approximately the same level of savings in the current and budget year. For this reason, the budget estimates that current-year expenditures will be $33 million dollars less than what was projected one year ago.

The budget proposes an appropriation of $447 million for Renters' Tax Relief in 1984–85. This is an increase of $15.8 million, or 3.7 percent, over estimated current-year expenditures. Our analysis indicates that the proposed level of funding is justified, and we recommend that it be approved.

SUBSTANDARD HOUSING

Item 9100-101 (h) from the General Fund — Budget p. GG 167

Requested 1984–85	$98,000
Estimated 1983–84	70,000
Actual 1982–83	36,000
Requested increase 28,000 (+40 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Substandard Housing program provides funds to local agencies for the support of housing code enforcement and rehabilitation activities.

Assembly Bill 475 (Ch 238/74) disallows certain income tax deductions for rental housing that has been found to be in violation of state or local housing codes. Assembly Bill 3515 (Ch 1286/78) provides that the additional tax revenues generated by Ch 238/74 are to be transferred from the General Fund to the Local Agency Code Enforcement and Rehabilitation Fund (LACERF). These funds are distributed by the State Controller to the cities and counties in which the properties found to be in violation of the state or local housing codes are located. Local agencies use these funds for code enforcement activities, housing rehabilitation, and related activities.

Generally, two fiscal years elapse between the time when housing code violations are reported and when the additional tax revenues generated by these violations are distributed to local governments. Table 1 presents information on program activity between 1980–81 and 1982–83.

Table 1
Substandard Housing Program Activity
1980–81 through 1982–83

	1980–81	*1981–82*	*1982–83*	*Percent Increase*
Number of noncompliance notices received	244	386	470	22%
Number of local agencies submitting notices	10	16	16	0
Revenue collected	$81,479	$110,440	$138,000	25

Source: Franchise Tax Board.

SUBSTANDARD HOUSING—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes that $98,000 be transferred from the General Fund to the LACERF in 1984–85 under the Substandard Housing program. This amount represents the actual revenues generated through the disallowance of deductions during the 1982–83 fiscal year, minus FTB's projected costs ($40,000) for administering this program. The request is justified, and accordingly, we recommend approval.

PAYMENT OF INTEREST ON GENERAL FUND LOANS

Item 9620 from the General Fund — Budget p. GG 177

Requested 1984–85	$35,000,000
Estimated 1983–84	70,000,000
Actual 1982–83	56,100,000
Requested decrease $35,000,000 (–50 percent)	
Total recommended decrease	34,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Borrowing Plan. Reduce Item 9620-001-001 by $34,000,000.*** Recommend reduction because it is in the state's financial interest to meet General Fund short-term cash needs primarily through external borrowing (which can be financed through the continuing appropriation authority provided under Section 17293 of the Government Code), rather than through internal borrowing. (Net General Fund gain: $55 million.) 2141
2. External borrowing authority. Recommend adoption of legislation to permanently authorize short-term borrowing authority. 2142

GENERAL PROGRAM STATEMENT

Whenever cumulative cash disbursements exceed cumulative incoming revenues, the General Fund must borrow monies to cover these disbursements. This borrowing, which is done on a short-term basis, often requires the payment of interest. Two sources of funds are available to the state's General Fund to meet its short term cash needs.

Internal borrowing sources. These include the Pooled Money Investment Account (PMIA), the Reserve for Economic Uncertainties, and Special Fund accounts. The PMIA is made up of all temporary surplus cash in the General Fund, other state funds, and the Local Agency Investment Fund. The funds are invested in a range of instruments, such as time deposits, government securities, and banker's acceptances. The interest earnings are distributed to the various funds, based on the percentage that each fund comprises of the total pool. When the state borrows from the account, it must pay interest at a rate equal to the average rate being earned by the PMIA.

The Reserve for Economics Uncertainties also provides the General Fund with a source of borrowable funds. These funds can be borrowed interest-free—that is, when the General Fund borrows from the reserve, it does not incur a cost for interest. The General Fund also can borrow a limited amount from special funds on an interest-free basis. When monies in the reserve and in these special funds are not loaned to the General Fund, they are invested through the PMIA.

External borrowing sources. Ch 10x/83 (AB28x) authorizes the General Fund to borrow from external sources either by issuing short-term borrowing instruments or "State of California" notes. The second type of instrument—State of California notes—is issued to provide funds for payment of registered warrants drawn by the Controller. The aggregate amount of these instruments outstanding cannot exceed 10 percent of General Fund revenues.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $35,000,000 in 1984–85 for the payment of interest on General Fund loans. This is 50 percent less than the amount appropriated for this item in the current year. This decline is based on the Department of Finance's expectation that the General Fund's short-term borrowing needs will be substantially less in 1984–85, and therefore interest costs will be lower.

ANALYSIS AND RECOMMENDATIONS

During the 1983 special legislative session, the Legislature enacted AB 28x (Ch 10x/83) which (1) allows the Pooled Money Investment Account Board to authorize the Treasurer to secure short-term *external* loans (that is, loans from non-state or private sources), and (2) provides a continuing appropriation to finance the new borrowing authority. Later on, in the 1983 Budget Act, the Legislature also directed the Department of Finance to "satisfy any need of the General Fund for borrowed funds in a manner consistent with the Legislature's objective of obtaining the lowest possible rate of interest on this borrowing."

The lowest possible rate of interest available to the state is the rate on *external* borrowing of the type authorized in AB 28x. Clearly, the Legislature intended that the Department of Finance rely to a greater extent on the short-term borrowing authority provided in AB 28x to secure external funds at lower interest rates.

Administration Has Not Increased Its Use of Short-Term Borrowing Authority

As yet, the administration has not used the external borrowing authority provided in AB 28x to supplant loans from the PMIA as the primary means of meeting the General Fund's short-term cash needs. In part, this is due to delays in validating the new borrowing authority. Because the state has not undertaken this form of external short-term borrowing in the past, the new authority must be validated—declared "legal" by a court decision. In 1983, the PMIA Board authorized the Treasurer to issue short-term borrowing notes and the Treasurer refused. The PMIA Board brought a "friendly suit" against the Treasurer for not complying with the request, thus forcing the matter into the courts for validation. The case currently is awaiting a decision in the 3rd District Court of Appeals, and a decision validating the new mechanism is expected in late February 1984.

Consequently, we see no obstacle to meeting the General Fund's short-term borrowing needs in 1984–85 through external borrowing of the type

PAYMENT OF INTEREST ON GENERAL FUND LOANS—Continued

authorized by AB 28x. The administration, however, proposes to undertake external borrowing on only a very limited basis. The administration plans to continue relying on internal borrowing, and resort to external borrowing only when sufficient funds are not available internally. Specifically, the budget proposes to borrow from external sources on just two occasions during 1984–85—during one month in which fewer "interest-free" sources are available, and during another month when borrowing needs are particulary high.

This borrowing plan is *very costly.* First, external loans can be obtained at rates much lower than rates carried on PMIA loans. Second, "interest-free" loans from internal sources are *not* really "free," because the use of these funds means that the state will have to forego a significant amount of *interest earnings.*

Comparison of Short-Term Borrowing Plans

External borrowing is less costly than internal borrowing primarily because of one reason: the state can lend money at a higher rate than the rate at which it borrows. This is because when the General Fund borrows externally, it does so at *tax-exempt* interest rates, whereas when it borrows internally it does so, in effect, at *taxable* interest rates—regardless of whether interest is actually charged—since most of the states' idle funds are invested in taxable securities. In 1983–84, the rate on internal PMIA borrowing averaged 10.47 percent, while external loans could have been secured at rates of approximately 6 percent (including issuance costs).

Table 1
Comparison of Short-Term Borrowing Plans for 1984–85 (in millions)

Interest Expense	*Administration's Proposal*	*Analyst's Recommendation*	*Effect of Recommendation on Surplus*
Internal Borrowing	$31	—	+$31
External Borrowing	4	$81	−77
Total	$35	$81	−$46
Interest Earnings	—	101	+101
Net Cost of Borrowing	$35	−$20	$55

Because external loans carry lower interest rates, the state's borrowing plan should emphasize external borrowing. This is illustrated by Table 1, which compares the net borrowing cost of the administration's borrowing plan, which relies on internal borrowing, with the costs under an alternative plan that we recommend, which relies on external borrowing.

The table shows that the external borrowing has higher interest expenses, so that *expenditures* for payment of interest would be increased by $46 million. External borrowing, however, also would result in an increase in the state's interest income of $101 million. Thus, the state is considerably "better off" under this alternative, relative to the administration's plan—better off by $55 million.

Another way of looking at the same data is in terms of the net cost of borrowing. Under the administration's plan, net borrowing costs are $35 million. Under the alternative, gross borrowing costs of $81 million are more than *offset* by additional earnings of $101 million. Thus, under the alternative, it "costs" the General Fund *minus* $20 million to borrow. In other words, the state comes out ahead by borrowing!

Interest Expenses. There are two primary reasons why interest expenses under external borrowing are higher. First, more borrowing is done from sources that charge interest. This is because, under the external borrowing proposal, funds that were borrowed "interest-free" from the reserves are replaced by external loans that require interest payments.

Second, funds from external sources generally must be borrowed earlier and for a longer period of time than internal funds. This is because internal borrowing can take place immediately from reserves or the PMIA, and funds can be borrowed for the exact length of time that they are needed. External funds, on the other hand, take longer to secure *and* are borrowed for a definite period of time, which may be longer than the immediate cash needs period. Thus, under external borrowing (1) more funds are secured initially in order that they are available when needed, and (2) funds are borrowed for a longer period. This results in higher interest expenses.

Interest Earnings. These higher interest expenses associated with external borrowing, however, are more than offset by interest earnings. These earnings represent the interest that the internal funds earn for the General Fund by *remaining* in the PMIA.

Additional interest earnings also result from the fact that externally borrowed funds may be temporarily idle, and thus available for investment in the PMIA. As mentioned earlier, external funds may be borrowed for a longer period than they are needed. Hence, when they are not needed, they can remain in the PMIA and earn interest. At such times, the interest earned on these funds exceeds the cost of the interest which must be paid for this borrowing.

A Wiser Borrowing Plan

We recommend that the Legislature reduce Item 9620-001-001 by $34,000,000 because it is in the state's financial interest to meet General Fund short-term cash needs primarily through external borrowing (which can be financed through the continuing appropriation provided by Section 17293 of the Government Code).

As discussed above, the state would clearly come out ahead by borrowing primarily from external, rather than internal, sources to meet the General Fund's short-term cash needs. For this reason, we believe that the administration should borrow more funds *externally* to finance the cash-flow requirements of the General Fund in 1984–85. To the extent that the state borrows more from external sources, the amount needed under this item is reduced. Any funds required to pay debt service on external borrowing would be provided by the continuing appropriation provided under Section 17293 of the Government Code, which authorizes the temporary external borrowing.

There still may be a need, however, for the General Fund to borrow from internal sources from time to time. Therefore, some funds should be appropriated under this item to give the administration flexibility to respond to unanticipated cash-flow needs. We estimate that $1,000,000 should provide sufficient resources for the General Fund to pay interest on any borrowing that must be done from internal sources. In addition, including this appropriation in the Budget Bill would make a deficiency appropriation possible should $1,000,000 not provide sufficient resources

PAYMENT OF INTEREST ON GENERAL FUND LOANS—Continued

in a given month. Accordingly, we recommend a reduction of $34,000,000 from this item, for a net gain to the General Fund of $55 million.

External Borrowing Authority to Expire

We recommend that the Legislature adopt legislation that will permanently extend the temporary external borrowing authorizations provided under Ch 10x/83, which is scheduled to expire on June 30, 1985.

The statute that authorizes external borrowing will expire on June 30, 1985. We believe, however, that the availability of the external borrowing mechanism authorized in Ch 10x/83 should become permanent, given that it clearly represents the most financially advantageous means of securing funds to meet cash flow needs on a short-term basis. Thus, we recommend that legislation be enacted to authorize, on a permanent basis, the short-term external borrowing authority provided under Ch 10x/83.

HEALTH BENEFITS FOR ANNUITANTS

Item 9650 from the General Fund — Budget p. GG 185

Requested 1984–85	$89,965,000
Estimated 1983–84	88,817,000
Actual 1982–83	68,120,000
Requested increase $1,148,000 (+1.3 percent)	
Recommendation pending	$89,965,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Funding for Premium Increase. Withhold recommendation, pending determination of the actual increase in health and dental insurance premiums.	2143

GENERAL PROGRAM STATEMENT

This appropriation provides the state's contribution toward monthly health and dental insurance premiums for annuitants of retirement systems to which the state contributes as an employer. These systems are the Judges', Legislators', Public Employees', and State Teachers' Retirement Systems. For the latter two systems, the health insurance premium contribution is made only on behalf of retired *state* employees.

This program offers a degree of post-retirement security for employees and their dependents by paying one of the following amounts toward the monthly premium of a state-approved health insurance plan: (1) $76 for the annuitant only, (2) $148 for an annuitant with one dependent, and (3) $185 for an annuitant with two or more dependents. These contribution levels were authorized by Ch 1258/83, and became effective July 1, 1983.

This appropriation also provides the state's contribution for dental insurance premiums for annuitants of the Judges', Public Employees', and State Teachers' Retirement Systems. The dental care monthly premiums vary with the specific plan and the number of dependents covered under the plan. The monthly premium of a state-approved dental insurance plan ranges from a low of $8.84 for the annuitant only to a high of $26.50 for an annuitant with two or more dependents. The average monthly premium is $17.12. These contribution levels became effective in August 1983.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $89,965,000 from the General Fund for payment of health and dental insurance premiums in 1984–85. This is $1,148,000, or 1.3 percent, more than estimated current-year expenditures. The increase is attributable only to the projected growth in the number of annuitants.

The proposed appropriation for the payment of health insurance premiums is $82,406,000. This is $519,000, or 0.6 percent, more than estimated 1983–84 expenditures. The proposed dental insurance premium appropriation is $7,559,000, which is $629,000 or 9.1 percent, more than estimated current-year expenditures. The increases in the number of annuitants and state costs for the health and dental care programs are shown in Table 1 and Table 2, respectively.

The state contributions for these programs are paid initially from the General Fund. Special fund agencies are assessed pro rata charges for their retired employees, which are then credited to the General Fund. Approximately 30 percent of the state's contribution is recovered from the special fund agencies.

ANALYSIS AND RECOMMENDATIONS

Premium Cost Increase Not Budgeted

We withhold recommendation on this item, pending receipt of information from the Public Employees' Retirement System and the Department of Personnel Administration on the increases in health insurance and dental insurance premiums that will become effective for the budget year.

Government Code Section 22825.1 expresses legislative intent that the state pay an average of 100 percent of *health* insurance costs for active employees and annuitants, and 90 percent of *health* insurance costs for the dependents of employees. As premium costs for this insurance rise, the state's contribution also must increase proportionally if the state's designated contribution rates are to be maintained.

The State Employees' Dental Care Act (Government Code Section 22952) does not stipulate the same intent as that set forth in Section 22825.1.

The amount proposed in the 1984–85 budget for this item does not provide for any increase in health or dental insurance premiums. At the time this *Analysis* was prepared, the Public Employees' Retirement System (PERS) anticipated a health insurance premium increase of about 17 percent for 1984–85. The PERS advised us that it based its estimate of the premium rate increase primarily on the following factors:

- General cost increases of 10 to 20 percent annually for medical care and hospital care.
- Increased usage of highly expensive, technologically advanced equipment, for purposes such as caring for premature babies, treating patients with kidney ailments and treating certain types of cancer.
- Increased average age of state employees and annuitants.

The precise amount of any increase in health insurance premiums will not be known until May or June 1984, when the new premiums are adopted.

Table 1
Health Benefits
Annuitants and Costs

Retirement System	Number of Annuitants: Actual 1982–83	Number of Annuitants: Estimated 1983–84	Number of Annuitants: Projected 1984–85	Number of Annuitants: Change Amount	Number of Annuitants: Change Percent	State Costs (thousands): Actual 1982–83	State Costs (thousands): Estimated 1983–84	State Costs (thousands): Projected 1984–85	State Costs (thousands): Change Amount	State Costs (thousands): Change Percent
Judges'	460	483	507	24	5.0%	$618	$690	$761	$71	10.3%
Legislators'	94	96	98	2	2.1	122	132	142	10	7.6
Public Employees'	52,116	55,792	59,727	3,935	7.1	61,581	80,708	81,119	411	0.5
State Teachers'	284	290	295	5	1.7	330	357	384	27	7.6
Totals	52,954	56,661	60,627	3,966	7.0%	$62,651	$81,887	$82,406	$519	0.6%

Table 2
Dental Benefits
Annuitants and Costs

Retirement System	Number of Annuitants: Actual 1982–83	Number of Annuitants: Estimated 1983–84	Number of Annuitants: Projected 1984–85	Number of Annuitants: Change Amount	Number of Annuitants: Change Percent	State Costs (thousands): Actual 1982–83	State Costs (thousands): Estimated 1983–84	State Costs (thousands): Projected 1984–85	State Costs (thousands): Change Amount	State Costs (thousands): Change Percent
Judges'	337	366	384	18	4.9%	$55	$69	$74	$5	7.2%
Public Employees'	34,488	38,648	41,353	2,705	7.0	5,399	6,840	7,466	626	9.2
State Teachers'	90	102	104	2	2.0	15	21	19	−2	−9.5
Totals	34,915	39,116	41,841	2,725	7.0%	$5,469	$6,930	$7,559	$629	9.1%

The Department of Personnel Administration anticipates a 15 percent premium increase for dental care. The precise amount of any premium increase and the extent to which this increase will affect the state's and annuitant's contribution rates will not be known until May or June 1984, when the new premiums are adopted.

The state's contribution rates toward health and dental insurance for active state employees are negotiable under collective bargaining. Therefore, the Legislature may want to consider any changes in health and dental insurance premiums for active employees, made during collective bargaining negotiations, prior to adjusting contribution rates for annuitants.

STATE-MANDATED LOCAL PROGRAMS

Item 9680 from the General Fund and the Restitution Fund — Budget p. GG 188

Requested 1984–85	$82,042,000
Estimated 1983–84	73,362,000
Actual 1982–83	92,886,000
Requested increase (excluding amount for salary increases) $8,680,000 (+11.8 percent)	
Total recommended reduction	1,250,000
Recommendation pending	400,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
9680-101-001	State-Mandated Local Programs	General	$81,887,000
9680-101-214	State-Mandated Local Programs	Restitution	155,000
Total			$82,042,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Judicial Arbitration. Reduce Item 9680-101-001 by $1,250,000.*** Recommend deletion of funds for Ch 743/78 because program has not proved to be cost-effective. 18
2. Voter Registration File Purge. Recommend the Department of Finance explain the lack of funding for Ch 1401/76, Ch 780/77, and Ch 3/78. 131
3. Local Coastal Program. Withhold recommendation, pending receipt of further information from the Coastal Commission. 682
4. Block Grant Funding. Recommend that the administration submit to the fiscal committees, prior to budget hearings, specified additional information regarding its proposal to fund mandates on a block grant basis. 2148
5. Proposed Budget Act Language. Recommend adoption of proposed language with minor revisions. 2149

STATE-MANDATED LOCAL PROGRAMS—Continued

GENERAL PROGRAM STATEMENT

Current statutory law (Chapter 3, Pt. 4, Div. 1, Revenue and Taxation Code), familiarly known as "SB 90," *requires* the state to reimburse local governments for the costs of state-mandated programs, and for lost sales and property tax revenues, except under specified circumstances. Article XIIIB of the State Constitution (Proposition 4 on the November 1979 ballot) also requires the state to reimburse local governments for the costs of state-mandated programs.

Prior to the current year, the funds to support state-mandated local programs established by statute or executive order were provided separately through appropriations in various Budget Act items. Beginning in 1983–84, however, the appropriations for these various programs were consolidated into a single Budget Act item, in order to better reflect the magnitude and total cost of the program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations totaling $82,042,000 from the General Fund and the Restitution Fund for the various state-mandated local programs in 1984–85. Of the total, $81,887,000 is requested from the General Fund. This is an increase of $8,581,000, or 11.7 percent, from the level of expenditures which had been authorized for the current year at the time this analysis was prepared. The increase reflects both increases in the cost of funding for mandates which have been funded in *prior* budget acts, and the addition of funding for mandates not previously funded through the Budget Act. Under current law, whenever a previously unfunded statute is funded by the Legislature through the claims bill process, the administration is required to provide funds to reimburse the ongoing annual costs associated with the statute in the Governor's Budget.

The costs associated with several previously funded statutes have been considerably higher in the current year than anticipated, resulting in deficiencies for those programs. The administration proposes to fund these current-year deficiencies, and the budget for 1984–85 includes funds that reflect the increased level of reimbursement needed in the current year.

In most other cases, the proposed appropriations generally reflect current-year funding levels, and make no allowance for increased costs due to workload increases or inflation. The budget also reflects funding, as required by current law, for two new statutes. These previously unfunded statutes were funded in the claims bill enacted in 1983.

In addition to the amounts appropriated through the Budget Act, the Governor's Budget displays estimates of claims bills and deficiency appropriations anticipated during the current and budget years.

For the current year, the budget indicates that an additional $141,266,000 may be appropriated. This amount includes: (1) approximately $110 million for claims bills that the administration expects to be chaptered in the current year, and (2) $31 million for deficiencies in currently funded mandates. Thus, total expenditures relating to state-mandated local programs in the current year could reach approximately $225 million. Because a portion of these funds is attributable to mandated costs incurred in prior years, the total does not necessarily indicate the on-going level of mandated costs being incurred by local governments and school districts in 1983–84.

Table 1
State-Mandated Local Programs
Funded in the 1984–85 Budget Act

Chapter/Year	*Description*	*Discussed Under Item*	*Recommendation*
1. Justice/Judicial			
Ch 1355/76	Circuit Court Judges' Salaries	0250	Approve
Ch 158/78	Court Interpreters	0250	Approve
Ch 743/78	Judicial Arbitration	0250	Delete
Ch 952/76	Destruction of Marijuana Records	0820	Approve
Ch 462/78	Dental Records	0820	Approve
2. Health and Welfare			
Ch 854/76	Health Planning	4140	Approve
Ch 453/74	Sudden Infant Death	4260	Approve
Ch 842/78	School Bus Drivers—TB exams	4260	Approve
Ch 102 and 1163/81	Medi-Cal Beneficiary Death Notices	4260	Approve
Ch 694/75	Developmentally Disabled—Attorney Fees	4300	Approve
Ch 498/77	Coroners	4300	Approve
Ch 644/80	Judicial Proceedings	4300	Approve
Ch 1253/80	Representation of Mentally Retarded	4300	Approve
Ch 1304/80	Conservatorship	4300	Approve
Ch 1061/73	Short-Doyle Program	4440	Approve
Ch 1036/78 and Ch 991/79	MDSO Recommitments	4440	Approve
Ch 102/81	Alternative Medical Coverage	5180	Approve
Regulation	Treatment of Loans	5180	Approve
Regulation	Employment-Related Equipment	5180	Approve
Regulation	AFDC Employment Services	5180	Approve
Regulation	Food Stamp Verification	5180	Approve
Regulation	AFDC Social Security Check	5180	Approve
3. Education			
Ch 961/75	Collective Bargaining	6100	Approve
Ch 1253/75	Expulsion of Pupils	6100	Approve
Ch 1176/77	Immunization Records	6100	Approve
4. Retirement			
Ch 1398/74	PERS—Credit for Unused Sick Leave	1900	Approve
Ch 1170/78	PERS—Increased Pensions	1900	Approve
Ch 1036/79	PERS—Increased Benefit	1900	Approve
Ch 799/80	PERS—Increased Death Benefit	1900	Approve
Ch 89/74	STRS—Unused Sick Leave Credit	6300	Approve
Ch 1036/79	STRS—Rate Increase	6300	Approve
Ch 1286/80	STRS—COLA	6300	Approve
5. General Government			
Ch 1032/80	Deaf Teletype Equipment	0690	Approve
Ch 454/74	Candidate Filing Fees	0890	Approve
Ch 704/75	Voter Registration	0890	Approve
Ch 218/74	Substandard Housing	1730	Approve
Ch 941/75	Health Care Services Plan	2180	Approve
Ch 1330/76	Local Coastal Plan	3720	Withhold
Ch 1021 and 1023/73	Workers' Compensation Benefits	8350	Approve
Ch 1357/76	Guardian/Conservator Filings	0250	Approve
Ch 1123/77	Violent Crimes Victims	8700	Approve
Ch 1242/77	Senior Citizens' Property Tax Deferral	9100	Approve

STATE-MANDATED LOCAL PROGRAMS—Continued

For the budget year, the Governor's Budget identifies approximately $30 million in expenditures that will be incurred if the pending claims bills are chaptered. The Budget Act does not request an appropriation to fund these costs, but the costs are reflected in the budget expenditure totals. That is, the budget expenditure total of $112 million exceeds the appropriation request contained in this item ($82 million) by $30 million.

Additional funding support may be required in the budget year for costs associated with additional claims bills and potential deficiencies. The Legislature will be presented with two more claims bills in 1984–85, in addition to those reflected as pending claims bills in the Governor's Budget. Further, the budget provides no funding for the costs to be incurred under Ch 1401/76 (Voter Registration File Purge). The Secretary of State estimates that counties will incur costs of approximately $955,000 during the budget year under this program, and that funding will have to be provided either through the budget or in the deficiency bill. Funding for Ch 1401/76 is discussed in greater detail in our analysis of the Secretary of State, Item 0890. Allowing for both the two new claims bills, the costs of Ch 1401/76 and the possibility that additional deficiencies will materialize, it is likely that total expenditures in 1984–85 will be substantially larger than the $112 million identified in the Governor's Budget.

ANALYSIS AND RECOMMENDATIONS

Each of the mandates funded through this item is discussed in detail as part of our analysis of other budget items. Table 1, however, identifies each of these mandates, the item number under which the detailed discussion appears, and our recommendation on the amount requested.

Block Grant Funding for Ongoing Mandates

We recommend that, prior to budget hearings, the Department of Finance address specific issues regarding its proposal to fund state-mandated local programs using a block grant approach.

As part of his local government finance proposal, the Governor proposes that support for all mandates which have been funded in two consecutive Budget Acts be provided on a block grant, rather than on a claim for actual-cost basis. Funding requested in this item, however, does not reflect the Governor's block grant proposal; it reflects funding on an actual cost basis.

The Budget Act includes language authorizing the Director of Finance to direct the State Controller to disburse funds based on an "allocation formula or uniform allowance," subject to the requirement that the Legislature be given 30 days written notification of such a change prior to its implementation. The Department of Finance, however, indicates that (1) the block grant proposal has not been developed, (2) a method for allocating funds has not been established, and (3) the final proposal probably will be substantially different from what is indicated by the Budget Act language.

Our review indicates that substantial revision to the existing procedures for reimbursing ongoing mandates is, indeed, warranted. The existing system is slow, complicated, expensive and burdensome for both the state and local agencies.

Existing Procedure. Under current law, local agencies are reimbursed on the basis of the actual costs they incur. Under this system, local agencies each year must go to the expense of preparing and submitting a reimbursement claim for each mandate. In the budget year, there will be an estimated 49 mandates for which local agencies will have to submit individual reimbursement claims.

Each claim must detail and document the actual cost incurred by the local agency in complying with the mandate. Once submitted, the Controller is responsible for auditing the claim to ensure (1) that funds identified were actually expended, and (2) that activities undertaken for which reimbursement is claimed are legitimate activities for complying with the mandate, based on the Board of Control's parameters and guidelines.

Block Grant Procedure. Our review indicates that, conceptually, a block grant procedure for reimbursing local agencies for mandated costs has considerable merit. Generally speaking, a block grant funding approach minimizes administrative costs that are not directly related to the service provided, thereby maximizing the number of dollars available for program services, or allowing the same level of service to be provided at a lower cost. The merits of a block grant approach to funding mandates is discussed in greater detail in Part II, Section D of *Perspectives and Issues.*

Governor's Proposal

The Governor's Budget proposes that support for all mandates which have been funded in at least two consecutive Budget Acts be provided on a block grant basis. Beyond this, the Governor has provided no information on how the program will be implemented or administered. The Department of Finance indicates that these details currently are being developed. In the absence of specific information on program implementation and administration, we have no basis at this time on which to analyze the Governor's proposal.

In order to facilitate legislative review of the Governor's proposal, we recommend that the administration provide the following information to the fiscal committees by the time of budget hearings:

1. The specific mandates to be funded by the block grant.
2. The methodology that will be used to determine the level of funding.
3. The savings anticipated from converting to the new approach.
4. Specific details on program administration. (For example, will there be reporting requirements? Will there be auditing requirements? What will the state's responsibility be once the grant is in operation?)
5. A discussion of the state's potential liability for additional costs. (Specifically, will the state be liable for costs incurred in excess of the level of reimbursement provided? Can the proposal be implemented in a fashion which is not inconsistent with the requirements of the State Constitution?)
6. A strategy for adjusting funding levels to reflect new mandates, discontinued mandates and changes made to existing mandates.

Proposed Budget Act Language

We recommend that the Legislature make minor changes in the proposed Budget Act language relating to funding for deficiencies.

The Budget Act contains language which provides greater flexibility in the reimbursement process by allowing both the Department of Finance and the State Controller to shift funds among various mandates to adjust for deficiencies and overages in individual appropriations. Specifically, the language makes three changes:

1. It allows the Controller, after giving notice to the Department of

STATE-MANDATED LOCAL PROGRAMS—Continued

Finance, to shift funds among the various scheduled items within Item 9680 without a 'budget revision.' A budget revision is an administrative procedure which, under current law, must be completed each time funds are moved between scheduled items. We recommend that language providing this authority be adopted, but that it be amended to require that notification of any budget revisions completed be provided to the fiscal committees and the Joint Legislative Budget Committee.

2. Allows the current-year appropriation to be used to offset prior-year deficiencies.

3. Provides that if the current-year appropriation becomes insufficient because of shifts made to offset prior-year deficiencies, the amount of the current-year appropriation shall be increased by the necessary amount, after the Director of Finance has given notice to the Legislature. We recommend approval of this language, provided that it is amended to require that the Legislature be given 30 days' notice before any current-year appropriation is augmented.

STATE-MANDATED LOCAL PROGRAMS—REVERSION

Item 9680 to the General Fund Budget p. GG 188

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes that the unencumbered balance of the appropriations provided in three state-mandated local claims bills be reverted to the unappropriated surplus of the General Fund. The appropriations, and our reasons for recommending approval of the proposed reversions, are set forth below.

1. Chapter 1090, Statutes of 1981, provided $21,575,547 for reimbursement of local government claims associated with six different mandates. The Department of Finance indicates that an unexpended balance of $578,000 remains after all claims have been paid, and that these funds will not be needed to pay additional claims.
2. Chapter 28, Statutes of 1982, provided $12,404,670 for reimbursement of local government claims associated with 11 different mandates. The Department of Finance indicates that an unexpended balance of $2,876,000 remains after all claims have been paid, and funds will not be required to pay any further claims.
3. Chapter 1586, Statutes of 1982, provided $24,182,952 for 11 different mandates. The Department of Finance indicates that an unexpended balance of $100,000 remains, and no further claims are expected.

Thus, this item would revert a total of $3,554,000 to the General Fund. As these funds will not be needed for payment of approved claims, we recommend approval.

UNIVERSAL TELEPHONE SERVICE PROGRAM

Item 9695 from the Universal Telephone Service Fund — Budget p. GG 191

Requested 1984–85	$18,109,000
Recommendation pending	18,109,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Budget Act Appropriation. Recommend that an item be added to the 1984 Budget Bill appropriating funds for the Universal Telephone Service program, so that the Legislature will have an opportunity to review and approve the expenditures proposed for the program. 2152
2. Program Funding. Withhold recommendation on the proposed expenditure of $18,109,000, pending receipt and analysis of further information on the program. 2152

GENERAL PROGRAM STATEMENT

The Universal Telephone Service program was established by Chapter 1143, Statutes of 1983 (AB 1348). This statute directs the Public Utilities Commission (PUC) to establish a basic level of residential telephone service (commonly referred to as "lifeline" service) needed to satisfy the minimum communications needs of the state's citizens. The PUC also must establish the criteria that individuals must satisfy in order to be eligible for universal service, as well as the rate to be charged for this service.

The cost of this program is the difference between the revenue received by local telephone corporations from universal users and the actual costs incurred in providing the service. This cost will be financed by the revenues from a tax on the services of certain intrastate telecommunications businesses. The tax will be in effect between July 1984 and July 1988, and will be set annually by the PUC at a rate not to exceed 4 percent of the gross revenues of the affected businesses.

Universal service tax revenues will be collected by the Board of Equalization and deposited into the Universal Telephone Service Fund. The amounts in the fund are continuously appropriated to the State Controller for the purpose of: (1) reimbursing local telephone corporations which provide universal service; (2) reimbursing the Board of Equalization, the Public Utilities Commission, and the State Controller for the cost each incurs in administering the Universal Telephone Service program; and (3) paying refunds to companies subject to the universal telephone service tax which have made overpayments.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $18,109,000 in support of the Universal Telephone Service program in 1984–85. The budget document indicates that these expenditures are to be supported by $18,109,000 in tax revenue accruing to the Universal Telephone Service Fund. Table 1 provides a budget summary for the program. As the table indicates, payments to telephone corporations are projected to be $18,000,000 in the budget year. The remainder of the expenditures—$109,000—would provide reim-

UNIVERSAL TELEPHONE SERVICE PROGRAM—Continued

bursement to the Board of Equalization and the Public Utilities Commission for their administrative costs.

Table 1
Universal Telephone Service Program
Universal Telephone Service Fund
Budget Summary
1984–85
(in thousands)

Program Component	*Proposed Expenditures*
Payments to Telephone Corporations	$18,000
Reimbursement of State Administrative Costs	109
Board of Equalization	(91)
Public Utilities Commission	(18)
Total	$18,109

ANALYSIS AND RECOMMENDATIONS

Appropriation Should Be Included in the Budget Act

We recommend that an item be added to the Budget Bill so that the Legislature would have an opportunity to review and approve proposed expenditures in support of the Universal Telephone Service program.

Pursuant to Government Code Section 13340, the continuous appropriation of monies received by the Universal Telephone Service Fund—and most other state funds—will terminate on June 30, 1984. The administration proposes in Control Section 30.00 of the 1984 Budget Bill to extend the continuous appropriation for this fund beyond the scheduled termination date.

Chapter 323, Statutes of 1983 (Section 151.4), states the Legislature's intent that all items of appropriation be subject to annual review. The act also provides criteria to be used in determining which funds, if any, should be granted exemptions from the termination of continuous appropriations. Our review of these criteria indicates that a continuous appropriation for the Universal Telephone Service Fund is not justified.

We conclude that the Legislature should have an opportunity to review and approve the expenditures proposed in support of the Universal Telephone Service program during the annual budgetary process. Accordingly, we recommend that an item be added to the 1984 Budget Bill to appropriate funds for this program.

Program Implementation Not Yet Decided

We withhold recommendation on the proposed expenditure of $18,109,000 in support of the Universal Telephone Service program, pending the receipt and analysis of information on the program.

At the time this *Analysis* was prepared, the PUC had not yet specified: the characteristics of universal telephone service, the eligibility for the program, the rate to be paid for universal service, or the businesses to be subject to the tax. The Legislature has no basis for analyzing the proposed expenditures associated with the Universal Telephone Service program in the absence of this information. Accordingly, we withhold recommendation on the proposed expenditure of $18,109,000 in support of the Universal Telephone Service program, pending receipt and analysis of this information.

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES

Item 9800 from the General
Fund and various other funds — Budget p. GG 193

Requested 1984–85	$444,885,000
Recommendation pending	444,885,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
9800-001-001	—Compensation Increase	General	$220,331,000
9800-001-494	—Compensation Increase	Special	122,471,000
9800-001-988	—Compensation Increase	Nongovernmental cost	102,083,000
Total			$444,885,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Annualized Costs of Employee Compensation Provisions. Recommend that beginning in 1985–86, the Department of Finance allocate funds for the "incremental" costs of employee compensation increases from the employee compensation item (9800), rather than adjust departmental baseline budgets to fund these costs. 2158
2. 1983–84 Employee Compensation Package. Recommend the Department of Finance, prior to budget hearings, explain the status of funds appropriated for employee compensation increases in 1983–84 that have not been allocated. 2159
3. 1984–85 Employee Compensation Increases. Withhold recommendation, pending submission to the Legislature of memoranda of understanding and compensation proposals for nonrepresented state employees. 2160
4. Overbudgeted Health Benefits. Recommend Legislature amend the Budget Bill to include a control section authorizing the Department of Finance to recapture monies overbudgeted for health benefits in 1984–85 (maximum savings of $15 million: $9 million General Fund and $6 million other funds). 2164
5. Health Benefit Formula. Recommend the Legislature amend Government Code Section 22825.1 to remove provisions specifying state health cost contribution rates. 2165
6. Flexible Benefit Plan. Recommend Legislature direct Departments of Personnel Administration and Finance to submit a report to the fiscal committees and the Joint Legislative Budget Committee by November 1, 1984, on the feasibility of flexible benefit plans. 2166
7. Nonrepresented Employees. Recommend the Department of Personnel Administration submit to the fiscal committees by May 15, 1984, its plans for a compensation package for nonrepresented employees. 2167

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

OVERVIEW OF THE BUDGET REQUEST

The Governor's Budget includes $444,885,000 *in this item* for compensation increases for state employees, of which $220,331,000, or 49.5 percent, would come from the General Fund. This amount would provide for compensation increases of about 10 percent to state employees. Any funding granted for health and dental benefit premium increases for state employees and retired annuitants would also be financed out of this amount.

The funds appropriated for increases in employee compensation for the 1984–85 fiscal year will be allocated for salary or benefit enhancements, based on the results of the collective bargaining process. Memoranda of understanding will be submitted to the Legislature for approval of the changes agreed to between labor and management.

The $444,845,000 does *not* include compensation increases proposed for employees of the University of California (UC), the California State University (CSU) and Hastings College of the Law. In the past, funds to increase the compensation paid to these employees *were* included in this item. The Governor's Budget for 1984–85, however, includes funds for these increases in the support budgets of the individual segments or colleges (please see our analysis of Items 6440, 6610, and 6600, respectively, for a description of the higher education employee compensation packages).

ANALYSIS AND RECOMMENDATIONS

1983–84 EMPLOYEE COMPENSATION PACKAGE

A Review of the Current-Year Compensation Increase Program

In 1983–84, the second round of collective bargaining negotiations took place within the framework established by the State Employer-Employee Relations Act (SEERA) and the Higher Education Employer-Employee Relations Act (HEERA). Under SEERA the Legislature has the responsibility to approve all provisions of negotiated agreements (called memoranda of understanding or MOUs), which require either (1) the expenditure of funds or (2) a change in law, before the provisions of a MOU can be implemented. (For a detailed discussion of collective bargaining for state employees, please see *Perspectives and Issues,* Part 3.)

The 1983–84 employee compensation package consists of provisions which can be divided into three fiscal categories:

- Provisions which received direct appropriations within the *1983* Budget Act;
- Provisions which require *additional* (or incremental) funding from the *1984–85* Budget Act; and
- Provisions considered by the administration to be *absorbable* within the current-year appropriations.

Provisions Receiving Direct Appropriations

In the 1983 Budget Act, the Legislature appropriated $338.8 million from all funds ($212.1 million from the General Fund) to finance employee compensation increases in 1983–84. The major provisions in this category are:

- A 6 percent salary increase for state employees, effective January 1, 1984.
- Continuation, for six months, of the state-funded $50 (or $100) reduction in the employee's contribution to the Public Employees' Retirement System (PERS) and the University of California Retirement System (UCRS).
- Special salary realignments and adjustments for certain classes of employees.
- An increase to maintain the state's percentage contribution toward the cost of employee health insurance premiums.
- An increase in the state's contributions for the employee dental care program.

Table 1 summarizes the fiscal impact of the employee compensation package in 1983–84, by type of employee. The table shows that this package will cost *$317.7 million* in 1983–84, which is $21.1 million, or 6.2 percent, less than the amount contained in the 1983 Budget Act. Department of Finance (DOF) staff maintain that the $317.7 million in identified expenditures represents the department's best estimate of the cost of the employee compensation package for civil service, UC, and CSU employees.

Increased Expenditures Will Be Necessary to Continue the 1983–84 Increases in the Budget Year

Because many salary and benefit increases provided in 1983–84 became effective *after* the start of the fiscal year, the 1983 Budget Act does not reflect the full-cost of these increases. Consequently, the cost of continuing these salary and benefit improvements unchanged for a full 12 months in 1984–85 will require an increase in expenditures. Put another way, the *annualized* cost of the 1983–84 increases greatly exceeds current-year funding requirements.

For example, most state employees received a 6 percent salary increase, effective January 1, 1984. The total state cost of this provision in 1983–84, is $176.7 million. The full-year or annualized cost of this increase will be $354.3 million—double the amount provided in 1983–84.

Many employees also received *additional* salary adjustments effective either on July 1, 1983, January 1, 1984, or April 1, 1984. Table 2 shows the classes which received the largest salary increases and the effective date of these increases.

Table 1
1983–84 Employee Compensation Cost Provisions
1983–84 and 1984–85 Fiscal Impacts
All Funds
(in thousands)

	Civil Service and Related			*California State University*			*University of California*			*Total, All Employees*		
Provisions	*1983–84 Costs*	*1984–85 Costs*	*1984–85 Increment*	*1983–84 Costs*	*1984–85 Costs*	*1984–85 Increment*	*1983–84 Costs*	*1984–85 Costs*	*1984–85 Increment*	*1983–84 Costs*	*1984–85 Costs*	*1984–85 Increment*
General Salary Increase (6%)	$119,807	$239,614	$119,807	$27,415	$55,815	$28,400	$29,449	$58,898	$29,449	$176,671	$354,327	$177,656
Retirement Offset	36,853	—	−36,853	7,521	—	−7,521	4,678	—	−4,678	49,052	—	−49,052
Special Salary Adjustments	7,161	28,645	21,484	1,350	2,400	1,050	1,333	5,332	3,999	9,844	36,377	26,533
Health Insurance	44,480	44,480	—	3,386	3,386	—	12,140	13,870	1,730	60,006	61,736	1,730
Dental Insurance	7,120	7,120	—	1,690	1,690	—	2,000	2,000	—	10,810	10,810	—
Shift Differential	193	193	—	—	—	—	—	—	—	193	193	—
Work Week Group Modification	800	1,600	800	—	—	—	—	—	—	800	1,600	800
Professional Proficiency Compensation	2,212	—	−2,212	—	—	—	—	—	—	2,212	—	−2,212
Health and Welfare	300	300	—	—	—	—	—	—	—	300	300	—
Life Insurance	177	707	530	—	—	—	—	—	—	177	707	530
Unfunded Merit Salary Adjustments and Faculty Promotions	—	—	—	4,250[a]	4,250[a]	—	—	—	—	4,250	4,250	—
Other Benefits	1,500	—	−1,500	1,911[a]	1,349[a]	−562	—	—	—	3,411	1,349	−2,062
Totals	$220,603	$322,659	$102,056	$47,523	$68,890	$21,367	$49,600	$80,100	$30,500	$317,726	$471,649	$153,923

[a] The 1983–84 costs of the "Unfunded MSAs and Faculty Promotions" and "Other Benefits" total $6.2 million. The 1984–85 cost of these two 1983–84 provisions is $5.6 million. Of the $5.6 million, the Governor proposes to fund only $1.1 million, leaving $4.5 million in unfunded costs for 1984–85.

Table 2
State Collective Bargaining in 1983–84
Largest Special Salary Adjustments

10 Percent Effective 4/1/84
Petroleum Geologist
Environmental Specialist I, II, and III
Petroleum Production Inspector I and II
Assistant Petroleum Production Inspector
Inspector Board of Pharmacy
Consulting Optometrist I and II

10 Percent Effective 1/1/84
Associate Mineral Resources Engineer
Engineering Geologist
Petroleum Production Engineer
Associate Oil and Gas Engineer
Senior Oil and Gas Engineer

15 Percent Effective 4/1/84
Senior Maintenance Worker, District Fairs

7.5 Percent Effective 7/1/83 and 7.5 Percent 1/1/84
Hydro Electrician I and II
Program Water and Power Dispatcher
Senior Water and Power Dispatcher
Water and Power Dispatcher
Control System Technician I and III
Electrical, Mechanical Testing Technician II and III
Systems and Testing Technician
Senior Hydro Plant Operator
Hydro Plant Operator
Hydro Mechanic I and II

20 Percent Effective 4/1/84
Maintenance Workers, District Fairs

Many classes received the special salary increase effective in April 1984. As shown in Table 1, the $9.8 million cost (all employees) for these salary adjustments in 1983–84 will grow to $36.4 million in the budget year, even if no further increases are granted. This amount must be financed by an increase in appropriations in 1984–85.

In addition, the 1983–84 compensation package had other provisions which require additional appropriations in the budget year to provide full-year funding. These include:

- A group life insurance policy for state managers, costing $177,000 in 1983–84 and $707,000 in 1984–85;
- An increase in health insurance contributions for UC employees costing $12,140,000 in 1983–84 and $13,870,000 in 1984–85, and
- A salary increase for Department of Forestry employees during nonfire mission periods costing $800,000 in 1983–84 and $1,600,000 in 1984–85.

Provisions Considered Absorable Within Existing Appropriations.

As we pointed out in last year's *Perspectives and Issues* (p. 191), no money is specifically appropriated by the Legislature or allocated by the administration to fund those provisions of the employee compensation packages that impose costs which are considered to be "absorbable." The determination of what is and what is not "absorbable" is made by the administration through the fund allocation process.

Our review of the employee compensation packages indicates that various provisions of the 1983 agreements will require the expenditure of $33.9 million in 1983–84 to cover costs for which no funds were specifically appropriated. This $33.9 million is on top of the $317.7 million in expenditures that *were* funded in the 1983 Budget Act.

Table 3 summarizes these "absorbable" costs for civil service and related employees, as identified by the DPA and the Department of Finance. CSU officials maintain that their employee compensation packages contain no provisions which will result in identifiable "absorbable" costs (please see our analysis of the CSU, Item 6610). UC has completed only one MOU to date, and this MOU has no provisions having a *fiscal* impact.

As Table 3 indicates, the employee benefit provision that results in the greatest "absorbable" cost is merit salary adjustments ($28.8 million).

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

Table 3

Employee Compensation Costs: Civil Service and Related Employees Absorbed by State Agencies in 1983–84 (in thousands)

Provisions	*Covered by MOUs*	*Not Covered by MOUs*	*Totals*
Merit salary adjustments	$24,014	$4,736	$28,750
Realignments	1,576	—	1,576
Adjustment of vacation accruals	947	—	947
Work week changes	556	—	556
Training	500	—	500
Professional fees	345	137	482
Uniform allowances	275	—	275
Safety equipment	213	—	213
Special pay	158	—	158
Pay differential	149	—	149
Increase in mileage rate	75	—	75
Bereavement leave	65	—	65
Special programs	60	—	60
Overtime	40	—	40
Counseling	29	—	29
Miscellaneous	57	—	57
Totals	$29,059	$4,873	$33,932

1983–84 Fiscal Effect Summary

Our analysis indicates that collective bargaining agreements signed in 1983–84, along with the compensation package for noncovered employees, resulted in *ongoing* state costs of approximately $505.5 million (all funds):

- $317.7 million in 1983–84 costs covered by Budget Act appropriations;
- $153.9 million in 1984–85 incremental costs, due to "annualization;" and
- $33.9 million in "absorbable" costs (where the administration provided no allocations to fund the provisions).

Incremental Costs of Employee Compensation Provisions Should be Budgeted in Employee Compensation Item

We recommend that beginning in 1985–86, the Department of Finance allocate funds to cover the incremental costs of salary and benefit increases granted for the current year from the employee compensation item, rather than adjust the baseline budgets of departments to provide for these costs.

Table 1 shows that the funded cost of *all* 1983–84 provisions in fiscal year 1984–85 (that is, the "annualized costs) will total $472 million. This is $154 million more than the amount allocated for employee compensation in 1983–84. Our review of the Governor's Budget reveals that virtually all of the funds needed to cover these annualized costs have been included in the 1984–85 *baseline budgets* of departments.

The approach taken in 1984–85 in budgeting for the annualized costs results in three problems. First, the incremental costs are somewhat hidden from legislative review. While some of the MOU provisions that increased state costs were presented to the Legislature before the passage of the 1983 Budget Act, the Legislature was never informed about the amount needed to fully fund the 1983–84 provisions. By including the full funding for these provisions in 1984–85 baseline budgets, rather than in the employee compensation item, the Legislature is denied an opportunity to evaluate the fiscal impact of the entire salary and benefit package granted to state employees in 1983–84.

Second, the automatic inclusion of the annualized costs in the budget base provides a powerful incentive for management and labor to agree to provisions which require only partial year funding. For example, certain maintenance workers in bargaining unit #12 received a 20 percent salary increase effective in April 1984. The 1983–84 cost of this provision is only *one-fourth* of the total cost for the budget year. To the extent the bargainers succumb to this incentive, it makes the Legislature's job of controlling state expenditures over time that much more difficult.

Third, the allocation of annualized costs to departments can result in inconsistent budgeting across agencies. Many departments did not learn about the specific provisions approved in MOUs until late in the planning cycle for the 1984–85 budget and had little administrative guidance on how to budget for these costs. Consequently, departments were not always consistent in the way these costs were displayed in their "Summary by Object" for 1984–85.

In order to give the Legislature an opportunity to review the *full-year* costs of employee compensation provisions which begin after the start of the fiscal year and enhance its control of state spending, we recommend that in future years the Department of Finance allocate funds to cover the incremental costs of providing only partial-year funding for employee compensation provisions from the employee compensation item (9800), rather than adjust departmental baseline budgets.

Allocation of Current-Year Funding is Not Clear

We recommend that the Legislature direct the Department of Finance to explain, prior to budget hearings, how amounts appropriated for 1983–84 employee compensation provisions are to be used.

As noted earlier, the Legislature appropriated $338.8 million in 1983–84 to cover the costs associated with employee compensation increases. A review of the cost summaries submitted by the DOF, the DPA, CSU, and UC, indicates that the employee salary and benefit increases granted in 1983 will cost $317.7 million in 1983–84—$21.1 million less than the amount provided in the 1983 Budget Act.

The Governor's Budget, however, shows current year allocations of $241.9 million, which is $96.9 million, or 29 percent, less than the amount appropriated in the 1983 Budget Act. The budget states that this "unallocated" balance is available for (1) the state's contribution to PERS for the six-month continuation of the $50 (or $100) employee contribution reduction, and (2) future salary and benefit allocations.

Based on our review of information provided by the Department of Finance (summarized in Table 1), we estimated that $44.4 million (all funds) was transferred to PERS to cover contributions for state civil service and CSU employees (the $4.7 million contribution to the UC retirement system was included in UC's allocation for employee compensation), leaving an unallocated balance, of $52.5 million. We are unable to reconcile the discrepancy between this $52.5 million estimate, as reflected in the Governor's Budget, and the $21.1 million unexpended balance reflected in DOF cost summaries.

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

Because of these discrepancies, we recommend that prior to budget hearings, the Department of Finance explain how appropriations made by the 1983 Budget Act for employee compensation increases are to be spent and if any of the unallocated balance will be used to fund "absorbable" costs.

1984–85 EMPLOYEE COMPENSATION PACKAGE

Employee Compensation Increases Subject to Collective Bargaining

We withhold recommendation on funds for employee compensation increases proposed in the Budget Bill pending review of memoranda of understanding (MOUs) and compensation proposals for nonrepresented state employees.

Fiscal year 1984–85 will be the third year that state employee compensations increases will be subject to collective bargaining. Until the new or amended MOUs are submitted for the Legislature's consideration, together with the increases proposed by the administration for employees *not* covered by collective bargaining, we have no basis for evaluating (1) the nature or magnitude of increases proposed, or (2) the amount of funds required to implement these increases. Therefore, we withhold recommendation on this item, pending review of these proposals.

1984–85 Salary Increase Items Understate Total Compensation Package

As described earlier, the compensation packages approved for 1983–84 include provisions that will result in incremental costs of $154 million in 1984–85. Thus, the Legislature will have to increase appropriations by this amount in order to continue these increases. Because this amount has been distributed among the departments 1984–85 base budgets, the amount specifically requested for employee compensation understates the *total increase* in employee compensation proposed for 1984–85. Table 4 shows that the amount required to pay for *both* the incremental costs from 1983–84 increases and provide for further increases in 1984–85 will total *$813.2 million,* as opposed to the $659.3 million proposed in the employee compensation items (6440, 6600, 6610, and 9800).

Table 4
Increases Needed to Finance 1983–84 and 1984–85 Employee Compensation Increases
All Funds
(dollars in thousands)

Employee Group	*Item Number*	*1984–85 Augmentation*	*1983–84 Increment*	*Total*
Civil Service and Related [a]	9800	$444,885	$102,056 [b]	$546,941
University of California	6440	113,670	30,500	144,170
California State University	6610	99,961	21,367	121,328
Hastings College of Law	6600	810	—	810
Totals		$659,326	$153,923	$813,249

[a] Includes judicial and legislative employees and annuitants.
[b] Includes Hastings College of Law.

Cost of Alternative Salary Increase Proposals

The General Fund cost of providing salary increases of various magnitudes is shown in Table 5. The table shows that each 1 percent increase in state salaries will increase General Fund costs by $40.8 million. A 1 percent salary increase also results in special fund and nongovernmental cost fund costs of $21.6 million in order to cover all civil service employee salaries. Thus, the total cost (all funds) of granting a 1 percent salary increase for all state employees is $62.4 million.

Table 5

General Fund Costs of Providing Various Salary Increases For State Employees (Excluding Judges) 1984–85

	Cost of Increase (in thousands)		
Employee Group	*1 Percent*	*5 Percent*	*9 Percent*
Civil Service and Related	$20,330	$101,650	$182,970
University of California			
Academic	5,758	28,790	51,822
Non-Academic	4,697	23,485	42,273
Subtotals	($10,455)	($52,275)	($94,095)
California State University			
Academic	$5,862	$29,310	$52,758
Non-Academic	4,033	20,165	36,297
Subtotals	($9,895)	($49,475)	($89,055)
Hastings College of Law			
Academic	$43	$215	$387
Non-Academic	35	175	315
Subtotals	($78)	($390)	($702)
Totals	$40,758 [a]	$203,790	$366,822

[a] A 1 percent increase in state salaries will increase special fund costs by $11.8 million and other fund costs by $9.8 million, for a total 1 percent salary increase (all funds) of $62.4 million.

Historical Comparison of Salary Increases

Table 6 compares the annual salary increases received by employees in private business, superior court judges, state civil service employees, state statutory officers (those officials whose salaries are specified by statute) and state legislators, during the period 1967–68 through 1983–84. For comparative purposes, the table also shows the percentage change in the Gross National Product Personal Consumption Deflator (price index) between 1967–68 and 1983–84.

Salary Increases for Constitutional Officers, State Officers, and Legislators

In last year's *Analysis,* we pointed out that constitutional officers, statutory officers, and legislators had fared poorly, relative to other groups of state employees, in terms of maintaining the value of their salaries in the face of inflation.

Chapter 803, Statutes of 1983 (AB 2187), provided salary increases for the seven constitutional officers, the 120 members of the Legislature, 135 specified state officers and the Administrative Director of the Courts.

Table 6
Annual Salary Increases Received by Employees in Private Business, Judges, State Civil Service Employees, Statutory Officers and State Legislators 1967–68 Through 1983–84

	Private Employment,[a] Average Increase per Employee	Superior Court Judges		Civil Service Percent Increase		Statutory Officers: Percent Increase	State Legislators		GNP Personal Consumption Deflator	
		Salary	Increase	Total Payroll	Average Increase per Employee		Salary	Pecent Increase	Level	Percent Increase
1967–68	4.8%	$25,000	—	4.9%	5.1%	—	$16,000	—	82.9	—
1968–69	6.7	30,572	23.3%	5.3	5.7	5.0%	16,000	—	86.4	4.2%
1969–70	4.7	31,816	4.1	5.6	5.6	11.5	16,000	—	90.5	4.7
1970–71	6.6	33,407	5.0	5.0	5.2	—	19,200	20.0%	94.5	4.4
1971–72	6.3	35,080	5.0	—	—	—	19,200	—	98.3	4.0
1972–73	4.3	36,393	3.7	8.3	9.0	5.0	19,200	—	102.3	4.0
1973–74	5.2	37,615	3.4	12.9	11.7	12.5	19,200	—	110.6	8.1
1974–75	7.8	40,322	7.4	5.3	5.0	5.0	21,120	10.0	121.3	9.6
1975–76	4.9	45,299	12.3	7.1 [b]	6.7	—	21,120	—	128.6	6.0
1976–77	7.2	49,166	8.5	6.6	— [c]	1.9	23,232	10.0	135.4	5.2
1977–78	7.0	49,166	—	7.5	7.1	7.5	23,232	—	143.7	6.1
1978–79	8.0	51,624	5.0	—	—	—	25,555	10.0	155.4	8.1
1979–80	9.1	54,205	5.0	15.0	14.5	15.0	25,555	—	170.5	9.7
1980–81	10.0	59,686	10.1	10.0	10.0	9.8	28,111	10.0	187.0	9.6
1981–82	9.0	63,267	6.0	6.5	6.5	6.0	28,111	—	200.1	7.0
1982–83	6.9	63,267	—	—	—	—	28,111	—	209.6	4.7
1983–84	6.8 [e]	67,063	6.0 [d]	6.0 [d]	6.0 [d]	6.0 [d]	28,111	—	217.8	3.9

[a] Based on changes in average weekly wages for the whole fiscal year, as reported by the Employment Development Department. Prior to 1972–73, data is based on salaries in effect each March, as surveyed by the State Personnel Board.
[b] Does not include one-time bonus of $400 paid to employees having a maximum salary of $753 or less on July 15, 1975.
[c] Not calculated because of flat salary increases.
[d] Salary increase effective January 1, 1984.
[e] Forecast.

Table 8 shows the old and new salaries for these state officials. Under current law, statutory officers have their salaries set at one of eight levels. In Table 8, the officer shown is representative of all other officials grouped in that salary category.

AB 2187 increased the base salaries for these officers and added a provision which specifies that these officials (other than legislators) in the future shall receive the same cost-of-living adjustment as other state employees.

Table 8

Summary of Salary Increases for State Constitutional Officers, Statutory Officers, and Legislators Provided in Chapter 803, Statutes of 1983 (AB 2187)

	Salaries				*Effective*
			Increase		*Date of*
	Current	*New*	*Amount*	*Percent*	*New Salary*
State Constitutional Officers					
Governor	$49,100	$85,000	$35,900	73.1%	1/5/87
Attorney General	47,500	77,500	30,000	63.2	1/5/87
Others [a]	42,500	72,500	30,000	70.6	1/5/87
Legislators	28,110	33,732	5,622	20.0	12/3/84
Selected Statutory Officers:					
Administrative Director of the Courts	70,665	76,745	6,080	8.6	7/1/84
Director of Finance [b]	67,445	72,500	5,055	7.5	7/1/84
Director of Corrections [c]	57,829	68,000	10,171	17.6	7/1/84
President, Public Utilities Commission [d]	60,699	65,000	4,301	7.1	7/1/84
Member, Public Employment Relations Board [e]	60,269	63,000	2,731	4.5	7/1/84
Director of Veterans Affairs [f]	52,989	60,000	7,011	13.2	7/1/84
Chair, Board of Prison Terms [g]	50,593	57,000	6,407	12.7	7/1/84
State Fire Marshal [h]	48,175	55,000	6,825	14.2	7/1/84

[a] Lieutenant Governor, Controller, Treasurer, Secretary of State and Superintendent of Public Instruction.

[b] Under Government Code Section 11550, the Director of Finance, the various agency secretaries and three other department heads receive the same salary.

[c] Under Government Code Section 11552, the Director of Corrections, 24 other department heads, and members of the Board of Equalization receive the same salary.

[d] Under Government Code Section 11553, the President of the Public Utilities Commission and 8 other department heads receive the same salary.

[e] Under Government Code Section 11553.5, the board members of six agencies receive the same salary.

[f] Under Government Code Section 11554, the Director of Veteran Affairs, eight other agency heads and the State Architect currently receive the same salary.

[g] Under Government Code Section 11555, the Chair of the Board of Prison Terms and three other board chairpersons receive the same salary.

[h] Under Government Code Section 11556, the State Fire Marshal, three other agency heads, and members of four boards receive the same salary.

Health Benefits for State Employees and Annuitants

Government Code Section 22825.1 specifies that the state's contributions for health insurance premiums are to be based on a formula where the state pays 100 percent of the weighted average of health insurance costs for active employees and annuitants and 90 percent of the health insurance costs for their dependents. The Board of the Public Employees' Retirement System approves the contribution levels and uses the following four types of health care plans (per statutory requirements) to calculate the rates:

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

- A statewide service plan,
- A statewide indemnity plan, and
- Two prepaid comprehensive medical-hospital plans (health maintenance organizations) with the largest number of enrollees.

The four plans currently used for determining rates are Blue Cross/Blue Shield, Cal-Western/Transamerica Occidental, Kaiser North Foundation, and Kaiser South Foundation.

Based on the PERS Board approval of health plan premiums for the 1983–84 contract year, the state's *1983–84 maximum* contribution rates are as follows:

- Single party coverage—$76 per month,
- Two-party coverage—$148 per month, and
- Family coverage—$185 per month.

Related to the responsibilities of overseeing the state employees health insurance program, PERS also administers the Public Employees Contingency Reserve Fund (PECRF). The PECRF is funded by "surcharges" on gross health insurance premiums paid by state departments. The PERS board is authorized by law to set the surcharge rates, and in 1983–84, it set the rate at 3.5 percent of total premium costs. (Please see Item 1900 for an analysis of the PECRF.)

Health Benefits Are Overbudgeted

We recommend that the Legislature enact a general control section authorizing the Department of Finance to recapture funds included in departments' 1984–85 budgets, because health benefits are overbudgeted (maximum savings of $15 million: $9 million General Fund and $6 million other funds). We further recommend that the Department of Finance report to the Legislature prior to budget hearings on (1) how it can prevent overbudgeting of health benefits in future years, and (2) whether it plans to recapture overbudgeted funds in 1983–84.

To budget for health benefits, the DOF instructs departments to multiply the PERS-approved state contribution rates by the number of participants in each employee category, in order to determine the amount needed for health benefits. The DOF also advises agencies to include the PECRF charges as a percent of total premium costs in their baseline adjustments.

Our analysis indicates that, to the extent departments used these state contribution rates (per DOF instructions) to budget for 1984–85 health insurance costs, these benefit costs are grossly overbudgeted because about 62,000 state employees are in plans which charge *less than* the state contribution rate.

Table 9 provides information on those health plans which have premium costs *below* the designated state contribution rates. It shows, for example, that the monthly premium rates for Kaiser North Foundation are $20.03, $36.06, and $22.81 *less than* the state contribution rate for the single party, two-party and family enrollment categories, respectively. Thus, to the extent that a department has employees who are enrolled in Kaiser North, but budgets its premium costs at the *higher* state contribution rates, the department is overstating its need for health benefits. In addition, the PECRF charges also are based on higher premium costs and, therefore, are also overbudgeted.

Table 9
Health Benefit Plans with Monthly Premium Rates Below Monthly State Maximum Contribution Rates
1983–84

	Enrollment Category					
	One-Party		*Two-Party*		*Family*	
	Monthly Contri-bution Rate	*Number of Enrollees As of May 1, 1983*[a]	*Monthly Contri-bution Rate*	*Number of Enrollees As of May 1, 1983*[a]	*Monthly Contri-bution Rate*	*Number of Enrollees As of May 1, 1983*[a]
State Contribution Rate	$76.00	—	$148.00	—	$185.00	—
Health Plans						
Kaiser North	$55.97	15,281	$111.94	10,650	$162.19	20,289
Kaiser South	73.09	8,195	146.18	6,616	—	—
Healthcare	—	—	143.15	294	181.42	396
General Medical Centers	74.80	48	144.70	49	—	—
Greater San Diego	73.58	113	147.39	97	—	—
Rockridge	64.45	55	128.90	39	174.62	58
Ross-Loos Low Option Plan	61.78	—[b]	123.56	—[b]	165.40	—[b]

[a] Source: Public Employees' Retirement System.
[b] No enrollment data was available.

We estimate that the overbudgeted amounts could be as large as $15 million (all funds), consisting of $9 million General Fund and $6 million special and nongovernmental cost funds. These amount are *maximum* savings, however, as actual savings would be less to the extent that departments budget for health costs on the basis of *historical* premium charges. The amount of overbudgeting would also vary depending on changes in the enrollment status of health plan participants during the budget year (our estimates were based on the enrollment status as of 5/1/83).

Accordingly, we recommend adoption of a general control section directing the Department of Finance to reduce 1984–85 support appropriations for amounts overbudgeted for health benefit premiums and PECRF charges, based on the current levels of these charges. Any additional funds needed to pay for health premium *increases* in 1984–85 can be provided through the 1984 Budget Act (Item 9800).

We further recommend that the Department of Finance report to the Legislature, prior to budget hearings, on (1) how it plans to prevent the overbudgeting of health benefits in future years, and (2) whether it intends to recapture funds overbudgeted for health benefits in the current year.

Legislature Should Consider Eliminating Statutory Health Benefit Formula

We recommend that the Legislature amend Government Code Section 22825.1 to remove references to a formula upon which state contributions for health insurance premiums are determined.

As described earlier, Government Code Section 22825.1 specifies a formula for state health benefit contributions whereby the state pays an

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

average of 100 percent of health insurance costs for active employees and annuitants and 90 percent of health insurance costs for their dependents. The law also provides that this provision can be superseded by the provisions of an MOU if the expenditure of funds is approved by the Legislature.

Our analysis has turned up two major problems with the specification in law of state health benefit contribution rates.

First, under collective bargaining, changes in benefits are to be determined by negotiations at the bargaining table. Government Code Section 22825.1, which was enacted *prior* to the passage of SEERA, guarantees state payment for almost *all* state employee health care costs. This provides no incentive for the parties to negotiate changes in health care coverage or to even consider it a bargainable issue. Furthermore, some state employees may not find 100 percent health care coverage to be in their best interests. As funds for employee compensation are limited, the continuation of health benefit coverage at the statutory level results in a commitment of compensation funds that could be allocated to other benefits more desired by represented or non-represented employees.

Second, the statutory specification of state contribution rates hinders the Legislature's ability to implement certain health care cost containment features. For instance, current law limits the extent to which state employees share in the payment of health care premium costs. Yet, "cost-sharing" is a mechanism which is often suggested as a means to control costs, and it is a concept that is being addressed in several reports on cost containment recently authorized by the Legislature.

Given that this statute constrains (1) collective bargaining negotiations over health benefit coverage, and (2) efforts to curtail rising health care costs, we recommend that the Legislature amend Government Code Section 22825.1 to remove the statutory specification of state health benefit contribution rates. This need not result in any reduction to the total compensation package provided to state employees. In fact, it would not necessarily lead to a reduction in the state's share of health care costs, unless the employees and employers agreed to such a reduction through the collective bargaining process.

Fringe Benefits for State Employees

We recommend that the Legislature adopt supplemental report language directing the Department of Personnel Administration and the Department of Finance to jointly submit a report to the fiscal committees and the Joint Legislative Budget Committee by November 1, 1984, on the feasibility of making available flexible benefit plans to state employees.

The Governor's proposal for employee compensation provides funding for *benefit* enhancements in addition to salary increases. Currently, the state provides substantial funds for fringe benefits in baseline budgets. Departments—on the average—budget benefits at about 30 percent of the salary and wage base. The state now designates in law the major benefits provided: retirement, health, and social security.

Our review of the current method of providing and funding benefits to state employees indicates that this method has two drawbacks. First, the state's specification of benefits limits employee choice and results in similar employees being compensated differently. The state's current method of paying for health care costs illustrates these problems. The state's contribution for health coverage is of little value to a state employee who is already covered under a health plan through his or her spouse. In such cases, the employee is *not* allowed to apply the state's health care contribution toward other benefits. In addition, an employee in these circumstances does not receive the same level of compensation as an employee in the same job classification who *does* use the health coverage. Thus, the state's provision of specified health care contributions restricts the use of compensation funds by employees, and also results in the state compensating similar employees differently.

Second, under collective bargaining, the state is moving from providing a single designated benefit package (as it does now) to providing a plethora of packages, as negotiated by the various bargaining units. As this occurs, it will be even more difficult for the Legislature to (1) "cost-out" the various packages, and (2) make reliable decisions on an employee's total compensation (that is, both salaries and benefits).

Consequently, the state may wish to consider a benefit plan which allows employees to choose from a bundle or "cafeteria" of benefits. Flexible benefit plans not only allow employees a *choice* in how to use their benefit dollars, but also ensure that similarly situated employees receive the same *value* from the state's benefit contribution.

So that the Legislature can consider the viability of a flexible benefit program, we recommend that it adopt the following supplemental report language:

> The Department of Personnel Administration, in conjunction with the Department of Finance shall submit a report to the fiscal committees and the Joint Legislative Budget Committee by November 1, 1984, on the feasibility of providing a flexible benefit program for state employees. The report should include benefit and administrative cost data, address the tax implications of this approach, and discuss how this benefit approach can be implemented under the current collective bargaining process.

Budget Does Not Designate a Compensation Package for Nonrepresented Employees

change to when other MOU's are presented

We recommend that the Legislature direct the Department ~~of Person~~nel Administration to report to the fiscal committees by May 15, 1984, its plans for a compensation package for employees not covered under SEERA.

As pointed out in *Perspectives and Issues,* Part 3, decisions regarding the terms and conditions of employment for those state civil service employees who are not covered by a collective bargaining agreement are made as follows:

- The Governor, through the DPA, proposes changes in existing conditions of employment.
- The Legislature then acts on the proposals, either through the normal budget bill process (for provisions which require an appropriation),

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

or by enacting a separate bill (for provisions which require changes to existing law).

We asked DPA and DOF officials to provide us with information on 1983–84 compensation provisions for nonrepresented employees. In December of 1983, we were informed that the compensation package for these employees includes the following major provisions:

- A 6 percent salary increase, effective January 1, 1984;
- Continuation for 6 months of the reduction in employee contributions to the PERS;
- Special salary realignments;
- An increase in state contributions for health and dental insurance premiums;
- Special professional proficiency pay for managerial and supervisorial state engineers;
- A group life insurance policy for state managers; and
- Payment of merit salary adjustments (MSAs).

Information on the specific components of this package became available *after* the Legislature had appropriated funds for employee compensation. Some of these provisions require agencies to "absorb" costs to provide the benefits (MSAs), while others will need additional funding in 1984–85 to pay for the annualized costs of the benefits (life insurance policy, 6 percent salary increase, and salary realignments).

To the extent that the Legislature is unable to undertake a meaningful review of the compensation package for nonrepresented employees, it will not be able to assess the adequacy of their total compensation. Accordingly, we recommend that the DPA report to the fiscal committees by May 15, 1984, on the 1984–85 compensation package proposed by the administration for nonrepresented employees.

PAYMENT OF SPECIFIED ATTORNEY FEES

Item 9810 from the General Fund and various funds — Budget p. GG 195

Requested 1984–85	$400,000
Estimated 1983–84	400,000
Actual 1982–83	75,000
Requested increase—None	
Total recommended reduction	None

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
9810-001-001	—Attorney Fees	General	$200,000
9810-001-494	—Attorney Fees	Special	100,000
9810-001-988	—Attorney Fees	Nongovernmental cost	100,000
Totals			$400,000

GENERAL PROGRAM STATEMENT

This item, included for the first time in the 1982 Budget Act, provides funds for the payment of attorney fee claims, settlements, and judgments against the state awarded pursuant to the Code of Civil Procedure Section 1021.5, or the judicially created theories of the "private attorney general" and "substantial benefit" doctrine. Section 1021.5 provides that a court may award attorney fees to a successful party in any legal action which has brought about the enforcement of an important right and has resulted in a significant benefit to the public.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $400,000 from various funds for payment of court-awarded attorney fees in 1984–85. This amount consists of $200,000 from the General Fund, $100,000 from special funds, and $100,000 from nongovernmental cost funds. This is the same amount that was appropriated in the current year.

It is difficult to evaluate the appropriateness of the funding level proposed in this item, given the state's limited experience in paying court-awarded attorney fees in this manner. In 1982–83, only $75,000 from the General Fund was approved for payment of claims, and no claims were paid from special funds or nongovernmental cost funds. The Department of Finance advises that it approved payment of four claims totaling $51,381 in the first six months of the current year.

Nevertheless, the potential is there for a significant volume of claims to be filed against the funds appropriated by this item. A report prepared by the Attorney General's office indicates that during 1981–82, over $400,000 of attorney fees were awarded by judgments against the state pursuant to the Code of Civil Procedure Section 1021.5, the judicially-created "private attorney general" theory or the "substantial benefit" doctrine, or were included as part of settlements.

Background

Payment of Attorney Fees. In the absence of statutory provisions to the contrary, the generally accepted rule regarding attorney fees is that (1) attorney fees are not chargeable against the losing party to a lawsuit, and (2) the level of fees is established by mutual agreement of the attorney and client. The Legislature, however, has enacted a number of statutes which provide for *state-paid* attorney fees in specific cases. Attorney fees also are sometimes awarded under federal law.

In addition, the courts award attorney fees under various judicially created theories, such as "substantial benefit," "common fund," and "private attorney general."

Prior to 1980–81, state funds for the payment of attorney fees generally came from one of three sources:

1. Budget Act appropriations expressly for payment of attorney fees,
2. Departmental support budgets,
3. The omnibus claims bill or separate legislation.

Increased Legislative Oversight. In order to increase legislative oversight of attorney fees paid by the state, the Legislature adopted language in the 1980 Budget Act which prohibited the use of funds appropriated by the act to pay attorney fees in specified cases, prior to legislative review and approval. Only court-awarded attorney fees specifically authorized and set forth in an item or section of the act, or expressly author-

PAYMENT OF SPECIFIED ATTORNEY FEES—Continued

ized by a statutory provision other than Section 1021.5 of the Code of Civil Procedure, could be paid directly from funds appropriated in the Budget Act. A similar section was included in subsequent Budget Acts and is proposed in Section 5 of the 1984 Budget Bill.

As a result of the control section, departments could no longer use funds appropriated for department support or other purposes to pay court-awarded attorney fees. Thus, an increasing number of attorney fee claims, judgments, and settlements were presented to the Legislature for payment in omnibus claims bills. This provided the Legislature with an opportunity to review the claims and determine whether payment of the awards was warranted.

Mandel v. Myers. On June 18, 1981, the California Supreme Court determined that the Legislature's method of reviewing claims and appropriating funds to pay selected claims was invalid. The Court held in the *Mandel v. Myers* case that "the Legislature cannot pay some awards and not others solely because it readjudicates and redecides the merits of a case in which the court has reached a final judgment. . . . The Legislature is not a super-court that can pick and choose on a case-by-case basis which final judgment it will pay and which it will reject."

In its ruling, however, the court acknowledged that the Legislature has broad authority to adopt (1) appropriate measures to limit governmental expenditures and (2) general rules that apply without arbitrary discrimination to the recovery of attorney fees. The court suggested several means by which the Legislature could restrict potential attorney fee costs:

1. Establish a fixed or maximum hourly rate of recovery for attorney services,
2. Prescribe a maximum "per-case" limit on attorney fee awards,
3. Limit the kinds of cases in which attorney fees may be awarded,
4. Appropriate a designated sum of money to an "attorney fee payment fund" and provide a reasonable basis for allocating such funds among eligible claimants should the designated sum prove insufficient to pay all fee awards.

System for Controlling Attorney Fee Costs. According to the Attorney General's office, the system established in this item for paying attorney fees will meet the criteria established by the California Supreme Court in the *Mandel v. Myers* case. The Budget Bill contains provisions specifying that (a) individual payments from this item shall not exceed the hourly rate charged by the Attorney General, (b) notwithstanding the hourly rate provision, no single payment shall exceed $50,000, and (c) a payment made from the item constitutes full satisfaction of any claim, settlement, compromise, or judgment.

RESERVE FOR CONTINGENCIES OR EMERGENCIES

Item 9840 from the General Fund, special funds and nongovernmental cost funds — Budget p. GG 196

Requested 1984–85	$4,500,000
Amount appropriated by 1983 Budget Act	4,500,000
Total recommended reduction	None

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
9840-001-001—Reserve for Contingencies or Emergencies		General	$1,500,000
9840-001-494—Reserve for Contingencies or Emergencies		Special	1,500,000
9840-001-988—Reserve for Contingencies or Emergencies		Nongovernmental Cost	1,500,000
9840-011-001—Reserve for Contingencies or Emergencies (Loans)		General	(2,500,000)
Total			$4,500,000

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes three appropriations totaling $4,500,000 for allocation by the Department of Finance to state agencies. These funds may be allocated for expenses resulting from unforeseen contingencies and emergencies not covered by specific appropriations. The appropriations consist of $1,500,000 each from the General Fund, special funds and nongovernmental cost funds.

Item 9840-011-001 appropriates an additional $2,500,000 to provide for temporary loans to state agencies whose operations are in danger of being curtailed because of a delay in the receipt of reimbursements or revenue. The loans made under this item must be repaid by the end of the fiscal year in which they are made.

The amounts requested for 1984–85 are the same as what was provided in the 1983 Budget Act.

General Fund Deficiencies

The amount appropriated for contingencies and emergencies in the Budget Act is not intended to cover all unforeseen needs that will arise during the fiscal year. In recent years, the Legislature has appropriated only a nominal amount in this item, primarily to cover minor emergencies that arise during the first part of the fiscal year. The vast majority of the money needed to cover deficiency spending resulting from contingencies and emergencies is provided by a deficiency appropriation to augment the reserve. This appropriation usually is enacted near the end of the fiscal year.

Table 1 displays the amounts appropriated and allocated to agencies from the General Fund for contingencies or emergencies, as well as the year-end unexpended balances, for each fiscal year since 1971–72. The table shows that the Department of Finance anticipates the need for a

RESERVE FOR CONTINGENCIES OR EMERGENCIES—Continued

General Fund deficiency appropriation of $100 million in the current year. This amount would supplement the $1.5 million appropriated from the General Fund for contingencies and emergencies in the 1983 Budget Act, bringing the total amount available in the current year to $101.5 million. As of January 1984, the department had approved or anticipated allocations to state agencies totaling approximately $100,388,000 in 1983–84. Thus, the department projects a balance of $1.1 million available for unforeseen contingencies and emergencies during the remainder of the fiscal year.

The anticipated deficiency allocations in the current year total $232 million *less* than the General Fund deficiencies approved by the Department of Finance in 1982–83. The 1982–83 deficiency appropriation was unusually high ($431.5 million) primarily because of the difficulties involved in projecting the fiscal impact of changes to the Medi-Cal program that were made by reform legislation enacted in 1982. This amount turned out to be more than the amount necessary to cover deficiencies, primarily because the cost-savings resulting from the Medi-Cal reforms were underestimated.

Table 1
Reserve for Contingencies or Emergencies
Appropriations and Allocations from the General Fund
1971–72 through 1984–85
(in thousands)

	Appropriated in Budget Act	*Omnibus Deficiency Appropriation*	*Allocated to Agencies*	*Unexpended Balance*
1971–72	$1,000	$4,918	$4,994	$924
1972–73	1,000	7,500	8,077	423
1973–74	1,500	10,900	5,645	6,755
1974–75	1,500	14,700	15,112	1,088
1975–76	1,500	30,520	24,919	7,101
1976–77	1,500	11,550	11,200	1,850
1977–78	1,500	17,500	18,970	30
1978–79	1,500	11,000	12,193	307
1979–80	1,500	25,646	26,208	939
1980–81	1,500	18,600	19,005	1,095
1981–82	1,500	25,000	25,545	955
1982–83	1,500	431,500	332,101	100,899 [a]
1983–84	1,500	100,000 [b]	100,388 [c]	1,112
1984–85	1,500 [b]	—	—	—

[a] The large unexpended balance remaining from the 1982–83 deficiency appropriation is due primarily to an overestimate of the deficiency in the Medi-Cal program associated with the Medi-Cal reform legislation of 1982.

[b] Proposed

[c] Total amount of 1983–84 allocations made or anticipated by the Department of Finance, as of January 1984.

The $100 million in General Fund deficiency allocations anticipated by the department in 1983–84 include:

Department of Education

- $30.8 million to fund entitlements under SB 813 and other unfunded legislation.
- $25.2 million for increased enrollments.

Department of Forestry

- $10 million for fire suppression costs.

Department of Corrections

- $7.8 million to fund a larger inmate population.

State Controller

- $3 million to pay for Howard Hughes trial costs and various other expenditures.

Deficiencies in Special Funds and Nongovernmental Cost Funds

Tables 2 and 3 display information on deficiencies in special and nongovernmental cost funds, respectively, since 1978–79, the first year in which there was legislative control and oversight of these funds.

Table 2
Reserve for Contingencies or Emergencies
Appropriations and Allocations from Special Funds
1978–79 to 1984–85
(in thousands)

	Appropriated in Budget Act	*Deficiency Appropriation*	*Allocated to Agencies*	*Unexpended Balances*
1978–79	$1,500	—	$254	$1,246
1979–80	1,500	—	821	679
1980–81	1,500	1,000	1,859	641
1981–82	1,500	5,000	5,121	1,379
1982–83	1,500	4,500	3,115	2,885
1983–84	1,500	17,300 [a]	17,774 [b]	1,026
1984–85	1,500 [a]	—	—	—

[a] Proposed
[b] Total amount of 1983–84 allocations made and anticipated by the Department of Finance as of January 1984.

Table 3
Reserve for Contingencies or Emergencies
Appropriations and Allocations from Nongovernmental Cost Funds
1978–79 through 1984–85
(in thousands)

	Appropriated in Budget Act	*Deficiency Appropriation*	*Allocated to Agencies*	*Unexpended Balances*
1978–79	$1,500	—	$676	$824
1979–80	1,500	5,300	6,271	528
1980–81	1,500	—	610	890
1981–82	1,500	—	279	1,221
1982–83	1,500	351,250	275,682	77,068
1983–84	1,500	26,500 [a]	27,012 [b]	988
1984–85	1,500 [a]	—	—	—

[a] Proposed
[b] Total amount of current-year allocations made and anticipated by the Department of Finance, as of January 1984.

In 1983–84, special funds deficiency allocations are estimated at $17.8 million, which is nearly *six times* the $3.1 million allocated in 1982–83. This increase is primarily due to increased costs associated with local entities installation of the "9-1-1" emergency telephone systems ($11.3 million)

RESERVE FOR CONTINGENCIES OR EMERGENCIES—Continued

and increased loan and grant activity by the Department of Housing and Community Development ($2.3 million). In contrast, $27 million in deficiency allocations have been proposed in 1983–84 for agencies supported from nongovernmental cost funds—an amount that is significantly less than the $276 million approved in 1982–83.

RESERVE FOR CONTINGENCIES OR EMERGENCIES—REAPPROPRIATION

Item 9840-490 from the General Fund, and various funds — Budget p. GG 196

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reverts any unexpended balances from the appropriations made in the 1983 Budget Act for the Reserve for Contingencies or Emergencies (Items 9840-001-001, 9840-001-494, and 9840-001-988) to the unappropriated surplus of the General Fund, special funds, and nongovernmental cost funds, respectively, effective June 30, 1984. Historically, the Department of Finance has appropriated $1.5 million to each fund category as a "cushion" to cover deficiency costs until the annual omnibus deficiency bill is enacted in the latter part of the fiscal year.

The amounts reverted on June 30, 1984, are reappropriated by this item to the Reserve for Contingencies or Emergencies (Items 9840-001-001, 9840-001-494, and 9840-001-988), effective July 1, 1984. The reappropriated funds are thus made available during the budget year for allocation by the Director of Finance to cover any additional costs associated with any *1983–84* deficiencies discovered after the fiscal year ends.

INFORMATION TECHNOLOGY EQUIPMENT MANAGEMENT PROGRAM

Item 9845 from the General Fund — Budget p. GG 203

Requested 1984–85	$5,000,000
Recommendation pending	5,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Equipment Management Revolving Fund. Withhold recommendation on $5,000,000 requested for equipment purchases, pending receipt of supporting information.	2175

GENERAL PROGRAM STATEMENT

The Information Technology Equipment Management Program, administered by the Office of Information Technology (OIT) in the Department of Finance, is designed to provide a source of funds for departments to purchase information technology equipment when: (1) this equipment can be shown to be cost-effective to the state, and (2) no other funds are reasonably available to purchase the equipment.

Existing law authorizes the Director of OIT to make loans from the Equipment Management Revolving Fund (EMRF) to state agencies for the purchase of leased office information technology equipment. Prior to providing a loan from the fund, however, OIT must give at least 30-days' advance notice to the fiscal committees and the Joint Legislative Budget Committee. Agencies receiving EMRF loans are obligated to repay the fund upon terms and conditions prescribed by OIT.

Chapter 1327, Statutes of 1983 (AB 2074), transferred primary responsibility for management of the EMRF from the Director of Finance to the Director of OIT and made several other changes with regard to OIT's role in developing and coordinating state policy on information technology. "Information technology" encompasses automated systems that handle computer programming, information storage and retrieval, and voice, video and data communications.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on $5 million requested from the General Fund in Item 9845-001-001 for the Information Technology Equipment Management Program, pending the receipt of additional information to support the request.

The budget proposes a General Fund appropriation of $5 million to the EMRF for the Information Technology Equipment Management Program during 1984-85. This is the second time that funding has been proposed for the EMRF. During 1981, OIT proposed an appropriation of $5 million for the EMRF. The Legislature, however, denied the request for funds.

According to the Department of Finance, the budget is requesting these funds because current market conditions in the information technology industry provide the state with the opportunity to purchase equipment currently leased from vendors at attractive rates. Specifically, certain automated equipment that currently is being leased by a state agency may be offered for sale by the lessor to the agency at a price that is *less than* the remaining lease payments. This frequently occurs when vendors wish to dispose of existing inventories because a new line of hardware and/or software is about to be introduced. The $5 million requested for 1984-85 would be loaned to agencies in order to finance the purchase of the equipment. The agency would then be required by OIT to repay the loan using funds that otherwise would have gone for lease payments to the vendor.

Considering the increasing importance and use of automated systems by state agencies, this proposal makes sense conceptually, and could result in savings to the state that would not be possible otherwise. The extent to which the full amount requested is needed, however, cannot be established given the information provided to date. We understand that OIT staff is developing additional information to support its request.

Pending review of this information, we withhold recommendation on the proposed $5 million General Fund appropriation for the Information Technology Equipment Management Program in 1984-85.

STATEWIDE TELECOMMUNICATIONS

Item 9847 from the General Fund — Budget p. GG 203

Requested 1984–85	$18,200,000
Recommendation pending	18,200,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. First-Year Funding. Withhold recommendation on $18,200,000 requested for a new statewide telecommunications system, pending receipt of (1) the telecommunications plan now being developed and (2) supporting documentation for the amount requested in 1984–85. 2177

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $18,200,000 from the General Fund for the acquisition and operation of a new statewide telecommunications system. These funds, which would be allocated by the Department of Finance (DOF), represent the funding needed for the initial phase of a multi-year program which would involve the purchase and use of technologically sophisticated equipment in the transmission of data, voice, and video images for state agencies.

Background

As we indicated last year in a report entitled *The Utilization and Management of Information Processing Technology in California State Government* (# 83-7), the state is not taking full advantage of the opportunities now available for reducing the cost of meeting its telecommunications needs. More importantly, the virtual explosion of technological progress in the telecommunications industry provides the state with a broad range of options for improving government services through the use of improved telecommunications hardware and software.

The responsibility for planning a statewide telecommunications system is held jointly by the Department of Finance (Office of Information Technology) and the Department of General Services (Office of Telecommunications). As set forth in Chapter 791, Statutes of 1983, which defines each agency's responsibilities with respect to the acquisition of telecommunications goods and services:

- The Department of Finance is the state's "strategic" telecommunications policy maker, in charge of establishing overall goals and objectives; and
- The Department of General Services (DGS) is responsible for "tactical" telecommunications policy, which involves directing operational staff in handling tasks on a daily basis.

In order to stimulate discussion between the state and telecommunications carriers and vendors, the DOF and the DGS have distributed a request-for-information (RFI) document. The RFI document, released in October 1983, describes in detail the telecommunications needs of the state and invites the recipients to respond with an informational presentation of the products and services they can offer.

After reviewing the written responses to the RFI and conducting discussions with individual respondents, the DOF and the DGS plan to publish a report which describes a preferred state telecommunications program. We have been advised that this planning report will be available in April 1984. Both the DOF and the DGS indicate that the plan will serve as a detailed guide for the acquisition and operation of a statewide telecommunications system in 1984–85 and subsequent years.

Proposed Funding Lacks Supporting Documentation

We withhold recommendation on the $18,200,000 requested to provide first-year funding for a new statewide telecommunications system, pending receipt and analysis of further supporting documentation.

The $18.2 million (General Fund) proposed for expenditure in 1984–85 has been designated as *initial* funding for this new telecommunications system. Clearly, the ultimate cost of the multi-year acquisition and system implementation program envisioned by DOF and DGS will exceed this amount.

We support the proposed effort to develop an efficient and more advanced telecommunications system for the state. We also recognize that the planning report now being developed may provide an adequate basis for the Legislature to initiate this effort in the budget year. However, without a detailed spending plan for the requested funds, the Legislature has no basis on which to evaluate the need for $18.2 million in 1984–85. Accordingly, we withhold recommendation on funding for a new statewide telecommunications system, pending the receipt of further supporting documentation for the requested amount and the state telecommunications plan.

UNALLOCATED CAPITAL OUTLAY

Item 9860-301 from the General Fund, Special Account for Capital Outlay — Budget p. GG 204

Requested 1984–85	$500,000
Recommended approval	500,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Project Planning. Recommend that budget language be amended to limit availability of funds to the budget year.	2177
2. Funds Receiving Tidelands Oil Revenues. Recommend that prior to budget hearings, the State Controller submit a report to the Legislature, as required by Section 11.00 of the 1983 Budget Act, and also verify the June 30, 1984, estimated balance in specific funds.	2178

ANALYSIS AND RECOMMENDATIONS

Project Planning

We recommend approval of the $500,000 requested under Item 9860-301-036 for project planning. We further recommend that the Budget Bill be amended to limit the availability of these funds to the budget year, rather than for two years.

UNALLOCATED CAPITAL OUTLAY—Continued

This item provides $500,000 for developing cost estimates for new projects which the Department of Finance anticipates including in the budget for the following year. These funds would be allocated by the Department of Finance. An item for this purpose historically has been included in the Budget Bill to provide statewide planning funds for new capital outlay proposals. The proposed amount would provide for approximately $33 million in construction for new projects, assuming the historical ratio of planning to construction of 1.5 percent. Planning funds for a capital outlay program of this magnitude is reasonable and we recommend approval.

Budget Bill Language. The Budget Bill specifies that the amount appropriated would be available for expenditure during the 1984–85 *and* the 1985–86 fiscal years. There is no need to make these funds available for more than one fiscal year. If the Department of Finance does not authorize planning in the amount of $500,000, the balance should revert to the SAFCO where it would be available for appropriation by the Legislature. Additional funding needs for this purpose in 1985–86 should be considered separately, in the course of legislative deliberations on the 1985 Budget Bill. Consequently, we recommend that the Budget Bill language be modified to indicate that the funds are available for expenditure during the 1984–85 fiscal year only.

Status of Specific Funds Which Receive Tidelands Oil Revenues

We recommend that prior to hearings on this item, the State Controller submit to the Legislature the detailed report required by Section 11.00, Budget Act of 1983, and include in this report a verification of the June 30, 1984, estimated balances in the Capital Outlay Fund for Public Higher Education, the Energy and Resources Fund and the Special Account for Capital Outlay.

The budget proposes to distribute those tidelands oil revenues which are subject to Chapter 899, Statutes of 1980, in 1984–85, as shown in Table 1.

Table 1
Distribution of 1984–85 Tidelands Oil Revenues
(in thousands)

Fund	*Amount*
State Lands Commission	$10,500
California Water Fund	25,000
Central Valley Project Construction Fund	5,000
Sea Grants	500
Capital Outlay Fund for Public Higher Education	95,374
State School Building Lease Purchase Fund	100,000
General Fund—Special Account for Capital Outlay	133,908
Total	$370,282

Under the provisions of Chapter 899/80, the amount of revenue to be deposited in the State School Building Lease Purchase Fund is $200 million, rather than the $100 million proposed in the budget and shown in Table 1. If funds are distributed in accordance with Chapter 899, the amount deposited in the Special Account for Capital Outlay would be reduced to $33,908,000. In addition, Chapter 899/80 specifies that beginning in 1984–85, tidelands oil revenue will no longer be deposited in the Energy and Resources Fund, the State Park and Recreation Fund, and the Transportation Planning and Development Account unless the 1984 Budget Act or other statute authorizes the continuation of these deposits. The budget does not propose to continue depositing tidelands oil revenues in these funds.

Status of Funds According to Governor's Budget. The budget indicates that the June 30, 1983, balances available for appropriation in the Capital Outlay Fund for Public Higher Education, the Energy and Resources Fund, and the Special Account for Capital Outlay are as follows:

Capital Outlay Fund for Public Higher Education	$29,626,000
Energy and Resources Fund	3,806,000
Special Account for Capital Outlay	–1,307,000

The budget proposes transferring the $3,806,000 from the Energy and Resources Fund to the Special Account for Capital Outlay. In addition, the budget reflects the deposit of $95,374,000 in the Capital Outlay Fund for Public Higher Education to bring the balance available for appropriation to $125 million, in accordance with Chapter 899/80.

Balance in Funds Uncertain. In *The 1983–84 Budget: Perspectives and Issues*, we pointed out that there were serious discrepancies between the State Controller's office and the Department of Finance regarding the balances available in these funds. For example, for the Capital Outlay Fund for Public Higher Education, the Controller carried a "reserve for economic uncertainties" of –$6,274,000, while the Department of Finance carried a balance of $523,000. Similarly, for the Special Account for Capital Outlay and the Energy and Resources Fund, the Controller carried balances of –$40,260,000 and –$8,998,000 respectively. For the same funds, however, the Department of Finance carried a balance of $12,612,000 and –$8,825,000. During legislative hearings on the 1983 Budget Bill, the Controller's Office and the Department of Finance could not reconcile these differences.

Because of the confusion over what the balances in these funds were, the Legislature added Section 11.00 to the 1983 Budget Act. This section directs the State Controller to revert all funds reported in the Department of Finance Chapter 10X report and, to report to the Legislature by October 1, 1983, regarding these funds. The Controller has not submitted the necessary information. Therefore, the balances in the budget cannot be verified.

We recommend that prior to budget hearings, the State Controller submit to the Legislature the detailed report required under Section 11.00 of the 1983 Budget Act and include in the report a verification of the June 30, 1984, estimated balances available in each of these funds.

Transfer of $28 Million from the Capital Outlay Fund for Public Higher Education to the General Fund

According to the 1984–85 budget document, the estimated unappropriated balance in the Capital Outlay Fund for Public Higher Education will be $29,626,000 as of June 30, 1984. Chapter 1X, Statutes of 1984 (AB1X), however, transferred $28 million from the Capital Outlay Fund for Public Higher Education (COFPHE) to the General Fund, thereby reducing the balance to $1,626,000.

Existing law requires that the COFPHE receive adequate tidelands oil revenues to bring the balance in that fund to $125 million. Thus, because

UNALLOCATED CAPITAL OUTLAY—Continued

of the $28 million transfer under Ch 1X/84, the amount deposited in the COFPHE under existing law will be $123,374,000, rather than the $95,374,000 as shown in Table 1. Correspondingly, the amount deposited in the Special Account for Capital Outlay (SAFCO) will be reduced by $28 million (to $105,908,000). Since the Budget Bill contains appropriations for all but $10.6 million of the funds in SAFCO, the $28 million reduction will result in a $17.4 million shortfall in this account. (On the other hand, if the Legislature chooses not to replace the $28 million taken from the COFPHE, there would be a $13.4 million shortfall in the COFPHE.)

Thus, there will not be adequate resources in either the Capital Outlay Fund for Public Higher Education or the Special Account for Capital Outlay to finance the appropriations from these funds proposed in the budget for 1984–85.