

CALIFORNIA LEGISLATURE
1954 REGULAR SESSION

ANALYSIS OF THE BUDGET BILL
of the
STATE OF CALIFORNIA
for the

Fiscal Year July 1, 1954, to June 30, 1955

Report of the Legislative Auditor
to the
Joint Legislative Budget Committee

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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.

LETTER OF TRANSMITTAL

STATE CAPITOL
SACRAMENTO, CALIFORNIA, March 1, 1954

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, 1954, to June 30, 1955.

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 preparation of this report in the limited time available has been made possible only through the excellent cooperation which has been shown to the staff of the committee by the Department of Finance and other state agencies. For this assistance and the diligence of the committee's own staff I should like to express my personal appreciation and gratitude.

Respectfully submitted,

A. ALAN POST
Legislative Auditor

PRELIMINARY STATEMENT

NATURE OF REPORT

This is a report on the Budget and the Budget Bill of the State of California for the Fiscal Year beginning July 1, 1954 to June 30, 1955. The report makes an item by item analysis of all of the numbered items in the Budget Bill and in addition comments upon other major items in the budget document which are not in the Budget Bill. Although this report is concerned primarily with an analysis of the Budget Bill, it is impossible to present a well-balanced review of the financial program of the State without at least some analysis of that portion of the Budget which, by virtue of the fact that it is a constitutional obligation or continuing appropriation provided by statute, is not included in the Budget Bill. Approximately two-thirds of the total expenditure program of the State is not considered in the Budget Bill. While the Governor must include in his budget all proposed expenditures provided for by existing law, as well as those expenditures recommended by him, this report proposes reductions not only in the Budget Bill, but also in expenditures which, if adopted by the Legislature, would require a change in existing law. Such recommendations are made pursuant to instructions from the Joint Legislative Budget Committee recognizing that the Legislature should have before it all the principal factors which relate to legislative action upon the State Budget.

The recommendations contained in this report, while they are directed primarily at the proposed expenditures for the single Fiscal Year 1954-55, give consideration to the financial implications of the Budget for a full two-year period. Prior to 1947, the State was on a biennial budget. By constitutional amendment annual budgets were started with the 1947-48 Fiscal Year. In many respects, however, the Legislature's action on the Budget is still geared to a biennial basis, since matters of general legislation can be considered only every other year at a general session. The cost of government is largely determined by such matters of legislation and it is, therefore, desirable to review the State's expenditure program giving consideration to changes which might be made at the next general session of the Legislature. The present financial condition of the State is such that every effort should be made to review the essential nature of all authorized expenditures, and since the Budget Session is limited to a consideration of the 1954-55 budget and emergency matters, a review of the State's financial requirements for the single fiscal year only is insufficient for that purpose.

The Governor's Budget as presented to the Legislature for the next fiscal year is fundamentally restricted to continuation of existing programs, with increases limited to staffing of institutions and facilities previously authorized by the Legislature and expanded case loads at existing levels of service. Except for growth factors, it is essentially a status quo budget. From the standpoint of the Governor, who ordinarily proposes a budget which is designed to finance expenditure programs which are authorized by law or are in conformity with previ-

ously established legislative policy, this would be called a conservative budget. At the same time, however, it must be recognized that such a budget cannot be financed upon the basis of anticipated revenues in the budget year. The level of service is greater than the level of income. For that reason, the dictates of sound financial policy under the existing revenue system require thorough examination of the basis for established levels of service and an effort to reduce those levels which cannot be justified on the grounds of absolute necessity. Existing levels of service include many things which have in the past been demanded by interested groups or departmental administrators which were approved by the Legislature under financial conditions which were totally different from those which exist today. Our report is intended to offer the Legislature the opportunity to review the basic premises upon which many of these programs were established and to appraise their present desirability in terms of accomplishments to date. In accordance with today's financial conditions, we have recommended in many instances that the Legislature reconsider its previous actions. The sum total of our recommended reductions, if acted upon by the Legislature, will permit the authorization of an expenditure program which will not only require no additional taxes but will husband the use of accumulated reserves to the extent that no additional taxes should be necessary for at least two years hence. At that time, the growth of constitutional fixed costs and statutory requirements may require reconsideration of the State's entire revenue system. By gearing our recommendations to a two-year period, which includes a general session of the Legislature, opportunity is afforded to the Legislature to give adequate interim committee study to programs which involve major fiscal considerations. In that way appropriate legislative action may be taken in connection with the 1955-56 Budget. Unless early consideration is given to such possible legislative acts, it will be extremely difficult for the Legislature to effect budgetary revisions in accordance with the stringent financial policy which will be required to balance that fiscal year budget without either increasing taxes or exhausting all accumulated reserves.

In reviewing the existing level of service as reflected in the proposed budget, emphasis has been given not only to reconsideration of previously established policies but attention has been directed to forecasts of future costs which will result from case load projections based upon the existing level of service.

SIZE OF THE BUDGET

The proposed authorized expenditure program contained in the Governor's Budget totals \$1,423,345,684. This is \$29,645,280 larger than the \$1,393,700,404 expenditure program authorized by the 1953 Legislature. The amount of this program which is contained in the Budget Bill is \$400,200,504 or 28 percent of the total. If the Legislature does not reduce the Budget Bill, it will authorize an expenditure program which will require \$76,456,161 more from the General Fund than anticipated revenues will be available to finance. If this expenditure program is extended through the next fiscal year, it will have the result of consuming \$126,000,000 in excess of revenues.

The recommendations contained in our analysis propose reductions in General Fund expenditures totaling approximately \$9,000,000 which can be effected by changing the Budget Bill.

If funds in the amount of approximately \$8,000,000 which would otherwise go into the Fair and Exposition Fund are diverted to the General Fund, and the budgeted requirements of the University of California and California State Polytechnic College are met from this part, there will be a net gain to the General Fund of \$6,000,000.

Using the available balances in the Department of Employment Contingent Fund, the Postwar Unemployment and Construction Fund and the reserves for purchase of the Central Valley Project will make available approximately \$14,600,000. The total of these reductions and transfers is approximately \$29,600,000. These funds can be used in lieu of the budgeted transfer of \$28,000,000 from the School Bond Retirement Fund in order to balance the budget. It is our recommendation that this be done. This will leave major reserve funds intact for the purposes for which they were set aside or for financing future budget requirements.

SUMMARY OF SELECTED SPECIAL RESERVE FUNDS

Since 1943 the Legislature has set aside in special reserve funds a total approximating \$850,000,000 of General Fund money.

The detail of those reserve funds in which there still remains unexpended balances are enumerated in the following text. We do not have the exact status of the fund balances to date, but have indicated approximate amounts for the respective dates shown.

Comment on each of the funds is as follows:

1. Postwar Employment Reserve Fund and the Capital Outlay and Savings Fund

Since 1943 the Legislature has appropriated a total of approximately \$534,000,000 to the two funds combined to meet the cost of the state construction program for state buildings and facilities.

Although all of the funds have been appropriated, the total sum, of course, has not been expended. However, an estimate has not been attempted to determine the present unexpended balance and what might possibly be saved from the appropriations that might be applied to other purposes. Since the Postwar Employment Reserve Fund and its successor, the Capital Outlay and Savings Fund are the active transfer funds from which the State's institutional construction program is financed, we would eliminate them from consideration as reserves.

2. Postwar Unemployment and Construction Fund

Chapter 47, Statutes of 1944 (4th Ex. Session), appropriated \$10,000,000 of General Fund money for state aid to cities and counties on a matching basis for preparation of surveys and plans and specifications for proposed public works and acquisition of rights of way for major streets, roads, bridges, sewage, and other public facilities.

Chapter 648, Statutes of 1945, created the Postwar Unemployment and Construction Fund, and \$90,000,000 appropriated by Chapter 20, Statutes of 1946 (1st Ex. Session), was transferred from the General Fund to the Postwar Unemployment and Construction Fund. Of the

\$90,000,000 appropriation, one-half was allocated to the cities and one-half to the counties of the State, with allocations to be made on a matching basis. Estimates of the status of the two major appropriations as of December 31, 1953, show that of a total of \$101,284,936 appropriated for the related purposes allotments totaling \$97,877,555 have been made, and \$90,679,287 in warrants have been issued. This would indicate that there was unexpended or unclaimed allotments totaling \$7,198,268 and an unallocated balance of \$3,407,381 as of that date.

The provisions of the act have been amended several times to extend the availability of the money in these appropriations. The Legislature, at the 1953 Session, extended the date for which applications may be made to June 30, 1955, at which time all unobligated and unallocated money is to revert to the General Fund. Provisions, however, are contained in the act whereby encumbrances made against the money during its availability may be paid at any time until June 30, 1956.

If the Legislature so desired, it would appear that some portion of this fund could be returned to the General Fund to provide additional money to meet the demands on the General Fund.

3. Flood Control Fund of 1946

The Flood Control Fund of 1946 was created by Chapter 142, Statutes of 1946. The purpose of the fund was to provide state moneys for allocation to public agencies to defray the costs of local cooperation on federal flood control projects as required by federal act. Chapter 142, Statutes of 1946, and Chapter 1520, Statutes of 1947, appropriated a total of \$25,000,000 to the fund from General Fund money which had been previously set aside in the Postwar Employment Reserve Fund. Appropriations from the Flood Control Fund of 1946 have been made to the State Reclamation Board, the Department of Public Works, and the State Water Resources Board.

The exact status of the fund is not available at the present time. However, a statement of the fund as presented in the 1953-54 budget document indicated that as of June 30, 1954, there would be an unexpended balance of approximately \$9,300,000, of which approximately \$6,700,000 would be the unallocated or unappropriated balance which was reduced to approximately \$5,800,000 by special acts in the 1953 Session of the Legislature. Further adjustments of the fund will, if necessary, be made to reflect a new figure for the fund condition in the new budget.

The return of money from this fund to the General Fund would require careful analyses of allocations and commitments involved. We recommend that this fund be left intact.

4. Bond Sinking Fund of 1943

Chapter 611, Statutes of 1943, and Chapter 1492, Statutes of 1945, provided for the transfer of \$26,239,738 from the General Fund to the Bond Sinking Fund of 1943 to meet future debt service on the General Fund obligation bonds which, at the time, were unfunded.

Estimates of the fund condition at June 30, 1954, indicate a balance of \$7,232,858. However, \$5,000,000 of this sum, pursuant to Chapter 1505, Statutes of 1945, was transferred to the State Highway Fund to provide funds to the Golden Gate Bridge Highway District whereby they would be able to contract for the construction of highway as a new

approach to the bridge. The loan is to be repaid to the Bond Sinking Fund from toll revenues after the bonded debt of the bridge has been satisfied, which will be in 1971. This means that debt service on the state bonds will have to be met from the General Fund from the 1956-57 Fiscal Year to maturity of the bonds. This fund should not, we believe, be used for purposes other than those for which created.

5. Revenue Deficiency Reserve

In Chapter 958, Statutes of 1947, the Legislature set aside \$75,000,000 of General Fund money as a reserve to provide a cushion in the event revenues dropped below budget estimates. The money is also available for disaster relief in the event of a state of extreme emergency. The total sum of \$75,000,000 is still intact in the reserve fund and may be used for the express purposes set forth. We believe that transfers from this fund to meet a decline in revenues below estimates should be made only to the extent that the gap is in excess of \$10,000,000. The deficit up to \$10,000,000 should be absorbed through administrative budget control processes, and underwritten only to the extent that it exceeds that figure.

6. School Bond Retirement Fund

In Chapter 3, Statutes of 1952, the Legislature set aside \$50,000,000 of General Fund money in this retirement fund to meet, in part, the annual debt service on the state school building bonds which cannot be met otherwise. Estimates indicate that there will be a balance of approximately \$48,000,000 as of June 30, 1954.

A total of \$435,000,000 in state school building bonds has been authorized by the voters to date. As of August 1, 1953, a total of \$268,600,000 in these bonds was outstanding and \$160,000,000 of the issues remained unsold. These are General Fund obligation bonds.

The bonds were authorized for the purpose of assisting school districts in financing adequate school facilities. The proceeds from the sale of the bonds are to be loaned to school districts which qualify for assistance under the provisions of law.

The State does not expect a full return of money advanced to the districts, as some of them are not expected to be in a position to repay their obligations in full. While it is not possible to predict the exact sum that the State might expect in the way of repayments, the Legislature has provided for the funding of the debt service, in part, by setting aside the \$50,000,000.

In addition to the \$50,000,000 set aside in this fund, \$20,000,000 was appropriated in 1952 from the General Fund to be advanced to the school districts with the same repayment features as the other advances. Of the total of \$435,000,000 in bonds, \$185,000,000 was authorized in November, 1952; however, \$20,000,000 of this sum was to be issued for repayment of the advance if repayment were necessary to maintain a General Fund surplus of at least \$5,000,000 at June 30, 1953. The surplus, however, at that date exceeded \$5,000,000, and, therefore, \$20,000,000 of the bond authorization is not to be sold unless the Legislature wishes to change the law and repay this sum to the General Fund.

The effect of returning the balance of the Bond Retirement Fund to the General Fund would mean that the General Fund would have to

meet the unfunded part of the annual debt service on the school bonds from current General Fund revenues. The sale of \$20,000,000 in bonds to repay the General Fund for a like advance, as previously explained, to meet current needs would increase the amount which ultimately must be met from the General Fund. There is considerable logic to meeting current debt service from current revenues inasmuch as the use of the schools constructed from such funds will provide benefits to taxpayers during the entire period of debt service. If the Legislature is faced with the choice of increasing taxes rather than using this reserve, we believe that it would be more equitable to use the reserve for General Fund purposes at that time and spread the burden of school construction cost over the period during which debt service payment will be required. At the same time, however, the presence of this reserve should unquestionably serve to improve the State's credit position and possibly assist in securing advantageous interest rates with respect to bond issues for school construction. There will be a number of such bond issues in the near future and any advantage in bond rates should mean considerable financial gain to the State. For this reason we believe that this reserve should be used only after other major sources of reserve funds are exhausted.

7. Central Valley Project Appropriation

Chapter 3, Statutes of 1952, earmarked \$10,000,000 in the General Fund to provide for studies and surveys and an initial down payment on the purchase of the Central Valley Project. There is estimated to be approximately \$9,000,000 as of June 30, 1954.

The appropriation act provides, in part, that the money is available for the express purposes without regard to fiscal years, but the unexpended balance shall revert to the General Fund on July 15, 1955, in the event that no contract to purchase the Central Valley Project from the Federal Government is consummated prior to that time. A considered evaluation of the State's water needs would indicate, we believe, that the State's credit resources should be reserved for projects which will increase the amount of water made available for beneficial use. For that reason we do not recommend that the State should propose to purchase the Central Valley Project. We recommend that the remaining balance in this appropriation be transferred to budget requirements for the 1954-55 Fiscal Year.

8. General Fund Requirements for Teachers' Retirement System

In 1944 the Legislature appropriated the sum of \$30,000,000 from the General Fund to be deposited in the Teachers' Permanent Fund. This is contained in Chapter 13, Statutes of 1944, and was intended as a reserve for future state contributions. The availability of this sum with any increment through the investment of the money is subject to further legislative action.

It is estimated that this reserve will amount to approximately \$38,000,000 by June 30, 1954, by virtue of the appropriation of \$30,000,000 and increments of \$8,000,000 derived from investments of the money in the reserve.

The State Teachers' Retirement System cannot be said to be on a full reserve basis, as the State's contributions to the system are made as liability matures and not as it accrues. In effect, this reserve is to

assist the General Fund in future years the same as other reserves set aside for such purpose.

Since 1944, member contributions have been on a full reserve basis. State contributions, as pointed out, are appropriated in amounts required to liquidate the amount of maturing liabilities not funded. The sums appropriated from the General Fund to meet these liabilities for the 1953-54 Fiscal Year amounted to a total of approximately \$22,000,000.

Although an actuarial valuation of the system is in progress, and we are without firm figures for the present time, we are informed that if the State's contributions were on a full reserve basis, the amount which might conceivably be on deposit to this date would probably amount to as much as \$500,000,000.

Estimated figures of unbudgeted surpluses as of June 30, 1954, in the three funds within the system show in round numbers \$100,000,000 in the Teachers' Permanent Fund (this includes the restricted sum of \$38,000,000); \$105,000,000 is shown as unbudgeted in the Retirement Annuity Fund, and approximately \$3,600,000 is estimated to be unbudgeted in the Annuity Deposit Fund.

Inasmuch as the \$38,000,000 reserved in the Teacher's Permanent Fund represents a reserve for future state contributions and may not be spent without further legislative enactment, it appears that the return of the sum to the General Fund to meet the current expenses of the State would simply increase General Fund requirements in the future in the same way as would the depletion of other reserves set aside to meet future General Fund requirements. In lieu of increasing taxes this reserve should be used for current expenses of the State as soon as the use of major reserves are needed for such purposes.

CHANGES IN BUDGET AND BUDGET BILL

The budget document presented this year separately identifies in-state and out-of-state travel for most agencies where out-of-state travel is anticipated. Heretofore out-of-state travel has been separately identified only in the case of agencies, such as the Board of Equalization and the Franchise Tax Board, which have permanent staff stationed at out-of-state locations. This is an improvement in the form of the budget and will aid in control of expenditures for this purpose.

The budget document this year contains another departure from last year in that the amounts estimated for contributions to the retirement system are shown in connection with each agency including those financed from the General Fund and a total expenditure figure is shown which includes the cost of retirement contributions. This is also an improvement in the form of budget presentation, since there will be shown for each agency the total cost as well as the cost of the item as contained in the Budget Bill. In the summary figures contained at the beginning of our analysis of each item of the Budget Bill we have continued to use the requested amount so that it will relate to the Budget Bill and facilitate the reconciliation of legislative changes to reduce or augment the item.

The Budget Act of 1954 continues the change adopted in 1953 of combining operating expense and equipment as a single category of expenditure. An analysis of the administration of this type of Budget

Act was made in a special report to the Budget Committee on November 6, 1953. It appears that the change has simplified the processing of claims and the keeping of appropriation accounts in the office of the Controller, and at the same time the budget is being presented and administered under substantially the same controls as applied formerly.

EFFECT OF PARTIAL YEAR POSITIONS

In this budget, as in previous budgets, certain new positions are scheduled to be filled at a date sometime after the beginning of the fiscal year for which they are authorized. In these cases salary costs are calculated, and properly so, on the basis of the part year for which they are authorized, although the full year cost of the positions in a subsequent fiscal year will add considerably to the cost of maintaining the same "authorized level of service." These positions, which total 544, are primarily in connection with the occupation of new buildings and the staffing of new institutions or positions which require recruitment and training on a staggered basis throughout the year.

In order to show the effect of these positions on future costs, we have estimated that the full year salary cost of positions scheduled to be filled for only part of the fiscal year will be \$900,764 greater than the budgeted cost in 1954-55. This is composed of \$578,564 from the General Fund, primarily in connection with mental hygiene and correctional facilities, and \$322,200 from the Motor Vehicle Fund, primarily for highway patrolmen. Since future operating expenses are affected as well as salaries and wages, the difference between the 1954-55 costs and full year costs will probably exceed \$1,000,000.

BETTER RECRUITING EXPERIENCE

The year 1953 has seen a significant change in recruiting experience for state personnel and in vacancy factors in most state departments. This change is evidenced by reports of the State Personnel Board which indicate that the average monthly resignation rate dropped from 1.24 per 100 permanent civil service employees in 1952 to a rate of 1.07 for the comparable period in 1953. Improved recruiting in 1953 and lower vacancy factors in many of the departments has had a number of consequences which affect the expenditure program in the current fiscal year and proposed expenditures in 1954-55. Among these are:

1. Although there is not yet intense competition in all classes of state employment, to the extent that there is improved recruiting in most departments. This should result in better qualified personnel for the performance of given state functions.

2. Similarly, a diminishing turnover rate means a greater opportunity for efficiency of operation with a given number of personnel units.

3. Both of these trends in 1953 have had important budget implications. A greater ability to fill vacant positions has, in many instances, reduced salary savings below the amounts estimated and budgeted for 1953-54, and anticipation of a continuation of these conditions has further reduced the salary savings factor for 1954-55. Decreased salary savings, from a purely financial standpoint, means increased cost of operation.

The budget implications of this improved condition in recruiting and retaining staff can be illustrated by a single instance which is typical: the Franchise Tax Board, which has a large staff of both professional and clerical positions financed from the General Fund. The original budget for 1952-53 for this agency was based upon estimated salary savings of \$250,000. The budget for 1953-54 was based upon salary savings of \$182,347. It is now estimated that these savings will reach only \$130,260. For 1954-55 the salary savings factor is further reduced to \$95,274.

During the war years and in the years of state expansion which have followed, the State has paid a tremendously high price for turnover and unfavorable recruiting experience. Turnover in public employment should not, and, of course, cannot be eliminated. However, the added costs in terms of inefficiency, which have already been paid, can be recovered during periods of improved recruitment experience only by recognizing and taking advantage of every opportunity for better production with more limited staff. In the analysis of departmental operations we have attempted to take this factor into consideration, but its full application can be achieved only by the responsible administrators of state operations.

REVENUE ESTIMATES

General Fund revenues for 1954-55 are estimated at \$801,844,647. This compares with \$812,064,638 estimated to be collected in the current fiscal year.

These estimates of revenue by major source are shown in the following table:

ESTIMATED GENERAL FUND REVENUES

	<i>Actual 1952-53</i>	<i>Estimated 1953-54</i>	<i>Estimated 1954-55</i>
Sales and use tax.....	\$460,109,833	\$467,100,000	\$455,100,000
Bank and corporation franchise and corporation income tax.....	119,127,440	128,000,000	126,600,000
Personal income tax.....	94,551,424	102,000,000	99,200,000
Insurance tax.....	29,171,123	34,324,894	38,700,000
Inheritance and gift tax.....	23,473,934	26,950,000	28,100,000
Alcoholic beverages.....	19,683,843	20,120,900	20,385,000
Private car tax.....	1,127,104	1,221,510	1,250,000
Pari-mutuel taxes.....	4,140,622	4,386,000	5,409,000
Motor vehicle (in lieu) tax.....	2,662,750	2,587,375	2,512,000
Departmental revenue and miscellaneous..	19,926,936	25,373,959	24,628,647
Totals	\$773,975,010	\$812,064,638	\$801,884,647

It will be noted that revenues are expected to decline by 12 million dollars in the sales tax and by 4.2 million dollars in franchise and personal income taxes. These decreases are partially offset by an estimated increase of 4.4 million dollars in insurance tax collections, which appears to be a fairly firm estimate based upon statements of the insurance companies of business written in 1953. The increase of more than 1 million dollars in pari-mutuel tax receipts represents an increase in the General Fund share of the tax rather than an increase in the tax base.

Of the General Fund tax sources shown above, the sales tax is not only the largest source, representing 58 percent of the total, but is also

the most sensitive to changes in business conditions. The assumptions upon which the sales tax estimate is based are: (a) that prices will remain fairly stable through 1954, (b) that some large components of the sales volume, particularly sales of new and used automobiles, building materials and appliances, will decline markedly, and (c) that this decline will be partially offset by continued increase in population and continued increase in California spendable resources in relation to total spendable resources. The absolute value of spendable resources in California, however, is estimated to decline from 20.5 billion dollars in 1953 to 19.9 billion dollars in 1954.

A similar decline is estimated in the tax base for franchise and personal income tax. However, in the case of both of these taxes revenues in the 1954-55 Fiscal Year will include tax collections on the relatively high incomes of the 1953 calendar year. For instance, the decline in franchise tax collections for 1954-55 is eased by the fact that 42 percent of the collections on 1953 income will be received in the 1954-55 Fiscal Year.

Total revenues from all sources, including General Fund and special funds, are estimated at \$1,310,791,000 for 1954-55 in comparison with \$1,291,268,000 for the current year. This increase in total collections is due primarily to estimated increases in motor vehicle and fuel taxes. Gas and diesel fuel taxes are estimated to increase from 236 million dollars to 257 million dollars, while registration and weight fees are estimated to increase from 94 million dollars to 99 million dollars. Both of these estimates of revenue increase are based largely upon the indicated increase in motor vehicle registrations for 1954.

According to latest available comparative data for all states, California again has the highest level of total state government expenditures of any state. The table below shows total state government expenditures, state expenditures per capita and number of state and local employees per 1,000 population for the seven states which have the highest state government expenditures.

	<i>State and local employees per 1000 population</i> ¹	<i>Total state government expenditures 1952</i> ² (millions)	<i>State expenditures per capita 1952</i> ²
California -----	34.7	\$1,600	\$145.22
Michigan -----	30.0	884	135.16
Pennsylvania -----	22.5	1,073	101.68
Ohio -----	28.3	824	102.22
New York -----	34.1	1,500	99.85
Texas -----	25.5	610	76.38
Illinois -----	26.8	613	69.59

¹ As of October, 1952. SOURCE: Council of State Governments.

² SOURCE: Bureau of the Census, Governments Division, "Compendium of State Government Finance in 1952." (Fiscal years ending.)

BONDED DEBT

As of November 30, 1953, the State's authorized bonded indebtedness was \$969,300,000, of which \$211,197,000 represented bonds unsold. Exclusive of the so-called "self-liquidating bonds," primarily veterans' welfare and harbor improvement bonds, the authorized indebtedness was \$529,300,000, with \$295,345,000 outstanding at November 30, 1953.

Against this amount, \$55,593,522 is set aside in sinking funds for payment of principal, which includes the balance of the \$50,000,000 set aside by the Legislature in 1952 in the School Bond Retirement Fund. This leaves a net bonded indebtedness, exclusive of self-liquidating bonds, of \$239,751,478. Debt service on the public school building bonds will be \$8,772,500 in 1954-55.

Out of surplus revenues accruing during the war years the Legislature provided sinking funds and bond redemptions which left the State in a very favorable debt position which can be compared with the position as of 1953. Again, exclusive of self-liquidating obligations, the total amount of bonds outstanding on November 30, 1948, was \$40,949,000, against which \$13,495,000 was set aside for payment on principal and an additional amount of \$5,230,055 was available for payment of interest.