

SECTION II

ANALYSIS OF THE GOVERNOR'S BUDGET MESSAGE 1945-47 BIENNIUM

Introduction

Following is an analysis of the Governor's Budget Message found on pages iii to viii, inclusive, of the 1945-47 Budget Document.

In considering the Governor's Budget in this section of our report, we are using the figure for the total as he gives it at \$683,710,643 and also we are using the Budget figures for actual and estimated expenditures for 1943-45 in the sum of \$587,347,003. These amounts are found on Schedule 1, page A-3 and throughout the Governor's Budget.

We call attention to the fact that in our opinion these figures should be adjusted for certain large items included in the Budget which are charged as expenditures for 1943-45 which can not be spent until 1945-47. These amounts total \$9,745,670 so that the final total Budget should be adjusted by at least this amount. This will reduce the actual and estimated expenditures for 1943-45 to \$577,601,333 and will increase the total of the Budget for 1945-47 to \$693,456,313. The result of these adjustments will be of course to change the entire Budget picture as presented by the Governor and will change the percentages showing the allocation of Budget items throughout the Budget.

These adjustments are inside of the Governor's Budget. They do not affect the estimated surplus as of June 30, 1947. Subsequently items will be presented which are in addition to the Governor's Budget.

Budget Does Not Present Governor's Spending Program

In presenting this Budget the Governor states that it is in accordance with the Constitution and with the needs of the State, and it represents his estimate of expenditures for the biennium. We have already pointed out that in our opinion it does not comply completely with the constitutional provision requiring the Executive Budget for it does not include all of the recommendations that the Governor makes for State expenditures for the biennium, nor does it include the new taxes that he has recommended for the prepaid health program or how the deficit on this will be made up or the tax source therefor, nor does it include all the expenditures provided by law which may be made under existing appropriations.

Furthermore, if all of the recommendations for State expenditures made by the Governor were included in the Budget, the entire budget picture would be changed as follows:

1. The total of the Budget would appear much larger.
2. The final surplus would be much smaller and possibly a deficit would be shown—depending on how far the Governor recommends to go in the several items.
3. If recommendations actually should be as large as they appear tax reduction is not possible but increased taxes in addition to the pay roll tax for the health plan should be made.
4. The fixed charges of the State would be materially increased.
5. Other departmental budgets will be found to be too small if the recommendations for added taxes and new services and agencies of the State are established, i.e., if 400 or 500 or 600 or more new State

employees are to be employed and serviced to collect more taxes and administer the health plan, a division of recreation, buy parks, expand labor relations, inspect and license all hospitals, service veterans, etc., the Personnel Board will require more money and more personnel to service these—The Employees Retirement Board will likewise need more money and help—and more money into the Retirement Fund—the Controller and the Department of Finance will need more money for auditors, etc. So the pyramiding of costs goes on, with each new service added existing services must be expanded.

6. The war effort will be cut into by the new personnel required.
7. Possibly tax reduction could not be available if all of the expenditure proposals were placed on a sound financial basis, not estimated on swollen wartime revenues but on a long range peacetime income with taxes the people can carry without undue sacrifice in their personal life.

Some of the details of this was presented in our introduction and will be further explained in subsequent parts of this report.

The Total Budget

It is stated that the total of the Budget is \$683,710,643,¹ but in other places the term “expenditures for the Biennium 1945-47” is used. This is a confusion of terms for the Budget Document is based upon an estimate of expenditures which does not include all of the expenditures either recommended by the Governor or which under existing law can be made. There is no doubt in our mind but what the actual expenditures for this biennium will greatly exceed the Budget estimate. It will exceed it by over \$200,000,000 if all the recommendations for expenditures made by the Governor in his Budget and in his Budget Message to the Legislature are made effective and on a pay-as-you-go basis.

The Governor states that his Budget recommendation is greater by \$96,363,640² than the actual and estimated expenditures for the 1943-45 Biennium. We would like to support our conclusion that the actual expenditure program for the 1945-47 Biennium will greatly exceed the Budget by reviewing the recent financial planning of the State. We wish to point out that the Governor's Budget for 1943-45, as found in the Budget Document for that biennium totaled \$463,947,005, which he then stated was approximately \$100,000,000 less than the expenditure for the prior Biennium 1939-41. *However, the actual and estimated expenditures for 1943-45, found on page A-3, Schedule 1, of the Budget for 1945-47, is placed at \$587,347,003. This is \$123,399,998 more than the Budget figure and in place of it being \$100,000,000 less than the expenditures for 1939-41 it turns out to be a little over \$23,000,000 in excess. Moreover, if all of the expenditures are made which are estimated for the 1943-45 biennium, as set up in this Budget, the expenditures will run in excess of the figures stated.*

Savings for 1944-45 Fiscal Year Possible

We do not agree that all of these expenditures will be made during the biennium. In our opinion many of them should be reduced and

¹ On page 377 we have shown that the adjusted total of the Budget should be \$693,456,313.

² The Budget would actually be greater by \$106,109,310.

controlled as the estimates of expenditures for the second year of the biennium are frequently just the balances remaining in appropriations for the several agencies. We believe this will be done by the Director of Finance. From these regular operations of the agencies of the State a modest saving can be made.

Expenditure Charged to 1943-45 Should Be Charged to 1945-47 Budget

There is a large group of expenditures set up in the Budget to be expended in 1943-45, or by June 30, 1945, that can not be spent or properly obligated by that date other than on paper.

These expenditure estimates are for capital outlay—the construction of Rector Canyon Dam \$1,370,670—page 334 of the Budget—and the acquisition of sites for the purposes set forth in the tabulation below, and found on page 763 of the Budget in the sum of \$4,000,000 and the allocation for plans and sites for local governments for postwar works found on page 793 of the Budget in the sum of \$4,375,000.

Postwar Construction Program

EXPENDITURES FOR CAPITAL OUTLAY

	<i>Actual 1943-44 95th Fiscal Year</i>	<i>1944-45 96th Fiscal Year</i>	<i>1945-46 97th Fiscal Year</i>	<i>1946-47 98th Fiscal Year</i>
GENERAL FUND				
Acquisition of Sites (in accordance with the Property Acquisition Act, Chapter 18, Statutes of 1944 (4th Extra. Session) :				
Department of Corrections :				
For the acquisition of real property of approximately 1,000 acres as a site for a medium custody vocational and agricultural institution for young offenders who are too mature for juvenile institutions and too immature for prison environment -----				\$300,000
For the acquisition of real property as a site for a prison medical center to care for certain of the mentally ill, sexually abnormal, epileptic, drug addicted, and chronically ill prisoners; the institution to be located in a metropolitan area where it would be readily accessible to medical specialists.-----				300,000
For the acquisition of real property of approximately 1,000 acres as a site for a medium custody institution for older prisoners.-----				300,000
Totals, Department of Corrections -----				\$900,000
Department of Education :				
Fresno State College -----		\$275,000		
San Francisco State College -----		50,000		
San Jose State College -----		700,000		
Totals, Department of Education -----				\$1,025,000
University of California :				
Santa Barbara Branch -----				\$26,000

EXPENDITURES FOR CAPITAL OUTLAY—Continued

	<i>Actual</i> 1943-44 95th Fiscal Year	1944-45 96th Fiscal Year	1945-46 97th Fiscal Year	1946-47 98th Fiscal Year
Department of Finance :				
State Office Buildings :				
Sacramento -----		1,000,000		
Los Angeles -----		850,000		
San Francisco -----		450,000		
State Grange, Sacramento -----		150,000		
Governor's Residence, Sacramento -----		100,000		
Totals, Department of Finance		\$2,550,000		
Department of Institutions :				
New Mental Hospital -----		400,000		
New Maximum Security Institution -----		400,000		
New Institution for Epileptics -----		300,000		
Totals, Department of Institutions		\$1,100,000		
Totals, Acquisition of Sites		\$4,701,000	\$900,000	\$900,000
Totals for Biennium		\$4,701,000		\$900,000

In our opinion, \$4,000,000 of the \$4,701,000 estimated items for sites for State buildings, plus the Rector Canyon Dam allotment of \$1,370,670 and \$4,375,000 allotted for local government plans and sites in the Budget to be spent in 1944-45 or the current biennium—will be carried over to 1945-46.

This will make the 1943-45 expenditures \$9,745,670 less, or \$577,601,333 and 1945-47 Governor's Budget as presented larger by this amount—or \$693,456,313.

Rector Canyon Dam can not be built until priorities are secured. Out of above items for sites for State building it will be physically impossible to buy the sites proposed under the statute providing the required procedure and do a good job for the State in the time remaining in the present biennium. Since the constitutionality of the statute providing for the allocation to local governments for plans and sites for postwar works is before the Supreme Court to determine its constitutionality, it appears apparent that no money will be spent from this allocation before the close of this biennium.

From These Appropriations It May Be Possible to Secure the Following Results:

1943-45 Expenditure	{	San Francisco State College Site -----	\$50,000
		Santa Barbara U. C. Branch Site -----	26,000
		One new mental institution site -----	400,000
		One other site -----	225,000
		Total approximately -----	\$701,000
		Total appropriated -----	\$4,701,000
Carry-Over 1945-47		Balance to carry over to 1945-47 -----	\$4,000,000
		From Rector Canyon Dam appropriation -----	1,370,670
		From the appropriation to assist local government -----	4,375,000
		Total to carry over to 1945-47 -----	\$9,745,670

These adjustments of course affect every part of the Budget in the amount of the total 1945-47 Budget, the amount and percentage in crease, the ratio of controllable to uncontrollable expenditures, amount of capital outlay, subventions, etc. We are not making these adjustments now for the reason that other items of the Governor's expenditure and tax program should be also considered in the Budget which will cause even more drastic adjustments.

Largest State Budget

The Governor plainly states that this is the largest Budget since the admission of California to the Union, and further claims the same might be said almost without exception for every budget presented since 1850, and illustrates this fact by *quoting not the budgets but the expenditures of the State from 1905-07 to 1935-37* in ten year intervals. He compares with these expenditures his Budget estimates for 1945-47. This is not a valid comparison. Like things are not being compared. We believe that the Legislature should have before it, as near as can be presented, the actual facts of the situation, so that when it approves an appropriation it will know how the whole financial structure of the State is affected.

No Executive Budget Prior to 1923

First of all, there was no Executive Budget before the constitutional amendment approved by the people November 7, 1922, brought it into effect. The first Executive Budget was that of Governor Friend W. Richardson for the biennium 1923-25. He states in his Budget Message that his total Budget was \$78,974,628 (page III of his Budget Document). On page V of his Budget Document he states that the Budget for 1921-23 was \$91,000,000, thus he claimed a reduction in Budgets. But here again we find the Governor making unlike comparisons for the \$91,000,000 was the actual and estimated expenditures. However, the budget does show a decrease below the expenditures of the previous biennium. The actual expenditures for 1923-25 turned out to be \$141,468,805.

The budget estimate for 1925-27, as found on page 1 of Governor Richardson's budget message, was \$103,430,275. This was \$38,000,000 below the expenditures of the previous biennium, but the expenditures turned out to be \$163,155,082 for this period, as stated by Governor Warren in his message, page iii, or some \$60,000,000 more than the budget for the period.

Budgets Not on Comparable Basis

We also call attention to the fact that a comparison of budgets with actual expenditures for prior years is not a valid comparison unless we know that all of the expenditures made on a comparable basis are included. An examination of the several budgets from 1923-25 to current date will show that they are not comparable in that they do not all contain all the expenditures for the State. For example, the budget message in 1945-47 budget states that the expenditures for the biennium 1925-27 amounted to \$163,155,032. Previous official reports of the State of California placed this expenditure at \$174,425,044.

Budgets Have Been Reduced Below Previous Budget

An examination of the Budget for 1933-35, page XXII, shows the total of the Budget recommended by the Governor to be \$258,655,163, while the actual and estimated expenditures of the previous biennium were \$283,159,040, or a decrease of approximately 9 per cent. This reduction in Budgets is contrary to the statement in the 1945-47 Budget as was that for 1923-25. The actual and estimated expenditures for 1933-35 as shown in the Budget for the following biennium, however, turned out to be \$340,883,323. This increase of almost \$60,000,000 over the Budget was due to the assumption of added school costs by the State which accompanied the adoption of the Sales Tax under the so-called Riley-Stewart Plan. This added cost was however opposed by the fiscal officers of the Governor.

Expenditures Will Exceed Budget for 1945-47

We wish to point out that the actual expenditures and accrued liabilities for 1945-47 will exceed the Budget by a very large sum, probably as much as \$200,000,000, unless the Legislatures holds down expenditures, both those presented in the Budget Document and in special appropriation bills, as the Governor recommends in his biennial message in the following words:

“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.” (Biennial Address, page 14.)

The facts are that unless we do this there will be a deficit or material tax increases above the payroll tax recommended will be required.

Reasons for Tremendous Increase in the Cost of State Government

The Governor gives the following reasons for the increase in the cost of State government:

1. The continuous growth of the State.
2. The demands of the people for additional governmental services.
3. The continuous increase in the cost of living.
4. The assumption by the State of obligations formerly considered the financial responsibility of local government.

Cost of Government Grown Much Faster Than Population

While the population of the State of California has grown more rapidly than that of any other State in the Union, and this has had a decided effect upon the increase in the cost of State Government, it has in no way been comparable with this increase. An analysis and a comparison of the population growth of the State with the increased cost of State Government not only shows that there has been a startling upswing in the cost of government, but, what is more significant, the per capita cost of State Government has increased almost two and one-half times as fast as population. If State government expenditure had only increased at the rate of population growth it would have gone up 78.6 per cent from 1923-25 to 1945-47. This would have been an increase of \$103,044,799, and the cost for 1945-47 would be \$234,054,175 in place of the Budget of \$683,710,643, or just a little over one-third of the Budget. The following table, showing the increase in population and

the increase in the cost of State Government for the Biennial Period 1923-25 to 1945-47, reveals the following striking comparisons.

1. During this period the population of the State increased 78.6 per cent but State expenditures, including subventions to local government, increased 421.7 per cent. At the same time, per capita expenditures increased from \$27.94 for the biennium 1923-25 to \$81.65 for the 1945-47 biennium, as calculated on the Governor's Budget, or an increase of \$53.71, or a percentage increase of 192.2.
2. The appropriations made by the State as subventions to local government demonstrated the most startling increase, this being 563.5 per cent, while the per capita expenditures of the State showed an increase from \$13.40 for 1923-25 to \$49.78 for 1945-47, a per capita increase of 271.5 per cent.
3. The State expenditures actually for State purposes showed the smallest percentage of increase, this amounting to 291.1 per cent. The per capita cost increased from \$14.54 to \$31.86, or an increase of 119.1 per cent.

We wish to again point out the fact that these comparisons are not entirely valid, for they are comparing the actual expenditures for the Biennium of 1923-25 with the budgeted items for 1945-47.

The second half of our table, Part B, makes the same comparisons but adds \$100,000,000 for expenditures for State purposes. In this comparison the percentage in the per capita increase for subventions remains the same. The striking increase, therefore, occurs in the State expenditures for State purposes. The adjusted figure now shows an increase in amount, for the period under discussion, of 437.7 per cent, while the per capita cost increases from \$14.54 to \$43.81, or an increase of 200.8 per cent. We wish to emphasize that Part B of this table is added for the purpose of indicating what will happen should the Governor's Budget figure be exceeded by as much as \$100,000,000, and if this was all for State purposes. We have already pointed out that under the Governor's recommendation, his Budget will have to be exceeded by a very large sum, and that all of his recommendations are for State purposes. There are, of course, bills in the Legislature which would increase the Budget by more than \$100,000,000 by increasing the State's subventions to local government.

It is clear from these figures that population growth can not be given as the major cause for the tremendous increase in the cost of State Government. While it is important and contributes to the pyramiding cost of government, the other reasons previously listed are the actual cause of pyramiding cost, built upon an increasing population base. The cost of government works like compound interest.

The significance of this situation, coupled with a sudden population increase due to wartime effect, and the establishment of new State expenditures based upon wartime swollen revenue, is in particular pertinent in light of the statement recently made by the Director of Finance which promises a further increase in the cost of government with the end of the war at the same time that he predicts a drop in revenue. His statement is as follows: "If both Germany and Japan were to collapse

Fiscal Trends, State of California—1923-1925 and 1945-1947 Biennial Periods

A. Comparison of Budgeted Expenditures for 1945-1947 with Actual Expenditures for 1923-1925

Biennial periods	Estimated population	State expenditures and subventions to local governments		State subventions to local governments from State sources		State expenditures for State purposes	
		Amount	Per capita	Amount	Per capita	Amount	Per capita
1945-1947 -----	8,373,080 ¹	\$683,710,643 ³	\$81 65	\$416,885,916	\$49 78	\$266,824,727 ³	\$31 86
1923-1925 -----	4,689,032 ²	131,049,376	27 94	62,834,567	13 40	68,214,809	14 54
INCREASE							
Amount -----	3,684,048	\$552,661,267	\$53 71	\$354,051,349	\$36 38	\$198,609,918	\$17 32
Per Cent -----	78.6%	421.7%	192.2%	563.5%	271.5%	291.1%	119.1

¹ California Taxpayers' Association estimate for January 1, 1944.

² California Taxpayers' Association estimate for July 1, 1924.

³ Proposed and estimated expenditure figure given in Governor's Budget for 1945-47.

38

B. Comparison of Predicted Expenditures of \$100,000,000 in Excess of Budgeted Figure for 1945-47 with Actual Expenditures for 1923-25

Biennial periods	Estimated population	State expenditures and subventions to local government		State subventions to local government from State sources		State expenditures for State purposes	
		Amount	Per capita	Amount	Per capita	Amount	Per capita
1945-47 -----	8,373,080 ¹	\$783,710,643 ³	\$93 59	\$416,885,916	\$49 78	\$366,824,727 ³	\$43 81
1923-25 -----	4,689,032 ²	131,049,376	27 94	62,834,567	13 40	68,214,809	14 54
Increase							
Amount -----	3,684,048	\$652,661,267	\$65 65	\$354,051,349	\$36 38	\$298,609,918	\$29 27
Per cent -----	78.6%	498.0%	235.0%	563.5%	271.5%	437.7%	200.8%

¹ California Taxpayers' Association estimate for January 1, 1944.

² California Taxpayers' Association estimate for July 1, 1924.

³ Predicted figure of actual expenditures based on knowledge the budget fails to include all expenditure items.

immediately, the ensuing two years (1945-47) would be a time of distinct readjustments with a substantial increase in expenditures and a sharp drop in revenues.”

In light of this sobering statement by the Chief Financial Officer of the State, can we increase further the base of State expenditures when we are promised, with the end of the war, a substantial increase in expenditures and a sharp drop in revenue?

The Budget Committee has consistently maintained that expenditures should be held down during the war and the war effort furthered. War expenditures should be eliminated at the end of the war and the surplus preserved now to help meet the time of decreasing revenue and increasing cost of government brought about by reconversion.

A large increase in cost of State Government need not necessarily follow merely because the war has ended. The committee has proposed that each added position and new expenditure shall have to be justified in itself and should not merely be restored because of the fact that it had existed prior to the war.

Majority of People Have Not Demanded Increase in Government

There has been a demand of the people for additional governmental services. These demands frequently, however, have been promoted by interested groups and seldom by a concerted demand by a majority of the people. Too often the average taxpayer has no voice in the matter of government costs but only the organized groups are articulate.

Costs of Government Up With Rise in Living Costs

The third reason given by the Governor for the increased cost of State Government, the continuous increase in the cost of living, requires explanation or one may get a mistaken idea from it. There has not been a continuous increase in the cost of living from the Biennium 1905-07 to the present time. There have been ups and downs and, in fact, the cost of living during this period has been considerably higher than it is at the present time. For a number of years during this period the cost of living was higher than it is at the present moment, and the dollar actually bought much less. A better comparison would be to show what percentage of the income of the people of California was taken for the several bienniums used for comparison for the cost of State Government as compared with the percentage that is now being taken. The per capita tax on the people of California now for all levels of government is approximately \$505 for 1944, the Federal burden being by far the larger part.

State Government Has Assumed Local Government Functions

The most significant reason for the increased cost of State Government is the assumption by the State of obligations that were formerly paid for by local government. The larger items assumed were the added cost for elementary schools in 1933 of approximately \$80,000,000 a biennium, and the further increase for elementary schools by No. 9 on the ballot in November, 1944, which increased the other fixed obligation for this support by some \$33,000,000 for the Biennium 1945-47.

We must also add to this cost for education the assumption by the State of the increased cost for support of the needy aged from \$40 to \$50 per month, as provided by the 1943 Legislature and just made permanent

in January 1945, and of which the State pays one-half. Then there are subventions to local government for streets and highways and many other direct and indirect items.

The Budget Message illustrates this last item by stating that the sum of \$416,885,916⁽¹⁾ or 61% of State expenditures, are being paid to cities, counties, and District Governments for the performance of their functions. Furthermore, a schedule is presented showing how these costs have been absorbed by the State from 1905-07 to 1945-47. The schedule is presented herewith:

Payments and Grants to Local Governments	
1905-1907 -----	\$ 11,976,062
1915-1917 -----	18,685,475
1925-1927 -----	74,589,404
1935-1937 -----	211,312,917
1945-1947 -----	416,885,916 ¹

There are those who will disagree with the Governor's statement that these subventions are all for the performance of the functions of county, city, and district government. A special section in the Budget, extending from page 781 to 793, inclusive, covers what is called "Payments and Grants to Counties and Other Units of Local Government." We list herewith the items covered:

Public Schools:

- Elementary Schools
- High Schools
- District Junior Colleges
- Vocational Education
- Contribution to Teachers' Retirement System
- Free Textbooks

Social Welfare and Public Health:

- Aid to Needy Aged
- Aid to Needy Blind
- Aid to Needy Children
- Subsidies to Tuberculosis Sanatoria

Highways and Streets:

- Apportionments to Counties for County Roads
- Plans and Rights of Way for Postwar County Highway Construction
- Allocation to Cities for City Streets

Civilian Defense:

- Aid to Local Agencies for Civilian Defense Purposes
- Workmen's Compensation Benefits for Civilian Defense Workers

⁽¹⁾ This includes the extra \$10 per month for the aged, voted in 1943, and is incorrectly included as a continuing appropriation. The 1943 law specifically provided for two years only. The Budget on page 786 indicates this. The inclusion of this results in an overstatement of fixed charges by \$30,901,650. The amended total of fixed charges would be \$455,090,940 or 66.2 per cent of the Budget instead of \$485,792,590 or 71 per cent as indicated in the Budget.

Other Purposes:

Salaries of Superior Court Judges
Apportionment to County Agricultural Fairs
Apportionment of Liquor License Fees
Apportionment of Motor Vehicle License Fees (in lieu tax)

Education

There are those who will argue that public education, since it is provided for in the Constitution, is a State responsibility and not a local. The expenditures for the public schools, however, are controlled and made by local government, and the State, up to the present time, although largely supporting these financially, has not even the authority to make a complete audit to determine if the State is contributing the proper sum of money or more than is required, or if the State is receiving value for money expended.

Free Textbooks

The free textbooks supplied in California are printed in the State Printing Plant and are paid for out of a revolving fund. The revolving fund is reimbursed by an appropriation out of the State treasury. The employees are all State employees and working under civil service law. The texts are selected by a State agency, the paper is bought by a State agency, and what is to be printed is determined by a State agency. It appears that those that contend that this is not a subvention to local government but a State activity have strong arguments to support it.

Teachers' Retirement

Now that the State matches the teachers' retirement payments, and has assumed a State obligation of meeting the deficit in the retirement plan, and no longer is free from all obligation other than the contribution of 5 per cent of the inheritance tax, there is a grave question whether this is now a subvention or a State governmental obligation.

Aid to Needy Aged

There is also a question as to whether the aid to the needy aged can any longer be considered a county obligation rather than that of the State. The State holds the final decision as to whether a recipient will be paid and determines how much, and the county claims they have little or no discretion in the matter.

County Highways and City Streets

It will be noted that under the highways and streets section of the Budget there has been included a wartime subvention for the payment of the cost of plans and rights-of-way for postwar county highways. This should not be considered as a continuous obligation but should end with the war. This is also true of the two items under civilian defense.

Salaries of Superior Court Judges

Under other subventions are included three items which have already been seriously questioned as to whether they constitute a subsidy to local government. The first is the salaries of superior court judges. These courts are considered in every respect State courts. While the judges are elected by counties, a set part of their annual salaries is paid by the

State. The judges are transferred from one court to another at the direction of the State Judicial Council. The Judges' Retirement System is supported by the State, on a matching basis, and is managed by the State.

Liquor Licenses

The apportionment of liquor license fees to local government is for the purpose of law enforcement in relation to the liquor business. The license is collected by the State. The costs are incurred through the liquor business which the State licenses, and local government urges that this allocation is only to assist them in enforcing the law which is entirely a State law.

Motor Vehicle License Fee

The apportionment of the motor vehicle licensee fee is open to more serious question for this license fee is an "in lieu" tax levied by the State through the Department of Motor Vehicles in lieu of the old personal property tax on automobiles which was a source of revenue for local government. It was taken over by the State because of the possibility of more equitable enforcement and more economy in the collection of the tax.

Uncontrollable Items

The Budget Message states that a major portion of the Budget, or \$485,792,590,¹ is made up of uncontrollable items and that these are fixed and recurring appropriations. Much has been made of this matter in practically every Governor's Budget from first to last. Much more is made of it in California than in other States in the Union. We believe it is time that a very definite analysis be made of this for it is apparent that many legislators as well as State officers and employees are under the impression that neither the Governor nor the Legislature can do anything about the so-called uncontrollable items.

The use of the term "uncontrollable" is not quite accurate. All of these matters are controllable either by the people through Constitutional amendment or by the Legislature. It is true that some of them are required by the Constitution. The Governor states that these amount to \$215,293,957, covering school support and provisions for debt payments. We concede that debt payments must be made as a contract obligation.

Legislature Can Control Some Expenditures Called Constitutional

We do not concede that the Legislature can not control a considerable amount of the constitutional requirements for school support. The Legislature can provide that only the constitutional appropriation or allocation need be made and it can provide the method of allocation within the limits of the Constitution. The amounts required by the Constitution for education for elementary and high school purposes are shown in the following Schedule I, using the estimates as set up in the Governor's Budget on pages 781 and 782, inclusive. Those that are prescribed for the same branches of education by continuing legislation but which can be controlled by the Legislature are given in Schedule II.

¹ This includes the extra \$10 per month for the aged, voted in 1943, and is incorrectly included as a continuing appropriation. The 1943 law specifically provided was for two years only. The Budget on page 786 indicates this. The inclusion of this results in an over statement of fixed charges by \$30,901,650. The amended total of fixed charges would be \$455,090,940 or 66.2 per cent of the Budget instead of \$485,792,590 or 71 per cent as indicated in the Budget.

Schedule I—Constitutional Appropriations for Education

	<i>Actual 1943-44</i>	<i>Estimated 1944-45</i>	<i>Estimated 1945-46</i>	<i>Estimated 1946-47</i>
Elementary Schools				
Average daily attendance, pre- ceding school year-----	689,867	750,825	798,000	854,000
Per cent of increase-----	0.69%	8.84%	6.28%	7.02%
Apportionment:				
Out of School Fund at \$30 per unit of average attendance---\$20,696,010 00		\$22,524,750 00	\$23,940,000	\$25,620,000
Total, School Fund-----	\$20,696,010 00	\$22,524,750 00	\$23,940,000	\$25,620,000
Out of General Fund, regular:				
On units of average daily at- tendance				
At \$30 per unit-----	\$20,696,010 00	\$22,524,750 00		
At \$50 per unit-----			\$39,900,000	\$42,700,000
Total, General Fund, regular-----	\$20,696,010 00	\$22,524,750 00	\$39,900,000	\$42,700,000
Totals, Apportionments to Elementary Schools ---	\$41,392,020 00	\$45,049,500 00	\$63,840,000	\$68,320,000
		41,392,020 00		63,840,000
Totals for Biennium---		\$86,441,520 00		\$132,160,000
High Schools				
Average daily attendance, pre- ceding school year:				
Regular and compulsory classes -----	267,198	264,775	288,500	317,300
Special day and evening classes -----	49,078	35,109	31,000	25,000
Junior college classes in high schools -----	6,177	4,125	6,400	10,700
Emergency and Education Code, Section 7305-----	1,620	6,098	6,100	6,000
Total, Average daily at- tendance -----	324,073	310,107	332,000	369,000
Per cent of increase or decrease -----	-14.00%	-4.31%	+7.06%	+11.15%
Apportionment:				
Out of High School Fund:				
At \$30 per unit of average daily attendance -----	\$9,722,190 00	\$9,303,210 00	\$9,960,000	\$11,070,000
Totals, High School Fund	\$9,722,190 00	\$9,303,210 00	\$9,960,000	\$11,070,000
Out of General Fund Direct:				
At \$60 per unit of average daily attendance -----	\$19,444,380 00	\$18,606,420 00	\$19,920,000	\$22,140,000
Totals, General Fund Direct -----	\$19,444,380 00	\$18,606,420 00	\$19,920,000	\$22,140,000
Totals, Apportionment to High Schools -----	\$29,166,570 00	\$27,909,630 00	\$29,880,000	\$33,210,000
		29,166,570 00		29,880,000
Grand Total for Biennium		\$57,076,200 00		\$63,090,000
		\$143,517,720 00		\$195,250,000

**Schedule II—Appropriations Made by Continuing Legislation to
Elementary Schools and High Schools**

	<i>Actual</i> 1943-44	<i>Estimated</i> 1944-45	<i>Estimated</i> 1945-46	<i>Estimated</i> 1946-47
Elementary Schools				
One-half excess cost of educating physically handicapped	\$ 378,139 82	\$ 386,003 22	\$ 450,000	\$ 478,000
Out of General Fund, regular:				
Excess over \$30 per unit of average daily attendance due to method of apportionment.....	299,572 61	238,318 27	1,197,000	1,281,000
One-half excess cost of educating physically handicapped	378,139 82	386,003 22	450,000	478,000
Total, General Fund, regular.....	\$1,055,852 25	\$1,060,324 71	\$2,097,000	\$2,237,000
Out of General Fund, supplemental:				
By Chapter 1085; Statutes of 1943 and Chapter 14, Statutes of 1944 (4th Extra Session).....	\$4,203,421 01	\$4,566,861 25		
Totals, Apportionments to Elementary Schools	\$5,259,273 26	\$5,627,185 96 5,259,273 26	\$2,097,000	\$2,237,000 2,097,000
Total — Biennium		\$10,886,459 22		\$4,334,000
High Schools				
Out of High School Fund; One-half excess cost of educating physically handicapped	\$ 138,393 49	\$ 143,454 51	\$ 162,000	\$ 172,000
Out of General Fund, direct:				
Excess over \$60 per unit of average daily attendance due to method of apportionment.....	587,251 31	539,673 41	598,000	665,000
One-half excess cost of educating physically handicapped	138,393 49	143,454 51	162,000	172,000
Total, General Fund, direct.....	\$ 725,644 80	\$ 823,127 92	\$ 760,000	\$ 837,000
Totals, Apportionment to High Schools	\$ 864,038 29	\$ 826,582 43 864,038 29	\$ 922,000	\$1,009,000 922,000
Grand Totals for Biennium		\$ 1,690,620 72 \$12,577,079 94		\$1,931,000 \$6,265,000

None of the other items on page 781 listing payments for public schools are required by the Constitution but all of them are continuing legislation and must appear in the Governor's Budget, but they can be controlled by the Legislature. These are as follows on Schedule III.

**Schedule III—Appropriations for Public Schools Not Required by Constitution
but Continuing Appropriations**

	<i>Actual and estimated 1943-1945 95th and 96th fiscal years</i>	<i>Estimated 1945-1947 97th and 98th fiscal years</i>	<i>Increase (+) or decrease (-) from 1943-1945</i>
Apportionment to District Jr. Colleges: (Fixed charge prescribed by Sections 5451 to 5457, inc., Education Code)			
Totals, apportionment-----	\$3,816,020 00	\$4,682,000 00	+\$865,980 00
Vocational Education Apportionment			
State's Share -----	819,037 12	860,093 00	+41,055 88
(Approximately 2/3 of this expendi- ture is a fixed charge prescribed by Sec. 5705, Educ. Code; balance is determined by biennial legisla- tive appropriation in Budget Act)			
Contribution to State Teachers' Retirement System. (Requirement prescribed by Sec. 14562 and 14563, Educ. Code; contribution of \$312,298.01 in 95th F. Y. represented fixed charge; remainder for 1943-45 and amount for 1945-47 appropriated biennially on basis of actuarial determination)			
Regular State Contributions -----	3,372,298 01	7,610,000 00	+4,237,701 99
Special State Contributions, Chap- ter 13, Statutes of 1944 -----	30,000,000 00		-30,000,000 00
Totals, State Teachers' Retirement System -----	33,372,298 01	7,610,000 00	-25,762,298 01
Free Textbooks -----	1,525,664 00	1,616,618 00	+90,954 00
(Requirement prescribed by Sec. 7, Article IX of the Constitution; amount determined by appropriation by the Legislature)			
Grand Totals, All State Funds-----	\$39,533,019 13	\$14,768,711 00	\$-24,764,308 13
1. Eliminating One Time Appropri- ation for Teachers' Retirement	30,000,000 00		
2. Total for Normal Comparison---	\$9,533,019 13	\$14,768,711 00	+\$5,235,691 87

The Governor states in his Budget Message, page iii, "Of this total, (of uncontrollable items) \$215,293,957 arise by reason of the constitutional requirements for school support and provision for debt payments." This is a customary assumption but not quite in keeping with the facts. Reference to page 713 of the Budget will show that the sum required by the Constitution for schools is only:

	\$195,250,000	From Schedule I
Required for debt service, page A42	13,490,957	
Total -----	\$208,740,957	
The fiscal officers apparently added in the excess for schools above the con- stitutional requirement of-----	\$6,265,000	From Schedule II
found also on page 717, making a total -----	\$215,005,957	
And then they must have considered the salaries of State Legislators provided by Section 23 Art. IV of the Constitution as either expendi- tures for education or debt service for they apparently added in this item from the first item in Schedule VII, page A 42—Budget 1945-47--	288,000	
	\$215,293,957	

This sum makes it balance with the figures used in the Governor's Message. The sum of \$6,265,000 included as a constitutional requirement should also be included in continuing expenditures required by statute. This will change the amounts as follows:

<i>Budget message</i>		<i>Corrected</i>
Constitutional -----	\$215,293,957	\$209,028,957
Education -----	201,803,000	195,250,000
Debt service -----	13,490,957	13,490,957
Salaries—		
Legislators -----		288,000
Grand totals -----	\$215,293,957	\$209,028,957
Continuing appropriations ----	\$270,498,633	\$276,763,633
Grand total uncontrollable	\$485,792,590	\$485,792,590

Continuing Appropriations by Statutes

The Governor states that the remaining \$270,498,633 represents continuing appropriations embodied in statutes. This can actually all be controlled by the Legislature but has not been for many years. Again there are practical limitations but it might produce large economic and more careful planning and spending if these agencies had to budget as do other departments of the State and justify all of these expenditures. This figure if corrected by the amount of school expenditures that were reported as constitutional but are statutory only would bring it up \$6,265,000 or a total of \$276,703,633. These continuing appropriations then would be \$115,955,705 over that required for 1943-45 using the Governor's Budget figures as a base.

This increase, the Governor explains, is caused (1) by increased enrollment in schools, (2) by the adoption of Proposition No. 9 by the people on the November, 1944, ballot, (3) by the anticipated increase in persons receiving aged aid, (4) by the increase in aid to the blind, and (5) by the increase in aid to children.

The Budget Message is in error as respects the aid to needy aged for this anticipated a change in legislation continuing the aid at \$50 per person rather than \$40, which under the then existing law would have obtained for the biennium 1945-47.

**Governor Can Recommend Legislation to Reduce Expenditures
as Well as to Increase Them**

We would like to point out that in this whole situation the Legislature can control by statute some \$276,765,633 or 56.97 per cent of that which is considered by the Governor as uncontrollable in this Budget. The Budget makers were quite correct in including these items, with the exception of the \$10 per capita aid to the needy aged, on the basis of constitutional and statutory requirements. At the same time, if the Governor wishes to continue the increase for the aged and so recommended in this Budget Message and in the Budget, page 786, and included the amount therefor in this Budget, he also by the same logic could have recommended the adjustment or elimination of these continuing

appropriations for the Legislature controls them in their entirety of approximately \$277,000,000. However, again there are practical limitations preventing any large reductions.

Legislative Control of Expenditures Recommended

We recommend that the Legislature exercise some further control over a number of items that are included as uncontrollable in the Governor's Budget. In particular we recommend that the Legislature provide for a direct and understandable method of appropriating money for high and elementary schools so that there will be appropriated all that is required by the Constitution and no more. This can be done now readily and with no hardship to any school district since under Constitutional Amendment No. 9 passed at November 1944 General Election the elementary schools receive some \$33,000,000 more for elementary schools for the biennium than required by the Constitution previously. This will result in a saving to the State treasury of approximately \$6,000,000 for 1945-47.

Equalization of Educational Opportunity

At the same time, it will forward the general premise that equal educational opportunity for all children of the State should be one of the benefits that the sovereign secures when it makes such stupendous payments for education.

Auditing of School Expenditures Recommended

We further recommend that the State should require the auditing of State money allotted for education in all its parts and particularly that allocated on the basis of average daily attendance, so as to determine if these allotments are made as required by law and are equitable and based on true figures.

The late Assemblyman Lee Bashore, as a member of the subcommittee of the Joint Committee on Tax Structure of the State, made special inquiry into this subject. The Legislative Auditor cooperated with him in this and the conclusion from this analysis was (1) that such audits should be made by a body independent of the Department of Education which is an interested party in the allocation and expenditure of such funds, and (2) that such audits will save the State treasury many hundreds of thousands of dollars and will give to the school districts of the State a more equitable distribution of funds.

Education Equalization Fund

This study also showed the desirability of equalizing educational opportunity through setting up an equalization fund from State constitutional support for elementary education. This also can be done at this time without reducing the previous support which school districts have had from the State because of the requirement under the 1944 amendment to the Constitution increasing the average daily attendance support for elementary schools by \$20. If this is done, it will be an accomplishment of a hope held by those sincerely interested in the education of all the children of the State extending over more than a quarter of a century.

The auditing of expenditures for vocational and adult education, and a determination of the support that the State might equitably be expected to give, will result in the saving of many hundreds of thousands of dollars a year. The abuses found here are particularly flagrant.

Expenditures for Highways

In the \$270,498,633 characterized as continuing appropriations in the Budget Message, another inconsistency is found in the treatment of highway funds. Clearly all of these highway funds fall in the category of continuing appropriations and in the light of this, the Governor should logically have included all such revenues, both carry-over balances and accruals during the biennium, for they are all automatically appropriated by continuing legislation. The Governor, however, did not follow this practice consistently but he did include, as is shown on page 713 of the Budget, some \$69,366,843 out of available revenues of \$109,366,843. This left an estimated balance, on the basis of the revenue estimates used, of \$40,000,000. This reserve is eliminated from the category of fixed charges and the subdivision, continuing appropriations, solely by a recommendation of the Governor by merely making the statement that this is to be an estimated reserve for postwar State highway construction. If this reserve had all been allowed to go in as fixed charges, as has been the practice in previous Budgets, the Governor's Budget would have been \$40,000,000 larger and the percentage of fixed charges considerably larger.

Recommended That Postwar Highway Reserve Be Created by Statute

It is recommended that this bill already introduced establishing this reserve be enacted into law and that the Legislature definitely control the establishment of this reserve.

It is clear that if the Governor could make such a recommendation, and in making his budget eliminate the sum involved therefrom in this particular category of fixed charges, he could do the same with many of the others and in that sense these so-called fixed charges are subject to budgetary control.

Since the legislative and budgetary control of the expenditures for highways have been a law unto themselves since the establishment of the Executive Budget, a review of the situation is pertinent.

Highway Funds Not Subjected to Budgetary Control

From the time of the reorganization of the State Government into departments under Governor Young down to the present time, the Executive Budgets have practically ignored the Division of Highways insofar as real budgeting has been concerned. Schedules have been set up showing where proposed expenditures are to be made and the amount of the estimates of money available to the division. These have been distributed under the several projects proposed. A comparison of the Budget with the actual work done for any biennium of the period will show a wide discrepancy and will indicate that the Budget has been of little or no value in controlling expenditures for highways.

The financial plan for highways presented in the Governor's Budget has never been carried into the Budget Bill for the reason that the entire receipts have been automatically appropriated by continuing legislation. The same condition prevails for 1945-47.

Budgetary Control by Department of Finance Over Highways Nil

Little or no budgetary control has been exercised by the Department of Finance over the Division of Highways. For some peculiar reason they have been exempt from the normal budgetary control exercised over the other departments and divisions of the State. For example, the Department of Finance has not exercised budgetary control over their expenditures for personnel. There has not been applied to the division the code numbering system for controlling personnel which has been applied to other departments. They give various excuses for this but the real reason is that they do not wish the Department of Finance to in any way control their financial operations.

There is a similar lack of control in relation to their contracts, their purchasing, their accounting, and in the control of their equipment. There appears to be no reason why the financial officers of the State should not exercise the same budgetary control over this division as is applied to other divisions of the State Government.

Large Unexpended Balance in Highway Funds

The lack of complete budgeting and budgetary control, together with the failure of audits of the Department of Finance to show the true condition of the finances of the division, has resulted in the division having an unexpended balance in appropriations over a period of several bienniums. The original balance was not shown in the preparation of subsequent biennial budgets. In this biennium the total accumulation was brought out at the Budget hearing and the entire status is now presented in the Governor's Budget on page 713.

Recommend Legislature Assume Control Over \$50,000,000 Highway Fund

This particular page is worthy of special consideration by the Legislature. The Legislature should now assume a very definite control over between forty and fifty million dollars of highway funds as the Governor recommends. As we have previously stated, this sum has already been taken out of the items listed by the Governor under uncontrollable items, as a continuing appropriation as provided by statutes.

Page 713 of the Budget is a new procedure which in itself means nothing except the presentation of the financial status of the Division of Highways which has previously not been available to the Legislature. The setting forth, moreover, of a proposed allocation of highway funds as provided in this page means nothing unless the Legislature takes the Governor at his word and makes this effective by legislation. Page 713 of the budget is presented herewith so that a specific consideration of the matter may be made clear by particular reference.

Public Works—Department of Public Works—Division of Highways—Continued

**STATEMENT OF UNBUDGETED SURPLUS AND RESERVE FOR POSTWAR
HIGHWAY CONSTRUCTION**

State Highway Fund

Estimated surplus, July 1, 1945:		
Estimated unbudgeted surplus-----	Nil	
Estimated reserve for postwar State Highway construction:		
State highways:		
Preliminary engineering -----	\$ 4,000,000	
Rights of way -----	7,000,000	
Construction, reconstruction, etc., of roads and bridges-----	19,704,033	
Bridge reconstruction (diesel fuel tax) -----	1,000,000	
State highways in cities -----	5,000,000	
Total postwar reserve-----		\$36,704,033
Total surplus -----		\$36,704,033
Estimated revenue for biennium 1945-47:		
Apportionments from State revenues:		
Motor vehicle fuel tax (transferred from Motor Vehicle Fuel Fund) -----	\$60,634,248	
Use fuel tax (transferred from Motor Vehicle Fuel Fund) -----	3,595,000	
Motor Vehicle registration fees (trans- ferred from Motor Vehicle Fund) -----	8,283,562	
Caravan fees -----	150,000	
Total apportionments from revenues---		72,662,810
Total -----		\$109,366,843
Less proposed expenditures for biennium 1945-1947:		
Expenditures for State Government:		
Department of Public Works:		
Departmental administration -----	\$ 152,127	
Mileage rationing -----	4,255	
Contributions to State Employees' Retirement Fund -----	4,469	
Division of Highways:		
Administration -----	3,756,408	
Contributions of State Employees' Retirement Fund -----	78,063	
Maintenance of State highways-----	19,472,440	
Traffic engineering and special in- vestigations -----	352,238	
Planning survey -----	200,000	
Construction and improvements State highways and bridges -----	30,770,783	
Construction, improvements and main- tenance—State highways in cities ---	6,579,280	
Construction of buildings and pur- chase of equipment -----	417,500	
Payments and grants to local governments:		
Allocations to cities for city streets -----	7,579,280	
Total proposed expenditures ---		\$69,366,843
Estimated surplus June 30, 1947:		
Estimated unbudgeted surplus	Nil	
Estimated reserve for postwar State highway construction:		
Reconditioning, resurfacing, and construction of roads and bridges:		
State highways -----	\$34,000,000	
State highways in cities -----	6,000,000	
Total postwar reserve -----		\$40,000,000
Total surplus -----		\$40,000,000

Page 713 of Budget Explained

We wish to call attention to several items on this page. First, the sum of \$36,704,033, made up of five items as listed, is labeled "Total Postwar Reserve." This, in fact, is the total sum of the balances unexpended from previous bienniums, and it was brought to light in the Budget hearing primarily through the investigation of the Legislative Auditor. The next four items make up the estimated revenue for the biennium 1945-47. The total sum is \$72,622,810. The three larger sources of revenue are listed as the motor vehicle fuel tax—\$60,634,000, the motor vehicle registration fee—\$8,283,000, and the use fuel tax—\$3,595,000.

Revenue Underestimated

In our opinion the Department of Finance has underestimated these revenues by at least \$5,000,000. The Division of Highways has made an estimate of revenue and gets an even smaller amount. We believe that the revenues from these sources available to the Division of Highways for the next biennium will be at least \$77,650,000. Page 713 shows that the total of the so-called postwar reserve and estimated revenues will be \$109,366,843. We believe that this will be at least \$5,000,000 more or \$114,366,843.

The next division sets up the proposed expenditures for 1945-47 under the different categories, including the grants to local government. The total is placed at \$69,366,843. This is the amount that the administration has agreed can be effectively spent during the next biennium under the budget conditions assumed. It is all that is proposed to be spent according to the Governor's Budget. The remaining amount, or the excess over this sum above stated, is an even \$40,000,000. This is found under the fourth division as the estimated surplus to June 30, 1947. This is taken out of the Governor's Budget total, although it is automatically appropriated by law and it is labeled "Estimated Reserve for Postwar State Highway Construction." It is divided into two parts, "Reconditioning, resurfacing, and construction of roads and bridges, State highways, \$34,000,000, and for State highways in cities \$6,000,000.

Designation of Reserves by Governor No Effect Legally

We call attention to the fact that this whole page is merely informative. It has no control at law. This plan may appear in the Budget Document and some \$40,000,000 be set up as Postwar Highway Construction Fund, and yet all of it will still be available for expenditure as the Highway Commission decides, and if the Governor does not exercise any objection it probably will be spent. In other words, the \$40,000,000 labeled as postwar State highway construction reserve may be expended during this biennium unless the Legislature sets it up as a reserve, as in fact the Governor has recommended on page vii of his Budget Message. His recommendation is in the following terms:

"I am of the opinion that a substantial reserve for this purpose should be set aside from the funds saved through deferring construction work since the war began. I, therefore, recommend in this budget that a reserve of \$40,000,000 from these highway funds be held in reserve for postwar construction of State highways to provide work in localities of the State where the need for employment may develop."

Recommend Postwar Highway Reserve Fund Be Set Up for Excess

A bill has been introduced in the Legislature to accomplish this purpose and in this amount. We recommend, however, that since in our opinion the revenues for the Division of Highways for the biennium will be in excess of \$72,662,000 as estimated in the Budget by at least \$5,000,000, the bill setting up the postwar highway reserve should be written so that all moneys in excess of the expenditure program as found on pages 704 and 713 of the Budget, in the sum of \$69,366,843, be definitely placed in a postwar State highway construction reserve and not available for expenditure until the biennium following June 30, 1947. This will conform to the Governor's recommendation and will guarantee that this money will be available and will be subject to future appropriation by the Legislature. Further, it will provide a fund for the building of highways to help repair the ravages of wartime traffic and will relieve unemployment during the period of reconversion.

By this action the Legislature also will reassume control over highway expenditures which in the past have been abrogated and the allocation of expenditures has been left to the Highway Commission. The commission has, in effect, appropriated the highway funds and determined where the money should be spent. Unless the Legislature does take some such definite action, there is no guarantee that this reserve fund will be available.

Other So-Called Uncontrollable Items

There are many other items that have long been classified as uncontrollable within the \$270,000,000 plus which can be controlled by the Legislature. Some of these have merely been set up in specific funds by statutes and not only can the appropriations therefrom be controlled by the Legislature but the very existence of the funds themselves depends upon legislative determination.

The Legislature should recognize that when a special fund is set up for some purpose, there is always a temptation to spend all the money available whether or not it is needed. This naturally leads to extravagance. Since all of the money is generally appropriated or, in other instances, any surplus in the fund can be allocated by the Department of Finance with the approval of the Governor as a deficiency under the provision of the Political Code, Section 661, the budgets for special funds are generally underestimated. This means that their budgeting is not as adequate as it should be. The financial controls exercised under them is less stringent than where appropriations are definite. What is more significant is the fact that deficiencies in appropriations for such funds are not brought before the Legislature but are made up by allocation by the Director of Finance under Section 661 of the Political Code.

Appropriations From Special Funds Small

Reference to the Appropriation Bill will show that total appropriations from special fund items is relatively small, being only \$47,376,808 or 23 per cent of the total in the Budget Bill. The special fund items are a little more than one-third of the budget. However, the special fund items in the appropriation bill total only 6.9 per cent of the Governor's Budget. These amounts and comparisons will be found in a tabulation in a preceding section of this report.

Recommend That the Legislature Assume Control of Special Funds

It is clear that the Legislature has a large opportunity to produce more government for the people with less money by taking control of the appropriation of special funds and insisting on the following procedure:

1. That these funds be as carefully budgeted as general funds.
2. That every service and expense be determined as necessary and desirable.
3. That the same economy and efficiency be secured in special fund operations as in the general fund.
4. That if receipts are substantially larger than are necessary all surplus and reserves, insofar as practicable, be invested so as to earn as much on this public money as is possible.
5. That when it is amply demonstrated that receipts are in excess of what is needed to properly carry on the special fund functions required, that the license, fees or taxes be reduced and the surplus be left in the hands of the rate payer.

Legislature Has Limited the Opportunity for Executive Budgetary Control

By allowing session after session the continuing appropriations embodied in the statutes and continuously adding to them, the Legislature has not only itself abrogated the control of appropriations but it has likewise hamstrung the executive department of government by limiting their field of opportunity for exercising budgetary control and the producing of economy and efficiency in government.

Controllable Expenditures

The Governor points out that there is actually in his Budget \$175,631,711 that can be considered as controllable costs for regular activities. This is an increase of \$31,421,541. While we may disagree with the exactness of this amount, or the definition which results in determining this amount, we must in general agree with the principle involved that the total sum of the Budget for the biennial period which is fully controllable by the Executive is relatively small. The opportunity for economy or for reduction of the cost of government, even where there is strong disposition to produce such results, is definitely limited.

We have already pointed out that the Legislature itself can remedy this situation if it so desires. The items controllable by the Governor for regular activities for the current biennium amounted to \$144,210,170, or \$31,421,541 less than for the Biennium 1945-47.

During the current biennium expenditures for extraordinary and non-recurring items have been reduced for the coming biennium to \$22,286,342. This is a reduction of approximately \$45,000,000. While this is commendable, it does not tell the whole story. Part of the reduction is a bookkeeping reduction. Our figures differ considerably and have the effect of allocating expenditures to the biennium where we believe they will be made. There are three items listed as nonrecurring allocated to 1943-45 Biennium which we believe will fall in 1945-47 as previously presented. These are Budget page 343, Rector Canyon Dam \$1,370,670, some \$4,000,000 for sites, page 763 of the Budget, and \$4,375,000 for local governmental agencies for plans and sites for post-war works, page 793 of the Budget, a total of \$9,725,670, we feel sure

can not be spent by June 30, 1945; the sites can not be bought for the reasons before given and the act appropriating the other item is before the Supreme Court to decide its constitutionality. If a decision was rendered soon the pressure of the session of the Legislature would make impossible the allocation of any large amount of the funds.

Shifting these three items from 1943-45 to 1945-47 will make the following changes.

The expenditures for 1943-45 will be reduced from	\$587,347,003
By -----	9,745,670
To -----	\$577,601,333
The Budget for 1945-47 will be increased from	\$683,710,643
By -----	9,745,670
To -----	\$693,456,313

Depending on how one interprets the act of 1944, the uncontrollable or the controllable expenditures are increased by \$9,745,670. We designate them controllable for the reason the Governor approved the 1943 bills as passed by the Legislature. The amount for 1945-47 for regular activities remains the same \$175,631,711.

Nonrecurring are increased from	\$22,286,342
By -----	9,745,670
To -----	\$32,032,012
and the total controllable expenditures	
increased to -----	\$207,663,723

Much of the reduction on 1945-47 below 1943-45 was due to elimination of wartime agencies and large sums for postwar planning and construction.

The items making up the extraordinary and nonrecurring expenditures according to the Budget 1945-47 are as follows:

Extraordinary and Nonrecurring Items 1945-47 Budget

<i>Purpose</i>	<i>Amount</i>	<i>Budget Page</i>
Sites for State buildings, Items 251, 252, and 253 Budget Bill	\$ 900,000	763
Purchase of 1870 and 1873 Bonds, (Stat. 1943)	2,277,500	A-47
Emergency Construction (From Postwar Employment Reserve)	13,266,842	762
Aid Local Govt. Civilian Defense (Chap. 805, Stat. 1943)	342,000	792
Allocation to Local Agencies Plans and Sites Postwar Public Works (Chap. 47, Stat. 1944, 4th Extraordinary Session)	5,500,000	793
Total	\$22,286,342	

Increase in Controllable Expenditures

The larger increases in the controllable expenditures, the Governor states, are for education, public health, industrial safety, State hospitals and correctional institutions. The Governor lists the principal items as follows:

University of California—For newly established campus at Santa Barbara and new College of Aviation Engineering in Los Angeles, increased enrollment on all campuses and adjustment of teaching staff salaries-----	\$ 4,976,657
Department of Education—For increased enrollment in the six State colleges and four special schools, and expansion of vocational rehabilitation -----	1,377,095
Department of Public Health—For increased services to raise standards of public health-----	778,688
Department of Industrial Relations—To improve standards of industrial safety and accident prevention -----	631,550
Department of Institutions—To reorganize and establish the Department of Mental Hygiene, establish mental clinics, improve standards of care at State hospitals and provide for greater number of patients because of increased population -----	5,325,197
Corrections—To implement Youth and Adult Authorities, purchase new school facilities now under lease, abolish the "con boss" system, establish diagnostic clinic and prison classifications--	3,171,964
Agriculture—For increased protection to plant and livestock industries, meat inspection and enforcement of marketing laws-----	1,268,830
Forestry—For increased fire suppression allotments and adjustment of salary and working schedule for fire fighters-----	1,270,669
Emergency Construction—Emergency construction projects to be undertaken from the Postwar Employment Reserve -----	13,266,842

Education—Santa Barbara, a Branch of University of California

There are several items in this list which deserve particular comment. In the first item, increase for the University of California, there is included as part of the increase the item for the newly established campus at Santa Barbara. This should not have the effect of materially increasing either the total expenditure or the controllable expenditures in the Budget for this is primarily a transfer of the Santa Barbara State College to the University of California. While it adds to the Budget for the University of California, there should be a relatively decreased amount from the Department of Education, Division of State Colleges and Special Schools. This budgeted amount for Santa Barbara is \$795,722, which is an increase of \$135,812 over 1943-45.

An item for a new College of Aviation Engineering in Los Angeles is new to meet a legislative provision of the 1943 Session. Increased enrollment on all campuses of the University, should be a normal Budget increase. We believe, however, that this can be tempered by deducting from the University of California Budget whatever amount will be paid by the Federal Government under the GI Bill for the education of returning veterans. We recommend that an amendment be placed in the Budget Bill providing for a deduction of such Federal payments on the basis of enrollment and student costs. We also question if the University will receive as high a percentage of college entrants from our wartime population as they have from our normal peacetime growth, nor will they receive a very large percentage of veterans during the first six months after the close of the World War.

University of California Salary Adjustment

The adjustment of the teaching staff salaries at the University of California is purely a matter of policy. The question of whether this should be done on a permanent or a temporary basis during a wartime economy should definitely be considered by the Legislature. The Budget Committee has in its files material for a comprehensive analysis of this subject of salaries.

Department of Education

An increase of \$1,377,095 over the previous biennium is recommended in the Budget for the Department of Education for increased enrollment in the six State colleges and the four special schools and expansion of vocational rehabilitation. It is possible that increased enrollment will occur in the colleges but we again question the figures used in the Budget. If this enrollment does not materialize, certain savings should be accomplished.

The expansion of vocational rehabilitation should not require additional State funds for the education of the world war veterans for this is a Federal responsibility and should be supported out of Federal appropriations.

State Colleges

If this appropriation includes any amount to expand the State colleges to meet the provisions of certain bills that are in the Legislature, to put them into competition in graduate work and research with the university, then this policy should be determined by the Legislature before the appropriation is made. The question should be answered as to whether or not these State colleges, with an expanded program of research, should not come under the university so that the competition of one State institution with another can be eliminated and a coordinated program of higher education for the entire State be established.

California Polytechnic

The same consideration should be given to the proposed expansion, both in offering degrees and research, of the California Polytechnic School, which now proposes to compete in the fields of agricultural engineering, veterinary science, and other matters with the University of California. The entire matter of continuing the Voorhis Unit of the California Polytechnic should be considered. Its budget (page 268-270) shows an increase from \$13,190 for 1943-45 to \$65,681 for 1945-47 and this is only

the opening wedge. Its student costs will always be high. It appears to us a liability as it was to its founders as a private school. We recommend it be closed and the property disposed of and the funds used to concentrate at the one school at San Luis Obispo.

Public Health

The proposed increase in the Budget for the Department of Public Health in the amount of \$778,688 should be considered in light of the fact that the budget of this department was materially increased at the last session of the Legislature and this is a pyramided increase. In this proposal is an item for the establishment of a research laboratory. It has always been the policy in the past that such research work would be carried on by the University of California under its regular appropriation. The Legislature should determine positively whether it wishes to abandon this procedure before it makes this part of the appropriation.

Industrial Relations

The increase for the Department of Industrial Relations is \$631,550 to improve standards of industrial safety and accident prevention. The Department has operated satisfactorily during the period of the greatest industrialization in the State. For the past eighteen months, in fact for all of 1944 and 1945, the number of industrial workers in the State has been decreasing. In fact the January, 1945, report of the director of this department to the Governor stated that factory employment decreased from 893,000 wage earners in 1943 to 824,000 in 1944. The trend is shown by the fact that there was a drop in employment in shipbuilding of 18 per cent and of 29 per cent in aircraft manufacturing in California between the 1943 peak and September 1944. Most other war industries showed similar trends. All evidence points to a further decline of large proportions, well under way, by the time the Budget for 1945-47 becomes effective and particularly so if conditions obtain as assumed in the Budget. Already the less efficient, less skilled and less active employees, and those with bad accident records, are being discharged in our shipyards and aircraft plants. The plants themselves are tightening up on safety regulations. It seems logical to review this request in this light and to consider decreasing the appropriation for this department rather than increasing it.

Institutions

The most startling request in the increase of controllable expenditures is that of \$5,325,197 for the Department of Institutions "*to reorganize and establish the Department of Mental Hygiene, establish mental clinics, improve standards of care at State hospitals and provide for greater number of patients because of increased population.*" This is a new departure and the establishment of new and expanded services despite the fact that the Governor, in his message printed on the opposite page in the Budget, in the third paragraph states, "I do not propose any new, startling or expanded spending programs."

This change and expansion requires a considerable amount of legislation. First, the elimination from the Department of Institutions of the Home for the Adult Blind in Oakland and the Blind Work Shops; second,

the change in the name of the department; third, the establishment of mental clinics to travel up and down the State, to promote business and secure clients. A startling thing is that they propose a change in the law so that they can get clients more easily when at the same time the department complains of overcrowding. It no longer will be necessary to have a court commitment but merely the opinion of two doctors to the effect that someone has a mental disturbance, and it will not even be necessary to state that they cannot be cared for locally or in their own home. There is no doubt but what the State must provide for a greater number of patients under such conditions, and we need not consider increased population necessary to fill our institutions to overflowing. It has long been recognized that all that is needed to secure more population in our institutions as charges of the State at State expense is just build a new building or a new institution. This is generally recognized by those who administer institutions. With our present requirement for admission and with the increased population, we will have our State institutions overcrowded. In fact it will be difficult to provide buildings and facilities to keep up with normal demand.

The proposal to improve standards of care in State hospitals is based primarily on a study made by Dr. Hamilton, a Federal employee, whose general procedure eliminated all consideration of costs or the burden they might impose upon the taxpayers. Also, his primary measure was the amount of money spent not the ratio of recovery or the rapidity of cure.

The statement made by the Department of Institutions for so-called improved standards of care was based primarily upon the contention that California is the third most populated State in the Union and one of the largest spenders for education and aid to the needy aged, and therefore should spend more for State institutions. We contend that the argument is unsound and that there is no reason for a State to spend more money for institutions simply because it is populous, because it happens to be rich, or because it spends more money for other services than do other States. The question is, does the State of California provide adequate service and are the inmates in its institutions relatively well cared for. Are they as well cared for as the average citizen in the State who needs hospitalization or custodial care who does not go to a State institution? Is the ratio of recovery favorable when compared with institutions in other States?

Doctors and Nurses for Wounded Soldiers First

One of the specific recommendations is for an increase in the medical service and in the number of registered nurses. We maintain that such an attempt to enlarge these services during the war is in direct competition with the war effort. At the present time the Surgeon-General of the United States is making a plea for more nurses through every means at hand, in the press, over the radio, through special bulletins, through individual letters, through civic clubs and through every other kind of an organization. This is for the reason that hospitals with as many as 3,000 wounded and suffering soldiers of this war have only 53 trained nurses to attend them. Recently several hospital groups, some eleven

of them, were sent overseas for the care of our wounded soldiers and sailors without it being possible to send a single trained nurse. It is reasonable that the Department of Institutions of the State of California should compete for nurses under these conditions? Should not the Department of Institutions withdraw its request in light of the war effort when the war casualties are increasing more rapidly than at any other time during the war? The same argument to a somewhat lesser degree applies to doctors.

Moreover, the average citizen who pays the bills for our State institutions can not secure the services of nurses or doctors to the same degree that such services are available to the actually sick inmates of our institutions.

It should be recognized that only a small percentage of the inmates of our State institutions are acutely ill and require the services of trained nurses. The nursing services, moreover, have been satisfactory up to now. Why, in the middle of a war, when the services of trained nurses and doctors are at a premium, should this expenditure be proposed? Wounds of soldiers continue after the fighting ends and long after the glory dims.

The following tabulation giving the population of the several institutions and the types of bed cases in residence at the several institutions as of January 31, 1945, measures the outside need for trained nursing services.

**Tabulation of Types of Bed Cases in Resident Institutions
as of January 31, 1945**

<i>State Hospitals</i>	<i>Estimated Average Population 1944-45</i>	<i>Sick in Bed¹</i>	<i>Bed-Ridden²</i>	<i>Tube fed³</i>	<i>Restrained⁴</i>	<i>Total</i>
Agnews	3,664	48	107	1	0	156
Camarillo	4,123	106	157	5	83	351
Mendocino	2,921	30	129	1	8	168
Napa	3,945	155	175	5	74	409
Norwalk	2,396	106	96	2	24	228
Patton	3,850	257	44	0	59	360
Stockton	4,328	248	50	15	109	422
Pacific Colony	1,600	27	20	0	139	186
Sonoma State Home	3,350	214	93	0	47	354
Totals	30,177	1,191	871	29	543	2,634

¹ Mostly temporarily ill.

² Probably confined to their beds for as long as they are in the respective institutions.

³ So insane as to be resistive to normal feeding and to require forceful feeding by tube.

⁴ These are disturbed patients.

The total number that require some nursing was 2,634 out of a total of 30,177 estimated average population for 1944-45 or less than 10 per cent. The total requiring trained nurses is far less than this total.

Moreover, it is now proposed that nurses be drafted in order to secure an adequate supply for our armed services. The Governor recently stated that California in no way would interfere with the drafting of manpower or the requirement that persons subject to the draft should be required to work in essential war industries. It appears that the

same principles apply in this situation. In addition to the lack of trained nurses for overseas duty, there is a concentrated drive on to enlist WAC's for medical technicians for duty at home. Major Knox Manning, WAC Recruiting Officer, informed a conference in the office of Governor Warren in Los Angeles on February 7, 1945, that "Thousands of wounded war veterans returned to hospitals in the United States will receive inadequate care" unless such enlistments are stimulated.

Governor Warren en route from Washington, D. C., telegraphed his support of the campaign.

Moreover, it is doubtful if these positions calling for doctors and nurses and technicians could be filled even if they are set up in the Budget. For these reasons this increase for these purposes can not be justified at this time. We recommend they be deferred until at least six months after the conclusion of hostilities.

Patient Load Reduced

The additional number of positions set up in the Budget under the reorganization plan will have the effect of further reducing the patient load per employee. The net result will be to have an average of one employee for each seven inmates.

Corrections

An increase of \$3,171,964 is proposed for the Department of Corrections. This is for the purpose of implementing the Youth and Adult Authorities, to purchase new school facilities now under lease, abolish the "con boss" system, establish diagnostic clinic and prison classifications.

Subsequently in this report we will give further details on this subject which will show that the Youth Authority under the present setup is not functioning efficiently and needs revisions which will produce some economy. Per inmate costs are too high and failures too great. Costs could be cut by securing more cures.

There is also a question as to whether certain of the new school facilities under lease should be purchased.

A determination should be made of what is meant by "abolish the con boss system" and why this should cost anything. Why, on the other hand, should it not produce economies which should eventually result in saving money rather than in spending more. So far the only measurable results of the "Prison reform" have been to increase costs, reduce paroles, replace long-time employees, eliminate forestry and harvest camps and lay the groundwork for still higher costs. It is true that the changed setup has not been under way long enough to demonstrate its ability to restore a larger percentage of men to society or to get them back into proper social relationship or to reduce recidivism. The present record of the prisons is no better than has existed for many years, particularly when measured in light of the excellent employment conditions and the favorable economic conditions. The real test will not come until the war is over and jobs scarce and adverse economic opportunities obtain. The diagnostic clinic is not new. It has existed in the Youth Authority for some time as has also the prisoners' classification board in San Quentin.

Agriculture

The proposed increase for the Department of Agriculture is \$1,268,830 for increased protection to plant and livestock industries, meat inspection and enforcement of marketing laws. The increase for meat inspection is anticipating the withdrawal of Federal inspection and is not due to a proposed change in the law whereby it proposes that the State pay the entire cost of meat inspection which has formerly been carried by the industry. This latter is in a bill and is a matter of policy which the Legislature should decide. In prior sessions the proposal has been turned down.

Forestry

It is proposed to increase the appropriation for the Division of Forestry by \$1,270,669. This is over and above the wartime expenditures. It is stated that this is for increased fire suppression allotments and an adjustment of salary and working schedule for fire fighters. This statement does not adequately explain the circumstances for this includes a continuation in the normal program of *certain services expanded as a wartime activity*. This is contrary to the principles adopted by the Budget Committee. It includes the taking on of an additional large area of the State for fire protection. It includes practically doubling the payment to the Federal Government for protection of private lands inside Federal forests. It includes allocating approximately three times the amount of money to the so-called outside counties. It includes the establishment of a full two-way radio system and it includes the all year employment of a much larger personnel, about 200 additional. The net result is to materially increase the protection costs per acre. This whole subject needs careful consideration by the Legislature and the determination of certain specific policies before a Budget can be specifically determined.

Emergency Construction

The next item is labeled "Emergency construction." It proposes the expenditure of \$13,266,842 from the Postwar Employment Reserve for projects which are designated as emergency construction. The detail of this will be found on page 762 of the Budget and items 254 to 274, inclusive, of the Budget Bill. We wish to point out here, however, that the Legislature has reserved the power to determine when and for what the Postwar Employment Reserve will be used. The question can be at once raised if an appropriation at this time for the Biennium 1945-47 will conform to the desires of the Legislature to use this fund for postwar employment.

It can be observed that the estimates of cost for the construction items listed in the Budget are not based on prices either for labor or material that would undoubtedly prevail if these expenditures were being made for the purpose of helping to relieve unemployment. In fact, on page 764, under postwar construction program, under California Institution for Men, we find the following statement "Supplemental amounts (\$99,000) required on account of increased cost of construction over and above \$262,000 already on hand in Architectural Revolving Fund for this project." These prices have been calculated on approximately present costs. If the Legislature wishes to preserve the postwar employment

reserve for the relief of unemployment, it may possibly conclude to make such of these appropriations as it considers emergency from other funds.

The Legislature should keep in mind that *it will cost approximately one-third more for this construction now than it would have cost at prewar prices.* The best available information from all sources, including the survey made by the Reconstruction and Reemployment Commission, indicate that postwar income of the people of California will be considerably less than it is at present. This should mean that cost of construction will be materially less than under wartime conditions. It is doubtful if a delay of a considerable proportion of this program will produce any serious hardship. Some of it should be constructed immediately as a real emergency. It all should be reviewed to determine the degree of emergency for each and every item. It is recommended that each item in this program be reviewed by the Legislature with these conditions in mind.

What Is Strict Economy

It is stated on page v of the Budget Message that in preparing the Budget strict economy has been adhered to without curtailment of needed State services. There are many varied interpretations of both what is strict economy and what are needed State services.

We have stated previously that neither the Budget for 1943-45 nor this Budget are economy Budgets. A review of the 1943-45 Budget and the actual and estimated expenditures amply demonstrates this. For the Fiscal Year 1943-44 where the actual business of the State has been done and the expenditures are known, *all of the proposed classes of General Fund expenditures fell below the Budget estimates, this despite the fact that there were material increases in salary adjustments and increases in pay scales, and many other expenditures that could have been materially reduced.* In fact, payments from the General Fund for this fiscal year totaled \$206,609,000 compared with estimated requirements of \$223,317,000, showing a saving of approximately \$17,000,000. This will be reduced somewhat by adjustments falling into the type of delayed expenditures. However, the net should be between \$13,000,000 and \$14,000,000. This will be called a saving by the State administrators, and in a sense it is, for most all of this could have been expended. In the exact sense, however, it should be called a reversion from excess appropriations, for this total expenditure of \$206,609,000 was \$39,102,000 above the total for 1942-43, or an expenditure increase of 18.92 per cent.

It is significant that miscellaneous expenditures from the General Fund for 1943-44 for State hospitals, prisons, special schools, colleges, and all of the departments and agencies supported by general taxes, amounted to \$62,155,000 as compared with an estimated figure of \$73,337,000 for that year, a saving of \$11,182,000. There will probably be \$4,000,000 of delayed expenditures from this, leaving a net saving of approximately \$7,000,000. This in itself is significant but when we consider that the \$62,155,000 had in it \$13,500,000 for highway projects where no saving could be considered, then the \$7,000,000 saving was out of \$48,500,000, which is a high percentage. Comparable results should be secured for the current year of this biennium, although some of these potential savings have been reduced through allowing increases in salaries and added personnel.

When one goes through the Budget for 1945-47 and compares the Budget with the actual and estimated expenditures for 1943-45 and finds that practically every item shows a material increase, and the total increase is 16.4 per cent, one must conclude that the Budget for the coming biennium is not an economy Budget. This is further supported when we find that a number of expenditures established as wartime expenditures are entirely omitted but others appear in the Budget as expenditures for the regular activities of the departments and agencies concerned. Also, many departments of the State have functioned effectively during the war with reduced personnel and yet they have maintained approximately 3,000 vacant positions for employees who are in the armed forces. The Budget for 1945-47 proposes to fill these positions without eliminating a comparable number of existing positions.

Recommended Savings—\$10,000,000

In examining the Budget carefully, it will be found that expenditures for the Fiscal Year 1943-44 which are headed "actual" are in almost every instance less than the estimated and actual expenditures for the 1944-45 Fiscal Year. In fact, the budgeting process is such that the items entered in this column are generally, if not always, the sums allowed in the fiscal year Budgets. The Budget items for the next Fiscal Year 1945-46 throughout the Governor's Budget nearly always show an increase over the previous fiscal year and this is generally carried forward with an increase into the Fiscal Year 1946-47. In our opinion, the actual and estimated expenditures for 1944-45 are from 10 to 13 million dollars more than what will actually be expended unless salary increases or some additional expenditures are allowed without providing the additional sums of money necessary. Since this schedule of allotments is carried forward with an increase for 1945-47, *it is our well considered opinion that from 8 to 10 million dollars can be arbitrarily cut from the Appropriation Bill on a percentage basis from the lump sum appropriations*, and the departments of the State will operate as satisfactorily as they have operated for the current biennium. There are some exceptions to this general recommendation and these specific places, which on the whole are few, will be pointed out. We recommend that this policy be followed.

Population Increase and Cost of Government

We concur that the State must frankly face the fact that California has increased its population during the current biennium. We should also recognize that the government has operated satisfactorily caring for this increased population during the current biennium. There has been an increase in the cost of government resulting from this.

The full effect of this increased population has not been felt in all parts of the State Government. For example, the population increase in 1944 will not increase the allotment to schools, other than emergency allotments, until 1945. The actual expenditures for public schools for 1944, based upon 1943 average daily attendance, required only \$77,246,000 against a forecast of \$80,059,000.

Elementary schools required approximately \$1,000,000 less than was allowed in the 1943-45 Budget and the remainder of the savings was due

to the decrease in high school attendance. No doubt the high school attendance will show a sudden upswing after the war and probably during the 1945-47 Biennium. Such will not be the case with elementary schools. It is possible that the population of the State may decline with the decline in wartime jobs which is already underway. It is generally admitted that the upswing peak of industrial activity in California resulting from the war was reached in 1944. There is no reason to believe that there will be an increase in population in anywise comparable with the increase in the Budget for 1945-47 over the actual and estimated expenditures for 1943-45 of 16.4 per cent.

The tabulation previously presented shows that the increased cost of California State Government has far exceeded the growth in population. May we not ask the question, should not the cost of California State Government upon a return to peacetime activities show some decline with the stabilization of population or possibly an actual decline in population? Should it not show a further decline in costs by the elimination of wartime activities? Should it not show some further decreases if there is a material decrease in the cost of commodities? Should there not be some further decline with the increase in the efficiency of available employees through the reversal of the labor market?

Continuation of Public Service on Standards Established by the Legislature

It is claimed that the Budget provides for a continuation of public service *in accordance with the standards heretofore established by the Legislature*. This appears to be not only a logical assumption but a requirement determined by the Legislature and passed on to the Executive Division of State Government for administration, but this deserves some interpretation.

When the appropriations were passed for the 1943-45 Budget, certain legislative intent was expressed with the several appropriations. In many instances an appropriation was made to provide a certain wartime service but with the understanding that the Governor and his financial officers, in exercising budgetary control, would only spend so much thereof as was necessary. Previously in this report we have pointed out many instances an appropriation was made to provide a certain wartime that the budgetary control expected had been realized to a larger degree than previously in the functioning of budgetary control. Under this Administration, we find that certain unit costs for carrying on the Government of the State were secured and that certain services were rendered for these costs, which apparently have satisfied the public. An examination of the Budget for 1945-47 will show that the unit costs for many services wherever they are measurable have been increased throughout the Budget, yet some show material decreases. For example, we may consider the Department of Institutions which is one of the best budgeted departments of the State, and the Departments of Education and Corrections, where unit costs are available. The following comparisons will illustrate the point.

Comparison of Unit Costs in California Institutions

<i>Name of department and institution</i>	<i>Cost per patient in residence</i>		
	<i>1944-45</i>	<i>1945-46</i>	<i>1946-47</i>
<i>Department of Institutions</i>			
Langley Porter Clinic.....	\$3,435	\$4,014	\$4,627
Agnews State Hospital.....	370	394	415
Camarillo State Hospital.....	343	392	407
Mendocino State Hospital.....	373	411	423
Napa State Hospital.....	363	393	405
Norwalk State Hospital.....	423	454	471
Patton State Hospital.....	369	398	411
Stockton State Hospital.....	371	408	423
Pacific Colony.....	467	517	546
Sonoma State Home.....	399	433	457
<i>Department of Corrections</i>			
Folsom State Prison.....	1,400	1,700	1,790
Chino.....	795	869	892
Tehachapi.....	879	908	924
San Quentin State Prison.....	460	503	495
<i>Youth Authority</i>			
Camps for Boys.....	831	792	814
Fricot School for Boys.....	1,093	1,094	1,106
Whittier.....	1,061	1,227	1,222
Preston.....	959	1,049	1,060
Los Guilucos School for Girls.....	1,253	1,202	1,229
Ventura School for Girls.....	1,116	1,204	1,282
<i>Department of Education</i>			
Chico State College.....	792	625	504
Fresno State College.....	416	347	291
Humboldt State College.....	832	555	399
San Diego State College.....	345	340	278
San Francisco State College.....	442	319	273
University of California.....	607	606	534

It is significant to note that the educational institutions do show a per student reduction in costs with the return to peacetime conditions, while the prisons and the correctional institutions and the hospitals show a continued increase per inmate cost. In the case of the educational institutions we have a continuation of the public service standards established by the Legislature. In the case of the others, we have an increase in standards and increasing per inmate costs largely resulting from increased standards, the costs of which were never acted on by the Legislature.

There are some minor exceptions. The Legislature did approve a uniform number of holidays for institutions, including the Department of Corrections, and it did approve a bill reorganizing the Department of Penology into the Department of Corrections, and also the establishing of the Youth Authority, but it did not approve any additional expenditures for the Department of Corrections at the time. The increase in the number of employees per inmate, both in institutions and in the prisons, has never been acted on by the Legislature. Many other added services beyond the standard approved by the Legislature are included in the 1945-47 Budget.

New and Expanded Spending Program

There can also be a difference of opinion concerning the statement included in the Budget Message to the effect that no new or expanded spending programs are proposed. On page iv of the Budget Message a number of items are listed as causes of the major increase in controllable expenditures. Amongst these are the following which do not appear in prior Budgets and therefore must be considered as new services.

Department of Public Health

Chief of the Division of Preventive Medical Service.....	(page 668)
Assistant Chief of the Bureau of Tuberculosis.....	(page 671)
Eight war emergency positions extended on a permanent basis for the Division of Laboratories.....	(page 676)
Chief of the Division of Environmental Sanitation.....	(page 676)
Five new positions in the Division of Sanitary Engineering.....	(page 677)
Five new positions formerly war emergency extended to permanent basis in the Bureau of Food and Drugs.....	(page 679)
Added aid to cities and counties—fees paid to nurses and physicians.....	(page 682)
Other unmeasurable additions in miscellaneous items.	

Department of Industrial Relations

A new secretariat for a Citizens' Advisory Committee on Social and Industrial Welfare: Four new positions not extended through the Fiscal Year 1946-47.....	(page 390)
Seven new safety engineers.....	(page 396)
Thirteen new positions for the Division of Industrial Welfare.....	(page 400)
(At a time when industrial employment is decreasing each month, the peak having been reached in 1944)	

Department of Institutions

Included in this budget is money to completely reorganize the Department, and to establish mental clinics, and to add new employees to reduce the patient load to an average of 7.01 per employee.

There is to be established in the Department a completely new activity as follows:

- Tuberculosis Survey—3 employees
- Hygiene Clinics—40 new employees
- A Director of Clinical Services for most of the institutions, and graduate nurses at each institution.

At most of the institutions they are likewise adding an institution supervising dietitian, formerly handled for the entire department by a food administrator.

Department of Corrections

An examination of the Budget for the Department of Corrections will show that the increase of \$3,171,964 is primarily for new and expanded services which could have been anticipated at the time the Department of Corrections was established. A careful examination of the Budget is required to realize the extent of this expansion.

This reorganization program has not been in operation long enough to measure results and to determine whether the material increase in the costs will secure comparable improved results. The sincerity of the administrators is unquestioned and their zeal is commendable.

However, merely the spending of more money per inmate does not give an enlightened correctional institution, nor does it reclaim more offenders and restore them to society, nor does it reduce the deficiencies of internal management or internal disturbances or irregularities. The problems of internal security, rehabilitation, and restoration of prisoners to society, and a continuous protection of society, should remain the fundamental problems of penology. Evidence does not to date show diminution in the unrest within the prison walls amongst employees and prisoners, or the diminution of the possibilities for a serious disturbance at either Folsom or San Quentin, despite the fact that the unit costs are being increased materially. More time is required to test the new setup and compare costs and results.

Surplus—Use and Dangers

The Legislative Budget Committee in its first report commented on the dangers of a large surplus and the temptation to spend this surplus. We must agree with the Governor's statement that we should be extremely careful of expenditures and uninfluenced by the surplus, and that this surplus has come to the State because of the war, not because of any effort of the State Government or its administrators.

We endorse wholeheartedly his statement "when the war is over, unless we spend wisely now, we may find ourselves with a greater deficit than we had in the 10 years preceding the war." These deficits were as follows:

	<i>Population</i>	<i>Deficit</i>	<i>Per capita deficit</i>
June 30, 1933-----	6,015,000	\$11,085,160	\$1.84
June 30, 1935-----	6,135,000	18,954,712	3.09
June 30, 1937-----	6,687,000	12,635,478	1.89
June 30, 1939-----	6,877,000	36,529,787	5.31
June 30, 1941-----	7,315,000	65,565,852	8.96
June 30, 1947-----	8,642,000	?	?

We have added to the Governor's tabulation the population for the State for these same years and have projected the population for 1947. We have estimated the per capita deficit based upon the population for the several years. If the same conditions obtain the deficit can be ascertained by multiplying the population by the factors in the last column.

We likewise concur in the following statement of the Governor, "We must realize that any extravagant spending habits we set up in this period of inflated revenues will become an instrument of torture to us when revenues return to normal." This statement of the Governor can be further emphasized by pointing out that at the present time the per capita income in California is approximately \$1,470 per person, while prior to the war it was approximately \$820 per year per person. It is quite likely that in the postwar period we may return to an income approximating that of 1940 or about \$820 per year per person. Federal taxes will necessarily be high for many years to pay for the war and the expanded governmental services which have already been promised. The revenue of the State depend primarily upon the business income of our people and more directly on that income which they have to spend. It is possible and probable that our State income from present tax sources may drop back to approximately 1941 collections of around \$281,000,000 per year. This was the highest amount ever collected prior to the war, a drop of approximately \$95,000,000 below the collections for 1944, or a decrease of almost \$200,000,000 for the biennium.

Were Our Highways, Hospitals, Institutions, Universities and Colleges Neglected Because of Lack of Funds in the Lean Years Prior to the War?

Following is a tabulation of the capital outlay made by the State for the bienniums 1931-33 to 1943-45, inclusive. This will indicate exactly what the State did spend for capital outlay during this time. It was a substantial amount. However, the capital outlay for these purposes was materially reduced during the war period or from 1941 to date. Many buildings are obsolete and there has been an increased need due to the influx of population.

**Capital Outlay—1931-1945, Inclusive—For Selected State Departments
Departments**

<i>Biennium</i>	<i>Institutions</i>		<i>Education</i>		<i>Public Works</i>	<i>Penology</i>
	<i>Hospitals</i>	<i>Correctional Schools</i>	<i>State¹ Colleges</i>	<i>Univ. of Calif.</i>		
1931-33-----	\$2,501,220	\$267,200	\$1,153,342	\$1,251,000	\$63,282,628	\$738,144
1933-35-----	434,630	33,401	85,692	—	30,533,552	225,374
1935-37-----	3,984,859	31,799	92,230	755,624	42,515,984	532,898
1937-39-----	7,643,409	405,000	2,179,339	1,491,897	38,486,678	1,186,244
1939-41-----	1,258,528	137,135	429,125	1,088,929	40,069,999	1,504,557
1941-43-----	461,273	42,108	137,004	186,768	40,181,347	1,101,305
1943-45-----	833,712	250,128 ²	468,039	323,950	26,504,009	144,943 ³
Total -----	\$17,117,631	\$1,166,771	\$4,544,771	\$5,598,168	\$281,374,197	\$5,533,495
Aver. per Biennium	\$2,445,375	\$166,681	\$649,253	\$799,378	\$40,196,313	\$790,499
Grand Total of above selected capital outlay, 1931-1945						\$315,335,033
Average per biennium of above selected capital outlay, 1931-45						\$45,047,862

¹ Does not include special schools.

² Transferred to Youth Authority by Chapter 481, Statutes of 1943.

³ Represents adult prison facilities only; under Department of Corrections since 5-1-44.

The postwar building program established by the Legislature in 1943 will amply take care of the building needs if no new services are added, and if these buildings are constructed at normal prices rather than at wartime prices which are approximately one-third higher at present than the index for building as of January, 1940.

The cost of depreciation and obsolescence which has accrued during the war period, and that which will accrue during the building period following the war, must be included in the cost to keep the building program abreast of need.

Postwar Reserves

The Legislature of 1943 in regular and special sessions set up a postwar employment reserve and dedicated to this 20 per cent of the net sales tax collections, 10 per cent of all receipts under the bank and corporation franchise tax and corporation income tax. The Legislature also transferred into this reserve from the General Fund \$75,000,000. The Budget estimates that the total dedicated to this will be \$145,878,114 by January, 1946, without a further extension of the dedication of a percentage of these taxes for this purpose. Our estimate places it between \$150,000,000 and \$155,000,000. No money from this fund can be spent without a specific appropriation by the Legislature.

The Governor recommends that an additional \$40,000,000 from the General Fund be transferred to the Postwar Employment Reserve for the reasons that a reappraisal of the needs and increased construction costs show a larger requirement. On page 762 of the Budget there is found a recommendation that \$13,266,844 be appropriated from the Postwar Employment Reserve for the Biennium 1945-47. The items listed under this are considered as emergencies.

The question at once arises why recommend on the one hand to increase the postwar reserves by \$40,000,000 and on the other recommend an expenditure of approximately \$13,250,000 from the same fund. Should a fund that is considered a Postwar Employment Reserve be drawn upon before we have any knowledge concerning the postwar employment problem? Would it not be more logical to provide that such of this building program as is determined by the Legislature as an emergency be paid for out of the general fund and preserve the Postwar Employment Reserve and add to it such additional reserves as are required? Or if the total appropriations for 1945-47 are low enough to continue the percentage allocation of the several taxes indicated above into the Postwar Employment Reserve, would it not be logical to do so for the biennium? By continuing the allocation of a percentage of such taxes into the reserve, the flow thereof would be regulated by the tax receipts. They would increase if the tax accruals went up and decrease if they went down while a lump sum allocation to the reserve might be excessive if revenues fell or are under what was estimated if revenues do not continue at the present high level.

Unemployment Relief

The Budget Message recommends that \$50,000,000 or as much more as the Legislature may determine be set up as a reserve for unemployment relief. This is supported by the statement that during the 10 year period prior to the war (1931-1941) the State spent \$225,000,000 for

unemployment relief and the total by all levels of government during the period approximated \$1,250,000,000.

While these figures are approximately correct, the use of these figures, particularly the grand total, may give an unreasonably alarmist concept of relief needs for the next two years. More appropriate figures would have been the high, low, and average biennial expenditures. Furthermore, there was great inefficiency, abuse and scandal in the administration of SRA funds from 1939 to 1942 when it was abolished. So much so that no one ever wants a repetition of such conditions. In fact, ever since it was established up to the present the Controller has been recovering from recipients money that was illegally paid.

To present the whole problem as it appeared, 1931-1942, the following tabulation on expenditures by all levels of government for unemployment and indigent relief is presented.

The Governor recommended in his message to the Legislature, pages 14-15 that a system for administration of unemployment relief to replace the abolished SRA be immediately set up so that the State will be prepared both administratively and financially to deal with relief problems when it again arises.

No money was put in the Budget or Budget Bill, however, for either of these purposes.

If the conditions obtained upon which the budget was made and business conditions exist which will be necessary to produce the revenue estimated in the Budget of \$712,921,865 for 1945-47 they will be better than 1941-43 conditions. Reference to the above table will show the State spent only \$642,051 for relief in that period. The State had no \$600,000,000 plus Unemployment Reserve Fund then or the great backlog of private savings that exists now. Neither did it have a State Postwar Employment Reserve of \$145,000,000 set up by the 1943 Legislature; nor a \$40,000,000 Postwar Highway Building Reserve, proposed in the Governor's Budget 1945-47 with plans and rights-of-way financed out of a \$13,000,000 appropriation from the General Fund; nor plans for postwar unemployment promoted in the counties and cities by a Senate and an Assembly Committee on Postwar Planning and financed out of \$10,000,000 from the General Fund of the State; nor did we have a vast program of Federal Works now set up in Washington.

It seems more logical to hold this requested additional unemployment relief reserve in the Postwar Employment Building Reserve or as an unbudgeted surplus.

The Legislature will again be in regular session in January, 1947, before the biennium is closed and in time to reappraise the financial and economic position of the people of the State and the specific problems at that time. If a sudden crisis comes before the Legislature meets for the regular session, a special session should be called to allow them to act to meet the problem.

**Statistical Summary of Expenditures by Federal, State and
County Agencies for Unemployment and General Indigent
Relief in California (Including Administrative Costs)
JULY 1, 1931 to JUNE 30, 1942**

Ending Date	State Funds (Note 'G')	State Expenditures		Number of Recipients (Note 'A')	Federal Expenditures (Excluding Grants)	County Expenditures For General Indigent Relief		Total Expenditures
		Federal Grants	Total			Amount Note 'F'	Number of Recipients (Note 'A')	
6-30-32	\$19,730		\$19,730			\$7,659,536	Not Available	\$7,679,266
6-30-33	44,421	\$10,937,244	10,981,485	676,569		26,491,233	Available	37,472,768
6-30-34	78,853	20,255,082	20,333,935	315,761	'E' \$41,254,195	37,281,616	Except	98,869,746
6-30-35	22,623,619	92,605,017	115,228,636	864,801		18,020,752	In County	133,249,388
6-30-36	26,939,706	46,466,230	73,405,936	385,578	'D' 202,439,631	11,461,527	Records	287,307,094
6-30-37	22,607,954	551,993	23,159,947	219,049		155,332,894	81,667	187,388,833
6-30-38	32,416,668	113,955	32,530,623	262,499		101,002,400	9,565,875	143,098,898
6-30-39	42,345,916	41,150	42,387,066	323,061		114,716,341	9,959,898	167,063,305
6-30-40	50,981,405	31,408	51,012,813	411,867		87,186,039	9,188,233	147,387,135
6-30-41	27,088,857	4,371	27,093,228	200,563	'B'	76,080,646	9,336,728	112,510,602
6-30-42	642,051		642,051			46,450,054	8,222,303	55,314,408
Totals	\$225,739,000	\$171,006,450	\$396,795,450		\$824,462,200	'H' \$156,083,793		\$1,377,341,443
Adjustments for Overlapping Payments (Notes D, F, H.)								177,341,443
Total For Relief								\$1,200,000,000

(For Notes and Sources of Data, see below)

Notes and Sources of Data

Notes

- 'A' Number of recipients is shown for January of each year.
- 'B' Number of SRA recipients in May, 1941 (last available count), was 142,338.
- 'C' Number of county recipients in July, 1941, was 98,584. It should be noted that discontinuance of SRA in June, 1941, resulted in an increase in county load in July, 1941, amounting to only 25,931 over January, 1941.
- 'D' All or part of the Federal grants to State in 1936 may be duplicated in Federal Expenditures. Difficulty of analysis of available data prohibits determination of even an approximate amount.
- 'E' Federal Civil Works Administration program (CWA).
- 'F' County expenditures include some Federal funds which may be a duplication of Federal expenditures as shown. The amount is obtainable only by examination of county records. It may be estimated at \$10,000,000.
- 'G' The loan of \$20,000,000 by the State to the counties under Chapter 207, Statutes of 1933, excluded from State funds, and are reflected in county expenditures.
- 'H' It should be noted that, although county expenditures are entitled "General Indigent Relief," they include very substantial payments of unemployment relief during the fiscal years eighty-fourth to eighty-seventh, inc. These payments may be estimated as approximately \$37,000,000 on the basis of the excess of the inflated amounts over normal amounts in the years mentioned.

Sources of Expenditure Data

State—Records of State Controller.
Federal—U. S. Treasury Dept. report of "Status of Emergency Relief Act Appropriations for period April 5, 1935 to June 30, 1942." Exception is amount of expenditures for CWA, which was obtained from "Analysis of CWA Program Statistics," published by WPA in June, 1939.

County—State Controller's annual report of "Financial Transactions of Municipalities and Counties."

Data as to number of persons receiving assistance is based on statistical reports of the State Relief Administration and the State Department of Social Welfare.

The number of Federal recipients is not shown, as there appears to be no available compilations which are comprehensive and free of duplications.

Federal expenditures represent all major and minor relief programs financed from the emergency relief appropriations. The most prominent are: CWA, PWA, WPA, NYA, CCC, Surplus Commodity Distribution and FSA.

Debt-Free State

We concur with the Governor's recommendation that \$11,651,490 be appropriated by the 1945 Legislature to the Bond Sinking Fund of 1943 to meet debt service on all General Fund obligation bonds between 1949 and 1965. This would in effect earmark funds to pay off all State bonds, other than those paid from special funds and highway bonds paid from the "in lieu" motor vehicle tax. It is a good policy for a government as well as an individual to pay their debts in periods of prosperity.

The bonds that will then remain to be paid on the basis of self-liquidation or special support are still significant. They are as follows:

Net outstanding bonded debt December 31, 1944	
after deducting amounts in sinking fund-----	\$114,692,521
Proposed sinking fund 1944-45-----	11,651,490

Total bonded debt of the State paid out of specific taxes or self-liquidating-----	\$103,041,031
--	---------------

For further details, see page A47 of the Budget.

Reserve for Fire or Earthquake Loss to State Buildings

There is recommended in the Budget Message the appropriation of \$3,000,000 reserve to cover possible fire and earthquake damage to State buildings for the reason the State carries no insurance on such buildings.

The State Legislature can change the law prohibiting the insurance of State buildings when it wishes and has done so on specific items in the past. The State now insures the State Printing Plant, the buildings and works of the San Francisco Harbor, and the San Francisco-Oakland Bay Bridge. All of these are self-supporting and revenue producing and in fact are more in the nature of business enterprises than strict governmental functions. Therefore, there is ample reason to insure them.

The State Compensation Insurance Fund is in the same category as the above mentioned agencies as a business and more so as it also pays regular State taxes. It owns its own office building in San Francisco and logically should insure it. *It is recommended this matter be given consideration by the Legislature.*

As respects insuring other State buildings, it appears that the State can very well be a self-insurer and carry the risk. The State buildings are well distributed. Many are of high fire resistance. Many are under guard or have employees on duty continuously. Many have special fire fighting equipment assigned to them. The historic loss ratio of State buildings upon which insurance costs are based is very low.

On the other hand, the State should have a general reserve for all purposes and the self-insurance cost should be in this reserve. No special reserve is required for earthquake and fire losses and it is not desirable as a matter of good government procedure to set up by appropriation a series of specific reserves and freeze large sums of money. It is not good public finance and it adds to costs of accounting, both to the Treasurer's and the Controller's office to set up numerous reserves and special funds. *We recommend that such a special reserve be not established, but that a general reserve be maintained to cover all contingencies of the State subject to appropriation by the Legislature.* Such reserve for a State

spending between \$700,000,000 and \$850,000,000 a biennium should not be less than \$50,000,000.

Such a reserve would serve amongst others the following purposes:

1. Provide a fund to finance agencies during their lean periods of revenues.
2. Provide a fund from which appropriations could be made to meet disaster losses, including loss from fire, earthquake, flood, etc.
3. Provide a source for appropriations pending any loss of revenue from drastic economic disturbances.
4. Provide funds to draw upon pending adjustments in tax levies when changes are necessary.

Beach Acquisition \$15,000,000

The message recommends the freezing of \$15,000,000 from the General Fund for the future acquisition of beaches on a state-wide plan approved by the Legislature. This is a curious recommendation in light of the Budget and the biennial message.

First of all the beaches are to be purchased on a state-wide plan but no Budget item or appropriation was requested to prepare such a plan.

Second, the Biennial Message (page 11) recommends that sufficient funds from existing State surplus be earmarked to insure eventual purchase of "additional park and beach lands"—not just beach lands. However, no item of appropriation for such purposes appears in the Budget.

Third, reference to the Budget section on Beaches and Parks, pages 574-83 will show that there is no setup there for a survey as recommended.

Fourth, reference to page 578 of the Budget shows that there was appropriated for 1943-45 the sum of \$244,722 for purchase of park land and only \$104,445 for 1945-47 for beach land (page 581), 1943-45 \$165,000 for 1945-47 *nothing*.

Fifth—reference to page 583 of the Budget will show that it is estimated that on July 1, 1947, there will be a surplus in the State Park Fund of \$5,987,879 and a surplus in the State Beach Fund of \$3,088,666—total surplus beach and park funds \$9,076,545.

If the rate of earnings of the properties managed by the Division of State Lands continues for the biennium as it has for the past several months, the amounts transferred to the beach and park funds will exceed these estimates.

If more beaches and parks are desirable in the period following the close of the biennium 1945-47, why not secure some in the interim if prices are favorable?

If planning is necessary to buy beaches and parks, why no provision for such planning?

If there will be nearly \$10,000,000 available by July 1, 1947, out of special allocated funds to buy beaches and parks already earmarked, why earmark \$15,000,000 more out of the General Fund for this purpose? When in fact there should be another five or six million dollars available from the same earmarked funds for beaches and parks during 1947-49 when these properties presumably would be purchased.

Under the conditions above outlined, we raise a serious question as to whether it is desirable at this time to freeze any money from the General Fund surplus for the acquisition of additional beaches or parks. This

is pertinent for the reason that the ordinary purchase of beaches and parks can be accomplished by using the special funds already dedicated to this purpose.

Tax Reduction Warranted

The Budget Message on page vii says that the tax reduction is warranted for the reason that if the appropriations recommended by the Governor (in his Budget and in his Budget Message but not including those in his Biennial Message that are additional) are made that there will still be a surplus of \$25,134,656. It is obvious that if only the Budget is approved and appropriations provided that otherwise there would be a surplus of approximately \$144,786,146; these figures were based upon a continuance of the present reduced tax rates as established by the Legislature in 1943.

We wish to point out that the surplus of \$144,786,146 of June 30, 1947, is the surplus given in the Budget and does not take into account the additional expenditures recommended by the Governor in any other place. Furthermore, the Governor in stating that after taking care of the appropriations he recommends there will still be a surplus of \$25,134,656 does not take into account the deficiency that will accrue from his proposed health plan of approximately \$100,000,000 a year as we have previously estimated. It is true that the actual liabilities of this plan may be deferred to some subsequent date so that the actual disbursements will not be made, but the evil day would only be postponed and the deficit might catch up to the State in a time of reduced economic ability.

Neither does the Governor in considering a probable surplus make any allowance for appropriation bills that might be passed by the Legislature in addition to his Budget and in addition to the expenditures which he recommends. It is an established fact that the Legislature always passes some appropriations in addition to the Budget and the Governor's recommendation. Under the Governor's proposals, his recommendations would consume all of the Budget surplus in additional appropriations which he recommends and which we maintain should be a part of the Budget and, on his own statement, the surplus would then be reduced to \$25,134,656. This, of course, is without counting such reserves as the Postwar Employment Reserve, the \$25,000,000 tied up in the War-catastrophe Reserve, the special fund set aside in the Teachers' Retirement Fund, and the special reserve for paying outstanding bonds and interest thereon.

This does not take into account that the Legislature also might decide on some different method of financing the current emergency building needs in the sum of \$13,266,842. It might decide to leave this fund intact and take this required amount from the General Fund. This would then reduce the unappropriated surplus if the Governor's program in the Budget and the Budget Message is approved to less than \$12,000,000—a sum which is inadequate as a reserve for an expenditure program that approaches \$900,000,000.

Tax Increase Not Required Unless New Services Established

We concur with the Governor that the present financial condition of the State does not justify increasing State taxes unless the State desires to embark on an expansion program of assisting local governments by

further subsidies or establish new services. This is purely a matter of legislative determination. If the Legislature embarks on this program to any extensive degree then clearly tax reduction is not possible. On the other hand, with strict economy the Legislature can not only continue the present reduced tax rates established in 1943 but it can also continue to allocate to the Postwar Employment Fund the same percentage of taxes as is now being allocated and it can still end the biennium with a substantial surplus.

The tax reduction program adopted in 1943 can be continued for the next two years with a saving of approximately \$100,000,000 to the taxpayers. At the same time a much larger reserve can be built up for postwar unemployment and for the State's needed buildings.

Postwar Highway Program

On page vii of the Budget Message, the Governor recommends that a reserve of \$40,000,000 from highway funds be held in reserve for postwar construction of State highways "to provide work in localities of the State where the need for employment may develop." The detail of this is set up on page 713 of the Budget. This has previously been presented in this report. We concur in the recommendation of setting up the reserve but we can not concur in the above recommendation quoted "That it shall be used to provide work in localities of the State where the need for employment may develop." This money is specifically allotted for two purposes—resurfacing and construction of roads and bridges of State highways, and secondly, for State highways in cities. The primary purpose is to build needed highways under allocations made by law, and it may occur that the highways which should be built will not provide work in localities where there is unemployment. The providing of employment is of secondary consideration and it will be just as effective to build the highways where they are needed for it will reduce the total unemployment labor pool. A bill has been drawn to set up this reserve.

Revenue Prospects

The Budget Message, page vii, states that the revenue receipts from all sources during the 1945-47 biennium are forecast at \$712,921,865. The revenue estimates are further detailed, beginning on page A-6 to A-9 of the Budget. They will be further discussed in a subsequent section of this report. Our estimates on the whole do not differ materially. We show approximately \$4,000,000 less revenue for the Biennium 1945-47 than estimated by the fiscal officer of the State. The only significant difference is that we estimate that the General Fund will receive some \$9,000,000 less and the highway funds or special funds will receive approximately \$5,000,000 more. We believe that the gas taxes and motor vehicles fees will go up at a more rapid rate in the second fiscal year of the biennium and that bank and corporation taxes and the retail sales tax will fall off more rapidly than estimated by the Department of Finance. With excessive revenues for the General Fund being collected in the amounts that they are, this is relatively unimportant for Budget purposes. The excess collection, however, for highway purposes is significant and, for this reason, we have previously recommended that the reserve for postwar highway construction recommended by the Governor be made in excess of the Budget figure for the reason that we believe that

the reserve will reach by this procedure the sum of \$45,000,000, rather than the \$40,000,000 specified amount recommended by the Governor.

The "Line Item" Budget

On page vii of the Governor's Budget Message, he discusses the matter of a "line item" Budget and suggests that the administration would not be hampered by having an Appropriation Bill based on specific categories. In the introduction to this report, we fully discussed this matter in comparing the Budget and the Budget Bill. Through this setup the Appropriation Bill in categories will provide considerable more legislative control than to merely make lump sum appropriation. The form of the Appropriation Bill is purely a matter of legislative policy.

We heartily concur with the Governor's statement that the administration has lived within the Budget approved by the Legislature and the appropriations made by it. The variations from the Budget have been relatively small—the largest have been for the purpose of setting up the Department of Corrections, approved by the Special Session of the Legislature without there being any actual Budget presented for its operation for the current biennium. Only the lump sum appropriations made for the Department of Penology and its several divisions was transferred, but no legislative intent was ever expressed on any detail setting up a Budget for the Department of Corrections or the Adult Authority or the reorganization made thereunder.

The Budget of actual and estimated expenditures for the Department of Corrections found in the Budget for 1945-47 for the current biennium 1943-45 was never approved by the Legislature and was never before the Legislature. It was set up by the Department of Finance under its budgetary control powers. We concur that the purpose for which this money was expended was provided by the Legislature but never was it appropriated on the basis of a specific Budget.

The Salary Restoration Fund of the 1943-45 Appropriation Act was conserved and the Emergency Fund was with few exceptions, used for real emergencies under the provisions of law. We must commend the administration and particularly the Director of Finance and this staff who exercised budgetary control for exerting every energy to follow the spirit of the fiscal policies established by the Legislature.

Not An Economy Budget

We have stated and restated that the 1943-45 Budget was not a strict economy Budget—that it was a wartime Budget. The Budget before the Legislature for 1945-47 likewise is not a strict economy Budget. It moreover is a transition Budget and with an unknown problem of making the transition from war to peace. It is further more colored by the fact that the State has a large surplus, in spite of the endeavor of the Department of Finance to budget carefully and the reiterated statement of the Governor that "unless we spend wisely now, we can find ourselves with a greater deficit than we had in the 10 years preceding the war."

Many services of government established as a wartime matter have been continued into peace time. Several expanded and new services, as previously mentioned, appear in the Budget. Recommended appropriations have been made for a continuation of prices, both for commodities, service and labor. No allowance has been made for any reduction

although allowances have been made for a reduction in peacetime revenues. This is allowing the safety factor both ways—a falling off in revenue and in maintenance of cost. Unless the Legislature is to be convened when peace is established and economic changes manifest themselves, this is the safe course, but it means that appropriations must be larger than if they were made in light of actual existing conditions. There are many additional places where legislative action can produce additional economy. These will be pointed out when we consider specifically the appropriation items.