

**SUBSTANDARD HOUSING—Continued  
ANALYSIS AND RECOMMENDATIONS**

**Budget Amount Underfunded**

*The budget request is underfunded by \$97,000 compared with the amount of revenue that is available in 1990-91 and is statutorily allocated to this program.*

The budget requests \$196,000 from the General Fund for transfer to the Substandard Housing program in 1990-91, a decrease of 29 percent from the current year. The requested amount, however, is based on preliminary estimates by the Department of Finance of the amount of revenue from disallowed tax deductions that was collected in 1988-89. The Franchise Tax Board now reports that actual 1988-89 collections totaled \$346,000. After subtracting the board's administrative costs of the program (\$53,000), the amount remaining available for transfer to local governments is \$293,000 — or \$97,000 more than the budget request. Accordingly, this appropriation would require an augmentation of \$97,000 in order to reflect the amount actually available and designated by statute for this program.

---

**LOCAL GOVERNMENT FINANCING**

Item 9210 from the General  
Fund

Budget p. GG 178

---

Requested 1990-91 .....	\$15,000,000
Estimated 1989-90 .....	15,000,000
Actual 1988-89 .....	15,300,000
Requested increase: None	
Total recommended reduction .....	None

---

**GENERAL PROGRAM STATEMENT**

Chapter 1286, Statutes of 1987 (AB 650, Costa), established a new program—the County Revenue Stabilization Program—to provide fiscal relief to “distressed” county governments. Specifically, the program is intended to stabilize the percentage of county general purpose revenues (GPR) which must be expended for the county share of costs associated with four state programs, beginning in 1988-89.

For 1990-91, payments will be made to offset “disproportionate” county costs that were incurred in 1988-89. Specifically, if a county’s ratio of costs for the four programs to its GPR was higher in 1988-89 than it was in 1981-82, the state will provide assistance to offset the difference. Thus, state assistance is offered on a “lagged” basis. The county program costs eligible for reimbursement under this program include the Aid to Families with Dependent Children programs (exclusive of Foster Care), the In-Home Supportive Services program, the Community Mental Health program, and the Food Stamps program.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes an appropriation of \$15 million from the General Fund to fund the County Revenue Stabilization program in 1990-91. This is the same amount as 1989-90 estimated expenditures.

We do not currently have an estimate of the level of expenditures required to fully stabilize program expenditures in the manner contemplated by the statutory formulas. However, based on county financial transactions in 1987-88, it appears that considerably more than the requested amount would be required to achieve full stabilization. Specifically, the Department of Finance estimates that full stabilization of 1987-88 county expenditures on these programs would have cost \$33 million in 1989-90. The historical patterns of growth in county revenue and expenditures suggest that an even larger amount would be required to stabilize 1988-89 expenditures. However, because Chapter 1286 limits the total amount that must be allocated to \$15 million per year, the department's proposal is consistent with current law. Accordingly, we recommend approval.

---

**PAYMENT OF INTEREST ON GENERAL FUND LOANS**

Item 9620 from the General Fund

Budget p. GG 191

---

Requested 1990-91 .....	\$1
Estimated 1989-90 .....	0
Actual 1988-89 .....	4,012,000
Requested increase: \$1	
Total recommended reduction .....	None

---

**GENERAL PROGRAM STATEMENT**

Whenever cumulative cash disbursements exceed cumulative incoming revenues, the General Fund must borrow monies to cover these payments. This borrowing, which is done on a short-term basis, often requires the payment of interest.

To meet the General Fund's short-term cash needs, the state may borrow either internally, from the unexpended balances in its own various funds, or externally, through the issuance of short-term borrowing instruments. External borrowing is preferable because the state can invest money at a higher interest rate than the rate at which it must borrow. 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 — since most of the funds borrowed would otherwise be invested in taxable securities. The Legislature has expressed its intent that the state use external, rather than internal, borrowing whenever it is advantageous to the state.

**PAYMENT OF INTEREST ON GENERAL FUND LOANS—Continued**

The interest paid on external loans is funded by a continuous appropriation in the Government Code, not out of the appropriation made in this item.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget requests \$1 for payment of interest on the loans made to the General Fund from *internal* sources in 1990-91. In most of the last several years, the state has not paid any interest on funds borrowed internally. In these years, \$1 has been appropriated to maintain this item in the budget and to allow for a deficiency appropriation in the event that a change in conditions required extensive internal borrowing.

In 1988-89, however, the state paid interest totaling \$4 million for internal loans to the General Fund. The state borrowed *internally* to correct a cash imbalance at the end of 1987-88 and at the beginning of 1988-89. Normally, internal borrowing does not result in the payment of interest, because there usually are sufficient state special fund balances available for borrowing for which state law does not require the payment of interest. In 1988-89, however, the state also found it necessary to borrow from state special funds that do require the payment of interest.

The \$1 requested for the budget year obviously would not be sufficient were the General Fund forced to borrow a significant amount of money from internal sources in 1990-91. It is not possible to determine at this time, however, whether the state will find it necessary to borrow internally from funds which require the payment of interest. Given this uncertainty, it would be prudent to maintain this item for interest on General Fund loans in case such borrowing becomes necessary. Accordingly, we recommend that this item be approved as submitted.

---

**HEALTH BENEFITS FOR ANNUITANTS**

Item 9650 from the General Fund

Budget p. 200

---

Requested 1990-91.....	\$247,697,000
Estimated 1989-90 .....	199,785,000
Actual 1988-89 .....	155,702,000
Requested increase \$47,912,000 (+24 percent)	
Total recommended reduction.....	None
Recommendation pending .....	247,697,000

---

**SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS**

*Analysis page*

1. Funding for Premium Increases. Withhold recommendation, pending receipt of updated information on the cost of health and dental insurance premiums. 1188

**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', District Agricultural Employees', Public Employees' and State Teachers' Retirement Systems. For 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 and dental 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.

The State Employees' Dental Care Act does not stipulate the same intent with regard to the state's contribution toward dental insurance costs as that set forth in Section 22825.1. In general, the state currently pays 100 percent of *dental* premium costs for state employees.

**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes an appropriation of \$247.7 million from the General Fund for payment of health and dental insurance premiums in 1990-91. This is \$47.9 million, or 24 percent, more than estimated current-year expenditures. The increase is attributable both to higher premiums charged by insurers and projected growth in the number of annuitants.

***Annuitant Health Benefits.*** The budget proposes expenditures of \$222.1 million for the payment of health insurance premiums. This is \$46.9 million, or 27 percent, more than estimated 1989-90 expenditures. The budget increase is based on the following assumptions:

- An increase of 22 percent in the premium cost.
- An increase of 5 percent in the number of enrollees in the annuitant health benefit program.

***Annuitant Dental Benefits.*** The budget proposes expenditures of \$25.6 million for the payment of dental insurance premiums. This is \$4.9 million, or 24 percent, above estimated current-year expenditures. The budget increase is based on the following assumptions:

- An increase of 18 percent in the premium cost.
- An increase of 8.7 percent in the number of dental program enrollees.

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

Table 1 shows the number of annuitants and state costs for the health and dental care programs for the past, current, and budget years.

**HEALTH BENEFITS FOR ANNUITANTS—Continued**

**Table 1**  
**Health and Dental Benefits**  
**Annuitants and Costs**  
**1988-89 through 1990-91**  
**(dollars in thousands)**

	<i>Number of Annuitants</i>			<i>State Costs</i>			<i>Percent Change From 1989-90</i>
	<i>Actual 1988-89</i>	<i>Est. 1989-90</i>	<i>Prop. 1990-91</i>	<i>Actual 1988-89</i>	<i>Est. 1989-90</i>	<i>Prop. 1990-91</i>	
<i>Health Benefits (by Retirement System)</i>							
Public employees .....	72,259	76,594	80,424	\$136,120	\$172,000	\$218,247	26.9%
District agricultural employees.	323	335	352	383	770	614	-20.3
Legislators.....	94	95	100	196	227	314	38.3
State teachers .....	313	320	336	565	701	906	29.2
Judges .....	602	640	672	1,287	1,546	2,063	33.4
Subtotals, health benefits.....	(73,591)	(77,984)	(81,884)	(\$138,551)	(\$175,244)	(\$222,144)	(26.8%)
<i>Dental Benefits by Retirement System)</i>							
Public employees .....	57,341	61,928	65,024	\$16,866	\$20,243	\$25,129	24.1%
District agricultural employees.	323	335	352	45	118	67	-43.2
Legislators.....	55	59	62	18	21	26	23.8
State teachers .....	139	150	158	40	49	60	22.4
Judges .....	531	573	602	182	210	271	29.0
Subtotals, dental benefits ....	(58,389)	(63,045)	(66,198)	(\$17,151)	(\$20,641)	(\$25,553)	(23.8%)
Totals.....				\$155,702	\$199,785	\$247,697	24.0%

**ANALYSIS AND RECOMMENDATIONS****Premium Rate Increases in 1990-91**

*We withhold recommendation on this item, pending receipt of updated information on the costs of health and dental insurance premiums for the budget year.*

A firm estimate of the 1990-91 cost of health insurance premiums will not be available until April or May 1990. At that time, the Public Employees' Retirement System board will approve rate increases to health care providers. In addition, the Department of Finance will have updated information on dental premium rates. Therefore, we withhold recommendation on this item, pending receipt of updated estimates of budget-year premium costs.

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

Item 9800 from the General Fund and various other funds

Budget p. GG 205

Requested 1990-91.....	\$247,921,000
Estimated 1989-90 .....	269,504,000
Actual 1988-89 .....	99,001,000
Requested decrease \$21,583,000 (-8.0 percent)	
Total recommended reduction.....	None
Recommendation pending .....	\$247,921,000

**1990-91 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
9800-001-001-Compensation increase	General	\$144,254,000
9800-001-494-Compensation increase	Special	59,656,000
9800-001-988-Compensation increase	Nongovernmental cost	44,011,000
Total		247,921,000

*Analysis page*

**SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS**

- |  |      |
|--|------|
| 1. 1990-91 Compensation Increases. Withhold recommendation on \$247.9 million, pending review of updated (1) estimates of the consumer price index and (2) information on budget year benefit increases. | 1190 |
|--|------|

**OVERVIEW OF THE BUDGET REQUEST**

**A Review of the Employee Compensation Program**

The state reached collective bargaining agreements (called memoranda of understanding or MOUs) with all of the twenty state employee bargaining units by May 1989. These agreements cover a three year period, 1988-89 through 1990-91 and generally contained the following provisions:

- *1988-89 Provisions.* A general salary increase of 6 percent effective June 1, 1990, and continued funding of existing employee benefits;
- *1989-90 Provisions.* Effective January 1, 1990 a general salary increase of 4 percent, special salary adjustments for certain employees, and continued funding of existing employee benefits;
- *1990-91 Provisions.* Effective January 1, 1991 a general salary increase of between 3 percent to 5 percent depending on the consumer price index, and continued funding of existing employee benefits.

Under the State Employer-Employee Relations Act, the Legislature has the responsibility to approve all provisions of negotiated agreements (called memorandum of understanding or MOUs) which require either (1) the expenditure of funds or (2) a change in law, before the provisions of an MOU can be implemented. The Legislature passed seven bills

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

which approved the MOUs for the twenty bargaining units. The passage of these bills ratified the changes agreed to between labor and management for 1988-89 through 1990-91.

*1990-91 Funding.* The Governor's Budget proposes three appropriations totaling \$247.9 million for compensation increases for all state employees except those in higher education. The General Fund would provide \$144.3 million, or 58.2 percent, of the total. The amount in these items would provide:

- \$160.3 million for the estimated 3.9 percent general compensation increase, and an additional special salary adjustment for Correctional Officers *beginning January 1, 1991*;
- \$87.6 million for premium rate increases in existing employee benefits.

Funds appropriated in this item will be allocated for salary and benefit enhancements for *represented* employees and compensation increases for *nonrepresented* employees (such as, managerial, confidential and legislative employees).

The \$247.9 million does *not* include compensation increases proposed for employees of the University of California, the California State University and Hastings College of the Law. The Governor's Budget for 1990-91 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****Employee Compensation Increases in 1990-91**

*We withhold recommendation on funds for employee compensation increases proposed in the budget bill, pending review of updated (1) estimates of the consumer price index and (2) information on budget year benefit cost increases.*

The funding proposed in this item for salary increases and benefit cost increases is based on current estimates of (1) the U.S. Consumer Price Index (CPI), and (2) the health benefit premium increase that will be approved by the Public Employees' Retirement System (PERS), respectively. The Department of Finance will have updated estimates of the CPI and updated information on the cost increases in employee health benefits by May when the PERS board approves new premium rates. Therefore, we withhold recommendation on this item, pending review of this information.

---

**PAYMENT OF SPECIFIED ATTORNEY FEES**

Item 9810 from the General  
Fund and various funds

Budget p. GG 206

---

Requested 1990-91 .....	\$1,975,000
Estimated 1989-90 .....	1,975,000
Actual 1988-89 .....	657,000
Requested increase: None	
Total recommended reduction.....	None

---

**1990-91 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
9810-001-001—Attorney fees	General	\$1,505,000
9810-001-494—Attorney fees	Special	150,000
9810-001-988—Attorney fees	Nongovernmental Cost	<u>320,000</u>
Total		<u>\$1,975,000</u>

---

**GENERAL PROGRAM STATEMENT**

This item provides funds for the payment of attorney fee claims, settlements, and judgments against the state arising from actions in state courts.

Generally, this item finances court-awarded attorney fees which relate to a legal action that brings about the enforcement of an "important right" and results in a "significant benefit to the public."

The language in this item specifies that for claims related to actions arising in state courts (1) individual payments from the item shall not exceed the maximum hourly rate specified in the Budget Act at the time of the judgment or settlement, and in no case shall payments exceed \$125 per hour, and (2) a payment made from this item constitutes full satisfaction for the claim.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes an appropriation of \$2 million from various funds for payment of court-awarded attorney fees in 1990-91. This amount consists of \$1.5 million from the General Fund, \$150,000 from special funds, and \$320,000 from nongovernmental cost funds. This is the same amount that was appropriated in the 1989 Budget Act.

The request appears reasonable, and we recommend that it be approved.



**RESERVE FOR CONTINGENCIES OR EMERGENCIES**

Item 9840 from the General  
Fund, special funds and  
nongovernmental cost funds

Budget p. GG 208

---

Requested 1990-91 .....	\$4,500,000
Amount appropriated by the 1989 Budget Act.....	4,500,000
Total recommended reduction.....	None

---

**1990-91 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)
9840-490—Reserve for contingencies or emergencies (Reappropriation)	Various	—
Total		<u>\$4,500,000</u>

---

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes three appropriations totaling \$4.5 million for allocation by the Department of Finance to state agencies in 1990-91. These funds may be allocated for expenses resulting from unforeseen contingencies and emergencies not covered by specific appropriations. The appropriations consist of \$1.5 million each from the General Fund, special funds and nongovernmental cost funds.

Item 9840-011-001 appropriates an additional \$2.5 million 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 which are made under this item must be repaid by the end of the fiscal year in which they are made.

Item 9840-490 reappropriates any unexpended balances of the appropriations made by the 1989 Budget Act (Items 9840-001-001, 9840-001-494 and 9840-001-988) to the Reserve for Contingencies or Emergencies proposed in the 1990 Budget Bill, effective July 1, 1990. The reappropriated funds would be available during the budget year for allocation by the Director of Finance to cover additional costs associated with 1989-90 deficiencies discovered after the fiscal year ends.

The amounts requested for 1990-91 are the same as those provided in the 1989 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. Most of the money needed to cover deficiency spending is provided by the annual deficiency bill, which appropriates funds in augmentation of this reserve item. Additional money to cover deficiency spending is authorized in: (1) individual departmental deficiency bills, (2) Budget Act language that allows agencies to spend more than the amount specifically appropriated by the Legislature, and (3) other authorizations for deficiencies, such as when funding is provided in the Budget Act for deficiencies incurred in a prior year.

Table 1 displays the amounts spent or proposed for expenditure from the General Fund out of this item and other sources since 1981-82.

**Table 1**  
**General Fund Deficiency Expenditures<sup>a</sup>**  
**1981-82 through 1990-91**  
**(in thousands)**

	<i>Reserve for Contingencies or Emergencies</i>					<i>Total Amount Allocated</i>
	<i>Amount Appropriated</i>		<i>Actual</i>	<i>Individual</i>	<i>Other</i>	
	<i>Budget Act</i>	<i>Deficiency Act</i>	<i>Amount Allocated to Agencies</i>	<i>Departmental Deficiency Bills</i>		
1981-82.....	\$1,500	\$2,500	\$25,545	\$138,118	\$48	\$163,711
1982-83.....	1,500	431,500	332,101	2,318	47,477	381,896
1983-84.....	1,500	118,460	109,531	—	93,565	203,096
1984-85.....	1,500	423,850	417,017	2,200	10,000	429,217
1985-86.....	1,500	335,523	329,373	16,552	13,236	359,161
1986-87.....	1,500	347,162	330,602	—	140,913	471,515
1987-88.....	1,500	276,678	277,543	—	96,122	373,665
1988-89.....	1,500	204,332	203,662	—	55,700	259,362
1989-90.....	1,500	330,482 <sup>b</sup>	330,482 <sup>c</sup>	2,197 <sup>b</sup>	76,645 <sup>d</sup>	409,324
1990-91.....	1,500 <sup>b</sup>	—	—	—	—	—

<sup>a</sup> Includes deficiencies funded from this item and other items.

<sup>b</sup> Proposed.

<sup>c</sup> Total amount of 1989-90 allocations anticipated by the Department of Finance as of January 1990.

<sup>d</sup> Legislative Analyst's Office.

**Current-Year Deficiencies.** As shown in Table 1, we estimate that \$409.3 million will be needed from the General Fund to cover deficiencies in 1989-90. This amount consists of (1) \$330.5 million proposed to be funded in the annual deficiency bill, and (2) \$78.8 million from other General Fund sources reflected in the Governor's Budget.

**Reserve for Contingencies and Emergencies.** The major General Fund deficiency allocations from the reserve anticipated by the Department of Finance in the current year are:

#### Health and Welfare

- \$168.1 million to cover a shortfall in funding for Medi-Cal, including \$16.3 million to fund abortions;
- \$32.8 million for Social Services Programs, including (1) \$23.1 million for caseload increases in the Supplementary Security Income/State

**RESERVE FOR CONTINGENCIES OR EMERGENCIES—Continued**

Supplementary Program (SSI/SSP) program and (2) \$9.6 million for increased County Administration costs due to increased caseloads; and

- \$23.4 million to provide for a shortfall in California Children's Services due to acceleration in claims processing in Los Angeles County.

**Youth and Adult Correctional**

- \$26.9 million to provide for a larger-than-anticipated inmate population in the Department of Corrections (CDC);
- \$2 million to support inmate crews at CDC conservation camps, to staff additional beds for the AIDS unit at the California Institution for Men, and to fund salary and benefit increases for the psychiatric care staff providing services to the CDC by contract with the Department of Mental Health; and
- \$1.3 million in the Department of the Youth Authority for increased worker's compensation and ward medical costs.

**Resources**

- \$23.5 million for the California Department of Forestry and Fire Protection (CDFFP) to pay emergency fire suppression costs and to extend peak fire season staffing;
- \$1.3 million for the CDFFP to pay for increased unemployment insurance costs; and
- \$2.8 million to allow Butte County to defer payment to the state for fire protection services.

**Various State Programs**

- \$12.8 million in the Department of Food and Agriculture for suppression of a Mediterranean Fruit Fly infestation;
- \$9.5 million for implementation of Ch 1388/89 (SB 1264, Cecil Green) to provide for increased health insurance premium costs;
- \$1.7 million for costs associated with the unclaimed property clearinghouse program in the State Controller's Office; and
- \$1 million for increased workload in the Secretary of State's Office.

**Other Deficiencies Shown in Budget.** The budget also provides for deficiency payments through mechanisms other than the main deficiency item. These will total \$78.8 million and consist mainly of:

**Resources**

- \$10 million for the CDFFP for additional emergency fire suppression, funded by allocations from the Special Fund for Economic Uncertainties.

**Health and Welfare**

- \$66.6 million in increased expenditures by the Department of Social Services to pay increased costs for Aid to Families with Dependent Children (AFDC), authorized by language contained in the department's budget item.

**General Government**

- \$2.2 million in the Office of Criminal Justice Planning for the statewide Campaign Against Marijuana Planting (CAMP).

**Deficiencies in Special Funds and Nongovernmental Cost Funds**

Tables 2 and 3 show deficiencies in special and nongovernmental cost funds, respectively, since 1981-82.

**Table 2**  
**Reserve for Contingencies or Emergencies**  
**Appropriations and Allocations from Special Funds**  
**1981-82 through 1990-91**  
**(in thousands)**

	<i>Appropriated in Budget Act</i>	<i>Deficiency Appropriation</i>	<i>Allocated to Agencies</i>	<i>Unexpended Balances</i>
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	22,303	21,049	1,254
1985-86.....	1,500	26,086	26,162	1,424
1986-87.....	1,500	11,903	11,885	1,518
1987-88.....	1,500	24,122	24,471	1,151
1988-89.....	1,500	14,640	14,842	1,298
1989-90.....	1,500	12,596 <sup>a</sup>	12,596 <sup>b</sup>	1,500 <sup>a</sup>
1990-91.....	1,500 <sup>a</sup>	—	—	—

<sup>a</sup> Proposed.

<sup>b</sup> Total amount of 1989-90 allocations anticipated by the Department of Finance as of January 1990.

In 1989-90, special fund deficiency allocations are estimated at \$12.6 million, which is \$2.2 million less than the \$14.8 million allocated in 1988-89. The major special fund allocations proposed for 1989-90 are: (1) \$1.7 million from various special funds for continued implementation of a department-wide automation project in the Department of Consumer Services, (2) \$3 million from the Vehicle Inspection and Repair Fund to continue implementation of Ch 1544/88 (SB 1997, Presley), which makes extensive changes to the Smog Check Program, and (3) \$1.2 million from the Banking Fund to pay for increased workload associated with liquidation of an independent trust company.

The budget proposes \$2.4 million in deficiency allocations from nongovernmental cost funds, which is \$2.7 million less than the \$5.1 million allocated in 1988-89. The major nongovernmental cost fund allocations proposed for 1989-90 are: (1) \$405,000 from the Consumer Affairs Fund for administrative costs in the Department of Consumer Affairs, (2) \$545,000 from the Architectural Revolving Fund for increased workload in the Office of Project Development and Management in the Department of General Services, and (3) \$978,000 from the Service Revolving Fund for administrative costs in the Department of General Services.

**RESERVE FOR CONTINGENCIES OR EMERGENCIES—Continued**

**Table 3**

**Reserve for Contingencies or Emergencies  
Appropriations and Allocations from Nongovernmental Cost Funds  
1981-82 through 1990-91  
(in thousands)**

	<i>Appropriated in Budget Act</i>	<i>Deficiency Appropriation</i>	<i>Allocated to Agencies</i>	<i>Unexpended Balances</i>
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	3,435	3,438	1,497
1985-86.....	1,500	4,540	3,887	2,153
1986-87.....	1,500	77,945	77,945	1,500
1987-88.....	1,500	2,778	2,763	1,515
1988-89.....	1,500	5,105	5,105	1,500
1989-90.....	1,500	2,403 <sup>a</sup>	2,403 <sup>b</sup>	1,500 <sup>a</sup>
1990-91.....	1,500 <sup>a</sup>	—	—	—

<sup>a</sup> Proposed.

<sup>b</sup> Total amount of 1989-90 allocations anticipated by the Department of Finance as of January 1990.

**OUTER CONTINENTAL SHELF LANDS ACT, SECTION 8(g)  
REVENUE FUND**

Item 9896 from the Outer  
Continental Shelf Lands Act,  
Section 8(g) Revenue Fund

Budget p. GG 224

Requested 1990-91 .....	(\$10,000,000)
Estimated 1989-90 .....	—
Actual 1988-89 .....	(\$10,000,000)
Total recommended reduction .....	None

**1990-91 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
9896-001-164—Revenue transfer to the General Fund	Outer Continental Shelf Lands Act, Section 8(g) Revenue	(\$10,000,000)

**SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS**

- |  |                                  |
|--|----------------------------------|
| 1. Revenue Transfer. Recommend Budget Bill language to transfer any unappropriated balances from the 8(g) Fund to the General Fund in 1990-91. | <i>Analysis<br/>page</i><br>1197 |
|--|----------------------------------|

**OVERVIEW OF THE BUDGET REQUEST**

Pursuant to federal law, California receives 27 percent of the monthly royalties from specified federal offshore oil and gas leases. Additionally, in

accordance with a settlement with the federal government, the state will receive a total of \$289 million in "recoupment payments" over a 15-year period, which began in 1986-87. The budget projects that the state will receive a total of \$12.4 million from royalties (\$3.7 million) and recoupment payments (\$8.7 million) in 1990-91, which will be deposited in the "8(g)" Fund.

In addition to these new revenues, the budget estimates that there will be a carryover balance of \$5.7 million in 8(g) funds from the current year. Thus, the budget expects that a total of \$18.1 million in 8(g) funds will be available for expenditure in 1990-91.

The available 8(g) funds can be appropriated for virtually *any* purpose. The budget proposes various expenditures totaling \$7.8 million for support (\$2.1 million), local assistance (\$4.7 million) and capital outlay (\$1 million) in six state agencies. All of these proposals are reflected in the individual agency budgets. The budget also proposes to transfer \$10 million from the 8(g) Fund to the General Fund in 1990-91. This transfer would leave a projected balance of \$336,000 in the fund at the end of the budget year.

#### **ANALYSIS AND RECOMMENDATIONS**

*We recommend adoption of Budget Bill language to transfer any unappropriated balance in the 8(g) Fund in 1990-91 to the General Fund.*

The proposed transfer of 8(g) revenue to the General Fund appears appropriate, given that these monies then would be available to fund various legislative priorities. Our analysis indicates, however, that based on *actual* revenues reported by the federal government for the first seven months of 1989-90, the budget's estimates of the 8(g) revenues for the current and budget years are each about \$1 million too high. In addition, staff at the State Lands Commission indicate that the state *may* receive up to \$13.8 million in additional 8(g) revenues in 1990-91, if *new* production begins by the start of the budget year at three offshore oil platforms near Point Arguello on the Santa Barbara Coast.

Consequently, the actual unappropriated balance in the 8(g) Fund at the end of 1990-91 could be lower or higher than \$10 million. Accordingly, we recommend that the Legislature adopt Budget Bill language in Item 9896-001-164, to transfer whatever funds remain unappropriated in the 8(g) Fund to the General Fund in 1990-91:

On or after July 1, 1990, the State Controller shall transfer any unappropriated balances in the Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund to the General Fund, less any amount certified by the Director of Finance as necessary for allocation for employee compensation.

---