

SECTION I

REPORT TO THE LEGISLATIVE BUDGET COMMITTEE ON THE 1945-47 BUDGET AND THE BUDGET BILL

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Introduction

In order to understand the Budget and the Budget Bill as introduced by the Governor, it is necessary to have a full understanding of the following:

- (a) The Constitutional requirements providing for the Executive Budget and the Budget Bill;
- (b) The exact basis upon which the Budget was produced; that is, the policies and instructions followed by the Director of Finance in preparing the Budget;
- (c) What is the Budget Bill, why does it appear in the particular form in which it was introduced, and why is the total amount therein less than one-third of the aggregate amount of the Budget Document?

Of the above three matters, the third is probably the most important. We will discuss these matters serially in this introduction.

Constitutional Provision for Executive Budget

Although the constitutional section requiring the Executive Budget has previously been quoted in the report of the Budget Committee, we will again present it here in its entirety so that the Legislature may interpret the Budget in the light of this constitutional requirement. Article IV, Section 34, provides:

"The Governor shall, within the first 30 days of each regular session of the Legislature and prior to its recess, submit to the Legislature, with an explanatory message, *a budget containing a complete plan and itemized statement of all proposed expenditures of the State provided by existing law or recommended by him*, and of all its institutions, departments, boards, bureaus, commissions, officers, employees, and other agencies, and of all estimated revenues, for each fiscal year of the ensuing biennial period; together with a comparison, as to each item of revenues and expenditures, with the actual revenues and expenditures for the first fiscal year of the existing biennial period, and the actual and estimated revenues and expenditures for the second fiscal year thereof. If the proposed expenditures for the ensuing biennial period shall exceed the estimated revenues therefor, the Governor shall recommend the sources from which the additional revenue shall be provided."

Budget Does Not Contain All Recommended Expenditures

In the above quotation we have italicized the provision which requires a complete Budget of all proposed expenditures by the State where provided by existing law or recommended by the Governor. Since the first Executive Budget for the Biennium 1923-25 of the late Governor Friend Richardson down to the Budget under consideration for 1945-47, only two Budgets have conformed to this

requirement. The 1945-47 Budget, and the appropriation bill accompanying it, do not include all of the proposed expenditures recommended by the Governor at the time the Budget was presented.

The Governor's message to the 1945 Legislature, found in the Journal of January 8, 1945, gives a number of recommendations which would require additional appropriations but which are not included in the Budget Document or in the Budget Bill. Some of these items are in the Budget Document but not in the Budget Bill. For example, the item on pensions in the Budget Message recommends that the increase from \$40 to \$50 be continued during the next biennium but this is not in the Budget Bill. Also, while there is an increase in the Budget to meet at least a part of the recommendation for the promotion of safety of industrial workers and to speed up compensation claims, there is nothing in the Budget or the Budget Bill to meet the recommendation that there be established in the University of California, with an adequate appropriation therefor, a School of Industrial Relations.

Health Service

There is nothing in the Budget either to pay for the costs of administration or to pay for the benefits of the recommended health service. Neither is there any item in the Budget to pay for the cost of inspecting and licensing hospitals.

This omission from the Budget of the health service is particularly significant for the bill which the Governor has had introduced into the Legislature providing for it also recommends the levy of a new tax for its support. The matter of recommending new taxes or sources of revenue where present tax levies are insufficient is required in the last sentence of Section 34 of Article IV of the Constitution above presented. A rough estimate of the annual cost of the health plan as found in the Governor's bill shows that it will be from \$240,000,000 to \$300,000,000 a year depending on the scale of benefits allowed. From the pay roll tax proposed, an estimate of the revenue which would be produced would range from \$125,000,000 to \$150,000,000 per year, leaving a deficit from this source of from \$115,000,000 to \$150,000,000 per year. If this is to be met from the General Fund, then the Budget figures, particularly the estimated surplus, found in the Governor's Budget must be adjusted accordingly.

Likewise, the tax reduction recommended on the one hand should be considered with the tax increase required for the new expenditure recommended. Full weight, of course, should be given to the fact that one-half of the tax recommended is to be levied upon those who will currently and ultimately become beneficiaries of the prepaid medical service plan.

There is an additional sum, page 417 of the Budget, to carry on a limited clinical service for mental health, but not enough to meet the recommendation "that we should have clinics throughout the State where people undergoing mental strain can be treated and prevented, whenever possible, from mental crack-ups that will add to our hospital responsibility. We can not, of course, establish centers of this kind in every community in the State. It is my belief, however, that five properly located centers containing mobile

units for use in surrounding communities would enable the State to make tremendous progress in the advancement of mental hygiene." The Budget proposal for \$30,000 the first year and \$179,000 the second only opens the door to a vast continuing expenditure for all time to come.

There are some additional moneys allowed in the Budget and the Budget Bill, Item 231 for \$200,000, for an expanded program for crippled children.

There is no provision in the Budget or Budget Bill to take care of the Commission on Political and Economic Equality.

There is no recommendation in the Budget to finance the administration of unemployment relief although it was recommended that such an organization be set up. Moreover, there is no provision in the Budget or the Budget Bill for establishing of a reserve of \$50,000,000 for unemployment relief, although the Budget Message presents a request for the creation of such a reserve or more, from which specific appropriations may later be made.

There does not appear in the Budget a recommended appropriation to establish in the Department of Military and Veterans' Affairs an organization for centralizing the administration of all services designed to assist returning veterans, as is recommended in the Governor's Message to the Legislature on Page 16, the fourth paragraph, in the following words: "But we must also recognize that it is in our State and communities that veterans will be seeking to make their adjustment. There is need for organized effort in every community and for centralizing the administration of all services designed to assist veterans in their return to civilian life. In order to better accomplish this result, I recommend that the Legislature establish in the Department of Military Affairs a service of that character. By close working arrangements with other State departments, Federal agencies, the armed forces, local government, veterans and other organizations, much can be done under State leadership."

This item does not appear in the Budget or in the Budget Bill despite the fact that this service in a limited way is already set up in the Department of Military and Veterans' Affairs under the director. Funds were provided from the State Emergency Fund by executive order E-1289, dated December 1, 1944, in the sum of \$6,717, and a committee has been appointed by the Governor for the purpose of coordinating this activity. An assistant to the Director of Military and Veterans' has been employed at a salary of \$350 per month, with clerical assistance to carry on this work.

Also Assembly Bill No. 1049 was introduced in the Legislature on January 25, 1945, prior to the submission of the Governor's Budget, amending Section 53 of the Military and Veterans' Code, creating thereby "The California Veterans Commission" as a division of the Department of Military and Veterans' Affairs, and also adding Article 5 to this section creating a California Veterans Commission of 15 members to serve at the pleasure of the Governor, and providing for an executive secretary and other necessary employees and appropriating \$60,000 to support the commission during the Ninety-seventh and Ninety-eighth Fiscal Years.

Clearly this is a recommendation of the Governor and money is being expended during the current biennium for this purpose under

the executive order above cited, and yet this item does not show in the Budget either as an expenditure now or proposed for the future. In fact, the Budget does not show any item of expenditure for the current biennium or recommended appropriation for administration of the Department of Military and Veterans' Affairs other than that for the Veterans' Welfare Board, a Division of the Department, page 548 of the Budget, and the administration of the Veterans' Farm and Home Purchase Acts in the appendix beginning on page 804.

In connection with this same Department of Military and Veterans' Affairs, the Veterans' Welfare Board shows for the Veterans' Educational Institute an expenditure for 1943-45, on page 548 of the Budget, in the sum of \$158,794.30. However, the Governor does not recommend any proposed expenditure for the 1945-47 Biennium for there is nothing entered for this item for the 1945-47 Biennium, and the column showing increase and decrease carries the entire amount expended for 1943-45 as a decrease. We must presume therefore that the Governor intends to revert the balance of the appropriation made by Chapter 627, Statutes of 1943, which enacted Senate Bill No. 560, appropriating \$500,000 for this purpose but which was cut by the Governor under his constitutional power to \$300,000.

Although Item 193 of the Budget Bill appropriates \$104,445 from the State Park Fund for acquisition of additional Redwood Park areas, in no place in the Budget or in the Appropriation Bill is there provision to meet the recommendation in the Governor's Message for the immediate earmarking of sufficient funds from the existing State surplus to insure the eventual purchases of additional park and beach lands. Although this was not placed in the Budget, a bill appropriating \$15,000,000 from the General Fund has been introduced following this recommendation. Clearly this is in effect an addition to the Budget and should be a Budget amendment, particularly since it is an appropriation from the General Fund.

There is no item in the Budget or in the Appropriation Bill to meet another expenditure found in the same message in the following terms: "I recommend to you the creation of a division in State Government to be charged with the responsibility of fostering and encouraging the expansion of recreational programs." Certainly the creation of a division of this sort in as broad terms as presented by the Governor, not only will require an appropriation but must provide proper officers and employees, office space, transportation, and other necessary items. Moreover, it should be coordinated into the existing framework of State Government and the cost thereof should be charged to that particular department and should show as a proposed increased expenditure.

Budget for All Proposed Expenditures Essential

In our opinion all of these proposals which require increased expenditures for the coming biennium should have been definitely calculated by the financial officers of the State as part of their definite responsibility and they should be a part of the entire financial program of the State for the next biennium which the Governor recommends to the Legislature. We are unable to estimate the cost of all of them in their entirety with the information in hand. We

have written a letter to the Director of Finance asking for that information. We believe that the sum total should be added to the Budget as presented and included in the Appropriation Bill so that the Legislature may have before it to consider at one time the total of the expenditure program of the State as provided by existing law or recommended by the Governor. This is necessary if the Legislature is to be able to see the whole financial requirements of the State and to review the requested appropriations as a whole and see what effect they have upon the financial structure of the State and the resultant tax requirements and the estimated surplus at the close of the biennium.

It is the opinion of the Legislative Auditor that if the Budget as presented by the Governor, calling for an expenditure of \$683,710,643, is approved and all appropriations therefor made by the Legislature, that the three following results will occur:

1. The actual expenditure program as presented in the Budget will be discovered to be considerably in excess of \$683,710,643. This excess will bring the expenditure program, within the limits of the Budget itself, to nearly \$700,000,000. It can be less than this either by reductions made by the Legislature or by the withholding of expenditures, by delaying some, and by abandoning others by the administration.

2. The actual expenditures for the Biennium 1945-47, if the Governor's Budget is approved in the amount recommended, will of course be exceeded by the amount of the appropriations approved by the Legislature which are in addition to the Budget. Under normal conditions these would run to approximately \$20,000,000.

Under the administration of Governor Warren we find that the total of his first Budget as found in the Budget document for 1943-45, page xiii, and on page A-3, Schedule I, is stated at \$463,947,005. The actual and estimated expenditures for this Biennium 1943-45 found on page A-3, Schedule I of the 1945-47 Budget, is stated at \$587,347,003.04. This is an increase in round numbers of \$123,000,000. We wish to point out that this increase contains some abnormal expenditures due to war conditions. The decreases contemplated, however, resulting from the discontinuance of these wartime activities, have already been taken into account in the Governor's Budget for 1945-47.

Only considering normal legislative bills added to the Budget the expenditure program will probably exceed \$720,000,000 for 1945-47.

3. If the program of the expenditures as recommended by the Governor in the Budget and the Budget Bill for 1945-47, in his Budget Message, and in his Biennial Message of January 8, 1945, to the Legislature, are all approved, the actual Budget expenditures should turn out to be between \$150,000,000 and \$185,000,000 more than the Budget total or from \$834,000,000 to \$884,000,000. This would be in addition to the approximately \$150,000,000 per year that might be collected by the recommended pay roll tax to support the health plan program. This expenditure of between \$834,000,000 and \$884,000,000 for the biennium would include making up the deficit between this pay roll tax collection and the cost of the health program. The actual realization of the deficit may be delayed by not putting the health plan into operation during the biennium and merely creating a reserve to meet its future costs. This would merely be delaying the time when such a deficit must be met unless

heavier taxes are proposed than the 3 per cent pay roll tax. Unless this plan is put on the pay-as-you-go basis, it will cut into any established reserves which will not be replaced and eventually the plan will be bankrupt.

This was the experience of other similar health plans when they were first introduced and when premiums collected were not sufficient to pay the cost. It is now the experience of the health plan in Rhode Island provided by the State in 1942 where in this small State they are paying out approximately \$400,000 a month and are collecting \$300,000. The cost of the benefits and the taxes collected must be synchronized unless the State expects to make up the deficit from other tax sources.

The cost of the numerous other matters recommended by the Governor will make up the additional amounts estimated and this total soon will not only use up the estimated surplus as presented in the Governor's Budget for 1945-47 but will require additional taxes to meet the program.

If in addition to the above, any considerable amount of the large special appropriation items for the assisting of cities and counties, the building of local highways, and providing for a comprehensive state-wide plan for flood control, is made available, then it is certain that these must either be substituted for proposals made by the Governor or that taxes must be materially increased unless a very large deficit is incurred.

The grand total of the expenditures for the 1945-47 biennium under such conditions as above presented combining probable expenditures under one, two, and three could exceed a billion dollars.

Legislature Not Responsible for All Additional Appropriations

In regard to this omission of setting up money in the Budget for matters presented by the Governor in his message, it must be remembered that some proposals are still in a formative stage and the cost thereof could not have been accurately predicted at the time the Budget was presented. However, this is not true of all of them for some can be calculated as close as many items that are in the Budget. All of these recommended items that are approved by the Legislature and made effective will add to the total of the appropriations for the biennium, and as they are the recommendations of the Governor, then they should be a part of the expenditure program of the Administration and a part of the Executive Budget. They should not go into the category of expenditures which too often in the past have been labeled as being added to the Governor's Budget by the Legislature and the responsibility for the increase placed on the Legislature.

Budget Bill Can Be Amended

It may be that the Governor intends to have his Budget Bill amended to include the additional appropriations which he has recommended, for under the Constitution this power is given to the Governor in Article IV, Section 34, in the following words: "The Governor may at any time amend or supplement the Budget and propose amendments to the Budget Bill before or after its enactment, and each such amendment shall be referred in each House to the committee to which the Budget Bill was originally referred."

It might be said that these recommendations for expenditures which the Governor has proposed, and which do not appear in the Budget or

in the Budget Bill, were omitted for the reason that they require legislation and the Chief Executive does not wish to be in the position of presenting in his Budget items which anticipate legislation. However, this does not entirely cover the situation for some of the matters do not require legislation but merely additional funds in the several appropriations. Moreover, the Governor has included in his Budget the amount of money necessary to carry the aid to the needy aged for the coming biennium at \$50 per month per recipient although this required the enactment of a statute continuing it beyond June 30, 1945. This has already been passed by the Legislature and approved by the Governor but it was not existing law at the time the Budget was presented.

Budget Document Good

In general we must compliment the Governor on the Budget Document. Statistically it is quite complete. Moreover, it contains some essential information conforming to the Part of the constitutional requirement above underlined, and which has not appeared in many prior Budgets. We refer specifically to the section on highways beginning on page 704 and extending to 713 inclusive. We call particular attention to page 713 which sets up a statement of unbudgeted surplus and reserves for postwar highway construction.* This particular tabulation will do more to clarify the financial position of the Division of Highways than any information which has been made available to the Legislature for many sessions.

Explanations Lacking

There is one weakness in the Budget document that will at times become apparent. This is the lack of explanatory material particularly where items are unusual, out of line, new or where changes have been made in organization, terminology or otherwise, from what has appeared in the budget immediately preceding. Such explanations are necessary for the information of the Legislature for the reason that the Budget for the coming biennium is compared with the actual expenditures for the first year of the current biennium and estimated expenditures for the second year of the current biennium. The budgets of many other States contain such explanations and they are considered of great value to the Legislature.

Herewith are listed just a few of such items that very well might have been presented with brief explanations in this Budget with profit to all:

(1) How and why was the Department of Corrections established, the Department of Justice, and what was set up for the previous biennium for comparison?

(2) How did the State get a Department of Public Utilities found in the Governor's Budget on page 684 and extending to page 693?

(3) Who expanded the work of the Department of Institutions to include the out-patient hygiene clinics found on page 417 of the Budget and what will this mean in subsequent Budgets?

(4) How did the legislative county offices for Los Angeles, San Francisco and Alameda, as shown on pages 2 and 3 of the Budget, come into being?

(5) By what means was there established in the Department of

* A bill has been introduced in the Senate to set up the \$40,000,000 reserve recommended.

Finance an organization to administer aid to local government found on page 351 of the Budget and what is the Bureau of Liquidation of the Department of Finance set up on page 341?

(6) How did the Board of Control get transferred out of the Department of Finance and get set up for an independent appropriation?

(7) What are the two special survey items for mineral and education found on page 36 of the Budget?

(8) Although there is a brief explanation concerning the establishment of new facilities under the Youth Authority, i.e., Fricot Ranch School, page 148 of the Budget, these are hardly extensive enough to explain how they came into being.

The Budget Document would be much more useful and probably used more if the explanations suggested above, and others covering all changes in the Budget differing from 1943-45, new additions and out-of-line items, were included.

Basis of the Budget, Policies and Instructions of the Governor

To fully understand the Executive Budget for any particular biennium, it is essential to know just what policies and instructions were followed in preparing the Budget. Some definite basis must be established if a satisfactory Budget is to be presented. A review, therefore, of any Budget must be made with full consideration of the policies contained therein and the instructions followed in making it. These are presented briefly in the letter of transmittal from the Director of Finance to His Excellency, Governor Earl Warren, found on page IX of the Budget Document.

It is particularly necessary to have a full understanding at this time for the State is still operating under wartime conditions. Revenue flows into the treasury on the basis of wartime income and spending of the people. On the other hand, certain costs of government are based upon meeting wartime emergencies and certain economies are forced because of the inability to secure personnel, equipment, and supplies. This condition, however, may change quickly and the State may be forced to go from a wartime condition through a transition period to peacetime conditions. Let us see briefly how the budget was made to cover such conditions.

Policies and Instructions Followed

The Director of Finance says in his letter of transmittal to the Governor, "The State Budget for the biennium beginning July 1, 1945 and ending June 30, 1947, was prepared in accordance with your policies and instructions". He also further outlines these policies and instructions as follows:

(a) This finance program is based upon the broad assumption that 1945-47 will be a period of transition from war to peace.

(b) Both revenue and expenditure estimates allow for a gradual return to peacetime economy, allowing, however, for the State's increased population.

(c) War activities of all agencies are set forth separately and distinguished from regular agencies.

(d) Provision is made for the return of regular employees now in the armed forces to positions authorized but vacant. (Note that this does not state that employees in the armed services will take their previous positions although they may have to replace temporary employees.)

(e) Salaries of State employees are continued at existing schedules approved by the Personnel Board, including the emergency adjustments of \$20 and \$25 per month.

(f) Provision has been made for a uniform number of holidays for all State employees following the legislative resolution to this effect.

(g) Amounts have been budgeted for the purchase of commodities on the basis of existing prices. (We should note in this instance that the possibility of reduced prices with the return of peace has not been considered. The assumption has been made that the price of food and clothing will remain stable during the biennium.)

(h) Amounts have been budgeted for normal building maintenance and minor construction for each State agency.

(i) Urgently needed construction projects have been recommended from the Postwar Emergency Building Fund. These have been coordinated with the plans drawn for postwar building.

(j) It is contended that expenditures recommended have been determined to be essential needs of the State.

(k) Budget requests of operating agencies have been reduced more than \$20,700,000 by the elimination of less necessary items.

Policies May Not Have Been Followed Completely

These policies and instructions should be reviewed carefully and coordinated with the Budget Document and Appropriation Bill. If it is found that they have not been followed constantly, then changes should be made and amendments be made to the Budget Bill to bring forth into harmony with these policies and instructions.

Legislature May Approve Different Policies

Should the Legislature set up any different policies, then both the Budget Document and the Appropriation Bill should be changed accordingly. For example, the Legislature may decide that no matter how urgently needed, none of the construction projects shall be undertaken until the close of the war and the cost of building has assumed a more normal condition. If it should do this, the capital outlay items should all be taken from the Budget. Or, it may decide that the Postwar Unemployment Reserve Fund shall be preserved and any building shall come from the surplus. Then the Budget Bill should be changed accordingly.

The Legislature also may determine that positions that are now vacant shall not merely be filled by allowing this to occur automatically when employees now in the armed forces return, but that each position shall be justified in itself. The Legislature may decide that prices of commodities may decline and therefore may wish to set up a special reserve to be kept intact if this does occur.

War May Not End by July 1, 1946

The assumption made that the war will end during the first year of the biennium and that the second year of the biennium will see the return to peacetime conditions, may prove to be an erroneous assumption. The war may not end in its entirety during this first year of the biennium or again it may end before the close of the current biennium. It is necessary, however, to use some assumption if a Budget is to be made and it will be necessary for the Legislature to make some such assumption if it

is to pass appropriation measures to provide for the needs of the State. The condition which obtains with the actual ending of hostilities in Europe may be so different than has been assumed, that the only solution will be found in calling the Legislature into special session. This can be done readily and might be more effective than building a budget on the broad assumptions of the Administration as above outlined. For example, the revenue estimates may be found to be far too optimistic and the yield not nearly so large as estimated. If this should occur, the Legislature should be called into session to provide proper remedy.

Legislature May Require Stricter Economy

The Legislative Auditor has called the attention of the Legislature to the fact that with the return to peacetime economy, even as favorable as was enjoyed in 1940-41, the present tax levies of the State will not produce enough revenue to meet State expenditures on the present basis. He has also pointed out that for the period extending from 1929 to 1941, the State did not collect in any one year enough revenue to meet State expenditures. In the last year of Governor Young's administration, the State spent approximately \$4,000,000 more than it collected and cut into the then surplus by this sum. By 1933 the State had used its surplus of approximately \$30,000,000 and had a deficit of approximately \$11,000,000. It is true that this surplus was used largely for capital outlay. From this date until 1941 the State had a deficit which finally reached almost \$100,000,000. This deficit arose in spite of the fact that during this period, 1929-1941, the State enacted many new taxes and increased the rates on other established taxes.

The new taxes were:

- (1) The sales tax.
- (2) The use tax.
- (3) The gift tax.
- (4) The personal income tax.
- (5) The two liquor excise taxes.
- (6) The liquor license fees.
- (7) The automobile in lieu tax.
- (8) The motor vehicle transportation license tax.
- (9) The use fuel tax.
- (10) The corporate income tax.
- (11) The race track tax.
- (12) The private car tax.

There also was imposed a pay roll tax, now 2.7 per cent on the employer and one per cent on the employee, for the special purpose of establishing an Unemployment Insurance Fund.

The taxes that were increased were:

- (1) The corporation franchise tax.
- (2) The inheritance tax.
- (3) The bank tax.

The only tax levied in 1933 not levied today by the State is the utility property tax which was returned to the local property tax rolls.

A schedule of the taxes levied and the taxes collected from the several sources from 1901 to 1944 is shown in the table on the following page.

California State Tax Collections 1901-1944

(Source: The Tax Digest, February 1945)

Year ending June 30	Ad valorem tax		Poll tax	Inheritance tax	Insurance premium tax	Motor vehicle licences	Corporation tax	Utility gross receipts tax	Bank tax	Corporation franchise tax
	Railroads	Common property								
1901	\$239,053	\$5,824,157	\$428,907	\$243,586	\$46,664	-----	-----	-----	-----	-----
1902	235,543	5,686,485	430,186	287,053	51,000	-----	-----	-----	-----	-----
1903	251,118	4,697,860	447,252	285,867	65,101	-----	-----	-----	-----	-----
1904	471,301	8,217,410	481,418	286,561	71,261	-----	-----	-----	-----	-----
1905	572,732	7,879,840	528,914	532,712	165,243	\$7,857	-----	-----	-----	-----
1906	342,119	7,590,888	604,678	292,705	264,594	11,240	\$138,915	-----	-----	-----
1907	385,612	7,189,023	502,694	740,941	278,184	15,850	298,940	-----	-----	-----
1908	499,380	7,761,822	607,974	608,943	284,496	16,970	663,150	-----	-----	-----
1909	460,064	7,530,156	670,696	937,073	619,267	19,048	664,060	-----	-----	-----
1910	437,744	8,436,048	687,953	883,640	435,365	30,496	745,605	-----	-----	-----
1911	487,920	7,891,194	739,324	1,506,993	111,947	41,135	872,130	-----	-----	-----
1912	70,583	1,896,860	843,604	1,033,244	521,349	62,806	802,013	\$6,617,483	\$1,628,787	\$1,619,589
1913	64,843	1,297,054	856,876	1,586,875	602,904	84,736	793,886	6,988,014	1,686,283	1,603,517
1914	63,468	1,264,962	845,485	1,796,479	760,300	1,205,762	741,083	8,356,824	1,766,371	1,557,488
1915	63,345	1,212,330	553,552	2,783,090	813,494	2,004,195	9,461	9,141,992	1,826,059	1,708,071
1916	-----	55,523	-----	3,145,211	1,019,643	2,126,657	558,307	9,363,268	2,222,677	1,862,074
1917	-----	37,892	-----	3,830,952	1,056,577	2,721,061	776,606	10,412,164	2,229,971	1,928,874
1918	-----	17,321	-----	2,725,407	1,178,391	3,401,807	758,188	10,924,747	2,184,217	2,104,663
1919	-----	12,370	-----	3,409,911	1,359,130	4,050,781	757,039	12,107,027	2,238,124	1,930,278
1920	-----	11,369	-----	2,678,159	1,645,958	5,406,942	846,907	13,553,271	2,385,815	1,994,217
1921	-----	8,437	-----	6,804,732	1,996,652	6,447,611	936,733	15,519,133	2,606,890	2,244,796
1922	-----	4,254	-----	6,344,644	3,206,480	7,687,731	990,731	21,248,120	3,630,832	3,020,745
1923	-----	3,149	-----	4,777,950	3,392,054	9,820,725	1,118,084	22,144,812	3,740,288	3,088,232
1924	-----	9,883	-----	6,463,326	3,537,757	6,497,622	1,263,087	22,753,502	3,809,672	3,359,498
1925	-----	4,558	-----	6,423,141	4,519,393	7,612,319	1,315,531	27,777,791	4,106,727	3,856,446
1926	-----	3,194	-----	7,420,167	4,483,605	8,183,103	1,357,319	28,501,331	4,287,439	3,874,690
1927	-----	4,671	-----	8,450,954	5,042,533	8,354,899	1,375,345	29,713,490	4,319,046	3,987,694
1928	-----	3,740	-----	10,967,705	5,586,705	8,853,902	-----	30,393,794	4,360,572	4,046,130
1929	-----	8,361	-----	13,130,226	6,359,702	10,020,592	-----	32,369,113	4,758,204	4,574,358
1930	-----	4,685	-----	11,647,011	6,700,311	9,825,647	-----	33,306,031	-----	-----
1931	-----	3,273	-----	13,735,791	7,186,960	9,725,978	-----	35,301,741	-----	-----
1932	-----	2,809	-----	10,093,790	7,133,587	9,239,018	-----	32,366,315	-----	-----
1933	-----	1,137	-----	5,778,736	6,725,024	8,370,497	-----	29,492,284	-----	-----
1934	-----	509	-----	4,135,772	5,734,651	8,639,952	-----	29,035,857	-----	-----
1935	-----	479	-----	4,945,034	5,413,245	9,162,602	-----	27,913,372	-----	-----
1936	-----	1,150	-----	6,561,327	6,464,254	10,420,170	-----	-----	-----	-----
1937	-----	2,642	-----	5,743,981	6,638,320	11,341,510	-----	-----	-----	-----
1938	-----	1,631	-----	10,479,524	6,749,349	11,736,233	-----	-----	-----	-----
1939	-----	1,168	-----	8,371,539	7,631,077	11,067,639	-----	-----	-----	-----
1940	-----	1,161	-----	10,529,965	7,891,428	12,736,643	-----	-----	-----	-----
1941	-----	1,309	-----	11,449,476	8,124,777	13,894,041	-----	-----	-----	-----
1942	-----	1,791	-----	8,040,900	8,693,191	13,943,334	-----	-----	-----	-----
1943	-----	1,786	-----	6,245,960	9,953,487	13,714,651	-----	-----	-----	-----
1944	-----	866	-----	9,761,533	9,796,896	14,282,536	-----	-----	-----	-----

California State Tax Collections 1901-1944—Continued

(Source: The Tax Digest, February 1945)

Year ending June 30	Gasoline tax	Motor transportation tax	Bank and corporation tax	Liquor taxes	Liquor licenses	Retail sales and use taxes	Race track taxes	Motor vehicle "in lieu" tax
1901	-----	-----	-----	-----	-----	-----	-----	-----
1902	-----	-----	-----	-----	-----	-----	-----	-----
1903	-----	-----	-----	-----	-----	-----	-----	-----
1904	-----	-----	-----	-----	-----	-----	-----	-----
1905	-----	-----	-----	-----	-----	-----	-----	-----
1906	-----	-----	-----	-----	-----	-----	-----	-----
1907	-----	-----	-----	-----	-----	-----	-----	-----
1908	-----	-----	-----	-----	-----	-----	-----	-----
1909	-----	-----	-----	-----	-----	-----	-----	-----
1910	-----	-----	-----	-----	-----	-----	-----	-----
1911	-----	-----	-----	-----	-----	-----	-----	-----
1912	-----	-----	-----	-----	-----	-----	-----	-----
1913	-----	-----	-----	-----	-----	-----	-----	-----
1914	-----	-----	-----	-----	-----	-----	-----	-----
1915	-----	-----	-----	-----	-----	-----	-----	-----
1916	-----	-----	-----	-----	-----	-----	-----	-----
1917	-----	-----	-----	-----	-----	-----	-----	-----
1918	-----	-----	-----	-----	-----	-----	-----	-----
1919	-----	-----	-----	-----	-----	-----	-----	-----
1920	-----	-----	-----	-----	-----	-----	-----	-----
1921	-----	-----	-----	-----	-----	-----	-----	-----
1922	-----	-----	-----	-----	-----	-----	-----	-----
1923	-----	-----	-----	-----	-----	-----	-----	-----
1924	\$5,540,901	\$81,011	-----	-----	-----	-----	-----	-----
1925	12,717,790	121,667	-----	-----	-----	-----	-----	-----
1926	15,003,499	13,081	-----	-----	-----	-----	-----	-----
1927	16,904,353	102,593	-----	-----	-----	-----	-----	-----
1928	25,304,092	1,622,982	-----	-----	-----	-----	-----	-----
1929	31,151,431	1,001,522	\$2,304,582	-----	-----	-----	-----	-----
1930	33,874,307	1,080,370	6,841,408	-----	-----	-----	-----	-----
1931	38,640,664	1,087,591	6,601,595	-----	-----	-----	-----	-----
1932	37,209,103	1,037,943	4,779,892	-----	-----	-----	-----	-----
1933	35,520,653	807,215	3,359,212	\$59,372	\$16,298	-----	-----	-----
1934	36,567,377	1,734,045	4,017,292	973,622	1,942,200	\$33,243,760	\$259,657	-----
1935	36,602,767	1,931,921	4,886,825	1,530,323	3,801,097	56,471,540	1,005,103	-----
1936	42,367,373	2,145,297	14,984,862	8,994,160	4,172,127	70,417,199	1,537,373	\$8,115,067
1937	44,191,885	2,423,488	17,401,337	10,074,940	6,291,931	84,592,398	1,933,260	10,801,202
1938	47,136,901	2,413,362	21,453,651	9,832,459	5,594,770	89,365,743	2,527,303	11,163,380
1939	47,130,293	2,405,918	20,099,823	9,854,134	5,634,035	87,981,986	2,990,393	10,772,803
1940	50,620,167	2,571,173	20,436,074	10,309,933	5,634,101	93,773,337	2,310,246	12,842,072
1941	53,651,546	2,313,351	22,814,401	11,246,567	5,665,676	109,233,942	3,305,324	15,597,693
1942	57,453,912	3,553,043	34,065,799	12,162,325	5,643,965	132,576,353	1,703,347	14,402,650
1943	45,444,223	4,971,262	52,819,349	16,434,637	5,525,504	135,636,953	1,077,635	12,980,363
1944	42,472,957	5,743,577	67,293,534	15,406,370	5,926,285	135,086,342	2,372,392	14,595,339

California State Tax Collections 1901-1944—Continued

(Source: The Tax Digest, February 1945)

Year ending June 30	Personal income tax	Unemployment insurance tax	Corporation income tax	Diesel fuel tax	Private car tax	Gift tax	Regulatory taxes†	Penalties delinquencies etc.	Total
1901									\$6,782,367
1902									6,690,217
1903									5,747,198
1904									9,527,951
1905									9,486,798
1906									9,244,639
1907									9,361,224
1908									10,442,735
1909									10,900,364
1910									11,656,851
1911									11,650,643
1912									14,646,318
1913								\$6,426	15,576,414
1914								22,681	18,880,398
1915								26,432	20,142,071
1916								36,924	20,890,284
1917								24,921	23,019,018
1918							\$4,908	25,862	23,326,028
1919							25,574	32,267	25,922,564
1920							21,801	35,176	28,529,615
1921							26,877	22,455	36,614,316
1922							42,748	79,369	46,255,654
1923								73,847	48,159,191
1924							64,304	41,623	53,422,186
1925							59,234	2,155,609*	70,670,336
1926							152,268	6,363,305*	79,641,906
1927							229,674	43,772	73,739,129
1928							224,063	86,423	92,530,105
1929							309,131	69,716	106,107,038
1930							369,315	36,740	103,686,325
1931							264,103	44,489	112,592,185
1932							210,043	33,815	102,156,325
1933							213,059	34,843	90,878,885
1934							294,033	63,077	126,641,809
1935							436,896	75,626	154,177,330
1936	\$6,525,815						630,961	60,963	183,498,598
1937	16,774,202	\$27,666,859					853,639	76,185	247,313,779
1938	21,449,667	63,501,607	\$47,222	\$217,340			849,099	105,716	304,681,007
1939	20,672,014	75,634,422	130,108	346,353	\$414,221		886,398	17,073	312,691,957
1940	19,571,722	76,769,808	161,321	523,644	422,094	\$131,412	893,935	6,961	328,637,207
1941	20,292,746	80,169,120	174,008	732,473	430,565	489,265	890,669	14,774	361,497,223
1942	29,033,934	102,676,132	327,935	1,063,866	452,866	1,202,585	1,033,721	10,240	428,102,889
1943	39,351,277	143,394,421	67,650	1,246,571	461,469	618,999	1,162,776	235	491,114,763
1944	43,323,232	170,991,679	377,436	1,489,899	450,300	548,157	1,322,163	321	546,242,374

*—These large sums resulted from settlement of certain disputed tax claims in favor of the State.

†—Include taxes on athletic admissions, fertilizer, kelp, commercial feeding stuffs, agricultural minerals, fish packers, salmon, and gross receipts of motor transportation companies.

This State deficit was brought about by the six following conditions:

1. The decline in general prosperity which reduced the income of the people and consequently tax returns.
2. The assumption by the State of more and more costs of Government which previously had been carried by local government. This was particularly true in the assumption of school costs, aid to the needy aged, and the construction of highways, but it also included many other items.
3. The assumption of the obligation of assisting in the relief of needy due to unemployment.
4. The increase in the services of the State government in almost innumerable ways.
5. The increased cost of providing services due primarily to increases in wages and salaries and the granting of more privileges to State employees, including shorter hours, more holidays, more liberal sick leave, longer vacations, pay for overtime, a generous retirement plan, and the normal upgrading of salary scales through the fact that employees have increased years of seniority.
6. The rapid increase in population of the State following the first world war.

If the Legislature considers all of these conditions of the past and applies them to the present, and recognizes that the present flush income of the State results from a wartime economy, and when it disappears, normal revenue will probably not meet normal expenditures much less the increases in government, it may establish more definite economy procedures to meet the decline in revenue and check further increase in the cost of State government.

All of the fiscal officers and technicians of the State, dealing with taxes and revenues, concur in the prediction that revenues of the State will decline with the end of the war. The Governor concurs in this as shown by the statement in his message to the Legislature in the following words:

“Government will of necessity be more expensive as time passes, and unless every dollar of our present income is spent prudently we will soon be operating on a deficit as we did for 10 consecutive years prior to the war. Any new spending habits set up now must be projected into the future and paid for indefinitely. I, therefore, urge that all requested appropriations, both in and out of the budget, be scrutinized as carefully as though we were not operating on a surplus.”

Following the conclusions above stated, including the Governor's suggestion that all requested appropriations, both in and out of the Budget, be scrutinized as carefully as though the State were not operating on a surplus, and with the added conclusion that the establishment of any broader expenditure program now will eventually result in increased taxes concurrent with declining economic ability of the people to support them, undoubtedly means the Legislature must adopt a stricter economy than is found in the Governor's Budget.

Analysis of the Budget and the Budget Bill Follows the Stated Assumptions and Encompasses Budget Committee Principles.

In making our analysis of the Governor's Budget and the Budget Bill which accompanied it, the assumption made by the Director of Finance previously stated have been accepted but with the following specific interpretations and limitations.

- a. We accept the assumption that 1945-47 will be a period of transition from the war to peace, but assume the war will end in the second year of the biennium and revenue and expenditures should be adjusted accordingly.
- b. Wartime activities should therefore be carried forward into the first year of the biennium. Conversion to peacetime activities should take place in the second year of the biennium.
- c. Wartime activities should be set up separately from normal peacetime activities.
- d. We agree that provision should be made for return of regular employees from the armed forces to positions authorized but now vacant, but we do not agree that these positions should all be filled regardless of need.
- e. We agree that salaries should be continued at schedules approved by the Personnel Board, if these schedules include proper allowance for the \$20-\$25 per month wartime bonus.
- f. The allowance for uniform number of holidays for all State employees is equitable, but this added benefit should be considered in fixing salaries.
- g. Commodities we also believe should be purchased at existing prices and possibly in the second year of the biennium at a lower cost.
- h. Building maintenance and minor construction should be done if essential to keep plants up but not if it can be deferred without real loss.
- i. We agree that urgently needed construction projects should be built, but we reserve the right to differ on what is urgent—particularly while the war is going on and prices so very high and materials scarce.
- j. The contention that all expenditures recommended are essential needs of the State we differ with in many items. These will be detailed in the following analysis on specific items in the Budget.
- k. There is general agreement with the Governor's expressed statement that strict economy should be practiced as if we had no surplus. There is a difference of views on what is strict economy. This will be presented in considering individual Budget items for the instructions of the Budget Committee which follow project very different conclusions on many requests for appropriations.

In addition, the instructions and general principles expressed by the Budget Committee and stated in the first part of this report have been followed. These are stated briefly again so that they may be specifically considered. They are:

1. The operation of every department, division, commission, agency, and board of the State should be reviewed with the idea of making effective all possible economies.

2. Duplication, overlapping, and unnecessary functions should be eliminated.
3. Surplus employees should not be allowed.
4. Extravagant use of supplies, material, and equipment should be reduced.
5. Recognition should still be given to the fact that we are at war and economy of operation should be continued in order to promote the war effort.
6. Positions of State employees engaged in the war effort should still be left vacant where possible.
7. Every energy should still be dedicated to winning the war.
8. State Government activities made necessary by the war effort, and which still contribute to winning the war, should be provided but those that are no longer necessary should be eliminated.
9. State agencies which assumed additional responsibilities as a result of the war should continue to finance them as far as possible out of regular budgeted amounts through curtailing or eliminating other functions not essential to the war.
10. Special items solely devoted to the war effort should be clearly set out and kept distinguishable from regular activities so that they will not appear as permanent activities of the agency concerned and shall end with the end of the war requiring them.
11. No new services of government should be established on the basis of wartime revenues.
12. Personnel employed for wartime activities should not be continued after the war.
13. Prewar positions now vacant should not be refilled unless each and every position can be specifically justified.
14. If a department or agency is operating well during the war with reductions in personnel, they should be able to do so after the war, particularly as postwar employees should be of higher efficiency.
15. Returning military personnel should receive their old positions and duration employees should not be retained through creating new positions.
16. The present building fund should not be used for capital outlay during the biennium except in so much thereof as is absolutely necessary to meet an emergency.
17. No emergency fund should be included for continuing increase in the price of commodities as it is not likely prices will increase further but may recede.
18. The War Disaster Fund should be left as it is until the war is ended and the Legislature can again review it.
19. Fixed motor vehicle valuation for the in lieu tax should be continued.
20. No dormitories should be provided for either at the University of California, the State colleges, or special schools.

In short, the general policies to be followed were expressed by Speaker Lyon in the following words: "The only policy to follow is to practice economy and cut expenditures to the bone. The Legislature should scrutinize the Budget very carefully and resort to economy and cut the Budget down substantially."

What Is the Budget Bill and Why Is It Less Than One-Third of the Amount of the Budget Document?

The constitutional requirement in relation to the Executive Budget found in Section 34 of Article IV of the Constitution provides that the Budget Bill shall be accompanied by an Appropriation bill covering the proposed expenditures to be known as the Budget Bill. It also provides that until the Budget Bill has been finally enacted, no other appropriation bill except emergency bills recommended by the Governor, or appropriation for the expense of the Legislature or pay of the Legislators, shall be passed. The provisions of this section are quoted herewith so that they may be readily available.

The Budget Bill—Prior Passage of Other Appropriation Bills

“The Budget shall be accompanied by an Appropriation Bill covering the proposed expenditures, to be known as the Budget Bill. The Budget Bill shall be introduced immediately into each house of the Legislature by the respective chairman of the committees having to do with appropriations, and shall be subject to all the provisions of Section 15 of this article. The Governor may at any time amend or supplement the Budget and propose amendments to the Budget Bill before or after its enactment, and each such amendment shall be referred in each house to the committee to which the Budget Bill was originally referred. Until the Budget Bill has been finally enacted, neither house shall place upon final passage any other appropriation bill, except emergency bills, recommended by the Governor, or appropriations for the salaries, mileage and expenses of the Senate and Assembly. No bill making an appropriation of money, except the Budget Bill, shall contain more than one item of appropriation, and that for one single and certain purpose to be therein expressed.”

The Budget Bill for the 1945-47 biennium is Assembly Bill No. 500 in the Assembly, and Senate Bill No. 294 in the Senate. These bills are identical. In general they conform to the constitutional provision but they require explanation in order to answer certain obvious questions that arise as soon as the Budget and the Budget Bills are considered together and in conjunction with the constitutional requirements for an Executive Budget. These questions that arise continuously are as follows:

(1) Why does the Budget Bill appear in the particular form in which it is presented?

(2) How can a document of such small size (thirty and one-quarter bill-size pages) enact into law a financial plan for the State which requires 830 pages, each twice the size of the Budget Bill pages, to present it?

(3) Does the Budget Bill in any way enact into law the Budget Document or is the Budget Bill all that is passed by the Legislature and actually becomes law?

(4) Is everything in the Budget Document found in the Budget Bill which is before the Legislature? If not, why not?

(5) If particular items in the Budget Bill are enacted into law, does that mean that the department or agency concerned will have this money to spend as they please, or must they spend it under the plan shown in the Governor's Budget Document?

(6) What if an item appears in the Governor's Budget and does not appear in the Budget Bill?

(7) Why is the total of the Budget Bill less than one-third of the total of all items in the Budget Document?

(8) Why is it that there is no provision in the Budget Bill for emergency funds for any of the special funds but there is such provision for the General Fund?

(9) What is the actual effect of the Budget Document and the Budget Bill?

(10) Finally, does the Legislature have authority to determine exactly how money will be expended or can it only act on the items presented in the Budget Bill?

There are undoubtedly more questions that might logically be asked in this connection. However, an answer to these will go a long way to produce a better understanding of the Executive Budget and Budget Bill which the Legislature enacts and the resultant control of appropriations.

**Why Does the Budget Bill Appear in the Particular Form
in Which It Is Presented?**

The Budget Bill under the provisions of the Constitution, is the only bill that may contain more than one item of appropriation. This explains why it is different from other appropriation bills which may contain only one item of appropriation and that for one fixed and certain purpose. This does not explain otherwise why the particular form is used. The explanation lies simply in the fact that this is the established page size for all bills and the form which has developed since the Executive Budget was required by the constitutional amendment passed November 7, 1922, making effective the Executive Budget. The form has varied but little since the first Budget Act.

Form Can Be Changed

It could appear in a much different form. It has appeared in somewhat different form through dividing or classifying appropriations under the different items into specific schedules. This was used in 1941-43. The schedule was made up of three items:

- (a) Salaries and wages;
- (b) Operating expense;
- (c) Equipment.

Sections 13, 13.5 and 13.6 were placed in the Budget Bill to provide for budgetary control and to require that the members of the Legislature be informed of transfers between the several items in the schedule. These sections are presented herewith to indicate what additional legislative control has been established in the past.

"SEC. 13. In providing that certain appropriations in Section 2 of this act are to be expended in accordance with a schedule set forth after each such appropriation item, it is the intent of the Legislature to limit thereby the amount of money to be expended from each such appropriation item for certain specified purposes, such as, "Salaries and wages," "Operating expenses," or "Equipment," using in that connection the same terms as used in the detailed budget of the officer,

department, division, bureau or other agency to whom the appropriation is made, as contained in that document entitled "State of California Budget for the Biennium July 1, 1941, to June 30, 1943, Ninety-third and Ninety-fourth Fiscal Years," submitted by the Governor to the Legislature at the Fifty-fourth Session; except, however, that the terms "Materials and supplies," and "Service and expense," as used in that document, are combined under the designation "Operating expenses" for the purposes of this act. Each such schedule in this act is a restriction or limitation upon the expenditure of the respective appropriation made by this act, does not itself appropriate any money and is not itself an item of appropriation.

As used in such schedules:—

"Salaries and wages" shall include all expenditures for pay of officers and employees of the State but does not include compensation of independent contractors rendering personal services to the State under contract.

"Operating expenses" shall include all expenditures for purchase of materials, supplies (including expendable equipment,) services (other than personal services of State officers and employees), and all other proper expenses (other than the acquisition and replacement of nonexpendable tangible property).

"Equipment" shall include all expenditures for the acquisition or replacement of nonexpendable tangible property.

For the purpose of further interpreting the meaning of the words, terms and phrases used in such schedules, reference is hereby made to the aforementioned Budget Document and the appropriate portions thereof.

SEC. 13.5. The State Board of Control may, upon recommendation of the Director of Finance pursuant to a request by the officer, department, division, bureau, board, commission, or other agency to whom an appropriation is made herein, authorize the augmentation of the amount available for expenditure for a purpose designated in any schedule set forth for such appropriation in Section 2 by transfer from any of the other designated purposes within the same schedule.

No authorization given by the State Board of Control pursuant to this section in respect to any augmentation of the amount available for expenditure for any purpose is valid unless given with the unanimous consent of the State Board of Control expressed in the form of a resolution which shall set forth the reasons and necessity for the authorization and shall be entered upon the minutes of the board.

The State Board of Control shall submit to each member of the Legislature not later than the fifteenth day of each month a report on all authorizations given pursuant to this section during the preceding month. The report shall contain such information regarding each authorization as shall be sufficient to apprise the members of the Legislature as to the reasons and necessity therefor.

SEC. 13.6. The Director of Finance may, upon request of the officer, department, division, bureau, board, commission, or other agency to whom an appropriation is made herein, authorize the augmentation of the amount available for expenditure for a purpose designated in any schedule set forth for such appropriation in Section 2 hereof in the amount of any funds which he estimates

will be received by said officer, department, division, bureau, board, commission, or other agency during the Ninety-third and Ninety-fourth Fiscal years from any other officer, department, division, bureau, or other agency of this State, from any county, city and county or city, or any agency thereof, from the Federal Government, or any agency thereof, from any appropriation made by the Legislature at the Fifty-fourth Session, or from any other source which he determines has not been taken into consideration in said schedule, or is in excess of the amount so taken into consideration.”

The Governor, in his Budget Message, on page vii of the 1945-47 Budget, states that he does not believe that it would unduly hamper the administration of the State Government if the Legislature desired to limit spending for each agency within the following categories:

1. Salaries and wages;
2. Operating expenses;
3. Equipment;
4. Capital outlay.

Since capital outlay has always been set up as a separate expenditure item for the several departments and agencies, and already is so designated in the Budget Bill for 1945-47, this particular item should not be included in the Governor's suggestion but only the same three that appeared in the Budget Bill for 1941-43.

Limitations Can Be Placed on Expenditures

The Legislature has also, in times past, placed certain prohibitions on certain items of appropriation providing that no money appropriated shall be spent for a particular purpose. An example is found in the Budget Bill for 1941-43 on page 23, under Item No. 96, which reads as follows:

“No money appropriated by this act is available for expenditure for the salary of a Confidential Representative, Division of Labor Statistics and Law Enforcement, Department of Industrial Relations.”

Similar prohibitions are found in Items Nos. 97, 98, and 100. In the Budget for the current biennium, Chapter 62, Statutes of 1943, on page 9, under Item No. 100, a similar prohibition is found.

As a result of including the schedules dividing appropriations, and the limitations above mentioned, the Budget Bill for 1941-43 contains 64½ pages in comparison with 27 for 1943-45, and 31¼ as introduced for 1945-47.

Line Item Budget

The Legislature can enact in the Budget Bill as many limitations and as much detailed specification for the expenditure of money as it wishes. The extreme in such control would be enacting a line item Budget. At the present time this would be difficult to administer for the reason that the accounting system of the State is not geared to functioning such a control. If it should be enacted into law it would be necessary to expand the accounting system and to increase the staff and equipment of both the Controller and the Department

of Finance and concentrate on this task. The Department of Finance would have to exercise, in the first instance a strict budgetary control. At the present time control is exercised through the quarterly and annual budgets, and the approval by the Department of Finance of transfers, establishment of new positions, and any expenditures for any items other than regularly approved Budget items.

The Controller determines the legality of expenditures on the basis of the appropriation act where these are contained in the Budget Bill, and in other instances on the basis of the appropriation, be it either by constitutional provision or continuing legislation. If the line item Budget was adopted, the Controller would have to set this up specifically on his books and check every payment so as to see that it did fall within these specific appropriations. He would have to expand his accounting set-up tremendously, likewise his system of controls and his total staff. It is doubtful if he could carry this into effect at once or if at all under the present labor conditions.

Making the Budget Document the Control

Any intermediate steps in fixing appropriations beyond the item appropriation in the present Budget Bill and the line item Budget, would require additional accounting and auditing staff in both the Department of Finance and the Controller's office. The establishment of schedules within the items of appropriation as above mentioned, since it has been already tried for one biennium, could be reestablished and a definite estimate made of its cost.

The next intermediate step beyond dividing the lump sum appropriations by the schedule suggested would be to give the Governor's Budget, as added to or amended by legislative appropriations, full effect at law and to require the Department of Finance to follow this Budget with each item considered as an appropriation in setting up its fiscal year budgets. The objection that this would not allow enough elasticity to meet the requirements for adjustments and transfers could be met by giving authority to some established body or establishing some new body to consider and approve transfers, adjustments, and Emergency Fund allotments, both for the General Fund and the special funds. This proposal is found in one of the Budget Committee bills, Senate Bill No. 824 of the 1943 Session which has been previously discussed in the Budget Committee Report.

It has been noted that the Governor objected to this procedure in 1943. He has modified his views somewhat since then. He brings his views on this matter up to date in his Budget Message on page vii in the following words:

"For many years the advisability of installing a "line item" Budget has been discussed and the proposal still has its advocates. I, too, am of the "belief that the expenditures of State money should be in accordance with the wishes of the Legislature and that the general purpose for which, and the amounts in which, it is spent should be fully respected by the Governor and other State officers. This I have sincerely endeavored to do. If we were operating under an annual Budget I believe the controls could reasonably be more strict than at the present time, but it is my opinion that it would be wholly impractical to have a "line item" Budget when estimates

of expenditures must be projected in the Budget for a period of two and one-half years, and especially in these uncertain times.

However, after operating under your current biennial Budget, I am of the opinion that it would not unduly hamper the administration of the State Government if the Legislature desired to limit spending for each agency within the following categories:

1. Salaries and wages;
2. Operating expenses;
3. Equipment;
4. Capital outlay.

If the Legislature desires to incorporate such limitations in the Budget I shall be happy to acquiesce."

Governor Through Director of Finance Has Exercised Budgetary Control and Sought Legislative Intent

The Legislative Auditor has observed the functioning of the Budget for 1943-45 and reports that budgetary control was exercised by the Governor's Finance Officer, the Director of Finance, in close harmony with the views of the Legislature. There have been fewer variations from the expressed wish of the Legislature as found in appropriations and in the records of the Ways and Means Committee of the Assembly as previously reported than has been the case with most previous Budgets. In many instances the Department of Finance, in exercising budgetary control, even where an appointee of the Governor was endeavoring to secure additional allotment of funds, has taken every means of determining what was the legislative intent when it made an appropriation and on determining this intent, the Director of Finance has turned down many requests which would have resulted in the expenditure of additional large sums of money and in this he has been supported generally by the Governor. There have been some exceptions where allotments have been made from funds that could have been saved if a stricter interpretation of appropriations had been followed. There are also some instances where allotments were made from the Emergency Fund for purposes not set up in either the Budget Document or the Budget Act.

Legislature Can Make Budget Bill Its Own

To sum up, the Legislature can make the Budget Bill its own, with the exception of some rather small constitutional limitations. The fact that few changes have been made in the appropriation procedure by previous Legislatures does not mean that the power to control appropriations and to direct appropriations very definitely and specifically does not repose in the legislative body. In fact, the several cases that have reached the Supreme Court very definitely hold that the Legislature controls the purse strings, even as respects many so-called constitutional appropriations. The appropriations that are to the greatest degree exempt from legislative control are those for the Public School System, but even here the Legislature can exercise more control than they have in previous years.

How Can a Document of Such Small Size as the Budget Bill Enact Into Law a Financial Plan for the State Which Requires 830 Large Size Pages to Present?

Budget Bill Not a Financial Plan

The fact is that the Budget Bill does not enact into law a financial plan for the State. It only appropriates lump sum items for the several departments and agencies of the State where a biennial appropriation is required in order to provide financial support for such agencies. It does not include all of the departments or agencies and for some of them it only includes a fraction of their budget which is presented in the Budget Document. For example, one will look in vain under the Department of Public Works, page 20 of the Budget Bill, Items Nos. 234 to 242, inclusive, to find any item for the Division of Highways. The Legislature, however, has full authority to make appropriations and to place such limitations on them as they desire for the Division of Highways. If you will look in the Governor's Budget under Public Works, pages 694 to 727, you will find that pages 704 to 713, inclusive, are devoted to highways and the expenditure program totals \$61,697,247 for the 1945-47 biennium, and an additional reserve to be set up for \$40,000,000 for the postwar highway program. This sum, \$101,697,247 alone is equal to half of the amount for all other services of the government found in the Budget Bill.

A similar situation is true for the Department of Employment. The only appropriation item found on this, is on page 9 of the Budget Bill, Assembly Bill No. 500, Item No. 105, in the sum of \$312,380 to match Federal funds. In the Governor's Budget, the Department of Employment makes up the section from pages 286 to 297, inclusive, and provides for the expenditure of \$8,361,645 for administration alone, an increase of over three and a half million from the current biennium. This does not take into account in either place the proposed expenditure from the Unemployment Reserve Fund which now is in excess of \$600,000,000, and which is supported by a pay roll tax of 2.7 per cent on the employer and 1 per cent on the employee. From this fund, the Governor has recommended in his biennial address, on page 7, an increase in benefits from 23 and a fraction weeks to a maximum of 26 weeks, and a reduction in the waiting period from two weeks to one week. The Governor also recommends the inclusion of certain classes of workers not now covered, all of which will require more pay roll taxes and larger expenditures and will require the enactment of bills by the Legislature. This further increases the fixed charges of California State Government.

No legislator should be confused and think that the Budget Bill enacts into law the full financial plan of the State for the biennium covered. As now set up, it only provides for lump sum appropriations. No other budgetary control is enacted than what appears in the Budget Bill. Budgetary control by the Department of Finance already exists under other statutes.

Does the Budget Bill in Any Way Enact Into Law the Budget Document?

The Budget Bill does not enact into law the Budget Document in any way. The Budget Document is merely the source of the estimates for the preparation of the Budget Bill which itself contains appropriations of only one-third of the Budget Document. *The Budget Document itself*

has no effect at law. It can literally be thrown into the wastebasket once it is presented by the Governor, and there is no requirement in the law that anything in it be followed or observed. Only the lump sum appropriations with such limitations thereon and divisions thereof as are enacted into law in the Budget Bill must be followed.

Is Everything in the Budget Document Found in the Budget Bill?

The answer is "no". Only approximately one-third of the total financial plan of the Budget Document is found in the Budget Bill appropriations. The other items in the Budget Document are provided for by constitutional provisions or other statutes setting up requirements for expenditures or continuing appropriations. Other matters could be presented in the Budget Bill if the Governor so directed that they be placed therein, or if they are amended into the Budget Bill. If they are amended into the Budget Bill then this operates to set up such controls as are therein contained.

If Particular Items in the Budget Bill Are Enacted Into Law, Does That Mean That the Agency Concerned Will Be Allotted This Money to Spend as They Please or Must They Spend It Under the Plan Shown in the Governor's Budget?

The answer is "no" to both parts of the question but this must be explained. After money is appropriated for an individual department or agency, the department or agency generally believes that they will have this sum of money to spend. Some of them believe that they can spend it as they determine, and some of them, particularly appointees of the Governor, feel that they at least will be allowed to spend it under the plan shown in the Governor's Budget Document. Neither of these conditions is true.

After an appropriation is made, then under existing law, annual budgets are prepared and approved by the Department of Finance. They may or may not follow the plan shown in the Governor's Budget, and even if they do, they can be changed by the Department of Finance when the department feels that such is required. In other words, the appropriation made by the Legislature provides the limit, except that General Fund agencies may receive supplementary money from the emergency item in the Budget Bill, and special fund agencies may receive supplementary funds under deficiency allotments as provided in Section 661 of the Political Code. The General Fund emergency item is limited while the special fund deficiencies may include all the money available in any particular special fund. Sometimes this is many times what the Legislature has appropriated. The Legislature can place a limit on most special fund balances and provide that Section 661 of the Political Code shall not operate beyond these limits. During the past biennium the financial plan set up in the Governor's Budget Document has been followed quite closely.

What If an Item Appears in the Governor's Budget and Does Not Appear in the Budget Bill?

If an item appears in the Governor's Budget which is included in a Constitutional appropriation or in a continuing appropriation made by statute, the expenditure can be made if it does not appear in the Budget Bill. In fact, the expenditure could be made if it did not appear either in the Governor's Budget or in the Budget Bill. The Governor's Budget

has no legal effect whatever on expenditures. If this was a special fund item requiring an appropriation, and it did appear in the Governor's Budget but did not appear in the Budget Bill, a deficiency under Section 661 of the Political Code could be allowed if it could be shown that there was provision at law for the expenditure but no appropriation had been made or an insufficient appropriation had been made.

If, however, no appropriation was made in the Budget Bill for a General Fund item and there was no limitation in the Budget Bill prohibiting it, the Director of Finance could allow money from the Emergency Fund if the expenditure was provided for under authority of some agency of the State. He could not, however, allow any expenditure of money from the Emergency Fund where no appropriation had been made or where there was no authority at law to perform the services to be paid for. For example, recently the Director of Finance was asked to allow an allotment of funds from the Emergency Fund for flood control work in a specified place. No appropriation had been made for this and apparently there was no authority at law to carry on such work. However, there was authority to allow the Division of Water Resources to make a survey of the underground waters and other waters in this watershed. No appropriation had been made for this purpose but money was allowed from the emergency fund to make such a survey which is really preliminary to the control of flood waters.

**Why Is the Total of the Budget Bill Less Than One-Third of the
Total of All Items in the Budget Document?**

Budget Bill Less Than 30 Per Cent of Budget

The grand total of all items in the Appropriation Bill for 1945-47 is \$202,003,999. The grand total of all items in the Governor's Budget is \$683,710,643. In other words, the Appropriation Bill is 29.54 per cent of the total of the Governor's Budget. This situation provokes more questions than any other. The answers to the previous questions in part answers this question. Without here discussing the matter as to whether or not certain items that are omitted should be included in the Governor's Budget which would materially increase the figure above quoted, (which is found in the Governor's Budget on page iii, and in Schedule I, page A-3, and Schedule II-B on pages A-10 and A-11, and throughout the Budget where the total is given) we will give in general the reasons why the great difference between the Budget and the Budget Bill exists. Subsequently we will point out where our estimates differ from the Governor's figures.

The Budget Bill for 1945-47 only includes those items requiring an appropriation by the Fifty-sixth Session of the Legislature in order to carry into effect the proposals found in the Governor's Budget. In fact, it does not include all of these, for it does not include the amount required to continue paying the State's share of aid to the needy aged beyond July 1, 1945, for the extra \$10 over the \$40 per month last set up in continuing legislation. This, however, has now been changed by legislative enactment approved by the Governor in the January 1945 part of this Fifty-sixth Session. This then now becomes an automatic and continuing appropriation, controllable, however, by the Legislature and remains such until changed. The amount required for this is included in the Governor's Budget.

Neither is there included in the Budget Bill the Postwar Highway Building Fund of \$40,000,000 set up on page 713 of the Governor's Budget. Neither is this total included in the Governor's Budget total nor in any law providing for such a reserve fund. Under existing law this money could be spent during the biennium for it is automatically appropriated. It can only be set up in a reserve fund as this is determined by the Legislature. A special bill to do this has already been introduced into the Legislature. It does not appear in the Budget Bill but it can be placed there as an amendment.

These are the reasons why the Budget Bill is less than one-third of the total of all items in the Budget Document. It can be materially increased at any time the Legislature wishes to exercise greater control over appropriations.

The following tabulation presents clearly the comparisons between the amounts to be appropriated by the Budget Bill and those proposed for expenditures in the Governor's Budget for 1945-47.

Appropriation Bill and Governor's Budget—1945-47 Biennium

Appropriation Bill, Assembly Bill No. 500 or Senate Bill No. 294

Grand total of all items-----	\$202,003,999
Total General Fund items-----	154,627,191
Total Special Fund items-----	47,376,808
Per cent General Fund items in Appropriation Bill are to total amount of Appropriation Bill-----	76.54%
Per cent special fund items in Appropriation Bill are to total amount of Appropriation Bill-----	23.45%
Per cent total Appropriation Bill is to total amount of Governor's Budget-----	29.54%
Per cent General Fund items in Appropriation Bill are to General Fund items in Governor's Budget-----	31.17%*
Per cent Special Fund items in Appropriation Bill are to Special Fund items in Governor's Budget-----	26.3%
Per cent General Fund items in Appropriation Bill are to total amount of Governor's Budget-----	22.61%
Per cent Special Fund items in Appropriation Bill are to total amount of Governor's Budget-----	6.93%

Governor's Budget

Grand total all items-----	\$688,710,643
Total General Fund items-----	496,012,958*
Total special fund items-----	180,081,644
Reserve Fund items-----	7,616,041
Per cent General Fund items in Governor's Budget are to total amount of the Governor's Budget-----	72.54%*
Per cent special fund items in Governor's Budget are to total amount of the Governor's Budget-----	26.33%
Per cent Reserve Fund items are of total Governor's Budget-----	1.11%

Why Is There No Provision in the Budget Bill for Emergency Funds for Any of the Special Funds but There Is Such Provision for the General Fund?

This has already been partially explained above. If there was no Emergency Fund for General Fund expenditures, there would be no way of providing money where appropriations were insufficient due to emergencies, or where no appropriation had been made where the law provided for some service or action on the part of the State.

No emergency fund is required for special funds because Section 661 of the Political Code, as above explained, provides for allowing deficiencies for each such fund. It was explained that the Legislature could change Section 661 if it desired, and could set up emergency funds for special funds either in their entirety or for certain specified ones.

* Includes an item for Postwar Construction Program, \$13,266,842, which is set up in the Governor's Budget as a reserve fund.

In effect the Department of Finance through exercising budgetary control uses the balances in special funds as emergency funds when desired.

What Is the Actual Effect of the Budget Document and the Budget Bill?

The Budget Document has no force at law. It merely has a moral effect since it is used as the estimate for drawing the Budget Bill. The Budget Bill has the full force of law in all of its items and parts, the same as if they were individual appropriations.

Does the Legislature Have Authority to Determine Exactly How Money Will Be Spent or Can It Only Act on Items Provided in the Budget Bill?

This has been answered in several of the questions above. It may be summed up by saying that the Budget Bill is merely the recommendation of the Chief Executive for appropriations to make the Budget document effective. The Legislature receives it and it becomes its property the same as any other bill. It can change it, modify it, or completely remake it as it sees fit. *The Governor, on the other hand, may at any time amend or supplement both the Budget Document and the Budget Bill before or after its enactment and each amendment in each house must be referred to the committee to which the Budget Bill was originally referred.* Once introduced into the Legislature, such amendments also become the property of the Legislature.

There are, however, two additional powers in relation to the Appropriation Bill in the Governor. The Governor can veto the act in its entirety as any other bill and send it back for reconsideration. This in practice, however, is almost futile for the Constitutional limitation on State appropriations from the General Fund are such that they now require originally a two-thirds vote to approve any State Budget. The Governor, however, under Article IV, Section 34, of the Constitution may reduce or eliminate any one or more items of an appropriation while approving other portions of the Appropriation Bill. He can not, however, add to an appropriation.

There is reserved to the people the right to referend any item of appropriation in the Budget Act other than for the usual current expenses of the State. We find no record of this ever having been done. There is individually no determination as to what items in the Budget would fall outside of the class of appropriations *other than for the usual current expenses of the State.*

The Legislature, as the division of government that controls appropriations not otherwise determined by the Constitution, has far greater powers over the purse strings of the State than have ever generally been exercised. *Much of the authority to control appropriations has been abandoned by the Legislature itself by setting up continuing legislation but this power to control appropriations can be recaptured any time the Legislature as a body so determines.*

NOTE:—The following sections present an analysis of the Governor's Budget Message, the Revenue Estimates, the Budget as a whole and the Budget items in the Appropriation Bill.)

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