in revenues in the current year. In the budget year, the Governor proposes to place an additional $192 million of tidelands oil revenues into the General Fund. In Part III of this volume, we discuss the policy issue of whether these tidelands revenues should be shifted on a *permanent* basis to the General Fund to help support the overall programs of the state government.

How Special Fund Revenues are Distributed

Table 41 identifies how the budget proposes to allocate special fund revenues from the four major sources among different programs and levels of government. Specifically, it shows:

- Cities and counties receive about half of the motor vehicle fuel tax revenues;
- Under current law, cities and counties receive all of the proceeds from vehicle license fees, after deduction of administrative and certain other costs. For 1983–84, however, the budget proposes to transfer $300 million of these funds to the General Fund to help balance the budget. Similar (although smaller) transfers occurred in both 1981–82 and 1982–83.
- Motor vehicle registration fees are used to support the Department of Motor Vehicles and the California Highway Patrol, with most of the remainder going to the Department of Transportation for highway maintenance and construction;
- Under current law, tidelands oil revenues are allocated mainly for capital outlay purposes. Most of these revenues normally are divided among six special funds (including ERF, COFPHE, and SAFCO). The 1983–84 budget, however, proposes that a significant portion ($192 million) of these revenues be transferred to the General Fund to help balance the budget. The distribution of oil revenues shown in Table 41 is based on the proposals in the budget, and does not reflect the distribution called for by existing law;
- The "spill-over" sales tax revenues are used mainly for mass transit and special transportation programs, and are allocated to both state and local agencies.

IV. STATE AND LOCAL BORROWING

Overview

The State of California and its localities borrow monies in a variety of ways and for a variety of reasons.

One type of borrowing is short-term in nature, and is often used to cope with cash-flow problems caused by differences between when expenditures are made and when revenues are received. Such borrowing may take the form of temporary loans from the state's special funds, or may involve the issuance of short-term debt instruments such as secured or unsecured notes or warrants.

A second general type of borrowing is long-term in nature. This form of borrowing is accomplished through the issuance of long-term bonds. The State of California and its localities issue both general obligation bonds and revenue bonds. These two categories of bonds have the following general characteristics:

- ***General obligation bonds*** are backed by the full faith and credit of the issuing governments. Thus, when the State of California issues a general obligation bond, the state pledges to use its taxing power to pay off the bond (both principal and interest). These bonds must be authorized by a two-thirds vote of both houses of the Legislature, and then must be approved by a majority of the voters at a statewide election. Under existing law, the interest rates on state general obligation bonds cannot exceed 11 percent.
- ***Revenue bonds*** are not backed by the full faith and credit of the issuing government. Instead, they are secured by the revenues from the projects which are financed by the bond proceeds. State revenue bonds must be authorized by a majority vote of both houses of the Legislature, but they do not require voter approval. Some revenue bonds have interest rate ceilings, while others do not.

This section provides information on short-term and long-term borrowing by the state, including the sales and outstanding volumes of state general obligation and revenue bonds. In addition, this section discusses the use of short-term debt and long-term bonds by California's local governments, with particular emphasis on the volume of housing bonds. In Part III of this volume, we discuss some of the problems currently facing state and local governments who wish to finance projects through the sale of tax exempt debt, as well as legislative policy issues and recommendations regarding the use of tax exempt bonds.

A. STATE BORROWING

1. Short-term Borrowing by the State

As discussed in Part I, it is not uncommon for the General Fund to borrow monies on a short-term basis, to compensate for differences between when revenues are actually received and when bills must be paid. This type of borrowing falls under the heading of "cash management" and, when responsibly undertaken and monitored, is a routine and integral part of managing the state's fiscal affairs.

Normally, short-term borrowing is done *internally*. Whenever possible, the General Fund borrows from the Reserve for Economic Uncertainties, from special funds, and from the Pooled Money Investment Account (PMIA).

During 1982–83, however, it has not been possible to meet the state's cash-flow needs solely from internal sources, and the state has had to issue short-term debt instruments to private sector investors. At the time this *Analysis* was prepared, *external* borrowing during the current fiscal year had amounted to $400 million, in the form of unsecured "revenue anticipation warrants". We anticipate that further external borrowing will be necessary, both in the remainder of the current year and again during the budget year.

2. State General Obligation Bonds

Bond Categories. California's general obligation bonds are grouped into three categories, depending on the extent to which debt service (that is, payment of interest and repayment of principal) is assumed by the state. These categories are:

(1) *General Fund Bonds.* The debt service on these bonds is *fully* paid by the General Fund.

(2) ***Partially Self-Liquidating Bonds.*** Debt service on these bonds is only partly paid by the General Fund. The only program falling into this category is school building aid. Although the debt service on these bonds is paid by the state, local school districts reimburse the state for these costs. The schedule for reimbursement, however, is different from the schedule used to retire the debt. As a result, in years prior to 1978–79, the state had to "subsidize" the debt service, because the reimbursement received from the school districts was less than the amount paid by the state to the bond holders. Since 1978–79, however, these reimbursements have *exceeded* the state's cost for servicing these bonds, in effect reimbursing the state for at least a portion of its earlier subsidies.

(3) ***Self-Liquidating Bonds.*** Redemption and interest costs on these bonds are paid entirely from project revenues. However, should such revenues ever be inadequate to cover the required debt service, the state would be obligated to make up the shortfall.

Table 42
General Obligation Bonds of the State of California
As of December 31, 1982
(in millions) [a]

	Authorized	*Unsold*	*Redemptions*	*Outstanding*
General Fund Bonds:				
State construction	$1,050.0	—	$716.0	$334.0
Higher education construction	230.0	—	135.0	95.0
Junior college construction	65.0	—	37.4	27.6
Health science facilities construction	155.9	—	42.9	113.0
Community college construction	160.0	—	59.3	100.8
Beach, park, recreational, and historical facilities	400.0	$15.0	149.8	235.2
Recreation and fish and wildlife	60.0	—	26.5	33.5
State, urban, and coastal parks	280.0	55.0	29.1	195.9
Parklands acquisition and development	285.0	195.0	2.3	87.8
Clean water	875.0	260.0	141.2	473.8
Safe drinking water	175.0	105.0	0.5	69.5
State prison construction	495.0	395.0	—	100.0
County jail construction	280.0	280.0	—	—
Lake Tahoe land acquisition	85.0	85.0	—	—
First-time home buyers	200.0	200.0	—	—
School building lease purchase	500.0	500.0	—	—
Subtotals	($5,295.9)	($2,090.0)	($1,339.9)	($1,866.0)
Partially Self-Liquidating Bonds:				
School building aid	$2,140.0	$40.0	$1,304.6	$795.4
Self-Liquidating Bonds:				
Water resources development	$1,750.0	$180.0	$106.1	$1,463.9
Harbor bonds	89.3	—	66.1	23.2
Veterans' farm and home building	4,450.0	650.0	1,571.9	2,228.1
Subtotals	($6,289.3)	($830.0)	($1,744.1)	($3,715.2)
Totals	$13,725.2	$2,960.0	$4,388.6	$6,376.6

[a] Source: California State Treasurer. Detail may not add to totals due to rounding.

Bond Programs. General obligation bonds are used to support a wide variety of bond programs, including general state construction, water treatment, harbor development, post-secondary education facilities construction, development of parks and recreational areas, historical resources preservation purposes, and financial assistance for home purchasing by war veterans. During the 1982 calendar year, California voters approved five new general obligation bond programs, totalling over $1.8 billion. These included: $495 million for financing new state prison facilities, $500 million for public school building lease-purchase, $280 million for county jail construction, $85 million to acquire undeveloped land in the Lake Tahoe Basin, and $200 million to provide assistance to first-time home buyers. In 1982 the voters also approved an addition of $450 million in bonds for the state's existing program to provide assistance to veterans for home buying.

Status of Bonds Authorized. Table 42 identifies these three categories of general obligation bonds, by bond program, and shows the portion of the authorized amounts that are outstanding, redeemed, and unsold. As of December 31, 1982, the state had over $2.9 billion in unsold bonds, compared to over $1.4 billion at the end of 1981. Of the authorized bonds already sold ($10.8 billion), the state has retired nearly $4.4 billion, leaving $6.4 billion outstanding.

Bond Program Sales. In December 1982, the State Treasurer told the Legislature that he was temporarily suspending the sale of general obligation and revenue bonds. This action was undertaken because the projected General Fund deficit in the state's 1982–83 budget threatened to erode the state's credit rating. This rating had been reduced in April 1980 by Standard and Poor's, from AAA (best quality) to AA-plus (high quality). Indeed, in late January, Standard and Poor's again reduced the state's rating (to AA). It appears that the state's credit rating is unlikely to be raised until the state's fiscal problems are resolved.

From our viewpoint, there is no logical reason why long-term state general obligation bond ratings should be lowered because of a short-term fiscal problem, especially in light of the constitutional guarantee regarding debt service payments to general obligation bond holders. Nevertheless, the rating agencies have chosen to reduce the state's credit standing, and this may hurt the state's ability to market debt.

Prior to the Treasurer's suspension of bond sales, a total of $280 million of general obligation bonds had been sold in 1982–83. Of the total, $100 million represented veteran's housing bonds, the sale of which had been postponed from 1981–82, and another $100 million represented bond sales under a new program—the new state prison construction program. The remaining $80 million represented bonds sold for state parklands ($25 million), clean water ($50 million) and state beaches and parks ($5 million).

Table 43 displays general obligation bond sales, by program, from 1980–81 through 1983–84. In 1981–82, over 60 percent ($240 million) of all general obligation bonds sold ($390 million) called for debt service to be paid by the General Fund, while about 40 percent ($150 million) represented self-liquidating bonds for housing. While housing bonds represented a substantial share of total bond sales in 1981–82, the amount of these sales was far less than originally anticipated. The Governor's Budget for 1982–83 had projected in January 1982 that housing bond sales would total $450 million in 1981–82.

Table 43
General Obligation Bond Sales
1980–81 Through 1983–84
(in millions) [a]

	Actual 1980–81	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
Beach, park, recreational and historical facilities	$10	$5	$5	$10
Clean water	—	40	30	—
Clean water and water conservation	—	60	100	50
Parklands acquisition and development program	—	65	50	30
Safe drinking water	20	20	30	—
State, urban, and coastal parks	30	50	15	15
New prison construction	—	—	150	125
County jail construction	—	—	—	125
Lake Tahoe land acquisition	—	—	—	40
School building lease purchase	—	—	—	100
First-time home buyers	—	—	—	125
Subtotals, General Fund Bonds	$60	$240	$380	$620
School building aid [b]	25	—	—	—
Veterans' farm and home building [c]	300	150	300	250
Totals	$385	$390	$680	$870

[a] Source: California State Treasurer.
[b] Debt service currently paid entirely by school districts.
[c] Debt service paid from program or project revenues.

Table 43 also shows estimated bond sales for the current year. Given the Treasurer's suspension of bond sales, it is unlikely that the estimated level of sales will actually take place. As we noted above, $280 million in general obligation bonds have already been sold, or 41 percent of the bond sales scheduled for the current year. Other bonds sales scheduled for this year include: veteran's bonds ($200 million); prison construction ($50 million), clean water and water conservation ($80 million), safe drinking water ($30 million), state parklands ($25 million), and urban and coastal parks ($15 million).

For 1983–84, a total of $870 million in general obligation bond sales had been planned by the Treasurer, prior to his suspension of sales in December 1982. A significant portion of these bond sales are associated with the five new programs approved by the voters in 1982: state prison construction ($125 million); first-time home buyers ($125 million); state school building lease purchase ($100 million); Lake Tahoe land acquisition ($40 million); and new county jail construction ($125 million). How many of these planned bond sales actually occur will depend on (1) when the Treasurer lifts his suspension, and (2) the condition of the financial markets during 1983 and 1984.

General Fund Debt Service. Table 44 shows projections through 1983–84 of the amount of debt service to be paid on bonds fully supported by the General Fund. Debt service for the budget year is estimated at $343 million, of which $168.3 million is for repayment of principal and $174.8 million is for payment of interest. This represents an increase of $78.6 million (or 29.7 percent) over the current year.

General Fund debt service costs of $343 million compare to total *general* *obligation* debt service costs of approximately $780 million in 1983–84. Of the total, $340 million is for interest and $440 million is for repayment of principal. Thus, the debt servicing costs for self-liquidating bonds, such as veteran's mortgage revenue bonds, far exceed debt service costs for General Fund bonds. This reflects both the dramatic increase in sales of self-liquidating housing bonds in recent years, and the higher interest rates attached to these bonds, compared to bonds issued earlier.

All of the debt service estimates in Table 44 are based on specific estimates of future bond sales and conditions in the financial markets. If the volume of sales is greater (less) than the estimated level, the amounts needed to service General Fund debt will increase (decrease) accordingly. The estimates are also subject to error because the interest rates which will be paid on future bond sales are very difficult to predict at this time. The estimates in Table 44 assume that the yield paid on future tax-exempt bond issues will be 10 percent. The actual yields, however, will depend on the course of future federal monetary and fiscal policies, on the market for municipal debt specifically, and on the path of the economy generally.

Table 44
General Fund Debt Service
1980–81 to 1983–84
(in millions)

	Debt Service[a]	*Percent Change from Previous Year*	*Anticipated Sales*[b]
1980–81	$210.5	6.9%	—
1981–82	218.7	3.9	—
1982–83	264.5	20.9	380.0
1983–84[c]	343.0	29.7	620.0

[a] Includes estimated debt service *only* on bond issues currently authorized by the electorate. Figures through 1983–84 are from the 1983–84 Governor's Budget.

[b] An average interest rate of 10.0 percent is assumed on anticipated future sales. Projected sales for 1982–83 and 1983–84 are from the 1983–84 Governor's Budget.

[c] The projection for 1983–84 assumes that the level of sales projected in the budget occurs. Actual sales may be less, depending on bond sale decisions made by the Treasurer.

Selected Bond Fund Expenditures. After General Fund bonds are sold, the proceeds from the sales are allocated to be spent on specific projects. These bond fund expenditures are identified in Schedule 3 of the Governor's Budget, by administering agency. Table 45 groups these expenditures for the prior, current, and budget years, according to the source of bond funding. Two new bond programs authorized by the voters in 1982—new prison construction and state-school lease purchase—are expected to account for over three-fourths of all bond fund expenditures in 1983–84.

We have noted in past *Analyses* that midyear budget estimates of bond fund expenditures generally have turned out to be too high. For example, the 1979–80 and 1980–81 midyear estimates were $347 million and $273 million, respectively, while actual expenditures in those years were only $193 million and $145 million, respectively.

In 1981–82, the midyear estimate of bond fund expenditures was $342 million, or $112 million more than the actual expenditure of $230 million. The largest components of the 1981–82 difference involved two programs

—the state, urban, and coastal parks program, and the state parklands acquisition program. Estimated expenditures for each program were $42 million higher than actual expenditures.

The failure of the budget to give a realistic picture of bond expenditures makes inter-year bond expenditure program comparisons invalid and, in addition, distorts total expenditure comparisons. More realistic scheduling of new projects and projects already authorized, particularly those in the parks and recreation area, would result in more accurate midyear estimates and, consequently, improved inter-year comparisons.

Table 45
Selected Bond Fund Expenditures [a]
1981–82 Through 1983–84
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*
Higher education construction	—	$493 [b]	—
Health science facilities construction	$4,009	506	—
Community college construction	649	494	$34
Beach, park, recreational, and historical facilities	7,814	12,407	189
New prisons	—	149,276	244,500
Recreation and fish and wildlife	371	1,988	694
State, urban, and coastal parks	28,124	45,500	8,446
Parklands acquisition and development	100,279	141,890	24,102
Clean water	69,468	76,311	81,456
Safe drinking water	19,511	25,964	26,041
School lease-purchase	—	124,985	199,985
Totals	$230,225	$579,814	$585,447

[a] Figures are derived from the 1983–84 Governor's Budget, Schedule 3. Includes bond fund expenditures for state operations, local operations and capital outlay.

[b] Includes unallocated capital outlay funds, as provided under the State Higher Education Construction Bond Act of 1966.

3. State Revenue Bonds

Bond Categories. Agencies of the state also issue revenue bonds. These are fundamentally different from general obligation issues, in that only the revenue generated from the financed project is pledged as security for the bond. This type of debt instrument has been used by the state in the past to finance the construction of such projects as bridges, fair facilities, and higher education dormitories and parking lots.

Beginning in the 1970's, the state expanded the scope of revenue bond programs to include financing for home purchases, pollution control outlays, and health and educational facilities. In 1982, the Legislature created the newest revenue bond program, which will provide financing for high speed rail passenger systems in California.

Table 46 identifies sixteen different types of state revenue bond programs and shows their current authorizations. As of December 31, 1982, a total of $4,986 million in state revenue bonds was outstanding. Three housing bond programs account for $1,927 million, or 39 percent of the outstanding bonds: California Housing Finance Agency ($1,447 million), Veterans Revenue Debenture ($455 million), and California National Guard ($25 million). The table also shows that nine of the sixteen programs have statutory authorization limits, which together total $7,084 million. Of this amount, $4,430 million (63 percent) was unused at the end of 1982.

Table 46
State Revenue Bonds
As of December 31, 1982
(in thousands) [a]

Issuing Agency	*Authorization Limits—If Any*	*Outstanding*	*Remaining Authorization*
California Education Facilities Authority	$500,000	$324,665	$175,335
California Housing Finance Agency	1,850,000 [b]	1,447,185	402,815
California Pollution Control Financing Authority	None	765,407	N/A
Transportation Commission	None	143,139	N/A
Department of Water Resources	None	1,077,820	N/A
Trustees California State University	None	148,798	N/A
Regents University of California	None	176,676	N/A
State Public Works Board	None	11,922	N/A
State Public Works Board—Energy Conservation and Cogeneration	500,000	—	500,000
Hastings College of Law	None	7,280	N/A
Veterans Revenue Debenture	1,000,000	455,000	545,000
California National Guard	100,000	24,920	75,080
California Health Facilities Authority	1,534,000 [b]	396,895	1,137,105
California Student Loan Authority	150,000	—	150,000
California Alternate Energy Source Financing Authority	200,000	5,810	194,190
California Rail Passenger Financing Authority	1,250,000 [b]	—	1,250,000
Subtotals:			
Bonds With Statutory Authorization Limits	$7,084,000	$2,654,475	$4,429,525
Bonds Without Statutory Authorization Limits	N/A	$2,331,042	N/A
Totals, All State Revenue Bonds	N/A	$4,985,517	N/A

[a] Source: California State Treasurer.
[b] Includes increases in statutory authorizations effective January 1, 1983.

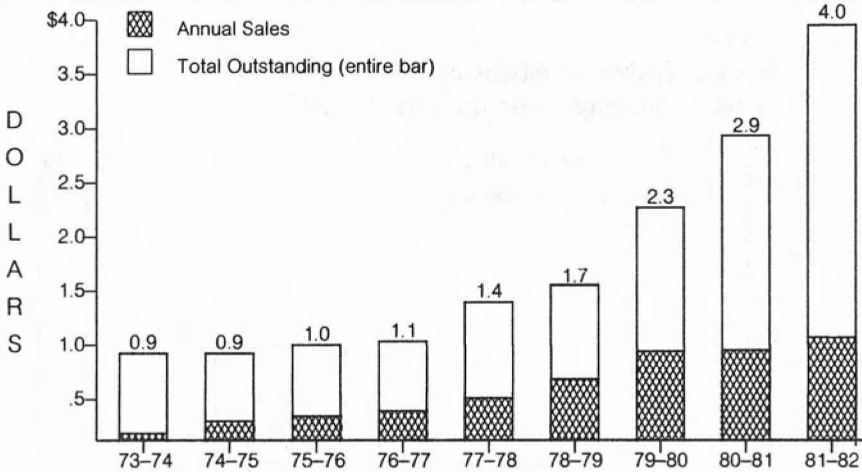
Growth in Revenue Bonds. In recent years, the outstanding volume of revenue bonds has risen dramatically. Chart 20 shows the increase in revenue bonds outstanding from 1973–74 through 1981–82. The volume of these bonds rose from $0.9 billion in 1973–74 to $4.0 billion in 1981–82. In the six-month period from June 1982 to January 1983, the total rose by an additional $1.0 billion, to almost $5.0 billion.

Bond Sales. Table 47 shows revenue bond sales for the past four years. Estimates of current-year and budget-year sales are not available at this time. This is primarily because revenue bond issues are not scheduled as far in advance as are general obligation bond sales.

Revenue bond sales have increased dramatically in the last four years, with sales exceeding $1 billion for the first time in 1981–82. The largest share (28 percent) of these sales was accounted for by the first issuance of California Health Facilities Authority revenue bonds. The remaining sales were accounted for primarily by bonds issued by the California Housing Finance Authority (24 percent), the Department of Water Resources (20 percent), and the California Pollution Control Financing Authority (18 percent). Since June 1982, there have been additional revenue bond sales of approximately $1 billion. Bonds for programs administered by two agencies—the California Housing Finance Authority and the Department of Water Resources—account for over 85 percent of these sales.

Chart 20

California State Revenue Bonds
Annual Sales and Total Outstanding Volume
1973–74 through 1981–82 (in billions)[a]



[a] California State Treasurer. Data as of June 30 of each fiscal year.

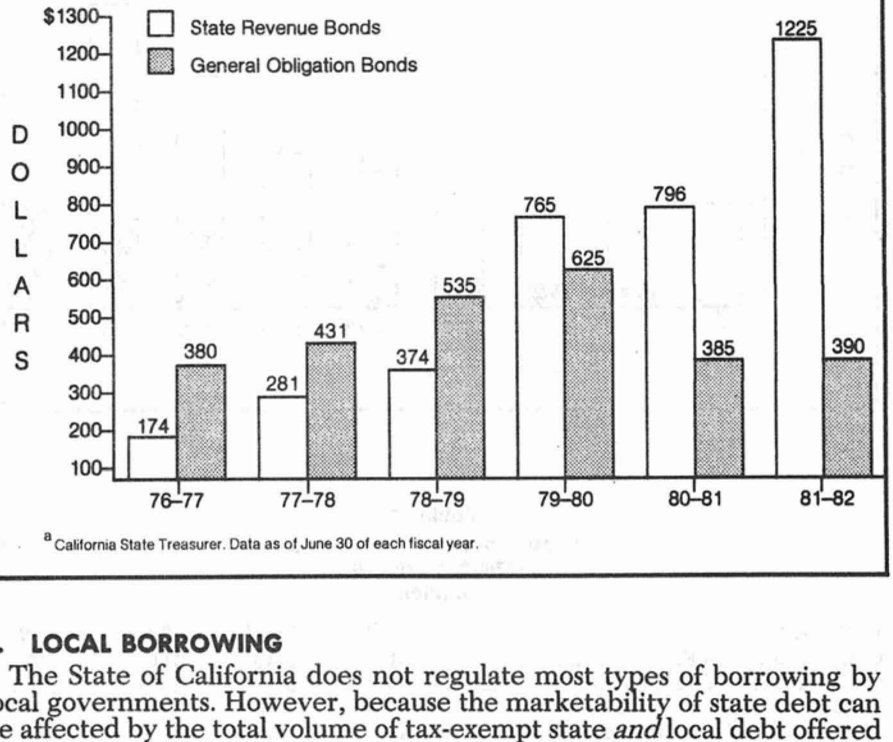
Table 47
State Revenue Bond Sales
1978–79 to 1981–82
(in millions) [a]

Issuing Agency	*1978–79*	*1979–80*	*1980–81*	*1981–82*
California Education Facilities	$12.1	$24.5	$114.7	$57.7
California Housing Finance Authority	250.0	371.7	161.8	298.9
California National Guard	—	—	25.0	—
California Pollution Control Financing Authority	107.8	44.5	165.0	217.3
Transportation Commission	—	—	25.0	25.0
Department of Water Resources	—	95.8	—	250.0
University of California Regents	4.7	25.0	—	17.8
Trustees, California State University	—	3.8	4.7	11.7
Hastings College of Law	—	—	—	7.3
Veterans Revenue Debenture	—	200.0	300.0	—
California Health Facilities Authority	—	—	—	339.6
Totals	$374.6	$765.3	$796.8	$1,225.3

[a] Source: California State Treasurer. Detail may not add to totals due to rounding.

Chart 21 compares the sales of state general obligation and revenue bonds since 1976–77. It shows that state revenue bond sales have significantly exceeded general obligation bond sales in each of the past three years. This is partly because the sale of most revenue bonds is not restricted by statutory interest rate ceilings. Because of high interest rates during recent years, these ceilings have sometimes made it difficult to sell general obligation bonds.

Chart 21
Annual Sales of State Bonds
1976–77 through 1981–82 (in millions)[a]



[a] California State Treasurer. Data as of June 30 of each fiscal year.

B. LOCAL BORROWING

The State of California does not regulate most types of borrowing by local governments. However, because the marketability of state debt can be affected by the total volume of tax-exempt state *and* local debt offered for sale, the state has an important interest in local borrowing activities. Like the state, localities engage in both long-term borrowing through the issuance of bonds, and short-term borrowing.

Local Bond Sales

Table 48 shows local bond sales for the last four years, by type of local government. The table indicates that between 1978–79 and 1981–82, the total volume of local bonds sold annually increased by approximately 39 percent. The table also indicates that most of this increase is due to the dramatic rise in housing bond sales (170 percent), especially housing bond sales by counties and local redevelopment agencies. Between 1978–79 and 1981–82, housing bonds increased from 24 percent to 47 percent of total local bond sales. In 1979–80, however, the housing bond share of the total began to stabilize, partly in response to federal legislation limiting the sale of such bonds.

Another significant development shown in Table 48 is that no bonds were issued by local school districts in 1981–82. This is because voters in school districts have not authorized any new bond issues since the passage of Proposition 13 in 1978. The remaining authorizations for bond issues approved prior to Proposition 13 apparently were expended, for the most part, by the end of 1980–81.

Table 48
Annual Local Bond Sales
1978–79 to 1981–82
(in millions) [a]

Type of Local Government	*1978–79*	*1979–80*	*1980–81*	*1981–82*
1. Counties:	$13.7	$9.0	$214.1	$372.5
Housing	(12.4)	(8.6)	(194.8)	(370.6)
Other	(1.3)	(0.4)	(19.3)	(2.0)
2. Cities:	$358.0	$488.9	$632.6	$341.2
Housing	(111.2)	(211.9)	(124.1)	(73.3)
Other	(246.8)	(277.0)	(508.5)	(267.9)
3. School districts:	$58.7	$95.9	$52.6	—
4. Redevelopment agencies:	$448.1	$1,150.4	$587.6	$741.1
Housing	(241.3)	(948.3)	(446.7)	(349.7)
Other	(206.8)	(202.1)	(140.9)	(391.4)
5. Special districts:	$623.5	$814.0	$267.8	$569.2
Housing	(—)	(—)	(27.0)	(193.4)
Other	(623.5)	(814.0)	(240.8)	(375.8)
Overall Totals [b]	$1,516.0	$2,612.8	$1,831.9	$2,110.6
Housing	*(364.9)*	*(1,168.8)*	*(792.6)*	*(987.0)*
Other	*(1,137.2)*	*(1,389.4)*	*(962.0)*	*(1,037.1)*

[a] Source: Office of Planning and Research. Data for 1981–82 compiled by Legislative Analyst. Details may not add to totals due to rounding.

[b] Overall totals include sales of special assessment bonds. Such bond sales are not included in the detail, however, because data on these sales are unavailable by type of local government prior to 1981–82. Total sales of special assessment bonds were $14 million in 1978–79, $54.6 million in 1979–80, $77.3 million in 1980–81, and $86.6 million in 1981–82.

Short-term Local Borrowing

Local governments also engage in short-term borrowing by issuing a wide variety of secured and unsecured debt instruments. These include, among others, tax anticipation notes, revenue anticipation notes, certificates of participation, and tax-exempt commercial paper. The volume of such short-term borrowing, although not known with certainty, has significantly increased in recent years. Based on currently available data, it appears that the various levels of local government in California issued over $1.2 billion in short-term debt obligations during 1981–82 alone.

C. COMBINED USE OF BONDS BY STATE AND LOCAL GOVERNMENTS

Combined state and local borrowing undertaken in recent years is shown in Table 49. Between 1977–78 (the first year for which we have been able to obtain relatively complete data on local government bond sales) and 1979–80, the annual volume of state and local bond sales in California increased by $1,431 million, or 56 percent. The largest relative increase was in the volume of state revenue bonds sold annually, which increased by more than 170 percent. Although the outstanding volume of local bond sales remained much larger than combined state sales during this period, annual sales by the state grew much faster than local sales.

Table 49
Annual Sales of State and Local Bonds
1975–76 to 1981–82
(in millions)

		State of California[a]			
	Total All Bonds	*Total State*	*General Obligation*	*Revenue*	*Local Bonds*[b]
1975–76	N/A	$412	$295	$117	N/A
1976–77	N/A	554	380	174	N/A
1977–78	2,572	712	431	281	$1,860
1978–79	2,421	905	535	370	1,516
1979–80	4,003	1,390	625	765	2,613
1980–81	3,013	1,181	385	796	1,832
1981–82	3,726	1,615	390	1,225	2,111

[a] Source: California State Treasurer.
[b] Source: Office of Planning and Research. Data on local bond sales unavailable for years before 1977–78. Data for 1981–82 compiled by Legislative Analyst.

In 1980–81, however, a sharp break occurred in the upward trend of bond sales. Total state and local sales fell by 25 percent, or more than $1 billion, from the previous year's level. This reflected a 17 percent decline in sales by the state, and a 30 percent decline in local sales. In the state's case, the decline was due to a 38 percent drop in general obligation bond sales, and an essentially flat level of revenue bond sales. This drop in bond sales reflected unusually negative conditions in the municipal markets during 1981—chief among them being exceptionally high interest rates.

In 1982, the municipal bond market improved somewhat and, as a result, bond sales in 1981–82 reached more than $3.7 billion. Although this level was still below that of 1979–80, it represented a 24 percent increase over the level of sales in 1980–81. Of the increase in total state and local bond sales between 1980–81 and 1981–82—$713 million—about 60 percent was due to increased sales of state revenues bonds ($429 million). State general obligation bond sales, in contrast, were essentially flat, while local bond sales rose by $279 million.

Housing Bonds Sales

Table 50 and Chart 22 show the sale of state and local housing and nonhousing bonds. From 1977–78 through 1979–80, combined state and local housing bond sales increased 439 percent. Local housing issues showed the largest increase—over 1,100 percent. In contrast, nonhousing bonds declined by 19 percent during this same period. In 1980–81, the volume of both state and local housing bonds dropped by 26 percent, with about two-thirds of the decline due to local housing bond sales. In 1981–82, the total volume of housing bonds fell slightly. However, as a share of total sales, housing bonds fell significantly, from 55 percent in 1980–81 to 39 percent in 1981–82. Nonetheless, the share of state and local bonds that are sold to finance housing is still considerably higher than what it was in 1977–78 (16 percent).

Table 50
California State and Local Bond Sales
1977–78 to 1981–82
(in millions) [a]

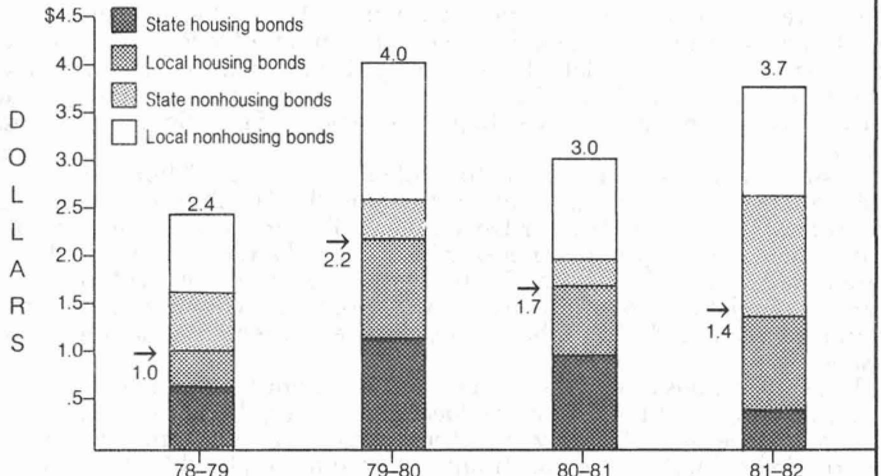
	1977–78	*1978–79*	*1979–80*	*1980–81*	*1981–82*
State Bonds:					
Housing	$322.4	$625.0	$1,071.7	$861.8	$448.9
Nonhousing	396.2	250.5	303.0	310.2	1,166.1
Subtotals	$718.6	$875.5	$1,374.7	$1,172.0	$1,615.0
Local Bonds:					
Housing	$93.2	$364.9	$1,168.8	$792.6	$987.0
Nonhousing [b]	1,766.9	1,151.1	1,444.0	1,039.3	1,123.6
Subtotals	$1,860.1	$1,516.0	$2,612.8	$1,831.9	$2,110.6
State and Local Bonds:					
Housing	$415.6	$989.8	$2,240.5	$1,654.4	$1,435.9
Nonhousing	2,163.1	1,401.7	1,747.0	1,349.5	2,289.7
Totals	$2,578.7	$2,391.5	$3,987.5	$3,003.9	$3,725.6

[a] Source: Office of Planning and Research. State bond totals for 1978–79 through 1980–81 differ slightly from those reported by California State Treasurer. Local bond data for 1981–82 compiled by Legislative Analyst.

[b] Includes sales of special assessment bonds.

Chart 22

California State and Local Bond Sales Highlighting Housing Bonds 1978–79 through 1981–82 (in billions) [a]



[a] Office of Planning and Research as published in "Mortgage Revenue Housing Bonds California's 1980 Frenzy", November 1980, updated through June 1982 using data from Office of Planning and Research Data as of June 30 of each fiscal year

This rise in housing bond sales in recent years is attributable to several factors:

- The Zenovich-Moscone-Chacon Housing and Home Finance Act (Chapter 1, First Extraordinary Session, Statutes of 1975) established the California Housing Finance Agency and authorized a total outstanding amounts of up to $1.5 billion in tax-exempt state revenue bonds. As of December 31, 1981, almost all of this authorization had been used, as $1,447 million in bonds were outstanding under this program. Effective January 1, 1983, the authorization was increased by $350 million, to $1.85 billion.
- Ch 1069/79 (AB 1355) authorized local housing finance agencies to sell tax-exempt revenue bonds in order to finance low-interest loans for low and moderate income housing. There is no statutory limit on the amount of bonds that may be issued under this program, although the State Housing Bond Credit Committee has the authority to review, disapprove, and/or reduce bond issues.

Future Housing Bond Growth

Both the state and federal governments have expressed concern about the rapid growth in the sale of housing revenue bonds, primarily out of fear that such bonds will increase the interest costs and limit the market for other tax-exempt bonds sold for more traditional public purposes. These traditional purposes include the financing of highway projects, new prisons, water projects, and so forth.

In December 1980, the U.S. Congress decided to stem the growth in housing bonds by enacting the Mortgage Subsidy Bond Act of 1980. This act restricts the use of these bonds, and eliminates their tax-exempt status when sold to finance single-family housing, beginning December 31, 1983. The threat of federal action and uncertainty about what its exact form might be, had caused a dramatic rise in the number of local housing bond issues proposed during late 1980. During this period, in fact, the State Housing Bond Credit Committee recommended postponement of several local housing bond sales in order to prevent a flood of issuances to the bond market.

Passage of the act also helps to explain why housing bond sales for 1980–81 as a whole dropped off so dramatically. Specifically, there was considerable uncertainty after December 1980 as to the conditions under which the tax-exemption for housing bonds issued after that date could be disallowed, due to the failure of housing agencies to comply with the act's various regulations governing use of bond proceeds. This uncertainty was removed after mid-1981, when more detailed federal regulations were issued.

In 1981–82, housing bond sales declined somewhat, both in dollar terms and as a percent of total state and local government bond sales. Between now and December 1983, however, there could be a resurgence of housing bond sales, subject to the constraints on volume imposed by the federal government, and assuming that conditions in the financial markets will permit bonds to be sold at reasonable interest rates. Beyond December 1983, however, the rate of growth in housing bonds will be less, because the tax-exemption for issues used to finance single-family home purchases will be eliminated. We are not able to say how much this might reduce interest rates for other tax-exempt state and local debt.

D. PROBLEMS AND POLICY ISSUES

In last year's *Analysis,* we discussed a number of problems and questions regarding the use of debt, especially tax-exempt bonds, by state and local governments. We also indicated that given the importance of this subject area, we would prepare a report on the topic of debt financing. This report, entitled *The Use of Tax-Exempt Bonds in California: Policy Issues and Recommendations,* (Report #82-20), was published in December 1982. The report provides an extensive discussion of the nature of state and local tax-exempt bond markets, current problems facing the bond markets, and policy issues regarding the use of tax exempt bonds in California. In addition, the report offers a variety of recommendations to the Legislature regarding the use of tax-exempt bonds. These policy issues and our major recommendations are discussed in some detail in Part III.

V. THE STATE'S WORKFORCE

A. CHANGES IN THE CURRENT YEAR

As Table 51 and Chart 23 show, the Governor's Budget proposes a state government workforce of 232,370 personnel-years for 1983–84. The four largest components of this total are 93,334 personnel-years (40 percent) in Higher Education, 40,764 personnel-years (18 percent) in Health and Welfare programs, 33,530 personnel-years (14 percent) in Business, Transportation and Housing programs and 17,053 personnel-years (7 percent) in Youth and Adult Correctional programs.

Chart 23
Personnel-Years by Function 1983–84

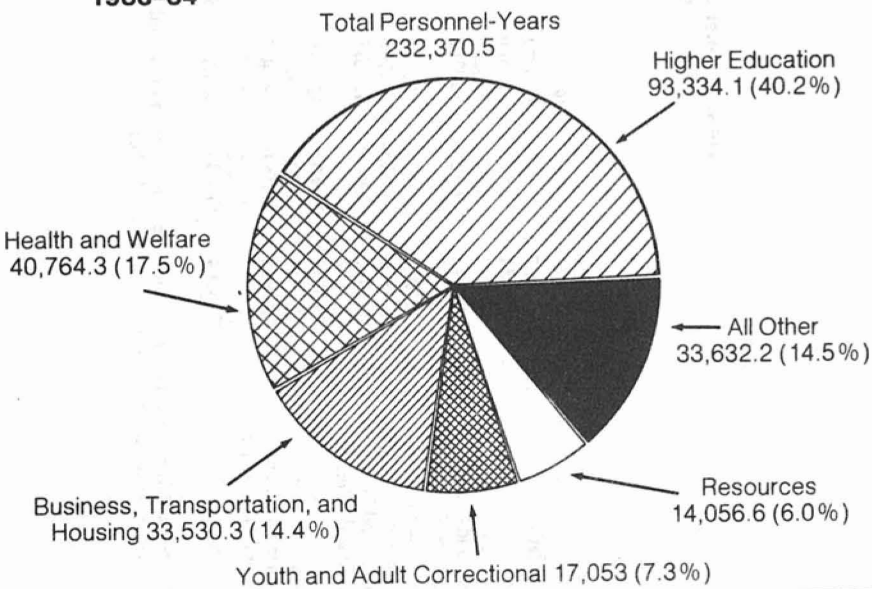


Table 51
Total Number of State Employees, by Function
(in personnel-years)
1977–78 through 1983–84

	1977–78	*1978–79*	*1979–80*	*1980–81*	*1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*1983–84 Over 1982–83 Change*		*1983–84 Over 1977–78 Change*	
								Number	*Percent*	*Number*	*Percent*
Legislative	327.7	338.1	337.4	332.6	351.1	399.5	399.5	—	—	71.8	21.9%
Judicial	972.7	989.7	1,051.0	1,083.7	1,090.1	1,192.5	1,301.5	109.0	9.1%	328.8	33.8
Executive	7,349.5	7,247.7	7,325.3	7,716.0	7,977.1	8,149.3	7,968.7	−180.6	−2.3	619.2	8.4
State and Consumer Services	10,784.2	10,402.7	10,671.3	11,023.2	11,325.3	11,996.6	12,175.5	178.9	1.4	1,391.3	12.9
Business, Transportation and Housing	32,327.8	30,867.6	31,293.4	31,955.0	31,859.4	32,968.4	33,530.3	561.9	1.7	1,202.5	3.7
Resources	14,192.5	14,167.9	13,779.5	13,889.2	14,373.0	14,565.9	14,056.6	−509.3	−3.5	−135.9	−1.0
Health and Welfare	39,531.8 [a]	40,460.9	42,325.2	43,320.7	41,589.7	42,930.5	40,764.3	−2,166.2	−5.1	1,232.5	3.1
Youth and Adult Correctional	12,613.2 [a]	12,805.6	12,548.6	13,118.3	13,934.6	15,974.6	17,053.0	1,078.4	6.7	4,439.8	35.2
K–12 Education	2,673.7	2,650.3	2,665.0	2,746.5	2,796.1	2,941.1	2,851.6	−89.5	−3.1	177.9	6.7
Higher Education	92,394.6	90,152.0	89,840.5	91,629.8	93,988.5	92,971.7	93,334.1	362.4	0.3	939.5	1.0
General Government	8,173.7	8,447.6	8,355.3	8,752.4	9,528.5	9,296.6	8,935.4	−361.2	−3.9	761.7	9.3
Totals	221,341.4	218,530.1	220,192.5	225,567.4	228,813.4	233,386.7	232,370.5	−1,016.2	−0.5%	11,029.1	5.0%

[a] Youth and Adult Correctional programs were included in the Health and Welfare totals prior to 1978–79. Youth and Adult Correctional total in 1977–78 includes the Departments of Corrections and Youth Authority.

The size of the state's workforce proposed for 1983–84 is 1,016 personnel-years, or 0.5 percent, below the estimated number of personnel-years in 1982–83. The reduction reflects significant decreases in staffing for Health and Welfare (−2,166) and Resources (−509) programs, and a significant increase in staffing for Youth and Adult Correctional programs (1,078).

Health and Welfare

The largest staffing changes are proposed for this program area, a reduction of 2,166 personnel years, or 5 percent. Within this area, the largest single staffing reduction proposed in the budget year is a decrease of 1,506 personnel years in the Employment Development Department. A significant part of this reduction (1,170 personnel-years) is a result of an anticipated upturn in the economy, which will reduce the workforce necessary to process unemployment claims. The remaining reduction of 337 personnel-years, and a related decrease of 142 personnel-years in the Department of Rehabilitation, reflect anticipated declines in federal support. The budget also proposes significant personnel reductions in the following departments:

- Health Services, reflecting the proposed establishment of the state public health block grant,
- Social Services, reflecting the proposed elimination of family day-care licensing, and
- Developmental Services, reflecting caseload adjustments.

Resources

The budget proposes to reduce resources staffing by 509 personnel-years in 1983–84, a reduction of 3.5 percent from the estimated current-year levels. The major components of this reduction are decreases in the Energy Resources Conservation and Development Commission (−164), the Department of Parks and Recreation (−133), the California Conservation Corps (−48), the California Coastal Commission (−41), and the Air Resources Board (−30). Most of these reductions are associated with changes in service levels under various resources programs.

Youth and Adult Correctional

The budget proposes to increase Youth and Adult Correctional Agency staffing by 1,078 personnel-years in 1983–84, an increase of 6.7 percent. This is a net figure which reflects a special workload adjustment of 1,200 personnel-years in the Departments of Corrections and Youth Authority. However, because specific plans for operating and staffing temporary facilities to house the increased caseload have not been provided, and because the departments themselves did not request these new positions, we have no information on the allocation of the new caseload positions between the two departments.

Business, Transportation and Housing

The budget proposes to increase the workforce in these programs by 562 personnel-years in 1983–84, or by 1.7 percent. The most significant changes are increases of (1) 344 personnel-years for the California Highway Patrol, primarily to augment the number of traffic offices, and (2) 380 personnel years for the Department of Motor Vehicles, primarily to fund increased workload in vehicle registration and for issuance of reflectorized license plates. The budget also proposes significant personnel-year reductions in the Departments of Corporations and Transportation.

All Other

The Governor's Budget also proposes a number of other significant changes in staffing for 1983–84. These include increases for the Judiciary (94), the Department of Consumer Affairs (102), the University of California (252), and the California State University and Colleges (106), and decreases for the Department of Education (−83), the Agricultural Labor Relations Board (−58), and the Department of Industrial Relations (−214).

B. HISTORICAL CHANGES

Ratio of State Workers to Total Population Declines

Table 52 shows that between 1977–78 and 1983–84, California's population will have increased by 11.8 percent, and state operations expenditures, adjusted for inflation, will have increased by 12.2 percent. Both of these increases are larger than the growth in the state's workforce during the same period—5 percent. As a result, the ratio of state employees to the state's population has declined by 6 percent, or the equivalent of 15,000 state employees.

Table 52
Ratio of the State's Workforce To Total Population 1977–78 to 1983–84

	State Workforce (in thousands)	*California's Population (in thousands)*	*State Workforce As Percent of Total Population*	*State Operations Expenditures In Constant Dollars (in millions)* [a]
1977–78	221.3	22,600	0.979%	$3,758
1978–79	218.5	23,049	0.948	3,606
1979–80	220.2	23,534	0.936	4,024
1980–81	225.6	23,993	0.940	4,335
1981–82	228.8	24,423	0.937	4,235
1982–83	233.4	24,846	0.939	4,256
1983–84	232.4	25,263	0.920	4,217
Percentage Change (1977–78 to 1983–84)	5.0%	11.8%	−6.0%	12.2%

[a] Includes General Fund and special fund expenditures adjusted for inflation with 1977–78 as the base year.

Correctional Staffing Accounts for Major Share of Total Increase.

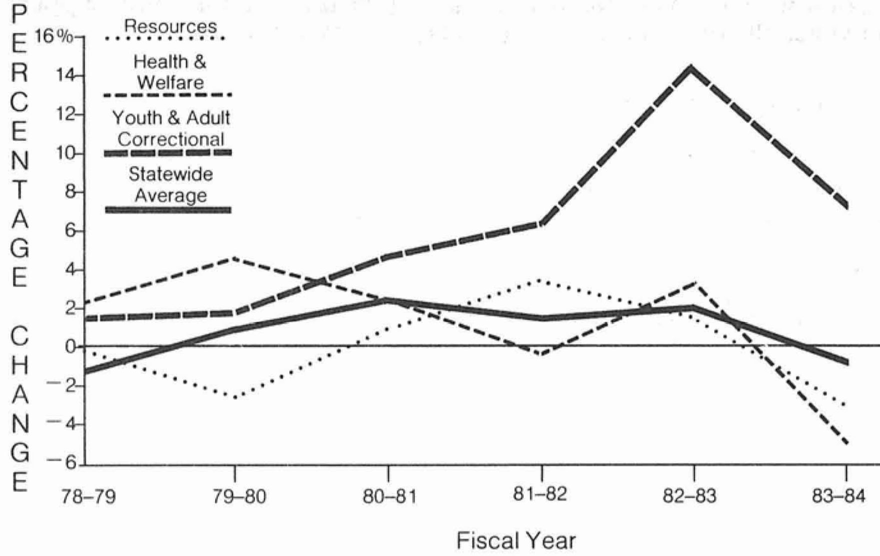
Overall, the state's workforce has increased by 11,029 since 1977–78. As Chart 24 shows, the *largest* percentage increases have occurred in Youth and Adult Correctional programs. These programs account for 40 percent (4,440 personnel-years) of the total increase. Increases in other programs areas are as follows: State and Consumer Services (1,391, or 12.6 percent of the total increase), Health and Welfare (1,232, or 11.2 percent), and Business, Transportation and Housing (1,202, or 10.9 percent). The only overall reduction since 1977–78 occurs in Resources (−136 personnel-years), largely as a result of decreases proposed for the budget year.

The primary components of the increases in staffing that have occurred since 1977–78 are described below:

Chart 24

Annual Percentage Change in Personnel-Years

1977–78 through 1983–84



- The increases in *Youth and Adult Correctional* are due to increased prison populations during the past two years. These increases are being funded primarily from the state's General Fund.
- Increases in *Business, Transportation and Housing* have occurred mainly in the Department of Transportation (270 personnel-years), the California Highway Patrol (327 personnel-years), and the Department of Motor Vehicles (236 personnel-years), none of which are General Fund supported agencies.
- Increases in *State and Consumer Services* can be attributed to (1) the creation of the Department of Fair Employment and Housing (257 personnel-years in 1983–84), (2) growth in the Franchise Tax Board (273 personnel-years), due to increased workload and the expansion of audit staff, and (3) a significant increase in the Department of Consumer Affairs (470 personnel-years, or 37.3 percent), due primarily to additional staff in the Bureau of Automotive Repair and the Contractors State License Board.

As Table 51 shows, increases over the period from 1977–78 to 1983–84 in all other departments (excluding the legislative, judicial, and executive branches) range from 3 percent to 7 percent. These increases reflect a normal growth in workload. Increases in general government are attributable primarily to the creation and expansion of small agencies.

C. GENERAL FUND SHARE OF STATE WORKFORCE UNKNOWN

Because no requirement exists for statewide tabulations of personnel-years by funding source, it is impossible to distinguish staff supported from the General Fund from those supported by special funds. In some instances, programs are totally supported by *either* the General Fund *or* special funds, and in these cases it is easy to identify the funding source for personnel. In many cases, however, the funding of personnel-years cannot be directly correlated to funding source. Using the limited information which is available, we estimate that the General Fund supports between 50 and 60 percent of the state's workforce.