

Part II

PERSPECTIVES ON THE 1983-84 BUDGET

Overview

Expenditures

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I. OVERVIEW

This part of our analysis provides perspectives on the Governor's Budget for 1983-84. It consists of four major sections, as follows:

- **Expenditures.** This section provides an overview of the expenditure side of the state's budget. It discusses the level of proposed expenditures, the major components of the budget, and the major program changes proposed in the budget.
- **Revenues.** This section provides a perspective on the state's economy in 1983 and the outlook for the economy in future years. It also includes an analysis of revenue collections in the prior, current, and budget years, and discusses how these revenue collections would be affected by alternative assumptions about economic growth.
- **State and Local Borrowing.** This section focuses on the types and volume of borrowing being done by the state and local governments, and the conditions which influence state and local borrowing.
- **The State's Workforce.** This section analyzes the reasons for changes in the state workforce since 1977-78.

II. EXPENDITURES

A. TOTAL STATE SPENDING PLAN

The Governor's Budget for 1983-84 proposes total expenditures of \$45 billion. This amount includes:

- \$21.7 billion in expenditures from the General Fund. Of this amount, \$4.5 billion is for state operations and \$17.0 billion is for local assistance. Of this latter amount, \$6.1 billion is for direct aid to individuals and \$10.9 billion is for aid to local governments;
- \$3.5 billion in expenditures from special funds;
- \$0.6 billion in expenditures from selected bond funds;
- \$11.1 billion in expenditures from federal funds; and
- \$8.2 billion in expenditures from various "nongovernmental cost" funds, including funds established for retirement, working capital, revolving, public service enterprise, and other purposes. Adding these components together, the total state spending program proposed for 1983-84 is \$45.0 billion.

Table 6 and Chart 2 present the principal categories of the state spending plan in 1981-82, 1982-83 and 1983-84.

Governmental Expenditures

The budget proposes expenditures from governmental funds—that is, total expenditures less nongovernmental cost funds—amounting to \$36.8 billion in 1983-84. This represents a 3.3 percent *decrease* from the current year level, reflecting (1) decreases in General Fund expenditures of \$380 million, (2) decreases in special fund expenditures of \$78 million, and (3) decreases in federal aid to California of \$785 million.

Using this measure of the budget, the state will spend at the annual rate of \$1,457 for every man, woman, and child in California, or \$101 million per day, during 1983-84.

Chart 2
Total State Spending
1981-82 through 1983-84
(in billions)

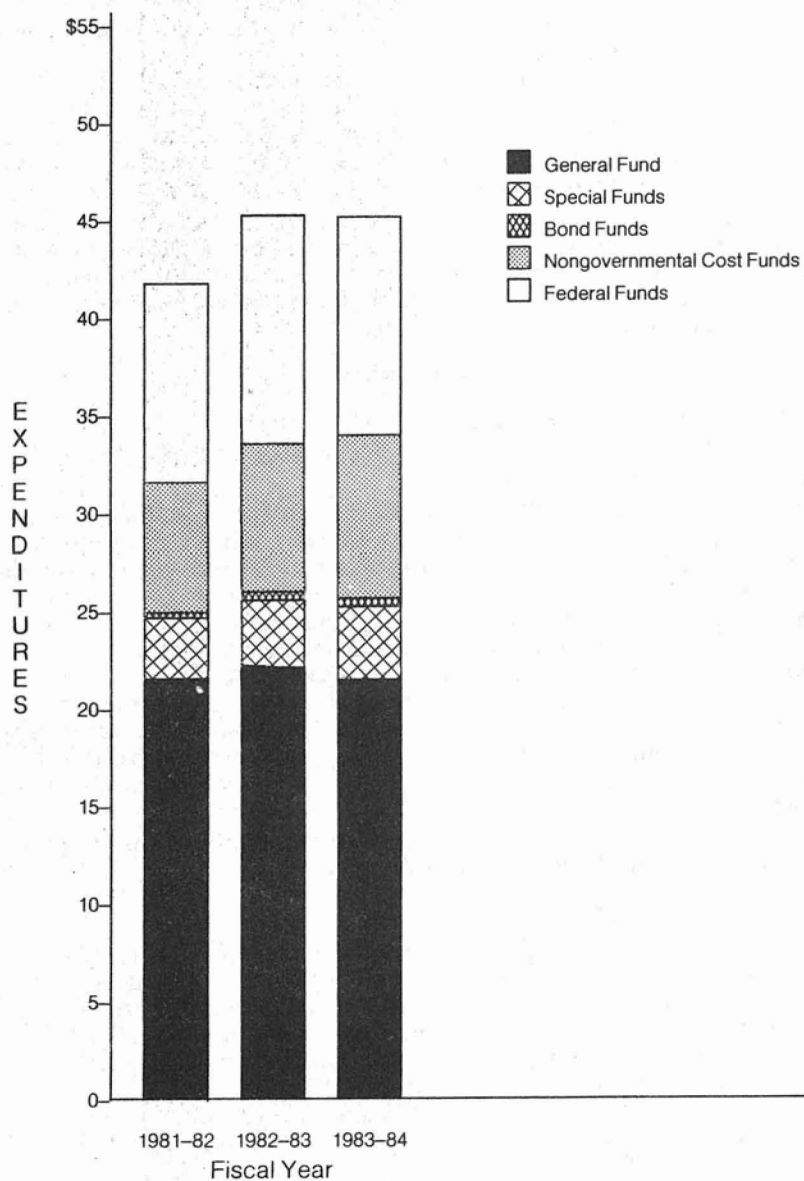


Table 6
Total State Spending Plan
1981-82 to 1983-84
(in millions) ^a

	<i>Actual</i> <i>1981-82</i>	<i>Estimated 1982-83^b</i>		<i>Proposed 1983-84</i>	
		<i>Amount</i>	<i>Percent Change</i>	<i>Amount</i>	<i>Percent Change</i>
General Fund ^c	\$21,758.4	\$22,056.9	1.4%	\$21,677.0	-1.7%
Special funds ^d	3,098.6	3,553.8	14.7	3,475.7	-2.2
Budget Expenditures	\$24,857.0	\$25,610.7	3.0%	\$25,152.7	-1.8%
Selected bond funds	230.2	579.8	151.9	585.4	1.0
State Expenditures	\$25,087.2	\$26,190.5	4.4%	\$25,738.4	-1.7%
Federal funds	10,863.2	11,850.9	9.1	11,065.7	-6.6
Governmental Expenditures	\$35,950.4	\$38,041.8	5.8%	\$36,804.8	-3.3%
Nongovernmental cost funds	6,572.3	7,260.1	10.5	8,232.8	13.4
Total State Spending	\$42,522.7	\$45,301.5	6.5%	\$45,036.6	-0.6%

^a Based on amounts shown in the Governor's Budget.

^b Estimated expenditures for 1982-83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

^c Includes expenditures from reserves of \$51.9 million in 1982-83 and \$2.4 million in 1983-84.

^d Includes expenditures from reserves of \$113.8 million in 1982-83 and \$10.6 million in 1983-84.

State Budget Expenditures

That portion of the state spending plan financed by state revenues deposited in the General Fund or special funds is usually referred to as "budget expenditures." As shown in Table 6, budget expenditures are proposed to total \$25.2 billion in 1983-84. Budget expenditures in 1983-84 account for 56 percent of the \$45 billion state spending plan, and 68 percent of total governmental expenditures by the state.

Change in General Fund Expenditures

General Fund expenditures account for more than one-half of all expenditures under the state's auspices. Since 1978-79, General Fund expenditures have included significant amounts of money designated as local fiscal relief. The Governor's Budget proposes \$5.8 billion in local fiscal relief in 1983-84, which is an increase of \$104 million, or 1.8 percent above the 1982-83 level.

Historical perspective is a useful tool in analyzing trends in General Fund spending. Table 7 presents the amount and rate of increase in expenditures since 1973-74, both for total General Fund expenditures and total General Fund expenditures excluding local fiscal relief. Expenditures are displayed in the table both on a "current dollar" basis, and in "real dollars." "Real dollars" represent expenditure levels as they appear in the budget (that is, "current dollars") adjusted for the effects of inflation since 1973. In current dollars, the proposed General Fund budget for 1983-84 is almost three times what it was in 1973-74. As shown in Chart 3, between 1973-74 and 1980-81, total General Fund expenditures in-

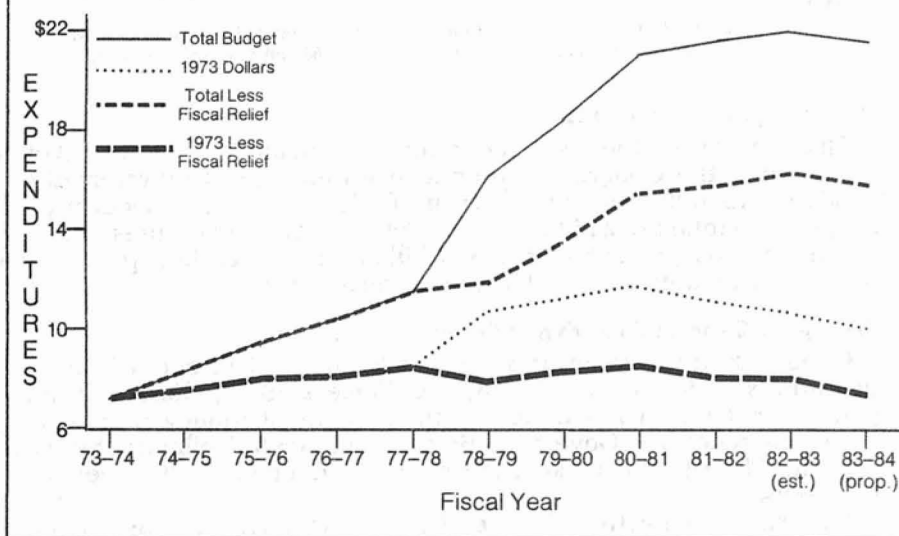
creased at an average annual rate of 11.5 percent in current dollars, and by 3.2 percent in "real" dollars.

Beginning in 1981-82, however, the rate of growth in General Fund expenditures dropped dramatically. In fact, the rise in expenditures in 1981-82 and 1982-83 was less than the rate of inflation, causing "real" expenditures to decline.

The level of General Fund expenditures proposed for 1983-84 is 1.7 percent less than estimated General Fund expenditures for the current year. This translates into a decrease in real purchasing power of 7.3 percent between 1982-83 and 1983-84. In fact, when the proposed 1983-84 General Fund expenditure level is adjusted for inflation, the purchasing power of the proposed budget is actually less than that of 1978-79.

Chart 3

**Annual Growth in General Fund Expenditures
1973-74 through 1983-84 (in billions)**



Changes in Federal Fund Expenditures

Federal fund expenditures account for almost one-third of the expenditures in the state's 1983-84 budget (excluding nongovernmental cost funds). As shown in Table 8, federal funds have accounted for as much as 40 percent (1975-76) and as little as 28 percent (1979-80) of total state expenditures during the past ten years. Since 1980-81, federal expenditures have represented approximately 30 percent of state government expenditures.

Table 7
Annual Change in General Fund Expenditures
1973-74 to 1983-84
(in millions)

	<i>Total Budget</i>				<i>Excluding Local Fiscal Relief</i>			
	<i>Current Dollars</i>	<i>Percent Change</i>	<i>1973 Dollars^a</i>	<i>Percent Change</i>	<i>Current Dollars</i>	<i>Percent Change</i>	<i>1973 Dollars^a</i>	<i>Percent Change</i>
1973-74.....	\$7,295.7	—	\$7,295.7	—	\$7,295.7	—	\$7,295.7	—
1974-75.....	8,340.2	14.3%	7,506.9	2.9%	8,340.2	14.3%	7,506.9	2.9%
1975-76.....	9,500.1	13.9	7,916.8	5.5	9,500.1	13.3	7,916.8	5.5
1976-77.....	10,467.1	10.2	8,177.4	3.3	10,467.1	10.2	8,177.4	3.3
1977-78.....	11,685.6	11.6	8,504.8	4.0	11,685.6	11.6	8,504.8	4.0
1978-79.....	16,250.8	39.1	10,913.9	28.3	11,891.8	1.8	7,986.4	-6.1
1979-80.....	18,534.1	14.1	11,349.7	4.0	13,654.1	14.8	8,361.4	4.7
1980-81.....	21,104.9	13.9	11,797.0	3.9	15,582.9	14.1	8,710.4	4.2
1981-82 ^b	21,758.4	3.1	11,260.2	-4.6	15,875.4	1.9	8,217.1	-5.7
1982-83 (estimated) ^c	22,056.9 ^d	1.4	10,780.5	-4.3	16,335.9	2.9	7,984.3	-2.8
1983-84 (proposed) ^e	21,677.0	-1.7	9,998.6	-7.3	15,852.0	-3.0	7,311.8	-8.4

^a "1973" dollars equal current dollars deflated to 1973-74 dollars using the Gross National Product price deflator for state and local purchases of goods and services.

^b Includes \$274.2 million in expenditures from reserves.

^c Includes \$51.9 million in expenditures from reserves.

^d The total estimated expenditures for 1982-83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

^e Includes \$2.4 million in expenditures from reserves.

Table 8
Federal Fund Expenditures as a Percent of Total State Expenditures^a
1974-75 to 1983-84
(in millions)

	<i>General Fund</i>	<i>Special Funds</i>	<i>Bond Funds</i>	<i>Federal Funds</i>	<i>Totals</i>	<i>Federal Funds As Percent of Total</i>
1974-75.....	\$8,340	\$1,689	\$247	\$6,482	\$16,759	38.7%
1975-76.....	9,500	1,697	255	7,618	19,070	39.9
1976-77.....	10,467	2,041	123	7,992	20,623	38.8
1977-78.....	11,686	2,161	157	7,239	21,242	34.1
1978-79.....	16,251	2,298	196	7,453	26,198	28.4
1979-80.....	18,534	2,760	193	8,160	29,648	27.5
1980-81.....	21,105	3,262	145	10,248	34,759	29.5
1981-82.....	21,758	3,099	230	10,863	35,950	30.2
1982-83.....	22,057	3,554	580	11,851	38,041	31.2
1983-84.....	21,677	3,476	585	11,066	36,804	30.1

^a Excludes nongovernmental cost funds. Details may not add to totals due to rounding.

The level of federal expenditures anticipated in 1983-84—\$11.1 billion—represents a decrease in federally funded expenditures of \$785 million, or 6.6 percent, from the estimated 1982-83 level. While the reduction reflects numerous adjustments, Table 9 shows that it is due primarily to reductions in health and welfare programs. These reductions, which total \$852 million, have two primary components: (1) a decrease of \$621 million in unemployment insurance benefits, reflecting the administration's assumption that the rate of unemployment in California will decline from 9.7 percent in 1982-83 to 8.5 percent in 1983-84 and (2) a decrease of \$202 million in federal funding for the state's Medi-Cal program. The Medi-Cal reduction is due to reforms implemented by the Legislature in 1982-83, and to reduced federal sharing ratios instituted for this program in 1981.

Table 9 also shows that two significant increases will mitigate to some extent the reductions in health and welfare programs. First, business, transportation and housing programs are expected to receive additional federal support, principally in the form of federal transportation aid provided to the Department of Transportation. The increase in federal funding reflects the acceleration and continuation of the five-year highway capital improvement plan. Second, federal funding provided to the state's education agencies is expected to go up. Most of this increase, however, will not go for education per se. Instead, it reflects a significant funding increase for the University of California's Department of Energy laboratories.

Federal aid to California has experienced various expansions and contractions in both current dollars and real dollars during the last ten years, as shown in Chart 4. In terms of actual dollars, federal expenditures have grown from nearly \$6.5 billion in 1974-75 to \$11.1 billion in 1983-84, an increase of approximately 71 percent. This change represents a 6.1 percent annual average rate of growth over the 10-year period. When expressed in "real" dollars, however, the level of federal aid anticipated in 1983-84 is 12.5 percent less than the amount of federal aid actually received by the state in 1974-75.

Table 9
Federal Funds Changes, By Program
1982-83 and 1983-84
(in thousands)

Program	Estimated 1982-83	Proposed 1983-84	Change	
			Amount	Percent
Legislative/Judicial/Executive.....	\$161,951	\$97,822	-\$64,129	-39.6%
State and Consumer Services	11,738	10,821	-917	-7.8
Business, Transportation and Housing	773,939	836,404	62,465	8.1
Resources	41,556	30,961	-10,595	-25.5
Health and Welfare	7,936,027	7,084,090	-851,937	-10.7
Youth/Adult Corrections	952	977	25	2.6
Education	2,659,563	2,737,080	77,517	2.9
Other Governmental Units	241,613	240,798	-815	-0.3
Other Governmental Services.....	23,607	26,762	3,155	13.4
Totals	\$11,850,946	\$11,065,715	-\$785,231	-6.6%

Caution should be used in drawing conclusions from the changes in federal expenditure levels shown in Chart 4, for two reasons. First, federal aid totals summarized in the Governor's Budgets have not included consistent categories over the 10-year period. For example, federal payments under the Supplemental Security Income (SSI) program were included in budget totals from 1974-75 through 1976-77, but have not been included since then because these payments do not actually flow through the state budget.

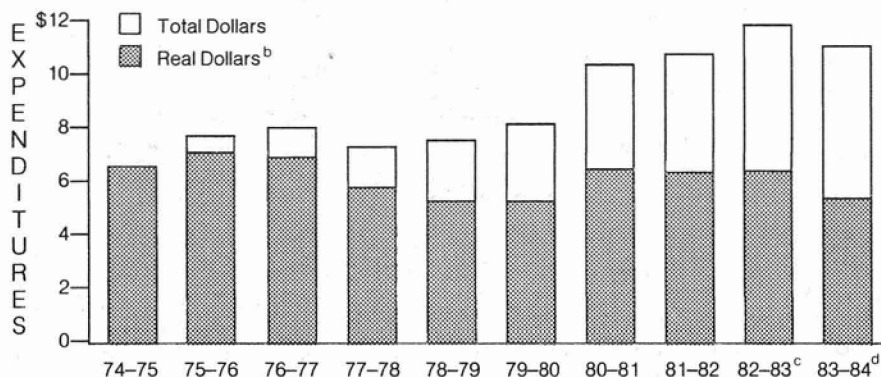
Second, changes in the level of payments to individuals meeting certain eligibility criteria (the so-called entitlement programs) can change the total amount of federal aid received by the state significantly, even though there may not have been a change in underlying federal policy or funding. For example, if in the budget year, the unemployment rate for 1984 is equal to the rate projected for 1983, and does not decline to the level anticipated by the administration, the state would receive approximately \$648 million in additional federal funds beyond what is anticipated by the budget.

Federal Support of State Programs

The percentage of total program activity supported by federal funds varies widely from one state agency to another. Chart 5 shows that of all the federal funds received by the state in 1983-84, \$7.1 billion, or 64 percent, is expended for health and welfare activities. Education and business, transportation and housing programs also account for a significant portion of federal expenditures in California.

While the majority of federal funds received by the state are spent on health and welfare programs, this funding source accounts for only one-half of total expenditures proposed for these programs in 1983-84. Moreover, within the health and welfare area, federal fund levels vary widely, from a low of 34 percent for health programs to a high of 97 percent for employment programs. Similarly, while education receives 25 percent of total federal funds received by the state, federal aid supports just 19 percent of the state's education expenditures (less if local funds are included).

Chart 4
Expenditures of Federal Aid
Granted to the State of California
1974-75 through 1983-84 (in billions) ^a



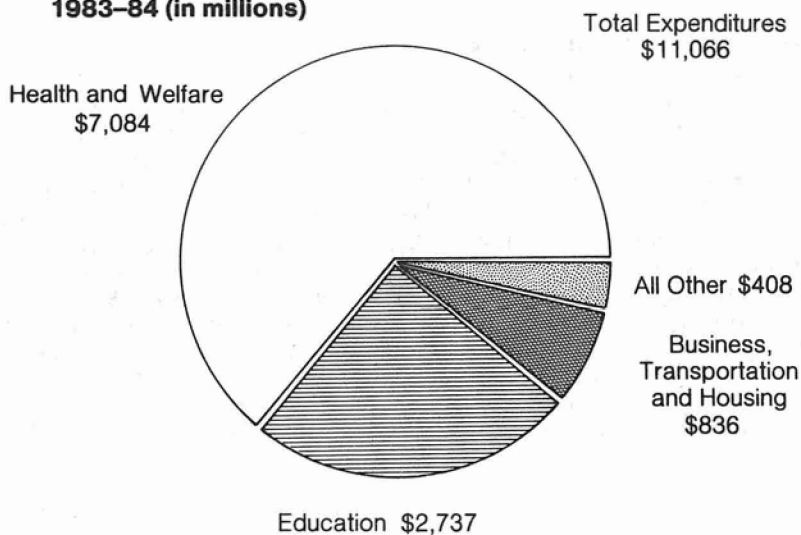
^a Source: Governor's Budgets

^b "Real" federal dollars equal total federal dollars deflated to 1974-75 dollars using the Gross National Product price deflator for state and local purchases of goods and services.

^c Estimated

^d Proposed

Chart 5
Program Distribution of Federal Aid
Granted to the State of California
1983-84 (in millions)



On the other hand, as indicated in Table 10, business, transportation and housing agencies receive 8 percent of available federal aid, but support 34 percent of their total program activity from this funding source.

Table 10
Federal Aid to the State of California
Support of Budget Activities, by Program
1983-84
(in millions)

	<i>General Fund</i>	<i>Special Funds</i>	<i>Bond Funds</i>	<i>Federal Funds</i>	<i>Total</i>	<i>Percent Federal Funds</i>
Legislative/Judicial/Executive	\$458	\$36	—	\$98	\$592	16.6%
State and Consumer Services	159	121	—	11	291	3.8
Business/Transportation/Housing	38	1,596	—	836	2,470	33.8
Business/Housing	(38)	(48)	—	(40)	(126)	(31.7)
Transportation	(*)	(1,548)	—	(796)	(2,344)	(34.0)
Resources	281	213	141	31	666	4.7
Health and Welfare	6,903	60	—	7,084 ^b	14,047	50.4
Health	(4,188)	(49)	—	(2,149)	(6,387)	(33.6)
Human Services	(2,656)	(—)	—	(2,497)	(5,153)	(48.5)
Employment	(59)	(11)	—	(2,437)	(2,507)	(97.2)
Youth/Adult Corrections	846	24	245	1	1,116	— ^a
Education	11,074	114	200	2,737	14,125	19.4
K-12	(7,950)	(46)	(200)	(840)	(9,036)	(9.3)
Higher Education	(3,124)	(68)	(*)	(1,897)	(5,089)	(37.3)
Other Government Units/Services	1,918	1,311	—	268	3,497	7.7
Totals	\$21,677	\$3,475	\$586	\$11,066	\$36,804	30.1%

^a Less than \$500,000.

^b Details do not add to total due to rounding.

Total State and Local Government Spending in California

Current Year Spending. In the current year, expenditures for all services provided by state and local governments in California are expected to total approximately \$72 billion, consisting of \$20.2 billion in net state expenditures and \$51.4 billion in local expenditures. These figures *include* federal funds expended by state and local governments, and *exclude* expenditures from bond proceeds and nongovernmental cost funds. Net state spending—\$20,187 million—does not include \$17,275 million in expenditures identified in the Governor's Budget as a *state* expenditure, because these funds actually are expended at the local level, and are included in our estimate of local government expenditures. The principal component of the excluded amount is state aid to local school districts (\$9.6 billion).

Local government expenditures are categorized according to the four types of local jurisdictions: counties, cities, special districts, and K-14 education. As discussed here, the K-14 education category includes expenditures for elementary and secondary (K-12) schools, county offices of education, regional occupation centers, and community colleges (13-14).

Table 11 identifies the expenditures by each category of government in the current year. Chart 6 displays expenditures by each government entity as a percentage of total state and local government expenditures. As shown in the chart, local government accounts for approximately 72 percent of total state and local government expenditures.

Table 11
Total State and Local Government Expenditures
1982-83
(in millions)

<i>Government Entity</i>	<i>Expenditure</i>	<i>Percent of Total</i>
Counties ^a	\$14,161	19.8%
Cities ^{b,c}	15,110	21.1
Special Districts ^c	7,446	10.4
Local Education ^d	14,726	20.6
Subtotal, Local Government ^e	(\$51,443)	(71.8)
State (As shown in budget)	\$37,462	52.3
Less: Amount expended by local governments	17,275	24.1
Subtotal, State (Net)	(\$20,187)	(28.2)
Total, State and Local Expenditures	\$71,630	100.0%

^a From unaudited county budgets.

^b Excludes bond funds. Includes city-owned enterprise expenditures.

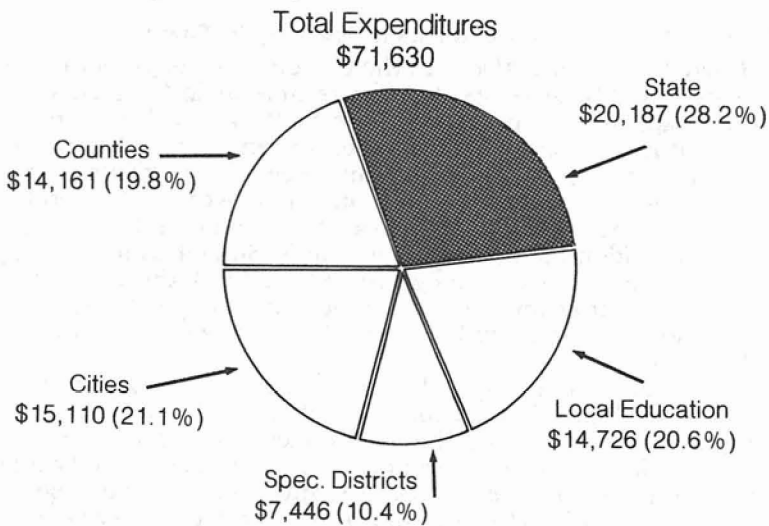
^c From Controller's 1980-81 financial transactions, increased by the average growth rate from preceding two years.

^d Legislative Analyst's office estimate.

^e Includes \$17,275 million of state funds spent by local government.

Chart 6

Total State and Local Government Expenditures
1982-83 (in millions)



B. CONTROLLING EXPENDITURES

Control Through the Constitution

On November 6, 1979, California voters overwhelmingly approved Proposition 4, the "Spirit of 13" Initiative. Proposition 4, which placed Article XIII B in the California Constitution, has three main provisions:

- It places a limit on the year-to-year growth in tax-supported appropriations of the state and individual local governments.
- It precludes the state and local government from retaining surplus funds. Any *unappropriated* balances at the end of a fiscal year must be returned to taxpayers within a two-year period.
- It requires the state to reimburse local government for the cost of certain state mandates.

Spending Limit. Article XIII B seeks to limit the spending of government entities by establishing a limit on the level of tax-supported appropriations in each fiscal year. The article establishes a base-year limit for 1978-79, and adjusts this amount in subsequent years for changes in inflation and population. Once established, the limit increases (or decreases) independently of actual government spending.

Not all appropriations are covered by the article's provisions. The article limits only appropriations from tax revenues, such as revenues from property, sales, personal income, and corporate franchise taxes. Appropriations financed from nontax revenues—such as federal funds, user fees, and tidelands oil revenues—are *not* limited by Article XIII B.

The article also exempts from the limits of both the state and local governments, appropriations made from tax proceeds but expended for the following purposes: (1) debt service, (2) retirement benefit payments, (3) federal or court mandates, (4) investment funds, and (5) refunds of taxes. In addition, Article XIII B exempts from the state limit state subventions to local governments. After allowing for these exemptions, the remaining appropriations of tax revenues are subject to the limit.

Impact of Article XIII B in 1983-84. Table 12 shows the Department of Finance's estimate of the impact of Article XIII B on the state in both 1982-83 and 1983-84. The department estimates that the state will be \$2.6 billion and \$3.3 billion below its limit in 1982-83 and 1983-84, respectively.

Table 12
Impact of Article XIII B
On the State in 1982-83 and 1983-84
(in millions)

	1982-83	1983-84
Appropriations Limit	\$19,594	\$20,822
Appropriations Subject to Limitation	16,971	17,480
Amount Under the Limit	\$2,623	\$3,342

There are two main reasons for the large gap between the limit and spending subject to limitation. First, the state appropriated more monies in 1978-79 (the base year) than it had in ongoing tax revenues. This resulted in the original "base" being larger than the amount of spending that could be sustained under existing tax laws. Second, because of the recession, state tax revenues have been growing very slowly, especially in comparison with the year-to-year growth in the state's appropriations limit. Thus, the state simply has not had the revenues to support the level

of appropriations that would be allowed by Article XIII B.

As a result, the state's appropriations limit will *not* be a fiscal constraint in 1983-84, even if taxes are increased in the budget year by an amount necessary to eliminate the projected 1982-83 year-end General Fund deficit (approximately \$1.5 billion). Furthermore, the limit will probably *not* be a constraint in the foreseeable future. Only if revenues grow for several years at rates exceeding the annual adjustments to the state's limit would the state have adequate resources to spend up to this amount.

Establishing the 1983-84 Limit. The administration proposes to set the state's 1983-84 appropriations limit in Control Section 12.00 of the 1983 Budget Bill. Although a 1983-84 limit of \$20,822 million has been proposed, this number is subject to change, because the final inflation and population adjustments used to determine the 1983-84 limit will not be known until April of this year. In addition, certain actions taken in 1982 may have an impact on the 1983-84 limit, to the extent that they result in "transfers of financial responsibility" under Section 3 of Article XIII B. For instance, if the transfer of responsibility from the state to the counties for providing medical services to medically indigent adults (MIAs) results in costs to the counties in excess of the funds provided by the state for this purpose, an adjustment in the state's limit may be required.

Budgeted Versus Actual Expenditures

The expenditure program initially proposed in the budget has invariably been changed—usually upward—during the budget process. Table 13 compares the original estimates with actual expenditures during the past ten years.

Table 13
Comparison of Budgeted and Actual General Fund Expenditures^a
1973-74 to 1982-83
(in millions)

	<i>Budget As Submitted</i>	<i>Actual Expenditures</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
1973-74	\$7,151.1	\$7,295.7	\$144.6	2.0%
1974-75	7,811.9	8,340.2	528.3	6.8
1975-76	9,169.5	9,500.1	330.6	3.6
1976-77	10,319.7	10,457.1	137.4	1.3
1977-78	11,822.3	11,685.6	-136.7	-1.2
1978-79	13,482.5	16,250.8	2,768.3	20.5
1979-80	17,088.1	18,534.1	1,446.0	8.5
1980-81	20,683.9	20,894.1	210.2	1.0
1981-82	20,770.1	21,758.4	988.3	4.8
1982-83	23,202.9	22,056.0 ^b	-1,146.9	-4.9

^a Source: Governor's Budgets, Schedule 1.

^b Midyear estimate. This figure does not reflect the 2 percent unallotment directed by Executive Order D-1-83.

In several of the last five years, actual expenditures exceeded the amounts originally proposed by the Governor, by significant margins. The unusually large increase for 1978-79 was mainly due to the fiscal relief program enacted in the wake of Proposition 13. Local fiscal relief added \$4.4 billion to the budget for that year, but reductions in other state programs held the net increase to \$2.8 billion.

The increase of \$900 million for 1981-82 is attributable primarily to increases in expenditures for K-12 Education (\$600 million) and SSI/SSP grants (\$218 million). Both of these changes were caused by larger cost-of-living adjustments than what the Governor had proposed.

Only twice during this ten-year period—in 1977-78 and 1982-83—was the actual amount expended less than the amount initially proposed. The large decrease in the budget for 1982-83—\$1.14 billion—primarily reflects the fact that the previous Governor did not propose a budget that was balanced, leaving it to the Legislature to make the necessary adjustments.

The midyear estimate for 1982-83 does not reflect the effect of the Governor's plan to reduce the projected year-end deficit of \$1.6 billion by \$750 million (Phase I), and therefore probably understates the extent of the likely reduction.

Prediction or Plan?

It should be noted that the budget estimates are not *predictions* of how much ultimately will be spent, although these estimates reflect countless predictions about expenditure rates and other factors that are in part outside of the state's control. (For example, court rulings against the state, which are beyond the Legislature's control, are estimated to have reduced General Fund resources by approximately \$431 million in 1982-83.) Rather, these budget estimates reflect the *Governor's fiscal plan*—that is, what he thinks expenditures *ought* to be, given all of those factors that the state can and cannot control. It is certain that, between now and June 30, 1984, expenditures (and revenues) will be revised by the Governor, the Legislature, changing economic conditions, the resolution of various court cases, and many other factors. Thus, as in past years, actual revenues and expenditures may be vastly different from the estimates contained in the Governor's Budget.

C. MAJOR COMPONENTS OF THE BUDGET

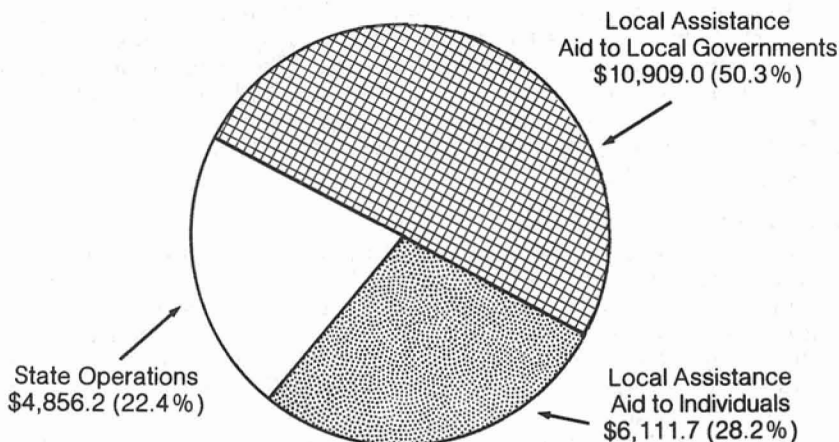
State expenditures traditionally are divided into three categories within the budget: state operations, capital outlay, and local assistance. Table 14 presents the distribution of General Fund and special fund expenditures among these categories for the past, current, and budget years. The Governor's Budget for 1983-84 introduces a new category of expenditures, which it labels "unclassified." This category consists of one "minus" expenditure, in the form of savings expected to result from the private sector task force which the Governor proposes to study efficiencies and economies in government. Specifically, the Governor asserts that the efforts of this task force will result in General Fund savings of \$200 million during the budget year. Detailed reductions, however, are not identified for any specific program or agency. The Governor's Budget also sets aside \$150 million from the General Fund for future legislative actions, and \$650 million for the Reserve for Economic Uncertainties (although \$100 million of this amount is already committed by law to another purpose.)

Chart 7 shows the local assistance and state operations portion of the budget as a percentage of total General Fund expenditures. Local assistance, as defined in the Governor's Budget, makes up 79 percent of total General Fund expenditures.

Chart 7

1983-84 General Fund Budget Structure (in millions)

Total Expenditures^a
\$21,677.0^b



^a Includes \$2.4 million in expenditures from reserves.

^b Pie chart state operations and local assistance totals do not include \$200 million in "unclassified" reductions contained in Governor's Budget.

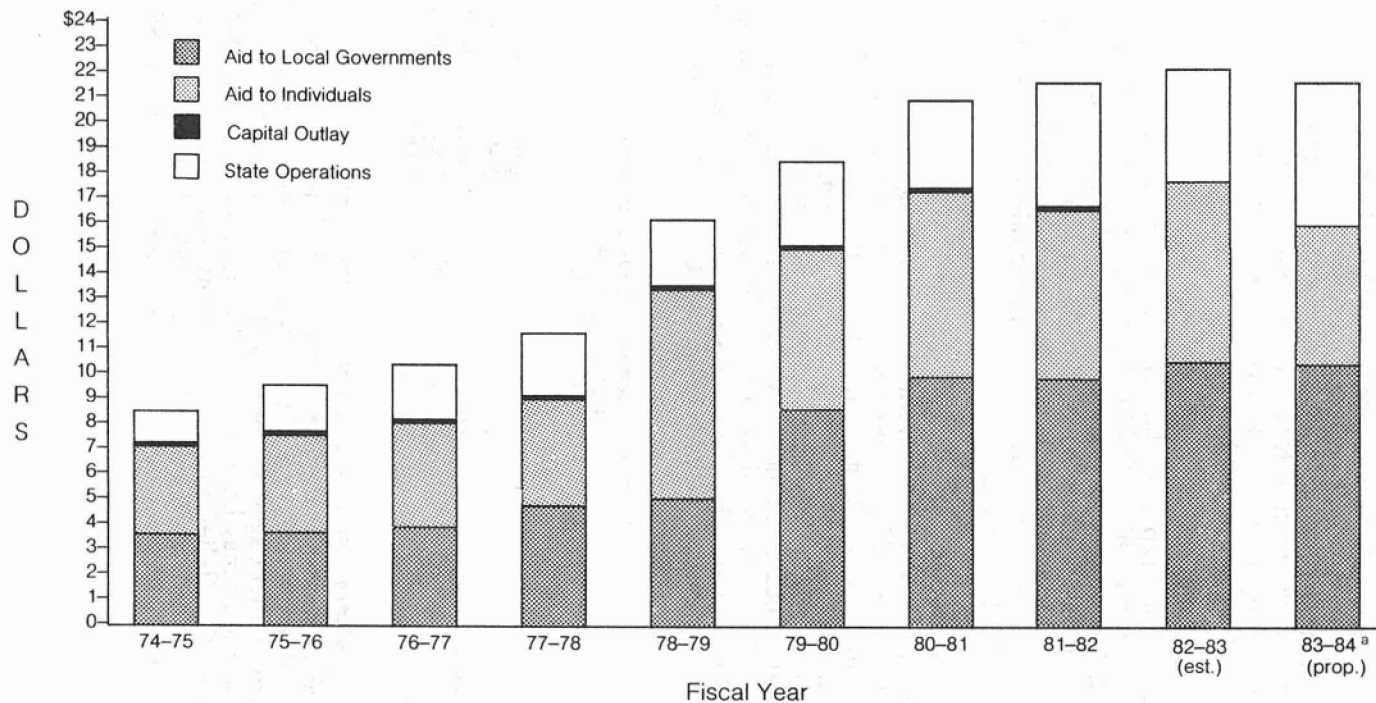
Table 14
General Fund and Special Fund Expenditures by Function^a
1981-82 to 1983-84
(in millions)

	<i>Actual</i>	<i>Estimated 1982-83</i>		<i>Proposed 1983-84</i>	
	<i>1981-82</i>	<i>Amount</i>	<i>Percent Change</i>	<i>Amount</i>	<i>Percent Change</i>
<i>General Fund</i>					
State operations	\$4,497.5	\$4,697.6	4.5%	\$4,856.2	3.4%
Capital outlay	10.7	2.1	-80.4	-	-
Local assistance.....	17,250.1	17,357.2	0.6	17,020.7	-1.9
Aid to individuals.....	(6,898.5)	(6,903.5)	(0.1)	(6,111.7)	(-11.5)
Aid to local governments.....	(9,937.4)	(10,504.1)	(5.7)	(10,909.0)	(3.9)
Unclassified	-	-	-	-200.0	-
Totals ^b	\$21,754.8	\$22,056.9	1.4%	\$21,677.0	-1.7%
<i>Special Funds</i>					
State operations	\$1,457.0	\$1,639.9	12.6%	\$1,798.4	9.7%
Capital outlay	211.1	389.5	84.5	296.7	-23.8
Local assistance.....	1,422.3	1,515.0	6.5	1,369.8	-9.6
Unclassified	8.1	9.4	16.0	10.8	14.9
Totals ^b	\$3,098.6	\$3,553.8	14.7%	\$3,475.7	-2.2%

^a Based on amounts shown in the Governor's Budget. The amounts indicated for 1982-83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

^b Details may not add to total due to rounding.

Chart 8
General Fund Budget Structure
1974-75 through 1983-84 (in billions)



^a Total includes \$200 million in "unclassified" reductions contained in Governor's Budget

1. State Operations

The budget proposes an increase of \$159 million, or 3.4 percent, in state operations for 1983-84. This figure, however, does not reflect approximately \$70 million in proposed 1982-83 reductions scheduled to result from the 2 percent unallotment directed by Executive Order D-1-83. Hence, the increase in state operations between the current- and budget-years probably will exceed 3.4 percent.

2. Capital Outlay

General Fund capital outlay expenditures over the past nine years have fluctuated from a high of \$15 million in 1978-79 to a low of \$2 million in 1982-83. The budget proposes no General Fund expenditures for capital outlay in 1983-84, but does call for \$297 million in capital outlay expenditures to be financed from special funds (mainly with tidelands oil revenues). For a more detailed discussion of capital outlay issues and financing, see Part III of this volume.

3. Local Assistance

As illustrated in Chart 8, General Fund expenditures for local assistance will have increased by \$11,491 million, or 208 percent, in the 10 years from 1973-74 to 1983-84. The growth in state fiscal relief to local governments following the passage of Proposition 13 explains much of this increase. Additionally, direct benefit programs, such as AFDC grants, which are classified as local assistance, have grown rapidly during the past decade.

Table 15 displays local assistance expenditures by funding source. As shown in this table, the Governor's Budget proposes an overall decrease in local assistance of \$481.7 million, or 2.6 percent, in 1983-84.

Table 15
Local Assistance by Source of Funds
1981-82 to 1983-84
(in millions)

	1981-82	Estimated 1982-83	Proposed 1983-84	Change from 1982-83 to 1983-84	
				Dollars	Percent
General Fund	\$17,250.1	\$17,357.2	\$17,020.7	-\$336.5	-1.9%
Special Funds	1,422.3	1,515.0	1,369.8	-145.2	-9.6
Totals	\$18,672.4	\$18,872.2	\$18,390.5	-\$481.7	-2.6%

Local Assistance Versus Aid to Local Governments

Local assistance, as the term is used in the budget, encompasses a wide variety of programs. Some of these programs do not provide assistance to local government agencies; instead, they provide assistance to *individuals*. Such payments may be made *directly* to individuals, as in the case of the Renters' Tax Relief program, or individuals may receive assistance through an intermediary, such as the federal or county governments. Among the payments made through intermediaries are SSI/SSP pay-

ments, which are distributed by the *federal* government, and AFDC payments, which are distributed by *county* governments.

The Governor's Budget divides local assistance into three categories: (1) "Payments to Local Government," (2) "Assistance to Individuals," and (3) "Payments to Service Providers." The distinction between the second and third categories—"Assistance to Individuals" and "Payments to Service Providers"—is that the former represents *cash grants* to individuals whereas the latter represents *services* to individuals. Both, however, provide *aid* to individuals. In our opinion, combining these two categories allows for a more meaningful analysis of aid directed to individuals. Consequently, our presentation of local assistance expenditures displays only two categories, "Assistance to Local Governments" and "Assistance to Individuals," as shown in Table 14.

In dividing the existing local assistance programs between the two categories, it is important to keep in mind that some portion of "Assistance to Individuals" actually represents funds distributed to local governments. For example, the Homeowners' Property Tax Assistance program provides *reimbursements* to local governments for the property tax revenue losses attributable to the homeowners' property tax exemption. The reimbursements, however, do not *increase* the fiscal resources of the local governments; they merely replace the property taxes lost due to the provision of tax relief to homeowners.

Conversely, some of the funds distributed to local governments and categorized as "Assistance to Local Governments" represent the state's contribution for programs, operated locally, which provide *services* to individuals. These programs do, in one sense, provide assistance to individuals, but they are not distinguishable from other programs operated by local governments. This is because *all* programs operated by local

Table 16
Major General Fund Supported
Local Assistance Programs More Appropriately
Categorized as Assistance to Individuals
1981-82 to 1983-84
(in millions)

	1981-82	1982-83	Governor's Budget 1983-84
Medi-Cal ^a	\$2,495	\$2,576	\$1,980
AFDC ^b	1,349	1,328	1,175
SSI/SSP	1,220	1,104	1,022
Developmental Services	522	524	545
Personal Property Tax Relief	467	504	512
Renters' Tax Relief	425	456	464
Homeowners' Property Tax Relief	334	335	336
Senior Citizens Renters' Tax Relief	48	44	43
Senior Citizens' Property Tax Assistance	15	12	11
Subvention for Open Space	14	13	13
Senior Citizens' Property Tax Postponement	6	6	7
Payment to Local Governments for Sales and Property Tax Losses	5	3	4
Totals ^c	\$6,899	\$6,904	\$6,112

^a Excludes county administration.

^b Grant payments only.

^c Totals may not add due to rounding.

governments are intended to provide assistance to individuals in one sense or another. Thus, for example, although the state's subvention of funds for County Health Services is expended for programs which assist individuals, these funds are provided by the state in an attempt to help local governments to fund these programs.

Table 16 identifies 12 major local assistance programs which our analysis indicates are more appropriately categorized as "Assistance to Individuals." The Governor's Budget proposes funding level increases for 6 of these 12 programs; decreases for five and no change for one. Overall, funding for "individual assistance" programs is proposed to decline by approximately \$792 million, or 12 percent, in 1983-84. This results primarily from reductions in the Medi-Cal and AFDC programs, where the responsibility for serving certain categories of individuals (for example, medically indigent adults (MIAs) and nonfederally eligible AFDC-unemployed parents) has been transferred from the state to counties. Funds allocated to the counties for the MIA shift are included as "Assistance to Local Governments."

Local Fiscal Relief

Table 17 summarizes our estimates of local fiscal relief from 1978-79 through 1983-84. For the budget year, the table shows estimates of fiscal relief under existing law [Ch 282/79, (AB 8)], as well as the amounts proposed by the Governor. Under the Governor's proposal, local fiscal relief is estimated to increase in 1983-84 by \$114 million, or 2.0 percent from the estimated current-year level. This low rate of growth reflects the Governor's proposal to reduce motor vehicle license fee subventions to cities and counties by \$300 million. It also reflects the budget's proposals to delete statutory cost-of-living adjustments for county health service subventions and AFDC. In the absence of these proposals, local fiscal relief in 1983-84 would increase by \$427 million, or 7.5 percent, under existing law (without considering the AB 8 deflator). This increase is higher than it otherwise would be, due to the one-time reductions in fiscal relief made during the current year by Ch 327/82 (SB 1326).

Table 17
Summary of Local Fiscal Relief
1978-79 to 1983-84
(in millions)

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	
						Under Existing Law	As Proposed by Governor's Budget
Block grants to local agencies.....	\$853	—	—	—	—	—	—
Property taxes shifted from schools to local agencies.....	—	\$781	\$921	\$1,024	\$1,140	\$1,262 ^a	\$1,262 ^a
Business inventory reductions for cities and counties.....	—	-38	—	—	—	—	—
Health and welfare buyouts.....	1,079	1,288	1,529	1,724	1,840	1,905	1,892
Ongoing reductions.....	—	—	—	-49	-49	-49	-49
One-time reductions.....	—	—	—	-184	-261	—	-300
Local Agency Reimbursement Fund ..	—	—	—	—	10	—	—
Education ^b	2,453	2,814	3,050	3,344	3,025	3,014	3,014
Totals.....	\$4,385	\$4,845	\$5,500	\$5,859	\$5,705	\$6,132	\$5,819

^a Assumes 10 percent increase in assessed valuation.

^b Department of Finance estimates.

Table 18 presents information as to the *distribution* of fiscal relief under current law, by type of local agency. These data indicate that K-12 school districts receive nearly half of total fiscal relief to local entities (49 percent), while counties receive the second largest share (40 percent). The table also indicates that, under current law, total fiscal relief costs in 1983-84 would be 39.8 percent above the original level established in 1978-79, with the largest relative increases in relief going to special districts and counties.

The Legislature, in acting on the 1982-83 Budget, provided no specific explanation for the level of financing provided for education. The Department of Finance, however, *assumes* that the elimination of the cost-of-living adjustment (COLA) for school apportionments in 1982-83 was done with the objective of reducing fiscal relief to schools, in lieu of allowing the AB 8 deflator mechanism to become operative. Thus, the department asserts that the amount of fiscal relief proposed for education in 1982-83 was reduced by the amount of the COLA, reducing the amount of fiscal relief reported by the department for both 1981-82 and 1982-83. This reduction also affects the amounts shown for the budget year, as it reduces the base from which fiscal relief estimates are computed.

The Department of Finance's fiscal relief estimates for 1983-84 have also been reduced to reflect a \$106 million reduction in state assistance to community colleges. The Governor's Budget proposes that this \$106 million reduction be offset by the imposition of student fees. Thus, the level of *fiscal relief* going to community colleges in the budget year is 20.8 percent less than the level provided in 1978-79. The Governor proposes that student fees be increased to make up the difference.

Table 18
Local Fiscal Relief by Type of Local Agency
1978-79 to 1983-84
(in millions)

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84 ^a	Percent Increase 1983-84 Over 1978-79
Cities	\$230	\$216	\$280	\$152	\$99 ^b	\$346	50.4%
Counties	1,512	1,609	1,927	2,095	2,280 ^b	2,432	60.8
Special districts ^c	190	206	243	268	301	340	78.9
K-12 education ^c	2,193	2,508	2,721	2,989	2,692	2,808	28.1
Community colleges ^c	260	306	329	355	333	206	-20.8
Totals ^d	\$4,385	\$4,845	\$5,500	\$5,859	\$5,705	\$6,132	39.8%

^a Existing law; does not reflect reductions proposed in the budget.

^b Includes Local Agency Reimbursement Fund disbursements.

^c Department of Finance estimates.

^d Details may not add to totals due to rounding.

D. RESERVES

The Governor's Budget holds \$800 million from the General Fund in reserve for 1983-84. Of this amount, \$650 million is proposed for the Reserve for Economic Uncertainties, and \$150 million is earmarked for future legislation.

Reserve for Economic Uncertainties

Reserve Proposed for 1983-84. The Reserve for Economic Uncertainties was created by the 1981-82 Budget Act, and provides a source of funds to meet General Fund obligations in the event of an unanticipated decline in revenues or increases in expenditures following enactment of the Budget Act. Control Section 12.30 of the 1983-84 Budget Bill provides for the transfer of up to \$650 million (approximately 3 percent of proposed 1983-84 General Fund expenditures) to fund this reserve in the budget year. Monies in this fund can also be loaned interest free to the General Fund in the event of a cash-flow shortage during the fiscal year.

The \$650 million earmarked for the reserve in 1983-84 *overstates* the amount available. The Governor's Budget identifies \$100 million of the \$650 million as needed to repay a loan made to the state by Los Angeles County, pursuant to Ch 1594/82. This statute specifies that \$100 million must be set aside in a special account in 1983-84 and used only for the purpose of repaying the county's loan. (The balance of the \$200 million loan repayment must be set aside in the 1984-85 budget.) While these funds may be loaned to the General Fund, the special account must have a minimum balance of \$100 million on June 30, 1984.

By counting this \$100 million as part of the Reserve for Economic Uncertainties, the administration has overstated the size of the reserve by \$100 million. For these reasons, we recommend that the Legislature *not* regard these funds as either available to eliminate the current year deficit or available to protect the General Fund against the type of uncertainties for which the reserve was created.

Use of the Reserve to Date. As Table 19 demonstrates, the reserve in 1981-82 and 1982-83 has not been sufficient to cover actual revenue shortfalls and expenditure overruns during these two fiscal years. The reserve has, however, helped to mitigate the problem, and has helped to moderate the severity of actions which have had to be taken to balance the budget in those years.

Table 19
Reserve for Economic Uncertainties
1981-82 and 1982-83
(in millions)

	Proposed in Budget Bill	Included in Budget Act	Unanticipated Changes to General Fund Condition	Additional Amount Needed to Cover Shortfall
1981-82.....	\$620	\$460	-\$1,182	\$722
1982-83.....	500	556	-2,190 ^a	1,634

^a Midyear estimate.

Should Next Year's Reserve be Used to Balance This Year's Budget?
The Governor's Budget identifies \$650 million budgeted for the Reserve

for Economic Uncertainties in 1983-84 as a potential source of funds to reduce the \$1.6 billion deficit in the current year's budget. To the extent that this is done, of course, these funds will not be available to fund unanticipated declines in revenue or increases in expenditure during the budget year.

The use of monies allocated to the Reserve for Economic Uncertainties for the purpose of funding *anticipated* expenditures defeats the very purpose of the reserve, and eliminates the state's ability to weather the types of fiscal setbacks that have plagued the state in recent years. For the state to *begin* the fiscal year without a reserve would be analogous to a homeowner suspending his casualty insurance in order to free up the funds needed to make his mortgage payments. It may turn out that the insurance wasn't needed after all. But, if the insurance *is* needed (if revenues do fall short of the level anticipated), the adjustment problem becomes much more difficult.

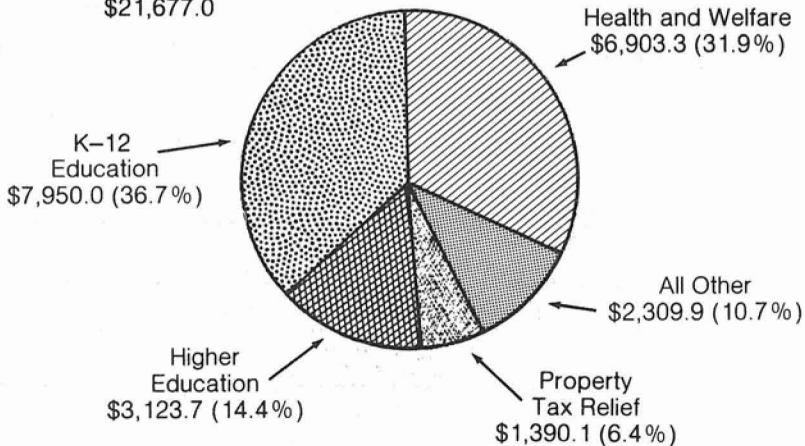
In summary, we believe that the option of using next year's reserve to balance this year's budget represents more of a *threat* to the maintenance of a balanced budget than it does a viable method for achieving one.

Accordingly, it should be viewed by the Legislature with great skepticism. In light of the state's experience in the past two years, we recommend that the Legislature retain a prudent reserve in an amount equal to *at least* 3 percent of anticipated expenditures for the budget year.

Chart 9

**General Fund Expenditures—Major Components
1983-84 (in millions)**

Total Expenditures^a
\$21,677.0



^a Includes \$7.2 million in expenditures from reserves

E. PROGRAM EXPENDITURES

Where Does the Money Go?

Table 20 and Chart 9 show the distribution of General Fund expenditures, by major program categories, in 1983-84. These displays indicate that the two largest budget categories are education and health and welfare, which account for \$18.0 billion, or 82.9 percent, of total General Fund expenditures. The remaining \$3.7 billion, or 17.1 percent, of total expenditures goes for tax relief and all other programs of state government, such as corrections and resources.

The so-called "people programs"—education and health and welfare—have been the fastest growing components of General Fund expenditures in recent years. Chart 10 illustrates that since 1973-74 health, welfare, and education have increased their share of the General Fund budget from about 75 percent to 83 percent. During the same period, expenditures for these programs have increased by more than 250 percent, for an average annual growth rate of 13.3 percent.

Chart 10

General Fund Expenditures By Major Program Categories

1973-74 through 1983-84 (in billions)

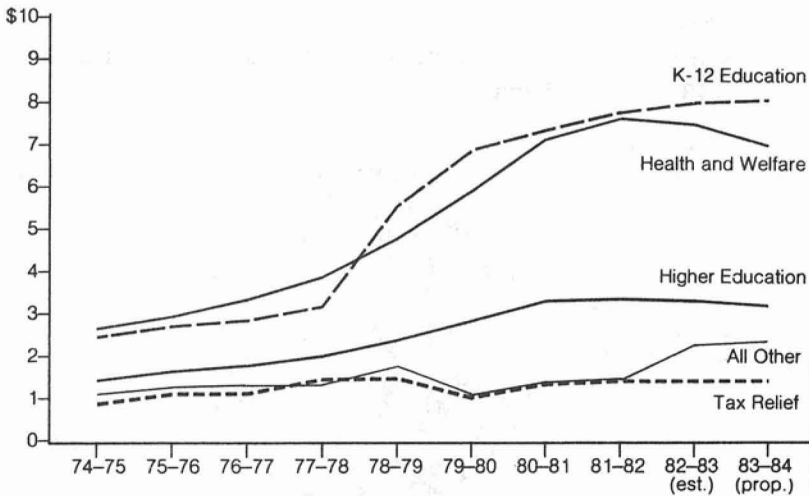


Table 20
Expenditures for Health, Welfare, and Education
As a Percent of Total General Fund Expenditures
1983-84
(in millions)

	<i>Amount</i>	<i>Percent of General Fund Budget</i>
Health and Welfare	\$6,903.3	31.8%
K-12 Education	7,949.8	36.7
Higher Education	3,123.7	14.4
Subtotal, Education.....	(\$11,073.5)	51.1%
Subtotal, Health, Welfare, and Education	\$17,976.8	82.9%
Other Program Areas.....	3,700.2	17.1
Total General Fund Budget.....	\$21,677.0	100.0%

Table 21
Estimated General Fund Program Changes
1982-83 and 1983-84
(in millions)

	<i>Estimated 1982-83</i>	<i>Proposed 1983-84</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
Health and Welfare:				
Medi-Cal	\$2,671	\$2,040	-\$631	-23.7%
County health.....	426	828	402	94.3
SSI/SSP grants	1,104	1,022	-82	-7.5
AFDC grants	1,328	1,175	-153	-11.6
Mental health	565	566	1	0.1
Developmental services.....	540	561	21	3.8
Social services programs	178	173	-5	-2.9
Other, health and welfare.....	547	538	-9	-1.7
Subtotals, Health and Welfare	\$7,359	\$6,903	-\$456	-6.2%
Education:				
K-12	\$7,838	\$7,950	\$112	1.4%
University of California	1,148	1,181	33	2.8
California State University	929	914	-15	-1.7
California Community Colleges.....	1,068	929	-139	-13.1
Other, higher education	95	98	3	3.1
Subtotals, Education	\$11,078	\$11,072	-\$6	-0.1%
Other:				
Property tax relief.....	\$1,371	\$1,390	\$19	1.3%
Employee compensation	—	211	211	—
Capital outlay	2	—	-2	-100.0
Debt service	332	344	12	3.6
All other.....	1,915	1,757	-158	-8.3
Subtotals, Other	\$3,620	\$3,702	\$82	2.2%
Totals	\$22,057	\$21,677	-\$380	-1.8%
Less expenditures from reserves.....	-52	-2	50	96.2
Current expenditures.....	\$22,005	\$21,675	-\$330	-1.5%

Summary of Major Program Changes

The budget proposes a decrease in General Fund expenditures of \$380 million for 1983-84. Table 21 shows the primary factors that account for the proposed change in expenditures. It shows that in the budget year, expenditures for health and welfare have been reduced by \$456 million, education has remained relatively constant, and the "all other" category has increased, primarily due to the inclusion of \$211 million for employee compensation. Within each of these categories, significant program changes have been proposed. Some of the major shifts include the following:

1. **Medi-Cal** expenditures from the General Fund in 1983-84 are budgeted at \$2,040 million. This is a net reduction of \$631 million, or 24 percent, from estimated current-year expenditures. After more than a decade of steady growth, the proposed level of Medi-Cal expenditures for 1983-84 is actually less than the amount spent in 1980-81. The major reasons for this dramatic reduction in expenditures are as follows:

- **Full-year Effect of Terminating Medi-Cal Eligibility for Medically Indigent Adults (MIAs).** The budget projects a decrease of \$470 million in General Fund expenditures for Medi-Cal, due to the full-year effect of terminating eligibility for MIAs. The decrease in Medi-Cal expenditures is partially offset by a \$415 million increase in AB 8 county health services subventions to counties, for the purpose of helping counties provide health care services to persons no longer eligible for Medi-Cal. Therefore, the net overall effect of the transfer in 1983-84 is a decrease in General Fund expenditures of \$55 million.
- **Previously Enacted Legislation.** Changes in eligibility, benefit levels, and reimbursement rates were made by recently enacted legislation (Ch 328/82, Ch 329/82, and Ch 1594/82). These changes will become fully effective in 1983-84, resulting in additional savings beyond those reflected in the current-year estimates.
- **Proposed Legislation.** The Governor's Budget proposes several additional cost savings measures, including limitations on abortions and changes in reimbursements for county administration.
- **Offsetting Increases.** Increases in utilization of Medi-Cal benefits and a 3 percent provider rate increase will increase costs, thereby providing a small offset to the expected savings.

2. **County Health Services** expenditures are proposed to increase by a net of \$402 million, or 94 percent, in 1983-84. This primarily reflects the increased subventions to counties intended to help them provide health care services to persons no longer eligible for Medi-Cal.

3. **SSI/SSP Grants** are proposed to decrease by \$82 million. The decrease results primarily from two factors: (a) increases in unearned recipient income, which decreases the amount of the SSI/SSP grant, and (b) a projected decrease in caseload. The budget includes \$72 million for a 2.1 percent COLA for these recipients.

4. **AFDC Grants** from the General Fund are proposed to decrease by \$153 million. The decrease results primarily from (a) changes in the foster care sharing ratio between the state and counties, (b) savings anticipated from the welfare fraud early detection program, (c) changes in prorating shelter costs, and (d) a change in the beginning date of aid. These decreases are partially offset by a caseload increase. The Governor has not proposed a cost-of-living adjustment for this program in the budget year.

5. **K-12 Education** is budgeted to increase by \$112 million. The major changes contributing to this increase are a one-time augmentation in-lieu of the 100 percent revenue guarantee to local school districts, local property tax revenue increases which offset the General Fund, enrollment increases, and K-12 education cost-of-living adjustments (COLAs).

6. **Higher Education** General Fund expenditures are projected to decrease by \$118 million. The budget anticipates that this decrease will be offset by an increase in student fees for the University of California, California State University, and the California Community Colleges.

- **University of California.** Student fees would be increased by \$150

per year (from \$1,194 to \$1,344), providing an additional \$14.8 million in revenues.

- **California State University.** Student fees would be increased by \$230 per year (from \$441 to \$671), providing an additional \$73.6 million in revenues. In addition, the budget would eliminate General Fund support for summer quarters at the San Luis Obispo, Pomona, Los Angeles, and Hayward campuses, for a savings of \$13.6 million.
- **California Community Colleges.** For the first time, community college students would be required to pay a statewide fee of \$100 per year, which would provide \$109.5 million in revenues. The budget does not provide for growth in average daily attendance (ADA) or a COLA.

7. **Capital Outlay** expenditures in 1983-84 are funded exclusively from bond and special funds. Proposed capital outlay expenditures from all sources total \$568.4 million in the budget year.

8. **Department of Corrections** expenditures are proposed to increase by \$114.6 million in the budget year, due primarily to the growth in the state's prison population.

9. **Unidentified Savings** of \$260 million, primarily from the establishment of government efficiency teams, are proposed in the budget. These teams, composed of individuals from the public and private sectors, are expected to submit recommendations for inclusion in the budget before it is enacted. At the time this *Analysis* was prepared, however, no individuals had been named to serve on this task force. Due to the lack of specific information on these proposals, which the budget states will save \$200 million, we recommend the Legislature *not* rely on the achievement of these savings, in doing its fiscal planning. In addition, the budget anticipates further unidentified savings of \$60 million.

10. **Merit Salary Adjustments** for state employees are not funded in the Governor's Budget. Although funding for these adjustments (almost \$60 million from the General Fund) is included within the individual appropriation requests, these funds are proposed for reversion by Control Section 9.25 of the 1983-84 Budget Bill. In addition, the budget proposes that \$211 million be expended for additional employee compensation, but the administration has identified these funds as part of its Phase II options for use in eliminating the 1982-83 budget deficit.

III. REVENUES

A. OVERVIEW

The various expenditure programs discussed in the *Analysis* are supported by revenues which are derived from many different sources. The budget identifies over 50 specific individual revenue categories, ranging from taxes levied on individuals and businesses, to income which the state derives directly from its own assets, such as oil-producing properties and financial investments.

About 85 percent of all state revenues are deposited directly in the General Fund, from which they may be appropriated to support the general activities of state government. In most years, nearly 90 percent of these General Fund revenues is derived from three specific sources: the sales and use tax, the personal income tax, and the bank and corporation tax.

Those state revenues that are not deposited in the General Fund—15