

carry out their celebration without assistance. Other counties will be unable to collect much and will be subsidized by more than an equivalent amount.

Recommendation

Since it is impossible to determine the aid which will be given to counties and the cost of contracts to be let, it is recommended that the proposed budget be approved for \$2,000,000 as requested. However, by March, 1948, before the Budget is passed, it may be possible, on the basis of initial expenditures, to better gauge the probable total expenses for 1948-49. Inasmuch as the present administrative staff appears to be excessive in proportion to the technical staff, we recommend that a thorough analysis of the organization and proposed expenditures be made before passage of the Budget Bill.

MISCELLANEOUS

**For Compensation, Medical Care and Hospitalization of State Employees,
from the General Fund**

Item 353 of the Budget Bill and page 741 of the Budget. The amount requested is \$335,000 from the General Fund. This amount is for medical care, hospitalization and compensation of state employees injured in the line of duty. The payments are prescribed by the Workmen's Compensation Act. The increase over 1947-48 is due to salary increases, upon which these amounts are based.

Recommendation

We recommend approval in the amount requested.

For Augmentation of Working Revolving Funds, from the General Fund

Item 354 of the Budget Bill and page 741 of the Budget. The amount requested is \$300,000 from the General Fund for augmentation of working revolving funds. These amounts are required by increased prices of goods purchased out of these revolving funds.

Recommendation

We recommend approval as requested.

**For Refunding of Payments of Taxes, Licenses, Fees and Other Receipts
from the General Fund**

Item 355 of the Budget Bill and page 741 of the Budget. The amount requested is \$5,000 for refunding of payments of taxes, licenses, fees, and other receipts erroneously paid into the General Fund.

Recommendation

We recommend approval in the amount requested.

For Claim of the Secretary of the Board of Control from Several Funds

Item 356 of the Budget Bill and page 741 of the Budget. The amount requested is \$26,478 from various funds. This amount is for payment of claims against the State of California as approved by the Board of Control.

Recommendation

We recommend approval.

For Return of Interest Earned on Fourth San Francisco Seawall Fund Moneys Deposited in the Surplus Money Investment Fund from the General Fund

Item 357 of the Budget Bill and page 741 of the Budget. The amount requested is \$43,606 from the General Fund for return of interest earned on Fourth San Francisco Seawall Fund moneys erroneously deposited in the Surplus Money Investment Fund.

Recommendation

We recommend approval.

POSTWAR CONSTRUCTION PROGRAM

For Acquisition of Site for Institution for Mental Defectives

Item 358, page 69 of the Budget Bill. The amount requested is \$400,000 for acquisition of a site for a new home for mental defectives.

Recommendation

We recommend approval.

For Augmentation of Appropriation Made by Chapt. 145, Stats. of 1946

Item 359 of the Budget Bill and page 743 of the Budget. The amount requested is \$3,000,000 in augmentation of the appropriation made by Section 6 of Chapter 145, Statutes of 1946, payable from the Postwar Employment Reserve. This will increase to \$8,000,000 the amount appropriated to this fund for this purpose.

Recommendation

We recommend that the entire matter of capital outlay for the National Guard be considered by the full Senate Finance and Assembly Ways and Means Committee in connection with the policy to be established for the National Guard.

For Emergency Fund

Item 360 of the Budget Bill and pages 769 to 773 of the Budget. The amount requested is \$1,500,000 for the Emergency Fund to be expended only upon written authorization of the Department of Finance.

Recommendation

We recommend approval of this amount, which is an increase of \$500,000 over the amount appropriated in 1947-48, due to the increase in the size of the Budget.

RESERVES FOR CONTINGENCIES

For Price and Population Increase Fund from the General Fund

Item 361 of the Budget Bill and page 769 of the Budget. The amount proposed is \$2,000,000 for the Price and Population Increase Fund to augment appropriations to state institutions and agencies in amounts as are necessary to meet increases in prices of commodities and utilities and increases in institutional population over the levels upon which appropriations in the Budget Act have been based.

Recommendation

We recommend approval of this amount, but we point out that if prices should decline, the reverse procedure should be followed and savings resulting from price decreases should be sequestered and revert to the funds from which appropriated.

For Salary Increase Fund from the General Fund

Item 362 of the Budget Bill and page 769 of the Budget. The amount requested is \$2,000,000 from the General Fund. This amount is necessary to carry out the provisions of law establishing the policy of adjusting state salaries to conform with those prevailing in comparable private employment. This follows the same procedure as in the 1947 Budget. At that time, the sum of \$2,000,000 was appropriated.

Recommendation

If this policy is to be continued this amount will probably be necessary, and if there is another upward spiral in salaries and wages in private employment this amount may be insufficient. We recommend that the Legislature consider this problem further.

For Payment of Salaries and Wages and Other Expenditures from the General Fund

Item 363 of the Budget Bill and page 769 of the Budget. The amount requested is \$1,500,000. This is to take care of the conversion to the 40-hour week. The establishment of the 40-hour week is not yet entirely complete and will require additional sums of money.

Recommendation

We recommend the provision be written into this section providing that no state employee shall receive any amount from this appropriation or any appropriation in the Budget Act unless he actually works a 40-hour week.

PAYMENTS TO LOCAL GOVERNMENTS

For Transfer to Teachers' Permanent Fund for Operation of the State Teachers' Retirement System

Item 364 of the Budget Bill and page 777 (line 53) of the Budget. The amount requested is \$3,670,000 for payment of teachers' retirement allowances. This amount covers that part of anticipated payment of allowances not provided for by member contributions made for services since 1944 or by current contributions of school districts and other employing agencies. The amount requested also includes provision for subventions to local retirement systems in accordance with Section 14565 of the Teachers' Retirement Act.

The amount requested is computed as follows:

| | |
|---|--------------------|
| Retirement allowances ----- | \$4,377,868 |
| Subventions to local systems ----- | 52,132 |
| Total ----- | \$4,430,000 |
| Less: surpluses * from prior appropriations ----- | —760,000 |
| Net Total ----- | \$3,670,000 |

* This estimated surplus is due to the fact that appropriation to finance retirement benefits for the 1947-48 Fiscal Year under revised law (Chapter 1503, Statutes of 1947) were in excess of actual needs. The surplus is applied to the amount required for 1948-49 under the provisions of Section 14564 of the Education Code which provides for such action.

Recommendation

We recommend approval of Item 364 in the amount of \$3,670,000 as requested.

For Transfer to Retirement Annuity Fund for Operation of the State Teachers' Retirement System

Item 365 of the Budget Bill and page 777 (line 66) of the Budget. The amount requested is \$4,019,000 for payment of teachers' retirement allowances. This amount covers that part of the estimated allowances to be paid during 1948-49 which is not funded by members' contributions for services performed since 1944, or by current contributions of school districts and other employing agencies. The amount requested also includes subventions to local retirement systems in accordance with Section 14565 of the Teachers' Retirement Act.

The amount requested is computed as follows:

| | |
|---|--------------------|
| Retirement allowances ----- | \$3,641,524 |
| Subventions to local systems ----- | 1,062,476 |
| Total ----- | \$4,704,000 |
| Less: surpluses * in prior appropriations ----- | —685,000 |
| Net Total ----- | \$4,019,000 |

* This estimated surplus is due to the fact that appropriations to finance revised retirement benefits under revised laws (Chapter 1503, Statutes of 1947) were in excess of actual needs. The surplus is applied to the amount required for 1948-49 under the provisions of Section 14564 of the Education Code which provides for such action.

Recommendation

We recommend approval of Item 365 in the amount of \$4,019,000 as requested.

**For Publishing, Purchasing, and Shipping Free Textbooks, Department
of Education**

Item 366 of the Budget Bill and pages 775, 778, and 779 of the Budget. The amount requested is \$1,720,809 from the General Fund for publishing, purchasing and shipping free textbooks.

Recommendation

We do not believe that this amount will be sufficient in view of recent wage increases for printers and subsequent upward adjustments which should follow in line with such basic increases. Otherwise we recommend that Item 366 be approved.

**For Apportionment by the State Allocation Board, Department of Finance,
to School Districts**

Item 367 of the Budget Bill and page 775 of the Budget. The amount requested is \$30,000,000 from the General Fund for the purpose of assisting distressed school districts.

Recommendation

We recommend that the definition of distressed school districts for the purpose of determining apportionments pursuant to Chapter 1575 of the Statutes of 1947, be revised so as to limit allocations of funds to construction of buildings which are devoted to classroom instruction and that this should be further limited to classrooms where the number of pupils in the classroom is materially less than 40. This is for the reason that there are insufficient funds to take care of all school districts which will qualify under the present definition of overcrowding. There are many school districts, however, which are much more overcrowded than others and should be taken care of first.

**For Reimbursements to Cities and Counties for Licensing and Inspection of
Agencies for Child Care and Care of the Aged, Department of Social Welfare**

Item 368 of the Budget Bill and page 782 (line 8) of the Budget. The amount requested is \$463,660 from the General Fund, for reimbursements to cities and counties that license and inspect agencies for child care and home finding and agencies for care of the aged. This is an increase of \$131,767, or 39.7 percent, over actual and estimated expenditures of \$331,893 for the 1947-48 Fiscal Year.

This increase is caused by increased workloads and by a rise in costs of this program due to the fact that the basis for subventions to local agencies for inspection and licensing of boarding homes for children and aged was changed by legislation effective October 1, 1947, from a flat \$3 per month per licensed home to actual costs not to exceed \$4 per month per licensed home.

Recommendation

We recommend approval of Item 368 in the amount of \$463,660 as requested.

For Reimbursement to Counties for Adoption Administrative Costs and for Cost of Care of Children Relinquished and Placed for Adoption

Item 369 of the Budget Bill and page 782 of the Budget. Amount requested is \$264,400 from the General Fund for reimbursement to counties for adoption administrative costs and for cost of care of children relinquished and placed for adoption. This is an increase of \$188,200, or 247.0 percent, over actual and estimated expenditures of \$76,200 during the 1947-48 Fiscal Year.

The laws under which these subventions are payable became effective September 19, 1947. Therefore, the expenditures for 1947-48 are for a partial year only.

This budgetary request appears justified by anticipated workloads and administrative costs based on experience under the laws thus far.

Recommendation

We recommend approval of Item 369 in the amount of \$264,400 as requested.

For Reimbursements to Counties for Maintenance of Juvenile Homes and Camps, Youth Authority

Item 370 of the Budget Bill and page 780 of the Budget. The amount requested is \$475,000 from the General Fund for reimbursement to counties for maintaining juvenile homes and camps in cooperation with the Youth Authority. For this purpose \$450,000 was appropriated by the 1947 Budget Act.

Recommendation

We recommend approval of Item 370 as requested.

For Assistance to Cities, Counties, Local Health Agencies and Local Health Districts for the Establishment of Minimum Standards of Personnel

Item 371 of the Budget Bill and page 780 of the Budget. The amount requested is \$2,835,776. This is the same amount as appropriated for the 1947 Budget plus an increase for added population. If this policy is to be continued, we believe that this is the amount which will be required.

Recommendation

We recommend approval.

For Subsidies to Cities, Counties, and Cities and Counties for Maintenance of Tuberculosis Sanatoria, Department of Public Health

Item 372 of the Budget Bill and pages 780 and 782 of the Budget. The amount requested is \$3,295,000 for subsidies to local agencies for maintaining tuberculosis sanitariums.

Recommendation

We recommend that this appropriation should comprise part of a comprehensive program designed to eradicate human tuberculosis in the

State of California. We do not believe that the program for which this appropriation is requested will secure the greatest results or that it will be most equitable with respect to those local agencies who have made provision out of their own funds to take care of this problem.

For Assistance to Local Districts and Other Public Agencies in the Control of Mosquitoes, Department of Public Health

Item 373 of the Budget Bill and pages 780 and 782 of the Budget. The amount requested is \$400,000 for assistance to local districts and other public agencies for mosquito control, Department of Public Health. This on a matching basis.

Recommendation

We recommend approval of Item 373 as requested.

For Assistance to Local Agencies in the Construction of Hospital Facilities, Department of Public Health

Item 374, page 73 of the Budget Bill. The amount requested is \$2,000,000 for assistance to local agencies in the construction of hospital facilities. This amount is in addition to any amounts remaining unexpended June 30, 1948, in the original appropriation of \$2,000,000 in Item 234 of the Budget Act of 1947. At the present time due to the fact that a waiting period is required before allocations can be made, no amounts have been expended from the prior appropriation. However, it is expected that the entire amount will be expended by the end of the 1947-48 Fiscal Year.

Recommendation

We recommend approval of this item.

For Allocation by the State Water Resources Board to the Los Angeles County Flood Control District

Item 375 of the Budget Bill and page 783 of the Budget. The amount requested is \$690,000 for Los Angeles flood control to provide for the state participation in the control of floods in Los Angeles and San Diego counties pursuant to Section 29 of the State Water Resources Act of 1945, and payable from the Flood Control Fund of 1946.

Recommendation

We recommend approval of Item 375.

Item 376 of the Budget Bill and page 783 of the Budget. The amount requested is \$211,000 for Los Angeles flood control. The policy with respect to this appropriation has already been determined by the Legislature. The amount requested will be necessary to carry into effect this policy.

Recommendation

We recommend approval of Item 376.

For Allocation by the Water Resources Board to the City of San Diego

Item 377 of the Budget Bill and page 783 of the Budget. The amount requested is \$1,006,000 for flood control in San Diego, consisting of improvements on the San Diego River and Mission Bay in San Diego County. The policy with respect to this appropriation has already been established by the Legislature. The amount requested will be necessary to carry into effect this policy.

Recommendation

We recommend approval of Item 377.

**For Allocation by the Water Resources Board to the Ventura County
Flood Control District**

Item 378 of the Budget Bill and page 783 of the Budget. The amount requested is \$145,000 for flood control in Ventura County. The policy with respect to this appropriation has already been established by the Legislature. The amount requested will be necessary to carry into effect this policy.

Recommendation

We recommend approval of Item 378.

**For Allocation by the State Water Resources Board to the Monterey County
Flood Control and Water Conservation District**

Item 379 of the Budget Bill and page 783 of the Budget. The amount requested is \$604,975 for flood control in Monterey County. The policy with respect to this appropriation has already been established by the Legislature. The amount requested will be necessary to carry into effect this policy.

Recommendation

We recommend approval of Item 379.

For State's Share of Salaries of Judges of Superior Courts

Item 380 of the Budget Bill and pages 788 and 789 of the Budget. The amount requested is \$1,063,750 for the State's share of salaries of judges of superior courts.

Recommendation

We recommend that a provision be placed in this appropriation providing that none of the appropriation be made available to judges who do not hear a minimum number of cases during the course of the year. There have been cases where some judges have not heard a single case and other judges have heard only one or two in an entire year. Otherwise we recommend approval of this item.

**For Contributions to Counties Toward the Compensation and Expenses of
County Service Officers, Department of Veterans Affairs**

Item 381 of the Budget Bill and pages 788 and 790 of the Budget. The amount requested is \$300,000 for counties for compensation of county service officers, Department of Veterans Affairs.

Recommendation

We recommend that this matter be given full legislative review not later than the next session to determine whether these county service officers are providing valuable services in all counties commensurate with the cost.

**For Salaries of County Agricultural Commissioners or Compensation for Services
Performed for County Agricultural Departments, Department of Agriculture**

Item 382 of the Budget Bill and pages 788 and 791 of the Budget. The amount requested is \$108,496 for salaries of county agricultural commissioners or compensation to county agricultural departments.

Recommendation

We recommend that this appropriation which is authorized by Section 63.5 of the Agricultural Code and enacted by the 1947 Legislature be reviewed and that a rational salary scale be determined for counties commensurate with the job to be done in each county, and in line with local prevailing salary scales.

**For Furnishing of Workmen's Compensation to Disaster Service Workers,
California State Disaster Council**

Item 383 of the Budget Bill and pages 788 and 792 of the Budget. The amount requested is \$25,000 for providing workmen's compensation to disaster service workers. This amount is required in accordance with provisions of Division 4 of the Labor Code.

Recommendation

We recommend approval of Item 383 as requested.

BOARD OF STATE HARBOR COMMISSIONERS, SAN FRANCISCO

**For Support of the Board of State Harbor Commissioners, San Francisco,
from the San Francisco Harbor Improvement Fund**

Items 384 to 388, inclusive, of the Budget Bill and pages 814 to 819, inclusive, of the Budget. The total sum requested is \$4,237,024 from the San Francisco Harbor Improvement Fund. This is a decrease of \$72,191 or 1.7 percent less than expenditures of \$4,260,215 estimated for 1947-48. In addition to the amount requested there is \$151,527 for contributions to the State Employees' Retirement Fund and \$1,165,337 for bond interest and redemptions bringing total expenditures to \$5,553,928, a decrease of \$18,642 or .33 percent from total expenditures of \$5,572,570 for 1947-48.

The amount appropriated by the 1947 Budget Act was \$3,944,520. This amount, however, was supplemented by deficiency appropriations shown as follows.

For Support:

| | |
|-------------------------------|-----------|
| Executive Order No. D799----- | \$210,521 |
| Executive Order No. D800----- | 115,901 |
| Executive Order No. D801----- | 70,214 |

\$396,636

For Capital Outlay:

| | |
|-------------------------------|--------|
| Executive Order No. D794----- | 25,000 |
|-------------------------------|--------|

Total ----- \$421,636

The above sum indicates that the amount budgeted for the 1947-48 Fiscal Year was supplemented by deficiency appropriations amounting to \$421,636 or 10.68 percent of the total amount appropriated by the Budget Act of 1947. Of the total sum appropriated, including the deficiency appropriations, \$105,941 is indicated to be unexpended.

The sum of \$4,237,434 requested for 1948-49 is divided into five items as follows:

Item 384 for support in amount of \$3,946,024 from the San Francisco Harbor Improvement Fund. This is a decrease of \$72,191 or 1.82 percent less than the total amount allowed for support in 1947-48. This reduction is accomplished mainly by deferment of work due to high cost of contract maintenance and by curtailment of expenditures for equipment.

In connection with deferred maintenance, we recommend that each year an amount necessary to properly maintain equipment be shown in order that the Budget will reflect a true comparison between total operating revenue and expenditures.

Salaries and wages increase \$61,551 or 2.68 percent due to normal salary adjustments and eight new proposed positions. These new positions will allow expansion of the traffic program and the statistical section, thereby strengthening the services rendered by the port.

Attention is directed to the request for \$172,346 for support of a "Foreign-Trade Zone." This is a new function which is tentatively planned for establishment July 1, 1948, and as such is a matter of legislative policy.

This request was made subsequent to the presentation of a regular budget request and inadequate time has been had to fully explore the subject. However, the purpose and function of a foreign trade zone showing some financial experience of an existing zone is projected briefly as an appendix to this analysis.

Recommendation

We recommend approval of Item 384 in the amount of \$3,946,024 as requested, with the exception of the amount requested for the establishment of a Foreign Trade Zone, concerning which no recommendation is made. No letter of justification for explanation has accompanied this request, and it will be necessary, therefore, for the commission to supply the Legislature with this information before any definite recommendation can be made.

Item 385 appropriates \$167,000 from the San Francisco Harbor Improvement Fund for the maintenance of fire boats. This amount represents an increase of \$12,000 to defray cost of salary increases for San Francisco City Firemen and to meet the agreement with the City and County of San Francisco.

We recommend approval of this item for \$167,000 as requested.

Item 386 appropriates \$50,000 from the San Francisco Harbor Improvement Fund for trade development and promotion of harbor facilities. This is a new item in this Budget and particular attention is directed to the amount and purpose of the request as it appears to be in direct conflict with the \$20,000 per year limitation for advertising purposes imposed by Section 1915 of the Harbors and Navigation Code. The sum of \$20,000 for paid advertising is included in Item 384 for support. Consequently, the request for an additional \$50,000 for the same purpose is in conflict with the provisions of the code and is a matter of policy to be determined by the Legislature. However, while we feel that a plan for increased activity in the promotion and development of trade for the harbor may have merits, we hesitate to recommend this request in view of the absence of a definite program.

Item 387 appropriates \$12,000 from the San Francisco Harbor Improvement Fund for cost of services of San Francisco City Firemen. This service is justified; therefore, we recommend approval of the request.

Item 388 appropriates \$62,000 from the San Francisco Harbor Improvement Fund for construction and improvement of wharves, piers, sheds, bridges, etc. This amount is \$13,000 or 17.33 percent less than that expended last year and is felt to be the minimum amount required for capital investment for the 1948-49 Fiscal Year.

Recommendation

We recommend approval of this item as requested.

Revenues

Although estimated revenues show a small gain over 1947-48 and total expenditures show a decrease, estimated unbudgeted surplus is scheduled to be reduced from \$4,037,905 to \$3,119,342—a reduction of \$918,563 or 22.74 percent. In view of this condition we quote in part from the Legislative Auditor's report to the Legislative Budget Committee on the 1945-47 Budget and Budget Bill:

“The Harbor Commissioners should be looking forward now so as to plan their operations and their activities so that the port may be conducted in a way to attract business if it is available, so that this function of state government may continue to support itself. There appear to be financial difficulties ahead when competition between ports develops after the war.”

It appears that the time has arrived when competition between ports has developed extensively. However, we feel that the board has been conservative in estimating revenues, and that it should be commended for its efforts toward curtailment of expenditures while endeavoring to develop traffic and promote and maintain the commerce of the port.

APPENDIX TO THE ANALYSIS OF THE 1948-49 FISCAL YEAR BUDGET FOR THE BOARD OF STATE HARBOR COMMISSIONERS, SAN FRANCISCO FOREIGN TRADE ZONES

We are informed that, at present, there are two foreign-trade zones in the United States; one in New York and one in New Orleans.

The purpose and function of a foreign-trade zone is projected briefly as follows:

The Celler Act of 1934 (Public No. 397—Seventy-third Congress) provided for the establishment, operation, and maintenance of foreign-trade zones in the ports of entry of the United States to expedite and encourage foreign commerce.

A foreign trade zone is an enclosed and policed area, without resident population, excepting federal, state, or municipal officers or agents whose resident presence is considered necessary by the Foreign-Trade Zones Board. It must have adequate physical facilities for the functions it is to perform. Functionally, it is a public utility with rates subject to the approval of the Foreign-Trade Zones Board, composed of the Secretaries of Commerce, War, and Treasury. Goods which may legally enter the country, whether foreign or domestic, may be stored and manipulated and reexported without payment of duties, posting of customs bond, and usually without the intervention of customs officials. Foreign dutiable goods may be imported from a zone by themselves or in a mixture with domestic goods on compliance with customs regulations. Goods may not be manufactured or exhibited in such an area.

The distinction between manipulation and manufacture is not clear, however, permission to manipulate in a zone must be secured from the customs office.

It has been argued that foreign-trade zones serve no useful functions not served by customs bonded warehouses. Some specific differences between the two facilities are shown herewith:

1. Imported dutiable goods may be landed and stored in a zone with no customs expense or formalities. Merchandise entering bonded public warehouses is subject to constant customs supervision and requires the posting of bond equal to twice the amount of the duty due on the goods.

2. Both foreign and domestic merchandise of every description which may legally enter the country may enter a zone; this includes free as well as dutiable goods. Only dutiable goods may enter a bonded warehouse.

3. The flexibility of the zone is outstanding with respect to repacking, repackaging, and other merchandising privileges. While goods may be withdrawn only in the original package unless repacking is necessary to the preservation or safety of goods.

4. A zone, by law, is a public utility. Its rates are subject to approval of the Foreign-Trade Zones Board and must be made public; they must be fair and uniform, under like conditions, to all clients.

5. Goods may remain in a free zone without limit of time. The law provides for a three-year limit for bonded warehouse.

6. Articles which may be marked in the country may be so marked without the 10 percent added duty provided by Section 304 of the Tariff Act. While unmarked articles which may be marked under customs supervision must pay 10 percent duty unless marked prior to liquidation.

7. Importers may auction their goods in the zone. While they may upon application by the collector and under supervision of the store-keeper, sample merchandise in a bonded warehouse.

Some Facts About the New York Foreign-Trade Zone

New York received its grant for a zone in January, 1936. The charter is held by the City of New York. In 1938, a private corporation, the New York Foreign-Trade Zone Operators, Incorporated, was hired to operate the zone under the supervision and control of the Department of Marine and Aviation of the City of New York. The zone operates as a public utility; its rates are subject to the approval of the Foreign Trade Zone Board and are published.

After 1938, the first full year of operation, the zone made a profit each year. Income rose from \$69,000 in 1938 to \$504,709 in 1943 while expense rose from \$116,508 to \$385,000 during the same period while net profit and loss went from a loss of \$47,422 to net profit of \$128,049. Figures reported by the New York-Foreign Trade Zone show an increase from \$1,170,000 worth of cargo in 1937 to \$39,000,000 in 1939, most of which cannot be attributed to war shipments.

Re-exports were surprisingly large; of the tonnage leaving the zone in 1940, 50 percent was re-exported; in 1941, 30 percent; in 1942, 50 percent; and 45 percent in 1943. Re-export volume reached the peak in 1940 with 70,000 tons. More than 50 types of manipulations have been carried on in the New York Zone.

This is the extent of data, available at present for the New York-Foreign Trade Zone.

It would appear that the San Francisco Harbor would lend itself quite easily to this type of zone, however, further study must be made in order to fully appreciate the significance of a free zone and the feasibility of establishing this facility in the San Francisco Harbor.

DEPARTMENT OF EMPLOYMENT

For Support of Disability Insurance, Department of Employment, from the Unemployment Compensation Disability Fund

Item 389 of the Budget Bill and pages 288 to 292, inclusive of the Budget. The amount requested is \$2,364,612 for support from the Unemployment Compensation Disability Fund. This is an increase of \$190,197 or 8.7 percent over actual and estimated expenditures of \$2,174,415 in the 1947-48 Fiscal Year.

This increase is caused by an anticipated increase in workload; i.e., the initial claims received under the disability insurance program are expected to increase at 14 percent and the number of continued claims and checks written are to increase 15 percent or more. Other work performed by the department is expected to be performed without any decrease in the functions or activities performed during the 1947-48 Fiscal Year.

The proposed expenditures for operating expenses and equipment provided for the 1948-49 Fiscal Year are justified in view of increased workload, increased cost of services and material and the nature of the work to be performed.

Recommendation

It is recommended that Item 389 be approved in the amount of \$2,364,612 as requested.

Analysis

The program of payment of unemployment disability benefits in California is relatively new, having been added to the California Unemployment Insurance Act during 1946. Public Law 719, Seventy-ninth Congress, Second Session, approved on August 8, 1946, permitted withdrawal of \$104,000,000 from the Unemployment Trust Fund so that the payment of disability payment benefits could begin on December 1, 1946. Despite estimated payment of disability benefits in the total amount of \$23,217,000 during the 1948-49 Fiscal Year, the unbudgeted surplus in the Unemployment Compensation Disability Fund will have risen to \$201,566,663 as of June 30, 1949, as compared with a balance of \$177,881,040 on June 30, 1948, an increase of \$23,685,623 or 13.3 percent.

For a number of years prior to the start of the disability insurance program, the Department of Employment prepared its budget and planned the operations involved in administration of the unemployment insurance program on the basis of actual and estimated workload and the unit time required for each workload item. Multiplication of these two factors and the addition of a percentage for compensable leave gives the total hours required. By multiplying the total hours by the hourly rate, the salary requirement in dollars for each function is determined. As payment of disability insurance did not begin until December 1, 1946, the 1948-49 Budget request is based on the unit times required for disability insurance operations during 1947.

The amount requested for support of the Disability Insurance program during the 1948-49 Fiscal Year also reflects the department's evaluation of the effects of legislative changes on benefit rights and the cost of administration. These changes, effective January 1, 1948, include increases in the weekly rate of payment, the total dollar amount that persons are eligible to receive, and the maximum duration for which benefits may be claimed. Another legislative change decreased the number of persons eligible by raising earnings requirements. One significant amendment provided that payments can start with the eighth day of disability and each additional day may be compensated whereas previously a claimant had to be ill 14 consecutive days and then might only receive payments for completed weeks of illness, with the first payment back dated to the eighth day.

Due to the fact that the budget for the disability insurance program is based on unit times and costs and the fact that the man-months of personnel estimated as necessary for the 1948-49 Fiscal Year does not equal the number of man-months budgeted for the 1947-48 Fiscal Year due to the failure of anticipated workloads to materialize, new positions requested are not scheduled separately in the budget document as is usually the custom.

The division of coverage between the state disability insurance coverage and some 8,000 voluntary plans, together with a constant shifting of coverage between the two, presents problems in budgeting. There

is no sure way of predicting the reaction of business firms to the opportunity for coverage under voluntary plans, yet the volume of the state disability insurance plan activities is directly determined by the amount of coverage remaining under that plan.

Due to the many uncertain factors affecting the budgetary needs of the disability insurance program and the methods used in the preparation of budgets for the disability insurance program, the Department of Employment has a working agreement with the Department of Finance under which an estimate of the anticipated workload and related personnel and financial need for the disability insurance program is submitted to the Department of Finance for approval of each month in advance. This action provides the Department of Finance with an effective control over the fiscal affairs of the disability insurance program.

UNEMPLOYMENT DISABILITY ADMINISTRATION

Section 3, page 76 of the Budget Bill. The items enumerated constitute proposed appropriations of amounts remaining unexpended from prior appropriations for acquisition of sites and capital outlay.

We recommend approval.

Section 4, page 77 of the Budget Bill. This section is similar to Section 4.5 of the 1947 Budget Act and transfers \$37,800,000 from the General Fund to the Post War Employment Reserve for construction, improvement, and equipment for state agencies as may hereafter be authorized by the Legislature.

We recommend approval.

Section 5, page 77 of the Budget Bill. This provides that any appropriation for construction, improvements, repairs, or equipment in excess of \$10,000 must be reviewed by the Public Works Board. This is similar to the 1947 Budget Act with the exception that the limit has been raised from \$5,000 to \$10,000.

This is in accordance with our recommendation.

Section 6, page 77 of the Budget Bill. This section restricts expenditures from appropriations made in the Budget Act to object categories set forth in the Budget Act and the Governor's Budget except as specifically provided in other sections of this act. This is similar to a provision in the 1947 Budget Act.

We recommend approval.

Section 7, page 78 of the Budget Bill. This section provides that the Director of Finance may, upon request of any state agency to which appropriation is made in the Budget Act, authorize augmentation of the amount available for expenditure for an object category designated in any schedule set forth for such appropriation in the Budget Act by transfer from any other object category within the same schedule. The amount of each of such authorization shall be presented in a report to the Joint Legislative Budget Committee.

We recommend approval.

Section 8, page 78 of the Budget Bill. This section permits the Director of Finance to augment appropriations in the Budget Act when additional amounts are received from local or federal government agencies or other sources, which are in excess of the amount considered in determining such an appropriation. It likewise permits the Director of Finance to reduce appropriations in the same manner.

We recommend approval.

Section 9, page 78 of the Budget Bill. This is a new section which permits the payment of premiums for bonds covering a period in excess of one fiscal year. This will permit a saving in the amount required for certain bonds.

We recommend approval.

Section 10, page 78 of the Budget Bill. This is a provision relating to expenditures made by the Legislature and is similar to a provision contained in the Budget Act of 1947.

We recommend approval.

Section 11, page 78 of the Budget Bill. This provision relates to payments by the State Controller from amounts appropriated in the Budget Act. It is similar to a provision contained in the Budget Act of 1947.

We recommend approval.

Section 12, page 79 of the Budget Bill. This provision relates further to methods of making payments from appropriations in the Budget Act and is similar to a provision in the 1947 Budget Act.

We recommend approval.

Section 13, page 79 of the Budget Bill. This is similar in purpose to a provision in the 1947 Budget Act, and relates to accounting procedure.

We recommend approval.

Section 14, page 80 of the Budget Bill. This is similar to a section in the 1947 Budget Act providing additional budgetary controls.

We recommend approval.

Section 15, page 80 of the Budget Bill. This section provides certain budgetary controls by the Department of Finance over automobile purchases.

We recommend approval.

Section 16, page 80 of the Budget Bill. This section prohibits officers of state agencies which receive appropriations as provided in the Budget Act from making expenditures in excess of such appropriations without the consent of the Department of Finance. This is similar to a provision contained in the 1947 Budget Act.

We recommend approval.

Section 17, page 81 of the Budget Bill. This section prohibits the renewal of any fire insurance on public property with certain exceptions. This is similar to a provision in the 1947 Budget Act.

We recommend approval.

Section 18, page 81 of the Budget Bill. This section permits the State Board of Control, with the recommendation of the Director of Finance, to transfer unneeded funds from an appropriation for support of State institutions to other institutions within the same agency. This is limited to the Department of Corrections, the California Youth Authority, the Department of Education, and the Department of Mental Hygiene. This is similar to a provision in the 1947 Budget Act.

We recommend approval.

Section 19, page 81 of the Budget Bill. This section permits the State Board of Control upon recommendation of the Director of Finance, to transfer unneeded funds for support between the Departments of Motor Vehicles and the California State Highway Patrol.

We recommend approval.

Section 20, page 81 of the Budget Bill. This is a technical provision similar to one contained in the 1947 Budget Act.

We recommend approval.

Section 21, page 82 of the Budget Bill. This section permits the Department of Finance to transfer funds from one agency to another when the functions performed by the respective agencies are transferred.

We recommend approval.

Section 22, page 82 of the Budget Bill. This section provides that when functions of any agency for which appropriation has been made in this Budget Act are discontinued the appropriation for such agency shall revert to the unexpended balance of the fund from which such appropriation was made.

We recommend approval.

Section 23, page 82 of the Budget Bill. This provides that the State Board of Control shall make adjustments in appropriations as a result in changes of laws affecting the agency concerned. This is similar to a provision in the 1947 Budget Act.

We recommend approval.

Section 24, page 82 of the Budget Bill. This is a technical section similar to a provision in the 1947 Budget Act.

We recommend approval.

Section 25, page 82 of the Budget Bill. This section provides that this Budget Act shall take effect immediately.

We recommend approval.