

Contingencies

— 446 —

RECOMMENDATIONS

Amount budgeted	\$5,000
Legislative Auditor's recommendation	5,000
Reduction	None

ANALYSIS

This appropriation is necessary to make funds available for refund of fees or taxes paid in error and transmitted to the General Fund before action was taken on the application which accompanied the fee.

In 1949-50 there were \$5,583 of such claims approved by the Board of Control. These refunds include such items as overpayment of inheritance taxes, erroneous fees to the Division of Corporations and the Personnel Board. We recommend approval.

CLAIMS OF THE BOARD OF CONTROL

ITEM 267 of the Budget Bill

Budget page 831
Budget line No. 24

For Claims of the Secretary of the State Board of Control From Several Funds

Amount requested	\$41,491
Estimated to be expended in 1950-51 Fiscal Year	408,839
Decrease (89.9 percent)	\$367,348

ANALYSIS

The Board of Control has approved claims against the State of California in the amount of \$41,491 as of October 31, 1950. This amount will be included in the Budget Act as introduced. Amendments to include additional claims will be submitted by the Board of Control prior to consideration of this item by the Legislature. *We will review these claims prior to consideration by the Legislature when the Board of Control has transmitted a statement of the reasons for approval to the Legislature as required by Section 16020 of the Government Code.*

RESERVES FOR CONTINGENCIES

SALARY INCREASE FUND

ITEM 268 of the Budget Bill

Budget page 834
Budget line No. 21

For the Salary Increase Fund to Provide for Salary Increase in 1950-51 and 1951-52 From the General Fund

Amount requested	\$15,455,821
Estimated to be expended in 1950-51 Fiscal Year	4,501,217
Increase (243.4 percent)	\$10,954,604

RECOMMENDATIONS

Amount budgeted	\$15,455,821
Legislative Auditor's recommendation	15,455,821
Reduction	None

ANALYSIS

We are unable to make a specific determination as to the proper amount to bring salaries of state employees into conformity with salaries paid in private industry and other governmental employment. However,

events which have transpired since the last meeting of the Legislature indicate that it will be necessary to provide larger amounts for the Salary Increase Fund. Since the meeting of the Legislature last year there has been a sharp increase in the cost of living index for the last half of the year and there have been wide-spread changes in salary schedules, both in private employment and in other governmental jurisdictions in California, which have affected comparability with the state service.

The basic policy questions involved are whether, first, the Legislature is willing to follow established policy in entrusting salary determinations to the Personnel Board and other salary fixing authority, and secondly whether the amount requested constitutes a reasonable contingency fund for this purpose.

The amount of this item is based upon recommendations of the State Personnel Board for salary adjustments both in the current and in the budget year. In our opinion, several of the steps which have been recommended by the Personnel Board represent general policies which will be capable of application by the Legislature by partial acceptance rather than by full acceptance. We believe that, in the process of determining the proper amount for this item, it would probably be desirable for the legislative committees to have access to a greater amount of data and its interpretation than was contained in the report of the Personnel Board to the Governor and to the Legislature. The appropriate amount will also have to be determined in the light of general fiscal policies of the State at the time this item is acted upon. Although we are recommending the amount which is budgeted for this item, in the analysis which follows we have explained the item and the steps involved in its application and have made certain recommendations as to matters which we believe should be considered by the Legislature.

A total amount of \$15,455,821 is requested for the Salary Increase Fund to provide for pay increases in the Fiscal Year 1950-51 and to provide for increased compensation resulting from increased salary ranges established by the Personnel Board or other salary-fixing authority during the Fiscal Year 1951-52. This fund is to be allocated, on authorization of the Department of Finance, to the several state offices, departments, bureaus, commissions, the Regents of the University of California and other state agencies supported from the General Fund, and is in augmentation of their regular appropriations.

The amount requested represents estimated charges to the General Fund for salary adjustments as follows:

Salary increases to be made in 1950-51:

Special adjustments—exclusive of the University of California.....	\$426,500
Special adjustments—University of California.....	105,143
Proposed one-step (5 percent) increase effective January 1, 1951—exclusive of the University of California.....	5,131,026
Proposed one-step (5 percent) increase effective January 1, 1951—University of California.....	2,081,064

Total cost of 1950-51 salary adjustments..... \$7,743,733

For increases and adjustments in 1951-52:

Special adjustments—exclusive of the University of California	420,000
Special adjustments—University of California	80,000
Average one-step (5 percent) increase—exclusive of the University of California	5,131,025
Average one-step (5 percent) increase—University of California	2,081,063
Total cost of 1951-52 salary adjustments	\$7,712,088
Total—General Fund	\$15,455,821

The amount of \$7,743,733 is estimated as necessary to cover additional cost of salaries and wages resulting from salary increases granted or to be granted in the 1950-51 Fiscal Year. In general, salaries appearing in the budget document are at rates that were in effect July 1, 1950, and do not reflect increases made from the Salary Increase Fund. The amount estimated as required to project increases granted in the current year through the 1951-52 Fiscal Year assumes approval of a proposed deficiency appropriation in the amount of \$3,679,652 requested for the purpose of granting additional adjustments during the current year.

The proposed deficiency appropriation will provide the amount of \$273,460 to augment expenditures from the existing salary increase funds appropriated by the 1950 Legislature for the purpose of special adjustments during the current year. The balance requested, or \$3,406,192, represents the amount necessary from the General Fund to provide for a one-step (5 percent) general salary increase effective January 1, 1951. Estimated cost to special funds of adjustments proposed during the current year amounts to \$939,154. Including the proposed deficiency, the cost to the State from all funds, except the State Highway Fund, for salary adjustments proposed for the current year is \$4,694,496.

The amount of \$7,712,088 is requested from the General Fund to provide for further increases in the Fiscal Year 1951-52. Of this total \$500,000 is requested for special adjustments and the remainder, or \$7,212,088, to provide for an additional average one-step (5 percent) increase for state employees during 1951-52, if and when the Personnel Board finds such increases justified. The cost of comparable increases to the several special funds, exclusive of Highways, is estimated at \$1,951,493, making the total amount of \$9,663,581 available from all funds for additional salary adjustments in 1951-52.

The amount requested for the adjustment of salaries and wages of civil service employees is based on recommendations contained in the report submitted to the Governor of California and the Legislature by the Personnel Board in accordance with Section 18712 of the Government Code. The total has been adjusted to include amounts sufficient to grant comparable increases to employees exempt from civil service including the University of California. Government Code Section 18850 provides that the Personnel Board shall establish salary ranges based on the principle that like salaries shall be paid for comparable duties and responsibilities. It further provides that consideration be given to the prevailing rates for comparable service in other public employment and in private business. The salary increase actions by the board are limited by the same code section which provides in part, "The board shall make

no adjustments which require expenditures in excess of existing appropriations which may be used for salary increase purposes.”

General economic conditions and salary increases granted and under consideration in other public agencies and private industry justify the establishment of sizable reserves for salary increase purposes if the State is to maintain comparability. However, we wish to enumerate certain points that we believe should be considered in the establishing of this reserve and in its administration.

1. There is requested for the Fiscal Years 1950-51 and 1951-52 sufficient funds to support an average increase of 10 percent, plus additional amounts for special adjustments over and above this 10 percent increase.

2. Funds are requested for an across-the-board increase of one step (5 percent) effective January 1, 1951. The general practice has been to grant increased salary ranges for classes in the state civil service as justified and supported by wage survey data and to establish comparability with other classes in the state service. Whereas Government Code Section 18850 originally contained the requirement that the board should take into account cost of living adjustments, this feature was removed from the statute by amendment in 1949. We believe that the salary fund should continue to be established to permit the board to grant increases as justified but recommend against general increases unless survey data specifically supports the increase for each class.

3. The data contained in the report of the Personnel Board to the Governor and Legislature contains general salary data only, showing a number of industries in California which have granted general increases in salaries since the start of the current fiscal year. Some of these adjustments are expressed in cents per hour, some in dollars per week and some as a percentage. The average percentage salary increase is slightly in excess of 5 percent. There is no data presented as to the relationship between these general increases and individual classes in state service.

It is recommended that the amount requested for salary increases for state employees in this Item should be approved. However, we also recommend that the Personnel Board make available to the Legislature salary data indicating the basis on which adjustments are proposed to be made during the current fiscal year. This should provide a statement showing comparability of state employees with employees in other employment and indicate the extent to which the granting of the appropriation requested will bring state employees, class by class, up to comparability with employees in other employment, public and private. Only in this way can the Legislature know whether or not the amount requested for 1950-51 is proper. It is also the only way in which it will be able to determine whether or not it is necessary to place funds amounting to 5 percent of all State General Fund salaries in a reserve fund for increases in 1951-52.

4. Since the proposed appropriation of \$15,455,821 for the Fiscal Year 1951-52 includes provisions for both the projection of increases granted in 1950-51 through the budget year and a fund to support additional increases, we recommend that the *total annual salary increase* for all positions in classes adjusted through allocations made from the amount appropriated *be limited to the amount which is provided for further*

increases. If \$15,455,821 is the total which is appropriated by the Legislature, the total annual salary increase for all positions adjusted should be limited to \$7,712,088, or the amount which is requested for increases.

5. It is recommended that any adjustments which are necessary should be made on the basis of factors which are clearly defined and universally understood. General adjustments based in part upon survey results, in part upon the cost of living basis and in part upon "general trends," without complete understanding on the part of the Legislature and on the part of employees as to which and how much, will tend to obscure the common base. In the absence of this complete understanding and common base, it will be difficult to consider future adjustments, either upward or downward, without the same difficulties which are now experienced.

University

The basis for the recommended salary adjustments for state employees has been explained in the text above. Included in the recommended amount from the General Fund is \$2,186,207 for 1950-51 and \$2,161,063 for 1951-52 for the University of California. It is our understanding that these amounts have been arrived at by applying the same ratio of increase which is proposed for civil service employees to the total salary budget for the University of California. As to University non-academic personnel, this method is clearly appropriate. As to academic personnel, however, different considerations are involved. We are not in a position to recommend as to the adequacy or inadequacy of salaries for academic personnel of the University. This can be determined only by survey.

However, it should be pointed out that the conditions and data which would support a salary adjustment for state civil service employees, are not necessarily applicable to University academic personnel. At least two important differences are apparent: (1) The University academic salary schedule and its application is subject only to the Board of Regents and not to the State Personnel Board. Changes in the schedule and promotional and general policies have not necessarily corresponded in time or in degree with changes applicable to state civil service employees as approved by the Legislature. (2) The most important consideration in the wage surveys made by the State Personnel Board has been an effort to measure salary levels and changes in salary levels for comparable classes of positions in the same area of recruitment. The area of recruitment has been the State of California and particularly the larger cities of the State. Measurement of University academic salaries is by an entirely different process, inasmuch as it is a class of employment for which there is no strictly comparable class in civil service or private employment as surveyed by the Personnel Board and the area of recruitment is the entire United States.

For these reasons we recommend that any salary increase funds made available to the University be based upon separate survey data, to be supplied by the Board of Regents and designed to show (a) comparability of academic salaries with other universities and institutions with which the University competes, and (b) the percentage changes in academic salary levels with respect to state civil service employees over the past several years.

ITEM 269 of the Budget Bill

Budget page 838
Budget line No. 24

**For Emergency Fund to be Expended Only on Written Authorization of the
Department of Finance for Emergencies From the General Fund**

Amount requested	\$1,500,000
Amount appropriated for 1950-51 Fiscal Year	1,500,000
Increase	None

RECOMMENDATIONS

Amount budgeted	\$1,500,000
Legislative Auditor's recommendation	1,500,000
Reduction	None

ANALYSIS

This fund provides a source from which allocations may be made to agencies for contingencies for which no appropriation or insufficient appropriations have been made by law and from which loans may be made to agencies which derive their support from sources other than the General Fund. Moneys from this fund can be expended only on written authorization of the Department of Finance.

A deficiency appropriation is proposed for 1950-51 in the amount of \$2,746,606 for general emergencies and an appropriation of \$1,200,000 for price increases.

The total available for general emergencies and price increases for 1950-51, including the deficiency appropriations, amounts to \$5,446,606.

Major allocations in 1950-51 included \$2,404,424 for price increases, \$250,000 for control of beet leafhoppers, \$284,812 for fire suppression, \$111,933 for building rental in lieu of purchase for Los Angeles Workshop for the Blind.

The requested amount for this item for 1951-52 is \$1,500,000 for general emergencies, while another item requests \$2,000,000 for 1951-52 for price increases, or a total of \$3,500,000 for emergencies.

The separation of the Emergency Fund into two categories, (1) general emergencies, and (2) price increases, in itself constitutes a step in the direction of tighter budgetary control over expenditures from this fund. The amount of \$1,200,000 budgeted as a deficiency appropriation for the 1950-51 Fiscal Year is based entirely upon projected increases during the second half of the fiscal year in feeding and clothing. An 11 percent increase in feeding and a 6 percent increase in clothing is projected for this period.

The amount of \$2,000,000 budgeted for price increases in 1951-52 is also for feeding and clothing only and provides a 16 percent increase in feeding and an 11 percent increase in clothing over a base of July, 1950, prices. Both the price increases budgeted for 1950-51 and 1951-52 appear to be reasonable estimates. It should be pointed out, however, that allocations for price increase are not necessarily limited to food and clothing, although the amount requested was calculated entirely upon increases in these two items. Price fixing by federal authorities may permit substantial savings in this item and effective budgetary controls should make it possible for these savings to be actually realized.

The amount of \$1,500,000 budgeted for general emergencies in 1951-52 is the same as that budgeted for 1950-51. There is no reason

to believe that the general contingency factors in the 1951-52 Fiscal Year will be less than in the current fiscal year and this item, therefore, appears reasonable. We recommend approval of this item requesting \$1,500,000 for general emergencies in 1951-52.

ITEM 269.1 of the Budget Bill

***For Emergency Fund to be Expended in the Event of a State of Extreme
Emergency From the Revenue Deficiency Reserve Fund***

ANALYSIS

This section provides that in the event that a state of extreme emergency, as defined in Section 1505 of the Military and Veterans Code, is proclaimed by the Governor during 1951-52, any money in the Revenue Deficiency Reserve Fund (\$75,000,000), or so much thereof as may be deemed necessary, shall be transferred to the Emergency Fund specified in Item 269 upon the direction of the Governor, the State Controller, and the Director of Finance and pursuant to the recommendation of the California State Disaster Council. The money so transferred may be expended to carry out the provisions of the California Disaster Act for the relief and alleviation of the state of extreme emergency. Upon the termination of the period of the state of extreme emergency, the unencumbered balance of the money so transferred shall be returned to the Revenue Deficiency Reserve Fund.

This is similar to a provision for use of the Revenue Deficiency Reserve Fund provided for 1950-51 Fiscal Year by Statutes of 1950, Third Extra Session, Chapter 39.

RECOMMENDATION

Within the last few weeks, the Congress of the United States has enacted legislation which may cause the various states to enter into civil defense programs of great magnitude, the cost of which will be shared between the Federal Government and the states. It has been indicated that this may mean an additional and unanticipated state expenditure for this purpose approximating \$170,000,000. The Budget which has been presented to the Legislature does not take into consideration any such expenditure program, nor is any proposal as to how the revenues might be secured for this purpose contained in the Budget. In view of this contingency and because the problem has been given, in the Governor's message, to the Legislature for consideration, we believe that the \$75,000,000 in the Revenue Deficiency Reserve Fund should not be specifically earmarked for expenditure by the method proposed in Item 269.1, but should be left free so that the Legislature may consider the availability of these funds along with the entire problem of unanticipated civil defense expenditures.

PRICE INCREASES

ITEM 270 of the Budget Bill

Budget page 838
Budget line No. 50

For Price Increases From the General Fund

Amount requested	\$2,000,000
Proposed deficiency appropriation for 1950-51 Fiscal Year.....	1,200,000
Increase	\$800,000

RECOMMENDATIONS

Amount budgeted	\$2,000,000
Legislative Auditor's recommendation	2,000,000
Reduction	None

ANALYSIS

This is a new item and is in addition to \$1,500,000 requested for general emergencies.

The requested reserve of \$2,000,000 for price increases provides for a 16 percent increase in feeding costs and a 11 percent increase in clothing costs above the price level of July 1, 1950, which was the level used in preparation of agency budgets. This item is not limited to price increases in food stuffs and clothing although the amount requested was determined on increases in these items only.

We recommend approval.

CAPITAL OUTLAY

The capital outlay budget for the 1951-52 Fiscal Year represents a return to the "pay as you go plan" since all projected expenditures, exclusive of special fund items, will be payable from the General Fund. The one exception to this is the item for the new Governor's residence, payable from the frozen portion of the Postwar Employment Reserve, which will entirely deplete that fund.

The cost of the program for the 1951-52 Fiscal Year is the smallest in the past five fiscal years and is substantially less than in the current fiscal year. The effect of this reduction will be to apparently reduce the total state Budget. In the current fiscal year, the program included \$1,823,047 from the General Fund and \$130,247,961 from reserve funds. In the 1951-52 Fiscal Year, there will be no reserve funds included in the Budget which will thereby reduce the over-all budget exclusive of special funds by approximately \$130,000,000. A partial offset will be the fact that in the 1951-52 Fiscal Year the requested General Fund contribution to capital outlay will be approximately \$28,000,000 instead of only about \$1,800,000 as in the current fiscal year.

A reasonable estimate of the State's yearly capital outlay needs would be approximately \$30,000,000. This would provide annual replacement of obsolete and uneconomical buildings and a yearly increment of additional facilities of all types to keep pace with the continued growth of the State. While the program for the 1951-52 Fiscal Year aggregates close to the \$30,000,000 figure mentioned, it still does not represent the type of yearly replacement and addition which is needed to keep the State abreast of its population growth. Instead it represents largely a portion of the backlog of construction which was needed to bring the State up to a satisfactory standard and which was not accomplished before the depletion of the Postwar Employment Reserve.

In our analysis of the capital outlay program for the 1951-52 Fiscal Year, we have attempted to weed out those items which do not represent an urgent and essential need. Consideration has been given not only to the work and need of the agency, but also to the nature of the individual project. In previous analyses we have pointed out the fact that the Youth