

ANALYSIS AND RECOMMENDATIONS WITH RESPECT TO GENERAL CONTROL SECTIONS

The so-called "control sections" included in the 1983 Budget Bill set forth general policy guidelines governing the use of state funds. These sections place limitations on the expenditure of certain appropriations, extend or terminate the availability of certain specified appropriations, provide procedures for expenditure and control of funds appropriated by the Budget Act and contain the usual severability and urgency clauses.

The control sections proposed by the administration for fiscal year 1983-84 may be found in Sections 3.00 through 36.00 of the 1983 Budget Bill.

The "control section" portion of the 1983 Budget Bill is significantly different from the "control section" portion of previous Budget Bills. The Department of Finance is proposing the statutory codification of many control sections which for many years have been included in the Budget Bill. The provisions needed to accomplish this are included in SB 124 (Alquist) and AB 223 (Vasconcellos), the companion bills to the Budget Bill. In the great majority of cases, we believe codification of the provisions is warranted, and thus concur in the department's proposal to exclude them from the 1982-83 Budget Bill. There are some provisions, however, that we believe *should* be included in the Budget Bill, and so recommend in the following pages.

We will comment and make recommendations on the provisions of the companion bills relating to previous Budget Bill control sections when the bills are considered by the appropriate committees of the Legislature.

CONTROL SECTION 3.00

BUDGET ACT DEFINITIONS AND STATUTORY SALARIES

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section sets forth various conditions under which appropriations for support, capital outlay, and acquisition of land are to be made. It restricts expenditures to categories or projects set forth in the Budget Act schedule, unless otherwise provided in other sections of the act. Also, various words, terms and phrases found in the categorical schedules of the Budget Act items are defined by this section.

This section also provides that the statutorily established salaries and wages of state officers are included in the appropriate support items of the Budget Act of 1983 in the amount in effect on June 30, 1983. Without the provisions of this section, the salary increases previously approved by the Legislature could not be continued, and the salaries for these positions would be reduced to the base salary authorized in the statutes.

In prior years, these provisions were included in the Budget Act as Sections 26.00 and 26.70.

CONTROL SECTION 3.50

EMPLOYEE BENEFITS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which was included in the Budget Act of 1982 as Section 26.50, provides that state contributions for payment of employee benefits, such as retirement, disability, unemployment, health insurance, survivors'

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insurance and workers' compensation insurance, which have continuing statutory appropriations, shall be included in the appropriation for each support budget item of the Budget Act.

In addition, this section continues the authority to use the statutory appropriations for expenditures not chargeable to Budget Act appropriations. It also authorizes the use of these statutory appropriations for expenditure of current-year funds to meet prior-year obligations, if sufficient funds are not available.

**CONTROL SECTION 4.00
HEALTH INSURANCE PREMIUMS**

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation relative to monthly state contribution rates for employee health insurance specified in this section, pending determination of (1) the actual increase in health insurance premiums and (2) rate changes negotiated under collective bargaining.

The state pays the major portion of premiums for health insurance provided to active and retired civil service and related employees and employees of the California State University (CSU). Legislative intent, as expressed in Section 22825.1 of the Government Code, is that the state pay 100 percent of the average premium cost for coverage of the employees and annuitants, and an average of 90 percent for coverage of their dependents.

This control section, which is identical to Section 19.11 of the Budget Act of 1982, specifies the monthly amounts which the state contributes toward employee health insurance, thereby enabling the Legislature to adjust state contribution rates through the Budget Bill, rather than requiring a change in statute.

Current state monthly contributions toward employee health insurance are (1) \$71 for the employee (or annuitant) only, (2) \$133 for an employee and one dependent and (3) \$168 for an employee and two or more dependents. These contribution levels were authorized by the 1982 Budget Act, and became effective July 1, 1982.

The size of annual premium increases depend on:

- **Inflation.** The additional amount required for providing the same coverage.
- **New mandated benefits.** The cost of providing a new benefit required by federal or state law.
- **Benefit enhancements.** The cost of providing an additional or increased benefit provided at the state's option.

The 1982 increase in health benefit costs was due entirely to the increased cost of maintaining existing coverage.

Changes in the coverage of and premiums for state employee health insurance result from negotiations between PERS staff and the insurance carriers. These annual negotiations typically are completed late in May and are subject to approval by the PERS Board. Funding for the state portion of the increased costs pursuant to these negotiations is included in the annual Budget Bill.

Changes in coverage and premiums for annuitants correspond with those made for active civil service and related employees and employees

of the CSU. Because most University of California (UC) employees are not eligible for health insurance coverage under the PERS, funds traditionally have been appropriated to UC to provide their employees with comparable benefit improvements.

The state contribution rate for employee health insurance is now a negotiable issue under collective bargaining. Therefore, different rates for employees in the various bargaining units could result pursuant to the collective bargaining process. Any additional funds needed for implementing negotiated changes, however, are subject to approval by the Legislature in the annual Budget Act.

Before acting to adjust the state contribution rate for annuitants or employees *not* subject to collective bargaining, the Legislature may want to consider negotiated changes, if any, made in the state rate with respect to employees covered by collective bargaining.

We withhold recommendation on the contribution rates proposed in this section, pending determination of (1) the actual increase in health insurance premiums and (2) rate changes, if any, negotiated under collective bargaining.

CONTROL SECTION 4.50 PREMIUMS FOR OFFICIAL BONDS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 29.00 of the Budget Act of 1982, permits the payment of premiums for official bonds, notwithstanding the period covered by such bonds.

SECTION 5.00 ATTORNEY FEES

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section prohibits the use of funds appropriated in the Budget Act to pay attorney fees in specified cases, prior to legislative review and approval. Only court-awarded attorney fees specifically authorized and set forth in an item or section of the act, or expressly authorized by a statutory provision other than Section 1021.5 of the Code of Civil Procedure, may be paid directly from funds appropriated in the act.

This section increases legislative oversight of the payment of court-awarded attorney fees. It was included for the first time in the Budget Act of 1980.

The Budget Bill includes an item which appropriates \$400,000 from various funds for the payment of attorney fee claims, settlements, and judgments against the state pursuant to the Code of Civil Procedure Section 1021.5, the "private attorney general" doctrine, or the "substantial benefit" doctrine. (See our analysis of Item 9810.)

CONTROL SECTION 5.50 OVERSIGHT OF CONSULTANT CONTRACTS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section requires the Director of General Services to notify the Joint Legislative Budget Committee within 30 days after approval of any contracts or interagency agreements for consultant or professional services.

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This provision differs from the provision contained in the 1982 Budget Act (Section 18.00) which vested primary oversight responsibility for contracts with the Department of Finance. Chapter 1207, Statutes of 1982, revised the procedures for the statewide review of consulting and personal services contracts by transferring the primary review and reporting responsibilities to the Director of General Services.

**CONTROL SECTION 6.00
STATE BUILDING ALTERATIONS**

ANALYSIS AND RECOMMENDATIONS

We recommend that Section 6.00 be modified so as to require the Director of Finance to indicate why a proposed alteration project is "critical" and should proceed without the normal budgetary review.

This section establishes certain limits on the use of support budget funds for alteration of state buildings. Departments may not undertake building alterations, using support budget funds, which cost more than \$10,000 unless the Director of Finance determines that the proposed alteration is critical. Critical projects, moreover, may not exceed \$150,000, and Department of Finance's determination must be reported to the Chairperson of the Joint Legislative Budget Committee not less than 30 days prior to requesting bids for the project. Alteration projects which cost less than \$10,000 are not subject to any approval or reporting requirement.

This language is identical to that which was included in the 1982 Budget Act under Section 6.10. The upper limit of \$150,000 corresponds to the upper limit for minor capital outlay.

Modification

This section was established in 1976 to ensure that alterations of state buildings are reviewed by the administration and the Legislature, and to prevent the use of unexpended support funds to accomplish capital outlay projects.

During the current year, the chairman of the Joint Legislative Budget Committee received letters pursuant to this section which did not identify those factors which caused the proposed alteration projects to be critical. Moreover, our analysis indicated that most of these projects were simply *desired* by the department or agency and were *not critical*. In most cases, upon reexamination, the Director of Finance agreed with our analysis.

In order to assure that (1) projects proposed under this section receive adequate administrative review and (2) the Legislature is informed of the reasons a project must proceed without normal budgetary review, we recommend that the Director of Finance detail those factors which make a project so critical that it must proceed using support funds. Specifically we recommend that Section 6.00 be amended as follows:

- On page 230, line 1, insert after "project.": "The report shall detail those factors which make the project so critical that it must proceed using support funds."

**CONTROL SECTION 6.50
TRANSFER OF AMOUNTS WITHIN SCHEDULES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 27.00 of the Budget Act of 1982, authorizes the Director of Finance, when requested by the agency to which the appropriation is made, to transfer amounts between categories or projects within the same schedule in any item of appropriation. The Director of Finance is required to report quarterly to the fiscal committees of each house and to the Joint Legislative Budget Committee all transfers approved pursuant to this authority.

Transfers made under this section, with one exception, are limited to 20 percent of the amount authorized for the line item to be augmented. Transfers in the Department of Transportation Highway Program are limited to 10 percent of the line item amount, in order to conform to other statutory restrictions on the department's expenditures.

**SECTION 7.00
TORT LIABILITY INSURANCE**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section prohibits the use of funds appropriated in the Budget Act to purchase a discretionary tort liability insurance policy unless 30-days' advance notification, together with a cost-benefit analysis of the proposed policy, has been provided to the Joint Legislative Budget Committee.

This section is necessary because a number of agencies have continued to purchase commercial tort liability policies on a discretionary basis, despite the state's policy of self-insuring or carrying no insurance whenever possible. The section was included for the first time in the Budget Act of 1981. During 1981-82, 4 policies were purchased pursuant to the requirements of this section, at a total cost of \$25,325. The Insurance Office of the Department of General Services indicates that proposed expenditures in 1983-84 will decrease to \$20,900.

**CONTROL SECTION 7.50
ACCOUNTING PROCEDURES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 30.00 of the Budget Act of 1982, provides that for accounting purposes, certain authorized expenditures may be considered to be an augmentation of the appropriation made by this act. These expenditures include those authorized from the Reserve for Contingencies or Emergencies, from total equivalent compensation funds, from the price increase funds, from the salary increase funds, or from special funds pursuant to Section 11006 of the Government Code.

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**CONTROL SECTION 8.10
DEPARTMENT OF PARKS AND RECREATION**

ANALYSIS AND RECOMMENDATIONS

We recommend addition of Section 8.10 to continue in force legislative oversight over operating leases, and operating agreements with local agencies.

The Budget Bill omits Section 8.10, which has been included in every prior Budget Act since 1972. This section has required the Department of Parks and Recreation to submit proposals for major new concession contracts and major changes in existing concession contracts to the Legislature, as part of the department's annual budget request.

The Legislature has included Control Section 8.10 in prior Budget Acts for three reasons: (1) to provide for legislative oversight of major concession contracts in the state park system, (2) to assure coordination of the state park concessions program with the department's support and capital outlay programs, and (3) to assure that the concessions program is consistent with legislative policies.

In the 1982 Budget Act, the Legislature extended Section 8.10 to include operating leases and operating agreements under which local governments operate units of the state park system. This action was taken in response to serious problems in the local management of operating leases and operating agreements which we pointed out in our report entitled *A Review of the Department of Parks and Recreation's Concessions Programs in the State Park System* (Legislative Analyst report No. 82-3).

In order to specify more clearly the department's authority to modify, execute, and approve concession contracts, and to improve the management of concessions, the Legislature enacted Ch 1487/82 (SB 1632). Chapter 1487 provided improved policy guidance to assure better management of concessions contracts. The legislation, however, did not address the management and control of operating leases and agreements by local agencies which previously had been included in Section 8.10.

In order to ensure continuation of legislative oversight over operating leases and operating agreements with local governments, we recommend that Control Section 8.10 be reinstated in the following form:

SEC. 8.10. (a) No expenditure from an appropriation made by this act to the Department of Parks and Recreation shall be made to modify, execute, or approve an operating lease (which involves a rental payment in excess of \$10,000 annually), or an operating agreement with any local entity or any nonprofit corporation, unless: (1) the Legislature has reviewed the lease, or agreement as part of the support or capital outlay budget of the Department of Parks and Recreation and expressed approval of the expenditure from an appropriation made by this act through the supplemental language report or (2) the State Public Works Board has approved the lease, or agreement not sooner than 20 days after the Director of Finance has provided written notification to the Chairperson of the Joint Legislative Budget Committee, the Chairperson of the Assembly Ways and Means Committee, and the Chairperson of the Senate Finance Committee, and upon a determination by the board that the proposal could not have reasonably been presented to the

Legislature through the annual budget process.

(b) All concession contracts, leases, and agreements submitted by the department to the Legislature shall be accompanied by detailed descriptions and economic analyses.

CONTROL SECTION 8.50 APPROPRIATION OF FEDERAL FUNDS

ANALYSIS AND RECOMMENDATIONS

We recommend modification of Section 8.50 to reinstate language contained in the 1982 Budget Act requiring notification of the Legislature when federal funds for any item are reduced by more than 5 percent of the amount appropriated in the Budget Act.

This section expresses the intent of the Legislature that state agencies eligible for federal aid should apply for the maximum amount available under federal law. It also provides that all federal funds received are automatically appropriated for expenditure, subject to any Budget Act provisions controlling expenditures, including Section 28.00.

The Budget Bill includes direct appropriations of federal funds to the various state agencies. These appropriations are fixed amounts payable from the Federal Trust Fund. Under current law, expenditure of federal funds could not exceed these appropriations. The Budget Bill, however, contains only estimates of the amounts the federal government will award to the state. This section appropriates any additional amounts of federal funds received in excess of these appropriations.

Section 28.00 calls for notification to the Legislature 30 days before any excess funds are approved for expenditure. Under Section 28.00, the Director of Finance may approve expenditures for new programs not identified in the budget or for purposes which constitute an increase in the level of services above that authorized by the Budget Act. The Director may do so, however, no sooner than 30 days *after* both fiscal committees and the Joint Legislative Budget Committee have received written notice of such changes.

Language Modification Recommended

Section 8.50 of the 1982 Budget Act included language requiring that the Legislature be notified when the amount of federal funds received by the state is *reduced* by more than 5 percent below the amount appropriated in the Budget Act.

The Director's notification must be accompanied by a plan for operating the program with reduced funds, if the reduction is in a federal block grant program. In the event that a budget item which does not fund a block grant receives federal support that is more than 5 percent below the level anticipated, the Director's notification shall include an estimate of (a) the amount of federal funds available, (b) expenditure levels for each program affected by the reduction, and (c) the effect of reduced funding on the service levels authorized in the Budget Act. This language has not been included in the 1983 Budget Bill.

Due to the differences between the federal and state budget process, it is very difficult to estimate, at the time that the proposed budget is enacted, the level of federal funds to be received by the state during the budget year. Consequently, we believe that the notification language included in the 1982 Budget Act is needed if the Legislature is to exercise its legitimate role of overseeing programs authorized in the state budget.

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Moreover, in the absence of this language, the Legislature does not have an accessible forum to ensure that *its* priorities are taken into account when funding levels must be reduced due to cutbacks in federal funds. For these reasons, we recommend that the policy established in 1982 be continued in 1983-84. Specifically, we recommend that Section 8.50 be amended as follows:

- On page 231, line 11, insert after "Section 28.00":

"However, if federal funds for block grant programs assumed by the state are reduced by more than 5 percent of the amount appropriated in this act, the Director of Finance shall notify the chairperson of the committee in each house which considers appropriations, and the Chairperson of the Joint Legislative Budget Committee, in writing within 30 days after notification by the federal government that federal funds have been reduced, and shall include a plan of reduced expenditures for the federal block grant programs affected. The plan shall be operational on an interim basis for up to 45 days pending legislative review, after which time the plan shall become permanent.

"In addition, the Department of Finance shall notify the Chairperson of the Joint Legislative Budget Committee, and the chairpersons of the fiscal committees, within 30 days after notification from the federal government, in the event that federal funds for any item receiving federal funds are reduced by more than 5 percent of the amount appropriated in this act. Notification shall include an estimate of (a) the amount of federal funds available or anticipated, (b) state fiscal year 1983-84 expenditures for each program affected by the reduction, and (c) the effect of reduced funding on service levels authorized by this act."

**CONTROL SECTION 8.51
FEDERAL TRUST FUND ACCOUNT NUMBERS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Control Section 8.51 of the 1982 Budget Act, requires each state agency to use the Federal Trust Fund account numbers when certifying charges against federal funds appropriated by Budget Act items. We recommend approval because this section ensures consistent accounting between the State Controller's office and each state agency.

**CONTROL SECTION 9.00
SUPPLEMENTAL LANGUAGE REPORT**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, section 16.00 in previous Budget Acts, states that the supplemental report of the Committee of Conference on the Budget Bill, which is prepared by the Legislative Analyst, reflects legislative intent in enacting the Budget Act. This section requires the Legislative Analyst to send the report to all affected agencies.

This is the sixth year that this statement has been included in a control

section. In prior years, it was included in a concurrent resolution carried by the author of the Budget Act.

**CONTROL SECTION 9.25
MERIT SALARY ADJUSTMENTS—REVERSION**

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on this section, pending submission of employee compensation increases negotiated through collective bargaining.

The Government Code (Section 19834) requires that automatic salary adjustments be made for state civil service employees in accordance with certain provisions and Department of Personnel Administration rules, unless there are not sufficient funds available to provide for these adjustments.

Pursuant to these provisions and rules, almost all state civil service employees who remain in the same salary range receive annual salary increases of 5 percent until they reach the top step of their range.

Automatic salary adjustments are a negotiable issue under collective bargaining. Funding needed to provide for such adjustments during the budget year has been included within the budgets of the individual state agencies. According to the Department of Finance, a total of \$72.4 million (\$59.7 million General Fund) has been budgeted for this purpose. Control Section 9.25 would cause all funds budgeted for the automatic increases to revert and, thereby, would make these funds available under the bargaining process for other purposes, including other forms of employee compensation.

We withhold recommendation on this section until state employee compensation increases have been negotiated and the negotiated agreements have been submitted for the Legislature's consideration.

**CONTROL SECTION 9.50
FUNDING SOURCE FOR REAPPROPRIATIONS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section provides that unless otherwise noted in the Budget Bill, any reappropriation for capital outlay funds from the General Fund contained in the Budget Bill shall be payable from the Special Account for Capital Outlay.

The Budget Bill, as introduced, does not include any reappropriations for capital outlay from the General Fund. Consequently, if the Budget Bill is enacted in this form, Section 9.50 would not have any effect. In the event the budget is amended to include reappropriations of capital outlay funds from the General Fund, this section would switch the fund source to the SAFCO unless language citing another fund source is included under the specific reappropriation.

**CONTROL SECTION 10.00
LEGISLATIVE OVERSIGHT OF COGENERATION AND OTHER ENERGY
PROJECTS**

ANALYSIS AND RECOMMENDATIONS

We recommend that this section be deleted from the Budget Bill and instead its provisions be included in the amendments to the Government Code proposed in SB 123/AB 223, the Budget Trailer Bills.

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Further, we recommend that before this section is included in the Budget Trailer Bill, it be amended to recognize alternative means of financing energy conservation projects which have been authorized by recently enacted legislation.

This section, initiated in the 1982 Budget Act, requires the Department of Finance to advise the Legislature before allocating support or capital outlay funds for certain energy conservation projects. Specifically, the section addresses (a) cogeneration projects, (b) third party financing of any conservation projects, and (c) post-audit reporting of actual savings achieved from cogeneration projects.

Cogeneration Projects. This section requires that the Department of Finance report specific information pertaining to cogeneration facilities before allocation of funds for such facilities. The required information includes:

- Engineering evaluation of alternative cogeneration equipment configurations.
- Evaluation of other potential conservation measures available at the subject site and an implementation plan for these measures.
- A financial analysis of cost savings, revenues, and economic feasibility of cogeneration at the subject site.
- The budgetary impact of the proposal.

Third Party Financing. This portion of the section deals with reporting of any energy service contract or third party agreement for construction of energy conservation measures. The section requires the Department of Finance to submit a report containing the terms of any proposed agreement, any sharing of benefits proposed in the agreement, and the potential cost savings to the state budget from the proposed project.

Post-Audit Report. This section states that within one year of completion of any cogeneration project, the Department of Finance must submit a report which compares the energy and cost savings achieved with those estimated at the time the project was submitted for review by the Legislature.

Our analysis indicates that the provisions of this section should apply to all cogeneration and third party financing proposals, and therefore should be included in statutory law rather than in budget language. In this way, any projects which are funded outside of the annual Budget Act would also be subject to the reporting requirements, thus ensuring legislative notification and review of proposed improvements to state facilities.

New Energy Project Financing Mechanism Available. Chapter 1523, Statutes of 1982, became effective on January 1, 1983. This new law established new financing mechanisms for construction of energy conservation projects at state facilities. Specifically, this measure authorizes the State Public Works Board to finance energy projects at state facilities by:

1. Issuing revenue bonds, up to a total of \$500 million over a 10 year period.
2. Entering into energy service agreements with private investors.

3. Providing loans or budget augmentations to state agencies from funds made available to the board through (1) and (2) above.

Some of the projects that may have been planned to be implemented through budget appropriations or third party agreements may now be implemented through the authority granted to the State Public Works Board. Accordingly, we recommend that a modified version of this section be included in the Budget Trailer Bill. We recommend that the report to the Legislature be required to include an economic feasibility of funding the proposed project through the alternative financing mechanisms authorized in Ch 1523/82. Specifically, we recommend that the following language be added under Section A and B:

“ . . . An analysis of the alternative financing mechanisms available to fund the proposed project, and the cost-benefit of each such mechanism, including state capital outlay appropriations, revenue bonds, and loans authorized by Chapter 2.7 of the Government Code as added by Chapter 1523, Statutes of 1982.”

SECTION 12.00 APPROPRIATION LIMIT FOR 1983-84

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation, pending the receipt of final data on the annual adjustment factors.

This section establishes the state's 1983-84 appropriations limit for purposes of Article XIII B of the State Constitution. It also sets a time limit on judicial challenges to the established limit.

The budget proposes a 1983-84 limit of \$20,822 million. This is only a preliminary estimate, however, as the final annual adjustment factors for inflation and population needed to establish the 1983-84 limit will not be known until May. In addition, the Department of Finance has not yet estimated the changes in past-year limits resulting from transfers of financial responsibility between the state and local governments.

When this data becomes available, we will report our recommendations on the state's appropriation limit to the Legislature.

CONTROL SECTION 12.30 RESERVE FOR ECONOMIC UNCERTAINTIES

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is similar to Section 12.30 of the 1982 Budget Act, provides for the Reserve for Economic Uncertainties in the General Fund. The section has two main provisions.

First, it appropriates from the General fund on July 1, 1983, an amount necessary to bring the fund balance of the Reserve for Economic Uncertainties up to \$650 million.

Second, this section provides for a June 30, 1984 transfer into or out of the reserve, depending on the status of the 1983-84 year-end General Fund balance. If the General Fund has a deficit, this section would provide for a transfer from the reserve to the General Fund in order to eliminate or reduce the deficit. If, on the other hand, there is year-end surplus in the General Fund, this section would appropriate such surplus monies to the reserve account, as long as (1) the reserve fund balance did not exceed 5 percent of General Fund appropriations and (2) there was "room"

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within the state's Article XIII B appropriations limit.

This section provides the mechanism whereby the Legislature establishes its planned reserve, in order to ensure against a revenue shortfall due to such factors as declines in the economy, adverse court decisions and unforeseen spending needs.

**SECTION 12.50
SPECIAL FUND RESERVES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is almost identical to Control Section 12.35 of the 1982 Budget Act, relates to special fund reserves. It would appropriate the balances existing in *each* special fund as of June 30, 1984, into a reserve account within each fund. If these funds are not so appropriated, they would be subject to Section 2 of Article XIII B of the State Constitution, which requires the state to return to taxpayers year-end unappropriated surpluses in each fund.

The Legislature established these special fund reserve accounts in the 1981 Budget Act in order to prevent the return of monies which are not truly "surplus" in nature. Many special fund balances are earmarked for expenditure but are not yet appropriated. Thus, in order to prevent the return of monies not excess to the state's needs, we recommend approval of this section.

**SECTION 13.00
LEGISLATIVE COUNSEL BUREAU**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section permits the appropriation for support of the Legislative Counsel Bureau to be expended as authorized by the Joint Committee on Rules, rather than as submitted in the Governor's Budget, thereby retaining flexibility in the legislative branch to adjust the bureau's operating costs and staffing (within established classifications) to meet workload conditions. The section also exempts the bureau from certain Government Code and Public Contract Code Sections, and from Section 5.50 of the Budget Act, which place restrictions on administrative and related matters.

**CONTROL SECTION 13.50
GOVERNOR'S OFFICE BUDGET REDUCTION**

ANALYSIS AND RECOMMENDATIONS

We recommend that, prior to budget hearings, the Department of Finance report to the Legislature on (1) how it proposes to apply the proposed General Fund budget reduction among the various affected entities and (2) how the reduction would affect state operations. We withhold recommendation on this section, pending receipt of this report.

This is a new control section which requires the Director of Finance to reduce by a total of 10 percent the General Fund portion of the budgets of 15 entities specified as being within the "Governor's Office." Based on

amounts proposed for those entities in the Governor's Budget, this section would reduce General Fund appropriations by a total of \$1,840,000.

Unspecified Reduction Circumvents Legislative Review. Under this section, the Director of Finance would be required to allocate reductions totaling \$1,840,000 among 15 different entities. This process would circumvent legislative review of the budget because the Legislature would have no voice in determining (1) how the reduction would be applied among the affected entities or (2) the impact that such reductions would have on state operations.

In order for the Legislature to have the information it needs to evaluate the reductions during budget hearings, we recommend that the Department of Finance submit an amendment letter (1) indicating the specific amount of General Fund reductions it proposes be made in the budgets of the individual entities within the "Governor's Office" and (2) describing the impact that these reductions would have on each entity's operations. We withhold recommendation on this section, pending receipt of this letter.

CONTROL SECTION 18.00 AIR RESOURCES BOARD

ANALYSIS AND RECOMMENDATIONS

This section postpones until June 30, 1985, the repayment date for four loans made from the Motor Vehicle Account, State Transportation Fund, to the Air Resources Board. These loans supported the early costs of planning, designing and operating the vehicle emission inspection program in the South Coast Air Basin.

Previous requests for postponement of these loan repayments were approved by the Legislature in the 1978 through 1982 Budget Acts. This approval was granted partly on the basis that the early costs of the South Coast vehicle inspection system, funded by these loans, provided information that would be of benefit statewide when a statewide annual inspection program is instituted. It was not considered equitable to repay these loans from fees generated solely in the South Coast Air Basin.

Chapter 892, Statutes of 1982 (SB 33), authorized the implementation of a biennial vehicle inspection program. Revenues from the program are scheduled to be sufficient to provide for the eventual repayment of all the outstanding loans. Due to the need to pay start-up costs of the new program in 1983-84, however, the Vehicle Inspection Fund will not have sufficient reserves to repay these loans in the budget year. We therefore recommend approval of this section which postpones the repayment date for the loans.

CONTROL SECTION 24.00 STATE SCHOOL FUND

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section specifies the allocation of State School Fund revenues between K-12 education and community colleges. Our analysis of this section appears in Item 6870-101-001.

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**CONTROL SECTION 24.10
DRIVER TRAINING**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section transfers to the General Fund the unencumbered surplus in the Driver Training Penalty Assessment Fund on June 30, 1984. Our analysis of this section appears in Items 6100-171-178 and 6100-171-044.

**SECTION 24.20
UNIVERSITY OF CALIFORNIA HOSPITAL LOAN AUTHORIZATION**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This control section permits the Director of Finance to authorize the accelerated expenditure of budget funds by the University of California (UC), following the adoption of a resolution by the Regents of the university declaring a teaching hospital fiscal emergency. This would be done in anticipation of a supplementary General Fund appropriation. The increased expenditure, however, may not exceed \$2,450,000. Our analysis of this section appears in Item 6440-001-001.

**CONTROL SECTION 24.30
RECLASSIFICATION OF PHYSICAL FACILITIES UNIVERSITY OF CALIFORNIA
AND CALIFORNIA STATE UNIVERSITY**

ANALYSIS AND RECOMMENDATIONS

We recommend deletion of this section and adoption of these provisions in SB 124 and AB 223 (the Budget companion bills) as amendments to the Education Code.

This section requires approval by the Department of Finance before funds appropriated in the Budget Act can be used by the Regents of the University of California or the Trustees of the California State University to reclassify instructional capacity space, administrative space, library space, or faculty offices to other uses. The Chairman of the Joint Legislative Budget Committee or his designee must be provided 30-days' written notification of all proposed reclassifications before they can become effective. This section allows needed reclassification to take effect, while providing a reasonable degree of legislative control.

Our analysis indicates that provisions contained in Section 24.30 should continue to be applicable to *all* funds appropriated by the Legislature, rather than be limited to amounts appropriated in the Budget Act. Accordingly, we recommend that the provisions of this section be deleted from the Budget Bill and amended into the Education Code (through the Budget Companion Bill). These provisions have been in each Budget Act since 1978. Codification of the provisions would be consistent with the Department of Finance's effort to "clean up" the control sections of the budget.

CONTROL SECTION 24.40
UNIVERSITY OF CALIFORNIA AND CALIFORNIA STATE UNIVERSITY
ENROLLMENT FLUCTUATIONS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section provides administrative flexibility to revise the amounts budgeted for the University of California and California State University in case of enrollment fluctuations in either segment. Our analysis of this section appears in Item 6610-001-001.

CONTROL SECTION 26.00
FUNDING OF COSTS DUE TO EXECUTIVE ORDERS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 28.40 of the Budget Act of 1982, provides that no funds appropriated in the Budget Act shall be used to finance increased state or local costs arising from the issuance of executive orders unless (a) funds are appropriated for such purposes or (b) the chairman of each fiscal committee and the Chairman of the Joint Legislative Budget Committee have been notified at least 30 days prior to any such expenditure or encumbrance of funds.

CONTROL SECTION 28.00
REPORTING NEW OR EXPANDED PROGRAMS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section authorizes the Director of Finance to: (1) Increase or decrease the amounts available for expenditure by an agency when funds received from any other source exceed or fall short of the amounts scheduled in the Budget Act, (2) approve expenditures for new programs not identified in the Governor's Budget or for purposes which constitute an increase in the level of service above that authorized by the Budget Act. Expenditures for new programs or increased levels of service may be approved, provided that the fiscal committees of each house and the Joint Legislative Budget Committee have been notified in writing of such changes at least 30 days in advance. Upon request of the Director of Finance, the chairman of the committee is authorized to waive the 30-day waiting period.

This section also includes a provision whereby a Section 28.00 authorization which spans both the current fiscal year and the budget year (because it occurred too late to be included in the Governor's Budget) will not have to be reauthorized by the Director of Finance or be subject again to legislative review for the specified budget year.

This section is identical to Section 28 as it was introduced in the 1982 Budget Bill. The Legislature subsequently amended Section 28 to require the Department of Finance to notify it of the disposition of certain unallocated reductions which it had made in some items. That provision was deleted from this year's bill.

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

**CONTROL SECTION 29.00
GENERAL GOVERNMENT**

ANALYSIS AND RECOMMENDATIONS

We recommend that a new control section—29.00—be added to the Budget Bill that requires the Director of the Department of Finance to calculate and publish on specific dates a listing of total personnel-years and estimated salary savings for all departments and agencies.

As we discuss in the 1983-84 Budget: now *Perspectives and Issues* (which accompanies this *Analysis*), the information provided to the Legislature by the Department of Finance on personnel-years is not adequate for legislative review and control purposes. Currently, the Department of Finance publishes an estimate of prior year, current year, and budget year personnel-years *once* each fiscal year—in the budget document. Consequently, it is difficult, if not impossible, for the Legislature to track changes in personnel-years during the fiscal year, particularly if those changes result from action by the Department of Finance to administratively establish new positions. To provide the Legislature with more timely information on agency staffing levels, we recommend that the following control section be added to the 1983 Budget Bill:

“29.00. The Director of the Department of Finance shall calculate and publish a listing of total personnel-years and estimated salary savings for each department and agency. These listings shall be published by the Director of the Department of Finance at the same time as the publication of (a) the Governor’s Budget, (b) the May revision, (c) the Final Change Book, and (d) the November revision, as follows:

(a) The listing provided at the time of the publication of the Governor’s Budget shall contain estimates of personnel-years for the prior year, current year and budget year.

(b) The listing provided at the time of publication of the May revision shall contain personnel-years estimates for the current year and proposed for the budget year.

(c) The listing provided at the time of the publication of the Final Change Book shall contain estimates of personnel-years for the prior year and the current year.

(d) The listing provided at the time of the publication of the November revision shall contain an estimate of personnel-years for the current year.”

**CONTROL SECTION 30.01
CONTINUOUS APPROPRIATIONS—EXEMPTIONS FROM GOVERNMENT
CODE SECTION 13340**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 13340 of the Government Code provides that, effective July 1, 1983, all funds continuously appropriated for encumbrance must instead be appropriated in the annual Budget Act, unless expressly exempted by the Legislature.

This control section exempts certain funds related to the Legislative,

Judicial and Executive section of the budget from the requirements of Section 13340.

We have reviewed the list and recommend approval of an exemption for the funds indicated.

**CONTROL SECTION 30.02
CONTINUOUS APPROPRIATIONS—EXEMPTIONS FROM GOVERNMENT
CODE SECTION 13340**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 13340 of the Government Code provides that, effective July 1, 1983, all funds continuously appropriated for encumbrance must instead be appropriated in the annual Budget Act, unless expressly exempted by the Legislature.

This control section exempts certain funds related to State and Consumer Services from the requirements of Section 13340.

We have reviewed the list and recommend approval of an exemption for the funds indicated.

**CONTROL SECTION 30.03
CONTINUOUS APPROPRIATIONS—EXEMPTIONS FROM GOVERNMENT
CODE SECTION 13340**

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this section in modified form to delete the exemption for the California Economic Grant and Loan Fund and the Small Business Exemption Fund.

Section 13340 of the Government Code provides that, effective July 1, 1983, all funds continuously appropriated for encumbrance must instead be appropriated in the annual Budget Act, unless expressly exempted by the legislature.

This control section exempts certain funds related to Business, Transportation and Housing from the requirements of Section 13340.

We have reviewed the list and recommend approval of an exemption for the funds indicated, except as follows:

California Economic Grant and Loan Fund (Section 15327 of the Government Code, Department of Economic and Business Development).

This fund is used to provide loans and grants to public agencies and businesses for economic development projects in depressed areas of the state. We know of no reason why the Legislature should *not* have an opportunity to decide how these funds are to be used, as it does with respect to similar funds throughout the budget. Consequently, we recommend that this fund *not* be exempted from Chapter 1284, Statutes of 1978. Were the fund exempted, as proposed in the Budget Bill, decisions on how these funds will be used would be made entirely by the Department of Economic and Business Development.

Small Business Expansion Fund (Section 14029.2 of the Corporations Code, Department of Economic and Business Development).

This fund was established to provide loan guarantees to small businesses who are unable to secure financing through conventional methods. In our review of this program (Item 2200), we indicate that the statutory authorization for this fund expired on January 1, 1983. Consequently, it is inappropriate to include this fund among those that the Budget Bill would exempt

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

from the Ch 1284/78 requirement.

**CONTROL SECTION 30.04
CONTINUOUS APPROPRIATIONS—EXEMPTIONS FROM GOVERNMENT
CODE SECTION 13340**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 13340 of the Government Code provides that, effective July 1, 1983, all funds continuously appropriated for encumbrance must instead be appropriated in the annual Budget Act, unless expressly exempted by the Legislature.

This control section exempts certain funds related to Resources from the requirements of Section 13340.

We have reviewed the list and recommend approval of an exemption for the funds indicated.

**CONTROL SECTION 30.05
CONTINUOUS APPROPRIATIONS—EXEMPTIONS FROM GOVERNMENT
CODE SECTION 13340**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 13340 of the Government Code provides that, effective July 1, 1983, all funds continuously appropriated for encumbrance must instead be appropriated in the annual Budget Act, unless expressly exempted by the legislature.

This control section exempts certain funds related to Health and Welfare from the requirements of Section 13340.

We have reviewed the list and recommend approval of an exemption for the funds indicated.

**CONTROL SECTION 30.06
CONTINUOUS APPROPRIATIONS—EXEMPTIONS FROM GOVERNMENT
CODE SECTION 13340**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 13340 of the Government Code provides that, effective July 1, 1983, all funds continuously appropriated for encumbrance must instead be appropriated in the annual Budget Act, unless expressly exempted by the Legislature.

This control section exempts certain funds related to Education from the requirements of Section 13340.

We have reviewed the list and recommend approval of an exemption for the funds indicated.

**CONTROL SECTION 30.07
CONTINUOUS APPROPRIATIONS—EXEMPTIONS FROM GOVERNMENT
CODE SECTION 13340**

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this section, amended to include an exemption for the Mediterranean Fruit Fly Claims Fund.

Section 13340 of the Government Code provides that, effective July 1, 1983, all funds continuously appropriated for encumbrance must instead be appropriated in the annual Budget Act, unless expressly exempted by the Legislature.

This control section exempts certain funds related to General Government from the requirements of Section 13340.

We have reviewed the list and recommend approval of an exemption for the funds indicated. We further recommend that an exemption also be granted for the Mediterranean Fruit Fly Claims Fund (authorized by Chapter 332, Statutes of 1982).

Chapter 332, Statutes of 1982, established a system for paying claims, judgments, or other liabilities resulting from the Mediterranean Fruit Fly infestation. It created the Mediterranean Fruit Fly Claims Fund as the exclusive source of funding for such payments, and transferred to it \$4 million from the General Fund. The statute provides that the money in the fund is continuously appropriated to the Board of Control to pay claims, settlements, and judgments, according to established guidelines.

Our analysis indicates that amounts in the Mediterranean Fruit Fly Claims Fund should continue to be continuously appropriated, for two reasons. First, Board of Control staff advise that if the board decides to approve and pay some Medfly claims, the staff probably will be unable to complete the processing necessary for payment by the end of the current year. The continuous appropriation would provide the flexibility needed to ensure payment is made soon after processing is completed.

Second, the Attorney General's office recommends that the system established in Ch 332/82 for Medfly claims payment be continued because it is designed to protect the ability of the state to limit governmental expenditures for this purpose.

**CONTROL SECTION 30.08
CONTINUOUS APPROPRIATIONS—EXEMPTIONS FROM GOVERNMENT
CODE SECTION 13340**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This control section, like Sections 30.01 through 30.07, proposes to exempt certain funds and funding activities from the requirements of Government Code Section 13340, which sunsets all continuously appropriated funds.

Subsection (a) exempts continuous appropriations which involve the refunding of payments due to excessive or erroneous collections of taxes, licenses, fees, or other receipts. Exemptions are also proposed for inter-fund transfers as required under current statutes and for disbursements from the Special Deposit Fund. Subsection (b) proposes exempting expenditures associated with audits of special funds performed by the Auditor General. Subsection (c) proposes exempting any continuous appropriation in effect on June 30, 1983 which is contained in any voter-approved bond act and all continuous appropriations "contained in any other provisions of state law which authorize the issuance of bonds." We find these exemption proposals reasonable and recommend their approval.

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

**CONTROL SECTION 31.00
ADMINISTRATIVE AND ACCOUNT PROCEDURES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section includes the same provisions as Section 31 of the Budget Act of 1982, and requires departments to comply with a proposed new article of the Government Code. The new article is included in the companion bills to the Budget Bill, SB 124 and AB 223. The proposed legislation codifies provisions which, in prior years, were included as control sections in the annual Budget Act.

This section also defines certain administrative and accounting procedures required by the Department of Finance. It requires expenditures to be made in accordance with established allotments, and restricts promotions, reclassifications and the creation of new positions, unless approved by the Department of Finance. This section establishes a salary saving reserve to be reported by the agencies to the Department of Finance for approval, and limits the use of the reserve. It also requires certification by the agencies that expenditures have been made for the purposes stated in the budget, unless the purposes have been revised by the Department of Finance.

Additionally, this section requires all positions administratively established during 1983-84 to terminate on June 30, 1984, except those positions (a) included in the 1984-85 Governor's Budget as proposed new positions, or (b) approved by the Department of Finance and reported to the Legislature after submission of the 1984-85 Governor's Budget. Administratively established positions which are reported to the Legislature after the submission of the budget and reestablished in 1984-85 must be identified in the 1985-86 Governor's Budget or subsequent Department of Finance letters to the Legislature. However, any position deleted by the Legislature during the 1984-85 budget process cannot be reestablished during 1984-85.

Section 31.00 also requires the Director of Finance to notify the chairman of the fiscal committees and the Joint Legislative Budget Committee within 30 days of the creation or reclassification of those positions with a minimum pay scale of \$1,900 per month.

**CONTROL SECTION 32.00
EXPENDITURES IN EXCESS OF AMOUNTS APPROPRIATED**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is almost identical to Section 32.00 of the Budget Act of 1982, prohibits and declares invalid any action by any public officer which would cause any expenditure to be in excess of amounts appropriated, except with the written consent of the Department of Finance. Any indebtedness thereby created against the state in violation of these provisions would be considered null and void. The Department of Finance is to submit copies of all written consent documents to the fiscal committees of each house and to the Joint Legislative Budget Committee quarterly.

Section 32.00 of the Budget Act of 1982 made any public officer who

creates an indebtedness against the state in violation of these provisions liable on his official bond for the amount of the indebtedness. Section 32.00 of this bill makes such an officer *personally* liable for the debt, as well. This is consistent with existing law as contained in Section 13324 of the Government Code.

**CONTROL SECTION 33.00
GOVERNOR'S VETOES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 33.00 of the Budget Act of 1982, contains a severability clause which declares the intent of the Legislature that an item veto by the Governor shall not affect other items in the Budget Bill.

**CONTROL SECTION 34.00
LEGISLATIVE INTENT**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 34.00 of the Budget Act of 1982, contains a severability clause which states legislative intent that a finding of unconstitutionality with respect to any part of the Budget Bill shall not affect any other parts.

**CONTROL SECTION 35.00
IMMEDIATE EFFECT OF APPROPRIATION**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 35.00 of the Budget Act of 1982, specifies that, under provisions of Section 8, Article IV of the California Constitution, the Budget Act appropriation shall take effect immediately.

**CONTROL SECTION 36.00
URGENCY CLAUSE**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 36.00 of the Budget Act of 1982, provides that the Budget Act is an urgency statute and shall take effect immediately.