

## Reserves for Contingencies EMERGENCY FUND

Item 96 from the General Fund

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|  |             |
|--|-------------|
| Requested 1975-76 .....                      | \$1,500,000 |
| Appropriated by the 1974-75 Budget Act ..... | 1,500,000   |

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The Emergency Fund provides a source from which the Department of Finance can allocate funds to state agencies for expenses resulting from unforeseen contingencies not covered by specific appropriations. This item also appropriates \$1,500,000 for the Department of Finance to make loans to agencies whose operations would be curtailed due to delayed receipt of reimbursements or revenue.

The Emergency Fund request of \$1,500,000 is a token amount which has been substantially less than the actual deficiencies realized in every year since 1959-60. To meet the actual requirements a deficiency appropriation has been necessary toward the end of each fiscal year.

Table 1 details the amounts budgeted and allocated along with the deficiency appropriations since 1966-67.

**Table 1**  
**Emergency Fund, Appropriations and Allocations.**  
**1966-67 to 1974-75**

| <i>Fiscal Year</i> | <i>Appropriated</i> | <i>Allocated<br/>to agencies</i> | <i>Deficiency<br/>appropriation</i> |
|--------------------|---------------------|----------------------------------|-------------------------------------|
| 1966-67 .....      | 1,000,000           | 9,321,117                        | 8,341,951                           |
| 1967-68 .....      | 1,000,000           | 4,238,515                        | 3,908,000                           |
| 1968-69 .....      | 1,000,000           | 4,954,513                        | 5,086,631                           |
| 1969-70 .....      | 1,000,000           | 4,259,585                        | 4,000,000                           |
| 1970-71 .....      | 1,000,000           | 4,919,594                        | 4,375,000                           |
| 1971-72 .....      | 1,000,000           | 4,993,871                        | 4,918,009                           |
| 1972-73 .....      | 1,000,000           | 8,076,724                        | 7,500,000                           |
| 1973-74 .....      | 1,500,000           | 5,644,554                        | 10,900,000                          |
| 1974-75 .....      | 1,500,000           | 7,258,165                        | 6,800,000 (est.)                    |
| 1975-76 .....      | 1,500,000           | —                                | —                                   |

A recommendation to provide better control over a substantial portion of the emergency fund expenditures is contained in our analysis of the Department of Conservation (Item 229).

# **AUGMENTATIONS FOR PRICE INCREASES, TOTAL EQUIVALENT COMPENSATION (TEC) AND MEDI-CAL PROVIDERS**

Item 97 from the General Fund,  
Item 98 from Special Funds,  
and Item 99 from nongovern-  
mental cost funds

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|  |              |
|--|--------------|
| Requested 1975-76 .....                      | \$99,000,000 |
| Estimated 1974-75.....                       | 107,207,714  |
| Requested decrease \$8,207,714 (7.7 percent) |              |
| Total recommended reduction .....            | Pending      |

## **1975-76 FUNDING BY ITEM AND SOURCE**

| Item | Description   | Fund                            | Amount       | Analysis<br>page |
|------|---|---------------------------------|--------------|------------------|
| 97   | Augmentation for price increases of<br>state operating and equipment costs<br>and rates of Medi-Cal providers and TEC | General                         | \$85,000,000 | 159              |
| 98   | Augmentation for price increases<br>and TEC   | Various<br>special<br>funds     | 10,000,000   | 159              |
| 99   | Augmentation for price increases<br>and TEC   | Nongovernmental<br>cost funds * | 4,000,000 *  | 159              |
|      |   |                                 | \$99,000,000 |                  |

\* Appropriated in Budget Bill but not included in budget totals. May include allocations of federal funds for state programs, etc.

## **SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

Analysis  
page

1. Recommendation Withheld. Department of Finance must provide Legislature with specific requirement and data. 159

## **ANALYSIS AND RECOMMENDATIONS**

The \$99 million in these three items is to be allocated by the Director of Finance for the following three unrelated purposes:

1. Price increases of state operating and equipment costs over and above amounts provided in the agency budgets.
2. Rate increases for providers of Medi-Cal and related services which are not budgeted under the regular program.
3. The second phase of fringe benefit increases for state employees under the Total Equivalent Compensation program (TEC).

The \$85 million requested from the General Fund in Item 97 is to be used for all three purposes. The remaining \$14 million from special funds and other funds (nongovernmental cost funds) is limited to unspecified funding of general price increases and the TEC package.

The 1974-75 budget contained \$107.2 million<sup>a</sup>, in separate items, for the same three purposes. The amounts were:

1. \$26 million for unbudgeted price increases (\$20 million of this amount was from the General Fund).

<sup>a</sup> Includes \$5.4 million from nongovernmental cost funds.

2. \$71.2 million <sup>a</sup> for state employee fringe benefits (including University of California and State University and Colleges).
3. \$10 million for increases in rates to medical providers.

*We withhold recommendation on Items 97, 98 and 99 until the Department of Finance submits to the Legislature a detailed schedule of how the \$99 million in these items is to be distributed and the assumptions upon which the schedule is based.*

*We also recommend separate budget items for the Medi-Cal, general inflation, and TEC appropriations.*

The budget fails to specify how much of the \$99 million in Items 97-99 is to be spent for each of the three purposes. Moreover, our preliminary analysis suggests the total amount may be inadequate to fully fund all requirements.

#### **Operating Expenses and Equipment Costs**

Each year the Department of Finance issues price adjustment guidelines for use by all departments in preparing their budgets. These guidelines include expected percentage increases for selected items such as food, utilities, fuel, etc., as well as a general factor for operating expense and equipment. The 1974-75 proposed budget included built-in price adjustments over 1973-74 levels of 4 percent. In addition, the adopted budget included a special unallocated appropriation of \$26 million for unforeseen increases. This special appropriation added 4.2 percent to operating expense and equipment costs, for a total increase of 8.2 percent. However, Table 1 shows that this combined increase was less than the increase in the Consumer Price Index.

As of this writing, \$3.1 million of the \$26 million has been allocated. The remainder will be distributed in April and May when final expenditure needs have been determined.

The 1975-76 price guidelines advised all departments to budget general price increases at 11 percent above their 1974-75 base. This reported price guideline overstates the actual rate allowed, however, because the \$26 million unallocated appropriation was not included as part of the 1974-75 base. The actual increase is approximately 6.8 percent when the augmentation is included. It is important to note that this increase is 2.1 percent below the 8.9 percent (fiscal year) change in the Consumer Price Index (CPI) estimated by the Department of Finance.

In addition to funding this gap, we believe the budget should anticipate substantial price increases which could result from anti-recession and energy conservation policies. For example, if the energy conservation policies outlined by President Ford in January are adopted, then the price of gasoline could increase by at least \$0.10 per gallon, resulting in increased fuel costs to the state of \$4 million, General Fund and special funds.

Table 1 shows (1) the inflation adjustments reportedly allowed by the 1975-76 Department of Finance price letter, and (2) the actual rates of

<sup>a</sup> Includes \$5.4 million from nongovernmental cost funds.

**AUGMENTATIONS FOR PRICE INCREASES, TOTAL EQUIVALENT COMPENSATION (TEC) AND MEDI-CAL PROVIDERS—Continued**

increase allowed when the special \$26 million inflation amount is added to 1974-75 budgets. Table 1 also shows changes in the Consumer Price Index for these same years as estimated by the Department of Finance.

**Table 1**  
**Comparison of Budgetary Inflation Adjustments for 1975-76**  
**With Changes in the Consumer Price Index**

|  | 1973-74 | 1974-75 | 1975-76 | Total Change<br>1975-76<br>Above 1973-74 |
|--|---------|---------|---------|--|
| Budget adjustment (price guidelines) .....       | 4%      | 4%      | 11%     | 15.0%                                    |
| Budget adjustment (including augmentation) ..... | 4%      | 8.2% *  | 6.8%    | 15.0%                                    |
| Consumer Price Index .....                       | 8.2%    | 10.7%   | 8.9%    | 20.4%                                    |

\* Includes \$26 million special augmentation, which amounts to a 4.2 percent increase in total statewide operating expense and equipment costs.

**Medi-Cal Providers**

The only cost increase for Medi-Cal providers which is identified in the budget is a 10 percent adjustment for hospital inpatient care (see Item 278). The state is required by federal law to reimburse hospitals for their actual costs. However, effective July 1, 1975, federal law authorizes states to establish reimbursement rates for the "reasonable costs" of inpatient hospital services provided such rates do not exceed those established for the Medicare Program. The administration states that the funds projected for hospital inpatient services are budgeted in anticipation that the Department of Health will establish rates which "will be based on 1974-75 adjusted expenditures for inpatient services". It is not clear what this statement means in light of the budgeted 10 percent increase. The federal Department of Health, Education, and Welfare has projected a 17 percent increase in hospital costs for the coming year.

The budget indicates that part of the moneys in Item 97 will be used to fund cost adjustments for Medi-Cal providers and related services. However, it does not specify an amount or which providers will be given an increase. All providers are experiencing cost increases and will bring pressure for adjustments in their fee schedules, which are established by the Department of Health. Based upon a review of the various categories, it would appear that a minimum of \$40 million may be necessary if all providers are granted full cost-of-living increases.

**Total Equivalent Compensation**

Chapter 374, Statutes of 1974, enacted the Total Equivalent Compensation Program (TEC) for state civil service employees. The TEC approach requires the Board of Administration of the Public Employees' Retirement System (PERS) to determine the lead/lag between state civil service and related benefits (principally retirement and health insurance benefits) and those for other public and private employees. PERS determined that as of July 1, 1975, state civil service and related retirement benefits would lag by \$50.6 million.

To extend the same level of benefit improvements to University of

California and State University and Colleges employees, we estimate an additional funding requirement of \$26 million for a total expenditure of \$76.6 million (\$54.8 million General Fund, \$16.0 million special funds, and \$5.8 million nongovernmental cost funds).

#### Conclusion

We will need detailed information from the administration before a judgment can be made as to whether the appropriations in Items 97, 98, and 99 are sufficient or the individual allocations supportable.

In any case, we do not believe the Legislature should appropriate for these purposes in the manner proposed in the budget. It is essential that the appropriations for Medi-Cal providers, employee benefits and price increases (all completely dissimilar programs) *be separately made* by the Legislature in order that its priorities and policies are expressed and implemented.

### REPLACEMENT OF FEDERAL FUNDS

Item 100 from the General

Fund and, Item 101 from unspecified special funds

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|                                   |             |
|-----------------------------------|-------------|
| Requested 1975-76 .....           | \$2,750,000 |
| Estimated 1974-75.....            | None        |
| Total recommended reduction ..... | None        |

#### 1975-76 FUNDING BY ITEM AND SOURCE

| Item | Description                  | Fund    | Amount             |
|------|------------------------------|---------|--------------------|
| 100  | Replacement of federal funds | General | \$2,000,000        |
| 101  | Replacement of federal funds | Special | 750,000            |
|      |                              |         | <u>\$2,750,000</u> |

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

These items provide funds for the state to continue selective federally financed programs if federal funding is terminated. The appropriations cannot be used to start new or upgrade existing programs. Funds from these items will be allocated by the Director of Finance. Thirty days in advance of making any allocation the director is required to notify the legislative fiscal committees and the Joint Legislative Budget Committee. The amounts requested are arbitrary since this will be the first year of this program and historical data are not available. However, they are sufficiently small when compared to total state expenditures of federal funds (over \$6 billion) to insure that only high priority programs are funded. In prior years, programs were reduced, funded from departmental savings, or from the Emergency Fund, when federal support was terminated.