

PRELIMINARY STATEMENT

This analysis is designed to provide a review of the Budget Bill which will be considered by the 1957 Session of the Legislature. This report will analyze the Budget Bill item by item, the basis upon which budget requests have been formulated as well as the performance of the current year, and make recommendations with supporting information to secure greater efficiency and economy in appropriations and operations.

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 1956 Budget 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 by approval. However, in respect to new services unless there is supportable evidence that there is a definite need in line with expressed legislative policy or long-range economies, the augmentations will not be recommended.

In either case, it is the function of this report to define the basis for the budget request in such a way as to present it clearly to the Legislature for policy determination. This report assumes that the burden of justifying proposed budget increases rests on the administration or agency requesting the increase and that unless there is a factual basis supporting the request, an unfavorable recommendation serves to present the issue to the Legislature.

It should be pointed out that methods of defining work load requirements of state agencies have been systematically improved in recent years although there is still much which can be done in this respect. It should also be noted that this budget except for a number of fairly well defined areas is geared largely to increased work load based upon existing law and program policies, although the fact that the 1957 Session is a general session has influenced the administration to include certain relatively small increases in the level of service in a considerable number of programs. In several areas there are major increases in service.

The Governor's Budget Message outlines the growth factors in the budget relating to education, institutions, and certain other operations. There is reasonable agreement as to projections of school enrollments, institution populations, and other basic population figures.

In analyzing in this report the various agency requests which are covered in the state operations portion of the budget, special emphasis has not only been placed upon the distinction between work load and expanded services but there has also been included a comparison between work load, employees, and expenditures covering a 10-year period. This has been designed to indicate the long-range trend of work load in relation to costs. While we recognize that the use of work

indexes is necessarily incomplete and cannot be used as a final basis for comparison with costs, the indexes serve to point up reasonable bases for determining those functions which should be specially examined to reconcile apparent discrepancies between work load and personnel increases particularly.

Looking at comparisons of proposed expenditures for the 1957-58 Fiscal Year for the budget as a whole with those of 10 years ago, it can be seen in Table I that total state expenditures have risen over 196 percent.

TABLE I
COMPARISONS OF STATE EXPENDITURES BY THE THREE
MAJOR CATEGORIES OF THE BUDGET

	1947-48 to 1957-58			
	<i>Actual</i> 1947-48	<i>Proposed</i> 1957-58	<i>Increase from 1947-48</i> <i>Amount Percent</i>	
State operations -----	\$188,191,000	\$543,318,000	\$355,127,000	188.7
Capital outlay -----	97,665,000	439,821,000	342,156,000	350.3
Local assistance -----	371,870,000	964,826,000	592,956,000	159.5
Totals -----	\$657,726,000	\$1,947,965,000	\$1,290,239,000	196.2

In the 1947-48 Fiscal Year expenditures totaled \$657,726,000 in round numbers, whereas the State's program for next year calls for nearly two billions of dollars. This tremendous increase has been due, in part, to the State's rapid growth in population which is expected to reach 14,115,000 by July 1, 1957, as compared to 9,832,000 as of July 1, 1947. This represents a gain of nearly 45 percent in population in the 10-year period. Inflation, new programs, and a catching-up of construction of state facilities have also contributed to this rapid growth of State Government. Per capita costs are shown to have increased from \$66.13 to \$135.59 during this period, while expenditures per \$100 of personal income are expected to reach \$5.60 in 1957-58 as compared to \$3.95 in the 1947-48 Fiscal Year.

Distributing the State's expenditure program by the three major categories of the Budget, as shown in Table I, it is found that the state operations portion, or those functions which are under state management, will rise to approximately 543.3 million dollars or nearly 189 percent over that of 10 years ago. The local assistance portion shows an increase of nearly 593 million dollars or 159.5 percent, while expenditures for capital outlay for state buildings, state parks, water projects, and highways show that the State proposes to spend 442.3 million dollars in 1957-58, as compared to 97.7 million dollars spent for capital outlay in the 1947-48 Fiscal Year. In regard to the capital outlay program for 1957-58, it should be noted that an additional sum of 50 million dollars is budgeted for state facilities from sales of state construction bonds which were authorized by the voters at the November, 1956, general election. This would place the program for capital outlay close to one-half billion dollars since expenditures from bond funds are not included in the budget total.

TABLE II
COMPARISONS OF STATE EXPENDITURES BY MAJOR PURPOSE
AND PER CAPITA COST

Purpose	1947-48		1957-58		Percent increase from 1947-48	
	Expenditure (in thousands)	Per capita	Expenditure (in thousands)	Per capita	Expendi- ture	Per capita
Education -----	\$232,600	\$23.38	\$774,700	\$53.92	233.1	130.6
Highways, streets and motor vehicle regulation -----	148,400	14.92	451,800	31.45	204.4	110.8
Social welfare and health -----	90,900	9.14	196,300	13.67	116.0	49.6
Mental hygiene and corrections -----	53,500	5.38	164,900	11.47	208.2	113.2
Natural resources conservation and development -----	41,100	4.13	144,000	10.02	250.4	142.6
All other -----	91,200	9.18	216,300	15.06	137.2	64.1
Totals -----	\$657,700	66.13	\$1,948,000	\$135.59	196.2	105.0

In drawing comparisons of state expenditures by major purpose of expenditure, it is found in Table II, above, that 774.7 million dollars, or almost 40 percent of the 1957-58 Budget total is for education. This is 233 percent more than that spent for education in 1947-48. Of the 774.7 million dollars, approximately 500 million dollars represents apportionments to public schools. This is a cost governed by the statutes and the State Constitution. Support of state colleges, the State University, and special schools totals 142.3 million dollars while capital outlay expenditures for educational facilities at the state level call for 83.9 million dollars of the Budget total. Contributions to the State Teachers' Retirement System, subventions for child care centers, and free textbooks, and redemption and interest payments on state school construction bonds make up the remainder, or approximately 50 million dollars.

Expenditures for highways, roads, streets and motor vehicle regulation are budgeted at 451.8 million dollars for 1957-58. This represents an increase of 204.4 percent over expenditures for these purposes in 1947-48. A combined sum of 196.3 million dollars is budgeted for social welfare and public health programs. Of this total the State will subvene some 150 million dollars to local government as the State's share of cost in the social welfare programs, while 18 million dollars will go to local governments for public health programs.

The budget calls for combined expenditures of 164.9 million dollars for the State's mental hygiene and correction programs. This represents an increase of 116 percent over expenditures for these purposes in the 1947-48 Fiscal Year. The budget also calls for a total of 144 million dollars for conservation and development of the State's natural resources. This is 250.4 percent more than expenditures for these purposes in 1947-48. The remainder, or 216.3 million dollars is budgeted for all other purposes. The major expenditure items here are 35.4 million dollars for fiscal affairs, 121.4 million dollars of vehicle license fees and liquor license fees returned to local government, and the sum of 18.7 million dollars representing the cost of the regulation and licensing agencies.

The State's General Fund reflects the continuing growth in the State's economy. In addition there has been an accelerated rate of increase in General Fund revenue beginning with the 1954-55 Fiscal Year. The current fiscal year is estimated to end with a surplus of 110.3 million dollars. This amount will be sufficient to balance the 1957-58 Budget and still leave an estimated year-end surplus of 39.8 million dollars, thus avoiding any requirement for change in the revenue structure.

THE BUDGET AND BUDGET BILL

The Budget for the 1957-58 Fiscal Year proposes an expenditure program to cost the State \$1,947,964,993. Although the Legislature has been presented a budget in excess of 1.9 billion dollars, the Budget Bill, or the fiscal year appropriations, totals \$696,841,199, or 35.8 percent of the total program for the 1957-58 Fiscal Year. In other words, 64.2 percent of the total program is made up of so-called fixed charges, or amounts determined through statutory and constitutional direction and continuing and prior year appropriations.

When considering the Budget Bill and the balancing of the budget, the Legislature is more concerned with the General Fund condition, as revenues accruing to special funds are dedicated to specific purposes, with the major portions continuously appropriated through statutory or constitutional direction. Thus, our preliminary statement, as in the past, is confined to discussing the condition of the General Fund.

Although the fund statement shows an anticipated surplus of 39.8 million dollars, the Governor has recommended that 14 million dollars of this amount be reserved and applied to the cost of state participation in the federal program for medical care to recipients of public assistance. Enabling legislation will have to be enacted before the State can participate in the program.

The presence of a substantial beginning surplus should not obscure the fact that even with this upsurge in revenues, there is a widening deficit between General Fund income and outgo. With income estimated at 1,171.3 million dollars and outgo estimated at 1,241.8 million dollars in 1957-58, there is an indicated operating deficiency of 70.5 million dollars. The conditions surrounding the Legislature's consideration of the 1957-58 Budget can be summed up as follows:

1. A proposed expenditure program which will exceed prospective revenues by as much as 70.5 million dollars. This does not include the Governor's request for \$14,000,000 for medical care, as previously mentioned.
2. A total of 112.5 million dollars is budgeted from the General Fund for capital outlay, which if approved along with other requests will leave no substantial carry-over General Fund surplus for the following year. The budget shows this carry-over to be estimated at 39.8 million dollars, again excluding the 14 million dollars for medical care recommended in the Governor's message.
3. There are reserves available for balancing, if needed, such as the 75 million dollars Revenue Deficiency Reserve, and the approximate sum of 15.5 million dollars which will remain in the School Bond Retirement Fund after 1957-58 bond service requirements. There is also the tidelands oil money in reserve, estimated to total

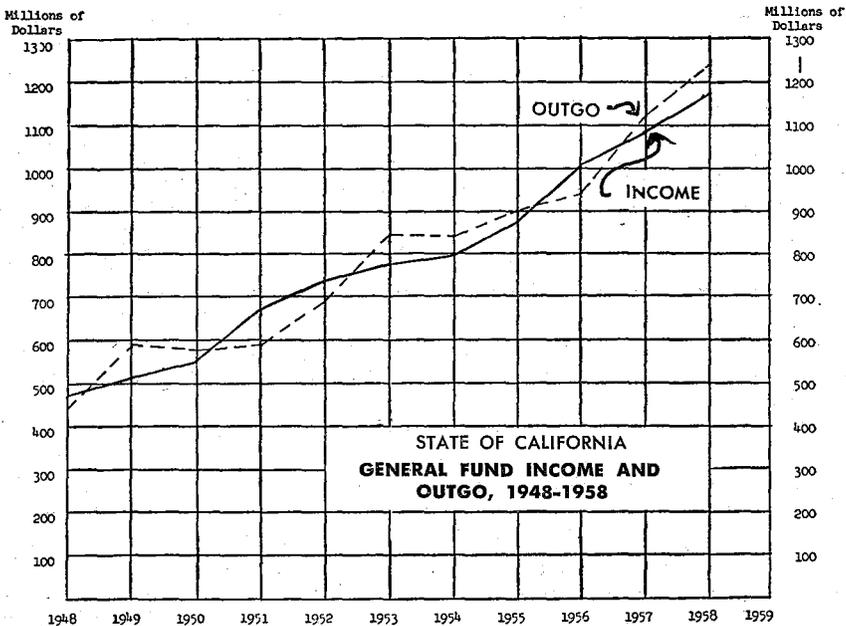
101.2 million dollars after budget estimates of needs for the current year and the 1957-58 Fiscal Year.

4. A reasonable prospect that if expenditures are held to the amounts budgeted, with no substantial special appropriation measures, it will be possible to balance the budget in the 1957-58 Fiscal Year without new taxes. This assumes a continuation of the high level of economic activity and state revenue.

BALANCING THE BUDGET

Despite the fact that estimates show that the General Fund may have a current revenue deficiency of 38.4 million dollars in the current year, and 70.5 million dollars for the budget year, excluding the Governor's request for 14 million dollars for medical care, the carry-over surpluses from the 1955-56 and the 1956-57 Fiscal Years are expected to balance the current budget and the proposed budget and leave a surplus of 39.8 million dollars. The prospective current deficit, however, poses a serious problem for the future. The problem before the Legislature, therefore, is one of holding the expenditure program within the limits of prospective revenues in the years ahead. In view of the certain growth in school expenditures based on present apportionment laws and on higher education program levels, it is problematical whether this can be done much longer on the present revenue structure.

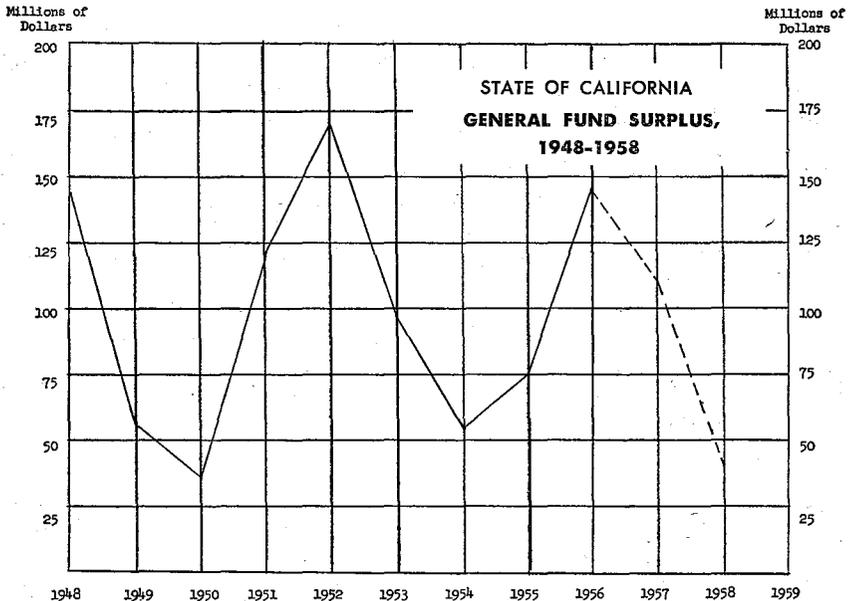
Chart I



The nature of the relationship between income and outgo to the General Fund is illustrated graphically in 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 near exhaustion of surplus contemplated by this budget with the proposed expenditure of 112.5 million dollars for capital outlay from the General Fund.

Chart II



Although it is true that capital outlay expenditures are at a high level at the present time in order to meet the extraordinary needs of the schools and state institutional programs, the State is still facing future heavy costs of a water development program of great magnitude. The fact that the State has realized an initial windfall of tidelands oil money in excess of \$145,000,000, which the Governor recommends be applied in total to the cost of water development, will if applied to this purpose, assist in the initial costs of this program, but the program will require additional large General Fund contributions if it is to be completed.

The implications of the present trend of General Fund revenues and outgo are illustrated in Table III following, which shows that there has been an increase in both revenues and outgo from less than one-half billion dollars in 1947-48 to more than one billion dollars in the coming year. Although special funds are primarily self-supporting through dedicated revenues, and are not reflected therefore in the table, their growth represents a similar picture of increased cost to taxpayers. Comparing increases in both revenue and outgo to special funds, it is

TABLE III
CALIFORNIA'S GENERAL FUND

INCOME, OUTGO AND SURPLUS—1947-48 TO 1957-58

	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	—253,532	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 -----	1,005,040,608	924,890,722	17,075,600 ¹⁰	941,966,322	+63,074,286	+6,166,218 ¹¹	145,729,412
1956-57 (Estimated)	1,085,299,876	1,037,939,456	85,721,860 ¹²	1,123,661,316	—38,361,440	+2,952,895 ¹³	110,320,867
1957-58 (Proposed)	1,171,302,192	1,119,369,790	122,484,624 ¹⁴	1,241,854,414	—70,552,222	+68,304	39,836,949

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 and transfers to the General Fund.

³ \$26,800,000 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, \$13,445,883 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 Transfers are \$27,369,821 from the School Bond Retirement Fund, \$2,374,443 from the Employment Contingent Fund, \$11,946,558 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 Major transfers are \$3,567,335 from the Beach and Park Funds and \$1,288,297 from the Employment Contingent Fund.

¹² \$80,537,750 for transfer to the Capital Outlay and Savings Fund, and \$5,184,110 for transfer to the Flood Control Fund of 1946.

¹³ Major transfers are \$1,382,462 from the Architecture Public Building Fund, and \$1,329,436 from the Employment Contingent Fund.

¹⁴ \$110,491,034 for transfer to the Capital Outlay and Savings Fund, and \$11,993,590 for transfer to the Flood Control Fund of 1946.

found that there has been an increase in both from less than one-quarter billion in 1947-48 to upward of \$650,000,000 and \$665,000,000 respectively for the coming year, excluding the oil royalty transfer and proposed expenditures therefrom.

REVENUES AND REVENUE ESTIMATES

The total of revenues for the State of California for the 1957-58 Fiscal Year is estimated at \$1,832,988,405. This is compared with an estimated total of \$1,840,378,470 for the current year, or an indicated drop of \$7.4 million dollars. However, for purposes of more proper comparison the oil royalty transfer should be excluded. This would then show an increase of close to 123 million dollars in total revenues instead of a decrease, as would otherwise be the case.

General Fund revenues for 1956-57 are shown by major tax source in Table IV following. The table shows General Fund revenues for 1957-58 estimated at 1,171.3 million dollars, as compared to 1,085.3 million dollars for 1956-57, an expected gain of approximately 86 million dollars, or nearly 8 percent. The estimates are based upon substantially the same revenue structure.

As indicated in Table IV, the three major tax sources, retail sales and use taxes, bank and corporation tax and the personal income tax, show gains totaling in excess of 115 million dollars for 1955-56 over 1954-55, reflecting the dramatic upsurge in the Nation's economy particularly since the beginning of 1955. The revenue estimates for the current year and next year indicate expected continuing strength in the Nation's and the State's economy. Indicators of national economic activity, as reflected in the budget estimates, point to a gross national product of 411.5 billion dollars for 1956, a gain of 20.6 billion dollars, or 5.3 percent over 1955, while the estimate of 433.0 billion dollars for 1957 indicates a gain of 21.5 billion dollars or 5.2 percent over 1956. 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 254 billion dollars in 1955 to 266.1 billion dollars in 1956 and 279.0 billion dollars in 1957. Private domestic investment in new construction and producers' equipment with changes in inventories is expected to go from a total of 60.6 billion dollars in 1955 to 65.0 billion dollars in 1956 and 67.5 billion dollars in 1957. Government purchases for goods and services on both the federal and state and local levels show continued increases going from a total of 76.8 billion dollars in 1955 to reach 85.5 billion dollars in 1957. Estimates of personal income at the national level indicate a rise from 306.1 billion dollars in 1955 to 325.1 billion dollars in 1956 and 342 billion dollars in 1957. California enjoys around 10 percent of the annual personal income of the Nation. However, the State's share of the personal income continues to broaden. This is illustrated by figures which show that in 1955 California's share before taxes was 29.4 billion dollars, or 9.60 percent; in 1956 the State's share is shown as being 32.3 billion dollars, or 9.94 percent; while in 1957 the State's share is

TABLE IV
SOURCE OF INCOME TO CALIFORNIA'S GENERAL FUND

		1947-48 TO 1957-58										
		(In millions)										
		1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	(Est.) 1956-57	(Est.) 1957-58
AX	Alcoholic beverage control taxes and licenses ----	\$16.9	\$17.6	\$16.4	\$19.9	\$18.2	\$19.7	\$19.5	\$20.7	\$39.3	\$40.9	\$40.7
	Bank and corporation franchise and income taxes -----	69.2	75.8	74.8	98.2 ^a	120.1	119.1	125.0	133.7	157.1	167.3	181.0
	Inheritance and gift tax --	20.5	21.8	19.9	21.7	29.2	23.5	24.1	30.2	36.3	37.5	40.7
	Insurance tax -----	17.3	20.2	22.9	23.9	25.7	29.2	34.3	38.5	39.1	42.5	45.1
	Personal income tax ----	50.2	50.1	60.5 ^a	75.9	90.9	94.6	96.2	106.7	127.8	146.7	165.3
	Retail sales and use tax	275.6	294.6	325.5 ^a	399.2	417.7	460.1	465.1	492.9	564.2	605.0	651.1
	Other -----	22.0	30.3	33.3	33.7	32.4	27.8	33.9	56.4 ^b	41.2	45.4	47.4
		<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>\$1,005.0</u>	<u>\$1,085.3</u>	<u>\$1,171.3</u>

^a Revenues affected by tax rate increases.

^b Includes the sum of \$19,418,604 in released impounded oil royalties.

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

estimated at 34.8 billion dollars, or 10.18 percent of the total United States personal income. Assuming the present high level of the economy of the Nation and that of the State continues along with strength in population growth, the estimates of General Fund revenue for the 1957-58 Fiscal Year are reasonable. However, it should be borne in mind that a change of as much as 1 percent in General Fund revenue could mean as much as 12 million dollars more or less revenue based on the present budget estimates.