

**SUMMARY OF LEGISLATIVE ACTION  
ON THE BUDGET BILL  
1986-87**

**JULY 1986**

## TABLE OF CONTENTS

LIST OF TABLES.....	ii
OVERVIEW.....	iii
THE 1986 BUDGET ACT.....	1
The Governor's Budget.....	1
Legislative Action on the Governor's Budget.....	3
Amounts Vetoed by the Governor.....	3
Further Changes to the Budget Proposed by the Governor.....	12
TOTAL EXPENDITURES.....	14
Historical Perspective on General Fund Expenditures.....	14
Total Expenditures, by Function.....	17
Total Expenditures, by Program.....	17
General Fund Cost-of-Living Adjustments.....	30
Summary of Major Expenditure Changes from 1985-86.....	34
GENERAL FUND REVENUES.....	41
CONDITION OF THE GENERAL FUND.....	43
ALLOCATION OF TIDELANDS OIL AND GAS REVENUES.....	45
THE STATE WORKFORCE.....	47
Legislative Changes to the State Workforce.....	47
Personnel-Years Vetoed by the Governor.....	47
Changes in the Workforce from 1985-86.....	49

## LIST OF TABLES

		<u>Page</u>
Table 1	Summary of Action Taken on the 1986 Budget Act.....	2
Table 2	Total Expenditures (1984-85 through 1986-87).....	16
Table 3	Trends in General Fund Expenditures (1980-81 through 1986-87).....	18
Table 4	General Fund, Special Fund, and Bond Fund Expenditures, by Function (1984-85 through 1986-87).....	19
Table 5	General Fund Expenditures, by Program (1984-85 through 1986-87).....	20
Table 6	Total Revenues for K-12 Education.....	22
Table 7	Trends in Total Revenues for K-12 Education (1977-78 through 1986-87).....	24
Table 8	Total State Aid to Postsecondary Education.....	26
Table 9	Trends in Total Revenues for California Community Colleges (1977-78 through 1986-87).....	28
Table 10	Change in Welfare Benefits.....	29
Table 11	General Fund Cost-of-Living Adjustments.....	31
Table 12	Major Expenditure Changes from 1985-86.....	35
Table 13	Actions Affecting General Fund Revenues.....	42
Table 14	Condition of the General Fund (1985-86 and 1986-87).....	44
Table 15	Distribution of Tidelands Oil and Gas Revenues.....	46
Table 16	Summary of Actions Affecting the State Workforce.....	48
Table 17	Trends in State Employment (1977-78 through 1986-87).....	50

## OVERVIEW

This report summarizes the fiscal effect of the 1986 Budget Act (AB 3217). In addition, it highlights the funding levels approved for the state's major programs in 1986-87, as well as the overall effect of the budget on the size of the state's workforce.

The expenditure and surplus estimates contained in this report are not predictions of what the final budget totals for fiscal year 1986-87 will be. Rather, these estimates simply reflect (1) the most recent projections of revenue to the General Fund, (2) the administration's assumptions about caseloads under "open-ended" programs, and (3) legislative action completed through June 30, 1986. As the fiscal year progresses, these estimates will be revised to reflect such factors as:

- Unanticipated economic developments;
- Changes in the rates of expenditure under entitlement programs, such as Aid to Families with Dependent Children (AFDC) and Medi-Cal;
- The enactment of new legislation;
- Administrative actions taken by the executive branch;
- Decisions handed down by the courts; and
- Actions taken by the Congress and the President on the 1987 federal budget.

## THE 1986 BUDGET ACT

The Budget Act for 1986-87 (Ch 186/86) was signed by the Governor on June 25, 1986. Table 1 presents a chronological summary of the changes made to the budget since it was proposed by the Governor on January 10, 1986.

### The Governor's Budget

Table 1 indicates that in his January budget, the Governor proposed that the state spend \$36.7 billion during fiscal year 1986-87. This amount included:

- \$30.7 billion in General Fund expenditures;
- \$5.5 billion in special funds expenditures; and
- \$0.5 billion in selected bond fund expenditures.

Subsequently, the Governor proposed changes to this spending plan that increased the total by \$411 million. These changes included an increase in General Fund spending of \$61 million, a \$70 million decrease in special fund spending, and a \$420 million increase in spending from selected bond funds.

Thus, as Table 1 shows, the Governor's revised budget called for expenditures totaling \$37.1 billion, of which \$30.8 billion was to come from the General Fund.

Table 1

Summary of Action Taken on  
the 1986 Budget Act  
(dollars in millions)<sup>a</sup>

	Expenditures			Total
	General Fund	Special Funds	Selected Bond Funds	
Governor's Budget as submitted (January)	\$30,698.9	\$5,514.5	\$525.4	\$36,738.9
Changes initiated by the administration	<u>61.1</u>	<u>-70.0</u>	<u>419.5</u>	<u>410.6</u>
Governor's Budget as revised (May)	\$30,760.0	\$5,444.5	\$944.9	\$37,149.5
Changes to the Governor's Budget made by the Legislature:				
Funding Reductions	-329.2	-128.7	-42.3	-500.2
Funding Increases	596.8	74.7	50.8	722.3
Gubernatorial changes:				
Re-estimates	5.0	--	--	5.0
Amounts vetoed	-675.2	-17.0	-24.3	-716.5
Nonattainment of PERS-related savings	190.8	40.1	--	230.9
Repayment of school loans	<u>-55.8</u>	<u>--</u>	<u>--</u>	<u>-55.8</u>
Budget as Chaptered	\$30,492.4	\$5,413.6	\$929.0	\$36,835.2
Additional changes to the budget proposed by the Governor:				
PERS legislation	-190.8	-40.1	--	-230.9
Restoration of funding	283.1	--	--	283.1
General Services funds	<u>9.5</u>	<u>--</u>	<u>--</u>	<u>9.5</u>
Budget as revised, plus proposed revisions	\$30,594.2 <sup>b</sup>	\$5,373.5	\$929.0	\$36,896.9 <sup>b</sup>

a. Details may not add to totals due to rounding.

b. These figures differ from the administration's figures due to a difference in the accounting for specific loans to school districts.

### Legislative Action on the Governor's Budget

Legislative action on the Governor's Budget resulted in a net expenditure increase of \$222 million. This reflected a \$268 million increase in General Fund spending, a \$54 million decrease in special fund spending, and a \$9 million increase in spending from selected bond funds. As a result, the Legislature approved expenditures by the state totaling \$37.4 billion for 1986-87.

### Amounts Vetoed by the Governor

The Governor vetoed a total of \$717 million from the Budget Bill. This amount, which represents 1.9 percent of total expenditures approved by the Legislature, consists of:

- \$675 million appropriated from the General Fund (2.2 percent of approved expenditures);
- \$17 million appropriated from special funds (0.3 percent); and
- \$24 million appropriated from selected bond funds (2.6 percent).

The Governor recognized that certain PERS-related savings anticipated in the budget would not be attainable without authorizing legislation. Because legislation authorizing these savings had not yet been passed by the Legislature, the Governor vetoed \$283.1 million from the General Fund for 12 programs he supported. These vetoes, which are reflected in the \$675 million identified above, could be restored if the legislation authorizing the PERS-related savings is passed by the Legislature. In order to reflect the costs which will be incurred by the state in the absence of this legislation, we have increased estimated General Fund expenditures by \$191 million and special fund expenditures by \$40 million.

The net effect of the actions taken by the Governor in signing the 1986-87 Budget Bill reduced state expenditures by \$481 million, relative to the level approved by the Legislature.

In acting on the Budget Bill, the Governor made a number of significant changes to the amounts appropriated by the Legislature. Among the more important of these changes, the Governor:

**State and Consumer Services**

● Department of General Services:

--Deleted \$9.5 million from the General Fund for state Capitol and security expenses. The administration has indicated that these services will continue to be provided, but has not indicated the source of funds to be used.

**Business, Transportation and Housing**

● Housing and Community Development:

--Deleted \$23.3 million (\$13.2 million General Fund) for various low-income housing programs.

● Department of Transportation:

--Eliminated a \$55 million transfer from the General Fund to the Transportation Planning and Development (TP and D) Account for mass transportation programs;

--Reduced by \$29.6 million the TP and D Account appropriation for the Transit Capital Improvements Program;

--Reduced by \$25.4 million the TP and D Account appropriation for the State Transportation Assistance Program;

--Eliminated 17.7 personnel-years and \$700,000 from the State Transportation Fund for snow removal.

### **Resources**

- Air Resources Board:

--Reduced from \$2 million to \$500,000 a legislative augmentation from the Motor Vehicle Account for special grants to air pollution control districts.

- Department of Parks and Recreation:

--Reduced local assistance grants by \$3,695,000 (\$3,590,000 from bond funds), including \$1.4 million for a grant to the County of Los Angeles for additional land and facilities at the Hollywood Bowl.

- Santa Monica Mountains Conservancy:

--Eliminated \$1 million from special funds for grants to nonprofit organizations.

- State Water Resources Control Board:

--Eliminated \$7,698,000 from the General Fund for 158 personnel-years of staff to oversee the cleanup of hazardous substances from leaking underground storage tanks.

--Reduced funding and staff to evaluate hydrogeological assessment reports (HARs) from the owners of toxic pits by \$1,528,000 from special funds and 28.6 personnel-years (these funds and staff were a reserve to assure the ability to evaluate additional HARs that may result from increased enforcement and surveillance efforts).

## Health

- Preventive Health Programs:

- Eliminated \$50 million (General Fund) from the Medically Indigent Service Program base budget.
- Eliminated \$4.9 million (General Fund) for a 1 percent COLA for the Medically Indigent Services Program.
- Deleted augmentations totaling \$4 million (General Fund) for rural health services.
- Deleted an augmentation of \$4.3 million (General Fund) for family planning services. A portion of the funds (\$1.3 million) would have been used to support testing for chlamydia.
- Reduced the legislative augmentations for AIDS by \$13.3 million (\$10.3 million General Fund).

- Medi-Cal:

- Lowered the obstetric provider rate increase from 80.5 percent to 26.5 percent, resulting in a decrease of \$23 million (\$11.5 million General Fund).
- Deleted \$77 million (\$38.5 million General Fund) for various rate increases for hospital services.
- Deleted \$24 million (\$12 million General Fund) for rate increases for providers receiving discretionary COLAs.
- Deleted \$2.4 million (\$1.2 million General Fund) for rate increases for adult day health care services.
- Reduced \$50 million (\$25 million General Fund) from the Medi-Cal base budget "to adjust...for an acceleration of provider claims received in the current year."

--Deleted \$21.4 million (\$10.7 million General Fund) to reflect the elimination of nonsteroidal anti-inflammatory drugs from the Medi-Cal drug formulary.

- Developmental Services:

- Eliminated \$10.8 million (General Fund) for a 5 percent COLA for residential care providers.

- Deleted \$3 million (General Fund) to reduce the COLA for nonresidential care providers from 3 percent to 1 percent.

- Mental Health:

- Deleted a \$2.6 million (General Fund) augmentation for a 72-bed facility in Los Angeles County.

- Eliminated an augmentation of \$4.8 million (General Fund) for AIDS mental health services.

### **Welfare and Employment**

- California Department of Aging

- Eliminated \$1.5 million in General Fund monies for Adult Day Health Care providers in order to provide services to AIDS victims.

- Department of Alcohol and Drug Programs:

- Eliminated \$3 million in General Fund monies for drug programs in Los Angeles and specified Bay Area counties. These programs would have provided prevention, intervention, and treatment services to intravenous drug users who are at risk of contracting or who have contracted AIDS.

- Eliminated \$1,027,000 in federal funds and 1.9 personnel-years in order for the state to subcontract with the counties to monitor SSI recipients who receive alcohol treatment services.

- Employment Development Department (EDD):
  - Eliminated \$1,385,000 appropriated from federal funds for employment programs for the deaf and hearing impaired, agricultural workers, and disabled youth.
- Department of Rehabilitation:
  - Reduced the COLA for Work Activity Program providers from 3 percent to 1 percent for a reduction of \$1.3 million.
  - Eliminated \$1.7 million which was reappropriated from the General Fund to provide special cost adjustments to Work Activity Program providers.
- Department of Social Services (DSS):
  - Eliminated \$8.85 million appropriated from the General Fund to (a) offset a \$6.1 million reduction in federal funds due to Gramm-Rudman-Hollings reductions and (b) provide \$2.75 million for potential growth in caseload and hours of service for the In-Home Supportive Services (IHSS) program.
  - Eliminated \$7.5 million from the General Fund as a reduction in the base funding level of the IHSS program.
  - Eliminated \$10.6 million from the General Fund as a result of reducing the COLA for IHSS providers from 4 percent to 1 percent.
  - Eliminated \$10.1 million in General Fund support from the base of the Child Welfare Services program.
  - Eliminated \$11.2 million from the General Fund as a result of reducing the COLA for AFDC Foster Family Homes from 5.1 percent to 1 percent and to provide no COLA to Foster Group Homes.

- Department of Economic Opportunity:

- Eliminated \$1.3 million appropriated from the General Fund to replace a reduction in federal funds from the Community Services Block Grant program due to Gramm-Rudman-Hollings reductions.

### **Criminal Justice**

- Judicial Local Assistance:

- Deleted a \$5 million legislative augmentation from the General Fund for initial implementation of the Trial Court Funding Act of 1985, a measure which establishes state funding for the trial courts.

- Department of Justice:

- Deleted an augmentation of \$1 million from the General Fund and 31.7 personnel-years provided by the Legislature for salary savings relief.

- Office of Criminal Justice Planning:

- Eliminated a new Local Toxics Enforcement and Training Program, for a reduction of \$1,150,000 from the Hazardous Waste Control Account, General Fund.

### **K-12 Education**

- Eliminated a total of \$113.5 million in General Fund support (including COLAs) for Urban Impact Aid, Meade Aid, Small School District Aid, and the Education Improvement Incentive Program;

- Eliminated a \$39.3 million General Fund augmentation to provide full funding for the estimated costs to court-ordered

and voluntary school desegregation programs in 1985-86 and 1986-87;

- Deleted \$27.6 million appropriated from the General Fund for cost-of-living adjustments to various education programs;
- Eliminated a \$7.8 million General Fund augmentation to provide full funding for enrollment growth in grades K-6 (School Improvement Program);
- Eliminated \$4.3 million appropriated from the General Fund to increase participation in the Mentor Teacher program;
- Eliminated a \$3.0 million General Fund augmentation to increase participation in the Gifted and Talented Education (GATE) program;
- Eliminated \$2.2 million appropriated from the General Fund for equalization of county juvenile hall programs' revenue limits, pursuant to AB 75 (Ch. 1597/85);
- Deleted a \$1.7 million General Fund augmentation to expand adult literacy programs in public libraries;
- Eliminated a \$1.0 million General Fund augmentation for "parent involvement programs" in public school; and
- Eliminated a \$1.0 million General Fund augmentation to train teachers to provide classroom instruction in sexually transmitted diseases, including AIDS.

#### **Higher Education**

- The University of California:

- Deleted \$20.5 million appropriated from the General Fund for staff merit increases and price adjustments;

--Deleted \$2.0 million appropriated from the General Fund for janitorial workload improvements; and

--Deleted \$1.3 million appropriated from the General Fund for expansion of the 4-H program for minority youths.

- California State University:

--Deleted \$10.4 million appropriated from the General Fund for staff merit salary adjustments and price increases;

--Deleted \$2.0 million appropriated from the General Fund for the Continuing Education concurrent enrollment program; and

--Deleted \$2.1 million (\$1.1 million in CSU's budget and \$1.0 million in the State Department of Education budget) appropriated from the General Fund for the Minority Underrepresentation and Teaching Improvement Program.

- California Community Colleges:

--Deleted \$34.2 million appropriated from the General Fund for a "one-time" revenue adjustment for districts experiencing a decline in average daily attendance;

--Deleted \$21.0 million appropriated from the General Fund for a student counseling, advisement and assessment program;

--Deleted \$10.0 million appropriated from the General Fund for a local staff development program;

--Deleted \$3.0 million from the General Fund for growth in the disabled students program.

## **General Government**

- California Public Broadcasting Commission:

- Eliminated an augmentation of \$3.5 million from the General Fund added by the Legislature to restore the commission's funding.

- Department of Industrial Relations:

- Eliminated \$2.2 million (General Fund) in funding for (1) workplace health and safety inspections, (2) a reduction in salary savings, and (3) additional workers' compensation judge teams.

## **Capital Outlay**

- State Coastal Conservancy:

- Eliminated \$1 million from bond funds for two projects.

- Department of Parks and Recreation:

- Deleted \$6,004,000 (\$5,372,000 from bond funds and \$632,000 from special funds) to eliminate five projects and reduce funding for two projects.

- Santa Monica Mountains Conservancy:

- Eliminated \$4,232,000 (\$4 million from bond funds and \$232,000 from special funds), including \$2 million for the Inner Valley Ranch in Glendale and \$2 million for Runyon Canyon in Los Angeles.

## **Further Changes to the Budget Proposed by the Governor**

In his veto message, the Governor reduced funding for 12 programs he supports by \$283.1 million (General Fund) in order to maintain the "necessary" level of funding for the reserve for economic uncertainties.

He indicated that he would join the Legislature to appropriate funds for these programs once the Legislature passes legislation authorizing the PERS-related savings contemplated by the Legislature in its action on the budget. The specific items are as follows:

	<u>Dollars in Millions</u>
● General Fund transfer to Transportation Planning and Development Account	\$35.0
● Medi-Cal	
--Nonsteroidal Anti-Inflammatory Drugs	10.7 <sup>a</sup>
--Intermediate Care Facilities/ Developmental Disabled--Habilitative Rate Increase	1.2 <sup>a</sup>
● Medically Indigent Services	50.0
● Social Services Programs 5 percent reduction	17.6
● Education	
--Small School Districts Transportation	19.9
--Education Improvement Incentive Program	6.8
--Urban Impact Aid	75.4
--Meade Aid	10.3
--Community Colleges: Aid to Districts with declining ADA	34.2
--Community colleges: Matriculation	21.0
--Conformity Cost-of-Living Adjustments	<u>1.0</u>
Total	\$283.1

a. Also results in equal federal fund reduction.

## TOTAL EXPENDITURES

Table 2 shows the level of state expenditures approved for 1986-87 and compares it to the level of expenditures in 1984-85 and 1985-86. These figures do not reflect the further changes to the budget proposed by the Governor.

Total state expenditures authorized for 1986-87, including expenditures from the General Fund, special funds and selected bond funds, amount to \$36.8 billion. This is:

- \$315 million less than the amount proposed by the Governor in May, and
- \$649 million more than the estimated level of expenditures in 1985-86.

General Fund expenditures for 1986-87 amount to \$30,492 million.

This is:

- \$268 million less than the amount proposed by the Governor in May, and
- \$1,480 million, or 5.1 percent, more than the estimated level of General Fund expenditures in 1985-86.

### Historical Perspective on General Fund Expenditures

To put this year's budget in perspective, we must compare the level of expenditures authorized for 1986-87 with the level of expenditures in recent years.

**State spending in "current" and "real" dollars.** Spending levels can be compared in two different ways--in "current" dollars and in "real" dollars. "Current" dollars make no allowance for the effects of inflation

on purchasing power. In contrast, "real" dollars represent current dollars adjusted to remove the effects of inflation. The use of "real" dollars provides the best means of measuring the true growth in spending.

Table 2  
The 1986 Budget Act

Total Expenditures  
1984-85 through 1986-87  
(dollars in millions)<sup>a</sup>

<u>Fund</u>	<u>1984-85 Estimated<sup>b</sup></u>	<u>1985-86 Estimated<sup>b</sup></u>	<u>1986-87, Enacted<sup>b</sup></u>	<u>Change From 1985-86</u>	
				<u>Amount</u>	<u>Percent</u>
General Fund	\$25,737 <sup>c</sup>	\$29,013	\$30,492	\$1,480	5.1%
Special funds	<u>4,651</u>	<u>5,592</u>	<u>5,414</u>	<u>-178</u>	<u>-3.2</u>
Budget Expenditures	\$30,388	\$34,605	\$35,906	\$1,301	3.8%
Selected bond funds	<u>588</u>	<u>1,581</u>	<u>929</u>	<u>-652</u>	<u>-41.2</u>
State Expenditures	\$30,976	\$36,186	\$36,835	\$649	1.8%
Federal funds	<u>13,372</u>	<u>14,865</u>	<u>14,728</u>	<u>-137</u>	<u>-0.9</u>
Governmental Expenditures	\$44,348	\$51,051	\$51,563	\$512	1.0%
Nongovernmental cost funds	<u>8,917</u>	<u>10,298</u>	<u>11,016</u>	<u>718</u>	<u>7.0</u>
TOTAL EXPENDITURES	\$53,265	\$61,349	\$62,579	\$1,230	2.0%

a. Details may not add to totals due to rounding.

b. Source: 1985-86 and 1986-87 General Fund expenditures represent Department of Finance's estimate as of June 25, 1986; all other fund expenditure estimates are Department of Finance estimates from the 1986 Governor's Budget.

c. Source: State Controller.

Table 3 shows General Fund spending from 1980-81 through 1986-87, in both current and real dollars. It indicates that measured in current dollars, General Fund expenditures in 1986-87 will exceed 1985-86 expenditures by 5.1 percent. When expenditures are adjusted for inflation and expressed in real terms, however, the size of the increase is cut by almost four-fifths. Table 3 shows that, using 1980-81 as the base year, real expenditures in 1986-87 will increase by only 0.9 percent above the 1985-86 level.

**Per capita spending.** Another means for comparing trends in General Fund expenditures is to examine spending on a per capita basis. In 1980-81, the state spent from the General Fund approximately \$886 per Californian. In current dollars, the approved 1986-87 budget provides for expenditures totaling approximately \$1,137 per citizen, or 28 percent more than the 1980-81 level. When per capita General Fund expenditures are adjusted for inflation, however, the level drops to \$822, or 7 percent less than it was in 1980-81.

#### **Total Expenditures, by Function**

Table 4 shows the distribution of budget expenditures among the three major spending categories--state operations, capital outlay, and local assistance--for 1984-85, 1985-86, and 1986-87. As the table shows, spending for local assistance accounts for the largest portion--71 percent--of total state expenditures.

#### **Total Expenditures, by Program**

Table 5 illustrates how state General Fund spending is distributed among individual program areas. Spending in the K-12 education area accounts for the largest percentage of total state General Fund

Table 3  
The 1986 Budget Act

Trends in General Fund Expenditures  
1980-81 through 1986-87  
(dollars in millions)

	<u>Change in Total Expenditures</u>				<u>Change in Per Capita Expenditures</u>			
	<u>Current Dollars<sup>a</sup></u>		<u>1980 Dollars<sup>b</sup></u>		<u>Current Dollars<sup>a</sup></u>		<u>1980 Dollars<sup>b</sup></u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
1980-81	\$21,066	--	\$21,066	--	\$886	--	\$886	--
1981-82	21,695	3.0%	20,174	-4.2%	896	1.1%	833	-6.0%
1982-83	21,755	0.3	19,058	-5.5	880	-1.8	772	-7.3
1983-84	22,872	5.1	19,111	0.3	908	2.8	759	-1.7
1984-85	25,737	12.5	20,384	6.7	1,004	10.6	796	4.9
1985-86 <sup>c</sup> (est.)	29,013	12.7	21,852	7.2	1,129	12.5	851	6.9
1986-87 (enacted)	30,492	5.1	22,048	0.9	1,137	0.7	822	-3.4

a. Source: State Controller.

b. "1980 Dollars" equal current dollars deflated by the change in the Gross National Product implicit price deflator for state and local purchases of goods and services since 1980-81.

c. Source: Department of Finance.

Table 4  
The 1986 Budget Act.

General Fund, Special Fund, and Bond Fund Expenditures,  
By Function  
1984-85 through 1986-87  
(dollars in millions)<sup>a</sup>

	1984-85 Actual <sup>b</sup>	1985-86 Estimated <sup>c</sup>	1986-87 Enacted <sup>c</sup>	Change From 1985-86	
				Amount	Percent
<u>General Fund:</u>					
State Operations	\$5,799	\$7,173	\$7,462	\$289	4.0%
Local Assistance	19,929	21,761	23,030	1,269	5.8
Capital Outlay	9	79	--	-79	-100.0
Unclassified	--	--	--	--	--
SUBTOTALS	\$25,737 <sup>d</sup>	\$29,013	\$30,492	\$1,480	5.1%
<u>Special Funds:</u>					
State Operations	\$2,009	\$2,329	\$2,466	\$137	5.9%
Local Assistance	2,349	2,690	2,484	-206	-7.7
Capital Outlay	282	561	453	-108	-19.3
Unclassified	11	12	12	--	--
SUBTOTALS	\$4,651	\$5,592	\$5,415	-\$177	-3.2%
<u>Selected Bond Funds:</u>					
State Operations	\$8	\$15	\$24	\$9	0.6%
Local Assistance	471	785	486	-299	-38.1
Capital Outlay	109	781	419	-362	-46.4
Unclassified	--	--	--	--	--
SUBTOTALS	\$588	\$1,581	\$929	-\$652	-41.2%
<u>STATE EXPENDITURES:</u>					
State Operations	\$7,816	\$9,517	\$9,952	\$435	4.6%
Local Assistance	22,749	25,236	26,000	764	3.0
Capital Outlay	400	1,421	873	-548	-3.9
Unclassified	11	12	12	--	--
TOTALS	\$30,976	\$36,186	\$36,837	\$651	1.8%

a. Details may not add to totals due to rounding.

b. Source: 1986 Governor's Budget.

c. Source: 1986 Governor's Budget, May Revision and 1986 Budget Act.

d. Source: State Controller.

Table 5  
The 1986 Budget Act

General Fund Expenditures, by Program  
1984-85 through 1986-87  
(dollars in millions)<sup>a</sup>

Program	1984-85	1985-86	1986-87	Change From 1985-86	
	Estimated <sup>b</sup>	Estimated <sup>c</sup>	Enacted <sup>c</sup>	Amount	Percent
<u>Health and Welfare:</u>					
Medi-Cal	\$1,997.8	\$2,284.1	\$2,295.0	\$10.9	0.5%
County health	877.0	969.4	934.3	-35.1	-3.6
SSI/SSP grants	1,248.6	1,416.4	1,600.3	183.9	13.0
AFDC grants	1,591.8	1,797.2	1,871.9	74.7	4.2
Mental health	629.9	756.1	828.3	72.2	9.5
Developmental Services	672.1	743.0	451.8	-291.2 <sup>d</sup>	-39.2
Social Services	234.0	318.1	409.8	91.7	28.8
L.A. County Med. Asst. Prg.	200.0	--	--	--	--
Other, health/welfare	500.5	590.2	582.3	-7.9	-1.3
SUBTOTALS	\$7,951.7	\$8,874.4	\$8,973.7	\$99.3	1.1%
<u>Education:</u>					
K-12	\$9,661.9	\$10,691.1	\$11,493.3	\$802.0	7.5%
State Teachers' Retirement	336.9	418.6	462.9	44.3	10.6
Univ. of California	1,457.1	1,646.4	1,795.6	149.2	9.1
California State Univ.	1,398.2	1,505.7	1,622.6	116.9	7.8
CA Community Colleges	1,117.7	1,182.5	1,201.6	19.1	1.6
Other, Postsecondary	106.8	131.6	140.6	9.0	6.8
SUBTOTALS	\$13,971.8	\$15,575.9	\$16,716.6	\$1,140.7	7.3%
<u>Other Programs:</u>					
Youth and Adult Corrections Resources	\$1,046.2	\$1,292.5	\$1,510.4	\$217.9	16.9%
Business, Transportation, and Housing	388.8	456.5	445.0	-11.5	-2.5
Tax relief	58.1	69.0	58.6	-10.4	-15.1
Employee compensation (civil service)	845.3	855.4	846.0	-9.4	-1.1
Debt service	-- <sup>e</sup>	-- <sup>e</sup>	163.8	163.8	--
Capital Outlay	466.1	550.0	637.9	87.9	16.0
Unallocated	7.2	79.3	--	-79.3	-100.0
All other	--	27.2	1.9	-25.3	-93.0
	1,001.3	1,232.6	1,138.5	-94.1	-7.6
SUBTOTALS	\$3,813.0	\$4,562.5	\$4,802.1	\$239.6	5.3%
TOTALS	\$25,736.5	\$29,012.8	\$30,492.4	\$1,479.6	5.1%

- a. Details may not add to totals due to rounding.  
b. Source: State Controller.  
c. Source: Based on data provided by the Department of Finance.  
d. This reduction reflects a change in the accounting for reimbursements received from state hospitals under the Medi-Cal program.  
e. Included in program amounts.

expenditures--over 39 percent. Health and welfare programs account for the second largest percentage of General Fund expenditures (29 percent), followed by postsecondary higher education (10 percent) and property tax relief (3 percent). The table also shows that the programs receiving the largest dollar increases in General Fund support during 1986-87 are K-12 education, youth and adult corrections, SSI/SSP grants, debt service, mental health, and postsecondary education. Youth and adult corrections will receive \$217.9 million more in 1986-87 than the amount spent in this program area during 1985-86, while SSI/SSP grants will be increased by \$183.9 million.

Tables 6 through 9 show how total funding for K-12 and postsecondary education programs (including funding from sources other than the General Fund) has increased. Table 10 displays what the increases in the cash grant assistance programs will mean for the individual recipient of the welfare benefits.

**K-12 Education.** As Table 6 shows, the budget provides \$19.2 billion, all funds, for K-12 education in 1986-87. This is an increase of \$1,492 million, or 8.4 percent over what was available in 1985-86. In terms of the amount spent per unit of average daily attendance (ADA), the 1986-87 funding level provides \$4,178 per ADA, which is an increase of 5.3 percent above the 1985-86 level. (These figures assume that the public schools will receive \$330.9 million from the state lottery in 1986-87.)

Of the total amount that will be available for K-12 education in 1986-87, \$11,953 million will come from the state's General Fund. This is an increase of \$968 million, or 8.8 percent, over the amount provided in 1985-86.

Table 6  
The 1986 Budget Act

Total Revenues for K-12 Education  
(dollars in millions)

	Estimated 1985-86	1986-87		Budget Act Versus 1985-86		Budget Act Versus Governor's Budget	
		Proposed by Governor	Budget as Enacted	Amount	Percent	Amount	Percent
State:							
General Fund	\$10,984.5 <sup>a</sup>	\$12,038.0	\$11,952.8	\$968.3	8.8%	-\$85.3	-0.7%
Special funds	51.5	50.5	50.5	-1.1	-2.1	--	--
Subtotals, State	\$11,036.0	\$12,088.5	\$12,003.2	\$967.2	8.8%	-\$85.3	-0.7%
Local:							
Property tax Levies	\$3,220.1	\$3,373.1	\$3,373.1	\$153.0	4.8%	--	--
Subtotals, State and Local	\$14,256.2	\$15,461.6	\$15,376.4	\$1,120.2	7.9%	-\$85.3	-0.6%
Other:							
Federal	\$1,166.5	\$1,373.3	\$1,374.1 <sup>b</sup>	\$207.6	17.8%	\$0.8	0.1%
State capital outlay	513.3	485.0	491.2 <sup>c</sup>	-22.1	-4.3	6.2	1.3
Local debt service	406.9	389.7	389.7	-17.3	-4.2	--	--
Local miscellaneous	1,138.9	1,253.5	1,253.5	114.7	10.1	--	--
Lottery Fund <sup>d</sup>	241.8	330.9	330.9	89.1	36.8	--	--
Subtotals, Other	\$3,467.4	\$3,832.4	\$3,839.4	\$372.0	10.7%	\$6.9	0.2%
Totals	\$17,723.6	\$19,294.1	\$19,215.7	\$1,492.1	8.4%	-\$78.4	-0.4%

a. Includes \$23.8 million General Fund augmentation provided in the annual deficiency bill, Assembly Bill 3293.

b. Total 1986-87 federal revenues include \$85.8 million in federal capital outlay funds carried over from the prior year.

c. Total 1986-87 revenues for capital outlay include \$389.6 million carried over from the prior year.

d. Governor's Budget estimate.

Total funding from state and local sources (excluding capital outlay, miscellaneous revenues, and lottery revenues) will increase by a net \$1,120 million, or 7.9 percent. Funding for cost-of-living adjustments (\$731 million) and enrollment growth (\$262 million) accounts for the bulk of this net increase. Additional increases include \$108 million for the third, and final, year of the "longer school day" program established by SB 813; \$50 million to establish new--and expand existing--special education programs; \$50 million for increased costs of school desegregation programs; \$48 million for increased contributions to the State Teachers' Retirement Fund; and \$22 million for additional school finance equalization aid.

Partially offsetting these increases are reductions of \$112 million to eliminate funding for Urban Impact Aid and three other categorical education programs; \$38 million to reflect school districts' savings from reduced PERS contribution rates; and \$31 million to reflect a funding shift to reimbursements for child care services provided AFDC recipients.

Table 7 provides a historical perspective for the per-ADA increases. The table shows that 1986-87 will be the fourth consecutive year in which school districts will receive an increase in the purchasing power of their allocations per ADA.

Table 7  
The 1986 Budget Act

Trends in Total Revenues for K-12 Education  
1977-78 through 1986-87

	Total Funding (millions)	ADA	Total Funding per ADA			
			Current Dollars		1977-78 Dollars	
			Amount	Percent Change	Amount	Percent Change
1977-78	\$9,516.6	4,652,486	\$2,045	--	\$2,045	--
1978-79	9,425.6	4,271,181	2,207	7.9%	2,035	-0.5%
1979-80	10,981.6	4,206,150	2,611	18.3	2,175	6.9
1980-81	12,341.2	4,214,089	2,929	12.2	2,225	2.3
1981-82	12,615.4	4,200,678	3,003	2.5	2,122	-4.6
1982-83	12,864.1	4,230,065	3,041	1.3	2,025	-4.6
1983-84	14,144.2	4,259,631	3,321	9.2	2,109	4.1
1984-85	15,674.2	4,348,762	3,604	8.5	2,169	2.9
1985-86 (estimated)	17,723.6	4,467,127	3,968	10.1	2,271	4.7
1986-87 (as enacted)	19,215.7	4,599,112	4,178	5.3	2,301	1.3

**Postsecondary Education.** As Table 8 shows, the budget provides \$4.6 billion in state funds to support the various segments of postsecondary education. This is an increase of \$271.1 million, or 6.2 percent, above the amount provided in 1985-86. Among the three major segments of postsecondary education, the University of California will receive the largest increase in state support--8.4 percent, and the California State University will receive a 7.5 percent increase. The California Community Colleges will receive a 2 percent increase in state funding.

Table 8  
The 1986 Budget Act

Total State Aid to Postsecondary Education<sup>a</sup>

	1985-86 Estimated	1986-87		Budget Act Versus 1985-86		Budget Act Versus Governor's Budget	
		Governor's Budget	Budget Act	Amount	Percent	Amount	Percent
<u>Support Budget:</u> (in thousands)							
University of California	\$1,667,652	\$1,814,315	\$1,806,921	\$139,269	8.4%	-\$7,394	-0.4%
California State University	1,292,406	1,389,922	1,389,847	97,441	7.5	-75	-0.1
California Community Colleges	1,262,040	1,322,824	1,287,508	25,468	2.0	-35,316	-2.7
Other Postsecondary	131,531	142,268	140,468	8,937	6.8	-1,800	-1.3
Totals, Support	\$4,353,629	\$4,669,329	\$4,624,744	\$271,115	6.2%	-\$44,585	0.9%
<u>Capital Outlay Budget:</u> (in thousands)							
University of California	\$148,573	\$163,065	\$159,193	\$10,620	7.1%	-\$3,872	-2.4%
California State University	60,831	116,495	110,562	49,731	81.8	-5,933	-5.1
California Community Colleges	28,304	40,200	38,566	10,262	36.3	-1,634	-4.1
Other Postsecondary	148	365	335	187	126.4	-30	-8.2
Totals, Capital Outlay	\$237,856	\$320,125	\$308,656	\$70,800	29.8%	-\$11,469	-3.6%
<u>Student Fee Assumptions:</u> (Fee per academic year)							
University of California							
Graduate students	\$1,369	\$1,369	\$1,369	--	--	--	--
Undergraduates	1,326	1,326	1,326	--	--	--	--
California State University:							
Graduates	573	573	573	--	--	--	--
Undergraduates	573	573	573	--	--	--	--
California Community Colleges	100	100	100	--	--	--	--

a. Includes lottery proceeds. Excludes student fee revenues appropriated from the General Fund to the California State University.

Table 9 displays the total funding for community colleges, measured on a per ADA basis, in both constant and current dollars. The table shows that in 1986-87, the community colleges will receive an increase of 1.8 percent per ADA over the 1985-86 funding level. After adjusting for inflation, however, we find that 1986-87 will be the first year since 1982-83 that the community colleges will receive a decrease in real funding per ADA.

Table 9  
The 1986 Budget Act

Trends in Total Revenues for California Community Colleges  
1977-78 through 1986-87

	Total Funding (millions)	Average Daily Attendance	Total Funding Per ADA			
			Current Dollars Amount	Percent Change	1977-78 Dollars Amount	Percent Change
1977-78	\$1,515.2	718,303	\$2,109	--	\$2,109	--
1978-79	1,421.0	635,372	2,236	6.0%	2,065	-2.1%
1979-80	1,608.8	670,623	2,399	7.3	2,019	-2.2
1980-81	1,870.0	725,514	2,491	3.8	1,914	-5.2
1981-82	1,864.7	750,715	2,484	-0.3	1,771	-7.5
1982-83	1,835.0	728,856	2,518	1.4	1,682	-5.0
1983-84	1,862.9	665,166	2,801	11.2	1,762	4.7
1984-85	2,098.1	645,414	3,251	16.1	1,928	9.4
1985-86 (estimated)	2,247.3	636,282	3,532	8.7	1,983	2.9
1986-87 (as enacted)	2,334.1	649,008	3,596	1.8	1,910	-3.7

AFDC and SSI/SSP Grants. As Table 10 shows, the 1986 Budget provides \$308 million (all funds) for cost-of-living increases to recipients under the AFDC and the SSI/SSP programs. In 1986-87, the maximum cash grant will increase by 5.2 percent for AFDC and 5.1 percent for SSI/SSP.

Table 10  
The 1986 Budget Act

Change in Welfare Benefits

<u>Change in Maximum Benefits</u>	<u>1985-86</u>	<u>1986-87</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percent<sup>a</sup></u>
AFDC:				
Family of two	\$474	\$498	\$24	5.1%
Family of three	587	617	30	5.1
Family of four	698	734	36	5.2
	<u>January 1986</u>	<u>January 1987</u>	<u>1/87 over 1/86</u>	
			<u>Amount</u>	<u>Percent<sup>a</sup></u>
SSI/SSP:				
Blind individual	\$597	\$627	\$30	5.0%
Aged/disabled individual	533	560	27	5.1
Aged/disabled couple	989	1,039	50	5.1
<u>Cost of 1986-87 COLA (dollars in millions)</u>	<u>General Fund</u>	<u>County Funds</u>	<u>Federal Funds</u>	<u>Total</u>
AFDC	\$87.2	\$10.4	\$101.3	\$198.9
SSI/SSP	108.3	--	0.4	108.7

a. Actual percent increase may not equal 5.1 due to rounding.

### General Fund Cost-of-Living Adjustments

The 1986 Budget Act provides \$1.4 billion from the General Fund for cost-of-living increases (COLAs) in the amount of funding provided for various state programs. These increases range from 1.0 percent to 26.5 percent.

As Table 11 shows, the largest dollar increase was provided for K-12 education. The budget provides increases for apportionments and categorical programs ranging from 1.0 percent to 6.0 percent. The cost of these increases amounts to \$731 million.

The budget also contains \$317 million for employee compensation increases. This will fund increases of approximately 5.9 percent for civil service employees and nonfaculty employees of the University of California (UC) and the California State University (CSU). The UC and CSU faculty will receive increases ranging from 5.6 percent to 7.0 percent.

Both Supplemental Security Income/State Supplementary Payment (SSI/SSP) and Aid to Families with Dependent Children--Family Group and Unemployed (AFDC/FG and U) recipients will receive a 5.1 percent increase in their benefits, at a total cost to the General Fund of approximately \$195 million.

Table 11  
The 1986 Budget Act

General Fund  
Cost-of-Living Adjustments  
(dollars in thousands)

<u>Department/Program</u>	<u>Statutory COLA</u>	<u>Increase Provided in 1986-87</u>	
		<u>Percent</u>	<u>Amount</u>
<b>HEALTH AND WELFARE</b>			
Health Services			
County Health (AB 8)	3.73%	3.73%	\$14,973
Medi-Cal			
Noncontract Hospitals (in- cluding PHPs and RHF)	6.0	6.0	3,000
Obstetrical Physician	--	26.5	4,955
Beneficiary spin-off	5.1	5.1	12,000
Drug Ingredients	5.0	5.0	4,100
Developmental Services			
Regional Centers	--	1.0	1,531
Community Placement Plan	--	1.0	66
State Hospital Education Programs	--	1.0	45
Local Mental Health Programs	--	1.0	4,600
Social Services			
SSI/SSP	5.1	5.1	108,271
AFDC/FG & U	5.1	5.1	86,249
AFDC--Foster Care	--	1.0	898
IHSS--Statutory	5.1	5.1	639
IHSS--Nonstatutory	--	1.0	3,523
Community Care Licensing-- Local Assistance	--	--	--
County Administration--Grants	--	4.3	5,792
County Administration--Social Services:			
Child Welfare Services	--	12.7	21
Rehabilitation	--	1.0	530
 SUBTOTAL, Health and Welfare			 \$251,193
<b>CRIMINAL JUSTICE</b>			
Office of Criminal Justice			
Planning--local assistance programs	--	1.0	\$110
Youth Authority			
County Justice System			
Subvention Programs	--	1.0	666
Delinquency Prevention projects	--	1.0	23
 SUBTOTAL, Criminal Justice			 \$799

Department/Program	Statutory COLA	Increase Provided in 1986-87	
		Percent	Amount
<b>K-12 EDUCATION</b>			
Apportionments:			
K-12--District Revenue Limits	3.16%	5.49%	\$576,706
Meals for Needy Pupils	6.0	6.0	1,465
Summer School	3.16	5.49	3,637
Apprentice Programs	--	3.0	58
Small School District Trans- portation <sup>b</sup>	--	--	--
Transportation	--	1.0	2,890
K-12--County Offices of Education	3.16	5.49	10,832
Regional Occupational Centers/Programs	--	3.0	6,118
Court-Ordered Desegregation	3.16	5.49	11,122
Voluntary Desegregation	3.16	5.49	2,680
Child Nutrition	3.3	3.3	1,232
American Indian Education Centers	--	1.0	9
Native American Indian Education	--	1.0	4
Child Care Program	--	1.0	2,474
Special Education	3.16	5.49	80,126
Staff Development	--	1.0	211
Preschool	--	1.0	355
Libraries <sup>b</sup>	--	1.0	110
Meade Aid <sup>b</sup>	--	--	--
Urban Impact Aid <sup>b</sup>	--	--	--
Gifted and Talented	6.0	6.0	1,202
Instructional Materials (K-8)	3.6	3.6	2,447
Instructional Materials (9-12)	--	3.0	646
Demonstration Programs in Reading and Math	--	3.0	127
Educational Technology	--	1.0	259
Economic Impact Aid	--	1.0	1,950
Adult Education	6.0	6.0	12,819
Adults in Correctional Facilities	6.0	6.0	107
School Improvement Program (K-6)	3.16	5.49	10,013
School Improvement Program (7-12)	--	1.0	321
Miller-Unruh Reading Program	--	3.0	579
High School Pupil Counseling	--	1.0	75
Youth Suicide Prevention	--	1.0	3
Specialized Secondary Schools	--	1.0	21
Foster Youth Services	--	1.0	8
Opportunity Classes/Programs <sup>c</sup>	--	--	--
<b>SUBTOTAL, K-12 Education</b>			<b>\$730,606</b>

<u>Department/Program</u>	<u>Statutory COLA</u>	<u>Increase Provided in 1986-87</u>	
		<u>Percent</u>	<u>Amount</u>
<b>POSTSECONDARY EDUCATION</b>			
California Community Colleges			
Apportionments	5.77%	5.77%	\$93,178
Handicapped Student Services	--	1.0	279
EOPS	--	1.0	246
Apprenticeship Program	--	3.0	297
Transfer Centers	--	1.0	18
Academic Senate	--	1.0	1
Instructional Improvement Fund	--	1.0	3
Deferred Maintenance	--	1.0	70
Employer-Based Training	--	1.0	39
Student Aid Commission-Awards	--	5.0	<u>5,147</u>
SUBTOTAL, Postsecondary Education			\$99,278
<b>ALL OTHERS</b>			
State Contribution to STRS	2.65	2.65	\$4,073
Employee Compensation			
Civil Service and Related	5.9	5.9	163,805
University of California	--	5.7	74,152
California State University	--	7.0 <sup>d</sup>	78,648
Hastings College of the Law	--	5.6	<u>464</u>
SUBTOTAL, All Others			<u>\$321,142</u>
TOTAL			\$1,403,018

- a. Foster family homes. No COLA for group homes.
- b. Governor vetoed funding for this program, pending enactment of legislation to authorize reduction in PERS contribution rates.
- c. Not applicable (Governor's Budget proposes reappropriation of 1985-86 unexpended balance).
- d. Faculty COLA. Nonfaculty COLA is 5.9 percent.

**Summary of Major Expenditure Changes from 1985-86**

Table 12 highlights the major changes in expenditure levels between 1985-86 and 1986-87.

Table 12  
The 1986 Budget Act

Major Expenditure Changes From 1985-86  
(dollars in millions)

<u>Description</u>	Expenditure Change From 1985-86	
	<u>General Fund</u>	<u>Special Funds</u>
 BUSINESS, TRANSPORTATION AND HOUSING		
<u>Department of Transportation</u>		
● Use of State Highway Account funds to backfill loss of federal funds for capital outlay projects		\$100.0
● Contracting out for project design and engineering services		21.0
● Preventive maintenance for asphalt roads		20.0
● Hazardous waste site investigation on highway rights-of-way		3.0
● Special Transportation Program--State Transit Assistance		-49.5
● Transit Capital Improvements		-10.4
<u>Department of Motor Vehicles</u>		
● Added 100 personnel-years for phone mail-appointment system		2.7
● Computer replacement project		2.7
 RESOURCES		
<u>Energy Commission</u>		
● Energy conservation loans to local governments and nonprofit institutions		-5.1
<u>Department of Water Resources</u>		
● Local flood control subventions		-6.4

<u>Description</u>	Expenditure Change From 1985-86	
	<u>General Fund</u>	<u>Special Funds</u>
HEALTH AND WELFARE		
<u>Medi-Cal</u>		
● Abortion funding	-15.6	
● Deletion of nonsteroidal anti-inflammatory drugs from the formulary	-10.7	
● Beneficiary COLAs	12.0	
● Enhanced medical reviews	-7.5	
● Enhanced cost avoidance	-10.0	
● Adjustment for acceleration of current-year provider claims	-25.0	
<u>Toxics</u>		
● Staff augmentations for hazardous waste regulatory and cleanup programs		\$11.2
<u>Preventive Health Services</u>		
● Equipment for county health facilities		-5.0
● Medically Indigent Services Program reduction	-50.0	
● AIDS programs	8.5	
● COLAS for local mental health programs	4.6	
● Mentally disordered offender program	11.9	
● Local assistance augmentation	25.8	
<u>Department of Rehabilitation</u>		
● Increase in Habilitation Services program	4.7	
<u>Department of Social Services</u>		
● AFDC cash grants--due primarily to COLA	74.7	
● SSI/SSP cash grants--due primarily to increases in COLA and caseload	183.9	

<u>Description</u>	<u>Expenditure Change From 1985-86</u>	
	<u>General Fund</u>	<u>Special Funds</u>
● IHSS--due primarily to increased caseload and hours of service	\$45.6	
● Child Welfare Services--due primarily to increased caseload and prior-year COLAs	43.0	
● Employment programs--due primarily to implementation of the GAIN program	31.2	
 YOUTH AND ADULT CORRECTIONS		
<u>Department of Corrections</u>		
● Inmate population growth	165.1	
● Parolee population growth	8.2	
● Local assistance to counties	14.0	
● Lease payments for new Tehachapi prison	12.5	
<u>Department of the Youth Authority</u>		
● Ward population growth	14.5	
 K-12 EDUCATION		
● 5.49 percent COLA for revenue limits, special education, and specified categorical programs; 3.0 percent or 1.0 percent COLA for other categorical programs	730.6	
● Funding for 3.0 percent growth in statewide average daily attendance	261.9	
● Full funding for third year of "longer school day" program established by SB 813	107.9	
● Increased funding for special education to establish new--and expand existing--programs	50.0	
● Increased funding for school districts' costs of court-ordered and voluntary school desegregation	50.0	

<u>Description</u>	Expenditure Change From 1985-86	
	<u>General Fund</u>	<u>Special Funds</u>
● Funding for additional revenue limit equalization aid	\$21.6	
● Full funding for dropout prevention and recovery programs authorized by Ch 1431/85	10.9	
● Elimination of funding for Urban Impact Aid, Meade Aid, Small School District Aid, and the Education Improvement Incentive Program	-112.4	
● Recapture of savings to school districts from reduction in 1986-87 PERS contribution rates	-38.1	
● Shift child care funding for AFDC recipients to reimbursements from Department of Social Services	-31.0	
● Reduction in school facilities aid		-\$23.0
<u>Contributions to State Teachers' Retirement System</u>		
● Statutory increases in state's contribution	30.1	
● Increased funding for retirees' COLA	38.5	
HIGHER EDUCATION		
<u>The University of California</u>		
● Employee compensation increases (faculty and staff)	89.3	
● Funding for enrollment increases	14.7	
● Operation and Maintenance Improvement (\$8.5) Workload (5.1)	13.6	
● Annualization of 1985-86 faculty salary increase	10.5	
● Retirement contribution (UCRS) adjustment	-9.0	

<u>Description</u>	<u>Expenditure Change</u> <u>From 1985-86</u>	
	<u>General Fund</u>	<u>Special Funds</u>
● Insurance inflation adjustment	\$7.9	
● Budgetary savings adjustment	7.5	
● Teaching hospital subsidy	-7.5	
● New or expanded research	3.8	
AIDS research (\$2.0)		
Others (1.8)		
● Affirmative action program increases	1.1	
<u>California State University</u>		
● Employee compensation increases (faculty and staff)	88.7	
● Annualization of 1985-86 faculty salary increase	23.0	
● Enrollment increase	14.1	
● Retirement contribution adjustment (PERS)	-19.4	
● Nonrecurrent items	-13.4	
<u>California Community Colleges</u>		
● 5.77 percent COLA for apportionments	93.2	
● 1.9 percent increase in funded ADA	22.8	
● Instructional equipment replacement		\$35.0
<u>Student Aid Commission</u>		
● 1,000 new Cal Grant B awards and an increase in maximum awards	9.5	
● Bilingual Teacher Grant program	-1.4	
● Purchase of defaulted student loans (federal funds)		60.0

<u>Description</u>	Expenditure Change From 1985-86	
	<u>General Fund</u>	<u>Special Funds</u>
GENERAL GOVERNMENT		
<u>Employee Compensation (Civil Service)</u>		
● Salary and benefit increases	\$163.8	\$78.7
CAPITAL OUTLAY		
● Parks and Recreation		-10.1
● Department of Water Resources flood control (\$5.2 of the reduction is a shift to federal funds)		-5.8

## GENERAL FUND REVENUES

The overall condition of the General Fund depends upon both expenditures and revenues. In 1986-87, General Fund revenues and transfers are projected to reach \$31.1 billion. This is \$3.1 billion, or 11.1 percent, more than the most-recent estimate of revenues and transfers for 1985-86, adjusted for actual cash collections through June of 1986. The projected growth in 1986-87 revenues includes increases of \$901 million (8.8 percent) in sales and use taxes, \$1,343 million (11.8 percent) in personal income taxes, and \$596 million (15.5 percent) in bank and corporation taxes.

Table 13 shows the actions taken in connection with the 1986 Budget Act that had a significant effect on General Fund revenues. These actions reduced projected General Fund income by a total of \$61 million. Most of this reduction results from the Governor's recognition that surplus land at Agnews State Hospital will not be sold in 1986-87, as was originally assumed in the Governor's Budget. The "nonsale" of this land reduced projected General Fund income by \$75 million. This reduction was partially offset by one-time legislative actions which increased General Fund revenues by \$12.8 million, and a gubernatorial veto which increased the Employment Development Department (EDD) Contingent Fund transfer to the General Fund by \$1 million.

Table 13  
 The 1986 Budget Act  
Actions Affecting General Fund Revenues  
 (dollars in millions)

	<u>1986-87</u>
ESTIMATED REVENUES PRIOR TO LEGISLATIVE ACTION	\$31,196.6 <sup>a</sup>
LESS: Sale of Land at Agnews State Hospital	-75.0
REVENUE CHANGES MADE BY THE LEGISLATURE	
One-time revenues:	
Tidelands Oil Transfer	16.8
EDD Contingent Fund Transfer	-5.3
Consumer Affairs Fund Transfer	<u>1.3</u>
SUBTOTAL, One-Time Legislative Changes	\$12.8
REVENUE CHANGES MADE BY THE GOVERNOR	
EDD Contingent Fund Transfer	1.0
SUBTOTAL, Amounts Vetoed by the Governor	<u>1.0</u>
ESTIMATED REVENUES FOLLOWING ACTION BY THE GOVERNOR	\$31,135.4

a. Source: 1986 May Revision.

## CONDITION OF THE GENERAL FUND

Table 14 shows the condition of the General Fund on June 30, 1986 and the effects on the General Fund of the revenue and expenditure programs approved for 1986-87.

The actual General Fund condition as of June 30, 1986 will not be known until September or October of 1986, when the State Controller reports revenues and expenditures for the year on an accrual accounting basis. Our current estimates of revenues and expenditures, however, indicate that the balance in the General Fund was \$413 million on June 30, 1986. Of this amount, \$381 million was uncommitted.

The Governor's spending plan for 1986-87 includes a Special Fund for Economic Uncertainties--the state's "rainy day fund"--of \$1,041 million. The Legislature, in Control Section 12.30, appropriated an amount necessary to bring the balance of the reserve up to the amount published in the Final Change Book for the 1986-87 fiscal year.

Based on the Department of Finance's revenue and expenditure projections by the Governor, we estimate that, absent any further changes to the budget, the balance in the General Fund on June 30, 1987 will be \$1,056 million. Of this amount, \$1,036 million will be uncommitted. If however, the Legislature approves the Governor's various proposals to increase net expenditures by \$101.8 million in 1986-87, the reserve on June 30, 1987 would be reduced to \$941 million.

Table 14

Condition of the General Fund  
1985-86 and 1986-87  
(dollars in millions)

	<u>1985-86</u>	<u>1986-87</u>
Starting Balance, July 1		
May Revision estimate	\$1,400.2	\$619.6
LAO revisions	--	-206.6
Starting Balance, adjusted	<u>\$1,400.2</u>	<u>\$413.0</u>
Revenues and Transfers		
May revision estimate	28,126.6	31,196.6
Sale of Agnews Land	--	-75.0
Consumer Affairs Fund transfer	--	1.3
EDD Contingent Fund transfer	--	-4.3
SAFCO transfer	--	16.8
Subtotals, current DOF estimate	<u>\$28,126.6</u>	<u>\$31,135.4</u>
LAO adjustments:		
Revenue Shortfall	-101.0	
Revenues and Transfers, adjusted	<u>\$28,025.6</u>	<u>\$31,135.4</u>
Expenditures		
May revision estimate	28,907.2	30,760.0
Revised Deficiency Bill	49.8	--
Schools-Basic Aid Districts	--	5.0
DOF reductions disapproved	--	112.5
Legislative Reductions	--	-329.2
Legislative Augmentations	--	484.3
Governor's Vetoes:		
Rejected Augmentations	--	-422.5
Rejected baseline funding	--	-252.7
LAO adjustments:		
PERS contributions	--	190.8
Loans to schools	55.8	-55.8
Total expenditures, as revised	<u>\$29,012.8</u>	<u>\$30,492.4</u>
ENDING BALANCE	\$413.0	\$1,056.0
Funds already committed:		
Carryover Appropriations	26.1	7.7
Disaster Response-Operations Account	6.0	6.0
Special Fund for Economic Uncertainty	380.9	1,035.7
Additional Adjustments Proposed		
by the Governor:		
PERS rate legislation	--	190.8
Restoration of Vetoes	--	-283.1
Restoration of General Services funding	--	-9.5
Subtotals, effect of additional adjustments	<u>--</u>	<u>-\$101.8</u>
Residual Balance in Special Fund for Economic Uncertainties if Governor's proposals are approved	--	\$940.5 <sup>a</sup>

a. This estimate does not reflect any potential threats to the General Fund from unforeseen costs, expenditure overruns, or revenue shortfalls.

## ALLOCATION OF TIDELANDS OIL AND GAS REVENUES

The amount of tidelands oil and gas revenues available for expenditure in 1986-87 is estimated at \$151 million. This amount includes \$51 million in prior-year revenues. This is less than the prior year revenues shown under the Governor's Budget because the Legislature did not approve portions of the Governor's proposal to revert prior appropriations in order to increase the amount available in 1986-87. As Table 15 shows, the Governor's Budget (as revised) proposed to spend \$146 million from these sources, leaving an unappropriated balance of \$7 million on June 30, 1986.

The Legislature approved total expenditures from tidelands oil revenues of \$125 million, and provided for the transfer of \$17 million to the General Fund. Subsequently, however, the Governor vetoed \$10 million appropriated from tidelands oil revenues.

The effect of the Governor's action was to increase the unappropriated balance in the Special Account for Capital Outlay by \$8.6 million. The Budget Act as chaptered, leaves a total of \$18.6 million in tidelands oil revenues unappropriated, consisting of \$2.0 million in the Capital Outlay Fund for Public Higher Education, and \$16.6 million in the Special Account for Capital Outlay.

Table 15  
The 1986 Budget Act

Distribution of Tidelands Oil and Gas Revenues  
(dollars in thousands)

	<u>Governor's Budget</u>	<u>Legislative Action</u>	<u>Final Action</u>
RESOURCES			
Balance available (all funds)	\$53,981	\$51,106	\$51,106
Tidelands revenues	<u>99,400</u>	<u>99,400</u>	<u>99,400</u>
TOTALS, Resources	\$153,381	\$150,506	\$150,506
EXPENDITURES			
<u>State Operations:</u>			
Statutory	\$13,737	\$13,187	\$13,187
California Water Fund	5,854	5,854	5,854
Fisheries Restoration Fund	5,000	5,000	5,000
Central Valley Project Construction Fund	--	--	--
Sea Grant Matching program	500	500	500
Energy and Resources Fund (ERF)	3,821	3,821	3,821
Housing Trust Fund	10,000	15,000	10,000
Special Account for Capital Outlay (SAFCO)	<u>27,815</u>	<u>19,529</u>	<u>19,429</u>
SUBTOTALS	\$66,727	\$62,891	\$57,791
<u>Local Assistance:</u>			
SAFCO	<u>\$35,180</u>	<u>\$16,513</u>	<u>\$11,513</u>
SUBTOTALS	\$35,180	\$16,513	\$11,513
<u>Capital Outlay:</u>			
COFPHE	--	\$10,085	\$10,085
SAFCO	<u>\$44,529</u>	<u>35,734</u>	<u>35,734</u>
SUBTOTALS	<u>\$44,529</u>	<u>\$45,819</u>	<u>\$45,819</u>
TOTALS, Expenditures	\$146,436	\$125,283	\$115,123
BALANCE, Tidelands Revenues	\$6,945	\$25,283	\$35,383
Transfer to General Fund	(--)	(\$16,783)	(\$16,783)
Unappropriated Balance Available in COFPHE	(\$500)	(\$500)	(\$2,000)
Unappropriated Balance Available in SAFCO	(\$6,445)	(\$8,000)	(\$16,600)

## THE STATE WORKFORCE

The Budget Act, as signed by the Governor, includes funding for 233,786 personnel-years (all funds). As Table 16 shows, this is 348 personnel-years less than the number proposed by the Governor, and 2,707 personnel-years more than the administration's estimate of the number of personnel-years in 1985-86.

### Legislative Changes to the State Workforce

In January, the Governor proposed a state workforce of 233,098 personnel-years. Subsequently, the administration proposed an increase in the workforce of 1,035 personnel-years, thereby increasing the total to 234,134 personnel-years.

The Legislature added 368 personnel-years to the total proposed by the Governor. The major additions to the workforce approved by the Legislature were in the areas of health and welfare, resources, business, transportation and housing, and higher education.

### Personnel-Years Vetoed by the Governor

The Governor eliminated 716 personnel-years (all funds) from the budget approved by the Legislature. Significant personnel-year vetoes included the following:

- Department of Developmental Services:

- --158.4 personnel-years. This reduction reflects the Governor's proposal to continue contracting out for housekeeping services at state hospitals.

Table 16  
The 1986 Budget Act

Summary of Actions Affecting  
the State Workforce  
(in personnel-years)

	<u>Personnel-Years</u>
Governor's Budget as introduced (January)	233,098
Changes proposed by the administration	<u>1,035</u>
Governor's Budget as revised (May)	234,134
Changes to the Governor's Budget made by the Legislature	<u>368</u>
Personnel-years approved by the Legislature	234,502
Personnel-years vetoed by the Governor	<u>-716</u>
Personnel-years approved for 1986-87	233,786
Number of personnel-years approved for 1986-87 compared with:	
Current year, 1985-86	231,079
Number	2,707
Percent	1.2%
Governor's Budget as revised (May)	234,134
Number	-348
Percent	-0.2%

- State Water Resources Control Board:

--187 personnel-years. The largest portion of these, 158, would have been involved with the underground tank cleanup program. The other 29 were associated with the Toxic Pits Program.

#### Changes in the Workforce from 1985-86

In January, the Governor proposed to increase the size of the state's workforce in 1986-87 by 2,020 personnel-years, or 1 percent, above what the budget estimated to be the level in 1985-86. The 1985 Budget Act, as chaptered, provides for a workforce that is 2,707 personnel-years greater than what the administration estimates the 1985-86 workforce to have been. Table 17 shows the distribution of these reductions among various program areas.

Table 17  
The 1986 Budget Act

Trends in State Employment  
1977-78 through 1986-87  
(in personnel-years)

	<u>Legislative, Judicial and Executive</u>	<u>State, and Consumer</u>	<u>Business Transporta- tion and Housing</u>	<u>Resources</u>	<u>Health and Welfare</u>	<u>Youth and Adult Corrections</u>	<u>K-12 Education</u>	<u>Higher Education</u>	<u>General Government</u>	<u>Total</u>
1977-78	8,649.9	10,784.2	32,327.8	14,192.5	39,531.8	12,613.2	2,673.7	92,394.6	8,173.7	221,341.4
1978-79	8,575.5	10,402.7	30,867.6	14,167.9	40,460.9	12,805.6	2,650.3	90,152.0	8,447.6	218,530.1
1979-80	8,713.7	10,671.3	31,293.4	13,779.5	42,325.2	12,548.6	2,665.0	89,840.5	8,355.3	220,192.5
1980-81	9,132.3	11,023.2	31,955.0	13,889.2	43,320.7	13,118.3	2,746.5	91,629.8	8,752.4	225,567.4
1981-82	9,418.3	11,325.3	31,859.4	14,373.0	41,589.7	13,934.6	2,796.1	93,988.5	9,528.5	228,813.4
1982-83	9,289.9	11,378.2	32,181.5	14,141.0	40,931.0	14,673.7	2,666.0	94,188.0	9,040.0	228,489.3
1983-84	9,486.1	11,255.7	33,092.2	13,518.6	39,288.0	15,336.1	2,547.6	93,091.6	9,079.3	226,695.2
1984-85	9,986.4	11,790.0	34,254.1	13,590.0	37,646.6	17,331.8	2,476.2	93,524.1	9,545.7	229,844.9
1985-86 (est.)	10,104.3	11,841.0	33,394.0	13,868.4	38,233.9	20,466.0	2,731.9	90,605.4	9,833.6	231,078.5
1986-87 (enacted)	10,285.5	11,874.8	33,386.4	14,173.4	37,371.8	22,713.0	2,722.2	91,175.6	10,083.2	233,785.9
Change over 1985-86:										
Amount	181.2	33.8	-7.6	305.0	-862.1	2,247.0	-9.7	570.2	249.6	2,707.4
Percent	1.8	0.3	--	2.2	-2.3	11.0	-0.4	0.6	2.5	1.2