

CALIFORNIA LEGISLATURE
1956 REGULAR SESSION

ANALYSIS OF THE BUDGET BILL

of the

STATE OF CALIFORNIA

for the

Fiscal Year July 1, 1956, to June 30, 1957

Report of the Legislative Auditor

to the

Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE

CHAPTER 1667, STATUTES OF 1951

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, February 1, 1956

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, 1956, to June 30, 1957.

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. This has been particularly important in making this report available to the Senate Finance Committee and Ways and Means Committee at an early date in this Budget Session. 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

This analysis is designed to provide a progress report on the state expenditure program authorized by the 1955 Budget Act adopted in the General Session of 1955 as well as an analysis of the Budget Bill proposed for the next or 1956-57 Fiscal Year. In line with the expressed wishes of the Joint Legislative Budget Committee, this report will distinguish between: (1) work load factors which support proposed expenditures during the coming year based on continuing the programs established in the 1955 General Session; and (2) new or expanded services proposed in the budget for the new year. In the case of work load requirements, the amounts requested will generally be recommended for approval. In the case of expanded or new service, the amounts will not be recommended for approval in this budget session, but it will be recommended that these expansions be considered in the 1957 General Session.

It is our understanding that this approach is in accord with the reasons advanced for the passage in 1947 of the constitutional amendment establishing the budget session. At that time it was pointed out that two years was too long a period of time for accurate estimates of revenues to be made, or for contingencies to be anticipated. It was stated at that time that savings could be made, and contingency reserves reduced by meeting in alternate years for a limited period of 30 days to re-estimate the prospective financial picture and make such interim budget adjustments as were required by developments which had taken place subsequent to the program authorizations provided in the preceding general session.

In analyzing in this report the various agency requests which are covered in the state operations portion of the budget, special emphasis has been placed upon a distinction between work load and expanded service. In addition, there has been included in these individual agency analyses information as to the work performed by the agency since the general session, indicating as fully as possible within the short experience period under reference the extent and nature of accomplishments. The analysis also includes a review of numerous steps taken by the agencies to increase the efficiency and economy of their operations and will include recommendations for further improvements. Careful attention is paid to the extent to which agencies have established performance controls which can be used to determine the effectiveness of established programs.

This analysis is thus designed to provide not only an evaluation of the planning function which is incorporated into the budget, but will also provide a critical evaluation of the production or efficiency controls which have been established to measure the effectiveness of programs which have been in effect during the current fiscal year.

THE BUDGET AND BUDGET BILL

The budget for the 1956-57 Fiscal Year proposes an expenditure program to cost the State \$1,736,112,983. This is the second budget in the history of the State which is in excess of \$1½ billion.

When considering the Budget Bill, the General Fund is more the concern of the Legislature, as revenues accruing to special funds are dedicated to specific purposes, with the major portion continuously appropriated through statutory or constitutional direction. Thus, our preliminary statement is confined to discussion on the condition of the General Fund.

The dramatic increase in state revenues which has taken place during the past year has provided the State with a General Fund budget surplus sufficiently large as to eliminate any prospect of the necessity to increase taxes at the 1956 Session of the Legislature. Although the revenue forecasts which accompanied the budget for the current or 1955-56 Fiscal Year predicted that revenues accruing during the fiscal year would fall short of proposed expenditures in the amount of \$100 million, they are now estimated to exceed expenditures by as much as \$31.7 million. Moreover, because of the fact that this upsurge in revenues began before the close of the 1954-55 Fiscal Year, the carry-over surplus available for expenditure in the current fiscal year was increased by \$32 million over budget estimates, and with reversions of unencumbered and unexpended General Fund appropriations and other adjustments, the total carry-over surplus turned out to be \$76.5 million instead of the original budget estimate of \$30.7 million. Thus, the State in the current fiscal year is in the position where current revenues exceed expenditures and a carry-over surplus of around \$108 million is expected to be available for the coming budget year. The conditions surrounding the Legislature's consideration of the 1956-57 Budget can be described as:

1. A proposed expenditure program which will exceed prospective revenues by as much as \$93 million.
2. Because capital outlay is budgeted in the amount of \$90 million from the General Fund, if approved there will be no significant carry-over surplus for the following year. The budget indicates this to be \$20.3 million.
3. There are reserves which are available for balancing, if needed, such as the \$75 million Revenue Deficiency Reserve Fund and the approximate sum of \$17 million in the School Bond Retirement Fund.
4. A reasonable prospect that if expenditures are held to the amounts budgeted, with no substantial special session appropriations, it will be possible to balance the budget in the following year by the use of reserves and without new taxes. This assumes the availability of proceeds from the proposed bond issue for capital outlay in lieu of General Fund appropriations for that purpose in 1957-58 and a continuation of the present high level of economic activity and state revenue.

These general budgetary assumptions give emphasis to the desirability of restricting expenditure programs to those amounts required to meet the growth or work load requirements of established programs in order that the extraordinary growth factors which must be met in succeeding budgets can be financed without substantial tax increases or dilution of the levels of service in those programs which are of paramount value to the citizens of the State.

Some suggestion of the magnitude of these future program costs is contained in the analysis of the budgets of the state colleges and the University of California. It is also made apparent by the estimated apportionments to school districts.

BALANCING THE BUDGET

The increase in General Fund revenues during the past year has eliminated any serious problem of balancing the budget as proposed by the Governor. This is true despite the fact that the budget proposed expenditures in 1956-57 which are \$93 million in excess of expected income during that year. The carry-over surplus from the current fiscal year is expected to be \$108 million which is sufficient to balance the proposed deficit and leave a budget surplus of over \$20 million. The budget problem, therefore, is one of keeping the expenditure program within the limits of prospective revenues in the coming years.

TABLE I

	<i>Millions of dollars</i>		
	<i>Actual 1954-55</i>	<i>Estimated 1955-56</i>	<i>Proposed 1956-57</i>
State Operations -----	\$368.5	\$412.6	\$464.3
Capital Outlay -----	278.0	335.9	357.9
Local Assistance -----	775.9	857.7	913.8
Totals -----	<u>\$1,422.4</u>	<u>\$1,606.2</u>	<u>\$1,736.0</u>

Table I shows the rapid growth of the budget since 1954-55, which has increased \$313,600,000, or at the rate of over \$100 million each year. While it is true that revenues increased approximately \$100 million in the last year above estimates, it is most unlikely that this kind of revenue expansion will be repeated, and in fact the budget assumes that this will not be repeated next year.

On the other hand the cost increases granted in programs are almost without exception "built in" costs, and unless expansions in service are withheld it is almost inevitable that taxes must be increased within the near future. With conscientious pruning of unnecessary items throughout the budget, it may be possible for economic growth and related revenues to keep up with expenditures, but this probably cannot be done at the present rate at which spending is being increased.

It is true that capital outlay expenditures are at an unusually high level at the present time in order to meet the extraordinary needs of the schools, but on the other hand the State is still facing the heavy costs of a monumental water development program.

The implications of the present trend of revenues and expenditures are well illustrated by Table II following which shows that there has been an increase in both revenues and expenditures to the General Fund from less than one-half of a billion dollars in 1947-48 to over one billion in the coming fiscal year. Although special funds are primarily self-supporting and are not reflected therefore in this table, their growth represents a similar picture of increased cost to taxpayers.

TABLE II
CALIFORNIA'S GENERAL FUND

INCOME, OUTGO AND SURPLUS—1947-48-1956-57

	Revenue	Expenditures	Outgo		Current revenue surplus (+) or deficiency (—)	Adjustments ²	Cumulative surplus
			Transfers ¹ to reserves	Total outgo			
July 1, 1947 -----							\$114,818,272
1947-48 -----	\$471,696,706	\$412,588,912	\$29,275,000 ³	\$441,863,912	+\$29,832,794	—\$1,554,676	143,096,390
1948-49 -----	510,440,640	507,625,919	79,975,867 ⁴	587,601,786	—77,161,146	—9,366,383	56,568,861
1949-50 -----	551,240,969	577,171,910	---	577,171,910	—25,930,941	+6,214,151	36,852,071
1950-51 -----	672,064,783	588,508,776	---	588,508,776	+83,556,007	+437,815	120,845,893
1951-52 -----	734,025,725	637,038,802	49,258,938 ⁵	686,297,740	+47,727,985	+1,406,542	169,980,420
1952-53 -----	773,977,227	716,575,373	129,739,439 ⁶	846,314,812	—72,337,585	—253,582	97,389,253
1953-54 -----	798,083,615	810,662,483	33,192,465 ⁷	843,854,948	—45,771,333	+2,186,055	53,803,975
1954-55 -----	879,122,544	854,431,938	49,136,730 ⁸	903,568,668	—24,446,124	+47,131,057 ⁹	76,488,908
1955-56 (Est.) -----	985,755,759	936,936,632	17,075,600 ¹⁰	954,012,232	+31,743,527	---	108,232,435
1956-57 (Est.) -----	1,013,837,041	1,022,068,643	84,882,265 ¹¹	1,106,950,908	—93,113,867	+5,214,668 ¹²	20,333,236

¹ Transfers to the legislative contingent funds treated as expenditures. Miscellaneous minor transfers treated as expenditures or adjustments to surplus. With the exception of \$50,000,000 transferred to the School Bond Retirement Fund, the transfers of 1951-52 and subsequent years represent transfers for expenditure in the year in which transferred rather than sums reserved for expenditure in future years.

² Includes adjustments for prior years and changes in methods of accounting for revenues and expenditures.

³ \$26,300,000 transferred to the Postwar Employment Reserve and \$2,475,000 transferred to the Highway Fund.

⁴ \$59,206,003 transferred to the Postwar Employment Reserve, \$13,445,833 transferred to the State Beach and State Park Funds and \$7,323,981 transferred to the Postwar Unemployment and Construction Fund.

⁵ \$49,258,938 transferred to the Capital Outlay and Savings Fund.

⁶ \$79,739,439 transferred to the Capital Outlay and Savings Fund and \$50,000,000 transferred to the School Bond Retirement Fund.

⁷ \$33,192,465 transferred to the Capital Outlay and Savings Fund.

⁸ \$45,287,193 transferred to the Capital Outlay and Savings Fund and \$3,849,537 transferred to the Flood Control Fund of 1946.

⁹ Includes transfers to the General Fund in the sums of \$27,369,821 from the School Bond Retirement Fund, \$2,374,443 from the Employment Contingent Fund, \$11,946,553 from the State Park Fund, and \$4,121,209 from the State Beach Fund.

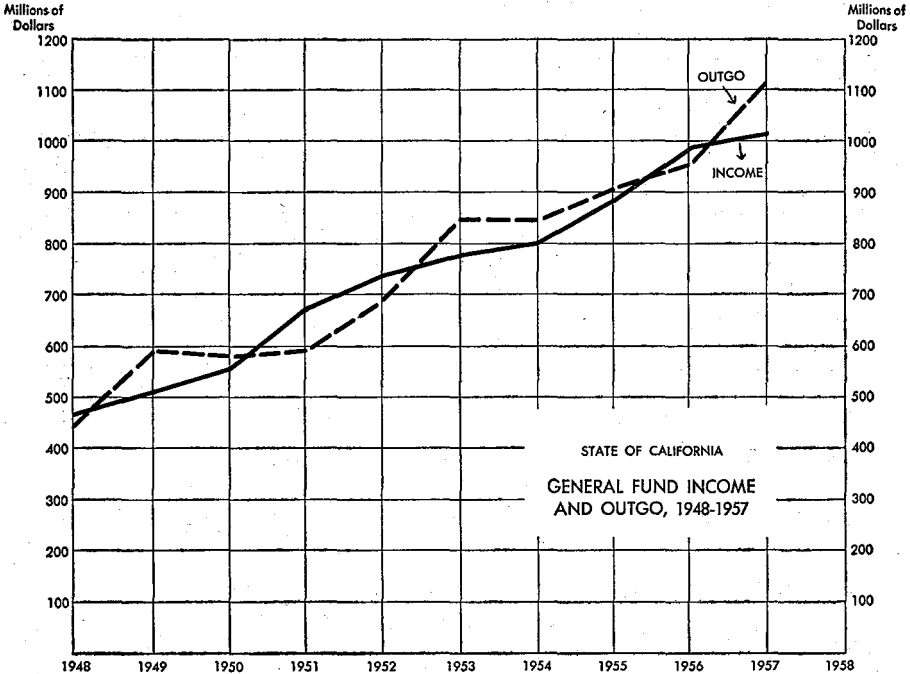
¹⁰ \$13,666,591 transferred to the Capital Outlay and Savings Fund and \$3,409,009 transferred to the Flood Control Fund of 1946.

¹¹ \$79,698,155 transfer to the Capital Outlay and Savings Fund and \$5,184,110 for transfer to the Flood Control Fund of 1946.

¹² \$1,452,089 transfer from the Architecture Public Building Fund, \$3,217,237 from the State Beach and Park Funds and \$545,342 from the Postwar Unemployment Construction Fund.

The nature of the relationship between income and outgo to the General Fund is illustrated graphically in Chart I. At present the divergence between income and outgo is unfavorable, although the ability of the Legislature to level off expenditures in past years where similar deficit problems arose gives promise that this widening gap between income and outgo may again be narrowed or closed.

CHART I

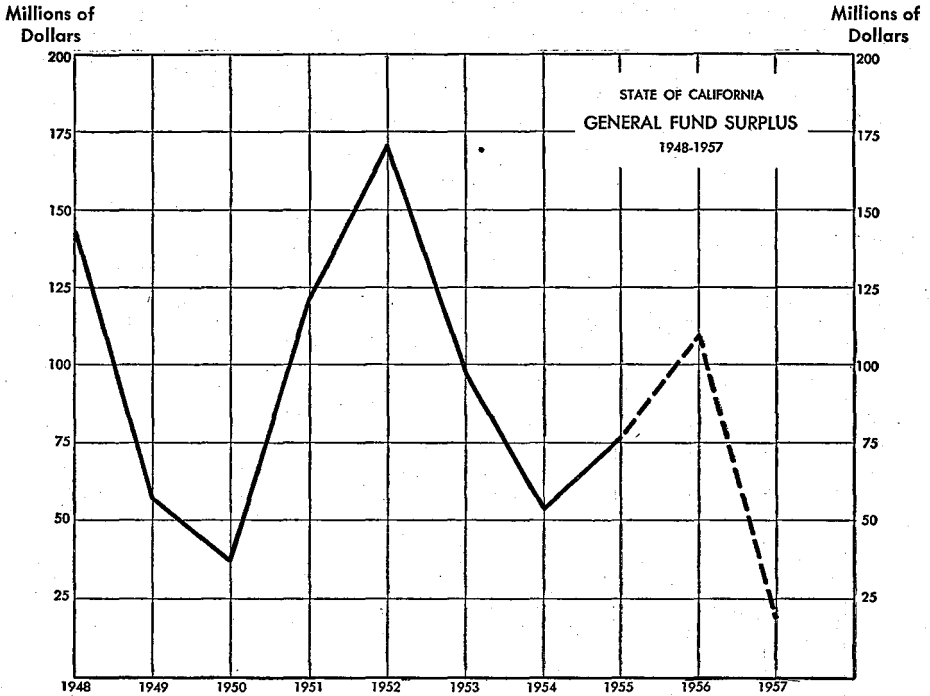


The marked fluctuations in General Fund surplus arising in part from the variations in revenues and in part from the Legislature's prior success in holding down expenditures when revenues were not available is illustrated also in Chart II following. The chart also indicates the exhaustion of surplus contemplated by this budget with the proposed expenditure of \$90 million for capital outlay from the General Fund.

REVENUES AND REVENUE ESTIMATES

The total of revenues for the State of California for the 1956-57 Fiscal Year is estimated at \$1,614,885,400. This compares with an estimated total of \$1,562,264,400 for the current year, or an increase of \$52,621,000. The estimates are based upon substantially the same revenue structure.

CHART II



General Fund revenues for 1956-57 are shown by major tax source in Table III.

The table shows General Fund revenues for 1956-57 estimated at \$1,013,837,041, as compared to \$985,755,759 for 1955-56, a gain of approximately \$28,081,282, or nearly 3 percent. The estimates for 1956-57 appear modest when looking at the anticipated increases of 1955-56 over 1954-55 in the three major General Fund tax sources shown as follows:

ESTIMATES OF 1953-54 REVENUE

	<i>Original estimates (millions)</i>	<i>Revisions in subsequent year (millions)</i>	<i>Actual (millions)</i>
Sales and use tax -----	\$465.4	\$467.1	\$465.1
Franchise tax -----	118.5	128.0	125.0
Personal income tax -----	104.1	102.0	96.2

ESTIMATES OF 1954-55 REVENUE

Sales and use tax -----	455.1	473.1	492.9
Franchise tax -----	126.6	129.2	133.7
Personal income tax -----	99.2	100.1	106.7

ESTIMATES OF 1955-56 REVENUE

Sales and use tax -----	484.8	564.0	--
Franchise tax -----	131.6	151.0	--
Personal income tax -----	104.3	120.9	--

TABLE III
SOURCE OF INCOME TO CALIFORNIA'S GENERAL FUND

1947-48 TO 1956-57

(In millions)

	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55	(Est.) 1955-56	(Est.) 1956-57
Alcoholic beverage control taxes and licenses-----	\$16.9	\$17.6	\$16.4	\$19.9	\$18.2	\$19.7	\$19.5	\$20.7	\$38.4 ^c	\$37.2
Bank and corporation franchise and income taxes-----	69.2	75.8	74.8	98.2 ^a	120.1	119.1	125.0	133.7	151.0	151.5
Inheritance and gift tax-----	20.5	21.8	19.9	21.7	29.2	23.5	24.1	30.2	34.3	36.8
Insurance tax-----	17.3	20.2	22.9	23.9	25.7	29.2	34.3	38.5	39.1	41.4
Personal income tax-----	50.2	50.1	60.5 ^a	75.9	90.9	94.6	96.2	106.7	120.9	126.3
Retail sales and use tax-----	275.6	294.6	325.5 ^a	399.2	417.7	460.1	465.1	492.9	564.0	580.0
Other-----	22.0	30.3	33.3	33.7	32.4	27.8	33.9	56.4 ^b	38.1	40.6
	<u>\$471.7</u>	<u>\$510.4</u>	<u>\$553.3</u>	<u>\$672.5</u>	<u>\$734.2</u>	<u>\$774.0</u>	<u>\$798.1</u>	<u>\$879.1</u>	<u>\$985.8</u>	<u>\$1,013.8</u>

^a Revenues affected by tax rate increases.

^b Includes the sum of \$19,418,604 in released impounded oil royalties which was in turn transferred to the Capital Outlay and Savings Fund.

^c Reflects the effect of rate increase in excise taxes on distilled spirits.

As indicated above, the three major tax sources show gains totaling in excess of \$100 million for 1955-56 over 1954-55, reflecting the dramatic upsurge in the nation's economy since the beginning of 1955. In measuring factors of our economic growth the budget anticipates a gross national product of \$387.2 billion for 1955, which is a gain of \$26.7 billion, or 4 percent over \$360.5 billion shown for 1954, while the estimate of \$403 billion for 1956 shows a gain of \$15.8 billion, or 4.1 percent over 1955. Personal consumption expenditures, or expenditures for goods and services, which make up approximately 65 percent of the gross national product, are expected to rise from \$236.5 billion in 1954 to \$252.3 billion in 1955 and \$262.0 billion in 1956. Private investment in new construction and producers' equipment with changes in inventories are expected to go from \$47.2 billion in 1954 to \$59.3 billion for 1955 and \$62.0 billion for 1956. Government purchases show a decrease at the federal level from \$49.2 billion in 1954 to \$45.8 billion in 1955, but returning to \$47.0 billion in 1956, while state and local purchases are expected to rise continuously from \$27.8 billion in 1954 to reach \$32.0 billion in 1956. Estimates of personal income at the national level indicate a rise from \$287.6 billion in 1954 to \$303.3 billion in 1955 and \$316 billion in 1956. California enjoys between 9½ and 10 percent of the annual personal income of the nation. This means that personal income to individuals in the State, before taxes are deducted, is expected to go from \$27 billion in 1954 to \$29.6 billion in 1955 and to \$31.3 billion in 1956. Assuming a moderate increase in the national economy along with continued strength in population growth, it appears that the estimates of General Fund revenue for the 1956-57 Fiscal Year are reasonable.

BEACHES AND PARKS

The Governor's Budget for the 1956-57 Fiscal Year proposes an appropriation of \$39,463,221 for acquisition, development and operation of properties to be included in California's Beach and Park System. This total includes \$4,000,000 for the California Olympic Commission and \$216,324 for the State Division of Forestry. Of this total approximately \$26,800,000 comprises an accumulation of funds impounded over a period of years in accordance with federal action arising from the litigation concerning the ultimate disposition of tidelands oil revenues, approximately \$10,600,000 is available from current accruals to the state beach and park funds from tidelands oil royalties, and approximately \$2,000,000 from anticipated revenues from the same sources in the 1956-57 Fiscal Year. The net result of these budgeted appropriations and expenditures will be that on June 30th of 1957, the end of the 1956-57 Fiscal Year, there will be an unreserved and unappropriated balance in the two funds estimated to be \$6,966,724, of which \$4,192,508 will be in the State Park and \$2,774,216 will be in the State Beach Fund.

It is anticipated that on June 30th of 1956, the end of the current fiscal year, there will be an unencumbered balance of approximately \$3,200,000 remaining in the moneys provided from the General Fund by Chapter 1422 of the Statutes of 1946. This budget proposes to revert these unencumbered balances back to the General Fund. The net effect

of this action would be to eliminate entirely the matching principle in beach and park acquisitions as a state policy, since the budget proposals are based on 100 percent state financing for future acquisitions.

The acquisition and development program proposed in this budget is of such magnitude that it lends strong emphasis to the fact that decisions made in the selection of new sites and the expansion of existing sites will largely determine the State's policy with respect to its beach and park system, and the support thereof, in future years. Consideration of factors such as type of acquisition, type of development, geographical location of acquisitions in relation to population centers, and continuing financial requirements to maintain and operate the facilities, lays great stress on the need for clear-cut and adequate standards in making such determinations.

The State's present beach and park system includes historical monuments, natural monuments, recreational areas, and areas of unique scenic beauty. Since the number of natural monuments and unique scenic areas is comparatively limited, the bulk of future acquisitions, both new sites and expansions of existing sites, will obviously be in the areas of recreational and historical significance. With respect to recreational areas, which will be the most costly portion of the future maintenance and operation program, it is essential that a proper determination be made of state as compared to local responsibility. The program proposed in the budget, which is preponderantly weighted with recreational facilities, encompasses the widest geographical distribution of sites. Moreover, though the budget proposes to appropriate the bulk of available resources for site acquisitions, only \$7,500,000 is estimated to be expended in the 1956-57 Fiscal Year for acquisition purposes. Thus, in effect, the proposed appropriations seek to establish the State's future program and policy in the Budget Act.

The public desire for park and beach areas is related to a number of programs; for instance, camping, picnicking, swimming, hiking, boating, horseback riding, nature studies, interest in natural scenic beauties and in the dramatic past history of California. The number and location of areas devoted to these many purposes should be determined on the basis of criteria susceptible of standardization and reflecting the public's needs and interest in the various types of facilities weighed against the proper amount of state revenues which should be devoted to this public service. In establishing standards and criteria, proper weight should be given to the responsibilities of federal or local agencies with respect to these services compared to the State's responsibilities.

The present law which allocates 70 percent of tidelands oil revenues to this activity will result in marked increases in income in the coming years due to the new policy of developing unproven oil reserves established by the Legislature in 1955. Thus it may be said that the present basis for allocation is probably outdated. In any case any new formula for allocating these funds will require the establishment of an acquisition and development program which will take due cognizance of future maintenance and operations costs and which will be based on clearly defined standards and criteria.

The magnitude of the program and the inherent complexities in each of the proposed projects makes it extremely difficult, if not impossible, within the limited time since this program has been presented to the Legislature, to provide recommendations with respect to each project. Therefore, we recommend that the Senate Finance and Assembly Ways and Means Committees undertake a careful, full-scale review of each project before making appropriations which will, in effect, establish the State's policies in respect to this program. In the meantime this office will endeavor to accumulate additional information on each project for presentation to the committees. We recommend also that consideration be given to appropriating in the 1956 Budget Act only sufficient funds for the acquisition of those projects which are capable of accomplishment within the 1956-57 Fiscal Year and for projects on which definite encumbrances might be expected in the budget year. This would leave the program open to review by the Legislature each year, which would permit changes in emphasis as changing needs required.

FEATHER RIVER PROJECT

A matter of special interest in the Governor's Budget is the request for funds to initiate work on the Feather River Project. First indications are that \$5,160,000 will be requested for surveys, explorations and further investigations; for preparation of construction plans and specifications; for the negotiation of relocation contracts with utilities whose facilities in the Oroville reservoir area must be relocated; and for the acquisition of land and rights of way at the Oroville and San Luis reservoir sites. No money for actual construction or cost of relocations is being requested. Recommendations on the Governor's request are not included in this analysis because the request arrived too late to permit collection of necessary information and preparation of recommendations. Such information and recommendations will be made to the committees when this item is heard during the session.