

CALIFORNIA LEGISLATURE
1959 REGULAR SESSION

ANALYSIS OF THE BUDGET BILL

of the

STATE OF CALIFORNIA

for the

Fiscal Year July 1, 1959, to June 30, 1960

Report of the Legislative Analyst

to the

Joint Legislative Budget Committee

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LETTER OF TRANSMITTAL

STATE CAPITOL
SACRAMENTO, CALIFORNIA, February 1, 1959

THE HONORABLE GEORGE MILLER, JR., *Chairman*
and Members of the Joint Legislative Budget Committee
State Capitol, Sacramento, California

GENTLEMEN: In accordance with the provisions of Government Code, Sections 9140-9143 and Joint Rule No. 37 of the Senate and Assembly creating the Joint Legislative Budget Committee, defining the duties of the committee and giving it authority to employ a Legislative Analyst, I submit an analysis of the Budget Bill of the State of California for the Fiscal Year July 1, 1959, to June 30, 1960.

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

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

Again, we should like to express our appreciation for the very generous assistance which has been rendered to the staff of the Budget Committee by the Director and the Budget Division of the State Department of Finance, and State Printing Plant, and the other agencies of government which have contributed generously to the information contained in this report.

Respectfully submitted,

A. ALAN POST
Legislative Analyst

CONTENTS

	Page		Page
Letter of Transmittal	III	Franchise Tax Board	417
Preliminary Statement	V	Treasurer, State	424
Economics and Efficiencies Requir-		Highway Patrol	425
ing Legislation	1	Industrial Relations:	
Item Analysis of the Budget Bill ..	37	Industrial Relations, Depart-	
Legislative:		ment of	432
Legislature	37	Fair Employment Practices	
Legislative Counsel Bureau	38	Commission	450
California Law Revision		Fire Marshal	451
Commission	39	Justice, Department of	454
Commission on Uniform State		Mental Hygiene:	
Laws	40	Mental Hygiene, Dept. of	464
Judicial:		Mental Hospitals	531
Supreme Court	41	Military Department	552
Judicial Council	43	Motor Vehicles, Department of ..	553
Courts	46	Natural Resources:	
Executive:		Fish and Game, Department of ..	558
Governor	49	Natural Resources, Depart-	
Consumer Counsel	50	ment of	564
State Disaster Office	51	Recreation Commission	603
Lieutenant Governor	57	Public Health:	
General Administration:		Public Health, Department of ..	604
State Employees' Retirement		Public Works:	
System	58	Public Works, Department of ..	616
Commission on Interstate		Aeronautics Commission	618
Co-operation	60	Colorado River Boundary	
Personnel Board	61	Commission	620
Secretary of State	68	Regulation and Licensing:	
Agriculture:		Department of Alcoholic	
Agriculture, Department of	70	Beverage Control	621
Poultry Improvement		Alcoholic Beverage Control	
Commission	78	Appeals Board	624
Corrections:		Districts Securities	
Corrections, Department of	80	Commission	626
Penal Institutions	105	Horse Racing Board	627
Adult Authority	187	Department of Investment	629
Board of Trustees, Institution		Board of Osteopathic	
for Women	190	Examiners	640
Youth Authority, Department		Boards of Pilot Commissioners ..	641
of	195	Department of Professional	
Training Schools	210	and Vocational Standards	642
Education:		Public Utilities Commission	680
Education, Department of	252	Social Welfare:	
State Library	270	Social Welfare, Department of ..	687
Higher Education in		Citizens Advisory Committee	
California	276	on Aging	696
State Colleges and Technical		Veterans Affairs:	
Schools	305	Veterans Affairs, Department of ..	696
Special Schools for Handi-		Veterans' Home of California ..	701
capped Children	329	Water Resources:	
Oakland Orientation Center		Water Resources, Dept. of	704
for the Blind	337	Colorado River Board	725
California Industries for the		Compact Commissions	729
Blind	338	Reclamation Board	731
Teachers' Retirement System	343	Water Pollution Control	
California Scholarship		Board	732
Commission	346	State Water Rights Board	734
University of California	350	Miscellaneous	738
Hastings College of Law	372	Provision for Salary Increases ..	741
Fiscal Affairs:		Emergency Fund	747
Control, Board of	373	Capital Outlay	749
Controller, State	374	Local Assistance	909
Equalization, Board of	379	Employment, Department of	929
Finance, Department of	401	Budgetary Control Sections	934

PRELIMINARY STATEMENT

Form of the Analysis

This report is an analysis of the Budget and Budget Bill of the State of California for the 1959-60 Fiscal Year. In the following sections of this preliminary statement there is contained a brief outline of the size and composition of the State Budget, the relationship between the Budget and the Budget Bill, the General Fund financial picture which is presented by the budget, some factors concerning the nature of General Fund revenues, and summary statements concerning the availability of reserves and other balances which can be used to balance the budget in lieu of equivalent amounts of new tax money.

Following this preliminary statement is a section entitled "Economies and Efficiencies Requiring Legislation" which suggests a number of areas where the Legislature can, by amending the statutes, secure economies beyond those which can be made through legislative action on the Budget Bill.

Finally, the report contains a detailed item-by-item analysis of the Budget Bill with recommendations as to the amounts budgeted.

Budget Committee Instructions

In line with the express wishes of the Joint Legislative Budget Committee this report distinguishes between (1) workload factors which support proposed expenditures during the coming year based on continuing the programs established in the 1958 Budget Act, and (2) new or expanded services proposed in the budget for the 1959-60 Fiscal Year.

The committee also instructed the staff to recommend all economies in the budget which could be accomplished either by amendment to the Budget Bill or by special statutory revisions. Necessarily, the greatest attention has been given to the Budget Bill since this is the vehicle which will be examined in detail by the financial committees of the Legislature and upon which the Legislature is required to act to establish the State's authorized expenditure program.

Lastly, the committee instructed the staff to show the availability of any surpluses which might be used to balance the budget as a possible alternative to the program presented by the Governor.

Total of the Budget

The budget for the 1959-60 Fiscal Year proposes an expenditure program totaling \$2,188,377,635. This program is divided into three major sections: state operations with budgeted expenditures of \$656,925,743, capital outlay with proposed expenditures of \$326,620,252, and local assistance in the amount of \$1,204,831,640. The budget total does not include \$93.6 million of state bond money and other borrowing required to finance the state building construction program, as such expenditures

are included in the budget only to the extent of annual debt service on such obligations in the year incurred.

Total of the Budget Bill

The Budget Bill represents that part of the total budget which must be acted upon by the Legislature in the 1959 Session to carry out the total expenditure program proposed in the budget. The other proposed expenditures are provided for by existing statutes or by the Constitution. Generally speaking, the Budget Bill contains the various items in the state operations portion of the budget, plus capital outlay (other than the state highway program) and several local assistance items. Thus, approximately 33 percent, or one-third, of the total budget will be appropriated by the Budget Bill. The remaining 67 percent does not require additional legislative action, but *can* be modified if the Legislature desires, through statutory revision or by submission of proposed constitutional amendments favorably acted upon by the electorate. The principal expenditures which are provided for by the Constitution and by the statutes include \$635.6 million in public school apportionments, \$278.7 million for the State Highway System, \$191.4 million for social welfare assistance, and \$235.8 million in highway users revenues shared with cities and counties. To the amounts of school support required by the Constitution at \$180 per pupil in average daily attendance (ada), the budget proposes to add \$20.82 or a total of \$200.82 per ada. This compares with the \$193.37 per ada (\$180 required + \$13.37) apportioned under the existing law which is to expire on June 30, 1959.

General Fund Financial Picture Presented by the Budget

Our analysis of the budget and Budget Bill will be concerned with both General Fund and Special Fund expenditures, although the problem of financing the budget is primarily a General Fund problem. For the most part, Special Fund activities are financed by revenues levied for a special purpose and earmarked by law for that special purpose. Some activities such as fish and game and highway construction and administration have constitutional guarantees that the revenues secured for this purpose will be used only for the specified function. Other Special Fund activities such as fairs and expositions are completely within the control of the Legislature, and in this budget the Legislature is being asked to establish direct budgetary control over fair activities and to use a portion of the funds which heretofore have been dedicated for this special purpose for the benefit of other state activities.

The General Fund statement in the budget indicates that the Fiscal Year 1959-60 will begin with a deficit in the State's General Fund of \$12,803,624 and, after taking into account all recommended General Fund expenditures and estimated and proposed revenues, end the fiscal year with a deficit of \$5,383,527.

Existing General Fund tax sources are estimated to produce only \$1,217,974,289 against a proposed expenditure program of \$1,419,063,480 which is the basis for the Governor's proposal that the Legislature adopt additional taxes amounting to \$202,200,000 in 1959-60 (\$256.6 million full year basis) and change the allocation of horseracing revenues to provide an additional sum of \$5.6 million for the

General Fund, producing in all a small current surplus which is used to reduce the final prospective deficit to \$5,383,527 at June 30, 1960.

Although the fiscal year is budgeted to begin with a deficit of \$12,803,624, this figure would represent a deficit of \$68,403,624 except that the Legislature is being asked to amend the existing insurance gross premium tax to provide that the collection date for the receipts from this tax be moved up from the fall of 1959 to April 1, 1958, and each April 1 thereafter, on the general insurers and to May 1 for ocean marine insurers. This has the effect of securing an additional \$55,600,000 in General Fund revenues in the 1958-59 Fiscal Year which otherwise would be collected in the following fiscal year. This is a one-time pickup of additional revenue which does not affect the revenue collections of subsequent fiscal years.

It is significant to note that the difference between estimated outgo in the current, 1958-59, Fiscal Year and the estimated General Fund revenues in the year, exclusive of the proposed shift in the payment date for insurance taxes, amounts to \$147,538,288. By comparison, the difference between estimated expenditures and revenues *without any tax program* is budgeted to be \$201,089,191 in 1959-60, and *with the proposed tax program* the current deficit is converted into a surplus of income over outgo for the year of \$6,710,089.

The Governor's Budget does not rely upon new revenues alone to fill the gap between General Fund revenues and expenditures, but also has utilized certain surplus balances and savings from prior year appropriations as well. A major portion of these withdrawals from so-called reserve funds consists of the use of Investment Fund money for water projects. Out of a total available balance in the Investment Fund during the 1959-60 Fiscal Year of \$182,229,947, the Governor has programmed \$58,240,006 for water development and has indicated his desire to reserve the estimated residual balance at June 30, 1960, of \$120,257,887 for further water development.

Because of the varying degrees of availability of the surpluses or balances in the numerous state funds due to legal limitations, in-transit factors, investments and because the budget is using some of these surpluses, it would be desirable to show a full schedule of these balances classified by limitations on availability, and also to make a brief analysis of some of the major balances or groups of balances. Because the budget in Schedule 5A at page A38 undertakes to show the availability of balances in the manner suggested above, we are not duplicating this information. An analysis of some of these principal balances follows:

COMMENTS ON AVAILABLE BALANCES

<i>Funds</i>	<i>Possible sources of funds for balancing the General Fund</i>
1. Investment Fund	\$182,229,947
2. Bond Sinking Fund of 1943	5,000,000
3. Fair and Exposition Fund	7,000,000
4. State School Construction Fund	800,000
5. Other special funds	3,568,684
6. District and county fairs	7,800,000
7. School Building Aid Bonds	20,000,000

1. *The Investment Fund.* This fund was created for the purpose of receiving the initial deposit of the State's share of the Long Beach tidelands revenues and subsequent shares of oil royalties. There are two contingencies which could affect the balance in the fund at some point in time. These are authorizations to loan \$30,000,000 to the school building construction program and \$50,000,000 to the Highway Fund. The \$30,000,000 if loaned would be repaid from sales of school bonds at the rate of \$7,500,000 per quarter repayment basis and the \$50,000,000 is on a three-month basis. The estimated surplus for June 30, 1959, is shown as \$171,729,947, which, when added to the estimate of income for the 1959-60 Fiscal Year, or \$10,500,000, provides available resources amounting to \$182,229,947. The budget proposes expenditures from this fund totaling \$58,240,006 for water development, \$3,675,000 for development of small craft harbor facilities and \$57,000 for other purposes in 1959-60. If these proposals are approved, there would be a remainder of \$120,257,887 in the fund at June 30, 1960. If the Legislature decides to transfer the full \$182,229,947 to the General Fund, adjustments would have to be made in the appropriation for water development planning in the support budget of the Department of Water Resources.

2. *The Bond Sinking Fund of 1943.* This fund is not included in the reserve funds shown in Schedule 5A of the budget, which lists estimated fund surpluses, the reason being that the fund has no operating money. The fund was created for the purpose of funding outstanding state and university building bonds and state park bonds through final maturity; however, \$5,000,000 was loaned to the Highway Fund for the Golden Gate Bridge and Highway District pursuant to provisions of Chapter 1505, Statutes of 1945. The loan is not scheduled for repayment until the bonded debt of the bridge has been fully satisfied, which will be in 1971, before which time the remaining *state* bonds outstanding which had previously been funded must be retired. It appears that this money could be returned to the General Fund in 1959-60 from receipts of the Motor Vehicle Transportation Tax revenues through appropriate legislation.

3. *Fair and Exposition Fund.* By abolishing the Fair and Exposition Fund and the transfer of these horse racing revenues to the General Fund, additional amounts may be recovered to finance the General Fund deficit. The budget shows on page 737 a fund balance of \$9,216,646 as of June 30, 1960, after allocations to fairs for 1960. In addition to this fund balance the amount of \$2,611,162 is shown as otherwise available for distribution, upon approval of the Director of Finance, for capital outlay for fairs and this amount may be terminated by legislative action. It is indicated by the Governor that horse racing funds in the amount of \$4.8 million are proposed to be diverted to the General Fund. This amount may be increased by approximately \$7,000,000 without reducing the amounts allocated for encouragement of fairs in 1959-60.

4. *State School Construction Fund.* This fund was created pursuant to Chapter 2383, Statutes of 1957, which provided for the transfer of \$1,000,000 from the Investment Fund to assist school districts through

loans when, due to project construction in the area, a temporary financial problem arises. The amount of \$200,000 is budgeted for this purpose in 1959-60, leaving a remainder of \$800,000.

5. *Other Special Funds.* Surpluses are shown as of June 30th each year and, therefore, should be considered in the light of legal limitations and of timing as to actual receipt of revenues. For instance, some agencies have license renewal periods at the beginning of a fiscal year, some renew at midyear, while some renew on a staggered basis. Also, as in the case of several of the boards in the Department of Professional and Vocational Standards, those boards showing the larger surpluses have substantial amounts of their surpluses invested in the Business and Professions Building and its annex. This is the case, for example, with the Agriculture Fund. The budget detail shown in Schedule 5A places the dollar amount of such investments at \$2,951,417 in 1959-60. The schedule shows what is termed "Available balance June 30, 1960," or what would be available surplus after certain considerations, as previously mentioned. The total of available surpluses June 30, 1960, as so interpreted, is \$3,568,864. Of this total, there are four comparatively small balances which perhaps should not be disturbed; these total \$88,978, which when deducted from the overall balance, would leave \$3,568,684, which might be used for balancing of the General Fund.

6. *District and County Agricultural Fairs.* The budget at pages 972 and 973 tabulates the income, outgo, and year-end balances of 74 agricultural fairs to which the State allocates horse racing revenues on an annual basis. Allocations to fairs are made irrespective of need and, as a consequence, surpluses have been built up and maintained in the various funds. The budget indicates a total of \$7,801,963 in balances of 74 fairs. This excludes the Los Angeles Fair at Pomona, and two citrus fairs which are not required to report surpluses.

7. *State School Building Aid Bonds.* In 1952 the voters approved a \$185,000,000 state bond authorization to provide loans and grants to school districts for school building construction. While this sum was required to carry on the program, the Legislature in 1952 provided for an advance of \$20,000,000 in lieu of selling a like amount of the bonds. The Legislature also provided for the return of the advance through the sale of bonds if needed to balance the General Fund at June 30, 1953. The need did not arise at that time and \$20,000,000 of the bond authorization remains unsold. The 1958-59 Budget as presented to the 1958 Legislature, among other sources of funds, proposed the sale of this remainder in bonds in order to balance the General Fund in the 1958-59 Fiscal Year. Although the Legislature, when acting on the 1958 Budget Bill, provided other means to maintain a balance rather than sell these bonds, Chapter 104, Statutes of 1958, First Extraordinary Session, authorizes the Director of Finance to order the \$20,000,000 in bonds to be sold with the proceeds to be deposited in the General Fund when in his opinion such action is necessary to meet the needs of the General Fund. The 1959-60 Budget does not contemplate such action.

Reductions Recommended in the Budget Bill

In the analysis of the Budget Bill which follows, we have recommended a reduction of \$21,568,000 in General Fund costs, as well as \$24,080,000 in other fund reductions and reversions. Included in the latter is \$22,000,000 in reductions and reversions from expenditures proposed for water projects out of the Investment Fund.

In addition to the General Fund reductions recommended to be made in the Budget Bill, we have suggested in a section which follows this Preliminary Statement additional General Fund savings which can be made by amending existing laws. Specific reductions which can be measured reasonably accurately total over \$22 million arising out of changes in the statutes. Thus, the Legislature can if it desires reduce General Fund expenditures by over \$43½ million in this session. As pointed out earlier, it can also make available for the purpose of balancing the budget approximately \$24.2 million in balances conservatively regarded as available, apart from any consideration of the use of the Investment Fund or the \$20 million of School Building Aid Bonds.

Revenues

The revenue estimates contained in the budget are, we believe, based upon careful analysis of available financial data and upon realistic assumptions. We do not find any basis for disagreement, recognizing, of course, as the budget does that there are contingencies which cannot under any circumstances be anticipated. This applies both to the revenues from existing taxes and those proposed for enactment.

It should be noted that on pages A-62 and A-63 of the budget there are tables showing the yield from state taxes over a period of years and a summary of state tax rates. A detailed review of the basis for General Fund revenue estimates is contained in the budget at pages A-52 through A-61.

One-time Revenue Increases

It would be possible on a one-time basis, to secure a substantial amount of additional revenue in a given fiscal year by the following procedural changes in the laws governing administration of certain of our taxes, as follows:

1. Advance the final payment date on the gross premiums tax on insurance companies from November 15th to April 1st. This is proposed in the budget.
2. Eliminate installment payments now permitted under the bank and corporation tax law.
3. Eliminate installment payments now permitted under the personal income tax law.

The following is a summary of the fiscal results of these changes under two alternative assumptions: (1) that they would take immediate effect in which case there would be a one-time increase in 1958-59

and, (2) that they would take effect starting January 1, 1960, in which case there would be a one-time increase in 1959-60.

<i>Tax law</i>	<i>(1) Increase in 1958-59</i>	<i>(2) Increase in 1959-60</i>
Insurance -----	\$55,600,000	\$60,600,000
Bank and corporation -----	45,000,000	47,000,000
Personal income -----	14,000,000	14,000,000
	<u>\$114,600,000</u>	<u>\$121,600,000</u>

At present the insurance companies file returns with the Insurance Commissioner on April 1st each year. He calculates the amount of tax due and transmits the information to the Board of Equalization on the following July 1st. The Board of Equalization assesses the tax on August 10th and it is payable to the State Controller not later than the following November 15th.

If the tax were to be placed on a self-assessed basis as are other major state taxes, and due and payable at the time the return is filed, the entire revenue would be moved backward into the preceeding fiscal year on a one-time basis at the time of changeover. The estimated increase under assumption (2) is calculated as 109 percent of that under assumption (1).

The bank and corporation tax on corporations other than banks is payable in two equal installments, $2\frac{1}{2}$ months and $8\frac{1}{2}$ months after the close of the corporations tax year, i.e., if the tax year is the calendar year, the payments are due March 15th and September 15th. Although most corporations report on a calendar year basis, a substantial number do not, and this fact complicates any estimates of the revenue effect of eliminating the installment payment privilege.

Elimination of the privilege would accelerate payments as between fiscal years only as to those corporations whose first installment was due in one fiscal year and whose second installment was due in the succeeding fiscal year, i.e., those corporations with fiscal years ending October 31st to March 31st inclusive. It would have no effect as to the others in this respect.

The amount shown under assumption (1) is based on the elimination of this privilege starting with tax years ending November 30, 1958, the first tax payments for which are due February 15, 1959. The amount shown under assumption (2) is based on the elimination of the privilege starting with tax years ending October 31, 1959, the first payments of which are due January 15, 1960, using current revenue estimates for 1959-60.

The personal income tax is payable in three equal installments on April 15th, August 15th and December 15th, as to taxpayers on a calendar year basis. A comparatively small amount is paid in installments and there are few taxpayers on a fiscal year basis. Our estimate of the increase in this tax is based on current collections during August and December of each year.

Almost half the states which have personal income taxes do not permit installment payments.