PAYMENT OF INTEREST ON GENERAL FUND LOANS

Item 9620 from the General Fund — Budget p. GG 173

Requested 1985–86	$1
Estimated 1984–85	0
Actual 1983–84	21,466
Requested increase $1	
Total recommended reduction	1

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Borrowing Plan. Delete Item 9620-001-001.*** Recommend deletion of the Item providing funds for internal borrowing because Director of Finance already has sufficient authority to address this unlikely contingency. 1636
2. Reserve for Economic Uncertainties. Recommend enactment of legislation to clarify borrowing authority. Further recommend that initial borrowing from the reserve be precluded because external borrowing would be economically more advantageous to the General Fund (Net Revenue Gain: $34 million). 1637

GENERAL PROGRAM STATEMENT

Whenever cumulative cash disbursements exceed cumulative incoming revenues, the General Fund must borrow monies to cover these disbursements. This borrowing, which is done on a short-term basis, often requires the payment of interest. Two sources of funds are available to the state's General Fund to meet its short term cash needs.

Internal borrowing sources. These include the Pooled Money Investment Account (PMIA), the Reserve for Economic Uncertainties, and Special Fund accounts. The PMIA is made up of all temporary surplus cash in the General Fund, other state funds, and the Local Agency Investment Fund. The funds are invested in a range of instruments, such as time deposits, government securities, and banker's acceptances. The interest earnings are distributed to the various funds, based on the percentage that each fund comprises of the total pool. When the state borrows from the PMIA, it must pay interest at a rate equal to the average rate being earned by the PMIA. This item appropriates funds to make these interest payments.

The Reserve for Economic Uncertainties also provides the General Fund with a source of borrowable funds. These funds can be borrowed interest-free—that is, when the General Fund borrows from the reserve, it does so without incurring a cost. The General Fund also can borrow a limited amount from special funds on an interest-free basis. When monies in the reserve and in these special funds are not loaned to the General Fund, they are invested through the PMIA.

External borrowing sources. Chapter 268, Statutes of 1984 (the 1984 "trailer bill") authorizes the General Fund to borrow from external sources without first depleting all available internal sources. This may be done through the issuance of short-term borrowing instruments, such as commercial paper, or "State of California" notes. The second type of instrument—State of California notes—is issued to provide funds for payment of registered warrants drawn by the Controller. The aggregate amount of these outstanding loans cannot exceed 10 percent of General Fund revenues, and any amount borrowed must be repaid by the end of the fiscal year in which it is borrowed. Interest is paid on external loans pursuant to a continuous appropriation in the Government Code, not out of the appropriation made in this item.

OVERVIEW OF THE BUDGET REQUEST

The Budget requests $1 in 1985–86 for the payment of interest on loans made to the General Fund from *internal* sources. Although the dollar would obviously prove insufficient were the General Fund forced to borrow from the PMIA, the department asserts that the dollar is needed to maintain this item in the budget, so that a deficiency appropriation would be possible in the event of an emergency requiring extensive internal borrowing.

ANALYSIS AND RECOMMENDATIONS

Until the current year, the General Fund was required to exhaust all internal sources of funds before borrowing externally. As noted earlier, Chapter 268 authorizes the state to borrow from external sources without first resorting to internal funds, and the Legislature has expressed its intent that the state use external rather than internal borrowing whenever it is economically advantageous to the General Fund.

External borrowing *is* economically preferable for one simple reason: the state can lend money at a higher rate than the rate at which it borrows. This is because when the General Fund borrows externally, it does so at *tax-exempt* interest rates, whereas when it borrows internally it does so, in effect, at *taxable* interest rates—regardless of whether interest is actually charged—since most of the state's idle funds which are available to be borrowed are invested in taxable securities. In the current year, the interest rate on the state's external borrowing is averaging about 7 percent, while money in the PMIA is earning almost 11 percent.

Table 1
External and Internal Borrowing 1984–85 and 1985–86 (dollars in millions)

1984–85	*External Borrowing*	*Avoided Cost Associated With Internal Borrowing*[a]	*Effect of External Borrowing On General Fund Surplus*
Interest expense	$84.0	$2.3	–$81.7
Interest earnings on external borrowings not in use	116.4	—	116.4
Net cost of borrowing	–$32.4	$2.3	$34.7
1985–86			
Interest expense	$73.0	$5.0	–$68.0
Interest earnings on external borrowings not in use	98.0	—	98.0
Net cost of borrowing	–$25.0	$5.0	$30.0

[a] Cost of borrowing from PMIA and non-interest free special funds if *no* external borrowing were conducted.

PAYMENT OF INTEREST ON GENERAL FUND LOANS—Continued

Table 1 demonstrates how the state General Fund has benefitted from the switch to external borrowing in the current year, and projects how much the state can expect to come out ahead in the budget year, with the continuation of this new cash management program.

The table shows that external borrowing in the current year has cost the state an additional $81.7 million in interest payments. It also shows, according to the most recent estimates, that the General Fund will pay an additional $68 million in interest during 1985–86. The General Fund, however, stands to *gain* an additional $116.4 million in interest earnings during the current year, and an additional $98 million in the budget year as a result of external borrowing. In fact, the General Fund will actually make money by borrowing from others (external borrowing) rather than borrowing from itself (internal borrowing). As Table 1 shows, the state will come out an estimated $34.7 million ahead in 1984–85 and $30 million ahead in 1985–86 by borrowing from external sources. In addition, special funds will earn an estimated $6.3 million and $8 million in additional interest in the current and budget years, respectively.

Interest expenses. There are two primary reasons why interest expenses under external borrowing are higher. First, more borrowing is done from sources that charge interest. This is because, under the external borrowing program, funds that previously were borrowed "interest-free" from internal sources are replaced by funds borrowed from external sources that charge interest.

Second, funds from external sources generally must be borrowed earlier and for a longer period of time than internal funds. This is because internal borrowing can take place immediately, from reserves or the PMIA, and funds can be borrowed for the exact length of time that they are needed. External funds, on the other hand, take longer to secure *and* are borrowed for a definite period of time, which may be longer than the immediate cash needs period. Thus, under external borrowing (1) more funds are secured initially in order that they are available when needed, and (2) funds are borrowed for a longer period. This results in higher interest expenses.

Interest earnings. These higher interest expenses associated with external borrowing, however, are more than offset by interest earnings. These earnings result from the higher cash balances that are maintained and invested by the state. Specifically, because less money is borrowed from the Reserve for Economic Uncertainties than would be the case under internal borrowing, more money is available for investment in taxable instruments, thereby producing additional interest for the General Fund. Additional interest earnings also result from the fact that externally borrowed funds may be idle, and thus available for investment through the PMIA. As mentioned above, external funds may be borrowed for a longer period than they are needed. Hence, when they are not needed, they can remain in the PMIA and earn interest. At such time, the interest earned on these funds exceeds the amount of the interest which must be paid for the use of these funds.

Delete Unnecessary Item

We recommend that Item 9620-001-001 be deleted, because it is not needed.

Out of the appropriation made by this item, the state pays the interest it owes to the PMIA for loans to the General Fund. According to Department of Finance estimates, however, at no time during the budget year will the General Fund be required to borrow from the PMIA. In fact, the department does not anticipate any General Fund cash shortages large enough even to fully exhaust the Reserve for Economic Uncertainties, so that the other internal interest-free sources are expected to remain untapped throughout 1985–86. A serious emergency would have to occur before all of the funds in the reserve and all other internal interest-free sources were exhausted, and the General Fund were forced to borrow from the PMIA. Should this unlikely event occur, an appropriation would be necessary to finance the interest expenses associated with the internal borrowing.

The Department of Finance is seeking to maintain this item in the budget through this $1 "placeholder" appropriation, because this item contains language that authorizes the Director of Finance, subject to certain notification requirements, to expend the amount of funds necessary to pay interest charged to the General Fund by the PMIA.

Our analysis indicates, however, that this item is not needed to fund such interest payments. Section 27 of the 1984 Budget Act contains language that allows the Director to create a deficiency in the event of an emergency, regardless of whether an appropriation was contained initially in the budget or not. We anticipate that similar authority will be provided for deficiencies in the budget year. Because interest payments to the PMIA would only be required in an emergency, these provisions will adequately safeguard the state's interests, without placing an unnecessary item in the budget. Accordingly, we recommend that this item be deleted.

Legislation Needed to Maximize Benefits of Borrowing Program to State

We recommend that legislation be enacted to clarify the legal authority for external borrowing. (Revenue Gain: $34 million).

Currently, the Reserve for Economic Uncertainties is considered as part of the General Fund for purposes of meeting the fund's need for cash. This means that the General Fund continues to borrow internally, from the reserve, before tapping external sources with lower interest rates. This practice of first borrowing interest-free from the reserve will save the General Fund an estimated $56 million in interest payments in 1985–86 over what it would pay in interest if all of its borrowing were conducted externally. The additional cost, however, would be more than offset by additional interest income of $90 million, if the General Fund were to borrow solely from external sources.

According to the State Treasurer's office, the language of §17300 of the Government Code requires that the Reserve for Economic Uncertainties be regarded as part of the resources available within the General Fund, along with monthly revenue collections and balances carried over from prior months. Further, these resources must be considered in determining the *size* of the external borrowing issue. Based on advice from Legislative Counsel, however, we do not believe that this treatment is *required* by current state law or federal regulations. In order to clarify the state's authority to determine the size of external borrowing issues without regard to monies held in the reserve, we recommend that legislation be enacted which specifies that the monies held in the reserve are not "monies in the General Fund" for purposes of §17300 of the Government Code. This legislation could result in a net revenue increase of $34 million.

HEALTH BENEFITS FOR ANNUITANTS

Item 9650 from the General Fund — Budget p. GG 181

Requested 1985–86	$113,121,000
Estimated 1984–85	105,389,000
Actual 1983–84	85,492,000
Requested increase $7,732,000 (+7.3 percent)	
Recommendation pending	$113,121,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Baseline Funding Needs. Withhold recommendation pending receipt of information on baseline funding requirements. 1641

GENERAL PROGRAM STATEMENT

This appropriation provides the state's contribution toward monthly health and dental insurance premiums for annuitants of retirement systems to which the state contributes as an employer. These systems are the Judges', Legislators', Public Employees', and State Teachers' Retirement Systems. In the case of the latter two systems, the health insurance premium contribution is made only on behalf of retired *state* employees.

This program offers a degree of post-retirement security for employees and their dependents by contributing toward the cost of state-approved health insurance plans. Government Code Section 22825.1 expresses legislative intent that the state pay an average of 100 percent of *health* insurance costs for active employees and annuitants, and 90 percent of health insurance costs for the dependents of employees.

This appropriation also provides the state's contribution toward *dental* insurance premiums for annuitants of the Judges', Public Employees', and State Teachers' Retirement Systems. The State Employee's Dental Care Act (Government Code Section 22952) does not stipulate the same intent with regard to the state's contibution toward premium costs as that set forth in Section 22825.1. Currently, the state is paying 100 percent of dental premium costs.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $113,121,000 from the General Fund for payment of health and dental insurance premiums in 1985–86. This is $7,732,000, or 7.3 percent, more than estimated current-year expenditures. The increase is attributable solely to the projected growth in the number of annuitants.

The budget proposes expenditures of $100,238,000 for the payment of health insurance premiums. This is $6,133,000, or 6.5 percent, more than estimated 1984–85 expenditures. Proposed expenditures for dental insurance premiums are $12,883,000, which is $1,599,000 or 14 percent, more than estimated current-year expenditures.

The state contributions for these programs are paid initially from the General Fund. Special fund agencies are assessed pro rata charges for their retired employees, which are then credited to the General Fund. Approximately 30 percent of the state's contibution is recovered from special fund agencies.

The increases in the number of annuitants and state costs for the health and dental care programs are shown in Table 1 and Table 2, respectively.

Table 1
Health Benefits
Annuitants and Costs
(dollars in thousands)

	Number of Annuitants					*State Costs*				
	Actual	*Estimated*	*Projected*	*Change*		*Actual*	*Estimated*	*Projected*	*Change*	
Retirement System	*1983–84*	*1984–85*	*1985–86*	*Amount*	*Percent*	*1983–84*	*1984–85*	*1985–86*	*Amount*	*Percent*
Judges'	483	507	533	26	5.1%	$724	$847	$906	$59	7.0%
Legislators'	93	94	95	1	1.1	136	154	165	11	7.1
Public Employees'	56,542	60,521	64,779	4,258	7.0	76,998	92,625	98,654	6,029	6.5
State Teachers'	301	316	332	16	5.1	409	479	513	34	7.1
Totals	57,419	61,438	65,739	4,301	7.0%	$78,267	$94,105	$100,238	$6,133	6.5%

Table 2
Dental Benefits
Annuitants and Costs
(dollars in thousands)

	Number of Annuitants					*State Costs*				
	Actual	*Estimated*	*Projected*	*Change*		*Actual*	*Estimated*	*Projected*	*Change*	
Retirement System	*1983–84*	*1984–85*	*1985–86*	*Amount*	*Percent*	*1983–84*	*1984–85*	*1985–86*	*Amount*	*Percent*
Judges'	370	408	451	43	10.5%	$72	$114	$162	$48	42.1%
Public Employees'	39,116	47,184	51,675	4,491	9.5	7,133	11,140	12,678	1,538	13.8
State Teachers'	105	116	128	12	10.3	20	30	43	13	43.3
Totals	39,591	47,708	52,254	4,546	9.5%	$7,225	$11,284	$12,883	$1,599	14.2%

ANALYSIS AND RECOMMENDATIONS

Proposed Funding Requirements Are Unclear

We withhold recommendation on this item, pending receipt of information from the Department of Finance on how proposed increases for health and dental expenditures were determined.

The amount appropriated in this item funds existing health benefits for retirees, with adjustments made *only* to account for the projected growth in the number of annuitants. In our review, however, we could not reconcile how proposed expenditures for 1985–86 were tied to these adjustments. Accordingly, we withhold recommendation on this item, pending receipt of additional information from the Department of Finance.

STATE-MANDATED LOCAL PROGRAMS

Item 9680 from the General Fund and the Restitution Fund — Budget p. GG 184

Requested 1985–86	$95,374,000
Estimated 1984–85	82,498,000
Actual 1983–84	111,407,000
Requested increase $12,876,000 (+15.6 percent)	
Total recommended reduction	2,736,000
Recommendation pending	12,193,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
9680-101-001—State Mandated Local Programs	General	$95,219,000
9680-101-214—State Mandated Local Programs	Restitution	155,000
Total		$95,374,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Block Grant Funding. Recommend that the administration report to the Legislature, at the time of budget hearings, on specific details of its proposal for block grant funding for state-mandated local programs.	1643
2. Voter Registration Procedures. Withhold recommendation on $793,000 requested in Item 9680-101-001(a), pending receipt of additional information from the Secretary of State.	1645
3. *Voter Registration Purge. Reduce Item 9680-101-001(a) by $952,000.* Recommend reduction because funds for the costs of this mandate have already been provided.	1646
4. *Candidate Filing Fees. Reduce Item 9680-101-001(a) by $347,000.* Recommend deletion of funds because they will not be needed in the budget year.	1646

STATE-MANDATED LOCAL PROGRAMS—Continued

5. ***Lis Pendens. Reduce Item 9680-101-001(d) by $18,000.*** Recommend reduction because legislation enacted in 1983 has eliminated the possibility that mandated local costs will be incurred under Ch 889/81 after January 1, 1984. 1646
6. ***PERS Retirement Credit For Unused Sick Leave. Eliminate $1.3 million requested in Item 9680-101-001(k).*** Recommend deletion of funds for reimbursement of costs attributable to unused sick leave retirement credits for noncertificated school employees, because expenditure of these funds would be inconsistent with the Legislature's elimination of funding for the costs of a similar benefit offered to certificated school employees. 1647
7. Underground Storage Tanks. Withhold recommendation on $11.4 million requested in Item 9680-101-001(p), pending receipt and analysis of updated information from the State Water Resources Control Board. 1647
8. ***AFDC Social Security Verification. Reduce Item 9680-101-001(w) by $116,000.*** Recommend reduction because the budget overstates the amount needed to reimburse counties for the costs of verifying the social security numbers of AFDC recipients in the budget year. 1648
9. ***School Crossing Guards. Eliminate $3,000 requested in Item 9680-101-001(x).*** Recommend deletion because (a) the long-term program of fiscal relief enacted by Ch 282/79 provided Santa Cruz county with revenues far in excess of the mandated costs, and (b) the Revenue and Taxation Code does not recognize mandates of this type as reimbursable. 1648

GENERAL PROGRAM STATEMENT

Current law (Chapter 3, Pt. 4, Div. 1, Revenue and Taxation Code), commonly referred to as "SB 90," *requires* the state to reimburse local governments for the costs of state-mandated programs, and for lost sales and property tax revenues, except under specified circumstances. Article XIII B of the State Constitution (Proposition 4 on the November 1979 ballot) also requires the state to reimburse local governments for the costs of state-mandated programs.

Prior to 1983–84, the funds needed to support state-mandated local programs established by statute or executive order were provided separately through appropriations in various Budget Act items. Beginning in 1983–84, however, the appropriations for these programs were consolidated into a single Budget Bill item, in order to better reflect the magnitude and total cost of the mandated cost reimbursement program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations totaling $95,374,000 from the General Fund and the Restitution Fund for the various state-mandated local programs in 1985–86. Of the total, $95,219,000 is requested from the General Fund. This is an increase of $10,169,000, or 11.9 percent, above the level of General Fund expenditures which had been authorized for the current year at the time this analysis was prepared.

This increase reflects the addition of $11,777,000 for the cost of mandates imposed by seven statutes that have not been funded through previous Budget Acts, *less* the cost of those mandates which have expired or been repealed. The previously unfunded statutes were funded in the claims bill enacted in 1983. Under current law, whenever a previously unfunded statute is funded by the Legislature through the claims bill process, the administration is required to provide funds in the Governor's Budget to reimburse the ongoing annual costs associated with the statute.

In general, the proposed appropriations reflect current-year funding levels, and make no allowance for increased costs due to workload increases or inflation.

Thus, additional funding may be required in both the current and budget years to cover potential deficiencies, as well as to fund costs associated with new claims bills. The Legislature will be presented with another claims bill in the current year and two new claims bills in the 1985–86 fiscal year.

ANALYSIS AND RECOMMENDATIONS

Block Grant Funding for Ongoing Mandates

We recommend that the administration report to the Legislature during budget hearings on the specific details of its proposal to fund state-mandated local programs through a block grant.

The Governor's Budget proposes that funding for most existing mandates be provided on an apportionment, or block grant basis, rather than on a claim-for-actual-cost basis. Table 1 shows the programs that would be included in the proposed State Mandated Apportionment (SMA) system, as well as the amounts that would be apportioned in 1985–86.

As we noted in our *Analysis of the 1984–85 Budget Bill,* revision of the existing procedures for reimbursing ongoing mandates is warranted. The existing system is slow, complex, burdensome and expensive for both local entities and the state.

Existing Procedures. At present, the state reimburses mandated costs through three different mechanisms: (a) direct payments to the State Teachers' Retirement System (STRS) and the Department of Social Services (DSS), (b) unit cost rate claims, and (c) actual cost claims.

The proposed SMA would replace the unit cost rate and actual cost claim processes used to provide reimbursement for ongoing mandates. Under both of these systems, local agencies must prepare and submit a reimbursement claim for each mandate every year. In the current year, there will be an estimated 28,000 individual reimbursement claims filed. Each claim must document the actual cost (or the unit cost) incurred by the local agency in complying with the mandate.

Once submitted, the Controller is responsible for performing a prepayment desk audit of each claim and a post-payment field audit of selected claims to ensure that (1) the funds identified were actually spent, and (2) reimbursement is provided only for activities which are necessary to comply with the mandate.

SMA Proposal. The proposed state mandate apportionment system would provide reimbursement for all mandated costs except those reimbursed through transfers directly to STRS, PERS and DSS, and those for newly-funded mandates. The Budget Bill includes language authorizing the Director of Finance to direct the Controller to disburse funds based on an "allocation formula or uniform allowance," subject to the requirement that the Legislature be given 30 days written notification prior to the disbursement of funds.

STATE-MANDATED LOCAL PROGRAMS—Continued

Table 1
State Mandated Local Programs Included in the Governor's State Mandates Apportionment (SMA) Proposal (dollars in thousands)

Program	*Amount*
A. Currently reimbursed on unit cost rate basis	
1. Ch 1176/77—Immunization records	$1,240
2. Ch 1401/76, 780/77, 3/78—Purging voter registration records	952
3. Ch 472/82—Rubella immunization records	539
4. Ch 1242/77—Senior citizens' property tax deferral	182
5. Ch 453/74—Sudden infant death syndrome notices	6
Subtotal, Unit Cost Rate Reimbursements	$2,919
B. Actual cost claims submitted for three or more years	
1. Ch 1355/76—Justice Court Judges	$13
2. Ch 158/78—Court Interpreters	10
3. Ch 743/78—Judicial Arbitration	665
4. Ch 1032/80—Teletype equipment	21
5. Ch 952/76—Marijuana records	93
6. Ch 462/78—Dental exams	33
7. Ch 454/74—Candidate filing fees	375
8. Ch 704/75—Registration by mail	793
9. Ch 218/74—Substandard housing	9
10. Ch 941/75—Health care plans	4
11. Ch 1330/76—Local coastal plans	400
12. Ch 854/76—Health planning	253
13. Ch 694/75—Attorney fees	10
14. Ch 498/77—Coroners	11
15. Ch 644/80—Judicial proceedings	55
16. Ch 1253/80—Representation of the mentally retarded	63
17. Ch 1304/80—Conservatorships	5
18. Ch 1061/73—Short Doyle	657
19. Ch 1036/78, 991/79—Mentally disordered sex offender recommitments	74
20. Ch 961/75—Collective bargaining	9,986
21. Ch 1253/75—Expulsion of pupils: transcripts	1
22. Ch 894/77—Pupil basic skills	3,333
23. Ch 965/77—Suspension of pupils	482
24. Ch 1347/80—Scoliosis screening	527
25. Ch 1357/76—Guardianship/Conservatorship	4,300
26. Ch 1021/73—Worker's Compensation—reduced waiting period	4,400
27. Ch 1023/73—Worker's Compensation—life pension	600
28. Ch 1123/77—Victims of Crimes	155
Subtotal, Actual Cost Reimbursements	$27,328
Total, Mandates Included in SMA	$30,247

Beyond this, the budget provides no information on how the SMA system is to be implemented or administered. The Department of Finance has indicated *informally*, however, that the SMA is intended to operate generally as follows:

1. The Controller would determine the average amount of mandate reimbursement received by each local entity over the past three years (a "base entitlement"). The base entitlement for each local agency would be adjusted for inflation. No claim filing would be required.

2. Newly-funded mandates would be claimed on an actual cost basis for three years, after which they would be "folded" into the apportionment base of each local entity.
3. Local entities not claiming reimbursement for all or any mandates could submit actual cost claims for three years and then become part of the SMA system.
4. The annual subvention to each local entity would be reduced by the amount of the entitlement attributable to any mandate which expires, is repealed or made permissive.

According to the Department of Finance, the specific details on program implementation and administration will be contained in separate legislation. At the time this analysis was prepared, however, this legislation had not been introduced.

Our analysis of the existing reimbursement system indicates that it is, indeed, in need of revision. The process of developing complex procedures for computing the amount of allowable reimbursement, determining the actual costs eligible for reimbursement, and then verifying that the claimed amounts are appropriate through desk and field audits, often requires more effort than the amounts at stake would warrant. The resources devoted to these unproductive activities could be better utilized in the delivery of services to the public at both the state and local levels.

Accordingly, we endorse the thrust of the Governor's proposal. In the absence of a formal proposal providing detailed information on program implementation and administration, however, we have no basis on which to make a recommendation regarding the Governor's proposal.

In order to facilitate legislative review of the Governor's proposal, we recommend that the administration provide the following information to the fiscal committees prior to budget hearings:

1. Specific details on program administration. For example, once the SMA is in operation, how will the state ensure compliance with the terms of state mandates?
2. Specific details on program coverage. For example, will *all* mandates which have been claimed on an actual cost basis for three years be folded into the SMA, or would some exceptions be made?
3. The extent of the state's potential liability in cases where costs exceed the apportionment amount. That is, if a local agency participating in the SMA were at some point to determine that its aggregate costs for programs included in the SMA exceeded its total reimbursement, would it be entitled to a revision in its base entitlement?

Voter Registration Procedures

We withhold recommendation on $793,000 requested in Item 9680-001-001(a), pending receipt of additional information from the Secretary of State.

Chapter 704, Statutes of 1975, which established the Voter Outreach Program, requires counties to provide for voter "self-registration" through the use of postage paid registration cards. Chapter 704 also requires the Secretary of State to adopt regulations directing each county to design and implement programs to identify and register qualified electors who are not registered voters. Proposed budget-year funding for this mandate is $793,000, the same amount that is expected to be spent in the current year.

Our preliminary analysis indicates that the formula adopted by the

STATE-MANDATED LOCAL PROGRAMS—Continued

Secretary of State and the Controller does not accurately reflect the net costs incurred by counties conducting voter outreach programs. Thus, we believe the state may be providing reimbursements to counties which exceed the counties' actual net costs under this mandate.

We withhold recommendation on the $793,000 requested from the General fund in Item 9680-101-001 (a) to reimburse counties for voter registration, pending analysis of additional information to be provided by the Secretary of State.

Voter Registration Purge

We recommend Item 9680-101-001(a) be reduced by $952,000 because funds for the costs of this mandate are budgeted in alternate fiscal years and should not be included in the 1985–86 Budget Bill.

Chapter 820, Statutes of 1983, requires counties to use a single voter registration file purge method, known as the residency confirmation and outreach procedure (RCOP). This method involves sending voters a nonforwardable address correction requested postcard preceding each direct primary election and after each general election.

Chapters 1401/76, 780/77 and 3/78 require that the state reimburse counties for the net costs of using voter registration file purge methods other than what is known as the *positive purge method,* at a rate of up to 10 cents per registered voter. The cost to counties of using an alternate method may be greater than the cost of using the positive purge method in those years containing a primary election and less in those years containing a general election. Thus, the net costs of using alternate methods are determined on a two-year cycle, and county reimbursements are budgeted for a two-year period.

The 1984 Budget Act contains an appropriation of $952,000 to fund this mandate for the period 1984–85 through 1985–86. The Governor's Budget for 1985–86, however, also contains $952,000 for this purpose. Given that funds for the budget-year costs of this mandate were included in the 1984 Budget Act, we recommend that Item 9680-101-001(a) be reduced by $952,000.

Candidate Filing Fees

We recommend Item 9680-101-001(a) be reduced by $347,000 because these funds will not be needed in the budget year.

Chapter 454, Statutes of 1974, waives the requirement for a filing fee when a candidate for public office files a petition signed by a specified number of registered voters in the area to be represented. The Governor's Budget for 1985–86 proposes $375,000 to fund costs incurred by counties pursuant to this mandate. This amount is the same as the current-year level. The Secretary of State indicates, however, that only $28,000 will be needed in the budget year because filings for statewide elections are made in alternate years. Thus, we recommend that Item 9680-101-001 be reduced by $347,000 to correct for overbudgeting.

Lis Pendens

We recommend the elimination of $18,000 requested in Item 9680-101-001(d) because these funds will not be needed in the budget year.

Chapter 78, Statutes of 1983, eliminated the possibility that any mandated local costs could be incurred under Ch 889/81 for "lis pendens" (pending court action) notifications after January 1, 1984. Therefore, we recommend the elimination of the $18,000 requested for lis pendens notifications in Item 9680-101-001 (d).

PERS Retirement Credit for Unused Sick Leave

We recommend the deletion of $1.3 million requested in Item 9680-101-001 (k) to reimburse school employers for the costs of unused sick leave retirement credits provided to noncertificated employees, since this would be consistent with the Legislature's action in the 1984 Budget Act to eliminate funding for a similar benefit provided to certificated employees.

The budget proposes a $1.3 million General Fund appropriation to reimburse school districts and superintendents of schools for the costs of Ch 1398/74. Chapter 1398 granted *noncertificated* (nonteaching) school employees additional retirement credits for accumulated, unused sick leave. The $1.3 million requested in the budget is the estimated cost of amortizing this benefit over a 30-year period for existing school employees belonging to the Public Employees Retirement System (PERS).

When Chapter 1398 was enacted, the Legislature was informed by proponents of the legislation that the increased costs resulting from this benefit would be more than offset by salary savings to affected school employers. These savings were supposed to result from a reduction in sick leave taken by employees and a concomitant reduction in the need for school employers to hire replacement help. Chapter 1398 contained a cost/savings disclaimer and provided for no reimbursement. The state, however, has provided reimbursement to school employers for costs incurred under Chapter 1398 since 1978–79.

In enacting the 1984 Budget Act, the Legislature deleted General Fund monies requested to reimburse school districts for the costs associated with the same unused sick leave credits granted by Ch 89/74 to *certificated* employees belonging to the State Teachers Retirement System (STRS). In taking this action, the Legislature recognized that there was no statutory or constitutional requirement that reimbursement be provided, and expressed its intent that school employers pay any additional costs associated with the unused sick leave retirement credit from the savings that they originally indicated would be realized.

Given the Legislature's action to delete funding for the costs associated with the STRS sick leave credit, we see no basis for appropriating funds for the PERS sick leave credit. For this reason, and to be consistent with the Legislature's policy decision of last year, we recommend that Item 9680-101-001 (k) be eliminated, for a General Fund savings of $1.3 million.

Underground Storage Tanks Owned by Local Governments

We withhold recommendation on $11.4 million requested in Item 9680-101-001 (p) for mandated costs associated with regulations implementing Chapter 1046, Statutes of 1983, pending receipt and analysis of an updated cost estimate from the State Water Resources Control Board.

The budget requests $11.4 million to reimburse cities, counties, and school districts for bringing the underground tanks which they own into compliance with regulations implementing Ch 1046/83. The regulations, which became effective January 1985, require local governments to bring their underground tanks into compliance beginning July 1, 1985.

The State Water Resources Control Board has estimated that, during the five years needed to achieve full compliance, local governments would incur costs of $89 million for construction and operation of tank monitor-

STATE-MANDATED LOCAL PROGRAMS—Continued

ing systems and for payment of state and local fees. Annual costs were estimated to be $11.4 millon in 1985–86, increasing to $24.2 million in 1990–91, and leveling off at $16 million annually thereafter.

The board is revising its cost estimate because many of the assumptions on which it is based are incorrect or outdated. For example, (1) major parts of the board's regulations have been revised, and (2) many counties previously ineligible for reimbursement are expected to become eligible when they rescind local ordinances or adopt the state regulations. Furthermore, a more reliable count of the tanks owned by local governments will be available in March 1985.

Accordingly, we withhold recommendation on the $11.4 million requested in Item 9860-101-001 (p), pending receipt from the State Water Resources Control Board of a revised estimate which is based on the results of the new underground tank inventory.

AFDC Social Security Verification

We recommend that Item 9680-101-001 (w) be reduced by $116,000 because the amount requested in the budget to reimburse counties for the costs of verifying the social security numbers of AFDC recipients is overstated.

Pursuant to regulations issued by the Department of Social Services (DSS), counties are required to verify the Social Security numbers of all recipients of Aid to Families with Dependent Children (AFDC). The budget proposes $250,000 to reimburse counties for the administrative costs of Social Security number verification. The most recent estimate prepared by DSS, however, anticipates county costs of only $134,000 in 1985–86, which is $116,000 less than the amount requested in the budget.

Consequently, we recommend that Item 9680-101-001 (w) be reduced by $116,000 to reflect the revised estimate of county costs for Social Security number verification in the budget year.

School Crossing Guards

We recommend that Item 9680-101-001 (x) be deleted, for a savings of $3,000 to the General Fund, because the revenues provided to Santa Cruz County in Ch 282/79 far exceed the cost to the county of the school crossing guard program mandated by Ch 282.

The budget requests $3,000 in Item 9680-101-001 (x) for mandated costs resulting from enactment of Chapter 282, Statutes of 1979 (AB 8). Chapter 282 allowed local school districts to adopt school crossing guard programs and receive reimbursement for their costs from specified fines and forfeitures deposited in the county road fund, in the event that its city or county failed to adopt such a program. Chapter 282 also enacted a long-term program of fiscal relief to replace property tax revenues lost by local governments as a result of Proposition 13 (1978).

The $3,000 requested in the budget is to cover the cost of a school crossing guard program in Santa Cruz County pursuant to a 1981 Board of Control ruling that Chapter 282 imposed a reimbursable state mandated cost on the county.

Section 2253.2 of the Revenue and Taxation Code prohibits the Board of Control from finding a reimbursable mandate if a statute results in no *net costs* to local agencies. Because the long-term program of fiscal relief enacted by Chapter 282 provided counties with revenues far in excess of the costs associated with the school crossing guard programs, our review indicates that Santa Cruz County has not incurred any *net costs* as a result of Chapter 282. Therefore, reimbursement of these mandated costs is not required.

On this basis we recommend the elimination of $3,000 requested in Item 9680-101-001 (x) to reimburse Santa Cruz County for the costs of a school crossing guard program mandated by Ch 282/79.

STATE-MANDATED LOCAL PROGRAMS—REVERSION

Item 9680-495 to the General
Fund — Budget p. GG 184

ANALYSIS AND RECOMMENDATIONS

We recommend the deletion of Item 9680-495 because the funds proposed for reversion have already been reverted to the unappropriated surplus of the General Fund.

The budget proposes that the unencumbered balance of the appropriations provided in three state-mandated local claims bills be reverted to the unappropriated surplus of the General Fund. The 1984 Budget Act required the reversion of the unencumbered balance of the appropriations in the same three claims bills.

According to the State Controller's Office, these funds were, in fact, reverted to the unappropriated surplus of the General Fund in the current year. Therefore, we recommend the deletion of Item 9680-495.

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES

Item 9800 from the General
Fund and various other funds — Budget p. GG 189

Requested 1985–86	$316,729,000
Recommendation pending	316,729,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
9800-001-001—Compensation increase	General	$162,308,000
9800-001-494—Compensation increase	Special	84,884,000
9800-001-988—Compensation increase	Nongovernmental Cost	69,537,000
Total		$316,729,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. 1984–85 Employee Compensation Package. Recommend 1651

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

the Department of Finance report at budget hearings on (1) why a General Fund deficiency appropriation is needed to fund current-year compensation costs and (2) how "unallocated" special and nongovernmental cost funds for employee compensation are to be used.

2. Control Section 4.10. Recommend the Department of Finance report, prior to budget hearings, on the recapture of overbudgeted health benefit funds in 1984–85. 1653
3. 1985–86 Employee Compensation Increases. Withhold recommendation on $316.7 million, pending submission to the Legislature of memoranda of understanding and compensation proposals for nonrepresented state employees. 1653
4. Statutory Benefits. Recommend enactment of legislation to remove statutory provisions which specify benefit levels provided to state employees. 1656
5. Health Benefit Cost Containment Features. Recommend the Legislature amend the Public Employees' Medical and Hospital Care Act to authorize (1) a self-funded health benefits program and (2) preferred provider organizations as a plan option. 1657
6. Health Benefit Formula. Recommend the Legislature amend Government Code Section 22825.1 to remove provisions specifying state health cost contribution rates. 1658

OVERVIEW OF THE BUDGET REQUEST

The Governor's Budget includes $316,729,000 for compensation increases for all state employees except those in higher education. The General Fund would provide $162,308,000, or 51 percent, of the total.

The amount appropriated in this item would provide for compensation increases to state employees of about 6.5 percent. Any funding granted for health and dental benefit premium increases for state employees and retired annuitants would be financed out of this amount.

Funds appropriated in this item will be allocated for salary and benefit enhancements for *represented* employees based on the results of the collective bargaining process. Memoranda of understanding will be submitted to the Legislature for approval of the changes agreed to between labor and management. This item also covers the costs of compensation increases for *nonrepresented* employees (such as managerial and confidential employees).

The $316,729,000 does *not* include compensation increases proposed for employees of the University of California (UC), the California State University (CSU), and Hastings College of Law. The Governor's Budget for 1985–86 includes funds for these increases in the support budgets of the individual segments or colleges (please see our analysis of Items 6440, 6610 and 6600, respectively, for a description of the higher education employee compensation packages).

ANALYSIS AND RECOMMENDATIONS

1984–85 EMPLOYEE COMPENSATION PACKAGE

A Review of the Current-Year Compensation Program

Under the State Employer-Employee Relations Act (SEERA), the Legislature has the responsibility to approve all provisions of negotiated agreements (called memoranda of understanding or MOUs) which require either (1) the expenditure of funds or (2) a change in law, before the provisions of a MOU can be implemented. The 1984–85 employee compensation package consists of provisions which (1) received direct appropriations within the 1984 Budget Act, (2) require additional funding from the 1985–86 Budget Act, and (3) are considered by the administration to be absorbable within the current-year appropriations.

Provisions Receiving Direct Appropriations. In the 1984 Budget Act, the Legislature appropriated $444.9 million from all funds ($220.3 million from the General Fund) to finance employee compensation increases.

The major provisions funded by this appropriation are:

- An 8 percent salary increase for state employees effective July 1, 1984;
- Special salary realignments and adjustments for certain classes of employees (for example, clerical employees received an initial 10 percent increase plus another 3 percent increase in January 1985);
- Increased state contribution rates for health and dental care costs;
- A $1 million appropriation for a Child Care Fund to finance state employee child day care services.

Provisions Involving Additional Budget-Year Funding. Some salary increases provided in 1984–85 became effective *after* the start of the fiscal year. Consequently the 1984 Budget Act does not reflect the annualized (or full-year) costs of these salary increases. For example, clerical and allied employees, librarians, nurses, and licensed vocational nurses received an additional 3 percent salary increase effective January 1, 1985. Thus, the 1985–86 cost of this increase will be about double the 1984–85 cost funded through the Budget Act. The budget estimates the additional budget-year costs from annualization at $13.7 million.

Provisions Considered Absorbable. Our review of the employee compensation packages indicates that various provisions of the 1984 MOUs will result in $7.9 million in "absorbable" costs in 1984–85. These are the costs of provisions for which no funds were specifically appropriated to departments. The employee benefit provisions which result in the greatest "absorbable" costs are:

- Increases in per diem rates ($2.9 million);
- Increases in the overtime pay cap ($2.4 million); and
- Changes in rest periods ($860,000).

Current-Year Funding Requirements Are Unclear

We recommend that the Department of Finance explain at budget hearings (1) why a General Fund deficiency appropriation is needed to fund 1984–85 employee compensation costs, and (2) how unallocated amounts appropriated from special and nongovernmental cost funds for employee compensation in 1984–85 are to be used.

As noted above, the 1984 Budget Act appropriated $444.9 million for the costs of the current-year compensation package. Actually, total costs were estimated to be $15 million more than appropriations, with the difference to be made up by savings from the implementation of the "Two-Tier" retirement program (please see p. 224).

Table 1 shows the composition of the $444.9 million, by funds. It also

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

shows the amount proposed to be allocated to departments ($432.5 million) and the amounts designated as "unallocated expenditures" ($29.4 million). In the case of the General Fund, allocations requested by departments exceed the 1984 Budget Act's appropriation by $17.1 million. The budget proposes to fund this shortfall in the 1985 deficiency bill.

Table 1

1984–85 Employee Compensation Increases [a]
(dollars in thousands)

	General Fund	*Special Funds*	*Nongovernmental Cost Funds*	*Total*
Appropriated in 1984–85 Budget Act	$220,331	$122,471	$102,083	$444,885
Less Allocations to Departments	237,419	105,730	89,376	432,525
Less Unallocated Expenditures	—	16,741	12,707	29,448
Deficiency	−$17,088	—	—	−$17,088

[a] Excludes reappropriation of Ch 192/79 (SB 91 retroactive pay).

Our review of funding for current-year employee compensation increases indicates two major problems. First, we are concerned by the magnitude of the proposed General Fund deficiency. When the Legislature approved the 1984–85 MOUs, it was relying on the administration's estimate that the amounts appropriated in the Budget Act were adequate to fund these benefit increases. The Legislature might have acted differently on the MOUs had it known the full cost of these provisions. Furthermore, it is now faced with the alternatives of either funding the deficiency or forcing departments to "absorb" the difference.

Second, the Legislature has not been provided with an adequate explanation of the special and nongovernmental cost fund "unallocated expenditures" shown in Table 1. It appears to us that these amounts actually may be *savings*.

Given these concerns, we recommend that during budget hearings, the Department of Finance report on (1) the reasons why a General Fund deficiency appropriation is needed for 1984–85 and (2) the status of amounts shown as unallocated expenditures of special and nongovernmental cost funds.

New "POF" Retirement Program Results in Current-Year Deficiencies

Chapter 280, Statutes of 1984 (AB 3361), established a new retirement category, entitled "state peace officer/firefighter member" (POF), for safety members in state bargaining units 6, 7 and 8. The POF formula provides a retirement benefit of 2 percent of final average salary per year of service at age of 50, with a maximum of 2.5 percent at age 55. The measure also sets the state's contribution rate for the POF category at 24.31 percent.

The act will result in total state costs of up to $282 million (various funds), with the first-year cost estimated at $15.6 million ($12.8 million General Fund) in 1984–85. These costs are based on a 30 year period to fund past and current service credit. Although Chapter 280 did not appropriate any funds for the costs of the measure in 1984–85, our review indicates that four agencies have requested deficiency appropriations in the current year to fund POF costs. These agencies are:

- The Department of Corrections ($7.6 million);
- The Department of Forestry ($3.5 million);
- The Department of the Youth Authority ($2.8 million); and
- The Department of Alcohol Beverage Control ($228,000).

Presumably, all other agencies affected by the measure (about 34 departments) will absorb these current-year retirement costs (totaling approximately $1.5 million) by redirecting resources from other activities. Future-year costs will be accommodated through "baseline" adjustments to the departments' budgets.

Department of Finance Should Report on Implementation of Control Section 4.10

We recommend that the Department of Finance report to the Legislature prior to budget hearings on the recapture of overbudgeted health benefit funds in 1984–85.

The Legislature added Control Section 4.10 to the 1984 Budget Act in order to reduce 1984–85 support appropriations by the amounts overbudgeted for health benefits. In most cases, departments were budgeting for these costs based on the maximum possible state contribution, even though the premiums for many employees are less than this amount (please see 1983–84 *Analysis*, page 2164).

Our review of the Governor's Budget indicates that Control Section 4.10 of the 1984 Budget Act has not been fully implemented because the DOF has not captured all of the funds overbudgeted for health benefits in the current year.

In recent instructions to agencies, the department properly instructed them to reduce current-year and budget-year baseline expenditures for these overbudgeted health care costs. The department did not, however, ensure that state agencies actually took these reductions. Information provided by the DOF indicates that only 14 agencies have shown current-year reductions in the budget, for savings of only $477,000. This amount is far less than the $15 million savings that we estimated could be realized.

In light of these developments, we recommend that the Department of Finance report to the budget committees on what actions the department will take to ensure that (1) *current-year* agency budgets are reduced in accordance with Section 4.10, and (2) the required 1984–85 reductions have not been carried forward into 1985–86 budgets.

1985–86 EMPLOYEE COMPENSATION PACKAGE

Employee Compensation Increases Subject to Collective Bargaining

We withhold recommendation on funds requested for employee compensation increases proposed in the Budget Bill pending review of memoranda of understanding (MOUs) and compensation proposals for nonrepresented state employees.

Fiscal year 1985–86 will be the fourth year that state employee compensation increases will be subject to collective bargaining. Until the new or amended MOUs are submitted for the Legislature's consideration, together with the increases proposed by the administration for employees not covered by collective bargaining, we have no basis for evaluating (1) the nature or magnitude of the increases proposed, or (2) the amount of funds required to implement these increases. Therefore, we withhold recommendation on this item, pending review of these proposals.

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

Cost of Alternative Salary Increase Proposals

The cost of providing salary increases to state civil service employees in 1985–86 is shown in Table 2. The table shows that each 1 percent increase in civil service salaries will increase General Fund costs by $22.4 million and special fund and nongovernmental cost fund costs by $23.8 million.

Table 2
Cost of Providing Various Salary Increases For State Civil Service and Related Employees (Excluding Judges)
1985–86
(dollars in thousands)

	Cost of Increase[a]		
Fund	*1 Percent*	*5 Percent*	*6.5 Percent*
General	$22,355	$111,775	$145,308
Special	13,059	65,295	84,884
Other	10,698	53,490	69,536
Totals	$46,112	$230,560	$299,728

[a] Salary increase amounts are based on the number of personnel proposed in the 1985–86 Governor's Budget. The amounts do *not* include funding for higher education employees.

Historical Comparison of Salary Increases

Table 3 compares the annual salary increases received by employees in private business, superior court judges, state civil service employees, state statutory officers (those officials whose salaries are specified by statute) and state legislators, during the period 1967–68 through 1984–85. For comparative purposes, the table also shows the percentage changes in the Gross National Product Personal Consumption Deflator (price index) for those same years.

General Fund Merit Salary Reductions

The Governor's Budget does not include full funding in departmental budgets for General Fund merit salary adjustments (MSAs) in 1985–86. The estimated General Fund cost of providing these adjustments for all eligible civil service employees in 1985–86 is $23.2 million. Our review of data provided by the Department of Finance indicates that the budget includes only $14.8 million for this purpose, leaving $8.4 million in unfunded MSA costs. Presumably these costs will be financed by diverting funds budgeted for other purposes.

The administration provided MSA funding to agencies which: (1) operate 24-hour facilities, (2) carry out fire prevention and safety functions, or (3) are involved in the collection of revenues. Agencies which received over $1 million in budget-year MSA funding are the Department of Mental Health ($1.1 million), the Franchise Tax Board ($1.2 million), the Department of Developmental Services ($2.5 million) and the Department of Corrections ($5.9 million).

Table 3
Annual Salary Increases Received by Employees in Private Business, Judges, State Civil Service Employees, Statutory Officers and State Legislators 1967–68 Through 1984–85

	Private Employment,[a] *Average Increase per Employee*	*Superior Court Judges*		*Civil Service Percent Increase*		*Statutory Officers: Percent Increase*	*State Legislators*		*GNP Personal Consumption Deflator*	
		Salary	*Increase*	*Total Payroll*	*Average Increase per Employee*		*Salary*	*Percent Increase*	*Level*	*Percent Increase*
1967–68	4.8%	$25,000	—	4.9%	5.1%	—	$16,000	—	82.9	—
1968–69	6.7	30,572	22.3%	5.3	5.7	5.0%	16,000	—	86.4	4.2%
1969–70	4.7	31,816	4.1	5.6	5.6	11.5	16,000	—	90.5	4.7
1970–71	6.6	33,407	5.0	5.0	5.2	—	19,200	20.0%	94.5	4.4
1971–72	6.3	35,080	5.0	—	—	—	19,200	—	98.3	4.0
1972–73	3.5	36,393	3.7	8.3	9.0	5.0	19,200	—	102.3	4.0
1973–74	5.2	37,615	3.4	12.9	11.7	12.5	19,200	—	110.6	8.1
1974–75	8.2	40,322	7.4	5.3	5.0	5.0	21,120	10.0	121.3	9.6
1975–76	5.4	45,299	12.3	7.1[b]	6.7	—	21,120	—	128.6	6.0
1976–77	6.8	49,166	8.5	6.6	—[c]	1.9	23,232	10.0	135.4	5.2
1977–78	7.0	49,166	—	7.5	7.1	7.5	23,232	—	143.7	6.1
1978–79	7.5	51,624	5.0	—	—	—	25,555	10.0	155.4	8.1
1979–80	9.5	54,205	5.0	15.0	14.5	15.0	25,555	—	170.5	9.7
1980–81	10.0	59,686	10.1	10.0	10.0	9.8	28,111	10.0	187.0	9.6
1981–82	9.0	63,267	6.0	6.5	6.5	6.0	28,111	—	200.8	7.4
1982–83	6.8	63,267	—	—	—	—	28,111	—	210.2	4.6
1983–84	4.9[e]	67,063	6.0[d]	6.0[d]	6.0[d]	6.0[d]	28,111	—	217.0	3.2
1984–85	3.4[e]	72,763	8.5	8.9	8.9	8.5	33,732	20.0	224.4	3.4

[a] Based on changes in average weekly wages for the whole fiscal year, as reported by the Employment Development Department. Prior to 1972–73, data is based on salaries in effect each March, as surveyed by the State Personnel Board.
[b] Does not include one-time bonus of $400 paid to employees having a maximum salary of $753 or less on July 15, 1975.
[c] Not calculated because of flat salary increases.
[d] Salary increase effective January 1, 1984.
[e] Forecast.

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

Statutory Benefits Stifle the Collective Bargaining Process

We recommend that legislation be enacted to remove certain statutory provisions which specify benefit levels provided to state employees.

The SEERA provides for collective bargaining over wages, hours, and the terms and conditions of employment. SEERA also provides that conditions of employment which are specified in law can be superseded by the provisions of an MOU. If, however, an MOU provision involves the expenditure of funds the Legislature must approve the change.

Currently, there are several instances where state employee benefit levels are specified in law. For instance, the Government Code currently specifies:

- Reimbursement for out-of-class work (Section 18715);
- The salaries for California highway patrolmen (Section 19827);
- Merit salary adjustments (Section 19832);
- Automatic salary adjustments (Section 19834);
- Overtime compensation (Section 19844);
- Overtime pay for fire suppression employees in the Department of Forestry (Section 19846);
- Uniform allowances (Section 19850.1);
- Industrial disability leave and payments (Section 19871); and
- Nonindustrial disability benefits (Section 19879).

Our analysis indicates that the specification of benefit levels in law runs counter to the spirit and intent of collective bargaining. A benefit level set in law tends to be viewed as either a floor (by employees) or a ceiling (by the employer). Consequently, there is often little, if any, incentive to truly negotiate over changes in these benefits.

Given that these statutes constrain collective bargaining negotiations over benefit coverage, we recommend that the Legislature amend existing law to remove the statutory specification of benefit levels, thereby making these provisions completely subject to collective bargaining negotiations.

STATE HEALTH BENEFITS PROGRAM

Introduction

Under the Public Employees' Medical and Hospital Care Act of 1961 (PEMHCA), the Public Employees' Retirement System (PERS) provides medical insurance coverage for active and retired PERS members through carriers who contract with the system. The board administers 68 plans, covering approximately 213,000 state enrollees.

Table 4 shows the premium costs of the state's health benefit program from 1975–76 to 1984–85. It shows that premium costs for the current year are estimated at $401.0 million, with the state paying 91 percent of this amount. The table shows both how the total costs of this program have grown during the last decade, increasing from $93 million to $401 million, and how the state's share of total premium costs increased during this period, rising from 75 percent to the 90 percent level. The cost of the state's plan has risen primarily due to inflation in health care costs, but the increases also reflect growth in the number of plan participants.

Table 4
State Health Benefit Program
Premium Payments
1975–76 through 1984–85
(dollars in thousands)

	Premium Costs			Percent Change Over Prior Year	Percent State Share of Total Premium
	State Share	*Enrollee Share*	*Total*		
1975–76	$69,968	$23,114	$93,082	25.0%	75.2%
1976–77	86,721	27,825	114,546	23.1	75.7
1977–78	101,015	31,833	132,848	16.0	76.0
1978–79 [a]	133,903	11,099	145,002	9.2	92.3
1979–80	154,643	12,050	166,693	15.0	92.8
1980–81	186,850	13,647	200,497	20.3	93.2
1981–82	224,876	20,464	245,340	22.4	91.7
1982–83	273,723	27,126	300,849	22.6	91.0
1983–84	324,302	34,589	358,891	19.3	90.4
1984–85 [b]	364,855	36,098	400,953	11.7	91.0

[a] Since July 1, 1978, state contributions have been based on a formula where the state pays 100 percent of weighted average premium costs for employees/annuitants and 90 percent of weighted average costs for dependents.
[b] Projections.
Source: Public Employees' Retirement System.

In recent years, the Legislature has taken various actions in response to escalating medical care costs in state-operated health programs. For example, it:

- Changed significantly the structure of the Medi-Cal program through reform legislation enacted in 1982,
- Provided funding in 1983–84 for studies of (1) the state's health benefits program by William M. Mercer and (2) local health care programs and preferred provider organizations (PPOs) by the Public Employment Relations Board; and
- Passed legislation (SB 1777) in 1984 which would have made significant changes to the PEMHCA; the Governor, however, vetoed this bill.

Thus, the Legislature is clearly on record in support of health care cost containment. In the following sections, we provide some recommendations on additional steps the Legislature could take in order to reduce state health benefit costs.

Legislation Is Needed to Adopt Certain Cost Containment Features in Fee-for-Service Plans

We recommend that the Legislature amend PEMHCA to authorize (1) a self-funded program and (2) the use of preferred provider organizations.

The PERS program basically includes two types of plans—fee-for-service plans and health maintenance organizations (HMOs). Since HMOs tend to have their own internal cost-containment features, most of the changes proposed as a means of cutting costs have dealt with fee-for-service plans. In the state program, these plans provide medical care to about one-half of the enrollees.

Two major desirable changes in the provision of fee-for-service health care—both of which were proposed in the Mercer report and included in

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

SB 1777—are self-funding and the use of preferred provider organizations (PPOs).

Self-funding. Under a self-funded program, the *state* becomes the insurer of the health benefits program, assuming any financial risk associated with the program. The Mercer study estimates that self-funding for the fee-for-service portion of the program would save approximately $9.7 million annually, with the state assuming very little insurance risk.

Should the state *not* self-fund its program, Mercer recommends that the current "statewide service" and "indemnity" plans be consolidated into one fee-for-service plan. This change would (1) recognize the similarity between the two types of plans, (2) encourage competition between the HMOs and the fee-for-service plans, and (3) produce savings in administrative costs (which Mercer estimated to be $3.3 million).

Preferred Provider Organizations. Under a PPO, an employer directs its employees to select certain health care providers, who in return offer medical services at reduced rates. Mercer estimated that the state would realize savings of approximately $3 million from a PPO pilot program. While the PEMHCA does not specifically authorize PPOs, PERS is offering, on a pilot basis, four PPO plans to employees during 1984–85.

Based on the projected savings from self-funding and the use of PPOs, we recommend that the Legislature again enact legislation authorizing (1) self-funding of the state's fee-for-service plan and (2) the use of PPOs. It is our understanding that, in vetoing SB 1777, the Governor did *not* have concerns regarding these two proposed changes.

State Contribution Rate

We recommend that the Legislature amend Government Code Section 22825.1 to remove references to a formula for determining state contributions toward health insurance premiums.

In last year's analysis we recommended that the Legislature remove the statutory specification of the state health benefit contribution rates (please see page 2165 of the 1984–85 Analysis). Government Code Section 22825.1 specifies that annual adjustments for health benefit contributions shall be based on the *principle* that the state pay an average of *100* percent of health insurance costs for active employees and annuitants and *90* percent of health insurance costs for their dependents. (The following four plans are used to determine the *average* rate: Blue Cross/Blue Shield, Cal-Western/Transamerica Occidental, Kaiser North Foundation, and Kaiser South Foundation.) It is unclear to us whether Section 22825.1 is (1) an expression of legislative *intent* which in no way binds the Legislature in its annual health benefit contributions, or (2) an explicit obligation of the state to pay the amounts specified by the formula (unless the contribution is superseded by a collective bargaining agreement).

The concerns we raised last year regarding this formula centered on the formula's implications for collective bargaining. We believe since existing law specifies a contribution formula, there is no incentive for labor and management to negotiate changes in health care coverage.

More importantly, the current stautory formula has a negative impact on cost containment. By picking up virtually all of these health premium costs, the state, in effect, "insulates" employees from the consequences of their health care decisions. Consequently, employees have little, if any, financial incentive to control and limit their health care expenditures. A recent Rand Corporation study on the effect of employee cost-sharing (that is, higher employee contributions toward plan costs) provides strong evidence of the reductions in plan utilization which can be achieved through increased cost-sharing.

Finally, the use of the statutory formula has caused the Legislature to lose control over the state's annual contribution for employee health costs. Instead of the Legislature annually determining the amount it wishes to devote to this employee benefit, the state's contribution is determined automatically by the rate structures that are submitted to PERS by providers and approved by the board.

In order for the Legislature to gain better control over state expenditures for employee health benefits, we again recommend that the Legislature remove the specification of any health benefit formula from current law.

Annuitants

The PERS program provides the same health care coverage to *retired* state employees (or annuitants) as it does to active employees. An annuitant is eligible for health benefits if he or she (1) retires within 120 days after separation from state service, (2) was covered by a health plan prior to retirement, and (3) has 5 years of state service (10 years, for employees hired after January 1, 1985). Currently, about 58,000 annuitants are enrolled in the program.

The state pays for annuitant health care coverage in two ways. First, it allows annuitants to participate in the state plan, providing them with much *lower* premium rates than they could obtain on their own. In fact, the Mercer report states that the average annual cost of the state's basic plan is $1,832, although the average cost for an annuitant is $2,580, as compared to $1,717 for an active member. Thus, annuitants receive an average reduction in annual premium costs of $748. Second, the state pays virtually all of the annuitants premium.

The state's health benefits program for its annuitants is one of the most generous in the country. For instance, while most states offer their employees access to group health care coverage, one-half make *no* contribution toward the cost of retiree health care coverage.

We have two major concerns with the existing health benefit structure for retirees. First, it is not clear what policy objective is served by providing the current level of health insurance benefits for retirees. The PEMHCA was intended to (1) help the state attract and retain qualified employees and (2) recognize and protect the state's investment in each permanent employee. This suggests that the state should have a benefit structure which rewards those employees who choose to make a long career with the state. The existing program for retirees, however, does not differentiate for years of service. All employees having at least five years of service (10 years if employed after January 1, 1985) are eligible for the 100/90 percent health benefit coverage upon retirement.

Second, the existing program for both active and retired employees offers few incentives for cost containment. As mentioned above, the extensive coverage provided by the state leaves little incentive for enrollees to control utilization of health services.

One option the Legislature might want to consider is specifying a state contribution rate that is based on the number of years the annuitant worked for the state. For example the state might contribute toward the

AUGMENTATION FOR EMPLOYEE COMPENSATION: CIVIL SERVICE, EXEMPT AND STATUTORY EMPLOYEES—Continued

total premium cost three percent for each year of the annuitant's state service. We believe this option would allow the Legislature to:

- Limit health care expenditures for short service employees while continuing to reward those with longer service; and
- Address health care cost containment by having the state and the annuitant share in the costs of health benefit premiums.

We believe that further legislative examination and review of the retiree health benefit program is warranted, as the cost of annuitant health benefits will constitute an increasing portion of total state health program costs in the years ahead.

PAYMENT OF SPECIFIED ATTORNEY FEES

Item 9810 from the General Fund and various funds — Budget p. GG 192

Requested 1985–86	$400,000
Estimated 1984–85	400,000
Actual 1983–84	127,000
Requested increase: None	
Total recommended reduction	None

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
9810-001-001—Attorney Fees	General	$200,000
9810-001-494—Attorney Fees	Special	100,000
9810-001-988—Attorney Fees	Nongovernmental Cost	100,000
Totals		$400,000

GENERAL PROGRAM STATEMENT

This item, included for the first time in the 1982 Budget Act, provides funds for the payment of attorney fee claims, settlements, and judgments against the state awarded pursuant to the Code of Civil Procedure Section 1021.5, or the judicially created theories of the "private attorney general" and "substantial benefit" doctrine. Section 1021.5 provides that a court may award attorney fees to a successful party in any legal action which has brought about the enforcement of an important right and has resulted in a significant benefit to the public.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $400,000 from various funds for payment of court-awarded attorney fees in 1985–86. This amount consists of $200,000 from the General Fund, $100,000 from special funds, and $100,000 from nongovernmental cost funds. This is the same amount that was appropriated in the current year.

The Budget Bill contains provisions specifying that (1) individual payments from this item shall not exceed the hourly rate charged by the

Attorney General, (2) notwithstanding the hourly rate provision, no single payment shall exceed $50,000, and (3) a payment made from this item constitutes full satisfaction of any claim, settlement, compromise, or judgment.

Our review indicates that in past years actual payments of attorney fee claims have been substantially *below* the $400,000 appropriated for this purpose. In 1982–83, eight claims totalling $75,000 were paid from the General Fund, and no claims were paid from special funds or nongovernmental cost funds. In 1983–84, 12 claims were approved totaling $127,000—consisting of $95,000 from the General Fund and $32,000 from nongovernmental cost funds. Again, no claims were paid from special funds. The Department of Finance advises that in the first six months of the current year, it approved payment of only two claims totaling $68,000 from special funds.

Because of the uncertainties involved in projecting the number and dollar amount of claims that will be paid in the budget year, we recommend approval of this item as budgeted.

RESERVE FOR CONTINGENCIES OR EMERGENCIES

Item 9840 from the General Fund, special funds and nongovernmental cost funds — Budget p. GG 192

Requested 1985–86	$4,500,000
Amount Appropriated by 1984 Budget Act	4,500,000
Total recommended reduction	None

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
9840-001-001—Reserve for Contingencies or Emergencies	General	$1,500,000
9840-001-494—Reserve for Contingencies or Emergencies	Special	1,500,000
9840-001-988—Reserve for Contingencies or Emergencies	Nongovernmental Cost	1,500,000
9840-011-001—Reserve for Contingencies or Emergencies (Loans)	General	(2,500,000)
Total		$4,500,000

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes three appropriations totaling $4,500,000 for allocation by the Department of Finance to state agencies in 1985–86. These funds may be allocated for expenses resulting from unforeseen contingencies and emergencies not covered by specific appropriations. The appropriations consist of $1,500,000 each from the General Fund, special funds and nongovernmental cost funds.

Item 9840-011-001 appropriates an additional $2,500,000 to provide for temporary loans to state agencies whose operations are in danger of being curtailed because of a delay in the receipt of reimbursements or revenue. The loans made under this item must be repaid by the end of the fiscal

RESERVE FOR CONTINGENCIES OR EMERGENCIES—Continued

year in which they are made.

The amounts requested for 1985–86 are the same as what was provided in the 1984 Budget Act.

General Fund Deficiencies

The amount appropriated for contingencies and emergencies in the Budget Act is not intended to cover all unforeseen needs that will arise during the fiscal year. In recent years, the Legislature has appropriated only a nominal amount in this item, primarily to cover minor emergencies that arise during the first part of the fiscal year. The vast majority of the money needed to cover deficiency spending resulting from contingencies and emergencies is provided by an annual deficiency bill, which appropriates funds in augmentation of this reserve item. This bill usually is enacted near the end of the fiscal year.

Table 1 displays the amounts appropriated and allocated to agencies from the General Fund for contingencies or emergencies, as well as the year-end unexpended balances, for each fiscal year since 1971–72. The table shows that the Department of Finance anticipates the need for a General Fund deficiency appropriation of $230.9 million in the current year. This amount would supplement the $1.5 million appropriated from the General Fund for contingencies and emergencies in the 1984 Budget Act, bringing the total amount available in the current year to $232.4 million. As of January 1985, the department anticipated allocations to state agencies totaling approximately $230.9 million in 1984–85, leaving $1.5 million available for unforeseen contingencies and emergencies during the remainder of the fiscal year.

Table 1

Reserve for Contingencies or Emergencies
Appropriations and Allocations from the General Fund
1971–72 through 1985–86
(in thousands)

	Appropriated in Budget Act	*Omnibus Deficiency Appropriation*	*Allocated to Agencies*	*Unexpended Balance*
1971–72	$1,000	$4,918	$4,994	$924
1972–73	1,000	7,500	8,077	423
1973–74	1,500	10,900	5,645	6,755
1974–75	1,500	14,700	15,112	1,088
1975–76	1,500	30,520	24,919	7,101
1976–77	1,500	11,550	11,200	1,850
1977–78	1,500	17,500	18,970	30
1978–79	1,500	11,000	12,193	307
1979–80	1,500	25,646	26,208	939
1980–81	1,500	18,600	19,005	1,095
1981–82	1,500	25,000	25,545	955
1982–83	1,500	431,500	332,101	100,899
1983–84	1,500	118,460	109,531	10,429
1984–85	1,500	230,896 [a]	230,896 [a]	1,500 [b]
1985–86	1,500 [b]	—	—	—

[a] Total amount of 1984–85 allocations anticipated by the Department of Finance as of January 1985.
[b] Proposed.

The major General Fund deficiency allocations anticipated by the department in 1984–85 are:

Department of Education

- $70.2 million for K–12 apportionments due to underestimated (1) supplemental roll revenues and (2) average daily attendance.

Health and Welfare

- $65.5 million to fund the SSI/SSP program, resulting from (1) a lower federal COLA offset and (2) higher caseload.
- $21.1 million to fund a Medi-Cal caseload increase.
- $16.6 million to fund abortions, pursuant to a State Supreme Court ruling.

General Government

- $17.1 million for employee compensation increases.

Corrections and Youth Authority

- $6.1 million to provide facilities for a larger inmate population.
- $7.6 million to finance increased benefits under new retirement classification.

University of California

- $5.1 million for faculty and support functions to meet an enrollment increase.

Department of Forestry

- $5 million for fire suppression costs.

Deficiencies in Special Funds and Nongovernmental Cost Funds

Tables 2 and 3 show deficiencies in special and nongovernmental cost funds, respectively, since 1978–79, the first year in which there was legislative control and oversight of these funds.

Table 2
Reserve for Contingencies or Emergencies
Appropriations and Allocations from Special Funds
1978–79 to 1985–86
(in thousands)

	Appropriated in Budget Act	*Deficiency Appropriation*	*Allocated to Agencies*	*Unexpended Balances*
1978–79	$1,500	—	$254	$1,246
1979–80	1,500	—	821	679
1980–81	1,500	1,000	1,859	641
1981–82	1,500	5,000	5,121	1,379
1982–83	1,500	4,500	3,115	2,885
1983–84	1,500	20,652	21,365	787
1984–85	1,500	15,041 [a]	15,041 [b]	1,500 [a]
1985–86	1,500 [a]	—	—	—

[a] Proposed.
[b] Total amount of 1984–85 allocations anticipated by the Department of Finance as of January 1985.

In 1984–85, special fund deficiency allocations are estimated at $15.0 million, which is 6.4 million less than the $21.4 million allocated in 1983–84. The major special fund allocations proposed for 1984–85 are: (1) $4.2 million from the Vehicle Inspection Fund for costs related to the Vehicle Smog Inspection program and (2) $4.1 million from the Emergency Telephone Number Account for the implementation costs of additional "911" systems.

RESERVE FOR CONTINGENCIES OR EMERGENCIES—Continued

Table 3
Reserve for Contingencies or Emergencies
Appropriations and Allocations from Nongovernmental Cost Funds
1978–79 through 1985–86
(in thousands)

	Appropriated in Budget Act	*Deficiency Appropriation*	*Allocated to Agencies*	*Unexpended Balances*
1978–79	$1,500	—	$676	$824
1979–80	1,500	5,300	6,271	528
1980–81	1,500	—	610	890
1981–82	1,500	—	279	1,221
1982–83	1,500	351,250	275,682	77,068
1983–84	1,500	3,639	3,639	1,500
1984–85	1,500	3,607 [a]	3,607 [b]	1,500 [a]
1985–86	1,500 [a]	—	—	—

[a] Proposed.
[b] Total amount of 1984–85 allocations anticipated by the Department of Finance as of January 1985.

The budget proposes $3.6 million in deficiency allocations from nongovernmental cost funds—about the same amount as approved in 1983–84. The major allocation is $2.6 million from the Service Revolving Fund for various deficiencies in the Department of General Services.

Proposed Changes in Deficiency Provisions

The Legislature added Section 27.00 to the 1984 Budget Act, which requires agencies to report to the Joint Legislative Budget Committee (JLBC) when they are spending at a rate which will result in a deficiency. The Legislature added this section in order to provide more legislative control *prior to* the creation of the deficiencies.

For the budget year, the administration proposes to codify the provisions for Section 27.00 by incorporating them into Government Code Section 13332.04. This statute is similar to Section 27.00. This consolidation is proposed to be accomplished in the 1985 deficiency bill.

We believe this proposed consolidation is appropriate, as it would codify the more stringent reporting requirements of Section 27.00 into the Government Code. When considering this proposal, the Legislature may also want to consider consolidating and/or codifying other deficiency-related provisions (such as Government Code Section 11006 and Section 32.00 of the annual Budget Act).

RESERVE FOR CONTINGENCIES OR EMERGENCIES—REAPPROPRIATION

Item 9840-490 from the General Fund and various funds — Budget p. GG 192

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reverts any unexpended balances from the appropriations made in the 1984 Budget Act to the Reserve for Contingencies or Emergencies (Items 9840-001-001, 9840-001-494, and 9840-001-988), to the unappropriated surplus of the General Fund, special funds, and nongovernmental cost funds, respectively, effective June 30, 1985.

The amounts reverted on June 30, 1985, are reappropriated by this item to the Reserve for Contingencies or Emergencies (Items 9840-001-001, 9840-001-494, and 9840-001-988), effective July 1, 1985. The reappropriated funds thus would be made available during the budget year for allocation by the Director of Finance to cover any additional costs associated with any 1984–85 deficiencies discovered after the fiscal year ends.

UNALLOCATED CAPITAL OUTLAY

Item 9860-301-036 from the General Fund, Special Account for Capital Outlay — Budget p. GG 201

Requested 1985–86	$500,000
Recommended approval	500,000

ANALYSIS AND RECOMMENDATIONS

Project Planning

We recommend approval of the $500,000 requested under Item 9860-301-036 for project planning. We further recommend that the Budget Bill be amended to specify that these funds are to be allocated for planning projects that have not been previously funded.

This item provides $500,000 to finance the development of cost estimates for *new* projects which the Department of Finance anticipates will be included in the budget for the following year. These funds would be allocated by the Department of Finance.

Funds for statewide planning of new capital outlay proposals traditionally are included in the Budget Bill to assure that the Legislature will have the information it needs when considering capital outlay requests for the following year. The proposed amount would support planning for approximately $33 million in new projects. Planning funds for a capital outlay program of this magnitude is reasonable, and we recommend that the requested amount be approved.

Budget Bill Language. Historically, funds for project planning have been used to develop design and cost information for capital outlay projects that have not been funded previously but are expected to be included in the Governor's upcoming budget. Recently, however, the

UNALLOCATED CAPITAL OUTLAY—Continued

Department of Finance has allocated these funds for other purposes. For example, the department has allocated funds to augment approved projects, in order to pay for increased architectural fees, and to obtain additional cost information.

These types of allocations dilute the ability of the administration to provide the necessary budget information for *new* projects and thereby limit the information available to the Legislature. For this reason, we recommend that the Budget Bill language be modified to limit the use of planning funds to *new* projects, as follows:

1. These funds are to be allocated by the Department of Finance to state agencies to develop design and cost information for new projects for which funds have not been appropriated previously but are anticipated to be included in the 1986–87 Governor's Budget. The amount appropriated in this item is not to be construed as a commitment by the Legislature as to the amount of capital outlay funds it will appropriate in any future year.

STATEWIDE CAPITAL OUTLAY—MATCHING FUNDS FOR ENERGY GRANTS

Item 9860-301-146 from the Capital Outlay Fund for Public Higher Education — Budget p. GG 201

Requested 1985–86	$500,000
Recommended approval	500,000

ANALYSIS AND RECOMMENDATIONS

Matching Funds for Federal Schools and Hospitals Grant Programs

We recommend approval.

The budget proposes $500,000 for working drawings and construction of energy conservation projects that are expected to be partially funded through federal grants for energy conservation.

This item would provide a lump sum for allocation by the Department of Finance (DOF) to serve as state matching funds for the highest priority projects identified for the University of California, the California State University, the California Community Colleges, and the California Maritime Academy. The DOF would be required to report proposed allocations to the Legislature at least 30 days prior to approval.

This lump sum appropriation would ensure that the state realizes the greatest return on its investment in the grant program by funding the highest priority projects statewide. The Legislature provided $500,000 for this purpose in the 1984 Budget Act. We recommend approval of the request to continue the program.

DEPARTMENT OF CORRECTIONS—UNALLOCATED CAPITAL OUTLAY AUGMENTATIONS TO BOND FUNDED PROJECTS

Item 9860-311-036 from the General Fund, Special Account for Capital Outlay — Budget p. GG 201

Requested 1985–86	$10,000,000
Recommended reduction	10,000,000

ANALYSIS AND RECOMMENDATIONS

Our analysis of this request is included in the discussion of the Department of Corrections' capital outlay program under Item 5240-301 (please see page 1020).

PAYMENTS TO THE OFFICE OF STATE ARCHITECT

Item 9865 from various special funds and nongovernmental cost funds — Budget p. GG 206

Requested 1985–86	$3,343,000
Recommendation pending	3,343,000

ANALYSIS AND RECOMMENDATIONS

Payments for Architectural and Engineering Costs of the Office of State Architect

Our analysis of this request is included as part of an analysis of the proposed budget for the Department of General Services (please see page 179).