, the State already has reflected this increase in its July, 1957, salary adjustment program. (Chart, page 703.)

The board in its report states that surveys which will be conducted by the Personnel Board in March, 1958, will reflect wage changes made by private industry between October, 1957, and March, 1958. The board concludes if the current trend continues the March, 1958, surveys may be expected to show that a 3 percent general salary adjustment as of July 1, 1958, for all employees paid on a monthly salary basis will be indicated if state salaries are to be kept in line with those of private industry.

The 3 percent fund is based on an estimate that wages will continue to rise as they have over the past year.

The following table shows the action taken by the Legislature since 1950 in appropriating money from the General Fund for salary increases. The table also shows the actual amount used from the appropriation, the average percentage increase for all state civil service employees each year and cumulatively since 1950, and the wage increases experienced within private industry.

Funds Appropriated by California Legislature Since 1950 for Salary Increase Fund and Percentage Increase They Represented

| Year | Amount appropriated ¹ | Amount used for granting of increase | Amount returned as savings due to use of excess salary savings | Percent salary increase for civil service employees | Percent salary increase for civil service employees since 1950 (July 1st of fiscal year) | Percent increase of industrial salaries since 1950 (October 1st of fiscal year) |
|--------------|----------------------------------|--------------------------------------|--|---|--|---|
| 1950-51----- | \$4,525,527 | \$2,924,504 | \$1,601,023 | 1.0 | 1.0 | -- |
| 1951-52----- | 15,455,821 ² | 13,564,437 ² | 1,891,384 | 10.0 ² | 11.4 ² | 12.8 |
| 1952-53----- | 14,000,000 | 12,035,574 | 1,964,426 | 6.0 | 18.0 | 17.5 |
| 1953-54----- | 9,350,000 | 6,577,609 | 2,772,391 | 5.0 | 24.0 | 21.3 |
| 1954-55----- | 589,858 | 102,007 | 487,851 | 0.2 | 24.2 | 25.0 |
| 1955-56----- | 11,306,480 | 6,781,276 | 4,525,204 | 5.0 | 30.4 | 30.0 |
| 1956-57----- | 17,091,532 | 13,980,394 | 3,111,138 | 7.1 | 39.7 | 37.2 |
| 1957-58----- | 19,390,465 | 17,370,728 ³ | 1,675,040 ³ | 6.3 | 48.5 | 45.0 |
| 1958-59----- | 10,471,756 ⁴ | -- | -- | 3.0 ⁴ | 53.0 | -- |

¹ Includes money for University of California.

² Approximately one-half of this appropriation was used to grant an additional increase of 5 percent retroactive to January 1, 1951.

³ Estimated.

⁴ Proposed 1958-59.

The general increases granted by the Personnel Board each year are effective on July 1st of the fiscal year, thus the percentages shown in the column headed "Percent Salary Increase for Civil Service Employees" means, for instance, that for the Fiscal Year 1956-57 the level of state salaries was increased 7.1 percent. Each employee did not receive a 7.1 percent increase. The individuals received increases of either 5 or 10 percent since each class is reviewed separately. The state pay plan is such that there are five steps to each range with a 5 percent difference between each step. When increases have been granted in the

Provision for Salary Increases—Continued

past to employees they have generally been for 5 or 10 percent. What the board has done in the past is to request a fund equivalent to 5 percent of the total civil service payroll and in addition a fund of varying amounts for "special adjustments." Last year \$2,760,000 was appropriated for special adjustments for the board's use. An additional 5 percent salary increase was granted to those classes where this extra adjustment was needed to bring state salaries in line with prevailing rates. A total of 26 percent of the employees received an increase of 10 percent. The resulting average increase in state salary ranges during the current fiscal year has amounted to 6.3 percent.

RECOMMENDATION

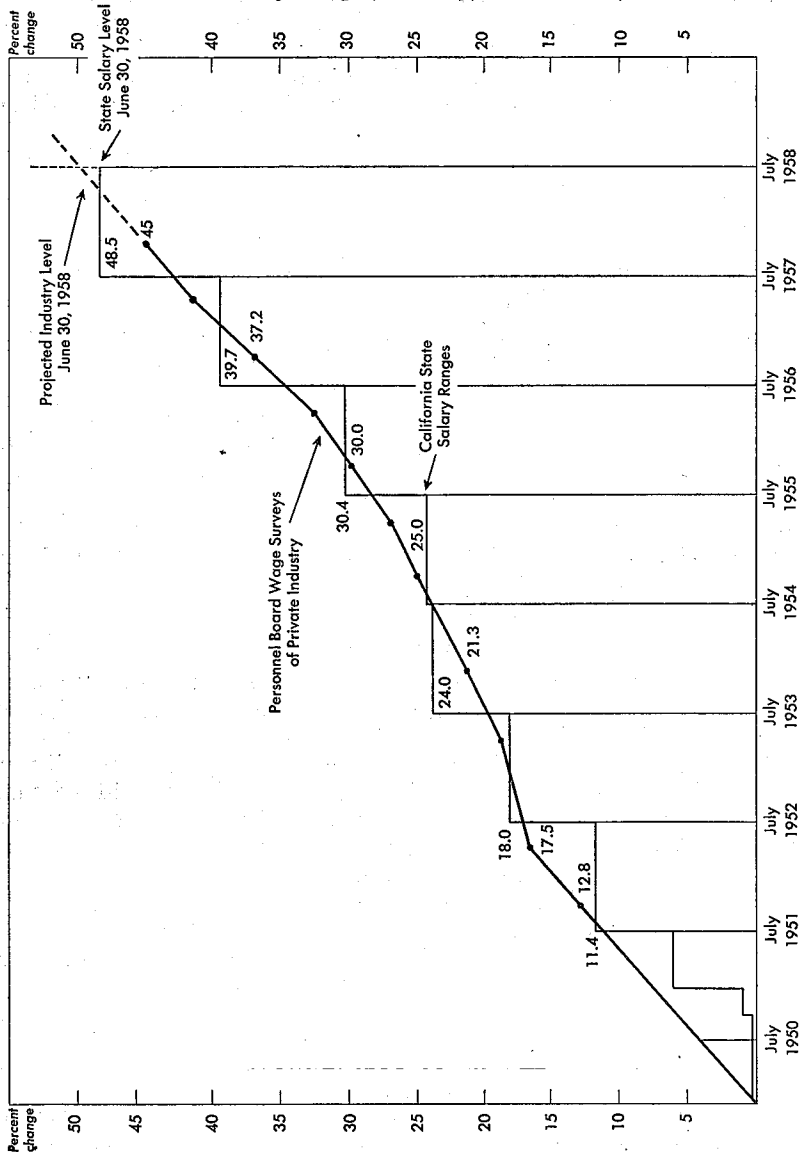
We recommend deletion of the item for salary increases for reasons which are explained below.

1. The Personnel Board's policy with respect to the administration of a 3 percent salary increase fund has not been made clear. The report of the board to the Legislature appears to indicate that a general adjustment of 3 percent to *all employees* paid on a monthly basis will be indicated if the current trend continues. The question of administration of a salary fund of less than 5 percent has arisen in the past, and it is still not clear whether the Personnel Board finds, on the basis of its present knowledge, that a general adjustment of 3 percent is warranted or selective adjustments in multiples of 5 percent, which would average 3 percent. Although the Personnel Board has not been asked, and appropriately should not be asked, to identify possible salary adjustments for specified classes of employees, the matter of whether the fund is requested for a general adjustment or for selective adjustments would appear to be basic to a legislative determination warranting action on an appropriation of \$10,471,756.

2. An absolute comparison between industry pay scales and the state service is difficult to determine, and there is doubt that the methods of determination and expression are sufficiently scientific to distinguish overall absolute differentials of 2 and 3 percent. The Personnel Board has usually expressed the comparison between the State and industry in terms of percentage increase from a given point in time rather than absolute comparisons. For instance, the industry change is measured as an increase of 2.3 percent between March 1, 1957, and October 1, 1957. This is the basis for the request for a salary increase fund. However, it should be pointed out that this method of comparison with industry produces different results depending upon which years the percentage increase is measured from. Reports of the Personnel Board at different times have indicated what purported to be absolute comparisons, and if these are used as benchmarks, an entirely different picture results from that presented in the current report of the board. For instance, if the periodic increases and cumulative increases, both in industry and for the State, are measured from 1950, when the Personnel Board did find the two wage systems to be at the same salary level, the measurement on this basis indicates that the industry level is not ahead of the level produced in the state service by annual salary adjustments. This is indicated by the chart which follows.

Provision for Salary Increases—Continued

Percentage Increases in Wages and Salaries in Private Industry and Changes in State Salary Ranges, January, 1950-October, 1957



Although it is not maintained that the year 1950 is the only, or even the best, benchmark year, it should be pointed out that the Personnel Board did find salary equality to exist at that time and also it placed some reliance upon it when it reported in January, 1954, that "the total change since 1950 in private industry averages 21.5 percent compared with an average increase of 24 percent in the state service."

Provision for Salary Increases—Continued

3. The trend in industry since the last general adjustment by the State, as reported by the Personnel Board, does not appear to be significantly different from the trend in 1953, at which time the Personnel Board did not recommend to the Legislature that it appropriate for a salary increase fund. This is indicated by the following table of increases as reported by the Personnel Board with respect to 1953 and 1957.

| | Percent increase |
|------------------------------|------------------|
| Los Angeles survey | |
| March to November, 1953----- | 2.4 |
| March to October, 1957----- | 2.1 (2.4)* |
| San Francisco survey | |
| March to November, 1953----- | 3.1 |
| March to October, 1957----- | 2.6 (3.0)* |

* Converted to eight-month basis.

If the seven-month period of measurement in 1957 is converted to an eight-month basis for strict comparability with 1953, it will be seen that the industry increase in 1957 is almost exactly comparable to the measured increase in 1953. The Personnel Board's finding that no salary increase fund was necessary in 1954 followed a year in which a general adjustment was made by the Legislature, as was the case in 1957.

4. The State of California, as well as the Nation as a whole, is experiencing a period of increasing unemployment. There is very good reason to believe that the trend of wage increases that have been granted during the past year will taper off.

University of California

Item 272 of the Budget Act provides \$2,971,054 of the total amount for a general 3 percent salary increase for employees of the University of California. This amount is an estimate put forth by the Personnel Board which has no jurisdiction over the salaries paid university employees. We feel that allocations to the university should be made upon certification by the regents that proposed salary ranges for non-academic personnel are substantially comparable to those granted state officers and employees of the civil service.

Since the amount put forth by the Personnel Board for the university is an estimate of money needed on the basis of the board's data, we recommend the deletion of the \$2,971,054 as part of the whole Salary Increase Fund for the reasons stated above.

RESERVES FOR CONTINGENCIES

Emergency Fund

ITEM 273 of the Budget Bill

Budget page 638

FOR THE EMERGENCY FUND TO BE EXPENDED ON WRITTEN AUTHORIZATION OF THE DEPARTMENT OF FINANCE FOR EMERGENCIES FROM THE GENERAL FUND

| | |
|--|-------------|
| Amount requested----- | \$1,000,000 |
| Estimated to be expended in 1957-58 Fiscal Year----- | 1,500,000 |
| Decrease (33.3 percent)----- | \$500,000 |

Reserves for Contingencies—Continued

RECOMMENDED REDUCTIONS----- None

ANALYSIS

The amount of \$1,000,000 is requested for the Emergency Fund to be expended only on written authorization of the Department of Finance for emergencies. Emergencies are defined by the Budget Act as contingencies for which no appropriation, or insufficient appropriation, has been made by law.

The authorization of a single emergency fund in lieu of contingent amounts in various items of the Budget Bill is, in our opinion, sound fiscal policy and we recommend approval of the item in the amount requested.

It is noted that the amount requested is \$500,000 less than the amount authorized in the Budget Act of 1957. As expressed in our budget analysis last year, we believe \$1,000,000 to be adequate for general emergency authorizations, particularly for a fiscal year which follows a budget session of the Legislature. It should be pointed out, however, that the primary justification for an emergency fund is lost completely if, in addition to this amount, deficiencies are incurred and submitted to the Legislature in January.