

**CALIFORNIA LEGISLATURE**

**1974-75 REGULAR SESSION**

**ANALYSIS OF THE BUDGET BILL**

*of the*

**STATE OF CALIFORNIA**

*for the*

**Fiscal Year July 1, 1974, to June 30, 1975**

**Report of the Legislative Analyst**

*to the*

**Joint Legislative Budget Committee**

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## LETTER OF TRANSMITTAL

925 L Street, Suite 650  
Sacramento, California 95814  
February 1, 1974

THE HONORABLE DONALD L. GRUNSKY, *Chairman*  
*and Members of the Joint Legislative Budget Committee*  
State Capitol, Sacramento

Gentlemen:

In accordance with the provisions of Government Code, Sections 9140-9143, and Joint Rule No. 37 of the Senate and Assembly creating the Joint Legislative Budget Committee, defining its duties and providing authority to employ a Legislative Analyst, I submit an analysis of the Budget Bill of the State of California for the fiscal year July 1, 1974, to June 30, 1975.

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

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

I should like to express my gratitude to the staff of the State Department of Finance and the other agencies of state government for their generous assistance in furnishing information necessary for this report.

Respectfully submitted,

A. ALAN POST  
*Legislative Analyst*

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## PRELIMINARY STATEMENT

The Governor's 1974-75 Budget is a paradox. On the one hand most of the major increases were completely predictable. They were ordained, first, by recent legislation increasing school and welfare costs and, second, by cost increases associated with general inflation.

On the other hand, in the most literal sense the budget is unpredictable because of the uncertainties of the economy and the energy crisis. Analysts generally are having great difficulty estimating the magnitude of prospective unemployment and the associated increases in welfare caseloads and Medi-Cal costs, while the energy crisis is also the basis for numerous other cost increases as well as probable decreases in revenues, including a major decline in revenues for the highway budget. Revenues are extremely hazardous to predict at this time. We know they have been going down, but no one can be sure how much they will be affected by increased international prices or any prolonged embargo on oil or by the other factors which have contributed to the energy crisis.

## EXPENDITURE SUMMARY

The state expenditure picture looks like this for fiscal year 1974-75:

The total program is ..... \$15,076 million

Made up of:

1. General Fund .....	\$7,812 million
2. Special funds .....	1,704 million
3. Bond funds.....	296 million
4. Federal funds .....	5,263 million

Table 1 shows the combined state-federal expenditure programs for the fiscal years 1972-73, 1973-74, and 1974-75.

Overall state expenditures are derived by adding expenditures from certain general obligation bond sale proceeds to state budget expenditures. Specific bond program amounts are listed in another section of this summary (see Table 10, page A-22). Federal funds are pertinent to the state budget program because portions of many state programs are financed from this source. Federal participation is usually separately identified in the budget detail for specific agencies.

**Table 1**  
**State of California**  
**Combined Expenditure Summary for Indicated Years**

	1972-73	1973-74	1974-75
General Fund .....	\$5,615,684,372	\$7,365,739,722	\$7,811,928,778
Special funds.....	1,588,452,797	1,924,188,893	1,704,135,489
State Budget expenditures .....	\$7,204,137,169	\$9,289,928,615	\$9,516,064,267
Bond funds .....	217,567,470	354,242,206	296,406,414
Overall state expenditures .....	\$7,421,704,639	\$9,644,170,821	\$9,812,470,681
Expenditures of federal funds (grants-in-aid, reimbursements and special projects) ....	\$4,568,608,916	\$5,023,895,987	\$5,263,386,561
Combined total expenditures.....	\$11,990,313,555	\$14,668,066,808	\$15,075,857,242

### State Budget Categories

As shown in Table 1, state budget expenditures (excluding bonds and federal funds) will total \$9,516 million in fiscal year 1974-75, an increase of \$226 million or 2.4 percent over 1973-74. In comparison, the 1973-74 budget was up \$2,086 million or 28.9 percent over that of 1972-73. It should be noted that there is an increase of \$446 million or 6.1 percent in the General Fund portion of the budget between 1973-74 and 1974-75. This is partly offset by a decrease of \$220 million or 11.4 percent in special funds.

Table 2 shows special fund expenditures by the three functional categories, state operations, capital outlay and local assistance.

**Table 2**  
**Special Fund Budget Expenditures and Yearly Increases**  
**(In Millions)**

	<i>Actual</i> 1972-73	<i>Estimated</i> 1973-74	<i>Change</i>		<i>Proposed</i> 1974-75	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>		<i>Amount</i>	<i>Percent</i>
State operations....	\$450.4	\$552.4	\$+102.0	+22.6%	\$586.0	\$+33.6	+6.1%
Capital outlay.....	393.3	504.0	+110.7	+28.1	300.7	-203.3	-40.3
Local assistance ....	744.7	867.8	+123.1	+16.5	817.4	-50.4	-5.8
Totals .....	\$1,588.5	\$1,924.2	\$+335.7	+21.1%	\$1,704.1	\$-220.1	-11.4%

Lower capital outlay expenditures is the major factor in the large decrease in special fund expenditures between 1973-74 and 1974-75. This is mainly the result of reductions in capital outlay for highways (\$90 million), higher education (\$53 million) and parks and recreation (\$66 million).

Because the General Fund is the backbone of the state's fiscal structure, it is treated in detail hereafter.

### GENERAL FUND BUDGET

General Fund expenditures of \$7,811.9 million in 1974-75 will be 82.1 percent of total state budget expenditures and 79.6 percent of overall state expenditures, including bond funds.

Table 3 shows a functional breakdown of General Fund expenditures in 1972-73, 1973-74 and 1974-75.

**Table 3**  
**General Fund Budget Expenditures and Yearly Increases**  
**(In Millions)**

	<i>Actual</i> 1972-73	<i>Estimated</i> 1973-74	<i>Change</i>		<i>Proposed</i> 1974-75	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>		<i>Amount</i>	<i>Percent</i>
State operations....	\$1,622.5	\$1,816.2	\$+193.7	+11.9%	\$2,013.0	\$+196.8	+10.8%
Capital outlay.....	92.5	57.1	-35.4	-38.3	16.5	-40.6	-71.1
Local assistance....	3,900.6	5,492.4	+1,591.8	+40.8	5,782.4	+290.0	+5.3
Totals .....	\$5,615.7	\$7,365.7	\$+1,750.0	+31.2%	\$7,811.9	\$+446.2	+6.1%

Total expenditures from the General Fund were \$5,615.7 million in fiscal year 1972-73 and increased by \$1,750.0 million or 31.2 percent in 1973-74. This rapid growth largely represented increased local assistance for education, property tax relief and salary increases for state employees. The increase of \$446.2 million or 6.1 percent from 1973-74 to 1974-75 may be insufficient to meet fully the state's workload growth brought about by rapid inflation, wage increases and other factors in the economy.

### **Expenditures by Budget Categories**

The local assistance category has been increasing in relation to the total each year and in 1974-75 will represent 74 percent of total General Fund expenditures. In 1964-65 it comprised 64 percent of the total.

Proposed General Fund expenditures for capital outlay are only \$16.5 million in 1974-75. This is a reduction of \$40.6 million or 71.1 percent from the \$57.1 million of 1973-74. This compares with \$92.5 million shown for the 1972-73 budget of which \$83.5 million was transferred from the General Fund to other funds for expenditure. Of these transfers, \$42 million was earmarked for reconstruction or restoration of the State Capitol and construction of a legislative office building. The remaining \$41.5 million was transferred to the Bagley Conservation Fund for parks and recreation projects. Actual expenditures of the earmarked \$83.5 million will occur in 1973-74 and in later years.

In contrast to local assistance and capital outlay, General Fund expenditures in the state operations or support category continue to grow at a more even pace. The growth is largely due to continuing price and wage costs for the goods and services the state requires.

### **GENERAL FUND CONDITION**

#### **Cash Needs and General Fund Surplus**

Chapter 402, Statutes of 1973, (AB 1000) changed the accounting basis for determining General Fund surplus. The legislation was effective June 30, 1973 and therefore the year-end surplus in 1972-73 is on the new basis. In prior years, the surplus reflected cash in the State Treasury, with minor adjustments. On that basis, there was no problem of the state running out of cash before the surplus was expended. The new method includes accounts receivable as well as cash in computing the surplus.

The term "unrestricted surplus" as used in the budget is now different than in the past. The state can now run out of cash at the end of the year, resort to borrowing and still show a surplus. It has been a common practice in the past to borrow during "cash short" months within a fiscal year. We believe it is undesirable budgeting, however, to carryover borrowings at the end of the fiscal year. This occurred at the end of 1966-67 fiscal year with borrowings of \$194 million and at the end of the 1970-71 fiscal year with borrowings of \$170.4 million. These borrowings were repaid in each of the following years but only after the enactment of major new tax programs.

We are emphasizing this problem because according to budget estimates there will be a gross cash deficit of \$80 million at the end of the 1973-74 fiscal year in spite of the fact that a surplus of \$27.6 million is indicated.

Of the \$80 million deficit proposed to be met by year-end borrowings, \$28 million is an advance to the Social Welfare Federal Fund. This advance is a regular occurrence at the end of each month and is immediately covered in the following month. Therefore, the major aspect of the borrowing problem relates to the remaining \$52 million. According to budget



estimates it will not be repaid immediately but is expected to grow to \$142 million by the end of July 1974 before it is repaid. This is illustrated in Table 4 which presents the estimated monthly borrowings during the 1973-74 and 1974-75 fiscal years. In 1973-74, \$1 million is budgeted for payment of interest costs on these borrowings and this increases to \$8 million in 1974-75.

**Table 4**  
**General Fund Borrowings at Month End**  
**During 1973-74 and 1974-75 Fiscal Years**  
**(In Millions)**

<i>Month</i>	<i>Year</i>	<i>Total borrowings</i>	<i>Advance to Social Welfare Federal Fund</i>	<i>Ongoing borrowings</i>
April .....	1974	\$209	\$28	\$181
May .....		243	28	215
June .....		80	28	52
July .....		172	30	142
August .....		3	30	(27) <sup>a</sup>
September .....		—	30	(30) <sup>a</sup>
October .....		202	30	172
November .....		97	30	67
December .....		281	30	251
January .....	1975	314	30	284
February .....		305	30	275
March .....		317	30	287
April .....		352	30	322
May .....		274	30	244
June .....		30	30	0

<sup>a</sup> There is sufficient cash to cover these amounts so no ongoing borrowings are required in these months.

Table 4 indicates that there will not be any borrowings at year-end 1974-75 except for the social welfare federal advance. However, less than \$2 million in cash is anticipated to be available at that time. Therefore, a cash deficit will occur if any part of the \$105.3 million surplus is obligated on a cash basis. This would occur if (1) there is an increase in expenditures above the level budgeted in either 1973-74 or 1974-75 or (2) there is a shortfall in revenues in either or both of these years. If either occurs, the undesirable situation of continuing year-end borrowings could occur.

The problem is not yet critical because another but also limited alternative is available in the near term by transferring an additional sum from the Federal Revenue Sharing Fund to the General Fund. Up to \$167 million in additional cash may be available from this source by June 30, 1975. Part of these funds could also be used in lieu of borrowing to meet the 1973-74 year-end cash problem.

A permanent solution to the problem, however, will involve restricting part of the so-called "unrestricted surplus" to the extent that sufficient cash is available to finance the expenditure program or by simply redefining surplus to be the cash available for expenditure. Any consideration of the General Fund condition should also include the cash available to fund expenditures.

Therefore, while a \$27.6 million surplus is shown in Table 5 at the end of the 1973-74 fiscal year, the more pertinent consideration is that there

will be a cash deficit requiring ongoing carryover borrowings of \$52 million to cover it. Likewise, the anticipated surplus on June 30, 1975 of \$105.3 million cannot be expended unless equivalent borrowings are incurred or revenue-sharing funds are transferred to obtain the cash to fund the expenditures. Therefore, instead of a General Fund cushion of \$272.3 million as presented in the budget, the expendable surplus including revenue sharing is really less than \$170 million.

**Table 5**  
**General Fund Surplus**

	<i>In millions</i>	
	<i>1973-74</i>	<i>1974-75</i>
Prior year resources (including surplus of \$619 million <sup>a</sup> .....	\$683.9	\$52.7
Income.....	6,454.5	7,630.2
Outgo.....	7,365.7	7,811.9
Current deficit .....	-911.2 <sup>b</sup>	-181.7 <sup>b</sup>
Transfer from Revenue Sharing Fund .....	280.0	250.0
Year-end carryover resources .....	52.7	120.9
Less year-end committed reserves .....	-25.1	-15.6
Year-end surplus .....	27.6 <sup>c</sup>	105.3 <sup>d</sup>
Federal revenue sharing balances available .....	186.5	167.0
Total available (year-end) .....	\$214.1	\$272.3

<sup>a</sup> \$235.1 million in federal revenue-sharing receipts was also available at the end of the 1972-73 fiscal year.

<sup>b</sup> These amounts reflect state receipts only. If federal revenue-sharing receipts for each year are added, the results would become:

<i>Source</i>	<i>In millions</i>	
	<i>1973-74</i>	<i>1974-75</i>
State funds .....	\$-911.2	\$-181.7
Federal revenue-sharing receipts.....	231.4	230.5
Total.....	\$-679.8	\$+48.8

<sup>c</sup> Cash available in the State Treasury totals \$1,650,000. Year-end borrowings of \$80 million are proposed of which \$28 million is for the Social Welfare Federal Fund advance. This leaves ongoing carryover borrowings of \$52 million.

<sup>d</sup> Cash available in the State Treasury totals \$1,993,000. Year-end borrowings of \$30 million are proposed for the Social Welfare Federal Fund advance. This will be repaid July 1, 1975.

The current deficit as shown in Table 5 at \$911.2 million in 1973-74 and \$181.7 million in 1974-75 is the difference between General Fund income from state sources and total General Fund outgo in each of these fiscal years. It indicates that without the large carryover surplus from 1972-73 as well as federal revenue-sharing receipts the state would not be able to finance the budgeted program levels in these years. The addition of federal revenue-sharing funds received in these years would reduce the 1973-74 current deficit to \$679.8 million and there would be a current surplus in 1974-75 of \$48.8 million. These figures ignore the cash-flow situation.

#### **Federal Revenue Sharing Program**

The impact of federal revenue sharing is shown in Table 6 which lists estimated federal revenue-sharing receipts since the program started in 1972-73 through the 1974-75 fiscal year. The receipts also include interest earned each year on the balances in the Federal Revenue Sharing Fund. Also shown are the transfers to the General Fund as well as the balances

remaining in the Federal Revenue Sharing Fund at the end of each fiscal year.

**Table 6**  
**Federal Revenue Sharing Fund Receipts and Transfers to General Fund**  
**1972-73 to 1974-75**  
**(In Millions)**

	1972-73	1973-74	1974-75
Carryover balance from prior year.....	—	\$235.1	\$186.5
Fund receipts including interest.....	\$235.1	231.4	230.5
Transfers to General Fund			
For education—local assistance.....	—	215.0	250.0
For HR 1 costs (social welfare).....	—	65.0	—
Total Transfers.....	—	\$280.0	\$250.0
Balance in Federal Revenue Sharing Fund at year-end.....	\$235.1	\$186.5	\$167.0

It is evident that federal revenue sharing is a significant factor in providing financing for General Fund programs. A total of \$530 million is anticipated for transfer to the General Fund from this source in 1973-74 and 1974-75 leaving an ending balance available of \$167 million on June 30, 1975. Unless renewed, the program will end in the 1976-77 fiscal year.

#### 1974-75 Programs

*Proposed 1974-75 General Fund expenditures* at \$7,811.9 million are up \$446.2 million or 6.1 percent from the amount estimated for 1973-74. This is smaller than the usual workload increase in the budget. Several factors are involved as explained in the following examples:

1. Part of this apparent discrepancy is caused by the way the Renters' Tax Relief Program is accounted for in the budget. For the 1973-74 fiscal year the program cost of \$65 million *is included* as a General Fund expenditure. However, the \$75 million program cost for 1974-75 *is not included* in General Fund expenditures but, instead, is merely accounted for as a reduction of revenue to the personal income tax.

This inconsistency between the two years distorts the real growth in General Fund expenditures, reducing the amount by \$75 million or about 1 percent. This lack of comparability has no effect on the General Fund surplus.

2. Another factor is that the budget as submitted does not fully fund all the programs proposed in the 1974-75 fiscal year. For instance, while \$50.1 million is proposed for employee benefits this does not include funds for similar types of benefits for California State University and Colleges academic personnel or for University of California academic and nonacademic personnel. The budget indicates (page 45) that no funds are included for these groups until a comparable survey of salaries and benefits has been made.

Another example is in the Medical Assistance Program. The nursing home reimbursement rate was increased by 6 percent for 1973-74 and is funded at that level in the budget. However, no funds are included to reflect this increase in the 1974-75 budget. This amounts to approximately \$13.5 million. Further, the overall amount proposed

for 1974-75 for the Medical Assistance Program from state sources is up by only 1.5 percent from the 1973-74 level. Because these expenditure estimates do not reflect the possible impact of an economic recession, they could be significantly lower than actual needs.

Numerous other programs are underfunded, several examples follow:

(a) Indemnification of Private Citizens. We estimate a budget deficiency in 1974-75 of \$595,466 as a result of increased caseload and effect of Chapter 1144, Statutes of 1973 (AB 149).

(b) Homeowners' Property Tax Relief. Budget estimate of low growth rates in number of claimants and average property tax rates may be understated and result in a deficiency of up to \$10 million.

(c) There is no provision in the agency budgets to meet recent increases in the social security wage base. No cost estimate is presently available.

(d) 1973-74 Emergency Fund needs are estimated at \$4.7 million. This is usually carried in a separate bill.

(e) There is no provision in the agency budgets to fund unused sick leave retirement credits per Chapter 1141, Statutes of 1973 (SB 9). This cost is estimated at \$2 million for the six-month period remaining in 1973-74 and \$4 million in 1974-75.

(f) Secretary of State. The budget does not accurately reflect costs for printing ballot pamphlets resulting in an estimated deficiency of \$425,000.

(g) Sacramento Medical Center—Radiology/nuclear medicine addition. No funds are included in the 1974-75 budget. The estimated 1974-75 deficiency is \$3,360,000 from Health Science Facilities Bond funds.

3. The budget as submitted does not include funding for other cost bills passed by the Legislature each session. These amounts are incorporated into the budget at a later date. The additional costs to the General Fund usually run at around \$50 million. This does not include major program legislation which in the past has involved much larger sums.

In summary, additional demands can be expected on the General Fund in 1974-75 as the budget proposal does not fully reflect anticipated program requirements. Any implementations will lower the estimated General Fund surplus at the end of 1974-75.

Another factor that should be considered is the validity of the income estimates which also directly bear on the surplus.

*General Fund income for 1974-75* is estimated at \$7,630.2 million, up \$1,175.7 million or 18.2 percent from \$6,454.5 million estimated for 1973-74. The much larger than usual increase results because 1973-74 revenues were reduced by an income tax rebate and a reduction in the state sales tax rate. In view of the extremely uncertain nature of economic forecasts at this time, the actual revenue receipts could diverge widely from these estimates. Any changes will have a direct effect on General Fund surplus. It will therefore be imperative that a very careful reassessment of the revenue assumptions be made in May 1974 before the budget is enacted.

A detailed analysis of the economic situation and the revenue assumptions is contained in a later section of this preliminary statement.

#### Reconciliation of 1973-74 Expenditure Estimates

The 1973-74 General Fund expenditure program was estimated at \$7,-192.3 million in the budget as signed by the Governor in June 1973. Significant legislation has been enacted and other program adjustments have been incorporated into the budget since that time. This has raised the total by \$173.4 million to \$7,365.7 million. The major program components of this change are summarized in Table 7.

**Table 7**  
**Reconciliation of 1973-74 General Fund Expenditure Estimates**

	<i>In millions</i>
1973-74 budget as signed by Governor (June 1973) .....	\$7,192.3
School apportionments.....	+62.1
Medical assistance .....	-4.3
Department of Benefit Payments.....	+50.8
Higher education <sup>a</sup> .....	+20.5
Property tax relief.....	+87.8 <sup>b</sup>
Capital outlay .....	-57.3
Other .....	+13.8
Revised Total (January 1974) .....	\$7,365.7

<sup>a</sup> Adjusted to reflect \$66.8 million in salary increases approved in 1973-74 budget.

<sup>b</sup> \$65 million of this increase merely represents an accounting change in the Renters' Tax Relief Program pursuant to Chapter 952, Statutes of 1973 (SB 1317).

The increase in school apportionments largely reflects increased aid for community colleges as the result of Chapter 209, Statutes of 1973 (SB 6). The increase for Department of Benefit Payments (formerly Department of Social Welfare) mainly reflects the enactment of Chapter 1216, Statutes of 1973 (AB 134) to meet additional costs to the state in connection with federal legislation, PL 92-603 (HR 1).

Changes in property tax relief and in capital outlay for the most part reflect changes in accounting procedures. Capital outlay in the 1973-74 budget as signed included \$83.5 million (shown as General Fund expenditures) for parks and recreation projects (\$41.5 million) and for restoration of the State Capitol and a legislative building (\$42 million). This has since been revised to show a transfer of these funds in the 1972-73 fiscal year and no expenditures from the General Fund. Partly offsetting the above action is an increase in prior years' capital outlay appropriations which are being carried forward for expenditure in 1973-74.

#### MAJOR GENERAL FUND PROGRAM ELEMENTS

In the summary that follows expenditures for health, education, higher education, property tax relief and other major programs are discussed. These major programs comprise 89.1 percent of the total \$7,811.9 million in General Fund expenditures for 1974-75.

A detailed analysis of each of the programs can also be obtained by referring to the appropriate budget item in following sections of this Analysis.

Table 8 indicates the major program changes in General Fund expenditures.

**Table 8**  
**1974-75 Selected General Fund Budget Program Changes**  
**From 1973-74 Expenditure Level**  
**(In Millions)**

	<i>Amount of increase</i>	<i>Percent of increase</i>
<b>Major Program Increases:</b>		
Health (excluding Medi-Cal) .....	\$29.4	6.2%
Medi-Cal .....	8.6	1.5
Benefit payments (Social Welfare) .....	81.5	9.6
Education <sup>a</sup> .....	120.9	5.5
California Community Colleges—apportionments .....	47.5	18.3
University of California .....	20.1	4.4
State University and Colleges .....	9.7	2.2
Debt service .....	16.5	9.9
	<i>Amount of decrease</i>	<i>Percent of decrease</i>
<b>Major Program Decreases:</b>		
Property tax relief .....	-4.1	-0.4%
Salary and benefits .....	-63.9	-38.6
Capital outlay .....	-40.6	-71.1

<sup>a</sup> Excludes debt service on school building aid bonds and apportionments to California Community Colleges.

#### **Department of Health (Excluding Medi-Cal)**

	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>	<i>Increase</i>	<i>Percent</i>
General Fund .....	\$475,202,689	\$504,591,296 <sup>a</sup>	\$+29,388,607	+6.2%

<sup>a</sup> Does not include \$10.0 million budgeted in Department of Health for Medi-Cal administration.

Effective July 1, 1973, the Department of Public Health, Mental Hygiene and Health Care Services were consolidated into a single Department of Health within the Health and Welfare Agency. In addition, certain related health programs from the Departments of Social Welfare and Rehabilitation were transferred to the Department of Health. This consolidation brought the major elements of all state health programs into one organization.

The new Department of Health has four health system line organizations administering four major programs: (1) health treatment systems, (2) health financing systems, (3) health protection systems and (4) health quality systems. In addition, the administrative functions that support these program activities have been consolidated into the health administrative system.

A total 1974-75 General Fund expenditure of \$504.6 million is proposed for the Department of Health (excluding Medi-Cal which is discussed in the following section). This is an increase of \$29.4 million or 6.2 percent over the budget year. Among the more significant changes are increases in the alcoholism, developmental disabilities and special social services programs and a potential decrease in the family planning program.

General Fund expenditures for the alcoholism program will increase by \$4.3 million primarily owing to Chapter 1137 (SB 204) which appropriated

\$3 million in 1973-74 and \$6 million in 1974-75 as the state's share of funds under a separate county Short-Doyle program.

The developmental disabilities program is estimated to increase \$22.6 million or 14.2 percent. One-half of this (\$11.0 million) is due to the reassignment of fixed overhead costs from hospitals for the mentally ill to hospitals for the mentally retarded. The remaining increase is primarily a result of a rise in caseload (\$5.0 million) and an increase in the genetic counseling program (\$1.0 million).

The increase in special social services totals \$26.6 million, up 150 percent over 1973-74. The primary factor (\$13.5 million) is the transfer of homemaker services from the Department of Benefit Payments to the Department of Health.

The 1974-75 budget provides only \$400,000 for family planning services, a decrease of \$5.4 million in General Fund expenditures over the current year. Item 298 contains language that would restore this reduction if the implementation of P.L. 92-603 (HR 1) results in savings of that amount to the Medi-Cal Program.

#### California Medical Assistance Program (Medi-Cal)

	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>	<i>Increase</i>	<i>Percent</i>
General Fund .....	\$598,935,000	\$607,551,806	\$+8,616,806	1.5%

A total 1974-75 General Fund expenditure of \$607.6 million is proposed for the Medi-Cal Program, an increase of \$8.6 million or 1.5 percent over the current year. This total includes approximately \$10.9 million in funds budgeted in the Departments of Health (\$10.0 million) and Benefit Payments (\$0.9 million) for administration of the Medi-Cal Program.

Budget year changes include cost increases of (1) 7.3 percent for projected increases in hospital inpatient costs and (2) 7.5 percent for prescription drugs due to a rate increase in the ingredient portion of drugs and a projected increase in recipients who are high users of drugs. These increases are partially offset by cost decreases due to (1) a 5.1-percent decrease in nursing home services because rate increases authorized in the current year have not been included in the budget year, and (2) a 3.8-percent decrease in intermediate care services for the same reason.

#### Medi-Cal Average Monthly Caseload

	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>	<i>Change</i>	<i>Percent</i>
Cash grant .....	2,057,400	2,013,800	-43,600	-2.1%
Medically needy I.....	71,800	74,000	+2,200	+3.1
Medically needy II.....	72,400	73,700	+1,300	+1.8
Medically indigent .....	228,100	258,800	+30,700	+13.5
Totals .....	2,429,700	2,420,300	-9,400	-0.4%

The average monthly caseload is projected to decline by 0.4 percent. However, the components of this decrease vary from a 2.1 percent decline in the cash grant category to a 13.5 percent increase in the medically indigent category.

It should be noted that these estimates do not include any factor for the

effect of a possible economic recession in 1974-75 nor do they include the impact of P.L. 92-603 (HR 1).

**Department of Benefit Payments (Social Welfare)**

	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>	<i>Increase</i>	<i>Percent</i>
State operations.....	\$11,050,736	\$12,686,551	\$+1,635,815	+14.8%
Local assistance.....	833,713,155 *	913,577,937	+79,864,782	+9.5
Totals .....	\$844,763,891 *	\$926,264,488	\$+81,500,597	+9.6%

\* Includes \$10,533,000 for homemaker services. These funds are included in the budget for the Department of Health for fiscal year 1974-75.

During the 1973 session, the Legislature enacted Chapter 1212 (AB 1950) authorizing the establishment of the Department of Benefit Payments effective July 1, 1974. Included in the new department will be all the functions, positions and funds associated with the Department of Social Welfare and smaller components from the Department of Health and the Employment Development Department.

The primary functions of the new department include (1) the collection of payroll taxes, payment of welfare subventions to county welfare departments and to the federal government, and payments to health care providers and other vendors of benefits under health and welfare programs, (2) the more efficient and economical collection of taxes and recovery of amounts due, and (3) the improvement of the state's ability to detect and prevent fraud and administrative error in benefit payment delivery systems and the regulation of welfare programs in California.

A total 1974-75 General Fund expenditure of \$926.3 million is proposed for the department. Included in this figure is a 14.8 percent increase in state operations primarily due to the reorganization authorized by Chapter 1212.

Local assistance expenditures are estimated to increase by \$79.9 million or 9.5 percent due almost entirely to the impact of P.L. 92-603 (HR 1) and Chapter 1216, Statutes of 1973 (AB 134). As a result of this legislation, over 500,000 recipients eligible under the Old Age Security, Aid to the Blind, and Aid to the Totally Disabled Programs are receiving support through the Supplemental Security Income (SSI) and the State Supplemental Payments (SSP) programs (effective January 1, 1974). In addition to the SSI, consisting wholly of federal moneys, the department estimates that over \$420 million in state funds for the SSP will be federally administered through the Social Security Administration. The effect of this legislation is to substantially increase the categorical grants as indicated below:

	<i>Average grant before AB 134</i>	<i>Average grant after AB 134</i>	<i>Amount of increase</i>	<i>Percent of increase</i>
Old age security .....	\$112.26	\$148.68	\$+36.42	+32%
Aid to the blind .....	165.77	206.90	+41.13	+25
Aid to the partially self-supporting blind .....	202.53	216.42	+13.89	+7
Aid to the totally disabled .....	144.21	193.01	+48.80	+34

In addition to raising the categorical grant levels, Chapter 1216 provides that the state will assume the nonfederal share of the cost of administering



the Food Stamp Program above costs incurred by the counties during calendar year 1973. The 1974-75 General Fund cost for this program is estimated to be an additional \$11.5 million.

#### Caseload Estimates

Monthly Average Number of Persons Aided:	<i>Estimated</i> 1973-74	<i>Proposed</i> 1974-75	<i>Change</i>	<i>Percent</i>
AFDC .....	1,347,391	1,336,035	-11,356	-0.8%
Aged.....	286,058	285,393	-665	-0.2
Blind.....	13,775	13,623	-152	-1.1
Disabled .....	237,536	276,307	+38,771	+16.3
Totals .....	1,884,760	1,911,358	+26,598	+1.4%

The total caseload based on monthly average persons aided is estimated to increase 1.4 percent. This is solely due to the large increase in the disabled category which is in turn a result of more liberal federal standards which extended disabled benefits to those under 18 and to persons who are less than totally and permanently disabled. It should also be noted that these caseload estimates do not include any factor for a possible economic recession in 1974-75.

#### Education (K-12)

	<i>Estimated</i> 1973-74	<i>Proposed</i> 1974-75	<i>Increase</i>	<i>Percent</i>
Apportionments <sup>a</sup> .....	\$1,938,705,466	\$2,068,656,612	\$+129,951,146	+6.7%
Total education <sup>a b</sup> .....	\$2,209,378,276	\$2,330,276,311	\$+120,898,035	+5.5

<sup>a</sup> General Fund only. Does not include apportionments for community colleges.

<sup>b</sup> Excludes debt service on school building aid bonds.

General Fund school apportionments for 1974-75 are projected at \$2,-068.7 million, an increase of \$130.0 million or 6.7 percent over 1973-74. This amount does not include apportionments for community colleges which, pursuant to Chapter 940, Statutes of 1973 (SB 677), are to be administered by the Board of Governors of the Community Colleges effective July 1, 1974.

The most significant portion of this increase results from Chapter 1406, Statutes of 1972 (SB 90). This measure annually increases the foundation program by a factor tied to the percentage increase in state-assessed valuation, thus partly avoiding the "slippage" in state school support which has been particularly significant during inflationary periods. Chapter 1406 also provides an additional \$15 million for early childhood education in 1974-75 for a total program of \$40 million.

Despite the total increase, the compensatory education budget decreases by approximately \$9.5 million for 1974-75. This reduction results from the elimination of the Special Teacher Employment Program (\$6.5 million) and a reduction in the Miller-Unruh Reading Program (\$3.0 million).

A comparison of the estimated average daily attendance in 1973-74 and 1974-75 is shown below by school level.

### Estimated Average Daily Attendance

	1973-74	1974-75	Change	Percent
Elementary.....	3,122,300	3,082,350	-39,950	-1.3%
High School .....	1,456,000	1,470,000	+14,000	+1.0
Adults, high school .....	59,000	60,000	+1,000	+1.7
Totals .....	4,637,300	4,612,350	-24,950	-0.5%

The total average daily attendance, excluding community colleges, is projected to decrease by 0.5 percent between 1973-74 and 1974-75. However, the components of this decrease vary from a 1.3 percent decline in the elementary schools to a 1.7 percent increase among high school adults.

### California Community Colleges

	Estimated 1973-74	Projected 1974-75	Increase	Percent
Apportionments .....	\$259,266,500	\$306,780,000	\$+47,513,500	+18.3%

Effective July 1, 1974, Chapter 940, Statutes of 1973 (SB 677) transferred to the Board of Governors the responsibility for both the administration and apportionment of state aid to community college districts. Expenditures for this program have increased by 18.3 percent for 1974-75 primarily due to the impact of Chapter 209, Statutes of 1973 (SB 6).

This measure provided the largest single increase ever given the Community College Foundation Program, with an additional \$66 million in new state funds in 1973-74. In addition, Chapter 209 established a statutory annual cost-of-living increase in the foundation program which is largely responsible for the \$47.5 million increase in 1974-75 expenditures.

### Estimated Average Daily Attendance

	1973-74	1974-75	Increase	Percent
Community colleges .....	482,473	505,651	+23,178	+4.8%
Adults, community colleges.....	114,141	121,923	+7,782	+6.8
Totals .....	596,614	627,574	+30,960	+5.2%

Total average daily attendance is projected to increase by 5.2 percent for 1974-75.

### University of California

	Estimated 1973-74	Proposed 1974-75	Increase	Percent
General Fund appropriation .....	\$454,305,363	\$474,390,015 <sup>a</sup>	\$+20,084,652	+4.4%

<sup>a</sup> Includes \$8,052,200 in 1973-74 salary increases withheld pending action by the federal Cost of Living Council.

General Fund appropriations for the University of California are proposed at \$474.4 million for 1974-75. This is an increase of \$20.1 million or 4.4 percent over the 1973-74 appropriation. Included in this amount is \$6.2 million for merit salary and promotion increases and \$7.0 million for general price increases to maintain existing programs. However, the largest factor behind the increase is the additional \$10.6 million to handle the anticipated increase in enrollment.

Various measurement criteria are used to determine the appropriate level of funding for each function of the University. One is the enrollment

in terms of full-time equivalents (FTE). A comparison of the FTE enrollment in 1973-74 and 1974-75 is shown below by level of student.

#### Estimated Full-Time Equivalent Enrollment

	1973-74	1974-75	Change	Percent
Lower division.....	31,594	31,685	+91	+0.3%
Upper division.....	45,764	49,748	+3,984	+8.7
1st stage graduate.....	22,501	23,266	+765	+3.4
2nd stage graduate.....	9,555	9,461	-94	-1.0
Totals .....	109,414	114,160	+4,746	+4.3%

The total FTE enrollment is projected to increase by 4,746 or 4.3 percent between 1973-74 and 1974-75. Excluding increases in health science enrollments of 601, the bulk of the increase is 3,970 transfer students. It is difficult to determine how many of these additional students result from the regents decision to reduce grade point average admission standards for transfer students from 2.4 to 2.0. However, there is a possibility that the University may have maintained enrollment growth at the expense of the State University and Colleges.

#### California State University and Colleges

	Estimated 1973-74	Proposed 1974-75	Change	Percent
General Fund support.....	\$444,860,573	\$454,583,504 *	\$+9,722,931	+2.2%
Enrollment (full-time equivalents) .....	233,290	232,795	-495	-0.2

\* Includes \$5,894,324 in 1973-74 salary increases withheld pending action by the federal Cost of Living Council.

The proposed State University and Colleges 1974-75 General Fund support budget totals \$454.6 million. This is an increase of \$9.7 million or 2.2 percent. In addition, the trustees recently increased student fees by \$26 which generates increased reimbursements of approximately \$8.1 million and offsets the need for a state appropriation of an equal amount.

The additional expenditures include \$3.8 million for price increases, \$3.9 million for merit salary expenditures and \$1.5 million to fund the first major phase of the Library Development Project. None of the expenditure increase will be used for new students, as enrollment in terms of full-time equivalents is projected to decrease slightly by 0.2 percent.

#### Property Tax Relief

	Estimated 1973-74	Proposed 1974-75	Change	Percent
Renters' Tax Relief:				
Refunds .....	\$45,000,000	\$45,000,000	—	—
Tax credits .....	65,000,000	(75,000,000)	-65,000,000	-100.0%
Subtotal Renters' Relief.....	\$110,000,000	\$45,000,000	\$-65,000,000	-54.1
Senior citizens' property tax assistance .....	62,000,000	60,100,000	-1,900,000	+3.1
Personal property tax.....	221,876,705	261,500,000	+39,623,295	+17.9
Homeowners' property tax relief ..	651,350,000	668,550,000	+17,200,000	+2.6
Open space .....	18,000,000	20,000,000	+2,000,000	11.1
Payments to local governments for sales and property tax revenue loss.....	2,000	4,002,000	4,000,000	2,000
Totals .....	\$1,063,228,705	\$1,059,152,000	\$-4,076,705	-0.4%

The state's property tax relief program provides reduced property taxes to senior citizens, personal property (business inventory) owners, homeowners and renters. Subventions for open space are also included within property tax relief as they provide a measure of tax relief to local governments including school districts.

Projected General Fund expenditures for property tax relief total \$1,059.2 million in 1974-75. This is a decrease of \$4.1 million from the current year due almost entirely to a revision in the handling of tax credits in the renters' program rather than any actual program reduction.

The Renters' Tax Relief Program is budgeted at \$45 million for 1974-75, an apparent reduction of \$65 million over 1973-74. For taxable years beginning January 1, 1973, renters are to receive a tax credit of \$25 to \$45 depending upon their adjusted gross income. This tax credit is to be deducted from the renter's income tax liability. If the credit exceeds the amount of the income tax liability, a refund of the balance is to be made. Chapter 1406, Statutes of 1973 (SB 90) provided that the renter refunds be funded as a General Fund appropriation. This amounts to an estimated \$45 million in both 1973-74 and 1974-75.

Chapter 952, Statutes of 1973 (SB 1317) requires that for 1973-74 only the credit portion of renter relief also be treated as a General Fund appropriation (to the Personal Income Tax Fund). Thus, it is shown as a \$65 million General Fund expenditure in 1973-74. For 1974-75, the credits are treated as a reduction in revenue to the Personal Income Tax Fund, not as a General Fund expenditure. Therefore, even though the 1974-75 tax credits are budgeted to increase by \$10 million, due to a higher rate of participation, the General Fund expenditure will decrease by \$65 million.

Senior citizens' tax assistance is budgeted at \$60.1 million, a decrease of \$1.9 million or 3.1 percent over 1973-74. This decrease is primarily the result of Chapter 1406, Statutes of 1972 (SB 90) which increases the homeowners' property tax exemption, thereby interacting with the Senior Citizens' Program and reducing the amount of assistance required by \$15.2 million in 1974-75. Chapter 1216, Statutes of 1973 (AB 134) provides a partial offset to that reduction by extending the Senior Citizens' Program to include senior citizens on welfare. It is anticipated that this change will substantially increase the number of participants and increase 1974-75 costs by \$13.3 million.

Personal property tax relief is budgeted at \$261.5 million, a \$39.6 million increase over 1973-74. This increase is primarily a result of two factors (1) a 7.5-percent growth in assessed valuation (\$18.1 million) and (2) an increase in the business inventory exemption from 45 percent to 50 percent pursuant to Chapter 1406, Statutes of 1972 (\$24.2 million). These increases are in part offset by savings from a reduction in property taxes (\$3.5 million) as a result of Chapter 1406, Statutes of 1972.

Homeowners' property tax relief is estimated to increase by \$17.2 million in 1974-75. This amount includes \$6 million for a projected increase in the property tax rates and \$11 million for an increase in the number of claimants.

Subventions for open space are proposed at \$20 million for 1974-75. This is an increase of \$2 million to fund acreage and property tax increases during the budget year.

Payments to local governments for sales and property tax revenue losses are budgeted at \$4.0 million in 1974-75. Chapter 1406, Statutes of 1972 provided that any loss of revenue to local government caused by any classification or exemption of sales or property tax shall be reimbursed by the state. The 1973 Legislature passed two bills, Chapter 16 (SB 117) and Chapter 1169 (SB 911) which did result in a tax loss reimbursable by the state. The \$4 million increase in 1974-75 reflects the cost of Chapter 1169 which does not have a fiscal impact until the budget year.

#### Salary and Benefits Increases

	<i>Estimated 1973-74</i>	<i>Projected 1974-75</i>	<i>Change</i>	<i>Percent</i>
Salary Increase .....	\$165,475,758	\$70,858,000	\$-94,617,758	-57.2%
Benefits increase .....	—	30,733,000	+30,733,000	—
Total 1974-75 Salary and Benefits Increase .....	\$165,475,758	\$101,591,000	\$-63,884,758	-38.6
General Fund salary cost <sup>a</sup> .....	\$1,336,377,025	\$1,438,337,772	\$+101,960,747	+7.6
Personnel man-years—General Fund supported .....	103,790.4	103,924.4	+134.0	+0.1%

<sup>a</sup> Includes funds currently being withheld by the federal Cost of Living Council.

The largest single element of direct General Fund expense is the salaries and wages of state employees. Totalling an estimated \$1,438.3 million, salaries and wages comprise 71.5 percent of budgeted General Fund expenditures for state operations in the 1974-75 fiscal year. This is an increase of 7.6 percent over the estimated \$1,336.4 million for 1973-74. At the same time the number of General Fund supported state employees, measured by personnel man-years, will increase by only 0.1 percent to 103,924.4 in 1974-75.

The 1973-74 Budget Act appropriated \$165.5 million from the General Fund for salary increases, a 12.5-percent increase over 1972-73. However, the federal Cost of Living Council significantly altered the salary program by limiting the increase to 7.0 percent for civil service, civil service related and nonacademic employees. As a result of this action, approximately \$54.8 million in General Fund salary increases has not been distributed pending action by the Cost of Living Council. Chapter 1136, Statutes of 1973 provides that if these funds are not expended during the 1973-74 fiscal year they shall be retained until appropriated by the Legislature.

The Governor's 1974-75 Budget proposal recommends a salary increase of \$70.9 million and an employee benefits package of \$30.8 million for a total General Fund expenditure of \$101.6 million. This total is 38.6 percent lower than the General Fund amount provided in the 1973-74 budget (prior to action by the Cost of Living Council).

The distribution of the 1974-75 salary increase amount and average percentage increase in salaries by group is summarized as follows:

	<i>Amount (in millions)</i>	<i>Percent</i>
Salary Increase by Group:		
Civil service, statutory, and exempt .....	\$30,705,000	3.7% <sup>a</sup>
University of California:		
Faculty .....	11,011,000	4.7
Nonfaculty .....	7,764,000	3.7
California State University and Colleges:		
Instructional .....	15,134,000	5.5
Noninstructional .....	5,382,000	3.7
Judicial .....	862,000	4.1
Total General Fund Increase .....	\$70,858,000	4.2%
		(Weighted average)

<sup>a</sup> General Fund only. The overall percent increase for the civil service, statutory, and exempt group is 2.7 percent when classes funded from special funds and nongovernmental cost funds are included.

In addition to the salary increase, \$30.8 million is included in the 1974-75 General Fund budget proposal to provide for the initial implementation of an as yet undefined employee benefits program for both state civil service and exempt employees and noninstructional employees of the California State University and Colleges. No funds are included for other employee segments primarily faculty and U.C. nonfaculty, until a review of salaries and benefits has been made.

#### Legislative Mandates

	<i>Estimated 1973-74</i>	<i>Projected 1974-75</i>	<i>Increase</i>	<i>Percent</i>
General Fund expenditure .....	\$3,321,123	\$14,120,352	\$+10,799,229	+325.2%

This is a new program reflecting the costs of reimbursing local governments for (1) property tax loss, (2) new programs and (3) increases in the level of service of existing programs as a result of legislative mandates. The requirement that the state pay such legislatively mandated costs was established by Chapter 1406, Statutes of 1972 (SB 90) as amended by Chapter 358, Statutes of 1973 (AB 2008).

The following summary lists the 1973 legislation which contain appropriations made pursuant to Chapter 1406. Most of this legislation became effective January 1, 1974, and thus the increase in costs from 1973-74 to 1974-75 reflects the difference between half-year costs and full-year costs.

<i>Chapter</i>	<i>Bill</i>	<i>Program Budget</i>	<i>Estimated 1973-74</i>	<i>Projected 1974-75</i>
16	SB 117	General Government .....	\$2,000	\$2,000
521	AB 24	Department of Transportation .....	—	43,200
954	SB 1365	Department of Health .....	9,900	20,000
1012	AB 580	Employment Development Department .....	78,000	156,000
1021	AB 750	Department of Industrial Relations .....	106,000	424,000
1022	AB 751	Department of Industrial Relations .....	1,096,000	2,192,000
1023	AB 752	Department of Industrial Relations .....	1,582,223	6,328,892
1061	AB 1762	Department of Health .....	383,000	766,260
1147	SB 246	Department of Industrial Relations .....	14,000	28,000
1165	SB 702	Special Resources Services and Studies .....	—	160,000
1169	SB 911	General Government .....	—	4,000,000
1175	SB 1221	Department of Transportation .....	50,000	—
Totals .....			\$3,321,123	\$14,120,352

## Special Statewide Election

	<i>Estimated 1973-74</i>	<i>Projected 1974-75</i>	<i>Increase</i>	<i>Percent</i>
General Fund reimbursements to local governments .....	—	\$6,710,000	\$+6,710,000	—

Chapter 358, Statutes of 1973 (AB 2008) requires that the state pay to each local agency the full costs of a new program or increased level of service of an existing program mandated by any state executive regulation issued after January 1, 1973. The Governor's Budget proposal indicates that no such regulations have been issued for 1973-74 nor are any anticipated for 1974-75. However, on June 26, 1973, the Governor issued a Special Election Proclamation which, although it has not been interpreted to be an executive regulation, was deemed to involve certain election costs which are reimbursable to local government entities.

Consequently, \$6,710,000 has been included for 1974-75 to reimburse local government entities which due to either charter provisions or binding employer-employee agreements, require premium pay on any state holiday. Payment is to be made for actual costs related to the November 6, 1973 election on the proportionate basis that the Expenditure Limitation Initiative bears to the entire ballot configuration.

## Capital Outlay

	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>	<i>Change</i>	<i>Percent</i>
General Fund capital outlay expenditures .....	\$57,119,982	\$16,518,427	\$-40,601,555	-71.1%
Major Changes:				
Department of Veterans Affairs .....	\$2,893,627	\$-214,773	\$-3,108,400	-107.4
Department of Conservation .....	1,529,941	2,345,365	+815,424	+53.3
State Lands Division .....	1,475,000	—	1,475,000	-100.0
Department of Parks and Recreation .....	18,898,178	315,000	-18,583,178	-98.3
Department of Health .....	19,060,689	4,708,500	-14,352,189	-75.3
Department of Corrections .....	1,384,260	2,715,500	+1,331,240	+96.2
University of California .....	4,806,500	—	-4,806,500	-100

General Fund expenditures for capital outlay are budgeted to decrease by \$40.6 million between fiscal years 1973-74 and 1974-75. The most significant decreases are in the budgets of the Department of Health, the Department of Parks and Recreation and the University of California.

The General Fund in the budget year will contribute only 2.8 percent to the total expenditure for capital outlay (including bond funds). Indirectly, it contributes significantly by repayment of bond funds for past programs.

## GENERAL OBLIGATION BONDS

State general obligation bonds outstanding on December 31, 1973 totaled \$5,243,314,000, a decrease of \$74,839,000 or 1.4 percent over the \$5,318,153,000 outstanding on December 31, 1972.

During 1973 the state sold \$65 million of general obligation bonds at average interest rates ranging from 4.6 percent to 5.1 percent. This is a decrease of \$259.9 million or 80 percent from the \$324.9 million sold in 1972.

There are two types of general obligation bonds: (1) those in which the debt service (includes interest and redemption payments) obligation is fully paid, or the major portion is paid from the General Fund, and (2) those in which debt service is paid from project or program revenues. The full faith and credit of the state is pledged, however, to make these payments in any case from the General Fund should revenue be insufficient to cover these costs.

State agencies also issue revenue bonds for certain projects on which only the revenue generated from the enterprise is pledged for payment of the bonds. These have been issued for University of California and state college dormitories, parking lots, Cal-Expo facilities, pollution control, bridges and other construction projects and purposes. The revenue bonds are not included in the totals in this summary but rather are mentioned merely to indicate the different types of debt instruments with which the state is involved.

In addition to legislative approval, general obligation bonds must be authorized by the electorate. Bond issues have been approved in this manner for the development of water resources, school building aid, construction of higher educational facilities and other capital construction, purchasing and developing park and recreational facilities, veterans' farm and home purchases, clean water programs, and for other purposes.

The state general obligation bonded debt by the various program categories is shown in Table 9. Information is included to show the amount by program for the \$1,095,900,000 in authorized bonds which have been approved but not sold, as well as bonds sold and outstanding on December 31, 1973.

**Table 9**  
**General Obligation Bonds of the State of California**  
**by Purpose as of December 31, 1973**

<i>Purpose</i>	<i>Unsold</i>	<i>Outstanding</i>
<b>General Fund Bonds:</b>		
State construction .....	—	\$730,300,000
Beaches, parks, recreation and historical facilities .....	—	122,850,000
Higher education construction.....	—	190,365,000
Junior college construction .....	—	56,600,000
Community college construction.....	\$145,000,000	15,000,000
Clean water .....	150,000,000	92,500,000
Recreation and fish and wildlife .....	35,000,000	23,250,000
Health science facilities .....	140,900,000	15,000,000
School building aid <sup>a</sup> .....	325,000,000	1,177,520,000
Totals.....	\$795,900,000	\$2,423,385,000
<b>Self-Liquidating Bonds:</b>		
Water resources development .....	\$200,000,000	\$1,548,800,000
Veterans' farm and home .....	100,000,000	1,220,800,000
Harbor bond programs.....	—	50,329,000
Totals.....	\$300,000,000	\$2,819,929,000
Totals, all bonds .....	\$1,095,900,000	\$5,243,314,000

<sup>a</sup> School districts bear part of the debt service. The General Fund contributes the remainder.



California State Bond Fund expenditures in those programs separately identified in Schedule 3 of the 1974-75 budget are estimated at \$296.4 million for the 1974-75 fiscal year, a decrease of \$57.8 million or 16.3 percent over the estimated \$354.2 million in expenditures for 1973-74. Expenditures in 1974-75 as indicated in Table 10, are anticipated to decline in every bond fund except California Water Resources Development. The expenditure of \$48.4 million from the State Beach, Park, Recreational and Historical Facilities Fund (1974) is contingent upon voter approval of a new bond issue at the June 4, 1974 election.

**Table 10**  
**State of California**  
**Bond Fund Expenditures, 1972-73 Through 1974-75 <sup>a</sup>**

	1972-73	1973-74	1974-75
State construction program .....	\$26,863,170	\$74,342,092	\$44,304,600
State Beach, Park, Recreational and Historical Facilities (1964) .....	5,492,002	13,008,075	2,478,637
State Beach, Park, Recreational and Historical Facilities (1974) .....	—	—	48,371,785 <sup>b</sup>
California Water Resources Development .....	93,821,118	95,933,400	110,534,779
Central Valley Water Project.....	53,979,462	39,249,462	5,996,724
Clean Water Bond Fund.....	26,396,231	34,157,516	31,829,860
Recreation and Fish and Wildlife Enhancement	10,794,687	24,003,461	11,972,029
Health Science Facilities Construction Program Fund .....	220,800	73,548,200	40,918,000
Total bond fund expenditures .....	\$217,567,470	\$354,242,206	\$296,406,414

<sup>a</sup> Includes only those programs separately identified in Schedule 3 of the Governor's Budget document.

<sup>b</sup> Expenditure contingent upon voter approval of a new \$250 million bond issue at the June 4, 1974 election.

Three major general obligation bond issues have been proposed by the Legislature during the last two sessions:

Legislation	Program	Vote by electorate	Amount (in millions)
Chapter 152, Statutes of 1972 (SB 220)	Health science facilities	November 2, 1976	\$138.1
Chapter 912, Statutes of 1973 (AB 392)	Beach, park, recreational and historical facilities	June 4, 1974	250
Chapter 994, Statutes of 1973 (AB 161)	Clean water	June 4, 1974	250
Total.....			\$638.1

In addition to the above programs, a \$350 million veterans bond proposal is before the Legislature. If passed by the Legislature and signed by the Governor it will be placed on the ballot at the June 4, 1974 election.

Anticipated sales of general obligation bonds in the last half of the 1973-74 fiscal year are as follows:

Community college .....	\$25,000,000
Health science facilities.....	25,000,000
Recreation and fish and wildlife.....	10,000,000
Total .....	\$60,000,000

Sales during 1974-75 are anticipated as follows:

Clean water .....	\$100,000,000
Community college .....	25,000,000
Health science facilities .....	25,000,000
Recreation and fish and wildlife .....	<u>10,000,000</u>
Total .....	\$160,000,000 <sup>a</sup>

<sup>a</sup> An additional \$25 million in beach, park, recreational and historical facilities bonds is projected for sale in 1974-75 contingent upon voter approval of a new bond act at the June 4, 1974 election.

### General Fund Bonds

The category General Fund Bonds includes those programs for which the redemption and interest charges are entirely or partially paid from the General Fund. Programs for which full debt service is paid from the General Fund include state construction; beaches, parks, recreational and historical facilities; higher education construction, community college construction, recreation and fish and wildlife, clean water, and health science facilities construction. The local school districts bear part of the debt service for school building aid bonds and the state pays the remainder.

Table 11 projects the total General Fund debt service for the period 1972-73 through 1976-77. This projection indicates that debt service charges will total \$174.9 million in fiscal year 1974-75 and increase to \$200.2 million in 1976-77. Included is all bond debt service fully funded from the General Fund and the General Fund portion of school building aid bond debt service (see Tables 12 and 13). These estimates are based only on currently authorized bond issues and include neither those proposed issues yet to be voted on by the electorate nor the payment of interest on General Fund loans. Should other new issues be authorized and sold, the cost to the General Fund will rise faster than projected.

**Table 11**  
**Estimated Total General Fund Debt Service**

1972-73 .....	\$163,864,770
1973-74 .....	165,448,345
1974-75 .....	174,930,627
1975-76 .....	192,029,539
1976-77 .....	200,177,381

**Table 12**  
**Estimated Interest and Redemption Charges on General Fund Bonds Fully Funded by the State 1972-73 to 1976-77 <sup>a</sup>**

<i>Fiscal year</i>	<i>Debt service</i>	<i>Debt service on bonds sold as of December 31, 1973</i>	<i>Debt service on anticipated sales<sup>b</sup></i>
1972-73 .....	\$115,376,006	\$115,376,006	—
1973-74 .....	119,176,046	118,509,380	\$666,666
1974-75 .....	126,930,828	118,338,996	8,591,832
1975-76 .....	140,862,750	116,177,336	24,685,414
1976-77 .....	148,407,232	113,796,818	34,610,414

<sup>a</sup> Accrual basis. Includes state construction; state beach, park, recreation and historical facilities; clean water; state higher education construction; community college construction; recreation and fish and wildlife; and health science facilities.

<sup>b</sup> Estimated debt service on anticipated \$60 million in sales during the last half of the 1973-74 fiscal year; \$160 million in sales during 1974-75; \$120 million during 1975-76; and \$65 million during 1976-77. Does not include debt service for proposed bond issues to be placed before the electorate in 1974 and 1976. Assumes a 5-percent average interest rate on bonds sold.

Tables 12 and 13 divide the General Fund debt service into its two major components. Table 12 projects the debt service on those programs fully funded from the General Fund and Table 13 projects those charges for school building aid bonds including the estimated portion projected to be contributed from the General Fund.

**Table 13**

**Estimated Interest and Redemption Charges on State School Building Aid Bonds Partially Funded by the State 1972-73 to 1976-77<sup>a</sup>**

<i>Fiscal year</i>	<i>Total debt service</i>	<i>Debt service on bonds sold as of December 31, 1973</i>	<i>Debt service on anticipated sales<sup>b</sup></i>	<i>General Fund portion of total debt service<sup>c</sup></i>
1972-73 .....	\$123,344,143	\$123,344,143	—	\$48,488,764
1973-74 .....	124,252,680	123,836,014	\$416,666	46,272,299
1974-75 .....	132,957,799	121,313,633	11,644,166	47,999,799
1975-76 .....	142,129,971	120,609,055	21,520,916	51,166,789
1976-77 .....	143,805,972	116,003,806	27,802,166	51,770,149

<sup>a</sup> Accrual basis.

<sup>b</sup> Estimated debt service on anticipated \$100 million sales during the last half of the 1973-74 fiscal year; \$100 million during 1974-75; \$75 million during 1975-76 and \$50 million during 1976-77. Assumes a 5-percent average interest rate on bonds sold.

<sup>c</sup> General Fund portion of the total debt service is projected at 36.1 percent for 1974-75 and 36 percent for 1975-76 and 1976-77.

## REVENUE ANALYSIS

### Summary

The vigorous national economic expansion that developed during 1972 reached its peak in the first quarter of 1973. Output of goods and services measured in constant dollars rose by a startling 8.6 percent in the first three months. During the middle two quarters the growth rate slowed to an average of 3 percent, then sagged to 1.3 percent in the final quarter as the first impact of the energy shortage began to be felt. As the year closed, industrial production and retail sales were dropping sharply, prices were rising, and the number of unemployed persons in the nation stood at 4.4 million.

Economists preparing forecasts for 1974 were faced with the dilemma of assessing the potential impact of an energy crisis, the magnitude and duration of which is yet largely unknown. *The severity of the petroleum shortage and the extent to which it might cripple the economy are the major uncertainties on the economic horizon.* The Department of Finance forecasts a growth in real output of 1.6 percent during 1974, based on the assumption that the energy shortage will not severely damage the economy and that the crisis will ease in the second half of the year. The department forecasts gross national product (GNP) at \$1,374 billion. This forecast roughly approximates a midpoint position in a wide range of forecasts prepared nationally by academic and business economists. At the bottom of this range are forecasts of a full-scale recession, and at the top are projections of an economy expanding at a near normal rate of growth, only slightly impeded by energy problems.

General Fund revenues for the current year are projected at \$6,452 million, compared to the 1973-74 budget estimate of \$7,258 million. Legislation reducing the sales tax rate by 1 percent for 6 months and granting a personal income tax credit accounts for \$726 million of the difference. Adjustments made in the current forecast to reflect the expected economic decline in the first half of 1974 account for the balance of the reduction in the revenue estimate for the current year.

For 1974-75 the department forecasts General Fund revenues of \$7,628 million, a gain of \$1,175 million over the current year. After adjusting for legislation, this gain amounts to \$522 million, or 7.3 percent, above 1973-74.

The special fund revenue estimates for both the current and budget years were made before the recent announcement that the price of state-owned oil will be exempt from federal price regulation. As a result these estimates do not reflect the potential increase in these revenues which, under existing state law, must be used for capital outlay for higher education.

*The Department of Finance's revenue estimates are consistent with its economic forecasts. However, this is a period of extreme uncertainty over the future economic outlook, both nationally and in California, due to the energy shortage. This uncertainty is reflected by the wide divergencies among private economic forecasters. As a result, the revenue estimates contained in the Budget are subject to a wider margin of error than normal, and there is a possibility they could be too optimistic, especially*

*if a serious energy shortage continues beyond the first quarter of 1974. By May of this year, when the Department of Finance traditionally revises its revenue estimates, we should have more definitive information on the magnitude and the possible duration of the energy shortage and its impact on the economy. At that time, more reliable revenue estimates can be obtained.*

## **ANALYSIS OF NATIONAL ECONOMIC CONDITIONS**

### **Introduction**

Each year the Department of Finance prepares national economic forecasts as the starting point in its revenue estimating cycle. After the national data is completed, the department forecasts California's economic conditions, by examining past relationships between this state and the nation and by making adjustments for unusual conditions. Many private economists and firms also prepare national forecasts, and by examining these studies we are able to judge the validity of the department's estimates. Only a few organizations, however, publish California forecasts, and therefore our sources of verification are more limited.

This section will examine national economic conditions during 1973 and comment on the forecasts for 1974. The next section will analyze California's economic conditions.

### **1973—Peak of the Boom**

In the closing months of 1972, economic forecasters were almost unanimous in their predictions of continued vigorous economic expansion through calendar 1973. A close consensus of forecasts was projecting gross national product of \$1,260 billion for the year, with real growth of 6 percent and a rise in the general price level of about 3½ percent. The unemployment rate was expected to drop to a 5 percent average for the year.

For the year as a whole, 1973 generally lived up to expectations, at least in terms of real growth and employment. The rate of inflation, however, was well above most predictions, and price increases contributed about half of the total \$132 billion gain in GNP for the year. Real output grew by 5.9 percent, and the average unemployment rate dropped to 4.8 percent.

Personal income and consumer expenditures both rose by more than 10 percent with the strongest expenditure gains in consumer durables. Automobile sales of 11½ million units were above predictions, and consumer purchases of household furnishings and appliances were both strong. A gain of more than 13 percent was registered in total investment with business spending for plant and equipment posting gains of over 15 percent. New housing starts came close to the expected 2.1 million units for the year.

The year was unmarred by labor difficulties, with contract settlement increases averaging about 7.6 percent, not far above the wage control guideline level. The consumer price index average for the year rose 6.1 percent above the average for the prior year. The January-to-December increase, however, was more than 8 percent, with the food component of the price rise reaching a spectacular 20 percent.

Although overall performance levels for 1973 indicate a year of strong economic growth, the annual data obscure a significantly changing pattern of economic activity during the year. Real output of goods and services grew at an explosive rate during the first quarter of the year, rising 8.6 percent. This rapid acceleration of output created some concern and prompted many observers to suggest the possibility of an imminent recession. The real growth rate dropped to 2.6 percent in the second quarter and then appeared to be gaining slightly during the July-to-September period. Observations by economists became somewhat more optimistic and predictions of a recession were being changed to expectations of a "soft landing." The first nine months of the year also witnessed two abrupt changes in government policy on price controls. Phase III of the wage price control program, announced in early January, lifted all mandatory price ceilings and established a program of "voluntary" price controls. By the end of the first quarter the consumer price index was still rising at an annual rate of 8 percent, and in June a new price freeze was announced. Phase IV regulations were released in August, and the economy was once again operating under a slightly modified system of price and wage controls.

Much of the slowing in the growth rate during the second and third quarters was due to supply factors rather than a softening in demand. Capacities were being reached in several industries, and shortages were developing in such basic commodities as steel, cement, and paper.

In late October, the Arab countries imposed their embargo on crude oil shipments to the U.S. and reduced shipments to Europe and Asia, thereby converting a slowly developing energy problem into a sudden crisis. Economists began to rework their preliminary 1974 forecasts to reflect the impact of fuel shortages on production, prices, and employment. During the fourth quarter, real growth sagged to an annual rate of 1.3 percent, and the GNP price index surged upwards at a rate of 7.9 percent. Housing starts plunged to an annual rate of 1.5 million units, and consumer spending slowed sharply in all categories. Auto sales slumped and industrial production started to turn down as the first impact of the energy shortage was felt.

#### **1974—A Consensus of Uncertainty**

The common theme of forecasts for 1974 and beyond is the uncertainty which clouds almost every aspect of the economic outlook. Evidence of the extent of uncertainty is to be found not only in the commentary on the outlook but in the wide variations in the projections for the coming year. At the close of 1972, forecasts of GNP by a group of 25 economists surveyed by Business Week Magazine were clustered within a range of \$15 billion around the consensus level of \$1,260 billion for the year. Current forecasts for 1974 by the same group range from a low of \$1,365 billion to \$1,403 billion, a gap of almost \$40 billion. At the pessimistic end of this spectrum are forecasters who look for a full-scale recession and a contraction of real output for 1974 as a whole. At the optimistic end are those who see a dip in output for the first quarter, followed by a sharp rebound which will generate a near normal real growth rate of 3½ percent for the year.

The Department of Finance is forecasting GNP at \$1,374.0 billion for the year, slightly below the median of this group in terms of the current dollar value of total output. The department's forecast of 1.6 percent growth in real output is marginally higher than the 1.4 percent average of the private forecasters, and coincides exactly with the average prediction for the major econometric models in the U.S. The department's forecast is shown in Table 1, compared with forecasts of the University of California at Los Angeles Graduate School of Management and the United California Bank. The department's forecast of real growth is slightly more optimistic than UCLA and also anticipates a lower rate of inflation. *The forecast of United California Bank, which is more optimistic in all aspects than either the department's or that of UCLA, was completed before the announcement of the embargo on Arab oil and therefore is not directly comparable.* The United California Bank forecast reflects a real growth rate of 3½ percent.

**Table 1**  
**GNP and national Economic Data**  
(in billions of dollars)

National data	Actual		Percentage increase	1974 Forecast <sup>1</sup>		
	1972	1973		D.F.	UCLA	UCB
Gross national product.....	\$1,155.2	\$1,287.3	11.4	\$1,374.0	\$1,386.0	\$1,395.0
Consumer expenditures.....	726.5	805.0	10.8	855.0	861.9	865.0
Private investment .....	178.3	200.5	12.5	213.0	213.6	216.0
Net exports .....	-4.6	4.3	—	4.0	3.9	7.0
Government purchases .....	255.0	277.5	8.8	302.0	307.1	307.0
GNP in 1958 dollars .....	790.7	837.5	5.9	850.6	847.8	867.0
GNP deflator .....	146.1	153.7	5.2	161.5	163.5	160.9
Personal income .....	939.2	1,034.2	10.1	1,109.5	1,129.0	1,118.0
Disposable income .....	797.0	881.5	10.6	944.5	962.6	954.0
Savings .....	49.7	52.9	6.4	62.7	75.5	64.0
Corporate profits.....	98.0	125.9	28.5	121.2	115.9	120.0
Consumer price index .....	125.3	132.9	6.1	141.1	143.0	140.0
Employment (000) .....	81,702	84,380	3.3	85,200	85,800	86,100
Unemployment (000).....	4,840	4,260	-12.0	5,350	5,000	4,900
Unemployment rate .....	5.6	4.8	—	5.9	5.5	5.4

<sup>1</sup> Department of Finance, University of California at Los Angeles, Graduate School of Management, and United California Bank.

Like the actual results for 1973, the annual data for 1974 forecasts do not reveal the significance of expected quarterly changes in levels of economic activity. The Department of Finance, along with most forecasters, looks for a contraction of real output during the first three months of the year. The divergence in the various forecasts first appears in estimates for the second quarter, with a significant number of projections anticipating a continuing decline through June. Such an occurrence would mark 1974 as a year of official recession. Other forecasters expect an upturn in the second quarter. All but the most pessimistic expect a recovery to emerge before the end of 1974.

Although the Department of Finance assumes the energy shortage will ease *after* the first half, a modest upturn is forecast in the second quarter. The department expects that favorable developments in the outlook for improvement in the energy situation will restore consumer confidence and stimulate economic activity in this period. Table 2 compares the

**Table 2**  
**Quarterly GNP Comparison at Annual Rate (in 1958 Dollars), 1973 and 1974**  
**(in billions)**

	<i>Estimates of GNP</i>		<i>Forecast 1974</i>				<i>year</i>
	<i>3rd (act)</i>	<i>4th (est)</i>	<i>1st</i>	<i>2nd</i>	<i>3rd</i>	<i>4th</i>	
	<i>Qtr.</i>	<i>Qtr.</i>	<i>Qtr.</i>	<i>Qtr.</i>	<i>Qtr.</i>	<i>Qtr.</i>	
Department of Finance							
Gross national product .....	841.3	845.3	840.7	844.7	853.7	863.1	850.6
Consumer expenditures .....	558.1	559.3	556.5	558.2	563.4	569.7	562.0
Private investment .....	130.8	133.1	131.1	132.5	135.7	137.5	134.2
Net exports .....	7.4	6.5	6.0	5.7	5.3	5.0	5.5
Government purchases .....	145.0	146.4	147.1	148.3	149.3	150.9	148.9
Percent change in real GNP .....	3.4	1.9	-2.2	1.9	4.3	4.4	1.6
UCLA							
Gross national product .....	841.3	844.9	837.5	842.2	850.4	861.1	847.8
Consumer expenditures .....	558.1	554.1	547.8	550.9	556.0	563.8	554.6
Private investment .....	130.8	135.6	133.8	133.4	134.5	135.3	134.3
Net exports .....	7.4	8.8	8.0	8.5	9.2	9.8	8.9
Government purchases .....	145.0	146.3	147.9	149.5	150.7	152.1	150.1
Percent change in real GNP .....	3.4	1.7	-3.5	2.2	3.9	5.0	1.2



quarterly pattern forecast by the Department of Finance with the comparable data from the UCLA forecast. If this assumption is not realized it could adversely affect the level of 1974-75 revenues.

As Table 2 shows UCLA also expects the decline in real output to be reversed in the second quarter. The severity of the first-quarter decline and the rate of recovery from that decline, however, are both more pronounced than predicted by the Department of Finance.

#### Consumption Expenditures (62.5 Percent of GNP)

The department projects consumer spending to rise by 6.2 percent in 1974, a sharply lower growth rate than that of the preceding year. Growth in consumer spending is below the 7.1-percent anticipated rise in disposable personal income, reflecting a marked increase in the rate of personal savings. The weakest component of consumer spending will be in the durable goods area, where a decline of 1.1 percent in current dollars is forecast. This drop reflects a reduction in auto sales from 11.5 million units in 1973 to 10.2 million in 1974. This projected level of automobile sales appears to be somewhat optimistic relative to other forecasts. A major shift in the composition of auto sales is already taking place with all of the major producers converting assembly lines to production of compacts and sub-compacts.

Home furnishings will decline concomitant with the expected reduction in housing starts. Consumer purchases of services are projected to rise 8 percent for the year, only slightly below the 9-percent growth in 1973. Recreation and travel will undoubtedly be dampened in 1974 by the gasoline shortage. Despite skyrocketing food prices in 1973, consumers generally have managed to avoid a significant increase in the proportion of their budgets spent on groceries by shifting to less expensive items. Table 3 compares consumer expenditures, incomes, savings and prices for 1973 and 1974. A disturbing note in the outlook for consumer spending comes from the results of surveys by the consumer opinion pollsters. The University of Michigan Center for Social Research has been reporting a deterioration in their consumer confidence index since the first quarter of 1973. Sindlinger and Co., which has been polling households for 25 years, reports the lowest level of consumer confidence since the 1930's. Both groups believe their survey results to be signals of a coming recession.

**Table 3**  
**Consumer Expenditures, Incomes, Savings and Prices**  
(in billions)

	1972	1973	Percent increase	1974	Percent increase
Consumer expenditures					
Durables.....	\$117.4	\$132.4	12.8%	\$131.0	-1.1%
Nondurables .....	299.9	335.6	11.9	360.0	7.3
Services .....	309.2	337.0	9.0	364.0	8.0
Total .....	\$726.5	\$805.0	10.8	\$855.0	6.2
Personal income.....	939.2	1,034.2	10.1	1,109.5	7.3
Disposable income .....	797.0	881.5	10.6	944.5	7.1
Personal savings.....	49.7	52.9	6.4	62.7	18.5
Savings rate (%) .....	6.2	6.0	—	6.6	—
Consumer Price Index.....	125.3	132.9	6.1%	141.1	6.2%

### Private Investment (15.5 Percent of GNP)

Total investment is expected to grow by 6.2 percent in 1974. This growth is a composite of a decline of almost 7 percent in residential construction, 12.6 percent growth in nonresidential structures and a 9.2-percent increase in producers' durable equipment. Private housing starts for 1974 will decline sharply to a level of 1.76 million units, according to the Department of Finance. This level represents a drop of 15 percent from 1973 and is 25 percent below the record level of 1972. Most forecasters believe that mortgage rates will stay above 8 percent and that prices of building materials and new homes will continue to rise rapidly. Some savings and loan executives have expressed the opinion that the 7 percent mortgage rate is a thing of the past.

Most forecasters, including the Department of Finance, are relying heavily on business spending to sustain economic growth during the year. Surveys indicate that most companies are proceeding with plans for expansion of existing plants and construction of new facilities despite the energy shortage. The U.S. Department of Commerce annual survey reports planned capital spending of \$112 billion, up 12 percent from 1973. The primary stimulus to business spending for plant and equipment will be the capacity limitations that were experienced in many industries during the past year. Some spending will undoubtedly take place as a result of the energy shortage, rather than in spite of it, because of the need to convert facilities to lower energy intensive processes. The financing of expansion plans is not expected to impose a constraint on investment. Although interest rates will remain high, businesses in general have adequate cash generated by high levels of profit and cash flow during 1973. Inventory accumulation is expected to add about \$7.5 billion to GNP for the year. Table 4 compares the forecast of various components of private investment with prior year actuals.

**Table 4**  
**Private Investment**  
**(in billions)**

	1972	1973	Percentage increase	1974	Percentage increase
Private investment .....	\$178.3	\$200.5	12.5%	\$213.0	6.2%
Fixed investment.....	172.3	195.3	13.3	205.5	5.2
Residential.....	54.0	59.0	9.3	55.0	-6.8
Other construction .....	41.7	48.4	16.1	54.5	12.6
Producers durable.....	76.5	87.9	14.9%	96.0	9.2%
Changes in inventories .....	6.0	5.2	—	7.5	—

### Net Exports (0.3 Percent of GNP)

The net export component of GNP is pegged at \$4 billion for the year, approximately the same level as 1973. This component, which represents the net difference between exports and imports, has the appearance of a relatively insignificant item in GNP. The net amount of \$4 billion, howev-

er, assumes a gross export level of approximately \$114 billion offset by imports of \$110 billion. Gross exports grew significantly during 1973, largely as a result of the dollar devaluations that occurred in both 1972 and 1973, and most forecasts assume a continuation of this trend. The decline in the value of the dollar relative to foreign currencies has been reversed in recent weeks, however, and the impact of crude oil prices on European economies may seriously weaken their ability to purchase American goods. The same high prices for crude oil will drive up the value of imports to the U.S. and could easily create a trade deficit for the year.

#### **Government Purchases (22.0 Percent of GNP)**

A rise of 8.8 percent in federal, state, and local government expenditures for goods and services is anticipated for the year. Defense spending will amount to \$78.5 billion, the \$4 billion increase stemming from increases in military pay levels associated with conversion to the volunteer army. The Director of the Office of Management and Budget recently announced that the stringent control over the budget in 1973 would be replaced by a more flexible policy, geared to respond to the need for stimulating the economy in the event of a serious slump. The deficit in the 1974-75 budget is estimated at \$10 billion. Table 5 shows the detail of government purchases for 1974 and the past two years.

**Table 5**  
**Government Purchases**  
**(in billions)**

	1971	1972	Percent increase	1973	Percent increase
Federal					
National defense .....	\$74.4	\$74.6	0.3%	\$78.5	5.2%
Other .....	30.1	32.9	9.3	36.0	9.4
Total .....	\$104.4	\$107.5	3.0%	\$114.5	6.5%
State and local .....	\$150.5	\$170.0	13.0%	\$187.5	10.3%
Total .....	\$255.0	\$277.5	8.8%	\$302.0	8.8%

#### **Employment**

Despite the overall growth in the economy during 1973, the rate of unemployment stayed close to 5 percent for most of the year. The rate reached a low of 4.5 percent in October, but was back to 4.9 percent by December. The jobless rate in 1974 is projected at 5.9 percent by the Department of Finance, in line with the average of private forecasters. The civilian labor force will rise by 2.2 percent and about 820,000 jobs will be created. The rise in unemployment, however, will add about 1,090,000 persons to the unemployment roles.

As pointed out last year, the changing composition of the work force indicates that the "full employment" rate of 4 percent may no longer be a realistic target. Increasing numbers of teenagers and adult women entering the labor force have pushed both the labor force participation rate and rate of unemployment to higher levels in recent years.

The employment picture, like the general economic outlook, is clouded

by the unknowns of the energy crisis. Substantial layoffs have already occurred in the automobile and transportation industries. A recovery beginning in the second quarter will probably be necessary to keep the unemployment level from rising above a 6 percent average for the year.

#### **Corporate Profits**

Corporate profits soared to \$126 billion for the year 1973. The Department of Finance looks for a drop of about 3 percent from this level for 1974. Profits will be affected not only by lower growth in output, but also by the loss of productivity that normally accompanies an economic slowdown. This profit forecast is contingent on an economic upturn in the second quarter of the year. If the energy crisis continues beyond the first quarter, however, it could have a very serious impact on profit levels.

#### **Prices and Wages**

There is little hope for substantial moderation in the rate of price gains during 1974. The Department of Finance is projecting a rise in the overall price level (GNP deflator) of 5.1 percent and a 6.2-percent jump in the level of consumer prices, marginally above the 6.1-percent increase in 1973. Wholesale prices during 1973 soared 18 percent above the level reached at the end of 1972, and the increase in December was equivalent to an annual rate of 26 percent. As mentioned earlier, prices in food and farm commodities recorded the largest gains during the year and this trend is expected to continue well into 1974. Soaring prices of petroleum products will drive up the gasoline component of the consumer price index and will put strong upward pressure on prices in most industries.

The high rate of inflation continuing through 1974 is expected to influence the wage demands of organized labor. Major labor contract negotiations will involve approximately 3.5 million workers during 1974 and wage and benefit settlements will probably be above the 7.6 percent first year increases negotiated during 1973.

#### **Monetary Policy**

The money supply rose by approximately 5 percent during 1973 and the Department of Finance forecast assumes an increase of this magnitude for the coming year. The money supply growth was erratic during 1973, rising from a level of below 2 percent in the first quarter to 10 percent in the second, dipping again in the third quarter to under 1 percent, and finally back to 8 percent in the last three months. Some analysts believe the money supply data understates the growth because it is based on statistics from only member banks of the Federal Reserve System, and that the actual growth rate is somewhat higher than reported.

Federal Reserve board members are faced with a dilemma for 1974 in controlling the nation's money supply. Under normal conditions a slowing in economic growth due to slacking of demand can be mitigated by an eased monetary policy. A slowdown due to a shortage of energy or other resources, however, could not be expected to react favorably to an increase in the supply of money. Accordingly, it is expected that monetary policy will not be used to stimulate the economy in 1974.

## ANALYSIS OF CALIFORNIA ECONOMIC CONDITIONS

Growth in personal income in California amounted to 9.7 percent in 1973, lagging slightly behind the 10.1-percent national growth rate. Civilian employment in the state rose by 5.2 percent, the largest growth since 1966. This increase added approximately 430,000 new jobs to the total.

For 1974, personal income is expected to grow to \$120 billion, a 7.1 percent gain over 1973. This rate of growth will again be slightly below the national average. Table 6 compares key components of the Department of Finance 1974 forecast for California with those of UCLA and the United California Bank. Again, the UCB forecast is somewhat more optimistic with respect to gains in personal income because of the timing of the release of the forecast.

**Table 6**  
**California Economic Data**  
(dollars in billions)

	1972	1973	Percentage change	1974 forecasts		
				DF	UCLA	UCB
Personal income .....	\$102.1	\$112.0	9.7	\$120	\$121.2	\$121.0
Disposable income .....	89.4	99.1	10.9	106.5	105.9	105.0
Taxable corporate profits .....	9.0	10.0	10.5	10.0	—	—
Taxable sales .....	53.7	61.0	13.6	63.4	—	—
Employment (000) .....	8,311	8,742	5.2	8,865	8,940 <sup>a</sup>	8,900 <sup>a</sup>
Unemployment (000) .....	516	472	-8.5	560	540 <sup>a</sup>	500 <sup>a</sup>
Unemployment rate percent .....	5.8	5.1	—	5.9	5.7	5.4
Number of building permits (000) .....	278	225	-19.1	200	—	200
New car sales (000) .....	1,076	1,130	5.0	1,015	—	—
Consumer price index .....	123.1	130.3	5.8	138.3	141.0	136.5

<sup>a</sup> Adjusted to reflect revision to 1973 employment figures.

California's population growth in 1973 exceeded the national rate, and the labor force climbed by 4.4 percent as compared to the 2.4-percent national average. The state's unemployment rate, which is historically above the national average, is forecast to equal the U.S. rate for 1974. The unemployment picture will be somewhat confused by a change in reporting methods, which is described below. Table 7 compares growth rates, unemployment, and inflation rates for California and the U.S. for 1973 and 1974.

**Table 7**  
**Selected Economic Indicators, California and U.S.**

	1973		1974	
	United States	California	United States	California
Percent growth in:				
Population .....	0.8%	1.1%	0.9%	1.0%
Labor force .....	2.4	4.4	2.2	2.3
Employment .....	3.3	5.2	1.0	1.4
Personal income .....	10.1	9.7	7.3	7.1
Corporate profits .....	28.5	10.5	-3.7	—
Unemployment rate .....	4.8	5.1	5.9	5.9
Increase in consumer prices .....	6.1	5.8	6.2	6.1

In general, the pattern of economic activity in the state is expected to follow that of the nation in 1974. Housing starts will be down by 15 percent, a decline equal to the national average, and auto sales are expected to drop

10.2 percent, compared to 11.3 percent for the nation. California may be hit harder than other states by the gasoline shortage because of the greater usage of automobiles and the importance of tourism.

**Employment and Unemployment.** It was pointed out in our analysis last year that the employment situation in California is obscured by problems with the employment data from the California Employment Development Department. Monthly employment figures published by this department are estimates based on statistical sampling procedures. The average monthly employment, as reported by EDD for 1973 was 8,575,000. However, EDD now is in the process of revising these figures and the new estimates will indicate that employment was about 167,000 higher than the previously published figures. The Department of Finance used this new basis for computing the employment total of 8,742,000 which is shown in the Budget. This new figure is still an estimate which is subject to later adjustment.

Unemployment data from the Employment Development Department has been of questionable validity because of the wide discrepancies between the unemployment rate published for California by the Department and the unemployment rate published annually by the Bureau of Labor Statistics. In January 1974, it was announced that from now on, both unemployment and employment data would be supplied to the U.S. Bureau of Labor Statistics and adjustments would be made to conform the state figures to the data developed for the state by the bureau. The new method of estimating employment and the number of unemployed is expected to increase the reported unemployment rate by as much as 2 percentage points. The effect the new procedure will have on employment data is unknown.

Table 8 displays California employment by type of industry for 1973 and 1974 based on the Department of Finance adjusted employment data.

**Table 8**  
**California Employment by Type of Industry**  
**(in thousands)**

	<i>Increase</i>			<i>Increase</i>	
	<i>1972</i>	<i>1973</i>	<i>Amount</i>	<i>1974</i>	<i>Amount</i>
Mining.....	30	31	1	32	1
Agriculture.....	279	282	3	281	-1
Construction .....	318	341	23	320	-21
Finance.....	410	432	22	445	13
Transportation and utilities.....	457	472	15	474	2
Government .....	1,495	1,526	31	1,554	28
Federal .....	317	312	-5	309	-3
State and local .....	1,178	1,214	36	1,245	31
Services.....	1,368	1,496	128	1,545	49
Trade.....	1,621	1,720	99	1,750	30
Manufacturing.....	1,529	1,638	109	1,660	22
Aerospace.....	455	493	38	500	7
Other.....	1,074	1,145	71	1,160	15
Other nonagricultural .....	806	805	-1	804	-1
Total employment .....	8,311	8,742	431	8,865	123
Civilian labor force .....	8,827	9,214	387	9,425	211
Unemployment.....	516	472	-44	560	88
Unemployment rate .....	5.8	5.1	-0.7	5.9	0.8

Noteworthy changes in the employment picture include a 6-percent expected drop in employment in construction for the year, largely reflecting the downturn in new housing starts. The largest gain in employment is expected in the services field, despite the fact that service establishments associated with recreation and travel industries will be adversely affected by cutbacks in gasoline usage and the Sunday closing of many service stations. Employment in the aerospace industry, although expected to average slightly above the 1973 average, will actually decline marginally from the level achieved at the end of 1973. This reduction is due to postponement by the airlines of deliveries of wide-bodied jet planes.

## ANALYSIS OF REVENUE ESTIMATES

### 1973-74 Revenue Estimates

California personal income in 1973 is now estimated to be slightly above the original January 1973 forecast prepared by the Department of Finance. A strong first quarter and an improved corporate profits picture provided support for the department's predictions that the 1972 recovery would be carried through the end of fiscal 1973-74. The May revised estimate reflected this position with a modest increase of \$19.9 million in current-year revenues. Revenue collections for the first six months of 1973-74 are running slightly ahead of the May revised estimate.

Legislation accounted for a \$700 million drop in current-year revenues.

Chapter 296, Statutes of 1973, reduced the sales tax by one cent for a six-month period beginning October 1, 1973, granted a one-time variable income tax credit on 1973 incomes and provided a 100 percent exemption for low-income taxpayers, for a total revenue decrease of \$731 million. Chapter 67 increased personal income tax revenues \$70 million by appropriating the credit portion of the Renter's Tax Relief Program from the General Fund. This amount would otherwise have been treated as a deduction from personal income tax revenues. Chapter 402 converted the accounting of revenues from an accrual basis to a modified cash system resulting in a further reduction of \$41 million. Table 9 shows the detail of the fiscal results of this legislation.

**Table 9**  
**General Fund Revenue Effect of 1973 Legislation**  
(in millions)

Tax	1973-74 revenue effect			Total
	Chapter 296	Chapter 67	Chapter 402	
Sales and use.....	\$-301	—	\$-70.6	\$-371.6
Personal income.....	-430	\$70	29	-331
Bank and corporation.....	—	—	10	10
Cigarette .....	—	—	-1	-1
Insurance .....	—	—	-2	-2
All other.....	—	—	-6	-6
Total .....	\$-731	\$70	\$-40.6	\$-701.6

A downturn in the economy is now anticipated in the first quarter of 1974, and the Department of Finance estimates that 1973-74 tax revenues will be \$213.3 million below the May estimate. This decline in tax revenues will be partially offset by higher receipts from other revenues for a net revenue reduction of \$123.6 million.

A history of the Department of Finance's revenue estimate for the current fiscal year is shown in Table 10.

**Table 10**  
**History of Department of Finance's 1973-74**  
**General Fund Revenue Estimates**  
(in millions)

<i>Taxes</i>	<i>Original</i>	<i>Revisions</i>			<i>Revised</i>
	<i>budget estimate</i>	<i>May</i>	<i>Legislation</i>	<i>January</i>	
	<i>January 1973</i>	<i>1973</i>		<i>1974</i>	<i>Total</i>
Sales and use .....	\$3,000.0	\$34.5	\$-371.6	\$-102.9	\$2,560.0
Personal income .....	2,175.0	-105.0	-331.0	-14.0	1,725.0
Bank and corporation .....	995.0	75.0	10.0	-50.0	1,030.0
Inheritance and gift .....	311.3	2.6	—	-40.4	273.5
Cigarette .....	178.5	1.5	-1	0.2	179.2
Insurance .....	202.6	-3.1	-2	-7.0	190.5
Alcoholic beverage .....	127.1	-1.6	—	1.2	126.7
Horseracing .....	63.0	3.3	—	-1.4	64.9
Private car .....	6.3	—	—	1.0	7.3
Total taxes .....	\$7,058.8	\$7.2	\$-695.6	\$-213.3	\$6,157.1
Other revenues .....	199.0	12.7	-6.0	89.7	295.4
Total General Fund revenues .....	\$7,257.8	\$19.9	\$-701.6	\$-123.6	\$6,452.5

The January 1974 revisions to current-year revenues shown in column 4 of Table 10 reflect the recent changes in economic assumptions. All of the \$102.9 million reduction in sales tax revenues will occur during the first and second quarters of 1974. The growth in taxable sales during 1974 is expected to be only 3.9 percent, a growth rate significantly below the 13.6-percent rate experienced in 1973. Taxable sales are expected to be sluggish during the first quarter with almost no growth expected until the second quarter.

Personal income tax estimate revisions during 1973-74 are only partially related to the change in economic conditions. May revisions consisted primarily of cash flow adjustments related to the new withholding program and a reduction in the estimate of new compliance revenues which were expected from withholding. Taxes attributable to wages and salaries remain close to the original estimate because of the exceptionally strong growth in employment during the year. Increased revenues from other tax sources such as dividend and interest income and higher audit collections will almost completely offset the expected \$63 million reduction in taxes attributable to capital gains.

The Budget estimate of bank and corporation tax revenues is \$50 million below the May revised estimate, even though receipts through December are higher than expected. The Budget estimate has been revised downward by this amount because the Department of Finance annual sample of major corporations indicates that final liabilities for the year will be less than current collections indicate.

Inheritance tax revenues have been adjusted down by \$40.2 million, partially because a number of large estates with delinquent taxes are now expected to make no payments during the current year. The growing number of delinquent accounts has been explained by high market rates of interest which exceed the relatively low six-percent interest charged by



the state for late payment of inheritance taxes.

While Table 10 shows that total taxes will be \$213.3 million below what was expected in May 1973, the change in total income to the General Fund including "other revenues" is estimated to be down by only \$123.6 million. An offsetting increase of \$79 million in interest earnings on General Fund investments accounts for almost all of this difference. Interest earnings for 1973-74 were estimated in January 1973 to be \$63.9 million. The improved General Fund cash position resulting from personal income tax withholding in combination with record high interest rates on security and time deposit investments has resulted in a revised estimate of \$142.9 million.

#### **1974-75 Revenue Estimates**

Total state revenues for 1974-75 are projected at \$9,327 million, up \$1,178 million from the current year. General Fund revenues are expected to be \$7,628 million, a gain of \$1,175 million over 1973-74. Of the total revenue gain, \$726 million is due to the reduction of 1973-74 revenue from the six-month reduction in the state sales tax rate and the personal income tax refund. Special fund revenue will show only a negligible increase in 1974-75 with gains in motor vehicle registrations and license fees being partially offset by a loss of gas tax revenue. Table 11 compares the revenue estimates of the Department of Finance for both general and special funds for the current and budget years. Growth in general fund revenues, after adjusting for legislation, amounts to 7.3 percent in 1974-75. This growth compares favorably to the 7.1-percent gain in personal income between calendar 1973 and calendar 1974. Total revenues, adjusted for legislation, will rise by only 5.9 percent, a growth rate equal to about 85 percent of the rate of gain in personal income. This below normal relationship stems from the depressed level of special fund revenues.

#### **Sales Tax**

The sales and use tax is the state's largest single source of revenue and will account for \$3,175 million of General Fund revenue in 1974-75. Sales and use tax receipts are expected to show a gain of \$615 million in the budget year. Of this amount, approximately \$380 million is accounted for by the fact that a substantial portion of the 1973-74 revenues were collected at the rate of 3¾ percent between October 1, 1973, and April 1, 1974. The rate which will prevail during 1974-75 is at the higher level of 4¼ percent.

Taxable sales during calendar 1973 are expected to rise by only 3.9 percent over the prior year. Sales by retail stores will gain 7 percent, about ½ percent below the expected gain in disposable personal income in California. Sales of autos, other vehicles, and service station products will rise only fractionally in current dollars because of the expected 10-percent reduction in the number of autos sold, and the shift from standard to the smaller compact and subcompact models. Taxable sales in the building materials category are expected to remain at about the same level as 1973 in current dollars, reflecting the downturn in home building expected for California. The level of sales in this category will actually decline in real terms, but price increases in lumber and other materials will generate

**Table 11**  
**Estimated State Revenue Collections During 1974-75**  
(in millions)

<i>General Fund</i>	<i>1973-74</i>	<i>1974-75</i>	<i>Actual amount</i>	<i>Increase Adjusted for legislation<sup>a</sup></i>	
				<i>Amount</i>	<i>Percent</i>
<b>General Fund</b>					
Sale and use .....	\$2,560.0	\$3,175.0	\$615.0	\$291.4	9.9%
Personal income .....	1,725.0	2,289.0	564.0	233.0	11.3
Bank and corporation .....	1,030.0	1,050.0	20.0	30.0	2.9
Inheritance and gift .....	273.5	300.2	26.7	26.7	9.8
Cigarette .....	179.2	181.9	2.7	1.7	0.9
Insurance .....	190.5	205.0	14.5	12.5	6.5
Alcoholic beverage .....	126.7	131.6	4.9	4.9	3.9
Horseracing .....	64.9	68.6	3.7	3.7	5.7
Private Car .....	7.3	7.1	-0.2	-0.2	-2.7
Total taxes .....	\$6,157.1	\$7,408.4	\$1,251.3	\$603.7	8.8%
<b>Other Sources:</b>					
Interest or investment .....	\$143.2	\$72.2	\$-71.0	\$-\$71.0	-49.6%
Health Care Deposit Fund .....	44.1	52.7	8.6	8.6	19.5
Other .....	108.1	94.9	-13.2	-19.2	-16.8
Total General Fund .....	\$6,452.5	\$7,628.2	\$1,175.7	\$522.1	7.3%
<b><i>Special Funds</i></b>					
<b>Motor Vehicle</b>					
Fuels .....	\$722.8	\$702.0	\$-20.8	\$-\$20.8	-2.9%
Registration, weight .....	337.0	354.0	17.0	17.0	5.0
License (in lieu) .....	321.0	344.0	23.0	23.0	7.2
Transportation .....	6.0	0.6	-5.4	-5.4	-90.0
Cigarette .....	76.8	77.9	1.1	1.1	1.4
Alcoholic beverage .....	13.5	14.0	0.5	0.5	3.7
Horseracing .....	13.1	11.3	-1.8	-1.8	-13.7
Oil and gas revenues .....	84.6	74.2	-10.4	-10.4	-12.3
Other .....	121.6	120.9	-0.7	-0.7	-0.6
Total Special Funds .....	\$1,696.4	\$1,698.9	\$2.5	\$2.5	0.1%
Totals .....	\$8,148.9	\$9,327.1	\$1,178.2	\$524.6	5.9%

<sup>a</sup> Represents growth of revenues before effect of 1973 legislation.

approximately the same sales dollars as in the prior year. Sales in the manufacturing and wholesaling category will rise at less than the normal rate due to the slowing in the growth of manufacturing activity.

The gain in sales and use tax revenues from the current to the budget year represents an increase of 8 percent after adjusting for all rate changes. This gain is more than twice the rate of growth in taxable sales between calendar years 1973 and 1974. This apparent inconsistency is attributable to the fact that the weakness in 1974 sales is expected to occur in the first half of the year, while the budget year tax collections will be generated primarily in the stronger second half of 1974, plus an even stronger first half of calendar 1975. Table 12 compares taxable sales by category for 1973, 1974 and 1975.

**Table 12**  
**Taxable Sales in California**  
**(in millions)**

	1973	1974	Percentage increase	1975	Percentage increase
Retail stores.....	\$26,200	\$28,040	7.0%	\$29,980	6.9%
Autos, other vehicles and service stations..	13,105	13,155	0.4	15,270	16.1
Building materials .....	6,060	6,080	0.3	6,300	3.6
Manufacturing wholesaling and miscellaneous outlets .....	15,665	16,140	3.0	17,195	6.5
Totals.....	\$61,030	\$63,415	3.9%	\$68,745	8.4%

#### **Personal Income Tax**

The personal income tax is the second largest source of General Fund revenues, and will contribute \$2,289 million in the budget year. The gain of \$564 million for the budget year includes \$425 million representing the reduction in the 1973-74 revenue base due to the variable tax credit on 1973 incomes. The gain is partly offset by the reduction of \$75 million in renter credit allowances in the budget year. Although renter credits were allowed against personal income tax liabilities in 1973, an appropriation was made to transfer \$70 million to the Personal Income Tax Fund to offset that deduction. As a result, revenues for 1973-74 did not reflect a reduction for the renters credit. After adjusting for the tax refund, the renters credit, and other legislation, the increase in revenues for the budget year amounts to \$233 million, a gain of 11.3 percent. This rate of growth is about 1.6 times the gain in personal income for calendar 1974, and approximates the normal "elasticity" or relationship of changes in tax to changes in income. Table 13 shows the distribution of personal income tax revenue by source of income for the calendar years 1972, 1973, and 1974.

Taxes attributable to wages and salaries will contribute about 75 percent of the increase in calendar 1974 tax liabilities, raising slightly their proportion of the total tax. Taxes from capital gains will increase from the depressed level of 1973, while proprietorship and dividend income will contribute relatively lower amounts, due to a softening in business profits.

**Table 13**  
**Percent of Personal Income Tax by Source of Income**

<i>Source of income</i>	1972	1973	1974
Wages and salaries .....	67.9%	72.0%	72.9%
Proprietors .....	12.6	12.1	11.4
Capital gains .....	6.1	3.6	4.1
Dividends .....	4.6	4.1	3.7
Interest.....	4.6	4.6	4.6
Rent and miscellaneous.....	4.2	3.5	3.2
Total .....	100.0%	100.0%	100.0%

#### **Bank and Corporation Taxes**

The bank and corporation tax is the third largest source of General Fund revenues and will account for \$1,050 million or 13.2 percent of General Fund revenues in the budget year. Taxable corporate income for 1974 is expected to be unchanged from 1973 levels. Although a decline is an-

ticipated in corporate profits nationally, the variability of profits of California corporations is less than that of the nation as a whole. A smaller percentage of California firms is engaged in manufacturing, which is a more volatile sector than the trade and services areas. Nationally, profits rose 28 percent in 1973 while gaining only 10.5 percent in California. There was no significant legislation enacted in 1973 affecting this revenue source. The increase in the basic rate from 7.6 percent to 9 percent on July 1, 1973, will add \$115 million to current year revenues and \$140 million to the budget year.

#### **Other General Fund Taxes and Revenues**

Inheritance and gift tax will contribute approximately \$300 million to General Fund revenues in 1974-75, an increase of \$26 million over the current year. Cigarette taxes are expected to generate \$182 million, only fractionally higher than the 1973-74 level. Sales of cigarettes are estimated at 2.61 billion packages, up very slightly in total, but representing a small decline on a per capita basis. Insurance taxes are forecast at \$205 million, a gain of 7.6 percent over the current year. Alcoholic beverages and horseracing revenues are forecast to rise by 3.9 percent and 5.7 percent respectively.

Interest on General Fund investment is expected to drop sharply in the budget year to \$72 million, about half the current-year receipts. Cash available for investment will decline from an average of \$2.6 billion in 1973-74 to \$1.7 billion in 1974-75. Earnings are expected to be further reduced by the lower short-term interest rates during the budget year.

#### **Special Fund Revenues**

Motor Vehicle Fund revenues are expected to rise by \$13.8 million, with gains in vehicle registration and license fees partially offset by a decline of \$20.8 million in gas tax revenues. The estimated loss of gas taxes is based on the assumption that gallonage in calendar 1974 will be 14 percent below 1973 levels, but the Budget assumes it will resume a normal growth rate in 1975.

Oil and gas revenues are estimated at \$84.6 million and \$74.2 million for the current and budget years, respectively. These amounts do not include any increase in this revenue source that might result from the recent exemption from price regulations of the oil owned by the state. The Controller, who is chairman of the State Lands Commission, has estimated increases in revenue of at least \$60 million during the current and budget years.