

LEGISLATIVE CLAIMS

ITEM 271 of the Budget Bill

Budget page 722

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

Amount requested	\$33,502
Estimated to be expended in 1961-62 fiscal year	355,081
Decrease (90.6 percent)	\$321,579
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

This item represents claims filed with and approved by the State Board of Control and the Governor. Such claims are of two general types in accordance with Sections 620-622 of the Government Code.

Examples of claims filed under Section 620 are lost or otherwise uncashed state warrants not replaceable by the issuing agency because of lack of funds, and state employees' wages for work performed for an agency which had exhausted its appropriation.

Examples of claims filed under Sections 621 and 622 are injuries caused by the negligence of state employees engaged in governmental activities and claims for tax refunds excusably filed after the statute of limitations had run.

In addition, individual legislative claim bills are often filed which, if approved by the Legislature, may be added to and paid out of this appropriation, or may be the subject of special appropriations.

The \$33,502 represents claims approved by the Board of Control up to November 7, 1961. Individual claims bills and Board of Control claims heard and approved subsequent to this date, but prior to final passage of the 1962 Budget Act, less Board of Control claims not approved by the Legislature, will be amended into the Budget Bill. Accordingly, such amount of \$33,502 does not truly reflect the figure which will finally appear in the Budget Act.

SAN FRANCISCO WORLD TRADE CENTER

ITEM 272 of the Budget Bill

Budget page 724

**FOR SUPPORT OF SAN FRANCISCO WORLD TRADE CENTER
AUTHORITY, FROM THE GENERAL FUND**

Amount requested	\$50,238
Estimated to be expended in 1961-62 fiscal year	None
Increase	\$50,238
TOTAL RECOMMENDED REDUCTION	\$50,238

ANALYSIS

The San Francisco World Trade Center Authority was created by Chapter 1508, Statutes of 1947, as a public corporation with power to issue revenue bonds, obtain land, buildings, and other properties and to develop domestic and international trade of interest to the State. The same statute also authorized creation of a similar agency for Los Angeles, although this latter authority has never been implemented.

The San Francisco World Trade Center has been financed in the past

San Francisco World Trade Center—Continued

by private funds and from funds appropriated by the Legislature from the Harbor Improvement Fund of the San Francisco Port Authority. An initial appropriation of \$300,000 was made in 1949 which together with private funds supplied financing for the World Trade Center until 1960 and 1961 when additional appropriations from the same source of harbor funds have been authorized in the amounts of \$85,361 and \$71,518, respectively. It is proposed in the budget for 1962-63 to appropriate \$78,913 from the Harbor Improvement Fund of the San Francisco Port Authority and to appropriate an additional \$50,238 from the General Fund.

We recommend deletion of the proposed appropriation from the General Fund in the amount of \$50,238 for the reasons stated below.

1. The San Francisco World Trade Center Authority was originally conceived and authorized on the basis that the powers granted to the Center would permit it to be self-financing without the necessity of General Fund support. It is stated in the original report to the Harbor Commissioners to the Legislature in 1946, recommending the creation of a world trade center (page 4) that, "The project can and should be self-supporting." This report contemplated an extensive plan of capital improvements from revenue bond proceeds in the amount of about \$55 million.

2. The detail submitted in the budget for the proposed expenditure of \$50,238 from the General Fund is to increase the categories of expenditure now made from funds of the San Francisco harbor. No specific program is set forth which would permit distinguishing between the program proposed for General Fund financing and the program proposed for financing from harbor funds. It would appear, therefore, to be difficult to distinguish between the presumed statewide and General Fund interest and the interest of the San Francisco Port Authority and local trade interests.

3. It is not clear from the budget presentation nor from the statement of proposed legislation what the future intent with respect to this dual financing is. More specifically, it is not indicated whether it is intended by this proposal that all expenditures of the World Trade Center would be financed in the future from General Fund appropriations rather than by appropriations from the Harbor Improvement Fund of the San Francisco Port Authority, or upon what basis financing might be part and part. It should be noted that support appropriations from harbor funds are under an agreement which provides for their repayment to the port authority from any bond proceeds when and if issued.

4. To provide General Fund support for the World Trade Center Authority would appear to further discourage support from private and trade association interests that would benefit by enhancement of world trade through the efforts of the center.

5. It is noted that one of the principal functions of the World Trade Center Authority at the present time is to operate as a leasing agent to lease space provided in the Ferry Building to firms and agencies interested in world trade. These rental agreements provide for charges,

San Francisco World Trade Center—Continued

for the most part, from 25 cents to 40 cents per square foot. A total of 16,794 square feet of space on the third floor of the Ferry Building is leased to a private corporation called the World Trade Club at a rental of 15 cents per square foot. This would appear to amount to a substantial subsidy to the World Trade Club the propriety of which would become even more questionable if general funds of the State provide all or any part of the financing for the World Trade Center Authority.

SAN FRANCISCO WORLD TRADE CENTER

ITEM 273 of the Budget Bill

Budget page 724

FOR SUPPORT OF SAN FRANCISCO WORLD TRADE CENTER
AUTHORITY, FROM THE SAN FRANCISCO HARBOR
IMPROVEMENT FUND

Amount requested	\$77,493
Prior year balance available	1,420
Total	\$78,913
Estimated to be expended in 1961-62 fiscal year	75,642
Increase (4.3 percent)	\$3,271

TOTAL RECOMMENDED REDUCTION..... None

ANALYSIS

This item is one of two items proposed for the support of the San Francisco World Trade Center Authority. Proposed financing from the San Francisco Harbor Improvement Fund carries on substantially the same program as was conducted in the current year.

We recommend approval of this item. However, Item 272, which precedes, proposes a new level of expenditure representing an increase of 70.7 percent and proposes for the first time an appropriation of \$50,238 from the General Fund. This proposal is discussed in connection with the preceding item.

Department of Finance
SERVICE REVOLVING FUND

ITEM 274 of the Budget Bill

Budget page 726

FOR AUGMENTATION OF THE SERVICE REVOLVING FUND
FROM THE GENERAL FUND

Amount requested	\$184,215
TOTAL RECOMMENDED REDUCTION	\$14,644

Summary of Recommended Reductions

	Amount	Budget Page	Line
Operating losses, Central Stores Section	\$14,644	726	50

ANALYSIS

This proposed appropriation of \$184,215 is to augment the Service Revolving Fund created by Chapter 875, Statutes 1961, effective July 1, 1961, as a combination of two former revolving funds, the Purchasing Revolving Fund and the State Printing Fund.

Service Revolving Fund—Continued

The balances in these funds were as follows at June 30, 1961:

State Printing Fund.....	\$5,200,561
Purchasing Revolving Fund.....	3,898,027
Total	\$9,098,588

The fund provides service to state agencies on a wholly reimbursable basis, its only source of operating income, with minor exceptions, being from appropriations to using agencies for services provided by the fund. Money for working capital and equipment needed to expand operations, or for replacement of equipment not fully covered by depreciation charges have been provided by appropriations from the General Fund in the past.

The amount of \$358,499, budget page 726, line 36, proposed to be expended during 1962-63 for augmentation of the Service Revolving Fund consists of the following appropriations or reappropriations:

Unused portion of amount appropriated by Item 274, Budget Act of 1959, as reappropriated by Item 271, Budget Act of 1960, good until June 30, 1962, proposed for reappropriation through 1962-63.....	\$32,517
Item 279, Budget Act of 1961, proposed for reappropriation through 1962-63.....	141,767
Proposed new appropriation, Item 274.....	184,215
Total	\$358,499

The combined augmentation of \$358,499 is to provide money in excess of amounts available either as depreciation or profits for the following functions, as detailed in the table on budget page 1100.

Stores Section.....	\$14,644
Automotive management.....	203,361
Radio maintenance.....	23,504
Office machine.....	—1,699
Reproduction section.....	11,168
Rented buildings.....	—59
Printing plant.....	107,580
Total	\$358,499

The amount of \$14,644 requested for the Stores Section is to cover anticipated operating losses, while all of the others are for additional equipment.

We recommend a reduction of \$14,644, budget page 726, line 50 to cover anticipated operating losses in the Central Stores Section.

As we pointed out in our Analysis of the Budget Bill for 1961-62, Item 279, we do not believe augmentations are appropriate to cover operating losses since operations such as those conducted by the Service Revolving Fund should be conducted strictly on a "break even" basis, and charges to agencies for services rendered should be adjusted to eliminate anticipated losses. As shown in Table 1, Central Stores operated at a profit of \$88,624 during 1960-61 with income of \$3,364,040 and expenses of \$3,275,416.

Service Revolving Fund—Continued

Table 1—Service Revolving Fund
Income and Costs by Function 1960-61 (Actual)

<i>Function</i>	<i>Income</i>	<i>Costs</i>	<i>Net Gain or (—) Loss</i>
Printing Section.....	\$10,500,251	\$10,597,033	—\$96,782
Documents Section.....	230,654	219,810	10,844
Reproduction Section.....	117,544	127,021	—9,477
Central Stores.....	3,364,040	3,275,416	88,624
State Garages.....	3,123,637	3,126,733	—3,096
Radio Maintenance.....	844,431	859,517	—15,086
Office Machine Repair.....	101,056	101,439	—383
Rented Buildings.....	68,222	68,268	—46
Total	\$18,349,835	\$18,375,237	—\$25,402

We recommend approval of the remainder of Item 274 and of the proposed reappropriations although our approval of the proposed amount of \$107,580 for the printing plant is subject to conditions discussed in the section which follows.

Special Provisions of Budget Act of 1961 Relating to Printing Division

Sections 19.4 and 19.5 of the Budget Act of 1961 contain special provisions relating to the State Printing Division.

Section 19.5 provides that no machinery and equipment shall be purchased for the State Printing Division except as provided in the Budget Act of 1961 and except for emergency replacements which must be reported to the Joint Legislative Budget Committee quarterly. Section 19.4 appropriates \$167,000 from the State Printing Fund for purchase of equipment other than emergency replacements.

Section 19.5 also provides that any amount of surplus and working capital advances in excess of \$5,290,000 in the State Printing Fund as of June 30, 1961 shall be transferred to the General Fund; that no augmentation shall be made to the capital of the State Printing Fund during 1961-62 except as provided in the Budget Act of 1961 (none was provided); that any proposed capital addition to the State Printing Fund during 1962-63 shall be included in the proposed budget for that year as an appropriation from the General Fund; and that the term State Printing Fund includes that portion of any fund out of which the operations of the State Printing Division are financed subsequent to June 30, 1961, i.e., the Service Revolving Fund.

In connection with the provision relating to transfers from the State Printing Fund to the General Fund it should be noted that the surplus and working capital advances at June 30, 1961 which are shown in the financial statement for the Printing Division, budget page 1097, line 66, \$5,200,561, are for all functions formerly financed out of the State Printing Fund, two of which are not related to operation of the Printing Plant, as follows:

Item 274

Miscellaneous

Service Revolving Fund—Continued

Surplus:	Total
Printing section—operation of printing plant.....	\$3,982,590
Documents section—sale of state documents.....	126,126
Reproduction section—duplicating services.....	2,079
Total surplus	\$4,110,795
Working capital advance—not segregated by function.....	1,089,766
Total	\$5,200,561

If provision is to be made in future for transfers from the Service Revolving Fund to the General Fund of excess earnings and working capital advances relating to printing operations it would be desirable to define the scope of these operations and to modify accordingly the statements such as those appearing on pages 1096, 1097, 1098, 1099 and 1100 of the current budget. The reproduction section is not operated as a part of the printing division at present and it appears to us that the documents section represents an entirely separate operation.

The Printing Division requested \$225,000 for purchase of equipment during 1961-62, of which the Legislature authorized \$167,000, Section 19.4 of the Budget Act of 1961 and disapproved \$58,000.

The items approved were as follows:

Printing section, replacements:	
2 model V-50 Vertical Miehle Presses.....	\$20,000
1 30-inch Roll Film Fed. Metal Darkroom Chemco Camera	13,000
1 42 x 54 1-color Harris Offset Press.....	80,000
1 Model KK Cleveland Folding Machine.....	15,000
Miscellaneous repair parts and small equipment items.....	29,000
Total Printing section.....	\$157,000
Reproduction section, replacements:	
2 multilith machines purchased in 1952.....	\$6,669
1 paper drill machine, 16 years old.....	3,200
Miscellaneous	131
Total reproduction section.....	10,000
Total authorized	\$167,000

The following items requested for the printing section were disapproved:

Replacement of 1 Carroll Rotary Tabulating Card Press.....	\$24,000
Additional:	
1 Kluge 10 x 15 Automatic Platen Press.....	5,000
1 Sulby Bindmaster 88 Machine.....	16,000
1 50-bin Thomas Rotomatic Collating Machine.....	13,000
Total disapproved.....	\$58,000

Service Revolving Fund—Continued

The following additional equipment and replacements of equipment are requested by the Printing Division for 1962-63:

Additional		
Item	Description	Amount
A 1	Roll Feeding Device for application to a 1-color 76 Miehle Rotary Letterpress	\$100,000
B 1	Roll Feeding Device for application to a 4-color 76 Miehle Rotary Letterpress	100,000
C 1	Heavy duty fork lift truck with roll handling attachment for handling 4,000 lb. rolls	10,000
D 20	galley cabinets	4,160
E 2,000	galleys	3,120
F 1	50-bin Thomas Rotomatic Collating Machine	13,520
G 1	10 x 15 Kluge Automatic Platen Press	5,200
Total Additional		\$236,000

Replacements		
Item	Description	Amount
H 40	tons linotype metal	\$20,800
I 20	tons monotype metal	12,480
J 1	25 x 38 single color Harris feed roll offset press, Model 138 (LUL) complete with attachments	48,356
K 1	23 x 30 single color Harris feed roll offset press, Model 130 (LXB-FR) complete with attachments	25,464
L 1	Oversewing Machine Company Book Hydro Press	7,780
Total replacements		114,880
Total		\$350,880
Less depreciation		243,300
Augmentation requested		\$107,580

The justification for items A and B is that by using roll feeding devices for these rotary presses roll paper stock can be used instead of sheeted and trimmed flat paper stock, as at present, at a saving of \$35 per ton. The agency calculates that the savings in paper costs over a four-year period will amount to \$217,490, from the following classes of work:

Regular annual jobs	\$97,860
Voters pamphlets	35,490
Other jobs	17,500
1962-63 textbook reprints	66,640
Total	\$217,490

Item C is needed to handle the heavy rolls of paper.

Items D and E are requested for additional storage for Senate and Assembly Interim Committee reports which a recent change in rules requires be kept standing for not less than 90 days.

The justification for Item F is as follows:

This acquisition to the bindery is proposed to eliminate much hand gathering work now performed, at a speed in excess of three times the best hand gathering time, thus speeding up production and lowering

Service Revolving Fund—Continued

costs. We estimate two bindery girls at a total annual salary of \$9,245 will be eliminated by installation of this machine. An identical item was disapproved by the 1961 Legislature.

The justification for Item G is as follows:

This is an additional small modern automatic platen press to assist in handling the increasing workload of small job printing work. Its installation will permit faster service on agency work and eliminate some overtime work presently done at overtime premium pay. An identical item was disapproved by the 1961 Legislature.

Items H and I are required to replace normal losses from the remelting process.

Item J is to replace a 22 x 34 — 134 Harris offset press purchased in 1949. The justification states that the 25 x 38 size permits a more efficient operation for much state work.

Item K is to replace a 17 x 22 LTG Harris offset press purchased in 1947 and is justified on the ground that 23 x 30 is a more efficient size.

Item L is to replace an old Sheridan four-post 72-inch standing book press purchased prior to 1913 and is justified as a necessary item in the modernization and labor-elimination program in the Library Binding Section.

We are not able to evaluate the need for this equipment at the present time for several reasons. The capacity at which the plant will operate in future is not known. The Department of Finance has included \$4,000 in the amount requested for contract services, budget page 321, line 14, for review of the State Printing Plant by an industrial engineer, and this review should shed some light on the need for the equipment. Similarly, a committee of the Legislature is considering contracting for an early report by printing consultants. Nothing is known as to the extent of the usage of the existing equipment at the plant since complete machine utilization reports have not been available.

We recommend approval of the proposed augmentation of \$107,580 for the Printing Plant on condition that the Department of Finance make a further review of the need for the equipment taking into consideration the capacity at which the plant is to operate, the findings of the industrial engineer, the facts disclosed by any legislative survey under contract with consultants, and the facts as to usage of existing equipment as indicated by complete and timely machine utilization reports.

Past Augmentations of Purchasing Revolving Fund and State Printing Fund

Several augmentations have been approved in recent years, for both predecessor funds, all of which have been substantially in excess of the actual needs during the year for which the original appropriation was made.

Service Revolving Fund—Continued

Augmentations to the Purchasing Revolving Fund have been as follows:

Year	Budget Act Item No.		Fiscal year	Amount appropriated	Amount used
1957	279	Original appropriation -----	57-58	\$500,000	\$250,000
1958	267	Reappropriation to 6/30/60	58-59		
1959	274	Original appropriation -----	59-60	410,000	250,000
1960	271	Reappropriation to 6/30/62	60-61		371,000
1961	279	Original appropriation -----	61-62	141,767	6,483
1962	Proposed	Original appropriation -----	62-63	184,215	358,499
Total-----				\$1,235,982	\$1,235,982

Of the amount of \$500,000 appropriated for 1957-58, \$250,000 was used during that year, none during 1958-59, and \$250,000 during 1959-60. The amount of \$410,000 appropriated for 1959-60 was used or proposed to be used for the following fiscal years:

1959-60-----	None
1960-61-----	\$371,000
1961-62-----	6,483
1962-63-----	32,517
Total-----	\$410,000

The amount of \$141,767 appropriated for 1961-62 is all proposed for use during 1962-63, while none is proposed for use during 1961-62.

It appears from the foregoing that the pattern in the past for what are now the general service functions of the Service Revolving Fund was to appropriate considerably in advance of actual needs, and that this was true, even as late as 1961, in which year \$256,000 was requested, \$141,767 granted and none used.

Likewise for the Printing Division an augmentation of \$546,500 was made by Item 270, Budget Act of 1950, of which \$387,500 was conditioned on volume of textbook printing and never available, leaving \$159,000 available, of which only \$39,776 was used, the remainder reverting at June 30, 1961.

Financial Statements, Service Revolving Fund

Partly as a result of recommendations made in our 1961-62 Analysis on pages 339 and 777 the financial statements for the Service Revolving Fund in the budget on pages 1095 to 1106 are presented in a form which differs from that of prior years. We believe that the new presentation is much superior to that used in former years. However, we have two suggestions which we believe would result in still further improvements.

(1) Assets, liabilities and fund balances relating to the documents section and the reproduction section be transferred from the Printing Division to the General Service Functions in the statements appearing on pages 1097 and 1099 and 1100.

(2) Operations included in "automotive management" in the statement on page 1104 be further detailed. A further analysis of these operations for 1960-61 is given in Table 2.

Service Revolving Fund—Continued

Table 3 is a summary of the surplus and net income or loss for each activity now included in the Service Revolving Fund for the three-year period reported in the current budget document.

It will be noted that certain of these activities are projected as operating at a profit during the current and budget years, one at a loss and others on an exact "break even" basis.

We have serious doubts as to the propriety of budgeting any of these activities at either a profit or a loss since in one case it results in agencies paying more than cost for these services and in other cases less.

We recommend that consideration be given to budgeting all functions on a "break even" basis in future.

Table 2—Service Revolving Fund
Income and Costs by Sub-function, State Garages
1960-61 (Actual)

	Income	Costs	Net Gain or (—) Loss
Sales of gas and oil and storage -----	\$638,045	\$576,977	\$61,068
Repair service -----	335,846	332,726	3,120
Pooled car operations -----	1,979,760	2,046,299	—66,539
Inspection service -----	164,853	166,457	—1,604
Pooled aircraft -----	5,133	4,274	859
Total, state garages -----	\$3,123,637	\$3,126,733	—\$3,096

Table 3—Service Revolving Fund
Changes in Surplus, by Function

Function	Surplus 7/1/60 (actual)	Net income or (—) Loss			Surplus 6/30/63 (proposed)
		1960-61 (actual)	1961-62 (estimated)	1962-63 (proposed)	
Printing a -----	\$4,079,372	—\$96,782	—	—	\$3,982,590
Documents b -----	115,282	10,844	—	—	126,126
Reproduction section c -----	11,556	—9,477	—	—	2,079
Central stores -----	—1,438	88,624	—18,993	—24,694	43,399
State garages -----	86,077	—3,096	161,934	99,859	344,774
Radio maintenance -----	—21,171	—15,086	5,000	25,086	—6,171
Office machine repair -----	—4,997	—383	2,000	2,000	—1,380
Rented buildings -----	1,094	—46	59	59	1,166
Total -----	\$4,265,775	—\$25,402	\$150,000	\$102,310	\$4,492,683

a Surplus 7/1/60 excludes transfer to General Fund of \$199,393 made during 1960-61 and miscellaneous adjustments increasing surplus relating to prior years of \$21,725.

b Surplus 7/1/60 excludes transfer to General Fund of \$26,987 made during 1960-61 and miscellaneous adjustments reducing surplus and relating to prior years of \$15,514.

c Surplus 7/1/60 includes transfer from General Fund of \$4,679 during 1960-61.

Another item of interest which appears on budget page 1099 at lines 21 and 52 is a capital transfer of \$76,600 from the Printing Division to General Service Functions during 1961-62 year. Since this represents excess capital in the Printing Division it could have been returned to the General Fund, although such a transaction would have resulted in an increase in the appropriation requested in Item 274 by a like amount.

Automotive Management

An augmentation of \$203,361 is requested to provide the balance required to purchase 168 additional vehicles for the Automotive pool.

Service Revolving Fund—Continued

The request is based upon an estimate of pool car mileage which is expected for 1962-63, and is shown in Table 4.

Table 4
Pool Car Mileage

	<i>Actual</i>		<i>Estimated</i>	<i>Proposed</i>
	1959-60	1960-61	1961-62	1962-63
Original estimate	29,500,000	33,375,000	36,500,000	39,800,000
Revised estimate	30,493,000	34,000,000	37,000,000	—
Actual	30,453,875	33,450,524	—	—
Average number of cars	1,923	2,218	2,386	2,554
Average annual mileage	15,837	15,081	15,507	15,583

We feel that these projections are valid. However, it should be noted that records maintained by the Automotive Management Section for state-owned passenger vehicles, other than those of the Department of Finance pool and the University of California indicate that for the 1960-61 fiscal year, a total of 89,153,251 miles were driven by an average of 17,862 vehicles. This is an average annual mileage of 4,991 as compared with 15,081 for pooled vehicles and would appear to indicate the need for transfer of many of these cars to the pool since experience has demonstrated that approximately eight cars in the pool can do the work of ten on an agency assigned basis.

AUGMENTATION OF SERVICE REVOLVING FUND BY TRANSFER

ITEM 275 of the Budget Bill

ANALYSIS

This item is identical to Item 280 of the Budget Act of 1961. 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 Service 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.

REFUND OF TAXES, LICENSES AND OTHER FEES

ITEM 276 of the Budget Bill

Budget page 727

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

Amount requested	\$30,000
Estimated to be expended in 1961-62 fiscal year	31,000
Decrease (3.2 percent)	\$1,000
TOTAL RECOMMENDED REDUCTION	None

Service Revolving Fund—Continued

ANALYSIS

The heading and description of this item as printed in the budget does not precisely define the purpose of the appropriation. Actually, no refunds of taxes are made therefrom, but only those refunds described in Sections 13140-5 of the Government Code, i.e.,

1. Fees imposed or collected for or as a condition precedent to the issuing, making, taking or securing of any permit, filing, examination, or inspection.
2. Overpayments received by a state agency in connection with a revolving fund in the State Treasury maintained by such an agency for the purpose of assisting persons under the jurisdiction or care of the agency, or providing for the welfare of such persons.

The procedure is designed to allow expeditious refunds of non-controversial amounts erroneously paid and deposited in other than "feeder funds," thereby avoiding the necessity of filing a claim with the State Board of Control and inserting the item in a claims bill.

We recommend approval of this item as budgeted.

WORKMEN'S COMPENSATION FOR STATE EMPLOYEES

ITEM 277 of the Budget Bill

Budget page 728

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

Amount requested	\$2,758,000
Estimated to be expended in 1961-62 fiscal year	2,350,000
Increase (17.4 percent)	\$408,000

TOTAL RECOMMENDED REDUCTION..... None

ANALYSIS

Expenditures for Workmen's Compensation Benefits for State Employees, payable from the General Fund, proposed for fiscal year 1962-1963 are scheduled at \$2,758,000, an increase of \$408,000 or 17.4 percent over estimated expenditures for the current year.

While not directly part of the Budget Act as a lump sum total, it is important to note that compensation benefits to be paid to special fund employees for fiscal year 1962-63 are estimated to amount to \$1,392,000, a gain of \$168,000 or 13 percent over estimated expenditures for the current year.

These two items total \$4,150,000, the State's workmen's compensation benefits bill for fiscal year 1962-1963. This is the projected, direct, out-of-pocket cost of job-connected industrial injuries and illnesses. Indirect costs including lost time, damaged property, lost income are not estimated or included in this total.

It is noted that on an average, approximately 60 percent of each annual bill covers liabilities already incurred prior to the budget year. About 28 percent of the estimated bill is projected to cover the cost of injuries which have not yet occurred and 12 percent covers the charges

Service Revolving Fund—Continued

made by the State Compensation Insurance Fund for administration of the program.

We are concerned, particularly with reference to the General Fund, with the recent noticeable acceleration in the costs of workmen's compensation benefits for state employees. Private industry has demonstrated that real savings can be made through adequate, persistent safety programs. It would appear that in state government greater attention to safety activities, particularly in those agencies where experience has indicated the existence of real hazards, might likewise serve to reduce accidents and claims. Such increased safety programs for accident reduction should offset in some degree the recent increase in employee claims and the consequent increasing costs to the General Fund.

We recommend approval as budgeted.

WORKMEN'S COMPENSATION FOR SUBSEQUENT INJURIES

ITEM 278 of the Budget Bill

Budget page 730

**FOR SUPPORT OF PAYMENTS FOR ADDITIONAL WORKMEN'S
COMPENSATION FOR SUBSEQUENT INJURIES
FROM THE GENERAL FUND**

Amount requested	\$883,000
Estimated to be expended in 1961-62 fiscal year	818,000

Increase (7.8 percent)	\$65,000
------------------------------	----------

TOTAL RECOMMENDED REDUCTION	None
--	-------------

ANALYSIS

Expenditures proposed for the budget year are scheduled at \$883,000, an increase of \$65,000 or 7.8 percent over estimated expenditures for the current year.

We recommend approval of the amount budgeted.

We have in our previous analyses of the budget called attention to the ever increasing liability which this program imposes on the General Fund. The subsequent injury law was enacted in 1945 to provide for the payment of workmen's compensation benefits for permanent disability resulting from work-connected injuries to employees who have previously suffered another specific permanent disability.

At the end of fiscal year 1960-1961 the total estimated cost of outstanding subsequent injury benefits to be paid had reached a total of \$6,136,119.94. Prior to a series of amendments of the law beginning in 1955, which placed specific restrictions on claims, incurred new liability resulting from awards under the subsequent injuries law averaged \$584,000 annually. Since those amendments first became effective the additions to liability have averaged \$242,000 annually.

Annual appropriations to meet this increasing liability will inevitably continue to rise. In the event that the electorate should approve ACA 72, which will be before the voters of the State on the 1962 ballot, the Legislature will be given the opportunity to shift the cost of this program to a new fund to be derived from no dependency death benefit

Workmen's Compensation for Subsequent Injuries—Continued

cases under the workmen's compensation law. We have, on a number of occasions, called attention to the desirability of finding a method of funding the subsequent injury liability other than that of charging it to the General Fund.

CAPITOL BUILDING AND PLANNING COMMISSION

ITEM 279 of the Budget Bill

Budget page 731

FOR SUPPORT OF CAPITOL BUILDING AND PLANNING COMMISSION FROM THE GENERAL FUND

Amount requested	\$2,500
Estimated to be expended in 1961-62 fiscal year	2,500
Increase	None
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

The Capitol Building and Planning Commission consisting of 13 members appointed by the Governor was created by Chapter 1952 of the Statutes of 1959. Membership of the commission includes representation of nominees by the City of Sacramento and the County of Sacramento. The major mission of the commission is to establish a master plan, make subsequent revisions and to submit these to the Legislature for adoption. The commission is also required by statute to report to the Legislature at each general session concerning the progress of the construction phases of the capitol master plan and any changes it might recommend.

The master plan has been prepared and submitted and was accepted by the Legislature at its 1961 Session. At that session the Legislature deemed it unnecessary to continue a high level of support for this commission since its major mission has been accomplished. Consequently the staff of the commission consisting of one co-ordinator and a clerk were abolished by transferring the co-ordinator to the Department of Finance and eliminating the clerical position. This left only the need for the relatively minor general expense of the commission involved in preparing and printing its report for the next general session of the Legislature and in such meetings as it might hold in the course of the year to consider the progress of the master plan. A level of expenditure of \$2,500 annually seems now to have been established which in all probability will continue as long as the commission remains in existence. It appears to be a relatively modest sum for the purpose but should nevertheless serve adequately for the remaining function of the commission. *Consequently we recommend approval of the item as submitted.*

INTEREST PAYMENTS ON LOANS TO GENERAL FUND

ITEM 280 of the Budget Bill

Budget page 733

**FOR SUPPORT OF INTEREST PAYMENTS ON LOANS TO
GENERAL FUND FROM THE GENERAL FUND**

Amount requested	\$500,000
Estimated to be expended in 1961-62 fiscal year	166,864
Increase (199.6 percent)	\$333,136

TOTAL RECOMMENDED REDUCTION	None
--	-------------

ANALYSIS

Section 16310 of the Government Code, which has been in effect for a number of years authorizes temporary loans by special funds to the General Fund. Section 16310.5 of the Government Code, added by Chapter 1861, Statutes of 1961 provides for payment of interest by the General Fund on all such borrowings except those from the Division of Architecture Revolving Fund, from which most borrowings have been made in the past.

Item 123.5 of the Budget Act of 1961 appropriated \$310,000 for this purpose during 1961-62 of which an estimated \$166,864 will be needed.

The reasons for the increase in interest requirements during 1962-63 are that General Fund borrowings are expected to increase and money available in the Architectural Revolving Fund may decrease which will reduce borrowings which can be made on an interest free basis.

Interest is required to be paid at the maximum rate of interest allowed interest bearing time deposits in banks at the time of the borrowing.

Since payment of this interest is a statutory requirement we recommend approval as budgeted.

TEMPORARY LOANS TO GENERAL FUND FROM CALIFORNIA WATER FUND

ITEM 281 of the Budget Bill

ANALYSIS

This item, which is similar to Item 281 of the Budget Act of 1961, would authorize temporary transfers from the California Water Fund (formerly the Investment Fund) to the General Fund in the event the cash position of the General Fund would require such transfers. Under the terms of Section 16310 of the Government Code transfers made from special funds to the General Fund, upon a determination of necessity by the Governor, Controller, and Treasurer, are to be returned to the fund from which transferred as soon as there is sufficient money in the fund to return it. This section also provides that no transfers can be made which will interfere with the object for which a special fund was created.

Section 16310.5, added by Chapter 1861, Statutes of 1961, provides, in effect, that interest must be paid by the General Fund on any such temporary transfers from the California Water Fund at the maximum rate of interest allowed by banks on interest bearing time deposits at the time of the transfer. An appropriation to cover such interest payments is made by Item 280 of the current budget bill.

Since this authorization is in the nature of temporary, contingent financing only, *we recommend approval.*

PROVISION FOR SALARY INCREASE FUND

ITEMS 282 and 283 of the Budget Bill

Budget page 734

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

Amount requested for 1962-63	\$26,767,580
Amount proposed for 1961-62 deficiency appropriation	11,455,796
Total	\$38,223,376

TOTAL RECOMMENDED REDUCTION \$14,335,796

Summary of Recommended Reductions

	Amount	Budget Page	Line
Deficiency appropriation to provide salary adjustments retroactive to January 1, 1962	\$11,455,796	734	6
Budget appropriation to provide special salary adjustments effective as of July 1, 1962	2,880,000	734	45,55, 69,77

ANALYSIS

The budget proposes a deficiency appropriation of \$11,455,796 from the General Fund to provide for a five percent salary adjustment for most state employees retroactive to January 1, 1962, in accordance with the recommendation of the State Personnel Board. The proposed deficiency appropriation includes \$120,000 to permit special salary adjustments retroactive to January 1, 1962.

Items 282 and 283 propose appropriations of \$26,767,580 from the General Fund for the 1962-63 fiscal year to provide for a five percent increase for most state employees in accordance with the recommendation of the Personnel Board. The proposed budget appropriation includes \$2,880,000 for additional special salary adjustments.

Table I gives a breakdown of the proposed deficiency appropriation of \$11,455,796 from the General Fund for the last six months of the 1961-62 fiscal year and the proposed appropriation of the \$26,767,580 for the 1962-63 fiscal year, also from the General Fund.

Table I
(Proposed deficiency for
last six months)

	1961-62	1962-63
Civil service classes	\$6,630,457	\$13,837,680
State colleges		
Academic	1,070,579	2,350,815
Nonacademic	687,527	1,501,654
Statutory positions	59,939	121,180
Other exempt positions	221,425	450,571
University of California		
Academic	1,502,769	3,281,293
Nonacademic	1,058,500	2,029,887
Provision for special adjustments		
Civil service classes	100,000	2,100,000
State colleges	---	300,000
Exempt classes	20,000	80,000
University of California	---	400,000
Provision for university retirement contributions	104,600	314,500
Total amount of proposed appropriations	\$11,455,796	\$26,767,580

The cost to special funds for the retroactive salary adjustments proposed in the deficiency appropriation will be \$6,836,846. The cost to

Provision for Salary Increase Fund—Continued

special funds for the salary adjustments proposed in the budget for the 1962-63 fiscal year will be \$15,444,861. An additional appropriation of \$1,058,857 is proposed in item 137 for an additional five percent increase for California Highway Patrol traffic officers.

The responsibility for setting salaries and adjusting salaries for civil service employees from sums appropriated by the Legislature for that purpose has been delegated by the Legislature to the Personnel Board. Provisions within Section 18850 of the Government Code require the board to:

1. Set salaries so that "like salaries shall be paid for comparable duties and responsibilities."
2. Consider the salaries for comparable service in private business and in other governmental agencies in setting salaries.
3. Maintain the cost of salary adjustments within existing funds appropriated for salary increase purposes.

Each year the Personnel Board is required by Section 18712 of the Government Code to submit to the Governor and the Legislature an annual report on state civil service personnel. This report includes a review of the salary situation and recommendations concerning the need for salary adjustments for state employees.

In its report dated December 15, 1961, the board recommended that funds be appropriated to permit a five percent salary adjustment for practically all civil service employees for the last six months of the 1961-62 fiscal year and continuing during the 1962-63 fiscal year.

The funds proposed by Items 282 and 283 would carry out the board's recommendation for a salary increase for all civil service employees, retroactive to January 1, 1962, as well as all employees whose "salaries are set by authority other than the State Personnel Board."

The board's recommendations were based on a comparison of existing state salaries with salaries and data obtained in various surveys of salaries and wages in private industry and other governmental agencies. In its December 15, 1961, report the board presented the results of surveys of wage trends made in March 1961 and October 1961 to support its recommendation. On the basis of this survey it found that a direct comparison between salaries in private industry and those in state service showed that in October, 1961, salaries and wages in private industry were about 4.8 percent higher than salaries for corresponding positions in state service. The board indicated that if the current salary increase trend continues, the State will be more than five percent behind prevailing rates by January 1, 1962. These findings led the board to conclude that data from private employers and governmental employers justify a general salary adjustment of five percent as of January 1, 1962, for practically all state employees.

The State Personnel Board also indicated a need for additional funds to allow special salary adjustments for certain groups of employees for the last six months of the 1961-62 fiscal year and during the 1962-63 fiscal year on the basis of a finding that there is a need "for substantial funds for specific additional salary adjustments to meet greater changes

Provision for Salary Increase Fund—Continued

in rates in certain occupational areas in private industry and other governmental jurisdictions” and, that “a comparison of state salaries on a class-by-class basis with salaries paid by other government agencies indicates that a large number of these classes in state service have fallen behind their counterparts in other agencies.”

The board recommended an appropriation of \$3,300,000 from the General Fund to “provide for special salary adjustments for the remaining six months of the 1961-62 fiscal year” with commensurate amounts to be made available from special funds.

The board also indicated that “it is anticipated that funds in the amount of \$2,750,000 from the General Fund would be required for special salary adjustments during the 1962-63 fiscal year, plus a commensurate amount from the Special Funds.” The budget, however, contains \$120,000 for special adjustments retroactive to January 1, 1962, and the following special adjustments to be effective July 1, 1962: \$2,100,000 for civil service employees; \$700,000 for academic employees; and \$80,000 for other exempt positions.

We recommend the deletion of the proposed deficiency appropriation of \$11,455,796 for salary adjustments for state employees retroactive to January 1, 1962.

The Personnel Board stated in its December 15, 1961 report that “A direct comparison between salaries in private industry and those in state service showed that in October 1961 salaries and wages in private industry were about 4.8 percent higher than salaries for corresponding positions in State service.” The report went on to say that “It is estimated that the current salary increase trend will continue and that the State will be more than five percent behind prevailing rates by January 1962.”

We have no reason to question the validity of the above statement of the board since we have reviewed the method in which the board has conducted its salary surveys and found them to be sound. However, at times in the past we have taken exception to the application of the survey data. In analyzing the current proposal, we are not in agreement that the application of the board’s findings justify a retroactive increase to January 1, 1962.

This is the first time that the Personnel Board has proposed a retroactive salary increase for state employees under these normal circumstances. The board did recommend a retroactive salary increase to January 1, 1951; however, this was due to the fact that the Korean War had started in June 1950 and immediately thereafter salaries in private industry increased at an abnormal rate during the next six months. In recent years there have been occasions when state salaries might have been out of line by various percentage points, including 5 percent, on January 1, but the board did not make a recommendation that any increase be retroactive.

It is most interesting to note that in its report to the Governor and the Legislature dated December 5, 1958, the board stated that “Surveys will be conducted by the Personnel Board in March 1959 to measure wage changes made by private industry between October 1958 and March 1959. If the current trend continues, a 7½ percent general ad-

Provision for Salary Increase Fund—Continued

justment of state salaries as of July 1, 1959, appears needed to catch up with the increases granted by other governmental jurisdictions and private industry over this two-year period." A graph prepared by the board in that same report showed that state salaries would most likely be out of line by better than 6 percent on January 1, 1959. Yet the Personnel Board did not recommend any retroactive salary increase, nor did the budget propose such action.

In its most recent report of December 15, 1961, the board made no statement as to what the comparison of state salaries might be with other jurisdictions and private industry on July 1, 1962, on the basis of trend data. It would appear that the board is changing the time of salary adjustments from the start of the fiscal year to the middle of the fiscal year.

Further, we do not recommend that the Legislature should establish a policy of retroactive salary adjustments. We believe that such action would be providing payment for work already accomplished and has little effect on the recruitment and retention of employees. There has always been a lag of state salaries behind those paid in private industry. This lag is inherent in our salary system and is sound. The period of the lag has varied from year to year, but it should be noted that the present lag is not out of line with historical precedent. We see no logical basis for the retroactive pay increase as a matter of equity or hardship, and as a matter of public salary policy we believe that it is unsound and inefficient.

We further recommend that the special adjustment funds of \$2,880,000 proposed in the budget for the 1962-63 fiscal year be deleted, and that the budget be approved in the reduced amount of \$23,887,580.

We recommend that \$23,887,580 be appropriated from the General Fund to provide for a salary adjustment fund of 5 percent effective as of July 1, 1962.

The board has stated that as of October 1961 state salaries were about 4.8 percent below the salaries and wages paid in private industry. This figure is an average figure based on the findings that some salaries were out of line by a percentage greater than 4.8 and some by a percentage less than 4.8, as is inherent in an average.

The amount proposed in the budget, exclusive of the special adjustment money, provides a fund of precisely 5 percent for salary adjustments. Since average salaries are reported to be out of line by 4.8 percent in October 1961, it is reasonable to expect that they will be out of line by 5 percent on July 1, 1962. The amount proposed in the budget should be sufficient to provide 5 percent increases for those classes where data shows such action is necessary; additional increases for those classes where data shows such action is necessary; and no increases where data indicates no action should be taken.

The board has stated in its December 15, 1961, report that "In recommending salary increases, the Personnel Board has never proposed a simple general increase." The board has always followed this policy and we have consistently endorsed it. In applying this policy to the amount proposed for the 1962-63 fiscal year we can find no justification for appropriating an additional sum beyond the amount that is

Provision for Salary Increase Fund—Continued

equivalent to the percentage lag, namely 5 percent. The addition of the special adjustment fund would provide a total fund of approximately 6 percent.

There is no factual basis in the Personnel Board's report justifying 6 percent for a salary increase fund to eliminate a 5 percent salary discrepancy.

Reserve for Contingencies

EMERGENCY FUND

ITEM 284 of the Budget Bill

Budget page 736

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

Amount requested	\$1,000,000
Amount allocated to date for 1961-62 fiscal year	4,038,435

TOTAL RECOMMENDED REDUCTION	None
-----------------------------------	------

ANALYSIS

The appropriation of \$1 million for the Emergency Fund for 1962-63 is in the same amount as that appropriated for 1961-62, and for each year except one since 1954. It is expended only on written authorization of the Department of Finance for contingencies for which no appropriation or insufficient appropriation has been made by law.

Because we consider the establishment of a single fund as a reserve for contingencies to be sound fiscal practice we recommend approval as budgeted.

Current Year Deficiencies

Total allocations for general emergencies for the current fiscal year to date total \$4,038,435, as detailed on budget pages 736 to 739. This is \$3,038,435 in excess of the amount appropriated. A deficiency appropriation of \$3,200,000 is proposed in the budget document to cover this excess and provide for an unallocated balance of \$161,565 for the remainder of the 1961-62 fiscal year. Major items for which allocations are proposed during the current year are as follows:

State Operations:	
Department of Conservation for emergency fire suppression	\$1,680,000
Department of Parks and Recreation for unrealized service fees	585,000
State Controller:	
For electronic data processing conversion	158,644
For OASDI and health and welfare payroll deductions	145,000
Franchise Tax Board for conversion of data processing and increased workload	115,963
Department of Justice for unrealized reimbursements	112,290
Department of Agriculture for Japanese Beetle eradication in Sacramento	102,750
Capital Outlay:	
Fresno State College for project planning	200,000
Local Assistance:	
Department of Social Welfare for increase in adoption cases	322,466
Total of major items	\$3,422,113
29 items less than \$100,000 each	616,322
Total allocations, 1961-62 to date	\$4,038,435

Emergency Fund—Continued

Although \$1,000,000 has commonly been appropriated each year to the Emergency Fund, allocations in a number of instances have exceeded that amount and have been financed by requests for deficiency appropriations in the following session. Administration of the Emergency Fund in terms of the amounts initially appropriated and actually allocated for fiscal years 1952-53 to 1961-62 are shown in the table which follows. Since emergency fire suppression has often constituted a large part of the request for emergency funds, allocations to the Division of Forestry are also shown separately.

<i>Fiscal year</i>	<i>Initial appropriation in Budget Act</i>	<i>Total amount allocated</i>	<i>Division of Forestry</i>
1952-53-----	\$2,500,000	\$2,168,401	\$23,396
1953-54-----	1,150,000	915,717	120,323
1954-55-----	1,614,858	806,840	20,000
1955-56-----	1,000,000	879,777	285,528
1956-57-----	1,000,000	1,089,345	96,062
1957-58-----	1,500,000	561,342	10,000
1958-59-----	1,000,000	995,925	507,749
1959-60-----	1,000,000	2,123,785	678,000
1960-61-----	1,000,000	1,212,920	419,500
1961-62-----	1,000,000	4,038,435 (Est.)	1,680,000 (Est.)