Major Financial Legislation Enacted in 1987

Office of the Legislative Analyst
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Table of Contents

Introduction

Introduction

This report summarizes the fiscal effects of legislation enacted during the 1987 Regular Session of the California Legislature, and the November Special Session called by the Governor.

It is divided into three parts. **Part 1** describes the provisions and fiscal effects of some 41 major bills enacted during the 1987 Regular Session. Each of these bills is significant from both a fiscal and policy standpoint. Many of the other bills approved by the Legislature and the Governor during the 1987 Regular Session also will have important consequences for the people of California. Thus, the discussion of individual bills in Part I of this report is intended merely to be illustrative of the actions taken by the Legislature on major financial legislation in 1987.

Part 2 describes the provisions and fiscal effects of the seven measures enacted during the November Special Session of the Legislature.

Finally, **Part 3** discusses the condition of the General Fund, taking into account the effects of legislation enacted during 1987. ❖

Part 1

Part 1

Summary of Major Financial Legislation

1987 Regular Session

Table 1 shows the disposition of Senate and Assembly Bills during the 1987 Regular Session. As indicated, 4,389 bills were introduced and eventually 1,530 of these were chaptered. The table also shows that the Governor vetoed 231 bills. This section summarizes those 1987 Regular Session measures with a major fiscal effect at the state level which were enacted.

Table 1
Disposition of Senate and Assembly Bills
1987 Regular Session

	Senate	*Assembly*	*Total*
Introduced	1,697	2,692	4,389
Enrolled	694	1,050	1,744
Vetoed by Governor	86	145	231
Chaptered	608	922	1,530

Revenue Measures

Sales Tax Exemption for Cold Food Sold Through Vending Machines

Chapter 1300 — Senate Bill 121 (Maddy)

This act provides a partial exemption from the sales and use tax for cold food products sold through a vending machine for more than 15 cents. The amount of the exemption is 23 percent of gross receipts for calendar year 1988, 45 percent of gross receipts for 1989, and 67 percent of gross receipts for 1990 and annually thereafter.

This exemption was enacted to equalize the treatment of vending machine food sales with other cold food products. Current law generally exempts food products from the sales tax; however, food served as a meal or for immediate consumption on the premises of the retailer is taxed. The vending machine industry estimates that only 33 percent of the food products sold through their machines is consumed on the premises of a vending machine location.

The Department of Finance estimates that this act will reduce revenues to the state General Fund by $3.9 million in 1987-88, by $13.2 million in 1988-89, and by increasing amounts annually thereafter. In addition, this act will reduce sales tax revenues to cities, counties and transit districts by approximately $1.3 million in 1987-88, by $4.4 million in 1988-89, and by increasing amounts annually thereafter.

Local Transportation Financing Authorities

Chapter 786 — Senate Bill 142 (Deddeh)

Chapter 786 authorizes the creation of local transportation authorities by county boards of supervisors. In addition, this act allows the entities to impose a local retail sales and use tax at a rate of either 1/2 percent or 1 percent. The rationale for the act is that cities and counties currently face a shortage of funds for transit and transportation systems.

The revenues from the tax must be used to finance the construction or maintenance of highways, streets or public transit systems. The act provides that the total tax in any county, in combination with existing transit or transportation authority taxes, cannot exceed 1 percent. In addition, the act authorizes the issuance of limited obligation bonds upon majority voter approval. These bonds must be used to finance capital outlay expenditures for the transportation projects.

Assuming that *all* eligible counties in the State of California imposed this tax by October 1, 1988 at the maximum allowable rate, we estimate that up to $880 million in additional revenues could be made available in 1988-89, up to $1.4 billion in 1989-90, and increased amounts in subsequent years.

State agencies are subject to the increased sales tax authorized by this act. If the maximum tax rate is adopted in each eligible county, we estimate that the state could pay additional sales taxes of up to $6 million from the General Fund and special funds in 1988-89, up to $8 million in 1989-90, and increasing amounts annually thereafter. Of this amount, approximately 75 percent would be borne by the state General Fund.

In addition, to the extent that the increased sales taxes are deducted by businesses on income tax returns, revenues to the state's General Fund would be reduced. The amount of the reduction is unknown, but potentially in the millions of dollars. These revenue losses will begin in 1988-89 and increase annually thereafter.

Property Tax Exemption for Fixtures
Chapter 262 — Assembly Bill 297 (Klehs)

This act exempts specified fixtures, or personal property affixed to land or structures, from the supplemental property tax. This measure was enacted in response to concerns that the taxation of fixtures imposed an unreasonable burden on the business community.

This act applies only to fixtures which are normally valued as a separate appraisal unit. Fixtures which are permanently attached to real property, such as an elevator or fire suppression equipment, are generally included in the overall appraisal of the real property. In contrast, fixtures which do not form an integral part of the property, such as heavy machinery or a refrigeration unit, normally are appraised separately from the real property to which they are affixed.

This act will reduce total property tax *billings* beginning in 1987-88. However, due to delays in billing and collecting the supplemental property tax on fixtures, the loss in *collections* will not appear until 1988-89. We estimate that the total local property tax loss will be approximately $25 million in 1988-89, and that this loss will increase by unknown amounts in subsequent years.

Because the state General Fund makes up any loss in property tax revenues to schools, the reduction in total property tax revenues will trigger an increase in K-14 school apportionments of approximately $9.1 million in 1988-89, and increased amounts in subsequent years. The remainder of the losses, estimated to be approximately $15.9 million in 1988-89, will accrue to local agencies other than K-14 school districts.

Collection of Use Tax By Out-of-State Retailers and Prepayment Requirements

Chapter 1144 — Assembly Bill 229 (Leonard)

This act requires certain out-of-state retailers to collect use tax on sales made to California residents. The rationale for the act is that out-of-state retailers, such as mail order businesses, receive an unfair competitive advantage due to the current difficulty in enforcing the use tax provisions. In addition, the act increases the prepayment threshold under the sales tax program from $17,000 to $50,000 or more taxable sales per month. This provision was enacted in response to concerns that the lower prepayment threshold subjects many responsible taxpayers to a burdensome prepayment schedule.

The change in the prepayment threshold will become effective only after: (1) the Attorney General certifies to the Legislature and the Board of Equalization that the use tax provisions of this act are legally enforceable and constitutional; and (2) the Department of Finance certifies to the Legislature that the revenues attributable to those provisions actually are being submitted to the Board of Equalization.

The Department of Finance estimates that the use tax provisions of this act will increase state revenues by $40.2 million in 1987-88, by $102.4 million in 1988-89, and increasing amounts in subsequent years. However, certain Supreme Court decisions appear to restrict the states' ability to require out-of-state business firms to collect the use tax. Thus, it appears likely that this act will be challenged in court. We are unable to determine how much revenue will be collected from out-of-state retailers while the constitutional status of the bill is being determined.

Changing the threshold for the sales tax prepayment requirements could reduce state General Fund revenues by up to $166 million in the first year. In addition, local revenues could be reduced by up to $22 million. This is because payments that currently are received in May or June would be received in July of the following fiscal year. However, since the implementation of the higher threshold is contingent upon the constitutionality and enforceability of the act's use tax provisions, we are unable to estimate *whether* or *when* these revenue losses would occur.

Partial Property Tax Exemption for Replacement Residences

Chapter 186 — Assembly Bill 60 (Elder)

This act implements a constitutional amendment approved by the voters at the November 1986 general election. Proposition 60 (ACA 5, Elder) authorized the

Legislature to permit elderly homeowners to transfer the assessed value of a principal residence to a qualified replacement dwelling.

This act provides a special method of establishing assessed value for replacement property purchased by a homeowner over the age of 55. Specifically, this act allows qualifying homeowners to transfer the assessed value of their present home to a new residence. Thus, the act provides such homeowners an exemption from the increased property taxes they would otherwise be likely to pay on replacement property. In order to qualify for the exemption, the replacement home must be a replacement for the individual's principal residence, of equal or lesser value than the residence, located in the same county, and purchased or newly constructed within two years of the sale of the original residence.

This act will result in increasing annual property tax losses of unknown amounts, beginning in the 1987-88 fiscal year. Assuming that between 5 percent and 10 percent of *all* homeowners over age 55 make use of the program, we estimate that the total loss in property tax revenues to local governments could be in the range of $15 million to $30 million in 1987-88 (including a partial-year loss for 1986-87 property taxes), $13.4 million to $26.8 million in 1988-89 and increasing amounts annually thereafter.

Since the state General Fund replaces any reduction in property tax revenues to schools, we estimate that General Fund subventions to K-14 school districts could increase by between $5.5 million and $11.1 million in 1987-88, between $5.0 million and $9.9 million in 1988-89 and increasing amounts in subsequent years. The remainder of the loss will be borne by local governments other than school districts. Thus, local governments are expected to lose between $9.5 million and $19.0 million in 1987-88, between $8.4 million and $16.9 million in 1988-89 and increasing amounts annually thereafter.

Federal Tax Conformity
Chapter 1138 — Assembly Bill 53 (Klehs)

This measure substantially conforms California's Personal Income Tax (PIT) law to the new federal income tax law (the federal Tax Reform Act of 1986). In addition, the bill revises tax rates and brackets and makes changes to the exemption credits and other structural features of the state income tax. The major features include:

Selective Conformity. This measure revises the state PIT law so as to fully, partially, or not conform to numerous provisions of federal law, as amended by the Tax Reform Act of 1986 (HR 3838). The provisions affected by the measure encompass both (1) areas where the state is now out of conformity with federal law due to changes enacted by the Tax Reform Act and (2) certain other areas of preexisting differences between state and federal law.

Tax Rates and Brackets. The measure also lowers the top tax rate for individuals from 11 percent to 9.3 percent and reduces the number of tax brackets from 11 to 6.

Structural Features. Among other provisions, the measure also increases the personal and exemption tax credit, increases the standard deduction, and conforms the state add-on preference tax to the general structure of the new federal alternative minimum tax.

According to estimates from the Franchise Tax Board and legislative tax committee staff, this measure will result in a net annual General Fund revenue loss, ranging from $3 million in 1987-88 to $21 million in 1990-91.

Chapter 1139 — Senate Bill 572 (Garamendi)

This measure substantially revises California's Bank and Corporation (B&C) tax law in response to recent changes in the federal tax law (The Tax Reform Act of 1986). The major features include (1) a reduction in the B&C tax rate, (2) selective conformity of state provisions to federal law, and (3) adoption of tax relief provisions for certain businesses.

Tax Rate. This measure reduces the B&C tax rate from 9.6 percent to 9.3 percent. However, it also increases the corporate minimum tax from $200 to $300 in 1987, to $600 in 1988, and to $900 in 1989 and thereafter.

Federal Conformity. This measure conforms state law to certain business-related provisions of the federal Tax Reform Act of 1986. These include, among others, full or partial conformity to new accounting rules, limitations on the meals and entertainment expenses deduction, and certain tax expenditure programs, such as tax credits for research expenses. It also conforms the state's tax on preference income to the general structure of the federal alternative minimum tax.

Tax Relief Provisions. The measure adopts two major tax relief provisions for businesses: (1) net operating loss carryover, which allows businesses to use net losses in one year to offset taxable income in subsequent, more profitable years, and (2) federal "Subchapter S" rules, which allow small corporations to "pass through" income to individual shareholders without being subject to tax.

According to estimates from the Franchise Tax Board and legislative tax committee staff, this measure will result in a net annual General Fund revenue loss, ranging from $22 million in 1987-88 to $32 million in 1990-91.

Delinquent Tax Collection
Chapter 613 — Assembly Bill 2048 (O'Connell)

This measure allows the Franchise Tax Board (FTB) to use private collection agencies to collect delinquent tax accounts within California. It is intended to provide a means for the FTB to collect more delinquent accounts than its budgeted resources would otherwise allow. Ordinarily, such accounts would be written off as uncollectible.

The amounts collected by private agencies will be deposited in the Delinquent Tax Collection Fund, which the measure establishes. A portion of these funds will be used to cover FTB's administrative and contracting costs. The remaining funds will be transferred to the General Fund.

The FTB will be allowed to use private collection agencies until 1992.

According to the Department of Finance and FTB, the measure will result in a revenue gain to the General Fund of $5.5 million in 1987-88 and $10.9 million annually thereafter. These amounts are based on the estimated annual amount of additional tax collection revenues ($17 million), less the FTB's administrative and contracting costs ($6 million). The FTB estimates that the first year (1987-88) revenues and costs would be one-half of these annual amounts.

Expansion of Satellite Wagering in California
Chapter 1273 — Senate Bill 14 (Maddy)

This act authorizes the expansion of inter-track ("satellite") wagering in California to include the central and southern parts of the state. Satellite wagering enables individuals to view (via satellite) and place wagers on horse racing events at a racetrack other than the one where the horse race is actually taking place. The act also deletes the requirement that racing associations provide the financial support for the State Stewards Program, requires the state to assume the cost of certain veterinarian and drug testing services and reduces the license fee rate paid by horse racing associations which conduct quarter horse racing meetings. The measure was enacted in response to the success of satellite wagering in northern California.

According to the Department of Finance, this measure will result in a *net* loss to the state of $5.5 million ($3.7 million General Fund; $1.8 million Fair and Exposition Fund) in 1987-88, and $4.6 million ($4.9 million General Fund reduction offset by a $300,000 Fair and Exposition Fund gain) in 1988-89. In future years, the measure will probably result in *net* gains to the state.

Tax Rebate
Chapter 908 — Senate Bill 47 (Mello) and Chapter 915 — Assembly Bill 2609 (Condit)

These measures provide for the return to taxpayers of "excess" 1986-87 state tax revenues pursuant to the requirements of the State Constitution. Article XIIIB of the State Constitution limits the amount of tax funded appropriations that the state can make each year, and requires that the state return to taxpayers within two years tax revenues collected in excess of this limit.

The Department of Finance estimates that the state must return $1.1 billion in excess revenues collected in 1986-87. These revenues will be returned to taxpayers through tax rebate checks mailed to specified taxpayers. The minimum tax rebate will be $34 for single taxpayers or married taxpayers filing separate returns, and $64 for taxpayers who are married and filing a joint return, heads of household, or surviving spouses. The maximum rebate will be approximately $136 for single taxpayers or married taxpayers filing separate returns, and $272 for taxpayers who are married and filing a joint return, heads of household, or surviving spouses.

Chapter 908 creates the Appropriations Limit Impound Account (ALIA) from which these tax rebates will be paid. Chapter 915 appropriates from the General Fund to the ALIA sufficient funds to pay the required tax rebates, estimated to be $1.1 billion. In addition, this measure appropriates $6.9 million from the General Fund for the administrative costs of making these tax rebates.

Williamson Act Cancellation Fee Calculation
Chapter 1305 — Senate Bill 338 (Vuich)

This act increases the Williamson Act contract cancellation fees charged by county assessors. Most county assessors have calculated the contract cancellation fee based on a property's Proposition 13 value (its 1975 assessed value with an annual 2 percent adjustment). A recent Attorney General's opinion, however, concluded that for Williamson Act purposes the cancellation fee should be based on the property's current *fair-market value*, which generally is much greater than the Proposition 13 value. This act requires all county assessors to use the property's current fair-market value in their calculation of cancellations proposed after December 31, 1987.

The Williamson Act authorizes cities and counties to enter into 10-year contracts with landowners to restrict the use of property to agriculture or open space. In return, the land under contract is assessed on the basis of its agricultural or open-space value only, thereby reducing the landowner's property tax. If the landowner decides to cancel the contract prior to its expiration date, however, a cancellation fee is paid to the assessor for deposit in the state General Fund.

According to the Department of Finance, this measure will increase state General Fund revenues by $500,000 in 1987-88, $1 million in 1988-89, and increasing amounts thereafter. Our analysis indicates that these estimates represent the low end of the potential revenue gain. We anticipate the revenue increase to be up to $5 million in 1987-88, $7 million in 1988-89, and $15 million annually thereafter, depending on the number of cancellations and the specific location and characteristics of the land removed from Williamson Act contracts. ❖

Resources

Landfill Hazard Reduction Program
Chapter 1319 — Assembly Bill 2448 (Eastin)

This act institutes a new statewide waste disposal fee to be paid by all landfill owners/operators, starting January 1, 1989. The fee will be set at a rate (about 50 cents per ton of garbage) that will generate approximately $20 million annually. This money will be used by the California Waste Management Board (CWMB) in two ways. First, the CWMB will make grants to counties and cities for programs to collect household hazardous wastes and for waste control and enforcement programs. Second, the CWMB will guarantee loans to landfill operators who require financial assistance to correct existing landfill health and safety problems. Additionally, the act prohibits operation of most landfills after June 30, 1991, unless the owner has demonstrated the ability to pay for proper landfill closure and postclosure maintenance. This measure is intended to prevent hazards associated with improperly closed or abandoned landfills and to ensure that adequate funding is available to correct landfill problems that threaten the public health.

The act appropriates $2 million from the General Fund as a start-up loan for the first two years of the program. The CWMB and other state agencies anticipate start-up costs for additional personnel, drafting of emergency regulations, contracts with other agencies and other implementation costs of about $1.6 million in 1987-88. The same agencies expect ongoing administrative expenses to equal about $1.4 million annually. State expenditures for grants, loan guarantees and administrative costs could be up to $10 million in 1988-89 (based on six months of fee collections) and up to the full $20 million in fee collections annually thereafter.

Flood Control on the Santa Ana River
Chapter 1285 — Assembly Bill 543 (Ferguson)

This bill authorizes a flood control project for the Santa Ana River, which flows past the cities of San Bernardino, Riverside, Anaheim and Santa Ana in southern California. Under the Flood Control Subvention Program, the state will share project costs with the federal government and with the three local flood control districts.

According to the Department of Water Resources, the total cost of this project will be $1.1 billion over 10 to 20 years, beginning when federal funds are appropriated by Congress. The state's share of the cost over the entire

construction period will be $61.2 million, from the General Fund or tidelands oil revenue.

Flood Control on the Guadelupe River

Chapter 952 — Senate Bill 650 (Alquist)

This bill authorizes a flood control project for the Guadelupe River, which flows past the City of San Jose in Santa Clara County. Under the Flood Control Subvention Program, the state will share project costs with the federal government and the Santa Clara Flood Control District.

According to the Department of Water Resources, the overall project cost will be $32.6 million over a period of two or three years, beginning in 1988 or 1989. The state share will be $5.5 million from the General Fund or from tidelands oil revenue.

State and Local Parks and Recreation Projects

Chapter 1408 — Senate Bill 1508 (McCorquodale)

This act provides for grants to local parks recreation agencies. In addition, this act provides funds for the acquisition of specified park lands and for other local projects unrelated to parks and recreation.

This act appropriates $17.6 million of state tidelands oil revenues. Of this amount, $14.1 million is provided to the Department of Parks and Recreation to provide grants to local parks and recreation agencies. The remaining $3.5 million will be used for a state park acquisition at Chino Hills, an acquisition by the Santa Monica Mountains Conservancy and for five state and local projects or programs unrelated to parks and recreation. The measure also provides $2.4 million from bond funds for two state park projects.

Fisheries Restoration Projects

Chapter 1325 — Assembly Bill 1705 (Costa)

This act provides funds to construct, restore, and maintain fishery resources that have been damaged by past water diversions and development projects. The legislation was enacted in response to concerns that past water diversions have damaged the state's fisheries. Fishery restoration projects may include acquiring land, creating or restoring spawning areas, restoring ocean kelp beds, constructing artificial reefs, and other methods of restoring habitat.

This act appropriates $5 million from state tidelands oil revenues for these projects.

Criminal Justice

Increased Penalty Assessments on Criminal and Traffic Fines
Chapter 1232 — Assembly Bill 1223 (Calderon) and Chapter 1214 — Senate Bill 738 (Davis)

These identical bills increase the penalty assessments levied on criminal and traffic fines from $5 to $7 for every $10 of fine imposed and require the new revenue collected from the increase to be deposited in the Restitution Fund. The Restitution Fund is used to finance the Citizen Indemnification program which compensates those citizens who are injured and suffer financial hardship as a result of crimes of violence. This increase in penalty assessments was enacted in response to estimates from the Department of Finance that showed there would be insufficient funds in the Restitution Fund in 1987-88 to pay all estimated claims to victims.

According to the Department of Finance, this measure will increase revenue to the Restitution Fund by about $13 million annually. Our analysis indicates, however, that this estimate represents the low end of the range of potential revenue increases, and new revenue probably will exceed $25 million annually.

Work/Training Program Credits for Parole Violators
Chapter 1435 — Senate Bill 16 (Presley)

This act authorizes specified parole violators who participate in a work or educational training program to have their parole revocation sentences reduced by up to one month for every month of participation in the program. These parolees are generally in violation of "technical" conditions of their parole, such as failing to report to a parole officer.

The provisions of this measure are consistent with legislative policy that inmates shall receive work credits if they participate in work or education programs. The measure will reduce incarceration costs by reducing the time certain parole violators serve in prison.

This measure will result in General Fund savings to the Department of Corrections of approximately $22 million in 1987-88 and $28 million annually thereafter.

Trial Court Funding
Chapter 1211 — Senate Bill 709 (Lockyer)

This act modifies and makes operative on July 1, 1988 the Trial Court Funding Act of 1985 (Chapter 1607 - AB 19, Robinson). The measure greatly increases the state support of trial court operating costs. The bill was enacted to relieve fiscal pressures at the local level and to reduce disparities in judicial services throughout the state.

The act generally provides state funding for the trial courts in the form of block grants to counties for each superior, municipal, and justice court judgeship and superior and municipal court commissioner or referee. The act also provides for the state to assume approximately 90 percent of the costs of municipal court judges' salaries. In order to receive the state funds, counties must transmit to the state certain court filing fees, fines and forfeitures, as well as forego reimbursement for certain state-mandated local programs and existing block grants for superior court judgeships.

The bill also creates the Trial Court Improvement Fund, and states legislative intent that this fund receive an annual Budget Act appropriation. The Judicial Council will allocate these monies for trial court projects to those counties which elect to participate in the trial court funding program.

The other key fiscal provisions of the measure are not directly related to trial court funding. First, the measure increases the allocation of property tax revenues to cities which levy no or low property taxes. These cities would receive a minimum of 10 percent of the property tax revenues generated within their boundaries, to be phased in over a 10-year period. This entitlement would be funded by reducing the county share of property tax revenues. Second, the act authorizes 109 additional judgeships: 11 in the appellate courts, 64 in the superior courts, and 34 in the municipal courts.

We estimate that this measure will impose *net* General Fund costs in the range of $450 million in 1988-89 if all 58 counties participate in the trial court funding system. This amount includes a $20 million appropriation to the Trial Court Improvement Fund. ❖

Education

Restoration of Urban Impact Aid and Meade Aid
Chapter 1137 — Senate Bill 1416 (Beverly)

This act restores funding for school districts' entitlements to Urban Impact Aid (UIA) and Meade Aid. Funding for these programs was vetoed by the Governor from the 1987 Budget Act.

This act also revises the UIA allocation formula in 1987-88. Specifically, it (1) requires the Superintendent of Public Instruction (SPI) to calculate school district entitlements using current data, (2) guarantees each district *at least* 90 percent of its 1986-87 UIA allocation, and (3) requires the SPI to reallocate any "savings" generated by the revised formula to school districts that, as a result of the revised formula, are either newly eligible for UIA or have increased entitlements.

This act further establishes a committee to review and report to the Legislature on the rationale for and the allocation of the formula by March 1, 1988.

This act appropriates $86.6 million from the General Fund in 1987-88 for UIA and Meade Aid entitlements.

Expansion of Early Education Services for the Handicapped
Chapter 311 — Assembly Bill 2666 (Hannigan)

This act provides for California's participation in a new federal grant program for handicapped preschoolers between the ages of three and five. Under this program, all special education programs in California are required to serve preschool children with nonsevere handicaps, such as speech disorders or reading dysfunctions, by 1991-92. Prior to the passage of this act, preschoolers with *severe* handicaps were provided services. The objective of the new program is to prevent children from needing more costly special education placements in the future.

We estimate that California will receive federal funds of $22 million in 1987-88, $37 million in 1988-89, and $44 million in 1989-90 and annually thereafter for the purposes of this act. The act requires that these funds be used to expand special education services for the nonseverely handicapped population over a five-year period. ❖

Health

Additional Funds for Mental Health and Developmental Disabilities
Chapter 1385 — Assembly Bill 1371 (Bronzan) and Chapter 1384 — Senate Bill 375 (Watson)

These acts require the Department of Health Services to seek federal approval for adding certain case management services as Medi-Cal benefits, thereby making federal matching funds available to support costs of the services. The act states that it is the intent of the Legislature to use the state funds freed up as a result of additional federal funding to expand health and welfare services, with at least half of the funds allocated to programs for mentally and developmentally disabled persons.

According to the Department of Finance, at least $22.5 million in federal funds will become available annually when the federal government approves funding of case management services. This will result in General Fund savings of a like amount.

Our review indicates that California might qualify for as much as $55 million in federal matching funds annually, depending on how broadly case management services are defined. The actual amount of General Fund savings resulting from the availability of additional federal funds will depend on the extent to which the funds are redirected to expand health and welfare services.

Patient Transfers and Emergency Services Funding
Chapter 1240 — Senate Bill 12 (Maddy) and Chapter 1225 — Assembly Bill 214 (Margolin)

These acts place restrictions on "patient dumping" by hospitals. Specifically, the acts (1) establish conditions under which hospitals can transfer emergency room patients to other hospitals and (2) prohibit discrimination in the provision of emergency services. Chapter 1240 also permits counties to establish Emergency Medical Services Funds to reimburse physicians for services provided to patients who do not pay for emergency services. Counties may raise revenue for the funds by imposing an additional penalty assessment of $1 for every $10 in fines and penalties imposed by the courts. This measure was passed in response to concerns that patient dumping delays medical care and jeopardizes the health of the patient.

The Department of Finance estimates that Chapter 1240 will result in revenues to counties of up to $12.6 million annually, depending on how many counties choose to establish a fund. The department estimates that the measures will also result in (1) General Fund costs of $1.6 million annually, partially offset by licensing fee revenue, for investigating complaints, and (2) General Fund revenues of up to $3.5 million from fines.

Licensing of Correctional Treatment Centers
Chapter 1282 — Senate Bill 331 (Presley)

This act requires the Department of Health Services (DHS) and the Office of Statewide Health Planning and Development (OSHPD) to develop licensing regulations for correctional treatment centers. The act also requires facilities operated by state correctional or local law enforcement agencies to obtain licenses from the DHS in order to provide outpatient services and short-term inpatient services. This requirement was enacted to ensure that health care provided in jails and prisons is commensurate with community standards of health care.

The Department of Finance estimates that this measure will result in General Fund costs for licensing of $161,000 annually. In addition, we estimate that this measure will result in unknown, but probably significant, costs to counties and to the state for structural and staffing changes in up to 12 county jail infirmaries and 28 state correctional facilities to meet the new licensure standards. The magnitude of the costs and the number of facilities affected will depend on the specific provisions of the licensing regulations that are promulgated. ❖

Transportation

Revolving Account for Highway Construction Advances and Loans
Chapter 505 — Assembly Bill 366 (Baker)

This act creates the State Highway Construction Revolving Account in the State Transportation Fund, and transfers $50 million to it from the State Highway Account. The purpose of the revolving account is to accelerate the construction of certain state highway projects by allowing the Department of Transportation to advance funds from the account to local governments for their share of the cost of such projects. Advances must be repaid with interest to the revolving account within 24 months. Interest payments will, in turn, be used to repay the State Highway Account until the initial $50 million transfer is repaid.

By making $50 million available to local governments to advance the construction of certain state highway projects, there could be cost savings of unknown amounts due to avoiding future inflation costs. These savings would accrue to both state and local governments. Over the repayment period, the State Highway Account would incur a loss of interest of approximately $50 million, which would otherwise accrue to the account had the money not been transferred. The repayment period is estimated to be between 10 and 14 years, depending on the rate of interest earned by the Pooled Money Investment Account.

New Transportation District Office in Orange County
Chapter 1050 — Assembly Bill 696 (Johnson)

This act requires the Department of Transportation to establish a separate district office in Transportation District 12 in Orange County. The act also appropriates $4.1 million from the State Highway Account to cover the initial expenses of establishing the office. The purpose of the district is to improve the delivery of transportation projects in Orange County.

Our analysis indicates that it will cost substantially more than $4.1 million to fully establish a district office in Orange County. Total costs will depend largely on the number of additional staff needed to provide administrative and support services to operate the new office. The Department of Finance estimates that it could cost approximately $16 million in 1988-89 to fully establish the office and to provide operating support.

Additional Traffic Officers for the California Highway Patrol (CHP)

Chapter 1157 — Assembly Bill 2416 (Zeltner)

This act allows the California Highway Patrol to hire 150 additional traffic officers and 30 associated support personnel to address the recent freeway violence in certain counties around the state. It also provides funds for the CHP to pay for any overtime expenditures incurred in 1987-88 related to limiting such violence.

This act appropriates $9.3 million from the Motor Vehicle Account for these purposes. Of this amount, $7.3 million is to be used for additional personnel and $2 million is to pay for overtime costs.

Toll Roads Authorized in Orange County

Chapter 1402 — Senate Bill 1413 (Seymour)

This act authorizes the construction of toll roads in Orange County. The purpose of the toll roads is to provide a funding mechanism for highways and to help reduce congestion. Prior to charging tolls on roads, a local resolution must be enacted declaring that funding is not available from any federal, state, or other source. Toll roads constructed pursuant to this act must be designed and constructed to the standards and specifications of the Department of Transportation, and be constructed parallel to other public highways and roads. The toll road may be transferred to the state, subject to an agreement on terms and conditions satisfactory to the Director of the Department of Transportation.

This act will have only a minor cost impact on the Department of Transportation to review and approve plans for any toll roads in Orange County. ❖

Welfare and Employment

Aid to Families with Dependent Children—Housing Allowance for the Homeless
Chapter 1353 — Assembly Bill 1733 (Isenberg)

This act requires counties to provide a one-time special needs allowance to homeless persons who are eligible for Aid to Families with Dependent Children (AFDC) grants, beginning February 1, 1988. The purpose of the allowance is to enable homeless families to arrange for permanent housing. The allowance will consist of (1) $30 a day for up to four weeks for the costs of temporary housing and (2) up to 80 percent of a family's "maximum aid payment" (for a family of three this amount equals $506) to be used for a security deposit, month's rent in permanent housing, and a utility deposit. Prior law provided for a housing allowance only in cases of eviction from public housing.

According to the Department of Finance, this measure will increase 1987-88 AFDC expenditures by approximately $16.6 million ($8.2 million federal funds, $7.3 million state General Fund, and $1.1 million county funds) and $39.1 million ($19.4 million federal funds, $17.5 million state General Fund, $2.2 million county funds) in 1988-89 for benefits and administrative costs. Our analysis indicates that the county share of these costs would be state-reimbursable.

Foster Care Sharing Ratio Extension
Chapter 1092 — Senate Bill 357 (Presley)

This act extends by two years the current state-county sharing ratio for foster care costs.

Prior to fiscal year 1978-79, counties paid most of the nonfederal costs to maintain children in foster family homes and foster care group homes. As part of the local government "bail-out" enacted in response to Proposition 13 in 1978, the Legislature provided for a 95 percent state and a 5 percent county share of these costs. The Legislature has renewed the 95/5 sharing ratio several times since it was first enacted. Chapter 1092 extends the 95/5 sharing ratio for an additional two years—from July 1, 1988 to July 1, 1990. The purpose of the extension is to allow time for the preparation of a study by the Health and Welfare Agency on foster care costs. This study is intended to provide additional information necessary to resolve existing disputes over the appropriate cost-sharing ratio.

According to the Department of Finance, the extension of the 95/5 sharing ratio will result in increased General Fund costs and reduced county costs of about $275 million annually in 1988-89 and 1989-90.

In-Home Supportive Services, County Share of Costs
Chapter 1438 — Senate Bill 412 (Bill Greene)

This act freezes the county share of In-Home Supportive Services (IHSS) program costs at the 1987-88 level. (The IHSS program provides disabled persons and the elderly with such services as help with bathing and dressing, and household chores.) The measure was enacted in response to rapid increases in the counties' costs for this program over the past several years, including an anticipated 37 percent increase — from $16.7 million to $22.8 million — between 1986-87 and 1987-88.

This measure also prohibits the counties from reducing services in response to a budget shortfall and instead requires the state to provide enough additional money to cover any excess costs. Under prior law, counties were allowed to temporarily reduce services during any fiscal year in which the costs of the program were expected to exceed the amount available in the budget. The measure requires the state to reimburse counties for any over-budget costs that they might incur in operating the IHSS program, beginning in 1988-89.

The Department of Finance estimates that freezing the county share of IHSS costs at the 1987-88 level will increase state costs by $2.3 million to $8.6 million in 1988-89 and by unknown amounts in subsequent years. Our analysis indicates that the costs in 1988-89 are likely to be close to the higher end of the range cited by the department. By requiring the state to cover any county budgetary overruns, the measure could result in substantial additional increased costs over time. ❖

Local Government Financing

Local Government Unemployment Insurance
Chapter 78 — Assembly Bill 1013 (Baker)

This act repeals the statute which requires the state to reimburse local governments' costs of participating in the Unemployment Insurance program. The act was passed in response to a California Supreme Court decision (*County of Los Angeles v. State of California)* which held that laws which apply generally to all entities, but incidentally impose costs on local governments, do not constitute state-mandated local programs. As a result the state is not required to reimburse local governments for their costs of participating in this program.

The act also reverts to the General Fund $69 million in undisbursed funds which had been appropriated to reimburse local governments' Unemployment Insurance program costs.

Local Government Claims Bill
Chapter 1270 — Senate Bill 1310 (Presley)

This act provides funding to reimburse the local costs of administering eight new state-mandated local programs. The act also contains funding to cover deficiencies in prior-year appropriations for reimbursement of mandates.

Each year, the Legislature enacts a local government claims bill, such as SB 1310, to provide funding for specific statutes and executive orders which are determined to impose state-mandated local programs by the Commission on State Mandates. In subsequent years, the funding for these programs is included in the annual Budget Act.

The act appropriates a total of $48.1 million from the General Fund and $0.6 million from the Restitution Fund to reimburse state-mandated costs incurred by local agencies and school districts.

1987 Trailer Bill
Chapter 134 — Assembly Bill 439 (Vasconcellos)

This act repeals 10 state-mandated local programs. The act also changes certain statutory definitions which are used to determine the appropriations limits for school districts, as required by Article XIII B of the State Constitution.

The repeal of these mandates results in an annual General Fund savings of $32 million. The 1987 Budget Act does not include funds to reimburse local governments for participating in these programs.

By changing certain statutory definitions for K-12 school districts, approximately $400 million net in state tax revenues which previously counted against the state's appropriations limit will now count against K-12 school districts' limits. This results in an increase in the state's appropriations authority of approximately $400 million. This measure has no effect on the level of funding provided to K-12 school districts.

County Finances
Chapter 1286 — Assembly Bill 650 (Costa)

This act provides fiscal assistance to counties by providing one-time block grants and by establishing an ongoing program to stabilize county revenues. These provisions were enacted in response to concerns over the deteriorating financial condition of county governments. The block grants, which may be used for any purpose, were originally funded in Section 32.5 of the 1987 Budget Act. In approving the Budget Act, the Governor left in the appropriation for the block grants, but vetoed the formula by which these funds would be distributed, on the basis that the formula was unfair to rural counties. This act allocates the block grants using an alternative formula. In addition, the act establishes an ongoing county revenue stabilization program which becomes operative in 1988-89.

The act also augments the amount of available funding for infrastructure loans to local governments under the Rural Renaissance program. This augmentation will allow the Infrastructure Review Panel to help finance several projects which might not be possible without this authority.

In addition, the act reverts the undisbursed balance of funds which were originally provided in the 1986 Budget Act to reimburse local governments' costs for two state-mandated local programs involving the Worker's Compensation program. In light of the State Supreme Court decision in *County of Los Angeles v. State of California,* the state is no longer legally obligated to reimburse these costs.

The act appropriates $88.9 million from the General Fund and $21.4 million from the Special Account for Capital Outlay (SAFCO) to fund the block grants. The General Fund costs are offset by the repeal of Section 32.5 of the 1987 Budget Act. The act also appropriates $8 million from SAFCO for the Rural Renaissance program. Finally, the act reverts approximately $8 million in undisbursed funds from the 1986 Budget Act to the General Fund. ❖

Capital Outlay

Prison Construction - Los Angeles County
Chapter 165 — Senate Bill 18 (Presley)

This act authorizes the Department of Corrections (CDC) to acquire and construct adult correctional facilities in Los Angeles County. The measure was enacted in response to concerns over the adequacy of previously selected prison sites in Los Angeles County.

Rural Area. The act provides funding to acquire, plan and construct a 2,000-bed prison complex, with a 200-bed service facility, in a designated *rural area* of Los Angeles County.

Urban Area. The act provides for planning and construction of a 1,250-bed reception center complex with a 200-bed service facility in a designated *urban area* of Los Angeles County.

If CDC should choose not to construct either of the prison facilities at the sites designated, CDC would be required to report to the Legislature within six months explaining why the determination was made not to build at the site(s) designated and to submit an alternative site, within specified areas, for consideration and approval by statute.

The measure also specifies that funds for operation of either the new reception center or prison in Los Angeles County shall not be allocated until construction has begun on the other facility.

Finally, enactment of this measure permitted CDC to occupy the new Northern California Women's Facility in Stockton and the new men's prison in San Diego County.

With regard to the rural area project, the act appropriates $147 million from the 1988 Prison Construction Fund (a general obligation bond program proposed in SB 468 for voter approval in the June 1988 election) and $2 million from the 1986 Prison Construction Fund.

With regard to the urban area project, the act appropriates $146 million from prison bond funding for this 1,450-bed complex. Of this amount, $131 million is to come from 1986 prison bond funds and $15 million is to come from 1984 prison bond funds.

Prison Construction - Youth and Adult

Chapter 1056 — Assembly Bill 911 (Costa)

This act authorizes the California Department of Corrections (CDC) and the Department of Youth Authority (DYA) to undertake several correctional projects to address the problem of increasing prison populations.

The measure appropriates $147 million from the 1988 Prison Construction Fund (a general obligation bond program proposed in SB 468 for voter approval in the June 1988 election) to CDC for acquisition and construction of a new women's prison in Madera County. The measure also authorizes lease-purchase financing of up to $225 million in revenue bonds for construction of the women's prison in Madera County if either SB 468 fails passage or the bond measure is not approved by the voters.

In addition, the measure appropriates $8 million from 1986 bond funds for certain CDC and CYA projects. Of this amount, $6.3 million will be spent on unspecified new adult correctional facilities, and $1.7 million will augment previous funding at the Preston School of Industry and the Fred C. Nelles Boys School.

Superconducting Super Collider Project

Chapter 432 — Senate Bill 566 (McCorquodale)

This act provides authority for the state to finance a portion of the Superconducting Super Collider (SSC) if the federal Department of Energy (DOE) selects a California site for the SSC. The measure was enacted as a portion of the state's efforts to gain federal approval of a California site for the project. Specifically, the measure authorizes project financing of up to $560 million through either the issuance of revenue bonds (using lease payments on unspecified state buildings as collateral) or voter-approved general obligation bonds.

The total cost for the bonds will be $1 billion or more over 20 years to pay principal and interest. In addition, the bill appropriates $3.4 million from the General Fund to the University of California for allocation by the Director of Finance for work on the project, subject to prior notification of legislative committees. ❖

Part 2

Part 2

Summary of Legislation

November Special Session

This section discusses the seven pieces of legislation which were adopted by the Legislature during the November Special Session and subsequently approved by the Governor. These measures were enacted to provide disaster relief to individuals, businesses and government entities incurring losses due to the 1987 Los Angeles earthquake and forest fire disasters.

Earthquake Disaster Relief — Higher Education
Chapter 1x — Assembly Bill 1x (Polanco)

This measure provides funding to the California State University and Community College districts to meet costs for damage and other activities directly associated with the October earthquake. To be eligible for these funds the State University and Community Colleges must make every effort to obtain maximum federal funding. Traditionally, the federal/state participation for disaster assistance programs has been 75 percent and 25 percent respectively. The Office of Emergency Services will establish claim standards under this program.

This act appropriates $15.3 million from the Special Fund for Economic Uncertainties to the Disaster Response-Emergency Operations Account. This amount is available to the California State University ($13.5 million) and the California Community Colleges ($1.8 million) for those campuses located within the disaster area of the October 1, 1987 earthquake and aftershocks.

Deferred-Payment Loans to Rebuild Earthquake Damaged Dwellings
Chapter 2x — Assembly Bill 6x (Calderon)

This act provides deferred-payment loans to reconstruct and rehabilitate owner-occupied single-family dwellings damaged in the earthquakes of October 1987. Further, the act permits borrowers to defer the loan repayments until such time as the property is sold. In addition, the act provides grants of up to $10,000 for individuals and families who incurred damage as a result of the earthquakes.

The act appropriates a total of $17.5 million from the Special Fund for Economic Uncertainties. Of this amount, $7.5 million is appropriated to the Housing Rehabilitation Loan Fund, administered by the Department of Housing and Community Development, for deferred-payment loans and administrative costs. Payments on the deferred-payment loans are to be deposited in the General Fund. The act appropriates the remaining $10 million to the Department of Social Services for individual and family grant assistance. All grant moneys not encumbered by July 1, 1988 are to be transferred to the Housing Rehabilitation Loan Fund for purposes specified in the act.

Aid for Nonprofit Agencies, Individuals and Businesses
Chapter 3x — Assembly Bill 7x (Hill)

This measure provides grants to certain nonprofit agencies and tax relief to individuals and businesses to compensate for losses sustained as a result of the 1987 earthquake and forest fire disasters.

Grants to Nonprofit Agencies. This measure authorizes the state Office of Emergency Services to make grants totaling up to $2.5 million to eligible nonprofit agencies for earthquake damage relief. The grant program will be administered by cities and counties.

Tax Relief for Individuals and Businesses. This measure allows taxpayers to use casualty and net operating losses resulting from earthquakes or forest fires in 1987 to reduce their taxable income for other years. Specifically, taxpayers are allowed to (1) *carry forward* 100 percent of any net operating losses and deduct such losses against income for up to five years, and (2) *carry back* and deduct such losses against income for the 1986 income year. To qualify for this treatment, the losses must have been incurred in areas that have been proclaimed "disaster areas" by the Governor.

This measure appropriates up to $2.5 million from the Special Fund for Economic Uncertainties for the grant program. The General Fund could also incur revenue losses of $1 million annually in 1987-88 and 1988-89 and $625,000 in 1989-90, due to the tax relief provisions.

Deferred-Payment Loans and Grants to Rebuild Earthquake Damaged Dwellings
Chapter 4x — Senate Bill 1x (Cecil Green)

This act provides funds for loans to reconstruct and rehabilitate rental housing units that were damaged in the earthquakes of October 1987. The act also allows the Department of Housing and Community Development (HCD) to establish the terms and conditions of the loans. Additionally, the act provides for grants to certain households that are displaced from rental housing units due to the earthquakes or reconstruction efforts.

The act appropriates $7.5 million from the Special Fund for Economic Uncertainties for loans and grants ($7.3 million) and for state administrative costs ($250,000). Because the act does not specify minimum amounts to be spent on loans and grant and because the HCD may set the terms of any loans, an unknown amount in loan repayments would be deposited in the General Fund in future years.

Interest on State and Local Bonds
Chapter 5x — Senate Bill 2x (Garamendi)

This measure specifies that the interest income on state and local bonds shall be excluded when determining the state alternative minimum tax (AMT). It was enacted to correct an error made in drafting the tax reform measure (Ch 1138/87, AB 53) which inadvertently made such interest income subject to the state AMT.

This measure would not have any direct impact on General Fund revenues, because the interest on state and local bonds already is tax exempt under the State Constitution.

Property Tax Deferral
Chapter 6x — Senate Bill 5x (Campbell)

This act provides property tax relief to qualifying victims of the 1987 earthquake or forest fires. The act allows certain taxpayers to defer payment of their first installment of property taxes until after the county assessor has reappraised their property to reflect the earthquake or fire damage. In addition, the act reimburses counties for property tax losses incurred as a result of the tax deferral program. The counties must pay back this subvention by December 31, 1988. The act also holds counties harmless for the first-year property tax losses attributable to earthquake or fire damage.

Finally, this act waives certain procedural requirements for the amendment of a redevelopment plan in the City of Whittier. It also redefines the "base year assessment roll" for the purposes of calculating the property tax increment to be the last equalized assessment roll, adjusted downward to reflect earthquake damage.

The act appropriates $2 million from the Special Fund for Economic Uncertainties for subventions to counties. These subventions will be paid back by counties in 1988-89; however, counties will be allowed to deduct from their payments an amount equal to the property taxes lost in 1987-88 as a result of disaster reassessments. If total earthquake-related property tax losses in 1987-88 exceed the amount of the payback, the state will be required to subvene additional funds to the counties. The ultimate costs of the program are unknown, and will depend on the level of damages and the number of people applying for property tax reassessments.

Disaster Assistance for State and Local Agencies
Chapter 7x — Senate Bill 6x (Torres)

This act provides assistance to state and local agencies that suffered damage in the Los Angeles Earthquake of 1987. The act also establishes and provides funds for the "1987 Southern California Earthquake Account" (SCEA) within the Natural Disaster Assistance Fund, which is administered by the Office of Emergency Services. These funds will be used to reimburse state and local agencies for expenses incurred due to the 1987 earthquake. Expenses include such things as local agencies' overtime costs, matching funds that are required under the federal disaster relief programs, and repair and reconstruction of public facilities.

The funds appropriated by this chapter are available for expenditure until June 30, 1990 and may be transferred to the Higher Education Earthquake Account, the Trustees of the California State University, or the Board of Governors of the California Community Colleges with the approval of the Director of Finance and notification to the Legislature.

This act transfers $46.5 million from the Special Fund for Economic Uncertainties to the Disaster Response-Emergency Operations Account (DREO). Of this amount, the 1987 SCEA will receive $36.3 million for reimbursements to state and local agencies.

The remaining $10.2 million transferred to the DREO is allocated to the Superintendent of Public Instruction, subject to the approval of the Director of Finance, for matching funds provided by the federal Department of Education ($4.2 million), and for personnel, reconstruction, and other necessary expenses incurred by public school districts or county offices of education due to the earthquake of 1987 ($6.0 million).❖

Part 3

Part 3

Condition of the General Fund

This section of the report discusses the condition of the General Fund for the 1986-87 and 1987-88 fiscal years. These data are based on the Department of Finance's most recent estimates of revenues and expenditures, and have been adjusted to reflect the department's preliminary estimates for financial legislation enacted in 1987.

Table 2
Condition of the General Fund
1986-87 and 1987-88
(dollars in millions)

	1986-87[a]	*1987-88*[b]
Starting Balance - July 1	$686	$581
Revenues and Transfers	32,478	33,278
Changes due to 1987 Legislation	--	17
Revised Revenues	32,478	33,295
Total Resources Available	33,164	33,876
Expenditures	31,487	32,810
Changes due to 1987 Legislation	--	234
Revised Expenditures	31,487	33,044
Ending Balance - June 30	1,677	832
Less: Proposition 4 Surplus to be returned to taxpayers[c]	-1,096	--
Revised Ending Balance	581	832
Unemcumbered Balances of Continuing Appropriations	(8)	(8)
Special Fund for Economic Uncertainties	(571)	(809)
Disaster Response-Operations Account	(2)	(15)

[a] *Source: Department of Finance, 1987-88 Final Change Book.*
[b] *Source: Department of Finance, 1987-88 Final Change Book, adjusted to reflect 1987 legislation.*
[c] *Pursuant to Article XIIIB of the State Constitution.*

1986-87

As shown in Table 2, the General Fund balance at the beginning of the 1986-87 fiscal year was $686 million. Revenues collected during the year exceeded expenditures by almost $1 *billion*. Normally such a surplus of revenues would have increased the General Fund ending balance. However, this did not occur because the total amount of revenue collections exceeded the amount which could be appropriated under Article XIII B of the State Constitution. As a result, almost $1.1 billion of these revenues had to be returned to taxpayers. The amount returned to taxpayers was about $105 million *more* than the difference between current revenue collections and expenditures. This difference was funded by drawing-down the reserve. The ending balance, therefore, was reduced to $581 million.

Table 2 also shows that $571 million of the 1986-87 General Fund balance remains in the Special Fund for Economic Uncertainties. This amount represents the portion of the General Fund balance which the Department of Finance reports was uncommitted as of June 30, 1987.

The State Controller's Office recently released its preliminary accounting for the General Fund in the 1986-87 fiscal year. The Controller's figures are very similar to the department's in most respects, but they differ significantly with regard to the amount of the balance which is reported as uncommitted. This issue will not be resolved until the State Controller releases his final report for the 1986-87 fiscal year.

1987-88

Table 2 also shows that the General Fund balance is expected to grow by $251 million—from $581 million to $832 million—by June 30, 1988. This estimate reflects the revenue and expenditure programs approved for 1987-88 in the 1987 Budget Act, as adjusted to reflect legislation enacted in 1987.

The Department of Finance's most recent estimates (published in the *Final Change Book*) anticipated that the General Fund balance would be in excess of $1 billion at the end of the 1987-88 fiscal year. In arriving at the $832 million figure, we have made adjustments to the department's estimates of revenues and expenditures to reflect the effects of 1987 legislation as detailed below.

Changes to 1987-88 Revenues

The 1987 Budget Act assumed that General Fund revenues in 1987-88 would total $33,278 million. Table 2 shows that this figure has been revised upward by $17 million due to legislation approved by the Legislature and the Governor in

1987. The largest component of this increase is due to Ch 1144/87, relating to the collection of state use taxes on mail order sales, which the department estimates will *increase* General Fund revenues by $40 million in 1987-88. This increase is partially offset by a $25 million *reduction* in General Fund revenues resulting from the tax conformity legislation—Ch 1139/87 and Ch 1138/87.

Thus, General Fund revenues are now expected to total $33,295 million in 1987-88. This figure represents an increase of 2.5 percent over 1986-87 revenues.

Changes to 1987-88 Expenditures

The 1987 Budget Act also provided for General Fund expenditures totaling $32,810 million. Table 2 shows that this figure has been *increased* by $234 million to include the cost of legislation enacted in 1987. This increase includes:

1. $144 million in Regular Session legislation approved by the Legislature and the Governor in 1987. The largest component of this increase is due to Ch 1137/87, which appropriates $87 million from the General Fund in 1987-88 to restore funding to school districts for Urban Impact Aid and Meade Aid.
2. $90 million in Special Session legislation approved by the Legislature and the Governor in 1987.

Thus, when the cost of 1987 legislation is taken into account, General Fund expenditures for 1987-88 are expected to total $33,044 million. This amount represents an increase of 4.9 percent over 1986-87 expenditures.

The result of these changes is that the General Fund balance is expected to be $832 million on June 30, 1988. Of this amount, $809 million is expected to remain uncommitted in the Special Fund for Economic Uncertainties. Naturally, any changes in the estimates of expenditures and revenues will affect this balance. ❖