

CALIFORNIA LEGISLATURE  
1953 REGULAR SESSION

**ANALYSIS OF THE BUDGET BILL**  
*of the*  
**STATE OF CALIFORNIA**  
*for the*  
Fiscal Year July 1, 1953, to June 30, 1954

**Report of the Legislative Auditor**  
*to the*  
**Joint Legislative Budget Committee**

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## PRELIMINARY STATEMENT

This is a report on the Budget and Budget Bill of the State of California for the fiscal year beginning July 1, 1953, to June 30, 1954. It provides an item by item analysis of all items in the Budget Bill for the reason that that bill represents with one exception the action that is required by the Legislature to carry into effect the proposed expenditure program for the State of California for the fiscal year budgeted. This constitutes approximately one-third of the total expenditure program contained in the budget. Although the proposed Governor's Budget is generally conditioned upon full compliance with existing provisions of law governing the authorization for the approximately two-thirds of the budget which is not included in the Budget Bill, we have made recommendations to the Legislature not only reducing the Budget Bill items proposed but also suggesting certain statutory changes which would reduce the total budget below the amount proposed by the Governor. A number of these recommendations are further discussed in the last section of this analysis.

The Budget Bill contains requested appropriations totaling \$451,165,600 out of a total budget of \$1,326,851,800 or 34 percent of the total. Included in that portion of the budget which is not contained in the Budget Bill are the constitutional or statutory appropriations for elementary, secondary and junior college education, aid to the needy aged, needy blind and needy children, and the state highway program. Together these three items account for \$638,307,000 or 48 percent of the budget.

The Constitution provides that the Governor shall prepare and submit to the Legislature at each regular session a budget containing 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. In compliance with this requirement, the Governor has proposed revenue measures necessary to balance his proposed expenditure program, with the exception that in his opening message and in his budget message to the Legislature, he has recommended additional expenditure programs which are not included in the budget document, and without providing a specific revenue proposal required to meet the proposed expenditures. Moreover, in addition to the budget as submitted, augmentations will be requested by the Governor during the course of the legislative session and before its final enactment. These amendments to the budget in the form of augmentation requests approximated \$6,000,000 at the 1952 Budget Session.

### **Total Expenditure Program**

The sum of the proposed expenditures contained in the budget document for the Fiscal Year 1953-54 is \$1,326,851,800. This total includes all General Fund expenditures, special fund activities, and subventions to and revenues shared with local governments. In addition to this, the Governor has recommended that the Legislature should enact legislation authorizing an additional expenditure of \$5,500,000 in state funds for permanently and totally disabled and an indeterminate additional amount for highways. Although the figure of \$1,326,851,800 is generally considered as the budget total and the items contained in this total conform with the usual practice adopted by states in presenting the budget to their respective Legislatures, the total state expenditure program, 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, is considerably above this amount. If the 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 are included in the total, the amount of all state receipts expected to be appropriated for 1953-54 is approximately \$1,725,494,000.

### **Basic Financial Policy Contained in the Budget**

The basic financial policy which is contained in the Governor's Budget might be said to be, of necessity, that which provides for the appropriation of over two-thirds of the budget by continuing constitutional or statutory provisions of law. However, these are in part the product of previous executive policies. Beyond the requirement that the Executive Budget shall be in accordance with existing provisions of law, the administration policy which is under consideration by the 1953 Legislature is primarily concerned with that 34 percent which is embodied in the Budget Bill. This policy provides for a balancing of expenditures with revenues, carrying into effect the progressive programs which have been characteristic of California State Government under the present administration. At the same time, the operating budgets of the various state agencies reflect few significant increases over last year in the level of services performed. The passage of Proposition No. 2 in the November election added approximately 67 million dollars in increased expenditures for public schools and this, of necessity, has exercised a direct influence upon the proposed financing of other state programs. It has made it necessary for the state operations portion of the budget to be more critically reviewed in terms of new or expanded services. Increases in cost, as reflected in the budget, are primarily due to the higher cost of doing business which has resulted from the progress of inflation following World War II.

Despite the limited number of new services which have been allowed for in this budget, the advances provided for in previous years and maintained for 1953-54 provide California with state programs which are uniformly among the costliest in the Nation. The cost of education per pupil, social welfare benefits per recipient, hospital and institutional care per patient or per inmate, and general administration costs for other services of government remain without exception at or near the top of the list of states.

### **Financial Policy Contained in Our Recommendations**

The additional costs imposed by the passage of Constitutional Proposition No. 2 has made it necessary to either increase taxes, use existing reserves, reduce substantially the level of services provided in the state operations budget, reduce provision for capital outlay for 1953-54, or to enact legislation reducing continuing appropriations for state subventions to local jurisdictions. The instructions which we have received from the Joint Legislative Budget Committee to recommend a balanced budget without added taxes have led us to suggest economies which we believe can be achieved through legislation without eliminating any essential state functions. The recommendations which are contained in this analysis provide for proposed reductions in state costs totaling ~~\$30,000,000~~ 39,209,000 of which \$27,285,471 are in the Budget Bill and the remainder require additional legislation. Those proposed reductions which require changes in existing law are discussed in detail following the item by item analysis of the Budget Bill.

### **Revenue Estimates**

Total revenues to all funds for 1953-54 under the existing tax structure are estimated at \$1,195,747,023. This is an increase of \$46,300,000 or 4 percent over estimated total revenues in the current fiscal year. Revenues to the General Fund are estimated at \$801,902,526.

During the current year there has been an adjustment in General Fund revenues to the extent of an upward revision of \$33,010,025. This revision above the estimates for the current fiscal year, which were presented in the budget last year, has been due in large part to a continued rate of increase in sales tax and in personal income tax collections. This, in turn, has been due in large part to the continued population growth in California, to the gradual increase in the level of personal incomes, and to a gradual increase in prices. The estimates of General Fund revenue for 1953-54 are projected on the basis of a continued increase approximating 3.3 percent. We have examined in detail the revenue estimates for all revenue sources, both to the General Fund and to special funds for the Fiscal Year 1953-54, and believe they represent as accurate an estimate as can be made under present conditions. Although revenue in the 1953-54 Fiscal Year will be largely governed by economic conditions in the calendar year 1953, and there are few indications of drastic changes in the State's economy for the short run, we must point out again, as we have in the past, that the California system of General Fund revenue depending, as it does, in such large proportion upon the consumer sales tax, could be drastically affected by a reversal or even a leveling off of prices and consumer buying patterns.

For purposes of projecting revenue estimates, the California population is estimated to increase to 12,190,000 persons by July 1, 1954. Disposable income for the Nation is estimated to increase from \$234,000,000,000 to \$240,000,000,000 or an increase of 2.3 percent, while prices are estimated to remain stable at the commodity level and increase by approximately 1 percent in the Consumers' Price Index.

Estimated revenues to the General Fund, by major tax source, are shown in the following table.

| Estimated General Fund Revenues              |                          |                             |                             |
|--|--------------------------|-----------------------------|-----------------------------|
|  | <i>Actual</i><br>1951-52 | <i>Estimated</i><br>1952-53 | <i>Estimated</i><br>1953-54 |
| Beer and wine excise.....                    | \$3,730,045              | \$3,970,000                 | \$4,000,000                 |
| Distilled spirits excise.....                | 14,429,563               | 15,270,000                  | 15,525,000                  |
| Bank and corporation franchise tax.....      | 120,126,645              | 118,300,000                 | 118,500,000                 |
| Gift tax.....                                | 1,388,537                | 1,500,000                   | 1,500,000                   |
| <br>   |                          |                             |                             |
| Pari-mutuel taxes.....                       | 3,628,546                | 3,920,461                   | 4,252,714                   |
| Inheritance tax.....                         | 27,775,966               | 23,000,000                  | 25,000,000                  |
| Insurance tax.....                           | 25,731,960               | 29,769,569                  | 33,800,000                  |
| Private car tax.....                         | 1,088,988                | 1,127,000                   | 1,225,000                   |
| <br>   |                          |                             |                             |
| Motor vehicle (in-lieu) tax.....             | 2,738,125                | 2,662,750                   | 2,587,375                   |
| Retail sales tax.....                        | 417,692,523              | 451,800,000                 | 465,400,000                 |
| Personal income tax.....                     | 90,914,286               | 100,100,000                 | 104,100,000                 |
| Interest on investments.....                 | 7,788,489                | 8,515,393                   | 9,268,488                   |
| Departmental revenues and miscellaneous..... | 16,992,052               | 16,369,365                  | 16,743,949                  |
| <br>   |                          |                             |                             |
| Total.....                                   | \$734,025,725            | \$776,304,528               | \$801,902,526               |

#### Changes in Form of Budget or Budget Bill

The budget document contains again this year an increasingly detailed statement of programs and proposed increases in expenditures.

It should be noted that in this budget, particularly in the case of state institutions, there are a large number of items of "special repairs and maintenance" in addition to items of "recurring maintenance" which are carried under operating expenses in the state operations part of the budget. These items of special repair and nonrecurring maintenance have heretofore been budgeted under capital outlay. The effect of this change, although it is not significant in total amount, is that in the budget year the capital outlay budget is less than it would otherwise be, and the state operations part of the budget is higher than it would otherwise be. This affects comparability with last year in both of these portions of the budget.

The Budget Bill has been significantly changed in that for the first time the schedules setting forth the categories of expenditure have combined equipment and operating expenses into a single item. In prior budget bills, the items of operating expense and equipment were shown as separate items and separate amounts of expenditure. The Department of Finance informs our office that all other controls and records heretofore kept by the Department of Finance and state agencies will be continued. The only change resulting from this combination is to permit the Controller's Office to pay a claim containing items of both equipment and operating expenses. Also the accounting section in the Controller's Office will carry only one control account instead of two. In the preparation of claims, agencies will be able to combine items of operating expense and equipment in the same claim.

We believe this change is advantageous to the processing of claims and should save time and money. For this reason, we recommend approval of the change.



## Fiscal Trends

Since the close of World War II, or since the 1946-47 Fiscal Year, the cost of state government has climbed from a total expenditure of 469.7 million dollars in 1946-47 to 1,326.8 million dollars as budgeted for the 1953-54 Fiscal Year. This represents an increase of 857.1 million dollars or 182 percent. On a per capita basis, costs are up from \$48.40 to \$110.56 per person, or an increase of \$62.16 per capita or 128.4 percent. During the same period, revenues are shown to have climbed from 604.9 million dollars to 1,195.7 million dollars anticipated for 1953-54, or an increase of 590.8 million dollars or 97.7 percent. On a per capita basis, revenues are shown to have risen from \$62.32 per person in 1946-47 to \$99.40 for 1953-54, which is an increase of \$37.08 per person or 59.5 percent. This indicates that, on a per capita basis for the seven-year period, the rise in the cost of State Government has greatly exceeded the rise in revenues. However, during this time there will have been expended or committed over three-fourths of a billion dollars of General Fund surpluses alone, surpluses which were accumulated and set aside in reserves during and following World War II.

The rate of increase in the cost of government in California is illustrated by figures recently compiled and released for all states by the Council of State Governments. This shows that between the Fiscal Years 1942 and 1950 the cost of state government in California increased by 161.1 percent, while total income payments increased by 99.1 percent. In terms of "constant dollars" (adjustment for the effect of inflation), the cost of state government in California increased by 75.4 percent while income payments increased by 33.7 percent.

On the basis of per capita state governmental expenditures, California leads the seven states which have the largest total governmental expenditures for the fiscal year ending 1951, as reported by the Governments Division of the Bureau of the Census. These comparisons are shown in the following table:

| <i>State</i>       | <i>Total state expenditures per capita*</i> |
|--------------------|---|
| California -----   | \$136.52*                                   |
| Michigan -----     | 123.12                                      |
| Pennsylvania ----- | 121.07                                      |
| Ohio -----         | 100.09                                      |
| New York -----     | 98.37                                       |
| Texas -----        | 74.19                                       |
| Illinois -----     | 72.14                                       |

\* The per capita amounts used in this tabulation are higher than that referred to in the preceding paragraphs for the reason that the Bureau of the Census classifies as a governmental cost the expenditure of receipts from employment taxes for unemployment insurance, etc.

Although General Fund revenues have continued to grow, the General Fund surpluses, aside from the 75 million dollar "Rainy Day" or Revenue Deficiency Reserve Fund, and the 50 million dollar School Bond Retirement Fund, have been expended nearly to depletion. This is the result of inflation, continuous growth of the State, legislation raising social welfare and education costs, and the large postwar capital expenditure program which has called for approximately one-half billion dollars of General Fund money for construction of state buildings alone.

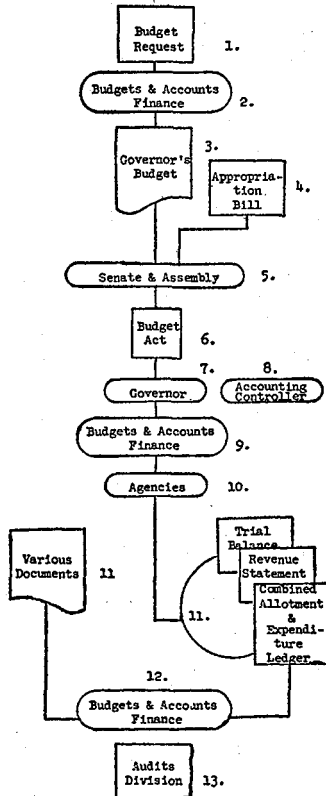
Estimates of General Fund surplus as contained in the budget for the 1953-54 Fiscal Year, show an accumulated surplus of 66.2 million dollars for the current year going to a deficit of 19.7 million dollars for the end of the budget year. Expenditures for the budget year will therefore be greater than current revenue in the amount of \$85,950,773. This assumes that expenditures and revenues will reach estimates, and means that any further sum than that contained in the budget which might be appropriated from the General Fund will have to be financed by drastic curtailment of General Fund expenditures and/or through sources other than General Fund revenues as estimated to accrue under existing law.

#### ***Bonded Debt***

Along with the fiscal trends, the bonded debt of the State should be considered in the light of commitments made against future general tax revenues. The bonded debt of the State, as of November 30, 1952, stood at 511.7 million dollars in bonds outstanding with 337.2 million dollars in bonds authorized but unsold.

Although the bonds are general obligations of the State, statutory provisions provide for all issues, except the school bond issues, to be serviced to maturity from specific revenues and funds. In respect to the school bond issues which total 246.8 million dollars in bonds outstanding, with an additional 165 million dollars in bonds authorized to be sold, provisions have been made whereby the bonds will be retired in part from reserves presently amounting to 50 million dollars, as provided by the 1952 Legislature from General Fund surplus set aside for school bond retirement, and from money returnable from those school districts of the State which are able to repay advances made from the sales of the bond issues. This means that if all of the school bond issues are sold the State will have to meet approximately 536 million dollars in school bond redemption including interest payments within the ensuing 30 years, while the exact sum that may be expected to be returned to the State is not fully determined. However, estimates that have been projected indicate that the ultimate cost to the General Fund under the program of financing will run close to 200 million dollars.

## MAJOR STEPS IN CALIFORNIA STATE BUDGET PROCESS

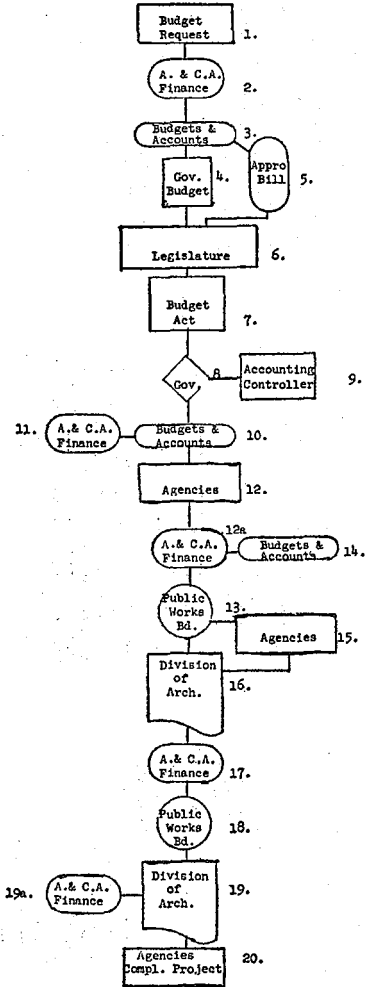


1. Agencies submit to the Department of Finance, Division of Budgets and Accounts, detailed requests reporting expenditures and revenues for the last completed and current fiscal years and proposed expenditures and estimated revenues for the ensuing fiscal year. (Art. IV, Sec. 34, Constitution)
- 2., 3., & 4. The Division of Budgets and Accounts, Department of Finance, reviews the budget requests. The Department of Finance conducts agency hearings. At these hearings policies and requests of the agencies are discussed. Resulting therefrom, revisions upward or downward are made and the Governor's Budget is prepared. An appropriation bill covering such proposed expenditures as require legislative action is then prepared by the Division of Budgets and Accounts. (Art. IV, Sec. 34, Constitution)
5. The Governor's Budget, accompanied by the appropriation bill to be known as the Budget Bill, is sent to the Assembly and the Senate. The Budget Bill must be introduced immediately into each House of the Legislature by the respective chairman of the committees having to do with appropriation measures.
6. After the Budget Bill has been considered and passed by both Houses, it is forwarded to the Governor for signature. Amendments may be made by either House.
7. The Governor may veto the entire bill, or delete or amend downward individual items contained therein. He may not increase items. After approval of the Budget Bill by the Governor, it then becomes known as the Budget Act for the year.
8. The Controller establishes accounts by fund and agency for the various items contained in the Budget Act. (Ch. 5, Art. 2, Sec. 12412 of Gov. Code)
9. & 10. The Division of Budgets and Accounts, Department of Finance, forwards to agencies copies of the Budget Act, accompanied by a booklet containing a list of legislative and executive changes made in the Budget Bill as originally submitted. The agencies

then establish their allotment ledgers in accordance with approval of the Department of Finance and within the limitations of the Budget Act. Such allotments are usually in accordance with line items set forth in the Governor's Budget.

11. (a) Personnel documents establishing new positions or changing an employee's classification require approval by the Division of Budgets and Accounts. The division determines the necessity of the position, the duties to be performed and funds availability.  
(b) Funds for service agreements and leases are verified by the Division of Budgets and Accounts before final action by the Director of Finance. Out-of-state travel must be approved by the Governor and Director of Finance. Certain other operating expenditure items are approved or disapproved by the Department of Finance in accordance with rules and regulations prescribed by the State Board of Control.  
(c) Equipment purchases, within certain dollar limitations, require prior review by the Division of Budgets and Accounts. Orders for specific types of printing also require such prior review.
12. Periodic financial statements, including trial balance, budget allotment, expenditure and revenue statements, are furnished the Division of Budgets and Accounts. These statements are reviewed to determine if agencies are operating within legislative limitations and allotment authorization.
13. The Department of Finance, Division of Audits, examines and audits the books of state agencies at least once each year, and as often as the Director of Finance deems necessary.

## MAJOR STEPS IN CALIFORNIA STATE CAPITAL OUTLAY PROCESS



1. Budget requests are prepared by the agencies.
2. Requests are reviewed by the Director of Finance through his architectural and construction advisor. Revisions are made up or down or request is deferred. Cost estimates are furnished by the Division of Architecture. Under proposed procedure for the 1953-54 Budget, all major capital outlay budget items will be based upon preliminary plans furnished by the Division of Architecture.
- 3., 4., & 5. Budget requests, as approved by the Director of Finance, are placed in the Governor's Budget and appropriations bill by the Division of Budgets and Accounts, Department of Finance.
6. Governor's Budget and appropriations bill are sent to the Legislature. The appropriations bill is introduced in both Houses by the chairman of their respective fiscal committees. Amendments are made in the bill by either House and the final bill is approved.
7. After above approval, it is sent to the Governor for signature.
8. The Governor may veto or delete or reduce portions of the Act. After the Governor's approval, it is cited as the Budget Act of the year.
9. The Controller establishes accounts for the various items in the Budget Act by funds and agency.
10. The Department of Finance, Division of Budgets and Accounts, forwards copies of the Budget Act to the agencies accompanied by a booklet containing a list of legislative and executive changes that may have been made in items of appropriation before enactment into law.
11. The architectural and construction advisor is notified by the Division of Budgets and Accounts of the changes and items allowed for each agency.
12. & 12a. The agency then requests the Director of Finance to submit minor and major capital outlay projects to the Public Works Board.
- 13., 14., & 15. The Director of Finance and the Public Works Board reviews and approves any or all items for programming. Upon favorable review, items under \$20,000 are allowed to be done by the agency subject to release by the Division of Architecture.
16. The Department of Public Works, Division of Architecture, prepares preliminary plans for each major project and then submits these plans to the Director of Finance for his consideration.
17. The Director of Finance may approve or disapprove the preliminary plans submitted or recommend changes. When the plans comply, they are presented for approval to the Public Works Board. (Sec. 7.5, Budget Act 1952)
18. The Public Works Board may approve or disapprove. Upon approval, the Director of Finance allows transfer of funds to the Division of Architecture for working drawings and construction.
19. The Division of Architecture prepares working drawings and advertises for bids; awards the contract; supervises construction to completion.
 

(a) The Director of Finance through his architectural and construction advisor checks working drawings for conformity to previously approved preliminary plans. (Sec. 7.5, Budget Act of 1952)
20. The Division of Architecture presents the completed project to the agency for occupancy.

## LETTER OF TRANSMITTAL

SACRAMENTO, CALIFORNIA, January 26, 1953

*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, 1953, to June 30, 1954.

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 report of the staff this year provides an item by item analysis of the Budget Bill, and in addition includes a section proposing further economies which can be secured through amendment of the general statutes or by administrative action.

Again this year the staff of the committee has been extended the courtesy of being able to attend all of the budget hearings held by the Director of Finance. We wish at this time to express our appreciation to the director and the members of his staff for their generous and invaluable assistance and cooperation. Without such cooperation, it would not have been possible for us to prepare this report within the short period of time which transpires between the completion date of the budget and the hearings by the Senate Finance Committee and the Assembly Ways and Means Committee.

I also wish to express my sincere appreciation to the members of the staff for the thoughtful and diligent labor which went into the preparation of this report.

Respectfully submitted,

A. ALAN POST  
Legislative Auditor

# JOINT LEGISLATIVE BUDGET COMMITTEE

## CHAPTER 1667

*An act to add Article 7, comprising Sections 9140 to 9143, to Chapter 1 of Part 1 of Division 2, Title 2 of the Government Code, relating to legislative committees.*

*The people of the State of California do enact as follows:*

SECTION 1. Article 7 is added to Chapter 1 of Part 1 of Division 2, Title 2 of the Government Code, to read as follows:

### Article 7. Joint Legislative Budget Committee

9140. The Joint Legislative Budget Committee is hereby created. The committee shall ascertain facts and make recommendations to the Legislature and to the houses thereof concerning the State Budget, the revenues and expenditures of the State, the organization and functions of the State, its departments, subdivisions and agencies, and such other matters as may be provided for in the Joint Rules of the Senate and Assembly. The committee has a continuing existence and may meet, act and conduct its business at any place within this State, during the sessions of the Legislature or any recess thereof, and in the interim period between sessions.

9141. The committee shall consist of five Members of the Senate and five Members of the Assembly who shall be selected in the manner provided for in the Joint Rules of the Senate and Assembly. The committee shall elect its own chairman. Vacancies occurring in the membership of the committee between general sessions of the Legislature shall be filled in the manner provided for in the Joint Rules of the Senate and Assembly. A vacancy shall be deemed to exist as to any member of the committee whose term is expiring whenever such member is not re-elected at the general election.

9142. The committee is authorized to make rules governing its own proceedings and to create subcommittees from its membership and assign to such subcommittees any study, inquiry, investigation, or hearing which the committee itself has authority to undertake or hold. The provisions of Rule 36 of the Joint Rules of the Senate and Assembly relating to investigating committees shall apply to the committee and it shall have such powers, duties and responsibilities as the Joint Rules of the Senate and Assembly shall from time to time prescribe, and all the powers conferred upon committees by Section 37, Article IV, of the Constitution.

9143. The committee shall have authority to appoint a legislative auditor and such other clerical and technical employees as may appear necessary, pursuant to the provisions of subsection (4) of subdivision (a) of Section 4, Article XXIV of the Constitution. The funds for the support of the committee shall be provided from the Contingent Funds of the Senate and the Assembly in the same manner that such funds are made available to other joint committees of the Legislature.