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## LETTER OF TRANSMITTAL

SACRAMENTO, CALIFORNIA, March 3, 1952

*The Honorable Ben Hulse, Chairman  
and Members of the Joint Legislative Budget Committee  
State Capitol, Sacramento, California*

GENTLEMEN: In accordance with the provisions of Chapter 1667, Statutes of 1951, and Joint Rule No. 37 of the Senate and Assembly creating the Joint Legislative Budget Committee, defining the duties of the committee and giving it authority to employ a Legislative Auditor, I submit an analysis of the Budget Bill of the State of California for the Fiscal Year July 1, 1952, to June 30, 1953.

The duty of the committee in this respect is set forth in Joint Rule No. 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."

The staff of the committee has again prepared an item by item analysis of the Budget Bill in substantially the same form which has been followed in the previous six reports made to the committee and to the Legislature. In accordance with customary practice, the Legislative Auditor and his staff have been afforded the opportunity of attending all of the budget hearings which have been held by the various state agencies before the budget staff of the Governor. By this means, the staff has been able to familiarize itself with the basic budget information presented by each agency to the Director of Finance and to acquaint itself with the policy questions raised by each budget request. The unusual privilege which is extended to the members of the staff of the committee to ask questions and discuss policy matters on the same basis as the budget staff has unquestionably eliminated numerous points with which we should otherwise have been at issue before the legislative committees, and we believe that this participation has led to the elimination of numerous items which might otherwise have appeared in the Budget. The advance scrutiny of the agency requests and the excellent cooperation which has been afforded us by the budget staff in furnishing us with copies of the galley proofs of the budget document prior to its release to the public has made it possible for the major part of this analysis to be made available to the Senate Finance Committee and the Assembly Ways and Means Committee well in advance of the presentation of the Budget to the Legislature. For this generous assistance and cooperation, we wish to express our sincere appreciation to the Director of Finance and the members of his budget staff.

I also wish to express my deepest appreciation to the members of the committee staff who have again given so generously of their time and effort to bring this report to completion within the short space of time permitted.

Respectfully submitted,

A. ALAN POST  
Legislative Auditor

## PRELIMINARY STATEMENT

### *Scope of Analysis*

This is a report on the Budget and Budget Bill of the State of California for the Fiscal Year beginning July 1, 1952, to June 30, 1953. It does not include an itemized analysis of all items in the Budget but only those upon which the Legislature is required to act to carry into effect the financial program of the State. Approximately two-thirds of the State's financial program is governed by constitutional and statutory provisions which are continuing in nature. The matters which are covered by the approximately 400 items in the Budget Bill primarily provide for the operation of the various state agencies. In addition, there is included in the Budget Bill \$57,580,000 of a total of \$625,750,000 budgeted for assistance to local governmental jurisdictions in 1952-53. There is also included in the bill \$98,702,000 for capital outlay.

The three largest items of state expenditure are not ordinarily included in the Budget Bill. These are elementary, secondary and junior college education, aid to the needy aged, needy blind and needy children, and the state highway program. Together they account for \$640,000,000 or 54 percent of the Budget. This year, for the first time, an item for equalization aid to school districts has been included in the Budget Bill in the amount of \$12,000,000.

The Constitution provides that the Governor shall prepare and submit to the Legislature at each Regular Session of the Legislature a budget which contains a complete plan of itemized expenditures of the State as provided by existing law or recommended by him. This budget is to be accompanied by an explanatory message, and if the proposed expenditures for the fiscal year budgeted exceed the estimated revenues therefor, the Governor is required to recommend the sources from which the additional revenue shall be provided. The Budget Bill, plus the continuing appropriations made by constitutional and statutory provisions of law, provide the appropriations which are necessary to carry out the Budget as presented by the Executive.

### *Total Expenditure Program*

The total budget of the State Government for the Fiscal Year 1952-53 is calculated in the budget schedules to be \$1,185,000,000. This includes all General Fund expenditures, special fund activities, and subventions to, and revenues shared with, local governments. This conforms with the most common method adopted by the states of presenting the budget total for a given fiscal period. When the state expenditure program, however, is viewed from the standpoint of all receipts from tax collections and other sources estimated to be appropriated, either by Budget Act or by continuing appropriations, for expenditure within the budgeted fiscal year, the total is considerably above the \$1,185,000,000 commonly regarded as the "budget total." The chief of the differences are receipts from federal tax sources for state administration and grants, and the annual amount of benefit payments for unemployment compensation and disability compensation from state employment taxes. When these are considered, the total amount of all state receipts expected to be appropriated for 1952-53 is approximately \$1,540,000,000.

**State Government Expenditures, by Character of Expenditure and by Rank,  
Seven Highest States, 1950\***

(In thousands except per capita)

	<i>Rank</i>	<i>State</i>	<i>Operation</i>	<i>Capital outlay</i>	<i>Aid paid to other governments</i>	<i>Interest</i>	<i>Contributions to trust funds and enterprises</i>	<i>Total less provision for debt retirement</i>	<i>Per capita expenditures</i>
AT	1	California -----	\$496,978	\$205,643	\$497,009	\$2,461	\$156,020	\$1,358,111	\$129.36
	2	New York -----	348,989	161,384	572,912	17,766	228,141	1,329,192	90.14
	3	Pennsylvania -----	552,377	179,382	142,359	3,811	77,561	955,490	91.79
	4	Michigan -----	236,646	65,941	251,192	4,256	80,400	638,435	101.82
	5	Ohio -----	212,800	88,105	230,018	4,348	48,031	583,302	72.96
	6	Illinois -----	287,092	82,026	135,275	9,572	63,518	579,483	67.18
	7	Texas -----	222,440	91,613	124,134	872	37,156	476,235	62.07

\* Source: U. S. Bureau of the Census, "Compendium of State Government Finances in 1950," State Finances: 1950, No. 2.

California has established and now maintains the highest level of governmental services of any of the states, both in total amount and in expenditures per capita. State of California total expenditures, by character of expenditure, in comparison with the six other highest states, are shown in the table which appears on page iv.

The budget statement shows that "the program of services provided in this document, with the population and prices of 10 years ago could have been financed for approximately \$507,000,000. The \$678,000,000 difference between this sum and the budget total measures in rough terms the impact of inflation and population growth upon the finances of California State Government." This is an apt illustration of the effect of both price and population increases upon the cost of government services. However, the same proposition can be stated in another way to show the cost of new services in the same period. If the actual expenditure program of approximately \$250,000,000 for 1942-43 were adjusted for increases in both population and prices, the cost today would be \$605,000,000. The difference of \$580,000,000 between this and the proposed expenditure program is a rough measure of the cost of increased services and activities since 1942-43.

#### *Basic Financial Policy Contained in the Budget and in Our Recommendations*

The budget policy which is contained in the instructions sent to all state agencies at the time of preparing the agency requests, and the Governor's policy in reviewing these requests for submission to the Legislature provide that this budget shall include a minimum of new services and shall be concerned primarily with making necessary adjustments based on revised work load data and unforeseen emergency situations which have arisen. New programs and matters involving policy which have not yet been considered by the Legislature have, to a fairly large extent, been left for the General Session of 1953. There are a number of exceptions to this rule, and these are carefully pointed out to the Legislature in our analysis.

In accordance with instructions from the Budget Committee, we have prepared this analysis on the basis that it shall contain recommendations which will permit a balanced budget without suggesting additional revenues and indicating all instances where new or increased services are proposed and where economies in existing programs can be secured. The analysis contains a recommendation on each item in the Budget Bill and includes descriptive and analytical material designed to assist the Legislature in considering the many policy and work load matters contained in the various agency requests. The recommendations which are made, if adopted by the Legislature, would reduce the Budget Bill expenditures approximately \$70,000,000.

The procedure which has been followed by the staff in carefully reviewing with the budget staff all items contained in the equipment requests of the agencies, has operated to reduce these requests substantially and has correspondingly reduced the amount of reductions which are recommended in our report.

Pursuant to instructions from the committee, we have also made recommendations as to where further study should be made to secure possible savings in state costs and have suggested the agency which we believe should make this study. Included in the analysis are numerous recommendations which have been developed through studies requested of the

Budget Committee staff by the Legislature in considering the previous Budget Bill.

Some of the suggested economies in state operations will require legislation, and these proposed changes in law are included in this analysis for consideration by the Legislature prior to and during the 1953 Session. In some instances, we have suggested what we believe to be appropriate subjects for legislative interim committee study and report.

#### Size of the Budget

The total amount of the Governor's Budget as introduced is \$1,185,400,000. The Budget Bill, upon which the Legislature will act, totals \$433,000,000 or 36 percent of the Budget. We again point out that, although the Legislature can in numerous ways affect the total volume of expenditures classified as the so-called fixed costs of the State which the Governor is required, because of constitutional and statutory provisions of law, to include in his Budget, the fact that the Budget Bill contains only approximately one-third of the Budget severely limits the control which the Legislature exercises over the expenditure program of the State; particularly, in a budget session. We believe that continuing study should be made of the basis for the appropriations which are not included in the Budget Bill, in order that the services afforded by those state expenditures are geared to realistic needs and in order that the same standards of review and legislative scrutiny are afforded to these programs as is afforded through executive and legislative analysis of the various items of the Budget Bill.

#### Revenue Estimates

Total revenues for the Fiscal Year 1952-53 are estimated at \$1,102,000,000. This is an increase of \$44,000,000, or 4.2 percent over estimated total revenues for the current fiscal year and 10.9 percent over actual for 1950-51.

General Fund revenues are estimated at \$743,294,000 for 1952-53 and at \$712,382,000 for 1951-52. This represents an increase of \$30,900,000, or 4.3 percent over the current fiscal year and 10.6 percent over actual for 1950-51. These are shown by revenue source in the table which follows.

#### Estimated General Fund Revenues

	<i>Actual</i> 1950-51	<i>Estimated</i> 1951-52	<i>Estimated</i> 1952-53
Beer and wine excise.....	\$3,795,650	\$3,845,000	\$4,040,000
Distilled spirits excise.....	16,094,404	14,900,000	15,700,000
Bank and corporation franchise tax.....	98,245,207	115,250,000	118,500,000
Gift tax .....	1,979,397	1,500,000	1,600,000
Pari-mutuel taxes .....	3,900,476	2,207,681	2,042,888
Inheritance tax .....	21,691,622	24,000,000	25,000,000
Insurance tax .....	23,043,305	25,280,860	29,765,000
Private car tax.....	890,800	1,088,700	1,095,000
Motor vehicle (in-lieu) tax.....	2,813,500	2,738,125	2,662,750
Retail sales tax.....	399,243,093	410,100,000	427,100,000
Personal income tax .....	75,890,972	88,100,000	91,500,000
Interest on investments.....	7,721,387	6,865,974	8,067,649
Departmental revenues and miscellaneous	16,754,970	16,505,681	16,221,226
	<b>\$672,064,733</b>	<b>\$712,382,021</b>	<b>\$743,294,513</b>

Since the chief of our General Fund revenue sources, particularly the sales tax, franchise and personal income tax, which together produce 86 percent of General Fund revenues, are immediately affected by general economic conditions, revenue estimates must be considered in terms of assumptions as to economic conditions for at least one year in advance of the budget preparation. The chief factors to affect revenue sources are the level of income payments and other earnings, and the spending patterns of consumers. Revenue to the General Fund for the Fiscal Year 1952-53 is governed largely by the level of economic activity for the calendar year preceding, and to which year most economic data relate. Although there have been conflicting trends during the calendar year 1951, and during the last quarter of 1951 and the first quarter of 1952, indications of a considerable slowing down of both price increases and demands for consumer durable goods, the consensus of most economic observers is that the level of production and incomes will be higher for 1952 than for 1951. This is largely because of the spreading out of the defense production program and the inflationary effects of the federal budget. This basic assumption is the largest single factor in the estimated increase of 4.3 percent in General Fund revenue for 1952-53. Also affecting this increase is the estimate that California population will continue to expand at the rate of approximately 3.2 percent annually.

For an 18-months period between June, 1950, and December, 1951, the value of defense contracts placed for procurement amounted to \$54,000,000,000. Of this, \$19,000,000,000 represented actual deliveries during the period, while the balance constituted a backlog of orders being worked on by industry. When there is added to this \$33,000,000,000 of unobligated funds of defense agencies for procurement purposes and the additional funds requested in the federal budget for the coming fiscal year, there is the prospect of \$110,000,000,000 of work on order or to be contracted for the defense production program. While all of this will not, of course, be contracted or completed during the coming fiscal year, it will be an important factor in sustaining the level of production.

The most current economic indexes, particularly with respect to prices, show that there is some indication of a leveling off and perhaps even a slight decrease. The wholesale price index has remained comparatively stable for more than a year and as of February, 1952, was approximately 3.5 percent below February of 1951. The consumers' price (cost of living) index for January, 1952, was at the same level as for the previous month, and there are indications that the index for February may be down, representing the reversal of an almost unbroken upward trend since early in 1950. In view of these preliminary indicators for the first quarter of 1952, the economic indexes estimated for 1952 and shown in the revenue estimates in the budget document may be high. However, the estimated gain of \$500,000,000, or 2.8 percent, in spendable resources of people in California for 1952 appears to us to be supportable and is the chief factor which will affect sales and income tax revenue during the next fiscal year.

## ADDITIONAL GENERAL ECONOMIES RECOMMENDED

### *Economies in Telephone Operations in Accordance With Recommendations Made in Our Previous Report*

The Department of Finance, in accordance with an understanding with the Senate Finance and Assembly Ways and Means Committees, has studied the feasibility of requiring stricter procedures to be established by all state agencies over the use of telephones; particularly, long distance telephones. Although the report of the Department of Finance did not cover all points which we felt were essential to the most efficient usage of state telephones, it should provide a means for eliminating many instances of careless usage. The savings which have occurred in some agencies are noticeable. Every effort should be made to guarantee a continuation of these economies, while at the same time guarding against ineffective and cumbersome procedural requirements. However, it should be emphasized that it will be necessary for management to fully utilize the procedures which have been established if maximum economies are to be secured.

### *Savings in Postage*

Studies of the use by state agencies of various postal classifications indicate that greater attention should be paid to taking advantage of special rates on third-class bulk mailing. It is recognized that there are legal and other considerations which make it impossible to take advantage of certain of these rates in some cases where it would appear that, except for such requirements, the rate would apply and serve the requirements of the agency. At the same time, every effort should be made to take full advantage of special rates and procedures established by the Post Office Department.

Although the limited time available for analysis of the agency requests did not permit us to classify in detail the various types of correspondence and printed or processed matter sent through the mails by each of the agencies, analysis of a small number of cases demonstrates that the budget assumptions permitting a 10 percent increase in total amounts budgeted for postage for 1952-53 over the previous year are in excess of what ordinarily would be required to meet the increased cost of postage resulting from the changes in postal regulations. These changes in regulations served as the basis for the budget instruction permitting state agencies to increase their postage requests, although the final adjustments in rates were not known at the time the budget instructions were prepared. The rate changes covered only penny postcards, certain classes of bulk mailing and a few miscellaneous types of mailing. The bulk of the items which are sent through the mails by the agencies do not fall within any of the classes of mail which received rate increases. A recapitulation of the amount of postage budgeted for the major agencies, whose combined total request for postage amounts to \$756,000, shows an increase of \$83,000, or 12.3 percent over 1951-52. For this reason, we believe that the 10 percent increase is unrealistic and that a procedure



should be established which would adjust this over-all allowance through the process of budgetary control. Additional data should be supplied the Department of Finance by each agency detailing the various classes of mail used by the agency and the estimated number of items, in each class, upon which basis adjustments can be made in the quarterly budget allotments. These will also provide information upon which more accurate budget estimates can be determined for the subsequent fiscal year.

We have not recommended specific reductions in any of the agency budget requests for postage but believe that through this suggested procedure additional savings can and should be made.

#### ***Savings in Food Costs***

The supplying of food to the inmates and patients of the various state institutions constitutes one of the primary factors in the cost of operating the institutions. Any improvements in the purchasing, preparing and serving of food which can be effected without reducing the quality of food or service below that essential to the well-being of the inmate or patient involves very substantial savings. For that reason and because certain state agencies have insisted upon very significant increases in the quality and cost of food and its preparation, this item has received, in recent months, intensive study by the Department of Finance. The Department of Finance, under contract with a leading consultant in the field, Mr. Paul E. Howe, has completed a comprehensive survey of the feeding practices and food requirements of the state institutions. On the basis of this report, certain refinements in the preparation and serving of food are included in the Budget for 1952-53. Moreover, as a result of this study, there has been no augmentation in the ration for the various institutions, although increases were requested for 1951-52 and denied by the Legislature. This study and others made by our own staff have indicated to us that there is an area for considerable additional savings in state expenditures for food requirements. We recommend that continued study be made of food management to assure that the deficiencies in management cited by the Howe report, particularly lack of food accounting and analysis of wastage, are corrected.

#### ***Budgetary Control Over Equipment Items***

Despite the very substantial reductions which have already been made in the equipment requests of the agencies as a result of field trips made by the members of the staff of the Budget Committee, accompanied in part by members of the budget staff of the Department of Finance, we believe that additional savings could be secured, and that a more effective and orderly procedure for the budgeting of equipment should be instituted. It is apparent that the problem of examining properly the large number of equipment items contained in the agency budget requests requires a greater expenditure of time and manpower than is available during the intensive period of budget review. It is also clear that a careful review of items is essential, as there is a marked tendency on the part of many agencies to request items which are of an admittedly low order of priority. This has been particularly true in recent years. In view of this, we are recommending that consideration be given to the establishment of a procedure whereby equipment specialists in the Department of Finance are detailed to make a continuous review of equipment requests and that final approval for all items costing more than an established amount be

withheld until approval is granted by these examiners. The quarterly budget allotment procedure presently in effect in the Department of Finance makes it possible for this procedure to be carried out with relative facility. It is quite possible that the critical examination of equipment items, accompanied by a policy of not granting approval until actual need is established, would result in substantially extending the life of many pieces of equipment. We believe that the creation of possibly two positions of equipment inspector in the Department of Finance could result in a saving of many times the expenses of these positions.

#### ***Audit Reports Used as Basis for Analysis***

Our analysis of the budget requests of the agencies makes extensive use of the audit reports prepared by the Division of Audits of the Department of Finance. As in previous years, we have called the attention of the Legislature to recommendations contained in these audit reports which have appeared repeatedly and which thereby give evidence of the fact that insufficient attention is being paid to audit recommendations. We note that there has been increased emphasis given by the administration to a correction of the audit exceptions. However, we again point out that the absence of an independent post audit is a feature of California's State Government which should be remedied. This feature of our state organization constitutes one of the relatively few places where California is lagging behind other states.

We repeat our recommendation of the last two years that a report should be made by each agency audited answering the exceptions noted within 60 days following the release of the audit report.