

# **CONTROL SECTIONS**

## ANALYSIS AND RECOMMENDATIONS WITH RESPECT TO GENERAL CONTROL SECTIONS

The so-called "control sections" included in the 1990 Budget Bill set forth general policy guidelines governing the use of state funds. These sections place limitations on the expenditure of certain appropriations, extend or terminate the availability of certain other appropriations, establish procedures for the expenditure and control of funds appropriated by the Budget Act and contain the traditional constitutional severability and urgency clauses.

The control sections proposed for 1990-91 may be found in Section 3.00 through Section 36.00 of Senate Bill 1765 (Alquist) and Assembly Bill 2590 (Vasconcellos). In many instances, the numbering of these sections is not consecutive, as the section numbers in the 1990 Budget Bill have been designed to correspond with the equivalent or similar sections in the 1989 Budget Act.

In addition, the Budget Bill includes Sections 1.00, 1.50, 99.00 and 99.50. These are technical provisions relating to the coding, indexing and referencing of the various items in the bill.

### Sections Which We Recommend Be Approved

The following sections are virtually identical to the sections in the 1989 Budget Act, or do not represent any change in legislative policy. *We recommend approval of these sections because they are consistent with previous legislative policy.*

<b>Section</b>	<b>Subject Area</b>
3.00	Budget Act Definitions and Statutory Salaries
3.50	Employee Benefits
3.60	Recapture of Public Employees' Retirement System (PERS) Contributions
3.75	Centrex Service Costs
5.00	Attorney Fees—State Courts
5.50	Oversight of Consultant Contracts
6.00	State Building Alterations
6.50	Transfer of Amounts Within Schedules
7.50	Accounting Procedures for Statewide Appropriations
8.50	Appropriation and Control of Federal Funds
8.51	Federal Trust Fund Account Numbers
8.60	Single Audit Review Costs
9.20	Administrative Costs for Property Acquisition
9.50	Minor Capital Outlay
11.51	Energy-Related Fund Transfers
11.55	Outer Continental Shelf Land Act
12.30	Special Fund for Economic Uncertainties
13.00	Legislative Counsel Bureau
18.10	Department of Parks and Recreation—Contract Agreement
19.00	Loan Authorization for Underground Storage Tanks
22.00	Unallocated Appropriation for Welfare Employment Programs

24.00	State School Fund
24.10	Driver Training
24.60	Lottery Revenues
26.60	Expansion of Satellite Wagering Facilities
27.00	Authorization to Incur Deficiencies
28.00	Authorization for Adjustments in Spending Authority
29.00	Personnel-Years Reporting
30.00	Continuous Appropriations
31.00	Administrative and Accounting Procedures
32.00	Expenditures in Excess of Amounts Appropriated
33.00	Governor's Vetoes
34.00	Severability of Budget Act Provisions
35.00	Budget Act to Take Immediate Effect
36.00	Urgency Clause

### Sections Which We Recommend Be Modified

We recommend various actions on the following sections:

#### SECTION 4.00

#### HEALTH INSURANCE PREMIUMS

#### ANALYSIS AND RECOMMENDATIONS

*We withhold recommendation on the monthly state contribution rates for employee health insurance specified in this section, pending final determination of the actual increase in health insurance premiums.*

This control section, which is identical to Section 4.00 of the 1989 Budget Act, specifies the monthly amounts which the state contributes toward the cost of its employees' and retirees' health insurance. The section provides for state monthly contributions of: (1) \$136 for the employee (or annuitant) only, (2) \$255 for an employee and one dependent, and (3) \$322 for an employee and two or more dependents.

Government Code Section 22825.1: (1) expresses legislative intent that the state pay 100 percent of the *average* premium cost for the coverage of employees and annuitants, and 90 percent of the cost for coverage of dependents; and (2) specifies that the state's contribution toward employee health insurance shall be adjusted in the annual Budget Act. While this code section is "supersedable" under collective bargaining, the Legislature must still approve any change — such as increases in the state's monthly contribution rates — which would result in increased costs during 1990-91.

Changes in the coverage of and premiums for state employee health insurance result from negotiations between Public Employees' Retirement system (PERS) staff and the insurance carriers. These negotiations typically are completed late in May. Any changes agreed to must be approved by the PERS board.

At the time this analysis was prepared, there was no basis for determining whether the contribution rates proposed in this section — that is, the current-year rates — are appropriate for the budget year.

Accordingly, we withhold recommendation on this section, pending determination of the actual increase in health insurance premiums.

#### SECTION 4.20

### CONTRIBUTIONS TO THE PUBLIC EMPLOYEES' CONTINGENCY RESERVE FUND (PECRF)

#### ANALYSIS AND RECOMMENDATIONS

*We withhold recommendation on the administrative surcharge rate set in this section pending final determination of budget-year health insurance premiums.*

This section was first included in the 1984 Budget Act to provide a mechanism for (1) granting legislative approval of the surcharge rates that state agencies are required to pay (a) for the costs incurred by the Public Employees' Retirement System (PERS) in administering the health benefits program and (b) toward a special reserve in the PECRF; and (2) recapturing excess payments to the PECRF.

This section, as proposed in the 1990-91 Budget Bill, is different from the version included in the 1989 Budget Act. It proposes to set the administrative surcharge rate for 1990-91 at 0.50 percent of total health insurance premiums and authorizes the Department of Finance (subject to legislative notification) to grant additional funds to PERS for Health Benefit Program emergencies. The 1989 Budget Act sets the surcharge at 3.0 percent of total health insurance premiums for administrative costs and contains no further provisions.

At the time this analysis was prepared, there was no basis for determining the appropriate surcharge rate because budget-year health insurance premiums had not yet been set. Accordingly, we withhold recommendation on this section pending determination of 1990-91 health insurance premiums.

#### SECTION 9.00

### APPROPRIATION REDUCTIONS

#### ANALYSIS AND RECOMMENDATIONS

*We recommend that this section be deleted because it is inconsistent with past legislative actions on this issue.*

This section authorizes the Director of Finance to reduce General Fund appropriations contained in the 1990 Budget Act whenever it is deemed to be in the interest of the state. These reductions would be restricted to no more than 1 percent of any department's support appropriation. In addition, this section specifies that no reductions can be made for programs directly engaged in providing 24-hour care or fire and life safety services or for programs which produce significant revenue. Finally, this section requires that the Director provide written notification to the fiscal committees of each house and the Joint Legislative Budget Committee within 10 days of any such reduction.

Existing law authorizes the administration to revise the budgets of state agencies only until the budget is enacted. Prior to 1983, the administra-

tion also had the authority to revise state agency budgets *after* the budget was enacted, but this authority was eliminated by Chapter 323, Statutes of 1983 (AB 223, Vasconcellos). This section would restore the administration's authority to reduce Budget Act appropriations after the Budget Act is enacted. Consistent with legislative action in enacting Chapter 323, we recommend deletion of this section.

### SECTION 9.70

#### BOND FUND REIMBURSEMENTS FOR STATE ADMINISTRATIVE COSTS

#### ANALYSIS AND RECOMMENDATIONS

*We recommend that this section be deleted because it limits legislative oversight and it results in higher costs to the state.*

This section, which has not appeared in prior budget acts, would appropriate from any bond fund the amount needed to reimburse the State Treasurer and the State Controller for expenses incurred in:

- Administering loans from the Pooled Money Investment Account (PMIA) for the purpose of carrying out a program or project that is to be financed by issuing bonds,
- Assuring bond program compliance with federal laws and regulations, and
- Providing services related to arbitrage tracking and special financial arrangements for bond sale proceeds.

The section states that it is legislative intent that the section is declaratory of existing law.

According to the Department of Finance, both the Treasurer and the Controller have already received reimbursements from various bond funds for the activities described above. These reimbursements totaled \$747,000 in 1988-89 and are projected to total \$900,000 in the current year.

The proposed control section raises the following legal and policy questions concerning the use of bond proceeds to pay for administrative expenses. First, it is not clear that the language of the existing bond acts specifically authorizes the use of bond proceeds for the types of administrative expenditures that are covered by the language of this control section. If these types of administrative expenditures *are* at least implicitly authorized, as the Treasurer's Office maintains, then it would appear that they are funded under existing appropriation authority in the General Obligation Bond Law and the authority conferred by this section is *unnecessary*. If the existing bond acts do not authorize the payment of such expenses from bond proceeds, then this section is *not in compliance* with existing law. We have requested an opinion on this issue from Legislative Counsel.

Secondly, the proposed control section also raises substantive policy questions as to: (1) the need for legislative oversight of bond-fund-related administrative expenditures, and (2) the most appropriate means for financing such expenditures. As regards legislative oversight, under the proposed control section, the Treasurer and the Controller would have *unlimited authority* to expend bond fund proceeds for their bond-fund-

related administrative costs. As the state has become more reliant on the use of bond proceeds to fund its capital outlay needs, and federal requirements have changed the environment in which state bonds are issued, the nature of the tasks that must be performed by the Treasurer and the Controller have become more complex and expensive. At the same time, competition for allocations of bond fund proceeds has increased, including the policy decision to use bond proceeds to pay the interest on interim financing loans whenever possible. Under these conditions, increased oversight and control over the use of bond fund proceeds would help the Legislature ensure that their usage is consistent with legislative priorities.

Thirdly, we question the increased use of these funds to pay current expenses associated with the issuance of bonds on basic financial grounds. In addition to reducing the amount of bond fund proceeds that are actually made available for the direct purposes of the bond acts, the charging of administrative costs to the bond funds results in a higher cost to the state for such activities. This is because, in effect, the state is borrowing money to pay for these administrative costs, and the borrowed funds will ultimately have to be repaid by the General Fund *with interest* over the life of the bonds. This will increase the costs of these activities by at least 25 percent. It should be noted that the state has traditionally funded only the *direct* costs of issuing bonds in this fashion. These include the costs of printing the bonds and the official statement, and the costs of bond counsel. Expanding the practice to include other expenditures associated with the overall management of the state's bond programs, however, deserves further scrutiny.

For the reasons stated above, we recommend that this section be deleted and that the Treasurer and Controller seek authority to expend bond funds for any of the administrative costs described in this section through the normal budget process.

## SECTION 11.50

### DISTRIBUTION OF TIDELANDS OIL REVENUES

#### ANALYSIS AND RECOMMENDATIONS

*We withhold recommendation on the proposed distribution of tidelands oil revenues, pending legislative action on the spending proposals in the Budget Bill.*

*Prior to budget hearings, the Department of Finance should submit to the Legislature the department's plan to meet current-year obligations and proposed budget-year appropriations from the Special Account for Capital Outlay (SAFCO), in view of a potential deficit at the end of 1990-91.*

This section would modify existing law governing the allocation of tideland oil revenues for the budget year. Table 1 compares the allocation of these revenues under existing law with the allocations proposed in this section. As shown in Table 1, the budget includes a \$40 million allocation to the General Fund.

**Table 1**  
**Distribution of 1990-91 Tidelands Oil Revenue**  
**Comparison of Current Law with Section 11.50**  
**(in thousands)**

<i>Allocation</i>	<i>Current Law</i>	<i>Section 11.50</i>
State Lands Commission .....	\$14,215	\$14,215
California Water Fund .....	25,000	—
Central Valley Project .....	5,000	—
Sea Grants .....	525	—
Capital Outlay Fund for Public Higher Education (COFPE) .....	75,360	—
State School Building Lease Purchase Fund (SSBLPF) .....	—	—
Energy and Resources Fund (ERF) .....	—	—
Housing Trust Fund .....	—	3,000
Special Account for Capital Outlay (SAFCO) .....	—	62,885
Subtotals .....	\$120,100	\$80,100
General Fund .....	—	40,000
Totals .....	\$120,100	\$120,100

Until the Legislature has determined how it wants to spend these revenues, it would be premature to allocate these revenues through Section 11.50. Once the spending decisions have been made, revenues should be allocated in a conforming manner.

**Special Account for Capital Outlay.** The budget indicates that SAFCO will end the budget-year with a surplus of \$1.7 million after meeting all expenditure obligations in the current year and proposed expenditures in the budget-year. Our analysis, however, indicates that the State Public Works Board has authorized augmentations amounting to about \$1.6 million in December 1989 and January 1990 which have not been taken into account in the budget estimate. Essentially, this would result in no surplus at the end of 1990-91. Moreover, available information indicates that at least two other projects may require substantial augmentations to complete construction. In this case, there would be a deficit rather than any surplus in SAFCO.

**Recommendation.** For the above reasons, we withhold recommendation on the proposed distribution of tideland oil revenues pending legislative action on the spending proposals in the Budget Bill.

Moreover, prior to budget hearings, the Department of Finance should submit to the Legislature the department's plan to meet current-year obligations and proposed budget-year expenditures, in view of a potential deficit in SAFCO at the end of 1990-91.

The State Lands Commission normally releases a revised tidelands oil revenue estimate in February of each year. This revised estimate, coupled with the department's plan for meeting current-year and budget-year expenditures, should give the Legislature sufficient information to determine a spending plan for tideland oil revenues and SAFCO for 1990-91.

## SECTION 11.60

## UNITARY FUND EXPENDITURES, DISBURSEMENTS AND TRANSFERS

## ANALYSIS AND RECOMMENDATIONS

*The proposed control section is inconsistent with legislative intent for the allocation of Unitary Fund revenues and would inadvertently eliminate an existing appropriation for the Supercomputer Center Account.*

This control section, which has not appeared in prior Budget Acts, would prohibit any expenditure, transfer or disbursement of Unitary Fund revenues that is not made in accordance with the provisions of the 1990 Budget Act. As a result, it would override the process established for the allocation of these revenues by Chapter 660, Statutes of 1986 (SB 85, Alquist), and the existing statutory appropriation for the Supercomputer Center Account.

*Intended Uses of Unitary Fund Revenues.* As we discuss in more detail in our analysis of the Department of Commerce (please see Item 2200 on page 210), the Unitary Fund was established by Ch 660/86 as a source of funds for infrastructure and economic development programs. The Unitary Fund receives revenue from "election fees" paid by corporations which elect to have their state tax liability determined pursuant to the "water's edge" method. (A water's edge election allows banks and corporations to base their California income tax liability on their state's share of domestic, rather than worldwide, income.) Under current law, two-thirds of the revenue to the fund is automatically allocated to the Future Infrastructure State Targeted Account (FISTA) and one-third is allocated to the Local Project Account for Non-Transient Spending (LPANS). Chapter 660 contemplates that these funds will be appropriated by the Legislature for the specific purposes authorized in the law prior to their expenditure. Of the funds allocated to the FISTA, Chapter 660 calls for 80 percent to be disbursed by the California Development Review Panel (CDRP), and 20 percent is to be used for the support of several export financing programs.

The proposed control section seeks to override these allocations to the FISTA and the LPANS, by declaring that notwithstanding any provision of existing law, no expenditure, transfer or disbursement of Unitary Fund revenues shall be made except as specifically authorized in the Budget Act.

*Supercomputer Center Account.* The Supercomputer Center Account was established by Chapter 1558, Statutes of 1986 (AB 4440, Cortese). This measure appropriates \$2 million to the account from the Unitary Fund in each of the following years: 1989-90, 1990-91 and 1991-92. The Department of Commerce is to disburse these funds as a grant each year to the San Diego Supercomputer Center, to assist in the development of a graphics and animation facility. The budget documents reflect the allocation of these funds to the account in 1989-90 and 1990-91. However, it appears that the proposed control section would prohibit this allocation, even though the administration intends that the funding be provided. This



could be remedied by modifying the language to specifically authorize the Supercomputer Center Account funding.

### SECTION 11.61

#### REFUNDS OF ELECTION FEE REVENUES

##### ANALYSIS AND RECOMMENDATIONS

*We recommend that this control section be deleted from the Budget Bill because it is unnecessary.*

This section was added to the Budget Bill for the first time this year in response to several pending lawsuits with respect to revenues deposited in the California Unitary Fund. The revenues deposited in the Unitary Fund are derived from "election fees" charged to banks and corporations which elect to have their state tax liability determined pursuant to the "water's edge" method. (A water's edge election allows banks and corporations to base their California income tax liability on their state's share of domestic, rather than worldwide, income.) A number of banks and corporations have filed lawsuits challenging the state's authority to charge an election fee for water's edge tax treatment, however. These banks and corporations have further requested that the court require the state to impound the election fees the banks and corporations have already paid, and this request has been granted by the court.

This section states that it is legislative intent to appropriate sufficient funds to repay any water's edge election fees which are ordered to be refunded, if the court determines that the collection of those fees is invalid. This language is apparently intended to allow the administration to proceed with a variety of transfers and expenditures of Unitary Fund revenues proposed in the Budget Bill by pledging to satisfy refund requests from *other* available funds, should that become necessary. As noted above, however, the San Francisco Superior Court has issued several injunctions impounding about \$9.5 million in current-year election fee revenues pending final resolution of the lawsuits. Consequently, the State Controller has placed the water's edge election fees paid by the plaintiffs to the lawsuits into a separate escrow account, as ordered by the court, so that they are not available to the state for expenditure. Because of the court injunction, the proposed language will not free up the election fee revenues that have been or may yet be impounded, and therefore this language appears to be unnecessary; accordingly, we recommend that it be deleted.

### SECTION 12.00

#### APPROPRIATIONS LIMIT FOR 1990-91

##### ANALYSIS AND RECOMMENDATIONS

*We withhold recommendation on this section, pending the receipt of final data on the factors used to adjust the state's appropriations limit and the outcome of the June 1990 election.*

This section establishes the state's 1990-91 appropriations limit called for by Article XIII B of the State Constitution. It also sets a time limit on judicial challenges to the limit established by this section.

The budget proposes a 1990-91 limit of \$31.2 billion. This is only a preliminary estimate of the limit, however, as the limit's annual adjustment factors for inflation and population will not be final until May.

Further, on June 5, 1990 the voters will be asked to consider a measure to amend Article XIII B. This measure would significantly change the appropriations limit if adopted. Thus, the Legislature will not be able to ascertain the proper 1990-91 appropriations limit until after the June election. At that time, we will report our recommendations on the state's appropriations limit to the Legislature.

### SECTION 12.31

#### PROPOSITION 98 RESERVE

#### ANALYSIS AND RECOMMENDATIONS

*We recommend that the Legislature determine an appropriate level for the Proposition 98 reserve following the May revision, based on the amount needed to insure against potential declines in the overall level of the Proposition 98 minimum funding guarantee. We further recommend that, at that time, the Legislature appropriate the balance of the reserve (in excess of this amount) for designated, high-priority purposes.*

The Governor's Budget proposes spending \$17.1 billion in General Fund appropriations for education programs which count towards meeting Proposition 98 minimum funding requirements. Of this amount, \$220 million is reserved by Control Section 12.31 "for deficiencies and other educational purposes in program areas which are funded under the provisions of Proposition 98."

Our analysis indicates that the appropriate size of the Proposition 98 reserve will vary with (1) the amount of the "gap" between the two alternative calculations of the Proposition 98 minimum funding guarantee (the "percent of General Fund revenues" test versus the "maintenance of prior-year service levels" test), (2) the margin of error in revenue projections for both the state General Fund and local property taxes, and (3) the Legislature's willingness to tolerate the "risk" of appropriating more for education than the minimum amount guaranteed by Proposition 98. While the third factor reflects a value judgment that only the Legislature can make, the first two depend upon various quantifiable factors—most of which will not be well known until the time of the May revision.

In order to ensure that the Proposition 98 reserve is neither "too large" nor "too small," we recommend that the Legislature postpone action on Control Section 12.31 until the time of the May revision. At that time, we will be better able to advise the Legislature regarding its options and the associated risks. We further recommend that the Legislature give consideration to specified, high-priority programs when deciding how to spend any available Proposition 98-related funds in excess of the desired reserve.

This issue is discussed in greater detail in Item 6110 (Department of Education).

## SECTION 12.32

## PROPOSITION 98 FUNDING GUARANTEE

## ANALYSIS AND RECOMMENDATIONS

*We withhold recommendation on this section, pending the receipt of updated information on the appropriate level of the Proposition 98 minimum funding guarantee.*

This section (1) establishes \$17,094,644,000 (40.909 percent of General Fund revenues) as the total appropriation for meeting Proposition 98 minimum funding requirements in 1990-91, (2) states that all appropriation items identified as "Proposition 98" in the Budget Act are for meeting Proposition 98 minimum funding requirements, and (3) authorizes the Department of Finance to designate additional appropriation items as counting towards meeting Proposition 98 minimum funding requirements "when such designation is consistent with legislative intent."

The amount designated for the Proposition 98 reserve is a preliminary estimate of the amount needed to meet minimum funding requirements. The amount of funding required to meet Proposition 98 minimum funding requirements can vary with changes in state and local revenues, average daily attendance, and inflation. When updated estimates of these variables are available in May, we will report our recommendation on the appropriate level of Proposition 98 appropriations to the Legislature.

## SECTION 12.33

## TRANSFERS OF FUNDS AMONG PROPOSITION 98 PROGRAMS

## ANALYSIS AND RECOMMENDATIONS

*We recommend that this section be deleted.*

This section authorizes the Department of Finance (DOF) to transfer funds among programs that count towards meeting Proposition 98 minimum funding requirements. The section provides that such transfers shall be in accordance with procedures outlined in Control Section 28, including legislative notification.

Control Section 12.33 would significantly broaden the powers of the DOF beyond those currently provided by Section 28. (Control Section 28 authorizes the Department of Finance to augment or reduce the amount available for expenditure *within* a category or program, under specified conditions, including legislative notification. Section 28 does not authorize the transfer of funds *among* programs.) For example, Section 12.33 would give the DOF the authority to reduce an appropriation made by the Legislature to a specific program, and transfer these amounts to fund another Proposition 98-eligible program at a level higher than budgeted. The administration, however, has not provided any justification as to why this new control section is needed.

Because Section 12.33 would give broad powers to the DOF for no identifiable purpose, we recommend that it be deleted.

**SECTION 23.50****ALLOCATION OF FEDERAL IMMIGRATION REFORM MONIES****ANALYSIS AND RECOMMENDATIONS****Conform Section 23.50 to Action in Various Items**

*We recommend that Section 23.50 be modified to reflect the actions the Legislature takes in various items of the Budget Bill.*

This section appropriates federal funds made available under the federal Immigration Reform and Control Act (IRCA). This act authorized a general amnesty for certain groups of undocumented persons, holding out eventual citizenship to these individuals.

The IRCA legislation included \$4 billion in federal funds—known as State Legalization Assistance Grants (SLIAG) funds—to pay for the cost of certain state and federal services that would be available to newly legalized persons.

The 1990-91 Governor's Budget proposes through this section to spend \$507.8 million in federal SLIAG funds to reimburse state and local programs for the cost of providing services to eligible newly legalized persons. The Budget Bill also includes these appropriations in the schedules of each department that receives SLIAG funds.

We discuss several issues related to SLIAG in detail in our review of the Department of Health Services (Item 4260) budget. Specifically, we address the processes for claiming SLIAG funds and various program implementation and reporting issues in the medically indigent services, county medical services, and clinics programs.

We recommend that this section be modified to reflect the actions the Legislature takes in various items of the Budget Bill.

**Reduction in Federal Funds May Affect State Expenditure Plan**

*The level of federal SLIAG funding for 1990-91 is uncertain and will not be known until after the Legislature completes action on the Budget Bill. The Legislature has several options for determining spending levels in light of this uncertainty.*

In the IRCA, the Congress committed to expenditures of \$1 billion each year for four federal fiscal years (FFYs): 1988 (October 1987 through September 1988) through 1991. However, in its action on the FFY 1990 budget, the Congress reduced FFY 1990 SLIAG funding by \$550 million, and expressed its intent to provide the \$550 million during FFY 1991-92 instead. This reduction in funds reduced California's allocation in FFY 1990 from \$493.9 million to \$174.9 million.

The administration indicates that its budget proposal for 1990-91 is based on an assumption that the Congress will return to its earlier funding levels in its action on the FFY 1991 budget. Specifically, the administration estimates that California will receive \$486 million from the FFY 1991 SLIAG appropriation, with three-quarters of these funds, or \$364.5 million, available for expenditure during state fiscal year 1990-91.

Table 1 displays California's share of federal SLIAG appropriations and the administration's actual and proposed expenditures through 1990-91.

The first column of Table 1 illustrates that, based on the administration's assumptions regarding SLIAG funding, California's share of the federal SLIAG appropriations will exceed proposed expenditures by \$173.7 million.

**Table 1**  
**State Legalization Impact Assistance Grant (SLIAG)**  
**Federal Appropriations and Proposed State Expenditures**  
**Administration Assumptions Regarding SLIAG Funding**  
**Versus President's Proposal**  
**1987-88 through 1990-91**  
**(in millions)**

	<i>Administration Assumptions</i>	<i>President's Proposal</i>
California's share of federal SLIAG appropriations		
FFY 1988 <sup>a</sup> .....	\$570.4	\$570.4
FFY 1989 .....	522.5	522.5
FFY 1990 (estimated) .....	174.9	174.9
FFY 1991 (estimated) — through July 1991 .....	<u>364.5</u>	<u>131.2</u>
Total resources through July 1991 .....	\$1,632.3	\$1,399.0
Expenditures		
State FY 1987-88 .....	\$120.0	\$120.0
State FY 1988-89 .....	334.8	334.8
State FY 1989-90 (estimated) .....	496.0	496.0
State FY 1990-91 (proposed) .....	<u>507.8</u>	<u>507.8</u>
Total proposed expenditures .....	\$1,458.6	\$1,458.6
Difference between resources and expenditures .....	\$173.7	-\$59.6

<sup>a</sup> Federal fiscal year (FFY) 1988 (October 1987 through September 1988).

The President's FFY 1991 budget proposes to continue to fund SLIAG at a reduced level. Based on the President's proposal, California would receive the same amount in FFY 1991 that it is receiving in FFY 1990 (\$174.9 million). The total amount of federal funds available for expenditure in state fiscal year 1990-91 would be three-quarters of this amount, or \$131.2 million. The second column of Table 1 shows that, under the President's proposal, there would be a shortfall in federal appropriations of \$59.6 million.

Our review indicates, however, that it is not certain the Congress will restore FFY 1991 funding to earlier levels. Even at the time the Legislature completes action on the 1990 Budget Bill, it will be too soon to determine final congressional action on the President's proposal.

**Legislature's Options.** Our review indicates that the Legislature has two major options in considering 1990-91 expenditures:

- **Approve the administration's proposed spending level for 1990-91.** This assumes California's share of the FFY 1991 federal appropriation will be sufficient to cover expenditures during state fiscal year 1990-91, plus the first quarter of 1991-92. Under this assumption, California's allocation for the first three quarters of FFY 1991 would have to be at least \$59.6 million higher than the amount that would be available under the President's budget proposal.

- *Reduce 1990-91 expenditures* in line with the amount that would be available under the President's budget. This option would require reductions totaling \$59.6 million.

We have no basis for recommending between these options. According to the Health and Welfare Agency, the Congress reduced the FFY 1990 SLIAG appropriation for two reasons. First, many states, including California, have been slow to claim the SLIAG funds. Second, the Congress used the reduction to help meet Gramm-Rudman expenditure limits. In considering the FFY 1991 budget, the Congress will still face problems meeting the Gramm-Rudman requirements. However, it is possible that state claims for these funds will increase. In this case, the Congress may decide to meet the funding commitments it made in the IRCA.

#### **Legislative Notification Needed**

*We recommend that the Legislature adopt Budget Bill language requiring the Director of Finance to notify the Legislature prior to reducing the amount available in Control Section 23.50 due to reduced federal appropriations.*

If the federal appropriation is insufficient to cover the amounts appropriated in the Budget Act, the administration would be required to impose reductions on some or all of the programs for which the Legislature has appropriated funds. We believe the Legislature should have an opportunity to review the administration's priorities in such a situation. Therefore, we recommend that the Legislature adopt Budget Bill language requiring the Director of Finance to notify the Joint Legislative Budget Committee prior to reducing the amount available in Control Section 23.50 due to reduced federal appropriations. The following language is consistent with our recommendation:

The Director of Finance may authorize a reduction of the amount available for expenditure under this section if the Director determines that federal appropriations are insufficient to allow the expenditures. This reduction may be authorized not sooner than 30 days after the Director provides notification in writing to the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may determine.

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