

CALIFORNIA LEGISLATURE
1960 REGULAR SESSION

ANALYSIS OF THE BUDGET BILL

of the

STATE OF CALIFORNIA

for the

Fiscal Year July 1, 1960, to June 30, 1961

Report of the Legislative Analyst

to the

Joint Legislative Budget Committee

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LETTER OF TRANSMITTAL

STATE CAPITOL
SACRAMENTO, CALIFORNIA, February 1, 1960

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, 1960, to June 30, 1961.

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."

The 1960 Regular Session being limited to the budget and necessary revenues therefor, with primary emphasis being given in the budget to workload adjustments only, the analysis which follows has been reduced in size from that presented last year, which was a general session. Many of the recommendations contained in this report in summary form have been amplified, however, in separate reports presented to the Joint Legislative Budget Committee earlier this year and made available for general distribution.

In view of the extremely limited time available to prepare this analysis, special appreciation should be expressed to the Governor and the State Department of Finance for furnishing budget information in advance of the legislative session. Without this assistance the orderly process of budget review which has been available to the Legislature would not have been possible.

Respectfully submitted,

A. ALAN POST
Legislative Analyst

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PRELIMINARY STATEMENT

Form of the Analysis

There are four sections of this analysis of the budget and budget bill of the State of California.

First, there is a general summary of the budget totals, covering the size of the budget as presented to the Legislature by the Governor, its composition, the increase over last year's budget, anticipated revenues, and any special factors which have been considered in balancing revenues and expenditures. This section also discusses the budget bill as related to the budget.

Second, there is a general summary of the alternative approaches to balancing the budget which are available to the Legislature, including reference to any reserves available for the purpose, and considering the net effect of a series of itemized budget reductions recommended in the body of this analysis.

Third, there is a review of the assumptions and principal data upon which General Fund revenue estimates are budgeted.

Fourth, there is an item-by-item analysis of the budget bill with specific recommendations as to reductions in the interest of efficiency and economy, as referred to above. At page 517 preceding the capital outlay items, there is a summary of the capital outlay program, outlining its content and factors governing its size.

Budget Totals

The budget for 1960-61 totals \$2,477,121,574 compared with \$2,292,-814,628 for 1959-60, an increase of \$184,306,946. The General Fund portion of the budget totals \$1,696,199,526 which is an increase of \$228,720,603 over last year.

The expenditure program proposed by the budget is divided into three major sections: State Operations, with budgeted expenditures of \$748.3 million, an increase of \$93.6 million; Capital Outlay, with proposed expenditures of \$441.8 million, up \$37.6 million; and Local Assistance in the amount of \$1,287.1 million, or \$53.1 million more than in 1959-60.

While the General Fund expenditures for the state building program (which excludes highways and certain other special funds) of \$135.4 million for 1960-61 compare with expenditures in 1959-60 of only \$30.1 million, an increase of \$105.3 million, it should be emphasized that the 1959-60 figure did not include an additional \$79.3 budgeted from state bond money. Expenditures from borrowed funds do not appear in the budget totals, which include only the amounts required in the budget year to service the bonds or repay other obligations. Thus, expenditures of \$137.4 million for the state building program in 1960-61 actually compare with a total of \$109.4 million made available for this purpose in 1959-60, including both bond funds and current General Fund revenues for both years.

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 1960 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 Constitu-

tion. Generally speaking, the budget bill contains the various items in the state operations portion of the budget plus capital outlay (other than the special fund state highway program) and several of the numerous local assistance items. Characteristically, approximately one-third of the total budget will be contained in the budget bill. The remaining two-thirds does not require additional legislative action although it is still subject to the control of the Legislature through changes in statutes or to the extent of submitting proposed constitutional amendments to the electorate. The latter is subject to approval by vote of the people.

The principal expenditures which are provided for by the Constitution and by the statutes include \$679 million in public school apportionments, \$305.5 million for the state highway system, \$207.2 million for social welfare assistance, and \$244.3 million in highway users revenues shared with cities and counties.

General Fund Financial Picture Presented by the Budget

The analysis of the budget and budget bill is concerned with expenditures made from both the General Fund and from special funds, although the problem of balancing the budget is primarily a General Fund problem since, for the most part, special fund activities are financed by revenues levied for a special purpose and earmarked by law for that special purpose. The General Fund statement in the budget indicates that the fiscal year 1960-61 will begin with a surplus in the State's General Fund of \$73,963,700 and, after taking into account all budgeted General Fund outgo and estimated income, will end the fiscal year with a surplus of \$1,426,917. General Fund expenditures are budgeted to increase \$228.7 million in the current year, whereas General Fund revenues produced within the 1960-61 fiscal year are budgeted at \$1,617.1 million. These two amounts exclude transfers to and from other funds which provide a net increase of \$6,516,868 in income. This is considered in the \$1,426,917 surplus figure. Thus, on current account General Fund revenues will be less than proposed General Fund expenditures (including capital outlay) in the amount of \$79,053,651. This deficit between current revenues and expenditures is financed by the carryover of \$73,963,700 from the prior fiscal year plus the \$6,516,868 in net transfers.

The 1959 Legislature increased General Fund taxes to the extent of providing approximately \$234.7 million more estimated revenue in 1960-61 than would have accrued had the previously existing tax structure been in effect. By comparison, General Fund expenditures, exclusive of capital outlay, are proposed to increase \$123.4 million and including capital outlay by \$228.7 million. Under the new tax structure, General Fund revenues in 1959-60 are estimated to be \$1,468.5 million and in 1960-61 \$1,617.1 million, an increase of \$148.6 million.

Alternative Methods of Financing the General Fund Budget

The Legislature could balance the General Fund budget in a manner which is different from that proposed by the Governor. There is still available authority to issue bonds for state building purposes in the amount of approximately \$145 million. This is the remaining amount from a total of \$400 million in state bond authorizations approved by the people in the general elections of 1956 and 1958. Bonds issued to

GENERAL FUND REVENUES

(Millions)

	1959-60	1960-61
Sales and use tax-----	\$711.5	\$768.0
Personal income tax-----	239.5	271.8
Bank and corporation taxes-----	221.2	251.5
Cigarette tax-----	64.7	65.2
Insurance tax-----	60.4	65.0
Inheritance and gift tax-----	51.2	61.5
Alcoholic beverage taxes-----	51.9	54.0
Horse racing taxes-----	17.6	18.9
Other sources-----	50.5	61.3
Total-----	\$1,468.5	\$1,617.1

The increase in General Fund revenue for 1960-61 is attributable in part to growth and improved economic conditions and in part to new levies and tax rate revisions enacted at the 1959 Session. For the current fiscal year it is now estimated that \$187.5 million or 12.7 percent of total General Fund revenue, is attributable to tax changes adopted by the 1959 Legislature, while \$234.7 million, or 14.5 percent of the total for 1960-61, is attributable to such changes. In addition to improved economic conditions, the balancing of the General Fund has also been aided by upward revisions in revenue estimates for the 1958-59 and the current fiscal year. Upward revisions since the current budget was submitted to the Legislature in January 1959 have added \$69.5 million in the current fiscal year and \$13.7 million in the prior year, for a total of revisions amounting to \$82.2 million.

Within recent weeks we have been permitted to review the details of the revenue estimates of the Department of Finance and the economic assumptions which underlie them, and we believe that the estimates are reasonable and supportable. There are many uncertainties in projecting economic behavior, and a relatively small percentage change in a number of assumptions could affect General Fund revenues by from \$50 to \$100 million. In view of the rather rapid rate of increase which is universally forecast for the short run—the first half of 1960—we would classify the revenue estimates presented by the department as conservative rather than liberal.

The basic assumptions affecting the revenue estimates would appear to be population growth and the estimated level of personal income for California in 1960. Population is estimated to increase by 550,000, or 3.6 percent, from 15,280,000 at July 1, 1959, to 15,830,000 at July 1, 1960. United States personal income is estimated at \$401.2 billion for 1960 in comparison with \$380.1 billion for 1959. The California share of personal income is estimated at \$42.3 billion for 1960 in comparison with \$39.6 billion for 1959. California personal income is again estimated to increase at a greater rate than the increase nationally, as is population and most of the other components of income estimates, however, at a slightly diminishing rate of increase. It might be noted that the 1960 estimate of California personal income released by the Economic Development Agency on January 12, 1960, is \$42.1 billion in comparison with the estimate of \$42.3 billion by the Financial and Population Research Section. The difference would not appear to be particularly significant, except that both agencies are a part of the Department of Finance, and the different assumptions, although slight, would represent a difference of approximately \$7.4 million in General Fund revenue.

the full extent authorized could be substituted for equivalent capital outlay expenditures proposed in the budget to be paid for out of current revenues. If this were done, the budget could be balanced and a surplus remain in the General Fund of \$136.8 million as of June 30, 1961. If the total of recommended reductions in the budgets contained in this analysis, exclusive of capital outlay, were accepted by the Legislature, the surplus could be \$143.1 million.

We have recommended to the Joint Legislative Budget Committee that the Legislature should not issue additional bonds to finance capital outlay requirements for 1960-61 but should devote current revenues to this purpose. We have proposed that the State should establish a 20-year annual average capital expenditure figure which would be expected to be financed out of current revenues. Any amounts which exceeded this normal annual requirement might be financed from additional bonds, while construction requirements which in any year were less than this average figure would present the possibility of using surplus revenues to purchase or retire outstanding State obligations. Thus, the State's credit would be enhanced and those annual requirements which are regarded as normal will become a part of the current financial structure of the State rather than being spread to future generations. Unusual construction requirements in any one year would continue to be spread, through partial bond financing, in accordance with sound fiscal practice. The State of California has spent over \$90 million each year for capital outlay during the last 10 years. The expanding requirements of the State colleges and university plus increased construction costs make a figure of \$125 to \$150 million more nearly representative of annual requirements during the next 20 years. The budgeted amount for 1960-61 of \$135 million would appear to be reasonably consistent with the policy of financing this total requirement out of General Fund revenues without recourse to the issuance of additional bonds.

The 1959 Legislature made a determined effort to utilize reserves wherever they could be made available for budget purposes, and to correct a number of inconsistencies in the manner in which special activities, such as fairs, were financed through the use of special funds and reserves. Accordingly, there are at the present time no remaining reserves which can be transferred to the General Fund for the purpose of balancing the budget in lieu of equivalent amounts of General Fund revenues or the use of available bond funds, except the balances which remain in the bank accounts of the individual district and county fairs as accruals through the years which have been surplus of their needs. The total of such district and county fair balances as shown in the budget is \$4,268,157.

Revenue Estimates

Total revenues from all sources including special funds are estimated for 1960-61 at \$2,345,366,051, which is an increase of \$179,532,633, or 8.3 percent, over estimated collections of \$2,165,833,418 for the current fiscal year. For the General Fund, collections for 1960-61 are estimated at \$1,617,145,875, which is an increase of \$148,624,980, or 10 percent, over the \$1,468,520,895 estimated for the current fiscal year.

General Fund revenues, by principal source, are shown in the following table:

GENERAL FUND REVENUES

(Millions)

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