

LETTER OF TRANSMITTAL

SACRAMENTO, CALIFORNIA

March 6, 1950

THE HONORABLE W. P. RICH, *Chairman,*
and Members of the Joint Legislative Budget Committee
State Capitol, Sacramento, California

GENTLEMEN: In accordance with your instructions and the provisions of Joint Rule 37 of the Senate and the Assembly creating the Joint Legislative Budget Committee, defining the duties of said committee, and giving it authority to employ a Legislative Auditor, I submit herewith an analysis and report on the State Budget and the Budget Bill for the Fiscal Year July 1, 1950 to June 30, 1951.

The duty of the committee in this respect is set forth in Joint Rule 37 as follows:

"It shall be the duty of the committee to ascertain facts and make recommendations to the Legislature and to the houses thereof concerning the State Budget, the revenues and expenditures of the State, and of the organization and functions of the State, its departments, subdivisions and agencies, with a view of reducing the cost of the State Government, and securing greater efficiency and economy."

Complying with instructions given by your committee, the Legislative Auditor and his staff have attended all budget hearings of state agencies before the Director of Finance and have followed closely the adjustments in agency requests subsequently made by the budget staff of the Department of Finance. Throughout this period, the staff of the Budget Committee has been extended the fullest cooperation by the Director of Finance and his staff. This close cooperation which existed during the budget-making process has tended to increase the ability of the Legislative Auditor to make effective recommendations prior to completion of the Budget and has made it possible for the staff of the Budget Committee to be more fully informed on the policy determinations and financial details which are incorporated in the completed Budget.

It is our belief that this cooperation not only assists the Legislative Auditor and his staff in securing information, but that it is instrumental in securing numerous and substantial reductions in the requests made by the state agencies. It also serves to bring before the state agencies and the budget officers, restatements of legislative intent as recorded by members of the staff of the Budget Committee from budget hearings before the Senate Finance Committee and the Assembly Ways and Means Committee.

This year, for the first time, the staff of the Legislative Auditor has made a detailed and comprehensive field survey of equipment needs of state agencies. On the basis of findings from this survey and in cooperation with the Department of Finance, an evaluation of the equipment requests of the majority of state agencies was made prior to the completion of the Budget. As a result of this cooperative effort, a great many of the recommendations of the Legislative Auditor's staff are already reflected in the amounts included for equipment in the Budget. For that reason, areas of disagreement have been markedly reduced. We believe that this intensive survey has pointed out to many agencies the need for closer review of their own equipment requirements, and the establishment of more effective standards and controls.

POLICY FOLLOWED IN OUR RECOMMENDATIONS

This analysis covers only the Budget Bill considering each item as it appears in numerical sequence in the Bill. In accordance with the instructions given to the Legislative Auditor by the committee, reductions have been recommended wherever, in our opinion, such reductions are possible without impairing vital functions of government. This analysis contains recommendations which will make it possible for the expenditure program of the State to balance estimated revenues without additional taxes. This means that in many instances we have proposed substantial reductions in programs which have been previously approved by the Legislature. Those programs which we have recommended should be reduced or eliminated do not, in our judgment, constitute essential state services. Nevertheless, we have suggested that if the Legislature does not follow our recommendation that an entire function be eliminated, an alternate course be followed which will permit a more limited program.

BUDGET DOCUMENT REVISED

The form of the Budget for 1950-51 incorporates several new features. The budget makers have included this year explanatory information in the budget document itself rather than in a separate set of explanatory notes as has been done for the last several years. These explanatory notes explain briefly the functions of each agency budgeted and reasons for significant increases in amounts. We believe that this new feature will assist the legislators in using the budget document and will increase its usefulness for future reference purposes. We believe that the printed analysis of the Budget and Budget Bill prepared by the Legislative Auditor has served to point out the usefulness of such a procedure and, to some extent, this additional improvement should permit

the Legislative Auditor to reduce the size of the analysis of the Budget Bill. Another new improvement in the Budget is the addition of a statement containing the balances of other funds not included in the Budget totals. This is the first time that such a comprehensive table has been included. The budget document also has added a list of salary range adjustments, new classifications, and changes in classification titles since the beginning of the 1949-50 Fiscal Year. This statement tends to emphasize the large number of changes in classification which we analyze later in detail as a primary factor in the progressive increase in total salaries and wages contained in the Budget.

SIZE OF THE BUDGET

The total amount of the Governor's Budget as introduced is \$971,-615,944. The Budget Bill, which is submitted to the Legislature for appropriation, amounts to \$320,613,820 or 33 percent of the total Budget. Although it is customary for the Budget Bill to amount to only approximately one-third of the total Budget, the significance of this fact in limiting the ability of the Legislature to exercise the most effective control over expenditures of State Government in times of changing economic conditions is accentuated by the difficult financial conditions which are presented to the 1950 Session of the Legislature. It should be pointed out that the recommendations which are contained in this analysis of the Budget Bill can affect only approximately one-third of the total Budget. If the Legislature is to reduce appropriations to the point where they are equal to revenues in the 1950-51 Fiscal Year, we believe that it will be necessary to make reductions in the appropriation bill in line with our recommendations. Unless these reductions are made, or unless continuing appropriations are revised by the Legislature, those fixed charges which are not included in the Budget Bill will again, primarily through increased case loads, raise General Fund expenditures above revenues into the General Fund, based on a conservative estimate of those revenues.

REASONS FOR GROWTH IN BUDGETS

The Budget of the State of California, representing an expenditure of approximately \$1,000,000,000, compares with a budget of approximately \$281,000,000 for 1940-41, prior to America's entry into World War II. There are numerous factors which have contributed to this phenomenal growth in the size of the Budget. In addition to the shrinkage in the value of the dollar which accompanied wartime and postwar inflation, there were the added factors of the remarkable growth in the population of the State and social and economic problems incidental to that growth. This expansion, however, was also accompanied

by a steady liberalization of expenditure programs provided for by the Constitution, by continuing appropriations and by Budget Bill enactment.

Current operations of State Government leaped from approximately \$118,000,000 to \$428,000,000 in the current fiscal year; capital outlay increased from \$25,000,000 to \$241,000,000, or approximately 10-fold; while local assistance increased from \$138,000,000 to \$390,000,000.

The Legislature has progressively liberalized programs supported by continuing appropriations, both to meet increases in costs and to provide broader benefits. Services rendered by State Government such as mental hospitals, the prisons, the highway patrol, the establishment and maintenance of beaches and parks, forest fire protection, social welfare services and many others have been expanded by legislative action. New functions and new agencies have been added. The Budget for 1950-51 reflects all of these increases in costs and for the most part embodies programs which continue without retrenchment the expanded services added by vote of the people or authorized by the Legislature.

Some of the factors which contributed to the growth of the Budget to its present size will not be as significant as in prior years. For example, prices of many items of state purchase are estimated to decline below the level of 1949-50, and it is probable that there will be no general increase in salaries and wages which will bring about an upward revision in state salaries. Population growth, while continuing, will do so at a less rapid rate. This stabilization of growth factors has made it possible for the 1950-51 Budget to show a lesser proportionate increase than in prior years without a reduction in proposed services to be rendered.

An additional factor in the growth in state budgets is the so-called normal annual increases in salaries which are awarded, for the most part, automatically to all state employees within the five-step minimum and maximum salary range for each authorized position. Under a strict application of the principle that all newly filled or established positions should start at the lowest step in the salary range, the total annual salary increment for all state employees should ordinarily be relatively small, the turnover in positions serving to bring about a reduction through replacing positions which are at the upper end of the range with positions at the minimum step in the range. This reduction in salaries through turnover should largely offset the annual increases accruing to employees who have not reached the maximum step in their salary range. Despite the fact, however, that turnover in state employment has remained high in 1949-50 and is estimated to continue high in 1950-51, the total increase in state salaries arising only from normal increases and reclassifications constitutes a significant factor in the Budget for 1950-51. *This is a problem which merits extensive investigation.* If it is not checked, it will

continue to bring about a serious budgetary problem each year and the added cost cannot be fully justified on the basis that the increase in remuneration will result in increased services performed.

We have mentioned that in addition to normal salary increases, numerous reclassifications of existing positions are included in the 1950-51 Budget. We do not believe that there has been sufficient justification for the great number of reclassifications which have taken place during past years. The procedure established for determining when a position shall be resurveyed for possible reclassification on the basis that the job done is of a higher order delegates this resurvey for the most part to the Personnel Board. Each such reclassification is a recognition that a position has been or will be performing a job out of classification either because the job has changed or because the position was erroneously classified in the first instance. The latter case is of relatively minor importance. The former is of major significance. Herein, we believe is a principal reason for the constant growth in total state salaries. In many cases the increasing complexity and scope of the services performed by State Government have brought about an actual and significant raising of the level of the work performed by existing positions. In many other instances, however, we are convinced that the reclassifications have been brought about by a shift in work from one position to another without an actual increase in the total work done and without legislative authorization of an expanded state function. In other words, the entire staffing pattern has been altered through reclassification of positions without any change, or a corresponding change in the job to be done or any specific authorization by the Legislature that the level of service should be increased. A part of the cause for this development, we believe, is that the responsibility for determining whether a reclassification will result in a change in the staffing pattern for any authorized state function has not been assumed by any one state agency to the degree which we believe is necessary to provide adequate control. This determination has to too great an extent been handed by default to the Personnel Board and because the Personnel Board is not equipped, nor is it properly their function, to make studies of staffing patterns in terms of the work load of the function, too great a reliance has been placed on classification studies based on work done by the individual position for which the resurvey of classification has been requested without regard to the effect of the reclassification upon the staffing pattern of the total function. Such analysis of work load as is done in connection with reclassifications is made by the Division of Budgets and Accounts of the Department of Finance, usually upon request of the Personnel Board. In all instances, at least nominal approval of the reclassification has been given by the Department of Finance in authorizing payment of the new (reclassified)

position. In a majority of the cases, however, the approval of the Department of Finance has been perfunctory and this fact has unquestionably contributed to raising the level of salaries throughout state service through the process of reclassification without a corresponding increase in the total work load. We recommend that additional study be made of the inter-relationship between the reclassification functions of the Personnel Board and the Department of Finance and that a clarification of the responsibility be secured. Under the present procedure followed almost all requests for a reanalysis of existing positions for reclassification are given directly to the Personnel Board for processing. We recommend that the request be routed from the initiating agency through the Division of Budgets and Accounts of the Department of Finance for study as to the work load for each job level within the function in which the proposed reanalysis or reclassification appears. This procedure should assist in developing for the first time adequate staffing patterns in state service. We believe that by this means the progressive and cumulative raising of the total salary bill of the State of California through reclassifications can be materially reduced.

POSSIBLE FUTURE COSTS OF NEW SERVICES

There are included in this budget a number of new services which constitute the initial step in what may eventually become a very substantial expenditure program. We believe that the policies established in connection with these initial appropriations should be carefully considered by the Legislature. The most important new services in this Budget Bill are in capital outlay. This is particularly true of the state colleges, the university, and the mental hygiene and correctional institutions. The support cost of these new services will be reflected in subsequent budgets.

There are several significant new services proposed in the state operations budget. The receipt by the State of the deed to the Kellogg Ranch, to be a part of the California State Polytechnic College, is the initial step in the development of a new state college. As yet no adequate study has been made of the possible enrollment, the requirements in that area for instruction of the type proposed, the capital outlay program, or method of financing the future expansion of the college. We have recommended that prior to any appropriation beyond the requirements for proper maintenance of the property a long-range program be presented to the Legislature with a statement of the educational policy which is recommended for the establishment and expansion of a curriculum. The present basis for financing the California State Polytechnic College is based upon revenues from the Fair and Exposition Fund and will probably prove to be inadequate for continued expansion and development of this college.

We have, therefore, also recommended that a comprehensive study of the proper basis for financing this educational program be formulated by the Legislature.

Likewise, the establishment of a new College of Applied Arts and Sciences in Los Angeles appears for the first time in this Budget Bill. Under the terms of the existing arrangement between the State and the Board of Education of the City of Los Angeles, it is extremely important that the future expansion and capital outlay requirements for this college be critically examined by the Legislature in order that the long-range needs of this metropolitan area shall be provided for in a manner which is in the best interests of the State.

In the Division of Beaches and Parks of the Department of Natural Resources, it is proposed to establish lifeguard service at state beaches. At the present time, this is a function which is supported by the county in which the state beach is located. We have recommended in this connection that the State continue to secure a share of the cost of this service from the county, as failure to do so could cause this service to increase very rapidly in cost.

The Department of Mental Hygiene is proposing approximately \$4,000,000 in increased services, primarily for a more intensive medical program in the institutions. This cost will be reflected in future budgets and definite results should be secured sufficient to justify the expansion. If successful, this program should save the State money by returning patients to society and thereby eliminating the institutional cost of care and treatment.

The most significant increase in future costs resulting from new services as reflected in the Budget Bill for 1950-51, is contained in the requested appropriations for capital outlay. The construction of proposed additional mental hygiene, correctional and educational facilities, for example, will result in substantial future costs for staffing and operating these institutions. This construction, by reducing overcrowding in the institutions, providing new medical services, and affording additional educational facilities, raises the level of service rendered by the State, and as a practical matter obligates the State to provide for the full support cost in the future. The raising of the level of service in existing institutions and in the colleges and University as proposed to some extent in the operations budget for 1950-51, will also be carried over into the new facilities when completed, unless the over-all level of service is subsequently reduced by future legislatures.

FINANCIAL CONDITION OF THE STATE

It has been pointed out above that stabilization of prices and the economy of the State is reflected in a smaller relative increase in the size

of the state budget. At the same time, however, this stabilization of factors tending to increase expenditure has been accompanied by a reduction in state revenues. This reduction in state revenues, in the face of no actual decrease in the size of the state budget and following upon the exhaustion of many of the State's reserves through spending more than has been currently coming in, presents the prospect that the State must soon either cut back into established programs, or raise taxes, or operate on the basis of registered warrants.

General Fund revenues for the current fiscal year were estimated for budget purposes at \$572,000,000. Current revised estimates based upon six months' collections and upon the availability of 1949 calendar year income data indicate that General Fund revenues will probably be about \$554,000,000 or approximately \$18,000,000 less than the amounts on which appropriations for the 1949-50 Fiscal Year were based.

In addition to this anticipated decline in revenues below estimates, \$2,120,000 net new appropriations were authorized from the General Fund by the Special Session of 1949.

For the Fiscal Year 1950-51, General Fund revenues are estimated by the Legislative Auditor at \$556,000,000 under existing tax laws.

During the current fiscal year, tax rate increases have become effective in the sales and use tax, the rate of which reverted to 3 percent on July 1, 1949; and in the corporation franchise, corporation net income, and personal net income taxes, which were returned to 1943 rates and personal exemptions, effective as to 1949 income.

The revenue deficiency below estimates of 1949-50 is due to a declining tax base for certain major General Fund tax sources. The principal of these is a decline in the total volume of taxable sales under the sales and use tax and in net income under the corporation franchise and personal net income tax. These three revenue sources were originally estimated at \$482,000,000 for the Fiscal Year 1949-50. Revised estimates made by the Department of Finance at the beginning of the present calendar year indicate that the combined revenues from these sources will probably not exceed \$457,000,000.

Other General Fund revenue sources are the distilled spirits tax, taxes on beer and wine, gift tax, inheritance and insurance taxes, private car tax, pari-mutuel licenses, and minor miscellaneous taxes and departmental receipts.

In anticipating the revenue prospects for General Fund sources for the fiscal year 1950-51, a number of factors must be taken into consideration. Some of the leading of these are :

Factors Tending to Sustain the Tax Base

1. There appears to be no evidence of a "recession" or serious drop in incomes or spending for the fiscal year 1950-51. Although income trends are down and competition is keener, it is not of recession proportions.

2. Gross national product, national income and the California portion of this income is still relatively high. From the latest available figures, national income is estimated at \$222,000,000,000 for 1949 in comparison with \$226,000,000,000 for 1948.

3. California population is still increasing although the rate of increase appears to be diminishing. Population is estimated to have increased 2.4 percent in 1949 over 1948 and estimated to increase further by 2.2 percent for 1950 over 1949.

4. Federal fiscal policies and expenditures tend to support continued relatively high income levels and governmental and private expenditures.

5. Price levels, which will directly affect the tax base for California's principal source of revenue, are continuing to keep in a relatively stable position.

6. Building, both public and private, which has tended to support high level expenditures, particularly in certain categories, appears to be keeping up at a relatively high level.

Factors Tending to Indicate a Further Decreasing Tax Base

It will be noted that of the factors which have been referred to above, although they tend to support a relatively high income level for the State of California, none can be counted upon to produce any substantial increases in tax base. Notwithstanding these factors there are a number of indicators which clearly show a decline and must be taken into consideration for the fiscal year 1950-51. Some of these are:

1. Employment, as indicated by the number in the total labor force in California, is estimated to continue its increase. However, unemployment is estimated to increase at a more rapid rate. While the total civilian labor force in California is estimated to increase by 1.5 percent for the fiscal year 1950-51, and labor in covered employments by 1 percent, unemployment is estimated to increase by 6.2 percent for the fiscal year 1950-51.

Employment in manufacturing industries for the Nation is estimated to have decreased by 3 percent in 1949 from the previous year. It should be pointed out further that even though there should be increased industrial activity nationally, it does not necessarily mean a corresponding increase on the West Coast which has not yet firmly established its competitive position in the Eastern markets.

2. A considerable part of the tax base for revenue purposes for the fiscal year 1950-51 can be measured by the level of income payments going to individuals in the State of California, or in other words, the California portion of total income payments going to all individuals. For the calendar year 1948, the total of income payments to individuals in California increased slightly over the year 1947. However, the increase in California was not proportional to the increase nationally, with the result that per capita income payments in California decreased slightly in the year 1948 over 1947, and the portion of total income going to California decreased from 8.59 percent of the total in 1947 to 8.30 percent of the total in 1948. This latter decrease in the California share was during the period in which California increased its total population by approximately 500,000 persons.

Although it will be in August of this year before estimates of income payments in 1949 will be prepared by the Department of Commerce, estimates based upon total national income for 1949 indicate that the California portion of this income may not exceed 16.8 billion dollars. Should this decrease continue for the year 1950 at approximately the same rate, it would indicate income payments in California approximating 16.6 billion dollars. In the light of present trends and conditions, these estimates do not appear to be unrealistic and are not large percentage decreases. However, a drop of three to four hundred million dollars in the level of income payments, particularly if any substantial portion of it is in the category of salaries and wages, could have a considerable effect upon revenues for the 1950-51 Fiscal Year.

Taxable sales reached a high point in the State during the third quarter of 1948 and helped to produce total taxable sales of 11.4 billion dollars for the calendar year 1948. For the calendar year 1949 this tax base dropped by approximately 5 percent. During the third quarter of 1949 (the last period for which actual figures are available), the decrease was 9 percent over the comparable period of 1948. It appears now that the tax base for the period which will produce the revenue for the fiscal year ending June 30, 1951, will be approximately 10.8 billion dollars.

If it should be assumed that there would be no decrease in the tax base in the 1950-51 Fiscal Year, sales tax revenues would reach \$334,000,000. This figure and an estimate of \$320,200,000 based upon income payments of 16.6 billion dollars indicate a reasonable high and low range of sales tax revenue. The midpoint is \$327,200,000. Substantially the same results are obtained by assuming that the sales tax base will drop by 2 percent for the period 1950-51.

One additional characteristic of sales tax revenue should be taken into consideration. In the face of a 5 percent decline in the tax base for 1949 from 1948, certain categories of business showed substantial

increases which tended to keep the tax base higher than it would otherwise be. Notable increases were evident in the categories of automobile sales and sales of construction materials and related items. These two categories comprised approximately 20 percent of all taxable sales. Automobile sales alone comprised 15 percent of the total tax base. This indicates abnormally high sales in these categories and raises the question of how long these categories will continue to bear this relationship to the total amount of sales. These two categories, for instance, are durable goods and are categories which are more sensitive to a change in income levels than other categories such as food and clothing. In other words, a drop of two to three hundred million dollars in total income payments would affect these categories of sales and might tend to reduce the tax base disproportionately.

3. Although prices, as measured by the Consumers' Price Index, have "leveled" during the year 1949, the over-all trend has been a decline of 2 percent during the year. The decline in wholesale prices has been a decline of 6 percent. It is not anticipated that there will be any substantial decline in prices during the year 1950. However, any decline in price structure will almost correspondingly affect the sales tax base.

General Fund Revenues—1950-51

In the light of the general trends and conditions discussed above, we believe that a realistic appraisal of revenue possibilities for 1950-51 under present tax structure prompts the following conclusions:

1. Revenue from the sales tax, the principal General Fund source of revenue, cannot safely and realistically be estimated to yield in excess of \$327,200,000.

2. Corporate and individual net incomes can be estimated to yield \$134,000,000 but this net income tax base is extremely sensitive to changes in the total level of income payments for 1950, and might be further reduced.

3. Other General Fund revenue sources can be estimated to yield a total of \$94,500,000 making total General Fund revenues of \$555,750,000 made up as follows:

Beer and wine	\$3,100,000
Alcoholic beverage	12,500,000
Franchise and corporation income	74,000,000
Gift	1,250,000
Private car	900,000
Sales and use	327,200,000
Inheritance	22,000,000
Insurance	23,500,000
Pari-mutuel	3,500,000
Motor vehicle "in lieu"	2,800,000
Personal net income	60,000,000
Miscellaneous	25,000,000
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	\$555,750,000

The state operations budget for 1950-51 represents an increase of 2.8 percent over comparable items for 1949-50 (after adjustment for changes in the Social Welfare program). With the prospect that revenues for 1950-51 will be no greater than and possibly below revenues for 1949-50, the most rigid economies will need to be exercised in order to avoid going into the third consecutive fiscal year with a current budget deficit.

ADDITIONAL GENERAL ECONOMIES POSSIBLE

Economies Possible in Telephone Operations

For the most part, the use of telephones as reflected in the Budget can be justified as the most expedient way of conducting state business. However, there are significant economies which can be achieved in the use of telephones, and the State is conspicuously lax in procedures and methods of securing such economies. Numerous agencies in Federal Government, for example, have established simple and relatively effective procedures for recording the use of telephones for long distance calls, requiring that the employee making the call record on a prepared form the date and time that the call is made, the destination, need, and length of the conversation. This form is completed at the time the call is made and periodically submitted to the fiscal officer of the agency for review and for use in preparing the budget request.

The functions which this procedure would serve are threefold. First, it provides a record which is useful to the fiscal officer in making reconciliation with telephone charges made against the agency. Second, it provides an improved basis for determining the budgetary requirements of the agency for this service. Third, it acts as a deterrent to promiscuous and extravagant use of the telephone for long distance calls.

We recommend that a procedure similar to that outlined above be prepared by the Department of Finance for use in all state agencies. As a further step to insure that state agencies make use of this procedure, we recommend that subsequently no allocation be authorized for telephone expenses in the quarterly budget allocations made by the Department of Finance until each state agency has in operation this uniform procedure with a statement, available in the agency, listing each long distance call made in the budget quarter preceding the quarter just completed. There is no question but that the adoption of such a procedure would act as a deterrent to the excessive use of telephones and would provide a far more accurate basis for determining the appropriate amounts to be budgeted for long distance telephone.

Economies in Automobile Operation

The problem of reducing unwarranted use of state automobiles has shown little apparent improvement in recent years. In spite of an effort to make the misuse of state automobiles more conspicuous by placing large decals showing the insignia of the State of California and the words "For Official Use Only" on the sides of all state vehicles, and despite numerous attempts to bring pressure to bear upon violators, the over-all cost of operation of state vehicles and the total number of vehicles owned by the State has shown an increase. An analysis of the average monthly mileage per auto and the extent to which that mileage consists of home to office travel indicates that the total number of state automobiles is excessive and that substantial economies could be secured by reducing the number and by improving the efficiency of operation through automobile pools. Another cause of unnecessary automobile operation is the extent to which automobiles are assigned for the personal use of individuals within agencies. At the present time, methods of recording the use and cost of operation of automobiles are inadequate in most agencies. This limits the ability of management to determine its true need and makes precise budgeting in terms of performance requirements virtually an impossibility.

We recommend that the Board of Control establish a uniform procedure for accounting for the assignment and cost of operation of state automobiles and that it formulate rules and regulations relative to the establishment of car pools in state agencies.

We again recommend that replacements of automobiles be made with the strictest adherence to the principle that only vehicles of the lightest class be purchased except where unusual circumstances dictate the need for a heavier car.

An additional effect of the excessive use of state automobiles appears in the increased number of accidents involving state automobiles. The accident experience has shown a rapid increase and has brought about a very significant rise in the cost to the State of public liability insurance on state automobiles. It is very possible that the amount budgeted for this insurance will be inadequate due to an additional further increase in the rates charged the State as a result of its unfavorable accident experience. There are at least several factors which account for this increase in accidents. One factor relates to the increased use and number of state automobiles. Another is the increased use of state cars for home-to-work driving wherein the accident rate is relatively high, and a third factor is the excessive speed with which a great many state automobiles are used upon the highways. There is no question but that a vigorous campaign by management to reduce the number of personally assigned cars and the use of state automobiles for personal travel could

not only diminish operating costs but eliminate many state automobiles. This in turn would have a direct effect upon the number of accidents. We also recommend that the California Highway Patrol exercise greater disciplinary action upon state employees driving state automobiles at excessive speeds rather than favoring them as is now frequently the case.

We believe that consideration should also be given to a stricter exercise of the State's right to demand reimbursements from state employees for damages to state automobiles. In this respect the State is much more lax than the Federal Government and we believe that a stricter policy may act as a deterrent to carelessness.

Audit Reports Used as Basis for Budget Analysis

The post audit reports made by the Division of Audits of the Department of Finance form the basis for many of the studies made by the Legislative Auditor. In studying these reports we are impressed by the continuing need for follow-up by management to the end that recommendations contained in such reports are followed where feasible and desirable. While this is appropriately a management function, we nevertheless recommend that in order to provide the Legislature, as well as the administration, with a better basis for determining the efficiency of operation of state agencies, each agency which is audited should prepare a written answer to the exceptions made by the auditors. The agency under audit should prepare such a statement within 60 days of the release of the audit report. The statement should indicate agreement with the exceptions taken or state the reasons why the agency cannot comply with the exceptions made in the audit report. A copy of the agency's reply to the audit report should be furnished the Legislative Auditor. This will permit a full statement of the facts surrounding the recommendations made in the audit report.

Further, where agreement with the audit recommendations is indicated, a follow-up check should be made by the Department of Finance within six months from the date of the audit. In instances where the agency indicates it cannot comply with the audit recommendations, steps should be taken to bring the interested parties together for the purpose of obtaining a mutually satisfactory answer relative to the exception. This may, perhaps, require procedural changes, but in no case should the exception be allowed to stand unanswered. We believe if such a procedure were followed deficiencies and exceptions raised by the auditors would be more quickly remedied.

More Efficient Utilization of Clerical Assistance

Improvements could be made in the use of clerical pools by state agencies. There is a tendency in numerous agencies to demand private

secretaries to an extent which is not justified on the basis of work performed and there is a tendency to refuse to permit private secretaries to assist in general clerical duties of the office. We have pointed out in our analysis of individual agencies in extreme cases where a more equitable distribution of clerical assistance would result in a reduction in the number of positions requested or authorized. We believe that there are many other places where steps should be taken to secure more effective utilization of the total pool of clerical personnel.

We also recommend that the agencies study the use which is being made of dictating equipment. In many cases, it has been reported that there is a complete failure to use such equipment and that a large proportion of state officials fail to make proper and efficient use of existing equipment. The result is that the State budgets for excessive equipment and stenographic personnel.

Related to the use of dictating equipment, we should point out that in the course of our analysis, we are impressed by the failure to make the best use of many types of equipment already on hand. Too often equipment not useful in one agency is traded at a low price on new equipment when another agency could use such equipment if it were known the equipment was available. The net result is two equipment purchases when one would suffice.

We recommend the establishment of centralized equipment pools in Sacramento, Los Angeles, and San Francisco under the direction of the Division of Purchases. The saving in equipment purchases would be considerable, and would be accomplished by:

1. Surplus equipment of one agency could be made available in the pool for purchase by another agency in need of such equipment.
2. Equipment could be shifted from one agency to another to meet seasonal peakloads and thereby reduce the total purchase requirements.

The formation of such centralized equipment pools would require the inventory of current equipment and would insure the best utilization of available equipment before expenditures are made for new items.

Photographic Activities

The State of California appropriates relatively large sums to numerous agencies for the preparation of motion pictures, slides and other films and for the acquisition of various photographic materials. Experience of other states has indicated that substantial savings can be realized both in photographic materials consumed and time spent by state employees through the establishment of a service bureau specializing

in photographic processing upon request and on the basis of reimbursement from requesting agencies. For example, the State of Michigan has established a bureau of photographic services which functions in connection with the University of Michigan and serves other state agencies on a consulting basis, supplying, for example, audio-visual education materials such as movies and film strips for all state schools. The bureau supplies on a cost plus basis charging for materials used, time spent, and approximately 10-15 percent to cover depreciation. The bureau has operated on a limited budget. Although savings are difficult to measure, the University has stated that the program has largely eliminated needless and wasteful duplication of photographic laboratories throughout the University. It also has eliminated, for the most part, much of the time formerly spent by experts in other fields endeavoring to develop photographic materials, and has materially improved the quality of photography produced. In view of the highly scientific nature of much of the photography undertaken by state agencies, we believe that it might prove to be of material advantage to the State to establish a service bureau of this nature to review all purchases of photographic equipment and materials and to produce photographic materials on a reimburseable basis whereby it is practical to do so, on a centralized basis. We recommend that study be made of the possibility of establishing such a service bureau.

New State Pay Roll System

A new state pay roll system has been established which provides for the centralization of several pay roll functions, heretofore performed in the agencies, in the Disbursement Division of the State Controller's office.

The Disbursements Division of the State Controller's office estimates the costs eliminated by the new state pay roll system from the various state agencies will amount to approximately \$750,000 per annum.

The pay roll functions of a few agencies will be absorbed by the Disbursements Division of the State Controller's office during the latter part of the current budget year and the balance of the state agencies' pay roll functions will be taken over by the Controller's office on a staggered basis during the 1950-51 Fiscal Year.

We believe that as the agencies are relieved of these functions corresponding reductions should be effected in their budget allotments. We, therefore, recommend that the Department of Finance make all possible reductions and that a report be made to the Legislature showing in detail the amounts reduced and the number and class of employees eliminated.

CAPITAL OUTLAY AS REQUESTED IN BUDGET BILL
FOR 1950-51

Capital outlay items in the 1950 Budget Bill total \$59,776,609. Of this amount \$49,565,534 is proposed from the frozen funds of the Postwar Employment Reserve, \$6,914,094 from various special funds, and \$3,296,981 from the General Fund.

If the amounts proposed for appropriation from the frozen funds of the Postwar Employment Reserve are approved, there will be a remainder in the Postwar Employment Reserve of \$4,112,500 in frozen funds composed of \$1,161,000 of unbudgeted surplus and \$2,951,500 reverting from Item No. 372.12 of the Budget Act of 1949 providing funds for plans. This remainder will revert to the General Fund on June 30, 1951, in accordance with Chapter 145, Statutes of 1946. In addition there will be \$11,476,711 remaining in the Postwar Employment Reserve from Chapter 145 of Statutes of 1946.

The proposed appropriations from the General Fund totaling \$3,296,981 are contemplated to be accomplished by reverting to the General Fund \$2,793,068 from previous special appropriations for acquisition of sites with the balance of \$503,913 to come from new General Fund money.

The total capital outlay expenditure program from Postwar Employment Reserve funds as set forth in the Governor's Budget for 1950-51 amounts to \$66,919,721. Of this amount \$49,565,534 is proposed in the Budget Bill to be appropriated from the frozen funds of the Postwar Employment Reserve; \$8,293,892 is proposed to be allocated from moneys in Chapter 145, Statutes of 1946; \$8,128,416 is proposed to be carried over from previous special appropriations, and \$931,879 is proposed to be carried over from the Budget Act of 1949.

Our analysis of the capital outlay program budgeted for 1950-51, as reflected in the Budget Bill, gives consideration to several policy factors. First, we believe that unless it is essential that the capital outlay project budgeted for 1950-51 is urgently needed for operations in that fiscal year, it will be to the State's advantage to postpone construction until a subsequent fiscal year. The reasons for this are that construction costs should decline in 1950-51 and subsequently, and that the beneficial effects of a state public works program upon the volume of employment in the construction industry and related effects upon general business conditions will probably be greater in the years following 1950-51 than in that fiscal year.

Second, we have reviewed the amount budgeted for each item to determine whether the scope of the project, the type of facility and the unit costs are appropriate. In this connection, we have worked closely

with the Architectural and Construction Adviser of the Department of Finance in reviewing the plans, specifications, and costs programmed for the various projects included in the Budget Bill as well as those budgeted for 1950-51 from previous appropriations. We believe that the preliminary analysis given to the departmental requests by the Department of Finance has secured very substantial savings. There are additional places, however, where we believe that additional savings can be obtained in specific projects.

Third, we have attempted to point out where the amount requested for appropriation provides for only partial completion of some of the major units of capital outlay and that additional funds probably will be required for completion. This in turn will necessitate additional General Fund moneys in future years unless items budgeted for expenditure from the Postwar Employment Reserve are not approved sufficient to cover such General Fund expenditures, as the amount remaining in the Postwar Employment Reserve will be reduced to only approximately \$15,000,000 if this Budget Bill is approved as requested.

We are also proposing that reductions be made in those items of capital outlay in which there has been provision made for a contingency allowance of 10 percent of certain cost factors. It is our recommendation that the 10 percent contingencies allowance be separated out from each of the individual items and be placed in a single contingency fund and that this contingency fund then be reduced by half. It is our belief that the breaking up of these individual contingency pockets will provide for more economical expenditure of funds for valid contingencies, and also that a 5 percent contingency allowance should be sufficient in 1950-51 for the purpose intended. Many of the basic difficulties encountered in construction in the postwar years which necessitated the inclusion of a contingency allowance of 10 percent are not present today and should be present to a lesser degree in 1950-51. The inclusion of separate contingency allowances into one over-all contingency item should also make for more economical utilization of the allowance and thereby permit a reduction in the over-all amount required. We estimate that Postwar Employment Reserve items in the bill contain contingency allowances totaling approximately \$3,600,000. Reduction of this amount by half would make an added \$1,800,000 available in the Postwar Employment Reserve.

In order that the Legislature may determine more accurately the basic program requirements of the various departments which are requesting substantial capital outlay expenditures, we have made a brief analysis of the factors underlying each of the major departmental programs, and have included these summaries in the item-by-item analysis of proposed capital outlay appropriations, contained in our report which

follows. In this way, we believe that priorities among these various programs can be more easily established by the Legislature and the most urgent requirements can be met first. We believe that this will also make it possible for the Legislature to more clearly comprehend the basic factors underlying the need for capital outlay and thereby more accurately gauge the factors which will determine possible future expenditures for additional capital outlay requirements.

LOCAL ASSISTANCE BUDGET

Expenditures budgeted for local assistance total \$540,647,950, of which \$38,680,837 is included in the Budget Bill. The major part of the local assistance budget is provided for by continuing appropriations authorized by the Constitution or by statute. This includes \$210,714,500 budgeted for security for the needy aged and \$8,686,400 for security for the needy blind. It also provides for \$45,794,300 for aid to needy children and \$206,103,000 for the constitutional requirement of \$120 per pupil in average daily attendance in the public school system. It also includes approximately \$23,000,000 for public works from reserve funds, the major item of which is \$21,200,000 from the Postwar Unemployment and Construction Fund commonly referred to as the "Christmas Tree Fund."

The major items of local assistance requested in the Budget Bill are \$11,282,000 for operation of the State Teachers' Retirement System, an increase of over 100 percent above the amount estimated for expenditure in 1949-50. The amount of \$4,768,013 is requested for subsidies to counties and cities and counties for maintenance of tuberculosis sanatoria.

State funds in the amount of \$4,000,000 are budgeted for assistance to local agencies in the construction of hospital facilities under the provision of the California Hospital Survey and Construction Act on a matching basis with federal funds.

A substantial increase is requested for reimbursement to counties for the cost of administering adoption programs. For this purpose, \$926,200 is budgeted, an increase of approximately \$500,000 over estimated expenditures in the current fiscal year. Reimbursement of expenses incurred by counties and cities for licensing and inspecting agencies providing child care and agencies for the care of the aged requires an appropriation of \$573,692.

Major items of public works include amounts of \$1,015,800 and \$108,600 for the Los Angeles Flood Control District from the Flood Control Fund of 1946. In addition, \$571,000 is requested from the same fund for the city of San Diego.

Miscellaneous items of local assistance include the State's share of salaries of superior court judges totaling \$1,167,250 as well as \$310,000

for county veterans service officers and \$102,728 for county agricultural commissioners.

The tendency to shift local government functions to state support has been possible in recent years because of the excess in state revenues over state expenditures. The prospective decline, however, in state revenues, assuming no change in state tax laws, at the same time that additional amounts for local assistance will be required in accordance with existing laws makes it imperative that study be given to either a reduction in the State's contributions for local assistance or a revision in the tax structure which is called upon to support these apportionments. We believe that it is impossible for the State to assume any additional burdens in this respect without the necessity for increasing taxes.

COST OF SPECIAL APPROPRIATIONS

The 1949 Legislature, by passing a number of special appropriation measures and by enacting legislation which established new services, the cost of which constituted an implied appropriation, indirectly increased the cost of State Government in 1950-51 and subsequent years. Some of these appropriations were for the purpose of making more or less short run investigations and surveys, and although there is an appropriation budgeted for these purposes in 1950-51, it is probable that they will be discontinued within at least several years or reduced to a much smaller scale of operations. Other appropriations, however, or revisions in existing statutes setting up continuing appropriations can be expected to increase as the work load of the function increases over a period of time.

The 1949 Legislature enacted Chapter 889 which extends the definition of aid to needy children to the maximum allowable for federal participation in the needy children program. This legislation also provided an initial appropriation of \$3,265,000. The increased cost which is budgeted for the 1950-51 Fiscal Year amounts to \$6,138,000, bringing the total cost to the General Fund for this program to \$29,725,000. The cost of this program can be expected to increase in the future as the number of recipients of aid increases.

The 1949 Legislature also increased expenditures for the crippled children's program. The cost to the General Fund for crippled children's services in 1949-50 is estimated to total approximately \$1,700,000. The amount budgeted for 1950-51 is in excess of \$2,100,000 with a total increase of over \$400,000. This program includes added amounts shown in the support budget of the Department of Public Health and subventions for basic crippled children's services and rheumatic fever. The rheumatic fever program was added in 1949 with an initial appropriation of \$500,000.

Other special appropriation bills passed by the 1949 Legislature which are reflected in equivalent or expanded programs in the 1950-51 Budget are listed as follows:

<i>Chapter</i>	<i>Original General Fund appropriation</i>	<i>Budgeted General Fund appropriation 1950-51</i>
1241 Surveys and inspection for oriental fruit fly -----	\$34,800	\$35,250
1136 University research on oriental fruit fly -----	165,000	165,000
1274 Payment of subsidies for destruction of host plants to control oriental fruit fly -----	100,000	Continuing appropriation
1090 Increased subsidies for slaughter of TB cattle -----	75,000	124,000
1163 Fire training -----	69,518	59,424
1164 Fire training institutes -----	21,785	21,785
1224 Visiting teachers to blind children of pre-school age -----	15,000	12,356
1575 University research on sewage disposal -----	50,000	50,000
1554 Water pollution control boards -----	300,000	464,124

Chapter 1241, Statutes of 1949, made an initial appropriation of \$34,800 for surveys and inspection for oriental fruit fly. It is probable that, in line with similar programs established to control and eradicate agricultural pests, this program will appear as an item of expenditure in the budget of the Department of Agriculture for many years. Experience has shown that where a potential danger from an infestation by agricultural pests reaches the point where positive steps must be taken by the Department of Agriculture, it ordinarily takes at least a number of years to secure effective control. The same will probably be true of the appropriation of \$165,000 made for University research on the oriental fruit fly, although this program should ordinarily be expected to taper off first. The related cost of payment of subsidies for destruction of host plants to control the oriental fruit fly, requiring an initial appropriation of \$100,000 and provided for hereafter by continuing appropriation, will probably also be continued for a number of years.

Chapter 1090, Statutes of 1949, increases the subsidy for slaughter of cattle infected with tuberculosis and appropriated \$75,000 for this added cost. The amount budgeted for 1950-51 for subsidies is \$124,000. Although this program involves an initial increased cost, it should be expected that in time the increased subsidy should result in a more effective eradication program and eventual reduction in the total amount required for this program.

Special appropriations for carrying out a program of fire training and the conducting of fire training institutes were contained in Chapters 1164 and 1165, Statutes of 1949, with appropriations of \$69,518 and \$21,785, respectively. The amount budgeted for fire training in 1950-51

has been reduced to \$59,424 while the amount for fire training institutes is carried at the same figure as budgeted for 1949-50.

The program of employing visiting teachers to assist blind children of pre-school age is a small program with an original General Fund appropriation of \$15,000 in 1949-50 and \$12,356 in 1950-51. The number of children who will require this special type of assistance should remain relatively few in number and this program should not expand materially in the future.

The 1949 Legislature made an appropriation of \$50,000 to the University of California for research on the disposal of sewage. The Budget for 1950-51 makes provision for the same amount. There was also enacted, however, in 1949, legislation which established a State Water Pollution Control Board and regional boards. The initial appropriation for this activity amounted to \$300,000. The budget for 1950-51 provides for separate appropriations to the State Water Pollution Control Board and the regional water pollution control boards totaling \$464,124. In addition to this, there is provided in the budget of the Department of Public Health an additional amount to provide laboratory and technical services for this program. It is possible that the ultimate total cost of this integrated program may increase very substantially in the future, particularly if the regional water pollution control boards carry into effect their individual programs and employ the technical staffs which are authorized under the enabling legislation.

IN MEMORY OF ROLLAND A VANDEGRIFT

The Joint Legislative Budget Committee, upon its establishment in 1941, appointed the late Rolland A Vandegrift as its first Legislative Auditor. This is the first Analysis of the Budget Bill which has not been prepared under his personal supervision, and its authors are fully aware of the extent to which it suffers from the absence of his extraordinary acumen, judgment and experience in the field of government. We should be blind, however, if we did not recognize that there is yet embodied in the thinking and the recommendations contained in this report at least as much of the personal contribution of Mr. Vandegrift as the composite contributions of the various authors. We were privileged to work with him, and the State of California was privileged to have him as its servant.

In conclusion, we wish to express our gratitude to the Director of Finance and his staff for the many courtesies which have been given to the staff of the Budget Committee. We also wish to acknowledge and express our appreciation for the full cooperation and real assistance which has been extended to us by all state agencies. We have invariably found that our comments and criticisms have been accepted for what they are intended to be, a sincere effort to improve the service rendered by State Government to the citizens of California.

I should like to express my deepest personal appreciation to the entire staff of the committee for the manner in which it undertook to bring this report to completion in the short time allowed, with intelligence and enthusiasm, and despite long hours, fatigue and many inconveniences.

Respectfully submitted,

A. ALAN POST
Legislative Auditor
