

# **CONTROL SECTIONS**

## ***Analysis and Recommendations of General Control Sections***

The so-called "control sections" included in the 1992-93 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 1992-93 may be found in Sections 3.00 through 36.00 of SB 1280 (Alquist) and AB 2303 (Vasconcellos). In many instances, the numbering of these sections is not consecutive, as the section numbers in the 1992-93 Budget Bill have been designed to correspond with the equivalent or similar sections in the 1991 Budget Act.

The Budget Bill also contains Section 1.25, which provides that no further "trigger-related reductions" shall be made to General Fund appropriations on July 1, 1992, either pursuant to Ch 458/90 (AB 2348, Brown) or other statutes.

In addition, the Budget Bill includes Sections 1.00, 1.50, 2.00, 99.00, and 99.50. These are technical provisions primarily relating to the coding, indexing, and referencing of the various items in the bill.

### **Sections That We Recommend Be Approved**

The following sections are virtually identical to the sections in the 1991 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
3.75	Centrex Service Costs
5.00	Attorney Fees — State Courts
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

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8.51	Federal Trust Fund Account Numbers
8.60	Single Audit Review Costs
9.20	Administrative Costs for Property Acquisition
9.30	Appropriations to be Charged for Federal Writs
9.50	Minor Capital Outlay
11.51	Energy-Related Fund Transfers
11.55	Outer Continental Shelf Land Act
11.60	Unitary Fund
12.30	Special Fund for Economic Uncertainties
13.00	Legislative Counsel Bureau
14.00	Pooled Money
24.00	State School Fund
24.10	Driver Training
24.30	Transfer Rental Income
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 That We Recommend Be Modified

We recommend various actions on the following sections:

### SECTION 3.60

#### Recapture of Public Employees' Retirement System (PERS) Contributions

#### Analysis and Recommendations

*We withhold recommendation on employer contribution rates for retirement benefits pending final determination of the actual rates to be applied in the budget year.*

This control section, which is identical to Control Section 3.60 of the 1991 Budget Act, specifies the contribution rates for the various retirement classes of state employees. The section also authorizes the Department of Finance (DOF) to reduce any appropriation in the Budget Bill that is in excess of the amount required as a result of reductions in these rates. In addition, the section authorizes the DOF to require the State Controller to offset these contributions with surplus funds in the employer accounts.

Chapter 83, Statutes of 1991 (AB 702, Frizzelle), transferred responsibility for the determination of the state employer contribution rates from the PERS Board of Administration to the Office of the State Actuary. However, at the time this analysis was prepared, no State Actuary had been confirmed by the Legislature. As a result, the PERS Board has retained the responsibility of developing employer contribution rates for 1992-93. At the time this analysis was prepared, a final determination of these rates had not been made.

Consequently, we withhold recommendation pending final determination of 1992-93 rates.

### SECTION 4.00

#### Health Insurance Premiums

#### Analysis and Recommendations

*We withhold recommendation on the monthly state contribution rates for active employee and annuitant health insurance specified in this section, pending final determination of the actual health insurance premium rates to be charged in the budget year.*

This control section specifies the monthly amounts that the state contributes toward the cost of its employees' and retirees' health insurance. The section proposes to freeze the state's monthly contributions for *active* employees at a level equal to that provided in 1990-91. These monthly amounts are (1) \$157 for the employee only, (2) \$292 for an employee and one dependent, and (3) \$367 for one employee with two or more dependents.

With regard to retired state employees, the budget proposes to fully fund the increase in health insurance rates applied to retired state employees. It provides for monthly state contributions for annuitants in the amounts of (1) \$174 for the annuitant only, (2) \$323 for an annuitant and one dependent, and (3) \$410 for one employee with two or more dependents.

Changes in the coverage of, and premiums for, state employees health insurance result from negotiations between Public Employees' Retirement System staff and the insurance carriers. These negotiations are typically completed late in May.

At the time that this analysis was prepared, there was no basis for determining the contribution rates for state employees proposed in this section. Accordingly, we withhold recommendation.

## 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, which is identical to Section 4.20 of the 1991 Budget Act, 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 in administering the health benefits program and (b) toward a special reserve in the PECRF and (2) recapturing excess payments to the PECRF.

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 1992-93 health insurance premiums.

## SECTION 11.50

### Distribution of Tidelands Oil Revenues

#### Analysis and Recommendations

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

This section would modify existing law governing the allocation of tidelands oil revenues for the budget year. Table 1 compares the allocation of these revenues under existing law with the allocation proposed in this section.

**Table 1**

#### **Distribution of 1992-93 Tidelands Oil Revenues Comparison of Current Law with Section 11.50**

(in thousands)

Allocation	Current Law	Section 11.50
State Lands Commission	\$10,181	\$10,181
California Water Fund	25,000	—
Central Valley Project	5,000	—
Sea Grants	525	—
Capital Outlay Fund for Public Higher Education (COFPE)	25,174	—
Energy and Resources Fund	—	—
Housing Trust Fund	—	3,000
Special Account for Capital Outlay (SAFCO)	—	52,699
<b>Totals</b>	<b>\$65,880</b>	<b>\$65,880</b>

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

## SECTION 12.00

### Appropriations Limit for 1992-93

#### 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.*

This section establishes the state's 1992-93 appropriations limit called for by Article XIII B of the California Constitution, as amended by Proposition 111. It also sets a time limit on judicial challenges to the limit established by this section.

The budget proposes a 1992-93 limit of \$35,015 million. This is only a preliminary estimate of the limit, however, as the limit's annual adjustment factors for population and the change in California's per capita personal income will not be final until May. We will report our recommendations for setting the state's 1992-93 appropriations limit when further information becomes available on the adjustment factors and transfers of financial responsibility.

## 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 \$18,520,117,000 (41.43 percent of the General Fund revenues) as the total appropriation for meeting Proposition 98 minimum funding requirements in 1992-93, (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 per capita personal income. 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 23.50

### Allocation of Federal Immigration Reform Monies

#### MAJOR ISSUES

- ▶ **Federal Funding Uncertain.** The President's proposed budget would provide \$457.1 million less than the Governor's Budget expects to receive in federal State Legalization Impact Assistance Grant funds in 1992-93. Such a reduction would increase General Fund costs by at least \$217.7 million.

### Analysis and Recommendations

#### Conform Section 23.50 to Action in Various Items

*We recommend that the Legislature modify Control Section 23.50 to reflect the actions the Legislature takes in various other 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 grants — known as State Legalization Impact Assistance Grant (SLIAG) funds — to pay for the cost of certain state and federal services that would be available to newly legalized persons.

**Budget Proposal.** The 1992-93 Governor's Budget proposes through this section to spend \$452.6 million in federal SLIAG funds to reimburse state and local programs for the cost of providing services to eligible newly legalized persons. However, the budget *allocates* only \$217.7 million of the appropriation. This allocation is \$68.6 million, or 24 percent, lower than estimated current-year expenditures. Specifically, the budget proposes to:

- Allocate \$217.7 million to fully fund the estimated caseload for all public assistance programs, including Medi-Cal and SSI/SSP (increase of \$22.5 million).



- Eliminate funding for education programs (reduction of \$56 million) and all public health programs (reduction of \$32.2 million). The budget does not include funds from other sources to offset the elimination of SLIAG funding for these programs.
- Eliminate funding for administrative costs in various departments (reduction of \$2.9 million). The budget proposes \$676,000 from the General Fund to partially backfill the loss of the SLIAG funds for the Health and Welfare Agency and the Departments of Health Services and Social Services.

The budget also appropriates, but does not allocate, \$234.9 million. The budget includes language that (1) would permit the Department of Finance to allocate these funds, subject to legislative notification, and (2) proposes the following four priorities for the use of these funds:

- *Meet specific federal funding requirements.* Funds would be used to meet those federal requirements necessary in order to receive SLIAG funds. As we discuss below, this issue concerns the funding for public health services.
- *Pay administrative costs for SLIAG-funded programs.* The language permits the administration to allocate SLIAG funds to replace the proposed appropriation of \$676,000 from the General Fund for administrative costs.
- *Fund any other programs required by federal or state law or regulation.* This refers to the entitlement programs that, as we mentioned above, are fully funded at \$217.7 million.
- *Fund any other programs that have previously received SLIAG funds.* This would most likely consist of education, mental health, primary care clinics, or the county health services that were "realigned" in the current year.

Because the appropriation of these funds in each department is subject to review by the Legislature during the budget process, we recommend that this section be modified to reflect the final actions the Legislature takes in various items of the Budget Bill.

### **Level of Federal Funding is Uncertain**

*The level of federal SLIAG funding for 1992-93 is uncertain and will not be known until after the Legislature completes action on the Budget Bill. The Legislature has at least three options for determining spending levels in light of this uncertainty.*

**Congress Continues to Defer Funding.** In the IRCA, the Congress committed to expenditures of \$1 billion each year for four federal fiscal years (FFYs) from 1988 (October 1987 through September 1988) through 1991.

However, in its actions on the FFY 1990 and FFY 1991 budgets, the Congress reduced each year's SLIAG funding by \$550 million and instead expressed its intent to provide the unfunded amount — \$1.1 billion — during FFY 1992. During FFY 1992, however, the Congress appropriated *no* SLIAG funds and expressed its new intent to provide additional funds during FFY 1993.

The Governor's Budget for 1992-93 assumes that (1) the Congress will provide the \$1.1 billion in deferred SLIAG funds in the FFY 1993 budget and (2) of this amount, California will receive \$637.1 million. The President's FFY 1993 budget, however, proposes to provide only \$300 million in SLIAG funding, of which California would probably receive at least \$180 million. (California's actual share could be slightly higher because some other states have stopped submitting claims for SLIAG funds.) The President's budget proposes to defer the remaining \$800 million until FFY 1994.

Table 1 shows the administration's proposed expenditures of federal SLIAG funds and compares this to (1) the Governor's assumptions about federal appropriations and (2) the President's proposed appropriations.

**Table 1**

**State Legalization Impact Assistance Grant  
Proposed State Expenditures  
Compared to Federal Allocations  
1987-88 through 1992-93**

(in millions)

	Governor's Assumptions	President's Proposal
Total federal allocations through September 1992	\$1,462.9	\$1,462.9
Proposed expenditures through 1991-92	-1,647.4	-1,647.4
Current-year deficit given current resources	-\$184.5	-\$184.5
Assumed additional federal allocation (federal fiscal year 1993)	637.1	180.0
Current-year balance with additional federal allocation	\$452.6	-\$4.5
Governor's proposed 1992-93 expenditures	-452.6	-452.6
Total deficit, 1991-92 and 1992-93	—	-\$457.1

**Current-Year General Fund Deficiency of \$184.5 Million.** As Table 1 indicates, California has received a total of \$1.5 billion in SLIAG funds, but estimates total expenditures of \$1.6 billion through 1991-92. Consequently, estimated expenditures through 1991-92 will exceed resources that are currently available by \$184.5 million, leaving California with a current-year General Fund deficiency in that amount.

The administration proposes to use the FFY 1993 SLIAG appropriation to cover this deficiency. However, because the FFY 1993 funds will not be available before October 1992, three months after the 1991-92 state fiscal year has ended, the administration plans to loan itself funds to cover the 1991-92 costs until the FFY 1993 SLIAG appropriation is available.

Table 1 shows that, under the President's proposal, estimated expenditures through the current year would exceed federal appropriations by \$4.5 million even after the FFY 1993 appropriation is counted.

**Shortfall Could Grow to \$457.1 Million in Budget Year.** Table 1 also shows that, under the President's proposal, the difference between resources and expenditures grows to \$457.1 million once proposed budget-year expenditures are included. Under that scenario, the Legislature would have to appropriate \$217.7 million from the General Fund to cover the costs of entitlement programs.

**Legislature's Options.** The Governor's Budget presents the Legislature with a dilemma of which federal funding level it should assume when crafting a budget for 1992-93. The Legislature basically has three major options:

- *Approve the administration's proposed spending level for 1992-93.* This would mean approving the proposed appropriation of \$452.6 million in SLIAG funds and allocating it according to the Legislature's priorities. This assumes that the Congress will appropriate more for SLIAG than the President proposes and that California's share of the FFY 1993 federal appropriation will be sufficient to cover expenditures during state fiscal years 1991-92 and 1992-93. To date, however, the Congress has never appropriated more for SLIAG than the President included in his budget proposal.
- *Reduce 1992-93 expenditures to cover only the costs of (1) meeting requirements for receiving federal funds and (2) entitlement programs.* This would require reducing the appropriation to \$250.4 million and allocating (1) \$217.7 million for entitlement programs, (2) approximately \$32 million for public health programs, and (3) \$676,000 for administration. This would eliminate \$202.2 million of the proposed appropriation.
- *Eliminate 1992-93 expenditures to be consistent with the amount that would be available under the President's budget.* This would mean that the Legislature would appropriate no SLIAG funds. In addition, it would require reductions totaling \$4.5 million in the current year and would require the Legislature to provide a General Fund augmentation of \$217.7 million in the budget year to cover the costs for entitlement programs.

The Legislature's decision in choosing among these options is complicated by a number of issues related to federal requirements and the state's fiscal situation. We discuss these issues next.

## Public Health Funding May be Required

*We recommend that the Health and Welfare Agency and the Department of Finance report during budget hearings on the amount of SLIAG funds that may need to be allocated for public health programs in order to comply with federal requirements.*

The administration's proposal does not specifically allocate funds for public health programs. However, the administration has proposed Budget Bill language which states that its first priority for use of the unallocated funds is to meet those federal requirements which are necessary in order to receive SLIAG funds. Depending on the amount of federal funding California receives, federal requirements may make funding for public health programs necessary. This is because the IRCA generally requires that states use at least 10 percent of the SLIAG funds they receive in each of three service categories: public health, public assistance, and education. As Table 2 indicates, however, California has not used 10 percent of its SLIAG funds for public health over the six-year period. Rather, based on the administration's estimates, only 7 percent of the total SLIAG expenditures would be used for public health from 1987-88 through 1992-93.

**Table 2**

### State Legalization Impact Assistance Grant State Expenditures by Category Six-Year Totals, 1987-88 through 1992-93<sup>a</sup>

(dollars in millions)

Category	Expenditures	Percent of Total Expenditures
Public health	\$130.4	7.0%
Public assistance	1,343.0	72.0
Anti-discrimination/education	1.8	0.1
Education	389.8	20.9
<b>Totals</b>	<b>\$1,865.0</b>	<b>100.0%</b>

<sup>a</sup> Expenditure totals for 1992-93 include only the allocated portion of the proposed appropriation.

The IRCA exempts a state from the 10 percent requirement if the state does not require the use of the full 10 percent." We believe it is likely that California will not need to use 10 percent of its SLIAG funds in order to provide sufficient public health services to eligible recipients. However, the federal law is not clear regarding how the state can qualify for this exemption.

Nevertheless, it is probably reasonable to assume that as long as California (1) receives sufficient SLIAG funds to provide services and (2) has used less than 10 percent of the funds for public health, it must continue to provide some level of public health services. Accordingly, if California receives sufficient SLIAG funds to provide services during 1992-93, the Legislature needs to know the magnitude of the public health costs that will be funded. SLIAG-funded public health costs in the current year are \$32.2 million. The administration indicates that it has not estimated how much 1992-93 public health costs would be, but it is likely that they would be in the same range as current-year costs. We therefore recommend that the Health and Welfare Agency and the Department of Finance report during budget hearings on the amount of SLIAG funds that may need to be allocated for public health programs during 1992-93.

### **Legislature Should Clearly Establish its Priorities**

*We recommend that the Legislature adopt Budget Bill language that (1) outlines its priorities for SLIAG funding and (2) reserves for use during 1993-94 any SLIAG funds in excess of those needed to meet federal requirements and fund entitlement programs and administrative costs.*

We have three major concerns with the administration's budget proposal. First, while we generally agree with the first three priorities the administration proposes — meeting federal requirements, paying administrative costs, and funding entitlement programs — we believe the priority order should be changed. Second, we believe that the budget proposal provides too much administrative discretion and that the Legislature should adopt language that more clearly establishes its priorities for the use of any additional SLIAG funds. Third, we are concerned about the administration's proposal to appropriate, but not allocate, \$234.9 million in SLIAG funds.

Below we discuss each of the administration's proposed priorities and make various recommendations on how the Legislature should address these priorities if it chooses either of the first two funding options described above — that is, approving the administration's proposed spending level or reducing expenditures to the level necessary to meet federal requirements and cover entitlement programs.

***Administration's First Priority: Meeting Federal Requirements.*** In the budget proposal, the first priority for using the unallocated funds is to meet federal requirements that constitute a condition for receipt of SLIAG funds. We concur that this should be the first priority.

As we discussed above, if California receives sufficient SLIAG funding to provide services during 1992-93, then it must provide public health services in order to receive additional SLIAG funds. However, if California *does not* receive sufficient SLIAG funds to provide services during 1992-93, there is no requirement to provide these public health services.

The Legislature, therefore, has two choices for funding public health programs:

- *Wait until October 1992 to provide funds for public health programs* and then fund them only if California receives enough SLIAG funds to provide additional services during 1992-93. This option prevents expenditures for public health programs if they are not required, but risks a loss of continuity in the services if providers stop giving services for three months pending funding. If the Legislature chooses this option, we recommend that it adopt Budget Bill language specifying the amount of funding that will be available once federal funds are received.
- *Appropriate funds for public health in anticipation that sufficient federal funds will be received to pay for services during 1992-93.* While this option risks a General Fund obligation if SLIAG funds are not sufficient to cover the costs of providing services from July through October 1992, it retains continuity in the provision of services. The General Fund costs would probably be less than \$10 million. If the Legislature chooses this option, we recommend that it appropriate the specific amount for public health rather than leaving it for the administration to provide the funds from the unallocated portion of the SLIAG appropriation.

***Administration's Second and Third Priorities: Administration and Entitlement Costs.*** The administration's second priority for use of the unallocated funding is to replace \$676,000 in General Fund money proposed for administrative costs with SLIAG funds, and the third priority is to fund entitlement programs. We believe these priorities should be switched so that the second priority is to fund entitlement programs. This would allow any available SLIAG funds to be applied first toward entitlement costs before they are used for administrative costs, for which the budget already proposes a General Fund appropriation. Rather than providing an unallocated appropriation, however, we recommend that the Legislature adopt Budget Bill language similar to that in the 1991 Budget Act requiring that any additional SLIAG funds be used to (1) cover any unfunded entitlement costs and (2) replace General Fund monies appropriated for administrative costs.

***Administration's Fourth Priority: Other Programs.*** The administration's fourth priority is to fund any other programs that have previously received SLIAG funds. This would most likely include education, mental health, primary care clinics, or the realigned county health programs. Under the administration's proposal, the Department of Finance (DOF) has the discretion to allocate funds for any of these programs, according to its own priorities, *before* the amount of the FFY 1993 allocation is determined. It is possible that funds could be available for these programs during 1992-93, if the Congress provides considerably more funding than the President has

proposed. However, we do not recommend that the Legislature use SLIAG funds for these purposes for the reasons discussed below.

First, increasing the funding for these programs reduces the SLIAG funds that are available for other required services, either during 1992-93 or 1993-94.

Second, given the uncertainty of the level of federal funding that will be provided, appropriating these funds in the budget — even if they are not allocated — could give providers a false expectation that they will receive funds that may never be available. Moreover, in an attempt to maintain continuity of providers of these optional programs, the DOF would be under pressure to allocate the funds to these optional programs before the Congress makes a SLIAG appropriation. If the additional federal appropriation is not sufficient to cover the costs of these additional programs, General Fund expenditures would increase during 1992-93 to cover these obligations. As we noted above, nothing in the proposed language prevents the DOF from taking such an action.

Given the severity of the state's fiscal problems, it is not clear why the administration would appear to prefer funding optional services in the budget year rather than reserving funds to offset General Fund costs for currently unanticipated mandated services in 1992-93 or entitlement costs in 1993-94. Given these problems, we cannot recommend that the Legislature approve this part of the proposal. If the Legislature chooses to appropriate any SLIAG funds for the budget year, we recommend that it adopt Budget Bill language specifying that any SLIAG funds in excess of those needed for the first three priorities will be reserved to fund mandated entitlement costs during 1992-93 or 1993-94.

### **Legislature Faces Transition Issues**

*Regardless of the level of federal SLIAG funds that will be available, the Legislature faces several issues related to the transition from the use of SLIAG funds to state funds for various programs.*

Regardless of the level of federal funding the Congress provides to California in FFY 1993, we believe the Legislature should begin in 1992-93 to decide how to address continuing service demands once SLIAG funds are no longer available.

The major issues the Legislature needs to address are the following:

- How will the Legislature fund programs that state or federal law will continue to require even after SLIAG funds are no longer available?
- Service demands will continue in all program areas, including those which are not specifically required by statute. Can providers address these service demands, and what are the fiscal and programmatic implications if they cannot?

- Does the Legislature want to continue to provide education services for newly legalized persons beyond the minimum level required for permanent residency? If so, (1) how will the services be funded and (2) should the Legislature continue to provide funding to community-based organizations in addition to funding provided to public agencies for adult education programs?

The Legislature should consider these issues when it takes action on the various budgets that have received SLIAG funds in prior years. We discussed several of these issues in detail in our *Analysis of the 1991-92 Budget Bill* (see Control Section 23.50).

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