

RESERVE FOR CONTINGENCIES—EMERGENCY FUND—Continued

1972-73	1,000,000	8,076,724	7,500,000
1973-74	1,500,000	5,644,554	10,900,000
1974-75	1,500,000	15,112,367	14,700,000
1975-76	1,500,000	24,918,959	30,520,089
1976-77	1,500,000	2,389,124	2,000,000 (est)
1977-78	1,500,000	N/A	N/A

For 1976-77, the department anticipates a deficiency appropriation of \$2 million. Compared with recent experience, the estimate of \$2,389,124 for emergency allocation to agencies during 1976-77 represents a significant decrease. The \$2 million deficiency appropriation, when combined with the \$1.5 million base previously budgeted minus the estimated \$2,389,124 scheduled for allocation to agencies, would provide a balance of \$1,110,876 for meeting unforeseen contingencies during the balance of 1976-77.

Other Deficiencies

We pointed out last year that the deficiency appropriation in support of this item does not represent the total amount of deficiency appropriations proposed in the budget. These additional deficiencies are properly reported in their related agency budgets.

However, for information purposes we requested the Department of Finance to aggregate and report all these additional deficiencies and show them in one place. This has been accomplished. Additional agency deficiencies shown in the Governor's Budget for 1976-77 total \$45,728,077. The agencies and amounts of deficiencies are listed on page 1029 of the Governor's budget.

AUGMENTATIONS FOR PRICE INCREASES

Items 383-385 from various funds

Budget p. 1031

Requested 1977-78	\$12,450,000
Estimated 1976-77.....	19,440,000
Actual 1975-76	892,058
Requested reduction \$6,990,000 (36.0 percent)	
Total recommended reduction	Pending

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
383	Price Increase Augmentations	General	\$7,803,000
384	Price Increase Augmentations	Special	1,979,000
385	Price Increase Augmentations	Nongovernmental cost funds *	2,668,000
			<u>\$12,450,000</u>

* Appropriated in Budget Bill but not included in budget totals.

Analysis
page

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- 1. Revised estimates based on current data. Withhold recommendation pending additional data and revised estimates. 1049

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the \$12,450,000 for price increases pending receipt and analysis of further data and revised estimates.

This item provides \$11,200,000 for price increases not included in the budget requests of individual agencies. An additional \$1.25 million is included for costs of implementing new provisions for public access to governmental records. These funds are intended to be allocated to the individual department budgets by the Department of Finance based on demonstrated needs. The composition of Items 383, 384 and 385 is shown in Table 1.

Table 1
Augmentation for Price Increases
(dollars in thousands)

	<i>General Fund</i>	<i>Special Funds</i>	<i>Nongovernmental Cost Funds</i>
Increase in State PERS Contribution for Civil Service and CSUC Workers	\$715	\$370	\$515
Increase in Workers' Compensation Benefits	894	462	644
Increase in OASDI Base Compensation	3,944	847	1,309
Cost of Implementing Citizens Access to Records Program	750	300	200
General Price Increases	<u>1,500</u>	—	—
Total	\$7,803	\$1,979	\$2,668

PERS Contribution Rate Increased

Chapter 1436, Statutes of 1976, made substantive changes to laws relative to retirement. Specifically, it provides that contribution rates paid by PERS, the 1937 Act County Systems, and other local retirement systems governed by general law, shall not be different for males and females. Differences based on sex in the determination of retirement allowances and death benefits have also been eliminated.

The Public Employees' Retirement System estimates that the provisions of this act will result in state costs of \$1.6 million annually, to be funded by increasing employer contributions to the retirement fund by .08 percent for miscellaneous and industrial members of the system.

Increase in Cost of Workers' Compensation Benefits

Chapter 1017, Statutes of 1976, increased the minimum and maximum weekly earnings figures used for determining temporary disability indemnity, permanent total indemnity, and permanent partial indemnity under the Workers' Compensation Law. Also, the workers' compensation death benefits for a widow of a worker who dies from an industrial injury have been increased.

The sum of \$2,000,000 is requested to cover the increased state costs of this program. Our preliminary analysis indicates that this cost may be

AUGMENTATIONS FOR PRICE INCREASES—Continued

overstated, but we have not received from the Department of Finance sufficient data to permit us to verify the estimate.

Increase in Social Security Contributions Required

The Old Age, Survivors and Disability Insurance (Social Security) contributions component of employee benefit costs that is included in departmental budgets is based on the annual compensation amount subject to tax during 1976 (\$15,300). For the first half of the budget year the current OASDI rate of 5.85 percent was used, while computations for the second half use the projected increase in rate to 6.05 percent.

No provision has been made in the departmental budgets to account for the increase to \$16,500 in base compensation, effective January 1, 1977. These budget items provide for the additional cost to the state arising from this increase for the 1977-78 fiscal year, which is estimated by the Department of Finance to be \$6.1 million. Our preliminary analysis of this item indicates that the method used to estimate the increased cost may not adequately account for the increase in base compensation. It is also possible that an additional increase in base compensation amounts and/or rates will become effective in January 1978. A more detailed analysis utilizing current data should be undertaken to determine the level of funding necessary for this item.

Extent of Citizen Desire for Access to Records Uncertain

The Governor has issued an executive order, effective January 1, 1977, which is intended to guarantee persons access to files maintained on them by state agencies. The order also issues instructions governing the collection, maintenance, dissemination and disclosure of this information.

No provision has been made in the departmental budgets for costs associated with the implementation of this order. This item provides an amount equal to \$1.25 million, based in part on estimates made by departments of the costs of implementing the order. Until data on the magnitude of requests for access to records becomes available there can be no reliable estimate of the program's ongoing cost.

Price Trends Steady

Each year the Department of Finance issues price adjustment guidelines for use by all departments in preparing their budgets. These guidelines include expected percentage increases for selected items such as food, travel, utilities and fuel, as well as a general factor for all other operating expenses and equipment. The price increase for this general factor in departmental budgets is 5 percent for 1977-78. Based on the consensus of current economic forecasts, it appears that this figure will be adequate to fund anticipated price increases during the budget year. The specific amount provided by Item 383 is \$1,500,000 which is the amount provided in the comparable budget item for the current year.

The items of expense most subject to price changes are food and utilities. If the current drought situation continues unabated, price increases for these items may be somewhat higher than anticipated. We suggest that any augmentation to this item reflect price expectations consistent with the May economic forecast of the Department of Finance.