

ADVISORY COMMISSION ON INDIAN AFFAIRS

ITEM 242 of the Budget Bill

Budget page 844

FOR SUPPORT OF ADVISORY COMMISSION ON INDIAN AFFAIRS FROM THE GENERAL FUND

Amount requested in Budget Bill-----		\$44,427
Budget request before identified adjustments-----	\$46,072	
Increase to recognize full workload change-----	3,291	
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Budget as adjusted for workload change-----	\$49,363	
Adjustment—undetailed reduction (10 percent)-----	4,936	

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET----- \$44,427

RECOMMENDED REDUCTION FROM APPROPRIATION REQUEST ----- \$44,427

Summary of Recommended Reductions

	Amount	Page	Line
Delete support for Advisory Commission on Indian Affairs---	\$44,427	844	43

ANALYSIS AND RECOMMENDATIONS

The Advisory Commission on Indian Affairs was established in 1961 and under Section 8116 of the Government Code this commission has the responsibility of studying the problems of the American Indian in California, which includes the problems presented by the termination of federal control over Indian affairs and the operation and needed revision of any state laws pertaining to the Indians and the four relocation centers in California.

It is estimated in 1967-68, the commission will have 3.2 authorized positions and will cost \$44,427 after the total estimated cost of \$46,072 is adjusted by \$3,291 as an "increase to recognize full workload change" and an undetailed reduction of \$4,936.

The "increase to recognize full workload change" which is undetailed in the budget, consists of an increase in general expense of \$200, communications \$268, in-state travel \$1,500, travel out-of-state \$1,300, and accounting and personnel \$23. With the exception of the travel items these increases appear to be in accordance with the Department of Finance, June 15, price letter. The travel increases are not supported by details as the amount and necessity for additional travel, and must be viewed as an increase in level of service.

We recommend the deletion of the Advisory Commission on Indian Affairs for a total General Fund savings of \$44,427.

The commission was established in 1961 but was not staffed nor did it actively engage in any study or research until 1964. Up to the present time the commission has only released one progress report to the Governor and the Legislature, in February 1966. This report did not appear to have much impact on governmental decisions relating to Indians except to secure a renewal of the commission's own authorization.

There are presently four relocation centers in California and various services on the local level such as county welfare departments, employment offices and service centers, whose primary concern with problems in the Indian community should be that they are given the same treatment and services as all other citizens in similar circumstances. The Indians themselves have the potential to form an organized interest

Advisory Commission on Indian Affairs—Continued

group that could have an impact on governmental decisions relating to their problems. The welfare of the Indian community in California does not appear to rest on the continued study of the problem by a few researchers.

CALIFORNIA ARTS COMMISSION

ITEM 243 of the Budget Bill

Budget page 846

FOR SUPPORT OF THE CALIFORNIA ARTS COMMISSION FROM THE GENERAL FUND

Amount requested in Budget Bill		\$145,728
Budget request before identified adjustments	\$161,230	
Increase to recognize full workload change	690	
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Budget as adjusted for workload change	\$161,920	
Adjustment—undetailed reduction (10 percent)	16,192	

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET... None

BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING \$16,192

GENERAL PROGRAM STATEMENT

The California Arts Commission is composed of 15 members appointed by the Governor representing all fields of the performing and visual arts, plus two Assemblymen and two Senators. The commission and its staff of seven permanent positions assist local communities in originating and developing their own cultural programs by providing technical consultative support when requested by the communities.

ANALYSIS AND RECOMMENDATIONS

The 1967-68 budget proposes a General Fund level of support of \$161,920 for the activities of the California Arts Commission. Upon application of a 10 percent reduction, the Budget Bill proposes an appropriation of \$145,728.

In addition to the General Fund support, the budget includes a \$50,000 federal grant from the National Endowment of the Arts.

The major portion of the commission's activity will again go toward support of local community organizations in the development and growth of their performing or visual arts programs. This portion of the commission's activity is again budgeted at \$112,571 for the 1967-68 fiscal year.

COMMISSION OF THE CALIFORNIAS

ITEM 244 of the Budget Bill

Budget page 848

FOR SUPPORT OF THE COMMISSION OF THE CALIFORNIAS FROM THE GENERAL FUND

Amount requested in Budget Bill		\$29,385
Budget request before identified adjustments	\$30,875	
Increase to recognize full workload change	1,775	
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Budget as adjusted for workload change	\$32,650	
Adjustment—undetailed reduction (10 percent)	3,265	

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET... None

BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING \$3,265

Commission of the Californias—Continued

GENERAL PROGRAM STATEMENT

The Commission of the Californias provides the basis through which the State of California works and cooperates with the State of Baja California in Mexico in furthering favorable economic and cultural relations between the two states, with particular attention to assuring that the U.S. traveler, sportsman and businessman are accommodated as fully as possible in Baja California.

Established by Chapter 139, Statutes of 1964, Second Extraordinary Session, the commission consists of 7 voting members appointed by the Governor and 10 legislative members, 5 appointed by the Senate Rules Committee and 5 appointed by the Speaker of the Assembly. The commission has an executive secretary and a clerical position. It is matched by a counterpart group in Baja California.

The commission operates as a project group working on various programs originated by its committees. Subject matter of recent interest includes improvement of tourism, better small boat regulations, rehabilitation of the deaf, water development, vocational training, exchange of students, restoration of missions, transport facilities and health and welfare programs.

ANALYSIS AND RECOMMENDATIONS

The Governor's 1967-68 budget proposes a level of expenditure of \$32,650 which includes \$1,775 for workload adjustment. Upon application of a reduction of 10 percent, the Budget Bill proposes an appropriation of \$29,385.

BOARD OF HARBOR COMMISSIONERS FOR HUMBOLDT BAY

ITEM 245 of the Budget Bill

Budget page 849

FOR SUPPORT OF BOARD OF HARBOR COMMISSIONERS FOR HUMBOLDT BAY FROM THE GENERAL FUND

Amount requested in Budget Bill.....		\$2,520
Budget request before identified adjustments.....	\$2,800	
Increase to recognize full workload change.....	None	
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Budget as adjusted for workload change.....	\$2,800	
Adjustment—undetailed reduction (10 percent).....	280	

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET..... \$2,800

RECOMMENDED REDUCTION FROM APPROPRIATION REQUEST..... \$2,520

Summary of Recommended Reductions

Delete entire item.....	<i>Amount</i>
	\$2,520

GENERAL PROGRAM STATEMENT

For a number of years the State Department of Public Works assumed the responsibility of keeping records of the activities on Humboldt Bay and Eureka Harbor and for a liaison with the United States Corps of Engineers which provided the maintenance of the navigable

Board of Harbor Commissioners for Humboldt Bay—Continued

channels. The activities of the Department of Public Works in relation to Eureka Harbor date back for many years.

The Legislature in 1945 created the Board of Harbor Commissioners for Humboldt Bay and transferred the responsibilities of the Department of Public Works to the Board of Harbor Commissioners. This board was to consist of three members appointed by the Governor for four-year terms with a salary of \$1,400 for one member as secretary of the board and ex officio surveyor of the port and \$400 each for the other two. Subsequently, these salaries were increased in 1964 to \$1,800 and \$500 respectively.

The board became inactive in 1954 and there was no appropriation for its support in that year or thereafter until the Governor administratively reactivated the board in 1962. Since that time, there has been an annual appropriation for the three board members, although no other operating expenses are included. We have repeatedly recommended discontinuance of state support for this board.

ANALYSIS AND RECOMMENDATIONS

The Port of Eureka on Humboldt Bay is the only port in the state for which the state government makes a direct appropriation. Other major navigable ports such as San Diego are operated entirely under local control and local support. While a state authority owns and operates the Port of San Francisco it does so on a self-sustaining basis so that the General Fund is not required to contribute. Other ports on San Francisco Bay are locally operated and supported. We suggest again that the benefits to the local economy in the Humboldt Bay and Eureka area from the presence of the Port of Eureka are more than adequate to justify local financing of any activities that are required to maintain the port and its channels in an adequate and navigable condition, with the exception of the assistance provided by the United States Corps of Engineers. For this reason we again recommend that the item be deleted at a savings of \$2,520.

PERSONAL SERVICES NOT ELSEWHERE REPORTED

ITEM 246 of the Budget Bill

Budget page 850

FOR THE STATE'S CONTRIBUTIONS TO THE BASIC HEALTH BENEFITS PLAN FOR ANNUITANTS FROM THE GENERAL FUND

Amount requested for basic health plan contribution	\$1,082,999
Estimated to be expended in 1966-67 fiscal year	967,719
Increase (11.9 percent)	\$115,280

TOTAL RECOMMENDED REDUCTION None

GENERAL PROGRAM STATEMENT

Section 22825 of the Government Code provides that the state shall contribute a portion toward the cost of retired employees' health benefit plans under the Meyers-Geddes State Employees Medical and Hospital Care Act. The contribution is now at the rate of \$6 a month per covered annuitant as fixed by statute. Active state employees are also eligible for such coverage but the state's contribution in their case is

Personal Services Not Elsewhere Reported—Continued

appropriated in the state support budget in the staff benefit line item of each agency.

The retirees covered by this appropriation are members of the Legislators', Judges', State Employees' and State Teachers' Retirement Systems and the growth of the obligation is shown below.

	1963-64	1964-65	1965-66	1966-67*	1967-68*
Number of retirees covered -----	8,832	10,488	11,014	12,346	13,822
Cost -----	\$691,506	\$834,551	\$866,171	\$967,719	\$1,082,999

* Estimated.

ANALYSIS AND RECOMMENDATIONS

The amount of \$1,082,999 requested for the budget year is based upon projected number of 13,822 retirees at \$72 per year, plus an amount for the administration and contingent expenses involved. The latter is a percentage of the total contributions (state and annuitants contributions). This amount exceeds the current year's estimated expenditures by 11.9 percent, or \$115,280, and is directly related to the estimated increase in retired participants. In our analysis of this item in 1966 the effect or impact of Medicare on this program was one of conjecture and the possibility of reducing the state's contribution for those over 65 was discussed. It is understood that at present the retirement system has approved six supplementary plans for health benefits of those over 65 and the net effect has been to provide the retiree with approximately the same benefits as the active employee but with a much reduced premium. This action does not effect the state contribution but does have a minor effect upon the administrative and contingency expenses.

We recommend approval as budgeted.

REFUND OF TAXES, LICENSES AND OTHER FEES

ITEM 247 of the Budget Bill

Budget page 850

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

Amount requested -----	\$20,000
Estimated to be expended in 1966-67 fiscal year -----	20,000
Increase -----	None
TOTAL RECOMMENDED REDUCTION -----	None

ANALYSIS AND RECOMMENDATIONS

This item is used to refund fees paid to state agencies as a necessary prerequisite to receiving permits, taking examinations and making filings and inspections and also to refund overpayments into certain revolving funds in the State Treasury to assist individuals who are under the jurisdiction or care of state agencies. These refunds are described in Sections 13140-4 of the Government Code. The refunds are noncontroversial and use of this item avoids the necessity of Board of Control action and inserting items in the claims bill. In addition, funds are made available from this item to pay prior judgments, liens or encumbrances under Government Code Section 12516.

We recommend approval as budgeted.

WORLD TRADE AUTHORITIES COORDINATING COUNCIL

ITEM 248 of the Budget Bill

Budget page 853

FOR SUPPORT OF WORLD TRADE AUTHORITIES COORDINATING COUNCIL FROM THE GENERAL FUND

Amount requested in Budget Bill		\$177,827
Budget request before identified adjustments	\$194,317	
Increase to recognize full workload change	3,269	
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Budget as adjusted for workload change	\$197,586	
Adjustment—undetailed reduction (10 percent)	19,759	
RECOMMENDED REDUCTION FROM WORKLOAD BUDGET		\$197,586
RECOMMENDED REDUCTION FROM APPROPRIATION REQUEST		\$177,827

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
Delete entire item	\$197,586	854	54

GENERAL PROGRAM STATEMENT

Effective July 1, 1965, the California World Trade Authorities Coordinating Council became operative and it assumed the responsibility for the world trade development program which formerly had been an activity of the San Francisco World Trade Center Authority.

The coordinating council consists of nine members appointed by the Governor, three of whom are members of the San Francisco World Trade Center Authority, three are members of the new Southern California World Trade Center Authority, and three are members at large. This council sets general policy for world trade promotion and establishes guidelines for the world trade authorities in San Francisco and Los Angeles. The council members receive no compensation for their services but they are allowed necessary traveling expenses.

The staff of the council consists of a director (\$20,000 per year) and 2.1 supporting clerical positions in the San Francisco office which is located in the Ferry Building. The director also has desk space and temporary clerical support in a Department of Finance office in Sacramento.

The world trade development program, which is the main activity of this council, started during 1963-64 when a commercial attaché office was opened in Mexico City. A second office was established in Tokyo in November 1965 and a third office was authorized for Europe in the current year but has not been activated. The stated objectives of these offices are to expand the overseas markets for California products and to promote tourist trade to California.

Table 1 shows a five-year comparison of the expenditures for this program. During 1963-64, and 1964-65, the expenditures for the world trade development program were reported as a separate part of the budget of the San Francisco World Trade Center Authority.

World Trade Authorities Coordinating Council—Continued

Table 1

A Five-year Comparison of Expenditures for the World Trade Development Program and the World Trade Authorities Coordinating Council

	<i>Actual</i>			<i>Estimated</i>	
	1963-64	1964-65	1965-66	1966-67	1967-68*
Personal services -----	--	--	\$30,643	\$34,054	\$34,392
Operating Expenses					
Commercial attachés --	\$10,223	\$20,228	\$52,707	\$125,000	\$125,000
All other -----	3,463	25,843	24,393	37,500	34,425
Total -----	\$13,686	\$46,071	\$77,100	\$162,500	\$159,425
Equipment -----	109	701	5,359	2,000	500
Total—General Fund ---	\$13,795	\$46,772	\$113,102	\$198,554	\$194,317

* Not adjusted for workload change or 10 percent reduction.

ANALYSIS AND RECOMMENDATIONS

Since 65 percent of the council's budget is for the direct support of the overseas commercial attaché offices, the continued existence of this council is largely dependent upon whether or not these attaché offices are economically justified.

The attaché office in Mexico City has a total budget of \$25,000 per year and its trade promotion area is all of Central America. The Tokyo office has a budget of \$50,000 a year and its jurisdiction is all of the Far East even though the office concentrates on Japan. The proposed office in Milan, Italy, has a tentative budget of \$50,000 a year and its jurisdiction will be all of Europe.

The attaché offices engage in the following types of activity :

1. Guide California businessmen to public or private foreign agencies which might be interested in their products.
2. On occasion, help locate a foreign trade representative (private agent) to handle the foreign business of a California firm.
3. Develop trade leads and follow up on trade inquiries. The leads are transmitted to the coordinating council which in turn assigns them to the deputies at the San Francisco and Southern California World Trade Centers for processing.

The California attaché offices are only a small part of and a recent addition to the total activity which is devoted to foreign trade. Others engaged in this activity are:

1. Private trading companies (e.g., over 70 percent of the trade between California and Japan is carried on by the trading companies and the major share of that business is handled by 11 of these firms),
2. Private California manufacturers or producers which handle their own foreign trade,
3. Transportation companies such as steamship lines,
4. California and foreign banks,
5. The U.S. State Department through its commercial attaché staff,
6. The U.S. Department of Commerce,
7. The U.S. AID program, and
8. Some of the chambers of commerce in California.

World Trade Authorities Coordinating Council—Continued

Since there are so many private and public groups which are well established in the foreign trade field, the logical question is what benefit does the California state government hope to obtain by also participating in this program. For example, what is the *marginal value* to California of establishing an attaché office in Milan, to cover all of Europe, when the State Department (as one example) has 60 commercial attachés in 26 locations to cover the same area?

Or, what is the *marginal value* of our one-man office in Mexico City compared to the 17 State Department commercial attachés in Central America? The same reasoning also applies to the Far East where the State Department has 26 commercial attachés while we have 1 man in Tokyo. The coordinating council never has compiled the information which would be needed to judge the economic effectiveness of its attaché offices, in relation to the public cost.

Since the California attaché offices are engaged in the promotion of private business, their usefulness should be judged on the same basis as that of a private firm, i.e., do they produce enough revenue to cover their costs. We calculate that these offices would have to be directly responsible for at least \$22,750,000 annually in foreign sales in order to produce sufficient state revenue to cover their \$125,000 annual cost. This calculation was arrived at in the following manner.

1. Gross sales from foreign trade -----	\$22,750,000
2. Seller's profit margin -----	10%
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3. Net income of sellers-----	\$2,275,000
4. California franchise tax rate-----	5.5%
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5. California franchise tax revenue -----	\$125,125

From all indications, the attaché offices are not able to demonstrate that they are directly responsible for foreign sales which are sufficient to cover any significant portion of their costs. The commercial attaché program, therefore, is a subsidized operation and we do not believe that foreign trade either needs or warrants a subsidy from the State of California.

Therefore, we recommend that the budget of the World Trade Authorities Coordinating Council be deleted for a General Fund savings of \$197,586, budget page 854, line 54.

SAN FRANCISCO WORLD TRADE CENTER AUTHORITY

ITEM 249 of the Budget Bill

Budget page 855

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

Amount requested in Budget Bill.....		\$73,593
Budget request before identified adjustments.....	\$79,114	
Increase to recognize full workload change.....	2,656	
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Budget as adjusted for workload change.....	\$81,770	
Adjustment—undetailed reduction (10 percent).....	8,177	

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET..... \$81,770

RECOMMENDED REDUCTION FROM APPROPRIATION REQUEST..... \$73,593

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
Delete entire item	\$81,770	855	70

GENERAL PROGRAM STATEMENT

The San Francisco World Trade Center Authority has as its stated objective the encouragement of domestic and international trade. The authority consists of the Director of Public Works, the Director of Finance, the President of the San Francisco Port Authority and eight public members appointed by the Governor.

This authority has been in existence for many years, but prior to 1963-64, it was financed entirely from the San Francisco Harbor Improvement Fund. Starting in 1965-66 the General Fund will provide the sole support for this authority.

Prior to July 1, 1965, this authority also conducted the world trade development program which has been transferred to the World Trade Authorities Coordinating Council.

This authority has a staff consisting of a deputy director (\$12,000 per year), a librarian, and 4.1 clerical positions. One of the reasons for this high ratio of clerical positions is that the trade authority acts as the *unpaid* manager and rental agent of the World Trade Center which is located in the Ferry Building in San Francisco. All of the rental proceeds, including the \$7,750 charged annually to the trade authority for its space in this building, are paid to the San Francisco Port Authority. We believe that since the Port Authority is receiving the rental proceeds, it should bear the expense of managing and renting this facility.

Table 1 shows the expenditures for this authority over a five-year period excluding those amounts attributable to the world trade development program.

San Francisco World Trade Center Authority—Continued

Table 1

A Five-year Comparison of Expenditures for the
San Francisco World Trade Center Authority

	<i>Actual</i>		<i>Estimated</i>		
	1963-64	1964-65	1965-66	1966-67	1967-68 *
Personal services -----	\$48,847	\$59,065	\$48,304	\$50,723	\$50,224
Operating expenses -----	26,933	36,821	23,932	27,890	27,890
Equipment -----	248	1,102	365	1,500	1,000
Reimbursements -----	--	-2,782	--	--	--
Total -----	\$76,028	\$94,206	\$72,601	\$80,113	\$79,114
General Fund -----	\$37,943	\$41,192	\$72,601	\$80,113	\$79,114
S.F. Harbor Improvement Fund ----	38,085	53,014	--	--	--

* Not adjusted for workload change or 10 percent reduction.

ANALYSIS AND RECOMMENDATIONS

At present, the San Francisco World Trade Center Authority is engaged in two main activities: (1) planning for the creation of a new world trade center in San Francisco which will be financed from revenue bonds, and (2) processing foreign trade leads and assisting in general in the development of foreign trade.

The authority is proposing to contract for a feasibility study to determine what type of a world trade center should be built, the location, and whether or not it will be financially self-sufficient.

The trade promotion primarily involves the processing of the trade leads developed by the overseas attaché offices. These leads are general indications (rather than specific orders) that certain foreign business firms are interested in buying various types of products. This office processes the leads by phoning and writing to California businessmen that might handle the product to determine if they are interested in selling in the foreign market. If the California businessman expresses an interest in the trade lead, then the authority tells him how to contact the foreign buyer. All the details of the possible foreign trade transaction are left to the California businessman. This authority does not act as his agent.

Since this authority is engaged in the promotion of private business, its usefulness should be judged on the same basis as that of a private firm, i.e., does it produce enough revenue to cover its costs. We calculate that the office would have to be directly responsible for about \$14,800,000 in annual foreign sales in order to produce sufficient state revenue to cover its \$81,770 annual cost. This calculation was arrived at in the following manner.

1. Gross sales from foreign trade -----	\$14,800,000
2. Seller's profit margin -----	10%
3. Net income of sellers -----	\$1,480,000
4. California franchise tax rate -----	5.5%
5. California franchise tax revenue -----	\$81,400

San Francisco World Trade Center Authority—Continued

This office has not been able to demonstrate that it is directly responsible for any significant fraction of the foreign sales which are needed to cover its costs. As in the case of the southern California authority, it is therefore a subsidized operation and we do not believe that foreign trade in either of these metropolitan areas warrants a special subsidy from the state government. *Therefore, we recommend that the budget of the San Francisco World Trade Center Authority be deleted for a General Fund savings of \$81,770, budget page 855, line 70.*

If the San Francisco world trade industry desires to subsidize this authority, we believe its operations should be financed out of the San Francisco Harbor Improvement Fund, which was the practice prior to 1965-66.

SOUTHERN CALIFORNIA WORLD TRADE CENTER AUTHORITY

ITEM 250 of the Budget Bill

Budget page 856

FOR SUPPORT OF THE SOUTHERN CALIFORNIA WORLD TRADE CENTER AUTHORITY FROM THE GENERAL FUND

Amount requested in Budget Bill		\$47,115
Budget request before identified adjustments	\$50,268	
Increase to recognize full workload change	2,082	
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Budget as adjusted for workload change	\$52,350	
Adjustment—undetailed reduction (10 percent)	5,235	

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET..... \$52,350

RECOMMENDED REDUCTION FROM APPROPRIATION REQUEST

\$47,115

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>	<i>Page</i>	<i>Line</i>
Delete entire item	\$52,350	856	63	

GENERAL PROGRAM STATEMENT

This authority was activated during 1964-65 and it is composed of the Director of Public Works, the Director of Finance, and seven members appointed by the Governor. The stated objective of the authority is to develop domestic and international trade in the natural, processed and manufactured products of this state.

The authority has a staff consisting of a deputy director (\$12,000 per year) and 2.1 clerical positions.

The following table shows the budgets of this authority since it was activated:

A Four-year Comparison of Expenditures for the Southern California World Trade Center Authority

	<i>Actual</i>		<i>Estimated</i>	
	<i>1964-65</i>	<i>1965-66</i>	<i>1966-67</i>	<i>1967-68 *</i>
Personal services	\$2,205	\$21,464	\$25,285	\$25,918
Operating expenses	7,271	14,888	23,850	23,850
Equipment	481	5,568	3,336	500
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Total—General Fund	\$9,957	\$41,920	\$52,471	\$50,268

* Not adjusted for workload change or 10 percent reduction.

Southern California World Trade Center Authority—Continued

ANALYSIS AND RECOMMENDATIONS

At present, the Southern California World Trade Center Authority is engaged in two main activities: (1) planning for the creation of a new world trade center in Los Angeles which will be financed from revenue bonds, and (2) processing foreign trade leads and assisting in general in the development of foreign trade.

The authority has contracted for a feasibility study to determine what type of a world trade center should be built, the location, and whether or not it will be financially self sufficient.

The trade promotion primarily involves the processing of the trade leads developed by the overseas attaché offices. These leads are general indications (rather than specific orders) that certain foreign business firms are interested in buying various types of products. This office processes the leads by writing to California businessmen that might handle the product to determine if they are interested in selling in the foreign market. If the California businessman expresses an interest in the trade lead, then the authority tells him how to contact the foreign buyer. All the details of the possible foreign trade transaction are left to the California businessman. This authority does not act as his agent.

Since this authority is engaged in the promotion of private business, its usefulness should be judged on the same basis as that of a private firm, i.e., does it produce enough revenue to cover its costs. We calculate that the office would have to be directly responsible for about \$9,500,000 in annual foreign sales in order to produce sufficient state revenue to cover its \$52,350 annual cost. This calculation was arrived at in the following manner:

1. Gross sales from foreign trade -----	\$9,500,000
2. Seller's profit margin -----	10%
3. Net income of sellers -----	\$950,000
4. California franchise tax rate -----	5.5%
5. California franchise tax revenue -----	\$52,250

From all indications, this office is not able to demonstrate that it is directly responsible for even a respectable fraction of the foreign sales which are needed to cover its costs. The authority, therefore, is a subsidized operation and we do not believe that foreign trade in southern California warrants a subsidy from the state government. *Therefore, we recommend that the budget of the Southern California World Trade Center Authority be deleted for a General Fund savings of \$52,350, budget page 856, line 63.*

MIGRANT MASTER PLAN

ITEM 251 of the Budget Bill

Budget page 857

FOR SUPPORT OF THE MIGRANT MASTER PLAN FROM THE GENERAL FUND

Amount requested in Budget Bill.....		\$295,372
Budget request before identified adjustments.....	\$328,191	
Increase to recognize full workload change.....	None	
Budget as adjusted for workload change.....	\$328,191	
Adjustment—undetailed reduction (10 percent)	32,819	

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET..... None

BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING \$32,819

ANALYSIS AND RECOMMENDATIONS

The General Fund monies in this item are proposed as the state matching amount for the management, child day care, education and sanitation elements of the Migrant Master Plan. Federal funds under Title IIIb of the Economic Opportunity Act are provided on a 90-10 matching basis for migrant camp operations and a 100 percent basis for capital outlay.

The amounts proposed for the budget year are as follows:

(a) Shelter construction		
Federal funds (100 percent)	\$1,237,500	
(b) Operations		
Federal funds (90 percent)	2,953,722	
General Fund (10 percent)	328,191	
		<u>\$4,519,413</u>

The Budget Act reflects a 10-percent undetailed reduction, or \$295,372 of General Fund support. This would cause a corresponding reduction in federal operations money.

This item is described in greater detail on page 20 of the analysis in the discussion of the administration of the Migrant Master Plan.

PAYMENT OF INTEREST ON GENERAL FUND LOANS

ITEM 252 of the Budget Bill

Budget page 861

FOR PAYMENT OF INTEREST ON GENERAL FUND LOANS FROM THE GENERAL FUND

Amount requested	\$15,865,241
Estimated to be expended in 1966-67 fiscal year.....	10,258,084
Increase (54.7 percent).....	\$5,607,157

TOTAL RECOMMENDED REDUCTION..... None

ANALYSIS AND RECOMMENDATIONS

Because a lack of correlation in timing exists between General Fund revenues and expenditures on a month-to-month basis throughout the year (two-thirds of the 1965-66 revenues were received during the last six months of the year, while the monthly rate of expenditures was more nearly constant) it has been necessary in recent years for the

Payment of Interest on General Fund Loans—Continued

General Fund to borrow from special funds in order to meet expenditures pending collection of revenues.

Interest payments on these loans have been required under Section 16310.5 of the Government Code since 1961 when the section first became operative, with the amounts budgeted for interest, the deficiencies, the savings, and the actual expenditures being as follows:

<i>Fiscal year</i>	<i>Amount budgeted</i>	<i>Deficiencies</i>	<i>Savings</i>	<i>Actual expenditures</i>
1961-62 -----	\$310,000	---	\$301,096	\$8,904
1962-63 -----	500,000	---	432,466	67,534
1963-64 -----	385,000	---	271,227	113,773
1964-65 -----	87,500	\$1,050,860	4	1,138,356
1965-66 -----	1,883,336	---	365,940	1,517,396
1966-67 (est.) -----	10,080,884	177,200	---	10,258,084
1967-68 (proposed) ----	15,865,241	---	---	15,865,241

The deficiencies in 1964-65 and 1966-67 were covered by an allocation from the emergency fund.

Section 16310.5 was amended in 1965 to provide for payment of interest at a rate determined by the Pooled Money Investment Board to be that which the money borrowed would earn if otherwise invested. Formerly it was the maximum rate allowed interest-bearing time deposits in banks at the time of the loan.

Table 1 shows the General Fund borrowings and repayments during 1965-66. In that year a total of \$321 million was borrowed by the end of February of 1966, and all of these funds were repaid by the end of May in 1966.

Table 1
General Fund Borrowings, 1965-66, by Months
and by Funds, Amounts in Millions

<i>Borrowed:</i>	<i>Total</i>	<i>SMIF *</i>	<i>By Funds</i> <i>ARF †</i>	<i>HF ‡</i>
October 1965 -----	\$47	---	\$47	---
November -----	10	---	10	---
December -----	85	\$15	40	\$30
January 1966 -----	75	65	10	---
February -----	104	104	---	---
Total borrowed -----	\$321	\$184	\$107	\$30
<i>Repaid:</i>				
March -----	\$150	\$120	---	\$30
April -----	121	64	\$57	---
May -----	50	---	50	---
Total repaid -----	\$321	\$184	\$107	\$30

* Surplus Money Investment Fund.

† Architecture Revolving Fund.

‡ Highway Fund.

The budget document, page 861, indicates maximum borrowings during 1966-67 of \$524 million, and, unlike the preceding year, an unrepaid balance at June 30, 1967, of \$54 million.

Latest available estimates, as this is written, indicate maximum borrowings of \$560 million during 1966-67, the peak occurring during February, with a possible unpaid balance at June 30, 1967, of from

Payment of Interest on General Fund Loans—Continued

\$130 million to \$180 million. If these revised estimates are accurate the interest calculations for the current year of \$10,258,084 may be too low.

Table 2 shows actual General Fund borrowings through January 1967 by funds with an estimate for February 1967.

Table 2
General Fund Borrowings, 1966-67, by Months and by Funds,
Amounts in Millions

<i>Borrowed</i>	<i>Total</i>	<i>SMIF</i> ¹	<i>ARF</i> ²	<i>HF</i> ³	<i>PMIA</i> ⁴
August 1966 -----	\$41	\$41	---	---	---
September -----	29	9	---	\$20	---
October -----	88	33	\$25	30	---
November -----	66	17	---	---	\$49
December -----	90	---	---	---	90
January 1967 -----	116	69	---	---	47
February (est.) -----	130	130	---	---	---
Total borrowings -----	\$560	\$299	\$25	\$50	\$186

¹ Surplus Money Investment Fund.

² Architecture Revolving Fund.

³ Highway Fund.

⁴ Pooled Money Investment Account.

The budget estimates that new borrowings (not including the amount carried over from the current year) during 1967-68 will amount to \$573 million. This figure is subject to a wide margin of error depending upon what level of expenditures and types of new taxes are finally approved by the Legislature. Any substantial reduction in expenditures, of course, will reduce borrowing needs. If the Legislature approves new tax sources which provide cash receipts almost on a current basis, then this action also will reduce borrowing needs during the budget year.

The interest rate on actual borrowings during the current year, through January 1967 has ranged from 4.856 percent to 5.128 percent, the weighted average being approximately 5 percent.

The amount budgeted for interest payments during 1967-68 assumes a 5 percent rate.

Since this is a necessary cost to the General Fund under existing law, *we recommend approval as budgeted.*

PROVISION FOR SALARY INCREASES

ITEM 253 of the Budget Bill

Budget page 861

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

Amount requested -----	\$2,684,344
TOTAL RECOMMENDED INCREASE -----	\$3,800,000

Provision for Salary Increases—Continued

Summary of Recommended Increases

	<i>Amount</i>
Salary increase of 6.5 percent for academic personnel of University of California -----	\$4,600,000
Salary increase of 3.5 percent for academic personnel of the state colleges (5-percent salary increase for state college personnel included in budget) -----	\$2,200,000

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total of \$2,684,344 from the General Fund for salary increases for the registered nurse and public health nurse classes of state government for the 1967-68 fiscal year. In addition \$26,533 is proposed from special funds for the same classes. The funds would continue an increase in salary for the above classes retroactive to November 1, 1966, which the administration will propose at the 1967 session of the Legislature through a deficiency bill. The eight-month cost of the deficiency bill for the 1966-67 fiscal year would be \$1,743,316 from the General Fund and \$15,931 from special funds.

The effect of the budget proposal would be to grant a 17.5-percent salary increase for graduate nurses, a 15-percent salary increase for registered nurses above the graduate nurse level (psychiatric nurses), and a 10-percent salary increase for public health nurses. The following table presents a cost breakdown by year and salary setting authority.

<i>Salary setting authority</i>	<i>1966-67</i>	<i>1967-68</i>
State Personnel Board (civil service) -----	\$1,530,065	\$2,391,697
Regents of the University of California -----	143,300	214,800
Trustees of the State Colleges -----	69,951	104,380
Total -----	\$1,743,316	\$2,710,877
General Fund -----	(\$1,727,385)	(\$2,684,344)
Special funds -----	(\$15,931)	(\$26,533)

The budget states that it "contains funds sufficient to give salary adjustments to state employees only in those areas most seriously out of line with comparable employment, and where management difficulties are occurring as a result of such deficiency." Thus, on this basis, there are no funds proposed in the budget for any state classes other than the nursing classes.

PERSONNEL BOARD RECOMMENDATIONS

Pursuant to Government Code Section 18712 the State Personnel Board must submit a report annually to the Governor and the Legislature on state salaries and personnel management. On December 2, 1966, the board adopted a report and forwarded it on to the Governor and each house of the Legislature. Subsequent to that report, the board adopted a special supplemental report dated January 6, 1967, relating to the subject of salaries for nursing and related classes.

For purposes of our discussion and analysis of the salary increase item in the Governor's Budget, we shall treat the two reports as one basic overall recommendation of the Personnel Board to the Governor and the Legislature. The reason for the supplemental report on nursing

Provision for Salary Increases—Continued

classes was one of timing. It was necessary to compile more data on the nursing classes than time would permit for inclusion in the board's principal report.

The State Personnel Board has made the following recommendation for salary adjustments for the civil service classes of state government.

**State Personnel Board Recommendation
Civil Service Classes
1967-68 Fiscal Year**

<i>Employee classification</i>	<i>General Fund</i>	<i>Special Fund</i>	<i>Total</i>
Five-percent increase for all civil service employees -----	\$22,385,000	\$25,874,200	\$48,259,200
Additional 5-percent for approximately 15,700 employees (exclusive of nursing classes)	5,580,000	2,279,000	7,859,000
Recommended increases for nursing classes in addition to overall 5-percent proposal *	2,391,697	26,533	2,418,230
a. Hospital registered nurse—17.5-percent			
b. Psychiatric nurse—15-percent			
c. Public health nurse—10-percent			
Psychiatric technician * additional 5-percent increase -----	3,900,638	--	3,900,638
Totals -----	\$34,257,335	\$28,179,733	\$62,437,068

* The State Personnel Board recommended the nursing and nursing related classes be increased retroactively to November 1, 1966. The 1966-67 cost for such action would be \$4,008,586 from the General Fund and \$18,437 from special funds.

Salary Survey Data

A. 1966-67 Salary Adjustment Program

In its 1965 Report to the Governor and the Legislature, the Personnel Board indicated that funds would be needed in the 1966-67 fiscal year to provide a general 4 percent adjustment for state employees plus additional funds to provide special inequity adjustments for small groups of state employees. The salary increase needs noted by the Personnel Board would have cost \$17,900,000 from the General Fund and \$17,600,000 from special funds.

The salary adjustment needs for the 1966-67 fiscal year were created by a continuation of the 3-percent to 4-percent annual rate of increase in private industry salaries and salary increases ranging from 3.0 percent to 4.1 percent granted by major public agencies in California. In arriving at an estimate of salary fund needs the Personnel Board allowed for clearly established trends through March 1966.

Salaries did continue to increase and funds were appropriated to provide the needed adjustments on July 1, 1966. In July of 1966 the Personnel Board provided increases in state salaries ranging from the general 4-percent increase to special increases of 6.5 percent, 7 percent and 9 percent:

87,000 employees representing all permanent classes except those receiving larger increases received 4-percent increases.

2,100 parole, probation and social worker classes were provided 6.5-percent increases.

4,500 correctional officers and Youth Authority group supervisors were given 7-percent increases; the additional 3 percent was made

Provision for Salary Increases—Continued

possible by a special augmentation of the Salary Increase Fund by the Legislature for this purpose.

6,200 employees including teachers, education administrators, doctors, sanitarians, public health officials, employment relations workers, investigators, librarians and safety engineers received 9 percent increases.

All of these increases were effective July 1, 1966, except the 4-percent increases for clerical, stenographic and allied classes which were effective April 1, 1966.

Generally speaking, the adjustment brought state salaries into reasonable alignment with salaries prevailing outside state service as of March 1966.

B. October 1966 Salary Survey

For the three-year period ending in March 1966, the Personnel Board's surveys of private industry salaries showed a fairly uniform rate of increase approximating 3.5 percent a year. In the six-month period of April to October 1966, however, there is strong evidence of a definite upturn in the rate of increase in salaries and wages.

The Personnel Board's surveys show that between March 1966, the date of the last surveys preceding the July adjustments, and October 1966 private industry salary levels have increased 2.7 percent. This is the largest six-month percentage increase since 1963 when there was also a 2.7-percent increase between March and October. Based on the 1963 data and other factors the Legislature at that time appropriated funds for an overall 6.6 percent to be effective on January 1, 1964. Others engaged in measuring salary trends have noted the same upturn. In October 1966, the Bureau of National Affairs reported that negotiated wage increases averaged 11.2 cents an hour during the third quarter of 1966—the highest third-quarter average since the bureau's surveys were started in 1945.

C. Nursing Salaries

The changes in nursing salaries have been the most drastic and most publicized wage changes in California. Wage agreements negotiated before the September surveys conducted by the Personnel Board resulted in more than a 20-percent increase in the board's survey data for nurses since March 1966. Recommendations of an industry and labor factfinding committee have resulted in further increases.

The net effect of the basic salary survey and special supplemental survey of the board is that the board has recommended an immediate 17.5-percent salary increase for the registered nurse class retroactive to November 1, 1966, and the 5-percent increase proposed for all other state employees July 1, 1967. A retroactive 5-percent increase is proposed for the psychiatric technician classes and the 5-percent increase proposed for all other state employees July 1, 1967.

The Governor's Budget proposes the salary increase for the nursing classes but not the psychiatric technician classes.

Provision for Salary Increases—Continued

RECOMMENDATIONS

Section 18850 of the Government Code states that "The salary range [of civil service employees] shall be based on the principle that like salaries shall be paid for comparable duties and responsibilities. In establishing or changing such ranges consideration shall be given to the prevailing rates for comparable service in other public employment and in private business."

In implementing this directive, the State Personnel Board has established a classification system which permits the application of equal pay for comparable duties within the state government, and in order that consideration can be given to rates in private industry, makes periodic wage surveys of the trend of salary increases in other public and in private employment so that recommendations can be made to and the Legislature advised as to private industry wage trends. Although the law places no directive upon the Legislature to appropriate for salary levels in any fixed relationship to private industry rates for comparable positions, over the past recent period the Personnel Board has recommended rate adjustments which would keep state rates in reasonably direct comparison to industry trends and in most instances the Legislature has provided funds which were intended to maintain comparability with private industry.

For the past two years salary increases for state employees have averaged 4 percent per year. These increases have reflected a combination of the average cost-of-living increases and increased productivity experienced in private industry. Although state salaries are based on a comparison of salaries paid in private industry and other governmental jurisdictions, indirectly they are affected by cost-of-living increases since salaries paid in private industry are directly affected by increases in living costs and increased productivity. Salary increases slightly in excess of the private industry average increase of 3.5 percent for each of the past two years have been granted reflecting special adjustments granted classes of strictly a governmental nature, such as correctional officer. There is ample evidence that during 1966 salaries paid in private industry have increased at a rapid rate.

We have reviewed the salary survey data presented by the State Personnel Board and are convinced that by March 1967, when the board's next survey is completed, nearly all state salary ranges will be approximately 4 percent below that prevailing in private industry and other governmental jurisdictions. Historically, the rate of increase in salaries between October and March is not as rapid as compared to the March—October period. Analysis of the past five years show the following relationship:

Survey year March to March	Percentage increase		
	March to October	October to March	March to March
1966-67 -----	2.7	--	--
1965-66 -----	1.8	1.7	3.5
1964-65 -----	2.0	1.5	3.5
1963-64 -----	2.7	0.5	3.2
1962-63 -----	2.0	1.3	3.3
1961-62 -----	2.8	1.9	4.7

Provision for Salary Increases—Continued

By July 1, 1967, state salaries may be out of adjustment by 5 percent; however, we have consistently recommended in the past that salary increase funds be appropriated on the basis of actual data gathered by the board and not on the basis of projections beyond the March survey.

In addition to the overall salary adjustment program, there is clear indication that many state classes are considerably more than 4 percent out of line or can be expected to be by the March survey. The Personnel Board salary survey of October 1966 which showed six months' increase in salaries paid by private industry also showed that positions in the category called "professional" had increased 4.6 percent.

Many of the classifications that are out of line in excess of 4 percent did not show up in the private industry survey because they are solely of a governmental nature. A comparison with salaries paid by the federal government, counties and cities indicates that such classes as fire suppression, parole and social welfare are lagging in comparison to salary increases already granted, not projected.

Some large classes such as food preparation and laundry service are being increased due to a general rise in salaries in private and other public institutions. Several classifications comprising over 6,300 employees were not given salary adjustments in the past due to lack of funds; however, survey data clearly indicate the state is currently paying 10 percent less than private industry for positions doing comparable work.

Pending receipt of the April report of the State Personnel Board, we make no specific recommendation on salaries for civil service and special fund agency personnel. In principle, however, we believe that provision for competitive salary increases for state personnel should be included in the budget, particularly since a major tax program designed to meet reasonably long-range expenditure requirements of the state properly would include provision for adequate salaries.

**University and State College
Academic Salaries**

The 1966 Budget Act appropriated an amount of \$5,965,255 for faculty salary increases for the California State Colleges for 1967-68. The Governor's Budget for 1967-68 makes no provision for any comparable increase for the University of California nor any further adjustment for the state colleges. In our opinion, however, procedures adopted by the Legislature during the past two years relative to academic salary increases make it mandatory that this matter be given further consideration.

It has been the Legislature's policy in recent years to authorize such salary increases for University and state college faculty members as are necessary for each system to maintain salary parity, on the average, with other institutions which have comparable programs and objectives. This has been the principal justification for the salary increases which have been granted over the past eight years as indicated in Table 1. This is essentially the same policy of comparability as has evolved with respect to civil service salaries.

Provision for Salary Increases—Continued

Table 1
Academic Salary Increases
1959-60 Through 1966-67

	University of California	California State Colleges	Effective date
1959-60 -----	5%	5%	7/1/59
1960-61 -----	7.5	7.5	7/1/60
1961-62 -----	--	--	--
1962-63 -----	6	6	4/1/62
1963-64 -----	5	5	1/1/64
1964-65 -----	--	--	--
1965-66 -----	7	10	7/1/65
1966-67 -----	2.5 *	6.6	7/1/66
1967-68 -----	--	5	7/1/67

* Plus employer contributions equivalent to 3.0 percent for an annuity to complement retirement system.

In order to regularize the manner of determining the amount of salary increase, if any, required to maintain salary parity between the University and the state colleges, on the one hand, and comparable institutions, on the other, the Legislature at the 1965 General Session adopted Senate Concurrent Resolution No. 51 endorsing a report prepared by this office outlining the type of salary, fringe benefits and other data to be submitted annually for consideration by the Legislature. This annual report is prepared and submitted to the Governor and the Legislature by the Coordinating Council for Higher Education which, under the 1960 Donahoe Higher Education Act, is required to comment upon the general level of support sought each year by the University and state colleges.

The council has submitted its report for 1967-68 and has recommended a general academic salary increase of 6.5 percent for the University and 8.5 percent for the state colleges. The council has also recommended, as indicated in Table 2, increases in fringe benefits for 1967-68 and an additional general salary increase of 5 percent for 1968-69. The latter is only a rough estimate of actual need for 1968-69, and primarily represents a proposal to extend to both systems the tentative advance increase provided for the state colleges for 1967-68 at the 1966 session.

Table 2
Recommendations for Salary Increases Submitted by the
Coordinating Council for Higher Education

	California State Colleges	University of California
Academic salary increase		
General faculty -----	8.5%	6.5%
Professional schools -----	--	1.0 *
Fringe benefits * -----	1.9	3.1
Academic salary increase for 1968-69 -----	5.0	5.0

* Expressed as a percentage of total salary funds.

To arrive at the recommended general faculty increases of 8.5 percent and 6.5 percent, the council compared data from surveys of comparable institutions with current salary levels for the University and the state colleges. The five institutions with which the University salaries were compared were Columbia, Harvard, Michigan, Yale and

Provision for Salary Increases—Continued

Princeton. These are the same institutions as were used for salary comparisons last year. The 10 institutions with which state college salary comparisons were made were Brooklyn College, Bowling Green, Brandeis University, Iowa State University, Occidental, Pomona, Purdue University, Rutgers, Southern Illinois University and the University of Oregon. Three of these, Brandeis, Iowa State and Oregon, were used for the first time, replacing Carleton College, Wesleyan and Colorado State University, which were on the list of comparative institutions for 1966-67 but did not provide salary data in response to the state college questionnaire. Although we do not agree that the three new institutions are entirely acceptable substitutes, as they do not appear to meet the same standards of overall quality, their exclusion now would not improve the survey data significantly.

The data reported for the comparison institutions is for the current year. In order to project this into the budget year, a five-year trend was established for each rank. The results are indicated in Tables 3 and 4 which are reproduced from the council's report.

Table 3
Increases Necessary for University of California Faculty in Letters and Science to Achieve Salary Parity with Comparison Institutions

	<i>Professor</i>	<i>Associate professor</i>	<i>Assistant professor</i>	<i>Instructor</i>	<i>All ranks (adjusted)</i>
Estimated 1967-68 salaries of five universities *	\$19,509	\$12,654	\$9,679	\$7,648	\$12,785
1966-67 salaries of University of California	17,638	12,048	9,427	7,229	12,005
Dollar increase 1967-68 over 1966-67	1,871	606	252	419	780
Percentage increase 1967-68 over 1966-67					6.3%

* Projected on the basis of a five-year trend.

Table 4
Increases Necessary for California State College Faculty to Achieve Salary Parity with Comparison Institutions

	<i>Professor</i>	<i>Associate professor</i>	<i>Assistant professor</i>	<i>Instructor</i>	<i>All ranks (adjusted)</i>
Estimated 1967-68 salaries of 10 institutions *	\$16,490	\$12,486	\$10,081	\$7,856	\$12,342
1966-67 salaries of California State Colleges	15,048	11,494	9,266	7,965	11,360
Dollar increase 1967-68 over 1966-67	1,442	992	815	-109	982
Percentage increase 1967-68 over 1966-67					8.6% †

* Projected on the basis of past five-year trend.

† Reduced to 8.5 percent in council recommendations.

With regard to fringe benefits, the council estimates that the state colleges will be 1.9 percent behind the average for their comparison institutions and the University will be 3.1 percent behind theirs. These estimates are drawn from the annual salary report of the American

Provision for Salary Increases—Continued

Association of University Professors, in which the common fringe benefits are converted to current salary equivalents for comparison purposes.

A separate comparison has been made for University professional school faculty in each of four areas: business administration, education, engineering and law. The University analysis developed the figures indicated in Table 5, and the council converted the individual salary increases into a combined increase expressed as a percentage of total salaries (1.0 percent).

Table 5
Proposed Salary Increases for Professional School Faculty

<i>Professional school</i>	<i>University of California average salary 1966-67</i>	<i>Adjusted average salary of the five comparison institutions 1967-68</i>	<i>Percentage increase required for parity</i>
Four professional schools.....	\$13,144	\$14,913	+13.46%
Business administration	11,995	13,910	+15.96
Education	11,983	13,442	+12.17
Engineering	13,076	14,802	+13.20
Law	17,277	20,960	+21.20

In our opinion there are several reasons why the proposed salary increases of 6.3 percent for the University and 8.5 percent for the state colleges (3.5 percent after deducting the 5 percent appropriated in 1966 for 1967-68) should be given careful consideration. During the past three years the Legislature, by special resolutions as well as by appropriations, has given strong indication of its intent to regularize the salary increase process so that the policy of expressing and maintaining comparability of academic salaries will become clearly established. This has been done because the Legislature has recognized the importance that a strong salary structure has for the maintenance of the quality of California's educational institutions in today's market for academic personnel. As evidence of this, the Senate Finance Committee described salary increase funds for the state colleges in 1965 as being intended "to increase the ability of the colleges to obtain an increasingly high quality faculty" as the primary means of strengthening their instructional program. Salary parity is mandatory if California is to continue to develop and maintain the system of public higher education to which it has been committed under the 1960 Master Plan.

Our preliminary estimate of the total cost of the increases for 1967-68 which are recommended by the Coordinating Council is \$14.1 million, of which \$8.6 million is for the general increase of 6.5 percent for the University, \$1.3 million is for the additional 1.0 percent for professional school faculty and \$4.2 million is for the balance of 3.5 percent to increase state college academic salaries by a total of 8.5 percent for 1967-68. An additional amount of \$6.4 million would be required to increase fringe benefits according to the council's recommendations.

We recommend an augmentation of the budget bill in the amount of \$8.1 million to provide for University and state college salary in-

Provision for Salary Increases—Continued

creases for 1967-68 as recommended by the Coordinating Council for Higher Education on the basis that an additional amount of \$2 million from the state colleges and \$4 million from the University be made available from administered savings to produce the total of \$14.1 million required.

RESERVE FOR CONTINGENCIES—EMERGENCY FUND

ITEM 254 of the Budget Bill

Budget page 863

FOR SUPPORT OF THE EMERGENCY FUND TO BE EXPENDED ONLY UPON WRITTEN AUTHORITY OF THE DEPARTMENT OF FINANCE FROM THE GENERAL FUND

Amount requested	\$1,000,000
Appropriated by the 1966 Budget Act	1,000,000
Increase	None
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS AND RECOMMENDATIONS

The Emergency Fund provides a source from which the Department of Finance can allocate funds to state agencies for expenses which result from unforeseen contingencies and which are not covered by appropriations made by law. The item also includes a proposal, as it has in prior years, for authority to make loans to agencies whose operations would be curtailed due to delayed receipt of reimbursements or revenues. The authorization for loans for 1967-68 is for \$750,000, the same as that for 1966-67. In prior years the amount was \$500,000. Interest would be charged on loans made to special funds.

The amount proposed, \$1,000,000, amounts to a token request since total allocations from the fund have exceeded the budgeted amount in 9 of the last 12 years, including every year since 1959-60, and deficiency appropriations have been necessary. For the current year, the Department of Finance indicates that a deficiency appropriation of \$8,045,413 will be requested to augment the \$1,000,000 appropriated for the fund in the Budget Act of 1966.

The history of funds appropriated, amounts allocated to agencies as shown in the printed budgets and deficiency appropriations, starting with 1954-55 is shown below:

Contingency Fund, Appropriations and Allocations, 1954-55 to 1966-67

<i>Fiscal year</i>	<i>Appropriated</i>	<i>Allocated to agencies</i>	<i>Deficiency appropriation</i>
1954-55	\$1,614,858	\$806,840	--
1955-56	1,000,000	879,777	\$220,234
1956-57	1,000,000	1,089,345	500,000
1957-58	1,500,000	561,342	--
1958-59	1,000,000	995,925	--
1959-60	1,000,000	2,123,785	1,325,839
1960-61	1,000,000	1,212,920	340,000
1961-62	1,000,000	3,875,690	3,200,000
1962-63	1,000,000	2,010,668	1,500,000
1963-64	1,000,000	4,297,640	4,750,000
1964-65	1,000,000	5,106,500	4,436,500
1965-66	1,000,000	5,148,643	5,400,000
1966-67	1,000,000	7,535,340 (est.)	8,045,413
1967-68 (proposed)	1,000,000	--	--

Reserve for Contingencies—Emergency Fund—Continued

For 1966-67, it is estimated that allocations from the fund will total \$8,045,413. These allocations are summarized as follows, with all amounts in excess of \$100,000 being separately identified.

Support	
Increased salaries of Senators.....	\$200,000
Increased salaries of Assemblymen.....	400,000
Corrections:	
Increased cost of court cases and county charges related to inmates...	125,000
Unrealized reimbursements and increased feedings costs, institutions for felons.....	361,533
Board of Equalization:	
Increased Department of Motor Vehicle charges for collection of use taxes.....	362,000
Price increases.....	123,616
Department of Social Welfare—unrealized reimbursements.....	105,000
Department of Justice—expense in defense of state's interest, in 69 claims resulting from 1964-65 flood damage.....	111,750
Military Department—San Francisco riot expense.....	134,670
Department of Conservation—emergency fire suppression and detection..	1,100,000
Rate increase—payment of interest on General Fund loans.....	177,200
Workmen's Compensation Benefits for State Employees—increased costs.....	120,000
Workmen's Compensation for Subsequent Injury—increased costs.....	150,000
All other—37 items under \$100,000 each.....	869,644
Total support	\$4,340,413

Local Assistance

Mental Hygiene—additional assistance to local agencies for mental health services.....	\$3,200,000
Additional contribution to Judges' Retirement Fund.....	390,000
Other.....	5,000
Total local assistance	\$3,595,000

Capital Outlay

Alterations to State Building, Los Angeles, to house new court division.....	\$110,000
Grand total	\$8,045,413

Loans for 1966-67, as indicated in the printed budget are expected to total \$413,000, as follows:

Second District Agricultural Association.....	\$200,000
State College Parking Revenue Fund.....	175,000
Funeral Directors and Embalmers Fund.....	38,000
Total	\$413,000

Seven loans were made during 1965-66 for a total of \$851,695, as shown in the printed budget, pages 864 to 867, but the total borrowings at any given time did not exceed \$750,000.

None of the expenditures being financed from the Emergency Fund during 1966-67 have been subject to legislative review. Where appropriate, we comment upon such expenditures by individual agencies in the analysis of the budget request of the agency.

In recent years both the Budget Act and the special appropriation acts augmenting the Emergency Fund have provided for better control

Reserve for Contingencies—Emergency Fund—Continued

over expenditures from the Emergency Fund than formerly was the case.

For example, Item 278 of the Budget Act of 1965, contained new language defining emergencies as those “. . . which in the judgment of the Director of Finance constitute cases of real necessity.” This language has been included in all comparable subsequent items. Item 278 also contained the following new language “It is contemplated that future augmentations to the Emergency Fund shall be made only for specified uses.”

Augmentations to the Emergency Fund provided by Chapter 250, Statutes of 1965, and Chapter 77, Statutes of 1966, First Extraordinary Session, both provided for reporting by the Department of Finance to the Joint Legislative Budget Committee two months after the close of the preceding fiscal year of all allocations made during that year.

We recommend approval as budgeted.

TORT LIABILITY CLAIMS

ITEM 255 of the Budget Bill

Budget page 872

FOR THE ADMINISTRATION AND PAYMENT OF TORT LIABILITY CLAIMS FROM THE GENERAL FUND

Amount requested	\$671,548
Estimated to be expended in 1966-67 fiscal year	721,583
Decrease	\$50,035

TOTAL RECOMMENDED REDUCTION..... None

GENERAL PROGRAM STATEMENT

This appropriation is for the payment of valid claims of less than \$1 million resulting from the tortious acts of most state agencies and employees, as well as for the administrative costs incurred by the Department of Justice and the Board of Control in the processing of tort claims. Also included is the cost of purchasing risk insurance covering losses of from \$1 million to \$50 million for the acts of such agencies and employees, and losses in any amount resulting from tortious acts of the Department of Public Works and a small number of agencies with unique liability problems. The appropriation excludes the payment and costs of administration and insurance of claims made against the University of California.

Unexpended funds remaining in this appropriation at the end of each fiscal year revert to the General Fund.

ANALYSIS AND RECOMMENDATIONS

The appropriation is broken down as follows:

	<i>Actual</i> 1965-66	<i>Estimated</i> 1966-67	<i>Proposed</i> 1967-68
Administration—Department of Justice.....	\$247,007	\$310,795	\$260,760
Administration—Board of Control.....	10,788	10,788	10,788
Administration—Reclamation Board	45,750	--	--
Payment of Claims	6,452,278	400,000	400,000
	\$6,755,823	\$721,583	\$671,548

Tort Liability Claims—Continued

The 1965-66 year includes the payment of \$6,300,000 for the settlement of claims arising out of the 1955 Yuba City flood disaster. The balance, or \$152,278, was paid on other tort liability claims.

We recommend approval.

LEGISLATIVE CLAIMS

ITEM 256 of the Budget Bill

Budget page 872

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

Amount requested -----	\$61,881
Estimated to be expended in 1966-67 fiscal year -----	298,763
Decrease -----	<u>\$236,882</u>

ANALYSIS AND RECOMMENDATIONS

Otherwise known as the "omnibus claims bill," this item will include all claims approved by the Board of Control and referred to the Legislature for payment. Claims acted upon from and including March 15, 1966 to a date uncertain during the 1967 Legislature will be presented.

The budget bill, in its present form, includes claims approved and referred by the board through its November 15, 1966 meeting. It will be amended to the extent that additional claims are approved by the board and referred for payment to the Legislature.

Section 905.2 of the Government Code provides that claims for money or damages in the following categories shall be presented to the Board of Control:

"(a) For which no appropriation has been made or for which no fund is available but the settlement of, which has been provided for by statute or constitutional provision.

"(b) For which the appropriation made or fund designated is exhausted.

"(c) For money or damages (1) on express contract, (2) for an injury for which the state is liable or (3) for the taking or damaging of private property for public use within the meaning of Section 14 of Article 1 of the Constitution.

"(d) For which settlement is not otherwise provided for by statute or constitutional provision."

Many of the claims under (c) (2) for an injury for which the state is liable are tort liability claims provided for under budget bill Item 255.

As the list of claims which will eventually be presented to the Legislature is incomplete as of the publication date of this book, our analysis of necessity will focus on the largest and most unusual of the claims presented as of the board's meeting of February 7, 1967. Our complete analysis of all claims included in the Item in its final form will be presented when the Item is heard by the Legislature.

Legislative Claims—Continued

Claim of Robert Worthington, \$1,777.50

Claimant, a former general building contractor in San Francisco, seeks indemnification under the "good samaritan law," Penal Code Section 13600, for \$150,000 in damages allegedly sustained as the result of assisting the San Francisco Police Department and District Attorney's Office in 1965-66. The uncontested facts are that the claimant aided police in preventing the burglary of the home of Sally Stanford and in apprehending the suspected conspirators, after informing the police of the plan for the crime. As a result of the ensuing publicity given to his role and his position as a key prosecution witness in obtaining felony convictions of four conspirators, he and his family received death threats, were forced to change their place of residence five times, claimant himself was shot in the arm, and he was unable to continue his business as a general contractor.

Damages claimed include \$100,971.83 for loss of property and expected earnings, \$277.50 for medical bills, including psychiatric care, and the balance for mental damage. The board's award, based on the recommendation of the hearing officer, awarded \$2,500 for costs involved in the five changes of residence, and \$277.50 for medical expenses; \$1,000 representing payments of San Francisco authorities was deducted to arrive at the approved award of \$1,777.50.

The basic statutory authority in the case is Section 13600 of the Penal Code, which provides:

"Direct action on the part of private citizens in preventing the commission of crimes against the person or property of others, or in apprehending criminals, benefits the entire public. In recognition of the public purpose served, the state may indemnify such citizens in appropriate cases for any injury or damage they may sustain as a direct consequence of their meritorious action."

Section 13603 of the Penal Code authorizes the Board of Control to "make all needful rules and regulations consistent with the law for the purpose of carrying into effect the provisions of this act." The board, acting pursuant to this authority, adopted a rule specifying the maximum amount of compensation allowable, now embodied as Section 647.5 of the California Administrative Code.

Section 647.5 states that "payment shall not exceed the amount necessary to indemnify or reimburse the claimant for: (a) the actual value of property damaged or destroyed; . . . (b) In the event of injury to claimant's person, necessary expenses incurred for hospitalization or medical treatment, loss of wages, or other necessary expenses directly related to the injury. . . ."

A significant question of legislative intent in implementing the statute and precedent is presented in this case. The question would appear to be: is it the intent and purpose of the statute to confine a claim for money damages to "loss of wages, or other necessary expenses directly related to injury" as provided in the rules of the Board and as interpreted by the hearing officer, or on the other hand, should the basis for claim be broadened to recognize loss of actual or prospective business

Legislative Claims—Continued

earnings on the part of an independent contractor, as well as loss of wages.

WORKMEN'S COMPENSATION BENEFITS FOR SUBSEQUENT INJURIES

ITEM 257 of the Budget Bill

Budget page 874

FOR SUPPORT OF WORKMEN'S COMPENSATION BENEFITS FOR SUBSEQUENT INJURIES FROM THE GENERAL FUND

Amount requested	\$1,150,000
Estimated to be expended in 1966-67 fiscal year	1,050,000
 Increase (9.5 percent)	 \$100,000

TOTAL RECOMMENDED REDUCTION..... None

Summary of Policy Options

Fund Workmen's Compensation Benefits for Subsequent Injuries through the insurance liability of the employer rather than by the state's General Fund. Annual savings of \$1,150,000 based on the amount requested for the 1967-68 fiscal year.

GENERAL PROGRAM STATEMENT

This appropriation is made annually by the Legislature to support the payment of industrial injury compensation claims for employees who suffer a second or subsequent industrial injury in the course of their employment. The purpose is to further the public policy of encouraging the employment of the handicapped by mitigating or reducing the liability of employers in such cases and substantially removing the liability aspect as a reason for denying employment to individuals who may have sustained a prior industrial injury.

The State Compensation Insurance Fund, a public service enterprise, administers the appropriation, and awards or claims against it are made by the Workmen's Compensation Appeals Board. The Attorney General represents the state fund before the board.

Appropriations have been made for this program since fiscal year 1947-48. The increases in actual expenditures which include benefits paid, Attorney General and service charges, and total outstanding benefit liabilities as of June 30 at five-year intervals are shown for the 15-year period of 1951 to 1966.

	<i>Total expended</i>	<i>Total outstanding benefits</i>	<i>Number of claims (cumulative)</i>	<i>Appropriation</i>
1951	\$47,759	\$544,130	57	\$75,000
1956	342,985	4,063,260	450	250,000*
1961	637,578	6,136,120	827	850,000
1966	954,827	14,468,959	1,487	828,000*

*Augmented by allocation from Emergency Fund.

ANALYSIS AND RECOMMENDATIONS

The State Compensation Insurance Fund has requested an appropriation of the \$1,150,000 to support the subsequent injury compensation program for fiscal year 1967-68, an increase of \$100,000 or 9.5 percent over the current year estimate of \$1,050,000 which includes an antici-

Workmen's Compensation Benefits for Subsequent Injuries—Continued

pated allocation of \$150,000 from the Emergency Fund. The fund estimates the requested amount will be expended as follows:

Benefits	\$974,500
Service charge	48,500
Attorney General's charges	127,000

We recommend approval as budgeted.

POLICY OPTION

Since 1959 we have recommended that California follow the practice of other states in funding this expense from a source other than the General Fund. Specifically, 26 states use the no dependency death benefit payment as a method of relieving the General Fund of this expense; only in California and in Pennsylvania is the cost an obligation of the General Fund rather than the employer. We support the prevailing principle that the employer is liable for the injuries suffered by his employees during the course of their employment as a legitimate cost of doing business, thus economically penalizing those employers which tolerate high injury rates and encouraging those which minimize injuries. Accordingly, we do not believe these costs should be borne directly by the general taxpayer and again recommend that a constitutional amendment such as ACA 72 of the 1961 session be enacted and placed on the ballot. With the adoption of this policy option, the annual savings to the General Fund would be \$1,150,000 based on the amount requested for the 1967-68 fiscal year.

Under current law the statutory death benefits which are normally paid to the legal heirs are paid to no one if no legal heirs are found. It must be pointed out that burial expenses, not to exceed \$600, are paid under these circumstances. It does not seem reasonable, however, that, by virtue of the fact that when an individual employee who has no legal heirs suffers death through an industrial accident, the employer should be relieved of an insurable liability which he is otherwise required by law to assume.

ACA 72 provided, in those instances of an accidental industrial death of an employee who had no legal heirs or survivors to whom the statutory death benefit could be paid, that the Legislature could enact legislation requiring the death benefit to be paid to the state and that such awards could be used for the payment of subsequent injury claims.

It is estimated that the General Fund expenditures now appropriated to support this program can be eliminated or drastically reduced by passage of the constitutional amendment and subsequent enabling legislation referred to above.

TEMPORARY LOANS TO GENERAL FUND FROM CALIFORNIA WATER FUND
ITEM 258 of the Budget Bill

ANALYSIS

This item, which is similar to Item 322 of the Budget Act of 1966, would authorize temporary transfers from the California Water Fund to the General Fund in the event the cash position of the General Fund

Temporary Loans to General Fund from California Water Fund—Continued

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 a rate determined to be that which the money borrowed would earn if otherwise invested. An appropriation to cover such interest payments is made by Item 252 of the current Budget Bill.

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

LOCAL ASSISTANCE

Department of Agriculture

COUNTY AGRICULTURAL COMMISSIONERS

ITEM 259 of the Budget Bill

Budget page 876

FOR SUPPORT OF SALARIES OF COUNTY AGRICULTURAL COMMISSIONERS FROM THE GENERAL FUND

Amount requested	\$171,600
Estimated to be expended in 1966-67 fiscal year.....	171,600

Increase None

TOTAL RECOMMENDED REDUCTION..... None

ANALYSIS AND RECOMMENDATION

This item appropriates funds under the authority of Section 635 of the Agricultural Code, which authorizes the Director of Agriculture to enter into cooperative agreements with any county for the purpose of increasing the salary of the county agricultural commissioner in recognition of enforcement of the provisions of the Agricultural Code at the county level. The state's contribution is limited to two-thirds of each salary or \$3,300, whichever is less. Fifty-three counties (two of which share the services of one agricultural commissioner) are now participating in this program. Thus, the funds requested in this item provide the maximum contribution of \$3,300 to the salaries of 52 commissioners.

Although the state makes a substantial contribution to the salaries of county agricultural commissioners in recognition of their enforcement of state agricultural laws and regulations, the work that the commissioners perform on behalf of the state is supervised on an individual program basis by specialists in the California Department of Agriculture as discussed in our analysis of Item 54. There are approximately 14 state-county cooperative programs, each with its own staff of state supervisors who make periodic inspection visits to the commissioners.

Approval is recommended.