

*This college operates on the lowest per student cost to the State of any of the state educational institutions, and we believe that more educational benefits to the State per dollar expended can be secured by an expansion of this type of institution at the expense of some of the more costly institutions.*

The amount budgeted includes only the annual appropriation of \$7,000 for interest which the State, under the provisions of Section 20152 of the Education Code, is required to make to Hastings College of Law.

*We recommend that Item 120 be granted as budgeted.*

### **Department of Employment**

#### **Analysis of Proposed Expenditures for the 1947-48 Fiscal Year**

##### **For Support of Department of Employment From the Department of Employment Contingent Fund**

Items 121 and 122, page 24 of the Budget Bill and page 366 of the Budget. Total amount requested, \$120,200, from Department of Employment Contingent Fund.

##### *Reimbursement for Out-of-State Travel*

Item 121 in the amount of \$200 will provide funds for reimbursement of Department of Employment employees for out-of-state travel expenses, which are in excess of the total allowed by the Federal Social Security Agency and within the maximum allowed by the State Board of Control. Such out-of-state travel to interstate conferences on Unemployment Insurance Administration is subject to Board of Control rules insofar as expenses, chargeable to the California State Government are concerned. *It is recommended that this item be approved as submitted.*

##### *Interest and Refunds*

Item 122 for \$120,000 is for interest on refunds and payment of judgments in accordance with Section 24 of Unemployment Insurance Act. This amount is below the 1947 Fiscal Year level but substantially above that for the 1946 Fiscal Year. It will not recur in such a substantial amount, since it reflects the refunds being made plus the payment of judgments resulting from a recent court decision relative to Agricultural Employment. This decision held as nonsubject certain types of employment on farms which had previously been treated as subject to tax.

##### *No Control by State Over Unemployment Insurance Funds*

As pointed out in the Legislative Auditor's Report to the Joint Legislative Budget Committee in 1945, the moneys in this fund are continuously appropriated under the provisions of Section 24 of the California Unemployment Insurance Act and can be expended by the California Employment Stabilization Commission under authorization of the Director of Finance in the manner prescribed in Section 11006 of the Government Code, which is the section providing for the allowance of deficiencies.

The same Section 24, of the California Unemployment Insurance Act, also provides that no authorization shall be made as a substitution for a grant of federal funds.

We believe that it is a bad fiscal policy for the Legislature to relinquish control over any fund. *We recommend that moneys in the*

As recommended by the Legislative Auditor in 1945, the Department of Employment Contingent Fund has been included in the Budget Bill and in the Budget for the 1947-48 Fiscal Year in the same manner as other funds.

While the appropriations in Items 121 and 122 of the Budget are not large, the expenditures of the Department of Employment for support of its unemployment insurance and employment service operations for the 1947-48 Fiscal Year will amount to \$15,396,547. This money is derived from federal unemployment taxes on California taxpayers but is not subject to state budgetary control and does not appear in the Budget Bill.

Some of these taxes are returned to the California Department of Employment for support of the unemployment insurance administration at a time and in amounts deemed necessary at the discretion of federal authorities but never have the amounts provided equalled the amount collected.

*We recommend that these tax moneys and the expenditure thereof be brought under State fiscal and budgetary controls.*

The amount requested for 1947-48 represents an increase of \$2,523,005, or 19.6 percent, over the actual expenditures of \$12,873,542 for the 1946-47 Fiscal Year. This increase largely reflects the return of the employment service from federal to state administration. There are in excess of 2,000 employees in the employment service. In the 1946-47 Fiscal Year, only eight months' wages and operating expenses were incurred by the Department of Employment in operation of the employment service.

The total amount requested for the operation of the Department of Employment also reflects estimated increases in department operations resulting from natural growth in the labor force, statutory increases in coverage, and, in the case of claims estimates, increased wage rates in earnings, which add to the number of persons potentially eligible for insurance payments.

Since unemployment insurance operations are financed by Federal Aid grants under the Social Security Act, and service men's readjustment payments are financed by similar grants under the Service Men's Readjustment Act, and the employment service is supported by grants under the Wagner-Peyser Act, the Department of Employment Budget has not been analyzed in detail.

The following comments and recommendations are submitted for legislative consideration:

#### PUBLIC EMPLOYMENT SERVICES

On November 16, 1946, the United States Employment Service was transferred from the United States Department of Labor to the State Department of Employment. Funds for administering the employment service are now provided under Public Law 549 of the Seventy-ninth Congress, Chapter 672, Second Session (H.F. 6739), which is an act of making appropriations for the Department of Labor, the Federal Security Administration, and other related departmental agencies. This law provides that the Federal Government shall bear the cost of administration of public employment offices *through June 30, 1948*, provided

such offices are in compliance with the requirements of the Wagner-Peyser Act. *There is no provision for continuation of this 100 percent federal support of public employment offices after that date.* Thus, it is possible that beginning July 1, 1948, the state will have to match federal funds granted under the Wagner-Peyser Act for the support of such offices. *What this will cost the State is indeterminate since it is not known what action Congress will take.*

#### *Agricultural Employment Service*

There is a current movement to transfer the Agricultural Employment Service from the Agricultural Extension Service of the University of California supported by Federal allotment, to a new state agency. It is estimated by the California Employment Stabilization Commission that operation of a separate Agricultural Employment Service in the Department of Employment would cost approximately \$800,000 during the 1947-48 Fiscal Year.

If a separate agency is established, the cost for that fiscal year will be far in excess of this figure, for then the housekeeping functions and offices of the Department of Employment throughout the State would not be available for this activity. This transfer of all employment services to State administration is desirable, but we do not believe it desirable to create a new State agency. *Instead, we recommend that the California Employment Stabilization Commission be charged with the responsibility of conducting an adequate agricultural employment service through the Department of Employment.*

We recommend that this service be effectively coordinated with other employment services furnished by the department, and more particularly, with the Unemployment Insurance Program to:

- (1) Preclude payment of insurance to workers in agricultural employment and
- (2) Provide referral to agricultural work for those unemployed who cannot find their customary type of employment in industry.

In this manner, agriculturists of the State may draw upon the total labor market during peak periods of agricultural employment and concurrently minimize fraudulent or unnecessary unemployment insurance disbursements. The program adopted should also preclude importation of nationals of other countries when there exists in California a pool of unemployed persons who can and will work on farms.

We believe that the recommended transfer of the Agricultural Employment Services to the Department of Employment will result in economies and effectiveness which could not otherwise be achieved.

#### UNEMPLOYMENT INSURANCE

At present there is a federal unemployment tax on employers of eight or more workers. This tax produces the following two results:

- (1) It induces states to adopt and maintain unemployment insurance laws in conformity with federal standards, and
- (2) It induces the states to administer such laws in accordance with federal standards.

Under the existing tax law, California employers are taxed at the rate of 3 percent. Against this tax there is allowed an offset of employer contributions paid under the State Unemployment Insurance Act up to a maximum of 2.7 percent of such contributions (90 percent of the 3 percent tax). The difference between the 3 percent federal tax and the 2.7 percent offset (i.e., .3 per cent) may be returned by the Federal Government to the State for unemployment insurance administration.

Congress has authorized \$80,000,000 per year for unemployment insurance administration but in no year has Congress been requested to appropriate this full amount. This has resulted in the accumulation of a surplus of nearly \$700,000,000 over total state and federal unemployment insurance expenses. Prior to 1944, these funds were deposited in the Federal Treasury. In 1944, this cumulative surplus was earmarked by Congress as a "disaster fund" by adoption of Title XII of the Social Security Act, and any state whose unemployment reserve account was threatened with insolvency could borrow from this fund temporarily. This "disaster fund" automatically reverts to the General Treasury of the Federal Government on June 30, 1947, unless the provisions of Title XII are extended. The Federal Government has never in any year granted the California Department of Employment, for administrative purposes, the full amount collected from California employers by the .3 percent tax.

We recommend that Congress be memorialized to extend the provisions of Title XII providing for this "disaster fund" beyond June 30, 1947.

The following Table III shows collections from California employers under the Federal Unemployment Tax Act:

**California Unemployment Insurance Administrative Expenses Compared With Collections From California Employers Under Federal Unemployment Tax Act March 5, 1947**

<i>Fiscal year ending</i>	<i>Tax collections</i> <sup>1</sup>	<i>Expenditures for administration</i> <sup>2</sup>
June 30, 1937-----	\$1,894,977 73	\$467,809 39
June 30, 1938-----	3,639,208 60	2,369,323 95
June 30, 1939-----	5,158,322 70	3,469,522 59
June 30, 1940-----	5,544,137 36	3,346,277 73
June 30, 1941-----	5,562,308 47	3,689,037 81
June 30, 1942-----	7,308,712 98	2,996,578 21 *
June 30, 1943-----	10,879,531 00	2,145,766 93 †
June 30, 1944-----	14,671,008 60	1,944,518 41 †
June 30, 1945-----	15,722,108 86	2,505,127 58 †
June 30, 1946-----	14,210,329 78	6,698,813 66 †
Totals -----	\$84,590,646 08	\$29,632,776 26

<sup>1</sup> Source: Annual report, United States Commissioner of Internal Revenue.

<sup>2</sup> Source: Department of Employment Fiscal Section records.

\* Includes employment service expenditures for first six months of fiscal year.

† Excludes expenditures for employment service.

NOTE: No adjustment has been made for those amounts which may have been paid on California pay rolls reported by national concerns in other states, nor have any adjustments been made where California employers have paid taxes on pay rolls in other states.

The second effect of the present Federal Unemployment Tax Law has resulted in the California State Government being deprived of administrative control of the Department of Employment Insurance

activity. For example, subsection 1 of Section 303 of the Social Security Act reads as follows: “ \* \* \* The board shall exercise no authority with the executives elected, tenure of office, and compensation of any individual employed in accordance with such methods \* \* \* ” Yet, it is necessary for the California Employment Stabilization Commission to submit proposed new job specifications to the regional office of the Social Security Administration, in order that that agency may determine the amount of funds to be granted for “proper and efficient administration.”

Further evidence of the administrative difficulty experienced by state administrators under federal budgetary controls is provided by the following excerpt from a letter addressed to the Legislative Budget Committee by Mr. T. H. Mugford, Vice Chairman of the California Employment Stabilization Commission.

“ \* \* \* In your letter of February 17th you requested certain information concerning the insurance redetermination work of this agency and the reason for several adjustments which were made in the agency's disability insurance budget for the fiscal year ending June 30, 1948.

On February 20, 1947, our accounting section had in process 7,607 requests for unemployment insurance redeterminations. On the basis of the average weekly output for the month of January, 1947, this represents a 13-week backlog. Increased emphasis was placed on the work during February, however, in order to place this operation on a more current basis.

The Department is presently operating with a wholly inadequate budget for unemployment insurance administration, which may be attributed to lack of funds available to the Federal Security Agency. The amount appropriated by Congress for the fiscal year ending June 30, 1947, for grants to the states under Title III of the Social Security Act was insufficient to provide for the needs of the states as determined by actual workload and reasonably adequate performance standards. A deficiency appropriation has been requested by the Federal Security Agency, the amount of which was reduced substantially by the Bureau of the Budget. The Bureau of Employment Security has based the approved state budgets for the fiscal period on the assumption that the Congress will make no further reductions in the request.

The present rate of expenditure in this department barely provides for maintenance of operations at minimum standards of performance, and even so, a deficiency of \$450,000 would still exist as of June 30th if the present expenditure program is maintained and no additional funds are provided by the Bureau of Employment Security. Actual workloads in this State substantially exceed the workloads budgeted by the Bureau of Employment Security and additional grants will be made to this State if funds are available to the Federal Security Agency. Our present situation is fairly typical of the difficulties we face under the system of federal grants to finance the cost of administering unemployment insurance.”

As a result of further budgetary reductions by the Bureau of the Budget, the Social Security Administration, and Congress, the condi-

tions reported by Mr. Mugford have been further aggravated. Despite existing backlogs of unemployment insurance work the foregoing conditions have rendered the Department of Employment incapable of employing required personnel or even replacing separated personnel.

*We believe that the State of California should, through its Legislature, have administrative control of the Department of Employment since it has the responsibility of determining the benefit provisions and conditions of eligibility for unemployment insurance benefits in California.*

It is recommended that the Legislature give all possible support to congressional action to amend the Federal Unemployment Tax on employers of eight or more, changing the offset of employer contributions paid under the State Act against employer contributions due under the Excise Tax from the 90 percent now allowed to a full 100 percent. *We further recommend that a resolution be introduced in the California Legislature memorializing Congress to enact measures permitting a full 100 percent employers' tax credit offset against the Federal Unemployment Tax on Employers of Eight or More Employees.* This recommended change would not disturb the existing incentives to states to retain the Unemployment Insurance programs. The change would place each Unemployment Insurance Agency under the budgetary controls of its own state government, since the .3 percent for administration of the program would be paid by the employers to a state fund for expenditure under regular budgetary controls. *Then, the Federal Government would no longer provide administrative funds out of the unemployment tax, and would not then dictate administrative policies as it now does.*

#### SERVICE MEN'S READJUSTMENT ALLOWANCES

Most of the potential eligibles for service men's readjustment allowances have been discharged from the armed forces and have completed or are now experiencing their initial unemployment prior to securing a job. An increasing proportion of the veterans' load represents a second and subsequent period of unemployment in civilian life. It is reasonable to assume a declining incidence of unemployment as veterans are absorbed in working jobs. On this basis, it has been estimated that the veteran load will decline gradually, except for moderate seasonal fluctuations throughout the period.

For information relative to the Unemployment Disability Administration, see comments relative to Item 342 of the Budget Bill.

#### COST OF AUDIT

*To date, the Social Security Administration has steadfastly refused to provide monies to reimburse the Department of Employment for the cost of Department of Finance audits which are prescribed by Section 26 of the California Unemployment Insurance Act. We have recommended that the cost of necessary post-auditing by the Department of Finance be included in the Governor's Budget for the Department of Employment, since such audit and control is an essential part of the plan of administration of the Department of Employment in accordance with the Unemployment Insurance Act which has been approved by the Social Security Agency.*

REVOLVING FUNDS

On February 1, 1947, the Department of Employment revolving fund contained \$1,275,000. The principal need for this large fund results from the department's practice of issuing payroll warrants from this fund and subsequently filing a revolving fund claim to clear the pay roll with the Personnel Board and the Controller. *The justification of such large revolving funds is now being investigated by the Legislative Auditor.*

Board of Control

Analysis of Proposed Expenditures for the 1947-48 Fiscal Year

For Support of the Board of Control

Item 123, page 24 of the Budget Bill and page 388 of the Budget. Amount requested, \$11,935 for support from the General Fund.

This represents an increase of \$1,740.49 or 17.1 percent over expenditures of \$10,195 for the 1945-46 Fiscal Year, and an increase of \$435 or 3.8 percent over the amount of \$11,500 allowed for expenditure in the 1946-47 Fiscal Year.

*We recommend Item 123 be approved for \$11,935 as requested.*

State Controller

Analysis of Proposed Expenditures for the 1947-48 Fiscal Year

For Support of State Controller

Item 124, page 24 of the Budget Bill, and pages 389 to 398, inclusive, of the Budget. Amount requested, \$832,633 for 1947-48 from the General Fund.

This represents an increase of \$105,023, or 14.4 percent over expenditures of \$727,610 for 1946-47.

The following tables analyze the proposed expenditures revealing which functions and objects of expenditure cause the increase:

Table I—Analysis of Expenditures for Support by Function—1946-47 Compared With 1947-48

Function	Actual and estimated 1946-47	Estimated and proposed 1947-48	Increase or decrease from 1946-47	
			Amount	Percent
Administration .....	\$55,785	\$63,556	\$7,771	13.9
Accounting Division .....	135,656	166,065	30,409	22.4
Audits and Disbursements Division.....	197,627	235,866	38,239	19.3
Inheritance and Gift Tax Division.....	254,493	278,644	24,151	9.5
Tax Collection Division.....	66,384	71,212	4,828	7.3
County Budgets and Reports Division..	17,665	17,290	—375	—2.1
Totals, general activities.....	\$727,610	\$832,633	\$105,023	14.4

Table I discloses the proposed increases and decreases in expenditures for support for the 1947-48 Fiscal Year as compared with 1946-47.

The table shows an increase of \$7,771 or 13.9 percent for the Administration Division. *This increase results principally from plans to purchase three automobiles. We recommend allowance of two light weight automobiles, with a resultant saving of \$1,975.*