

LEGISLATURE

Items 0110-0130 from the General Fund

Budget p. LJE 1

Requested 1983-84	\$104,188,000
Estimated 1982-83	100,823,000
Actual 1981-82	101,070,000
Requested increase (excluding amount for salary increases) \$3,365,000 (+3.3 percent)	
Total recommended reduction	None

1983-84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0110-001-001—Senate		General	\$30,924,000
0120-011-001—Assembly		General	48,672,000
0130-021-001—Joint Committees		General	22,540,000
Subtotals of Legislature's Appropriation			\$102,136,000
Expenditures from Contingent Funds		Contingent	2,037,000
Carry-over Balances			
Expenditures from General Fund Carry-over Balances		General	15,000
Total			\$104,188,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Retirement Fund Reserves. Recommend adoption of supplemental report language directing PERS to limit reserve for deficiencies to one percent of assets in the Legislators' Retirement Fund to further reduce the unfunded liability.

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GENERAL PROGRAM STATEMENT

Under the terms of a ballot measure adopted in 1972, California's 120-member Legislature convenes in even-numbered years on the first Monday in December, and remains in session, except for recesses, until November 30th of the following even-numbered year. Bills may be introduced in either the first or second year, and bills introduced in the first year and not enacted are automatically carried over to the second. The Budget Bill is introduced and enacted annually.

The Legislature had 2,157 employees at the end of 1982.

ANALYSIS AND RECOMMENDATIONS

The budget provides \$104,188,000 for support of the Legislature in 1983-84. This amount is \$3,365,000, or 3.3 percent, above estimated expenditures in the current year. The proposed budget will increase by the amount of any salary or staff benefit amount approved for the budget year. Table 1 outlines the sources and uses of funds for legislative expenses in the prior, current, and budget years.

Historically, appropriations made to support the Legislature have been supplemented by balances carried over from prior years. In 1983-84, \$2.1 million of the \$104.2 million in proposed expenditures will be funded from carry-over balances and transfers.

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Table 1
Sources and Uses of Funds Provided for Support of the Legislature
 (in thousands)

<i>Source of Funding</i>	<i>Actual 1981-82</i>	<i>Estimated 1982-83</i>	<i>Proposed 1983-84</i>	<i>Change from Current Year</i>
General Fund				
Appropriations and transfers	\$98,381	\$94,938	\$102,136	\$7,198
Carry-over ^a	849	990	15	-975
Totals, General Fund	\$99,230	\$95,928	\$102,151	\$6,223
Carry-over balances in Assembly and Senate Contingent Funds	1,840	4,895	2,037	-2,858
Totals, all funds	\$101,070	\$100,823	\$104,188	\$3,365
Program				
Senate	\$31,263	\$31,164	\$32,761	\$1,597
Assembly	46,987	47,908	48,672	764
Joint expenses	22,820	21,751	22,755	1,004
Total expenditures	\$101,070	\$100,823	\$104,188	\$3,365

^a From prior appropriation for printing.

CONTRIBUTIONS TO LEGISLATORS' RETIREMENT FUND

The budget proposes to transfer \$792,000 from the General Fund to the Legislators' Retirement Fund in 1983-84 as the state's (employer's) contribution toward members' retirement. This is an increase of \$72,000, or 10 percent, above estimated current-year contributions. The increase is anticipated as a result of the growth in membership on the part of newly-elected legislators. Membership in the Legislators' Retirement System (LRS) is optional. The LRS is administered by the Public Employees' Retirement System (PERS).

Funding History

In 1977, the Legislature acted to convert the LRS from a "pay-as-you-go" to a "funded" system. It provided (1) a lump-sum appropriation of \$27.4 million to eliminate the accrued unfunded liability and (2) a continuous appropriation equal to 18.8 percent of members' salaries, to maintain the funded condition of the system.

However, the latest actuarial valuation of the LRS reported an unfunded liability as of June 30, 1980 amounting to nearly \$25 million, and a "normal cost" for maintaining actuarial soundness equal to 21.3 percent of salaries, rather than 18.8 percent figure. According to the report, the funding gap resulted from (1) higher-than-anticipated annual inflation rates, (2) a growing ratio of retired to active members in the system, and (3) the use of outdated actuarial information in designing the 1977 funding program.

To eliminate the current funding problem, the PERS recommended that the Legislature either provide a lump-sum General Fund appropriation to pay off the accrued liability, or amortize it over a 30-year period by increasing the state's contribution to 25 percent of members' salaries. To limit the growth of the unfunded liability, the PERS also recommended

legislation (1) placing a cap on annual cost-of-living adjustments to members' pensions, (2) deleting a duplicative, special survivor benefit, and (3) increasing the state General Fund contribution for "normal" costs from 18.8 percent of members' salaries to 21.3 percent.

Program to Reduce Unfunded Liability

The Legislators' Retirement Fund (LRF) contains a special account called the Reserve for Interest Guarantee. This account was established by the PERS as a reserve against deficiencies in interest earned, investment losses, adverse actuarial experience and other contingencies. It has been a depository for all investment earnings in excess of amounts credited to members' accounts and administrative expenses. Because the reserve was not utilized, it grew to \$8 million by 1980, as shown in Table 2.

In its most recent valuation of the LRS, the consulting actuary recommended that the reserve be capped at a specified level and that the "excess reserves" be used to reduce the unfunded liability. In response, the PERS Board of Administration established a target reserve level equal to 2 percent of net LRS assets—that is, assets other than those in the Reserve for Interest Guarantee and approved the use of the excess in the reserve to reduce the unfunded liability. Accordingly, \$7.4 million was credited toward the system's unfunded liability in 1980, and another \$6.9 million was used for the same purpose in 1982, as shown in Table 2.

Table 2
Reserve for Interest Guarantee
Legislators' Retirement Fund
(in millions)

<i>As of June 30</i>	<i>Total Reserves</i>	<i>Two Percent of LRS Assets</i>	<i>Excess Reserves Credited Toward Unfunded Liability</i>
1977	\$0.6	—	—
1978	3.0	—	—
1979	5.4	—	—
1980	8.0	\$0.6	\$7.4
1981	3.7	0.6	— ^a
1982	7.6	0.7	6.9

^a The full \$3.7 million was retained in the Reserve and carried forward into 1982.

Reserve Still Too High

We recommend adoption of supplemental report language directing the PERS to limit the annual reserve for deficiencies in the Legislators' Retirement Fund to one percent of LRS assets, to further reduce the LRS unfunded liability.

Current PERS administrative guidelines are designed to maintain a reserve for the Legislators' Retirement Fund equal to 2 percent of LRS assets. However, effective June 30, 1982, Chapter 330, Statutes of 1982 (SB 46), set 1 percent of PERS assets as prudent reserve for the Public Employees' Retirement Fund. Our analysis indicates that a reduction to the same level for LRS reserves may be accomplished without jeopardizing the financial integrity of that system. Further, such reduction may already be required by law. Section 9354.1 of the Government Code provides that, in administering the LRF, the PERS Board is subject to the same limitations and restrictions that are applicable to the administration of the Pub-

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lic Employees' Retirement Fund (PERF). Thus, the provisions of the Public Employees' Retirement Law applicable to the administration, investment and custody of the PERF are also applicable to the LRF.

A reduction in the LRF reserves from the current 2 percent to 1 percent of the fund's total assets would free up additional money which could be used to further reduce the system's unfunded liability. To accomplish this, we recommend that the Legislature adopt the following supplemental report language:

"Beginning July 1, 1983, the PERS shall establish the same 1 percent of assets reserve for the Legislators' Retirement Fund, as required for the Public Employees' Retirement Fund. Further, the PERS shall annually credit the remaining reserves toward reduction of the unfunded liability in the Legislators' Retirement Fund."

Potential Impact of Court Cases

During 1982, two significant lawsuits were filed against the PERS, as administrator of the LRS. These suits, which were filed with the Second Appellate District Court of Appeals, involve eligibility for the "super escalator" cost-of-living increase. The "super escalator" provides members of the LRS with service during specified periods with pensions reflecting the cumulative increase in the California Consumer Price Index during their years of service, back to 1954. The improvement to pensions resulting from the "super escalator" is in addition to the improvements that retirees get as a result of their pensions being tied to the *current* salary of legislators.

The super escalator for legislative members of the system was revoked in 1966. The super escalator for other former constitutional officers remained in effect until 1974.

In *Allen, et al. v. PERS*, the Court of Appeals ruled for the plaintiffs, citing the California Supreme Court's decision in *Betts v. PERS*. In the *Betts* case, the court ruled that, because of his long period of service during the 1954-1966 period, plaintiff was entitled to both the super escalator and the regular cost-of-living that results from tying pension benefits to the current salary for the office from which the plaintiff retired.

In *Younger v. PERS*, the same Court of Appeals ruled that the plaintiff was not entitled to the super escalator on the grounds that only a very small portion of his state service was rendered during the period for which that benefit was in effect.

Both of these decisions are expected to be appealed to the California Supreme Court (and, possibly, to the U.S. Supreme Court, as well). If the plaintiffs ultimately prevail, it would have a major impact on the Legislators' Retirement Fund, since many additional LRS retirees, or survivors, would qualify for the super escalator cost-of-living increases. Pension analysts estimate that this would double, triple, and, in some cases, even quadruple pensions for eligible members, and would increase significantly the unfunded liability of the system.

LEGISLATIVE COUNSEL BUREAU

Item 0160 from the General

Fund	Budget p. LJE 7
Requested 1983-84	\$16,786,000
Estimated 1982-83.....	13,998,000
Actual 1981-82	10,010,000
Requested increase (excluding amount for salary increases) \$2,788,000 (+19.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Legislative Counsel Bureau provides legal assistance to the members and committees of the Legislature. The bureau provides legal opinions, drafts bills, provides legal counsel, supplies attorney support for legislative committee hearings, and represents the Legislature in litigation. It prepares necessary indices and tables to identify legislative measures, and compiles and indexes statutes and codes. The bureau also operates a data processing system which is used for the payroll, personnel, and accounting systems maintained by both houses of the Legislature, and in the drafting of bills. Beginning in 1981-82, the bureau implemented a legislative information system which provides information on legislative actions, on an automated basis.

The bureau has a staff of 271.75 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes a General Fund appropriation of \$16,786,000 for support of the bureau in 1983-84. This is an increase of \$2,788,000, or 20 percent, above estimated current-year expenditures. Additionally, the bureau anticipates budget-year reimbursements of \$131,000, for a total expenditure of \$16,917,000 in 1983-84. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

In addition to increases for price and merit salary adjustments (about \$680,000), the requested increase in the bureau's budget results from the following factors:

1. **Increased General Office Workload.** Due to increases in the number of bills introduced, the number of requests for legal opinions, and other services provided to the Legislature, the bureau's workload has increased markedly in recent years. In response to the anticipated further increases in workload, the budget proposes the addition of two new positions for the office's legal division. The budget also proposes one new position for the accounting division, to bring the staffing level for that function more in line with that for other state agencies of similar size. These new positions result in increased expenditures of approximately \$75,000.

2. **Data Processing Expansion.** The budget proposes an increase of approximately \$2.0 million to continue implementation of the automated legislative information system for both houses of the Legislature. The system provides information on legislative activities, such as the status,

LEGISLATIVE COUNSEL BUREAU—Continued

text, and analyses of bills. The bureau advises that the system will be fully operative in the offices of all members and standing committees by April 1983. Computer terminals, linked to the bureau's central data processing unit, are expected to improve and speed the flow of information to members of the Legislature and their staffs.

The proposed increase will fund 30 positions. This will permit the bureau to improve its service to the Legislature (by, for example, expanding its operations to 24 hours a day). These positions are being established during the current year to accelerate the implementation of the system, as requested by the Legislature. The increased expenditures also will provide funds needed to bring into the system various subcommittees, joint committees, and special committees, including the Office of the Auditor General.

CALIFORNIA LAW REVISION COMMISSION

Item 0170 from the General

Fund	Budget p. LJE 9
Requested 1983-84	\$410,000
Estimated 1982-83.....	389,000
Actual 1981-82	385,000
Requested increase (excluding amount for salary increases) \$21,000 (+5.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Law Revision Commission consists of 10 members—one from each house of the Legislature, seven appointed by the Governor, and the Legislative Counsel, who is a nonvoting member.

Under the commission's direction, a staff of eight employees (including five professional positions) studies statutory and decisional law, as requested by concurrent resolution of the Legislature, for the purpose of recommending reforms. The commission currently has before it 31 topics assigned by the Legislature.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$410,000 from the General Fund for support of the commission in 1983-84, which is \$21,000, or 5.4 percent, above the estimated current-year expenditure. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The increase is due to routine merit salary and price adjustments, and is needed to meet the ongoing workload of the commission.

COMMISSION ON UNIFORM STATE LAWS

Item 0180 from the General Fund

Budget p. LJE 11

Requested 1983-84	\$51,000
Estimated 1982-83.....	49,000
Actual 1981-82	46,000
Requested increase \$2,000 (+4.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Commission on Uniform State Laws sponsors the adoption by California of uniform codes or statutes developed by the National Conference of Commissioners wherever compatibility with the laws of other jurisdictions is considered desirable. The commission consists of seven members—four appointed by the Governor, two members of the Legislature (one selected by each house), and the Legislative Counsel.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$51,000 from the General Fund for support of the commission in 1983-84. This is \$2,000, or 4.1 percent, more than estimated current-year expenditures. Approximately 80 percent of the budget is used to pay the state's annual membership fee. The balance covers travel and per diem expenses for three meetings. The requested increase will cover projected increases in travel costs.

JUDICIAL

Item 0250 from the General Fund and the State Transportation Fund

Budget p. LJE 12

Requested 1983-84	\$44,173,000
Estimated 1982-83.....	39,840,000
Actual 1981-82	32,189,000
Requested increase (excluding amount for salary increases) \$4,333,000 (+10.9 percent)	
Total recommended reduction	\$2,475,000
Recommendation pending	\$2,309,000

1983-84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0250-001-001—Judicial Support		General	\$43,878,000
0250-001-044—Judicial Support		Transportation	52,000
0250-101-001—Local Assistance		General	243,000
Total			\$44,173,000