

The 1987 Budget Act: A Summary

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Overview

This report summarizes the fiscal effect of the 1987 Budget Act (SB 152). In addition, it highlights the funding levels approved for the state's major programs in 1987-88, and compares these funding levels to those authorized in prior years. This report also discusses estimated state revenues for 1987-88, and the sensitivity of these estimates to varying assumptions about the effects of federal tax reform on General Fund revenues. Finally, this report indicates how the 1987-88 Budget Act affects the state's position relative to its appropriations limit under Article XIII B of the State Constitution.

The expenditure and revenue estimates contained in this report are not predictions of what the final budget totals for fiscal year 1987-88 will be. Rather, these estimates reflect (1) the most recent projections of reve-

nue to the General Fund, (2) assumptions about caseloads under "open-ended" programs, and (3) legislative action completed through July 7, 1987. 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;
- Actions taken by the Congress and the President on the 1988 federal budget. ♦

The 1987 Budget Act

The Budget Act for 1987-88 (Ch 135/87) was signed by the Governor on July 7, 1987. Table 1 presents a chronological summary of

the changes made to the budget since it was proposed by the Governor on January 10, 1987.

The Governor's Budget

Table 1 indicates that in his January budget, the Governor proposed that the state spend \$39.1 billion during fiscal year 1987-88. This amount included:

- \$31.3 billion in General Fund expenditures;
- \$6.7 billion in special funds expenditures; and
- \$1.1 billion in selected bond fund expenditures.

Subsequently, the Governor proposed changes to this spending plan that increased the total by \$1.8 billion. These changes included an increase in General Fund spending of \$809 million, a \$533 million increase in special funds spending, and a \$439 million increase in spending from selected bond funds.

Thus, as Table 1 shows, the Governor's revised budget called for expenditures totaling \$40.8 billion, of which \$32.1 billion was to come from the General Fund.

Table 1
Summary of Action Taken on the 1987 Budget Act^a
(dollars in millions)

	<i>Expenditures</i>			<i>Total</i>
	<i>General Fund</i>	<i>Special Funds</i>	<i>Selected Bond Funds</i>	
Governor's Budget as submitted (January)	\$31,264	\$6,666	\$1,124	\$39,053
Changes initiated by the administration	809	533	439	1,781
Governor's Budget as revised (May)	\$32,072	\$7,199	\$1,563	\$40,834
Changes made by the Legislature	1,293	-908	-69	316
Legislature's Budget	\$33,365	\$6,291	\$1,494	\$41,150
Governor's Vetoes	-593	-67	-2	-663
Budget as chaptered	\$32,772	\$6,224	\$1,492	\$40,488

^a Detail may not add to totals due to rounding.

Legislative Action on the Governor's Budget

Legislative action on the Governor's Budget resulted in a net expenditure increase of \$316 million. This reflected a \$1.3 billion *increase* in General Fund spending, a \$908 million *decrease* in special funds spending, and a \$69 million *decrease* in spending from selected bond funds. As a result, the Legislature approved expenditures by the state to-

taling \$41.2 billion in 1987-88. The large increase in General Fund expenditures and a large decrease in special fund expenditures approved by the Legislature primarily reflects its rejection of the administration's proposal to shift \$938 million in General Fund expenditures for local health programs to a new special fund.

Amounts Vetoed by the Governor

The Governor vetoed a total of \$663 million from the Budget Bill, as shown in Table 1. This amount, which represents 1.6 percent of total expenditures approved by the Legislature, consists of:

- \$593 million appropriated from the General Fund (1.8 percent of approved expenditures);
- \$67 million appropriated from special

funds (1.1 percent); and

- \$2 million appropriated from selected bond funds (0.1 percent).

Table 2 shows in which general area the General Fund and special funds reductions were made. As Table 2 shows, 78 percent of the Governor's vetoes were made in two general areas — Health and Welfare (42 percent) and Education (36 percent). ♦

Table 2
The 1987 Budget Act
Governor's Vetoes By Program Area
(dollars in thousands)

Program	Amount Vetoed			Percent Of Total
	General Fund	Special Funds	Total	
Legislative/Judicial/Executive	\$5,626	\$0	\$5,626	0.9%
State and Consumer Services	3,211	5,605	8,816	1.3
Business, Transportation & Housing Resources	687	25,461	26,148	4.0
Health and Welfare	5,852	17,344	23,196	3.5
Youth & Adult Corrections	278,486	1,040	279,526	42.3
Education	17,085	0	17,085	2.6
K-12	167,087	180	167,267	25.3
University of California	19,250	0	19,250	2.9
California State University	35,134	0	35,134	5.3
California Community Colleges	15,568	0	15,568	2.4
Other Postsecondary	46	0	46	0.0
Total Education	\$237,085	\$180	\$237,265	35.9%
Other Governmental Services	44,840	17,781	62,621	9.5
Total Budget	\$592,872	\$67,411	\$660,283	100.0%

Total Expenditures

Table 3 shows the level of state expenditures approved for 1987-88 and compares it to the level of expenditures in 1985-86 and 1986-87.

Total state expenditures authorized for 1987-88, which include expenditures from the General Fund, special funds and selected bond funds, amount to \$40.5 billion. This amount is:

- \$346 million *less* than the amount proposed by the Governor in May, and

- \$1.3 billion *more* than the estimated level of expenditures in 1986-87.

General Fund expenditures for 1987-88 amount to \$32.8 billion. This amount is:

- \$700 million *more* than the amount proposed by the Governor in May, and
- \$1.3 billion, or 4.1 percent, *more* than the estimated level of General Fund expenditures in 1986-87.

Table 3

**Total Expenditures^a
1985-86 through 1987-88
(dollars in millions)**

Fund	1985-86	1986-87	1987-88	Change from 1986-87	
	Actual	Estimated	Enacted	Amount	Percent
General Fund	\$28,988 ^b	\$31,488	\$32,772	\$1,285	4.1%
Special funds	5,190	5,950	6,224	274	4.6
Budget Expenditures	\$34,178	\$37,437	\$38,996	\$1,558	4.2%
Selected bond funds	945	1,775	1,492	-283	-16.0
Total State Expenditures	\$35,124	\$39,213	\$40,488	\$1,275	3.3%

^a Source: Department of Finance.

^b Source: State Controller's Office.

Historical Perspective on General Fund Expenditures

To put this year's budget in perspective, we must compare the level of expenditures authorized for 1987-88 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 effect 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 4 shows General Fund spending from

1981-82 through 1987-88, in both current and real dollars. It indicates that measured in *current* dollars, General Fund expenditures in 1987-88 will exceed 1986-87 expenditures by 4.1 percent. When expenditures are adjusted for inflation and expressed in *real* terms, however, General Fund expenditures actually *decrease* by 1.2 percent between 1986-87 and 1987-88. Thus, although the *actual* amount of General Fund expenditures has grown between the 1987-88 and previous years, the cost of goods and services has grown faster. The result is that the total General Fund budget, measured in "real" dollars, will decline in 1987-88.

Table 4

Annual Change in General Fund Expenditures 1981-82 through 1987-88 (dollars in millions)

	Total General Fund Budget ^a			
	"Current Dollars"		"Real (1981) Dollars"	
	Amount	Change	Amount ^b	Change
1981-82	\$21,682	—	\$21,682	—
1982-83	21,729	0.2%	20,495	-5.5%
1983-84	22,868	5.2	20,620	0.6
1984-85	25,736	12.5	22,035	6.9
1985-86 ^d	28,988	12.6	23,728	7.7
1986-87 estimated ^{c,d}	31,488	8.6	24,845	4.7
1987-88 enacted ^{c,d}	32,772	4.1	24,556	-1.2

^a Source: State Controller.

^b "Real dollars" equal current dollars deflated to 1981-82 dollars using the Gross National Product implicit price deflator for state and local purchases of goods and services.

^c Source: Department of Finance.

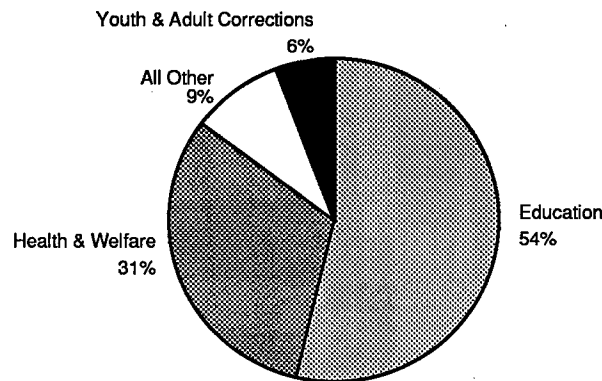
^d Data for these years is not strictly comparable to data for the prior years due to the effect of accounting changes.

Total General Fund Expenditures, by Program Area

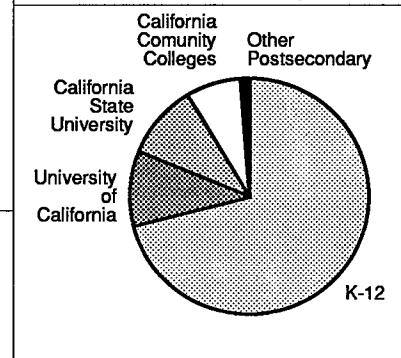
As Table 4 indicates, 1987-88 General Fund expenditures are expected to amount to \$32.8 billion. Chart 1 shows in which general program area these expenditures are expected to be made, and the percent of General Fund

expenditures in each area. Spending in the K-12 education area accounts for the largest percentage (38 percent) of total General Fund expenditures. Health and welfare programs account for the second largest percentage of

Chart 1
1987 Budget Act
General Fund Expenditures By Program Area



Allocation of Education Expenditures



General Fund expenditures (31 percent), followed by postsecondary higher education (16 percent), and youth and adult corrections (6 percent). The next section concentrates on

the two program areas which account for about 85 percent of all General Fund expenditures — education and health and welfare programs.

General Fund Expenditures for Education and Health and Welfare

K-12 Education. Table 5 provides a historical perspective on total revenues for K-12 education for the years 1978-79 through 1987-88, both in current and inflation-adjusted dollars. As Table 5 shows, total 1987-88 funding per ADA shows a very small (0.5 percent)

growth rate in current dollars over last year's level, which is the lowest percentage increase in per-ADA funding during the 10-year period. In fact, after adjusting for inflation, the purchasing power of these allocations per ADA will decrease by 4.6 percent.

Table 5

Trends in Total Revenues for K-12 Education
1978-79 through 1987-88

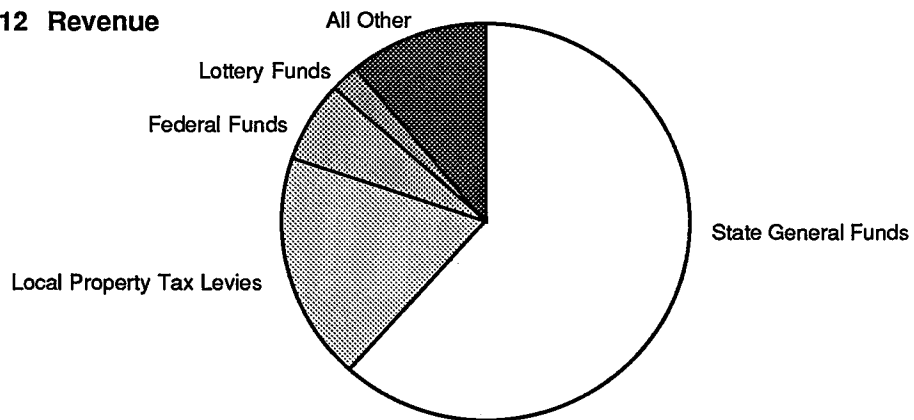
	Funding (in millions)	Total Funding Per ADA			1978-79 Dollars Per ADA	
		ADA	Amount	Percent Change	Amount	Percent Change
1978-79	\$9,426	4,271,181	\$2,207	7.9%	\$2,207	-0.5%
1979-80	10,982	4,206,150	2,611	18.3	2,359	6.9
1980-81	12,341	4,214,089	2,929	12.2	2,414	2.3
1981-82	12,615	4,200,678	3,003	2.5	2,302	-4.6
1982-83	12,864	4,230,065	3,041	1.3	2,198	-4.5
1983-84	14,150	4,259,631	3,322	9.2	2,296	4.5
1984-85	15,813	4,351,416	3,634	9.4	2,385	3.9
1985-86	17,952	4,472,123	4,014	10.5	2,518	5.6
1986-87 (estimated)	19,549	4,616,789	4,234	5.5	2,560	1.7
1987-88 (enacted)	20,141 ^a	4,734,411	4,254	0.5	2,443	-4.6

^a Does not include \$116 million in debt service on general obligation bonds for education and \$20 million identified by the Governor as available for GAIN-related expenditures.

Table 5 also shows that 1987-88 total revenues for K-12 education programs are expected to total \$20.1 billion. This is an increase of \$593 million, or 3.0 percent, over what was available in 1986-87. These figures

exclude expenditures of approximately \$136 million for debt service on education-related general obligation bonds and GAIN-related services. As graphically displayed in Chart 2, this total consists primarily of \$12.4 billion

Chart 2
The 1987 Budget Act
Sources of K-12 Revenue

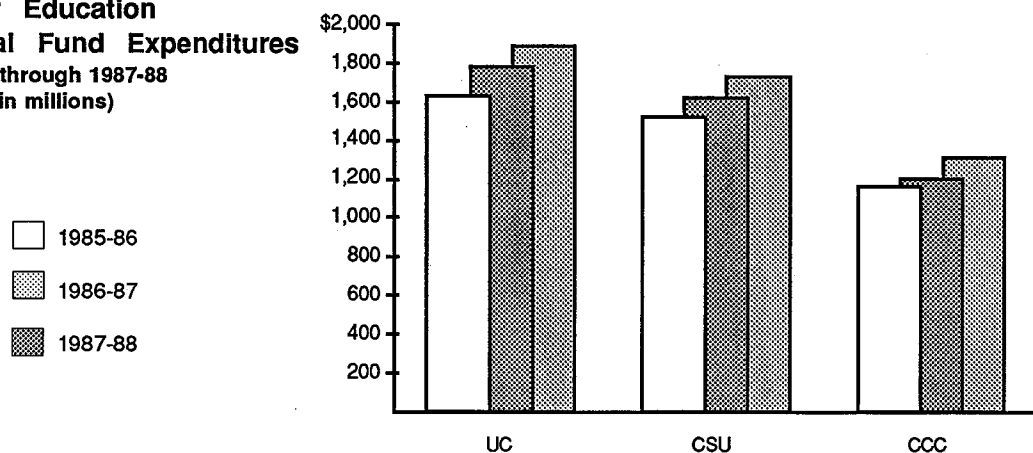


from the General Fund and \$3.7 billion from local property tax revenues. The General Fund amount represents an increase of \$226 million, or 1.9 percent over the amount provided in 1986-87. The local property tax represents an increase of \$311 million, or 9.1 percent, above the 1986-87 level.

major components of the state's higher education budget – the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC). The University of California is expected to spend 6.1 percent more this year than last, while the California State University is expected to increase expenditures between 1986-87 and 1987-88 by 6.9 percent.

Higher Education. Chart 3 displays the change in expenditure levels for the three

Chart 3
Higher Education
General Fund Expenditures
1985-86 through 1987-88
(dollars in millions)



Finally, the California Community Colleges will receive the largest increase over the period — 9.0 percent.

Table 6 shows the student fees for the higher educational programs for the period 1985-86 through 1987-88. As indicated, fees

at the University of California have increased by 5.1 percent for graduate students and 9.7 percent for undergraduate students. Fees at the California State University have increased by 9.9 percent for all students, while fees at the California Community

Table 6

Fees	Higher Education Student Fees 1985-86 through 1987-88			Change From 1986-87	
	1985-86 Actual	1986-87 Actual	1987-88 Enacted	Amount	Percent
University of California					
Graduate	\$1,369	\$1,385	\$1,455	\$70	5.1%
Undergraduate	1,326	1,343	1,473	130	9.7
California State University					
Graduate	573	573	630	57	9.9
Undergraduate	573	573	630	57	9.9
California Community Colleges	100	100	100	0	0.0

Colleges have remained unchanged since 1984-85.

Health and Welfare Programs. Health and welfare programs make up the second largest state expenditure category after education. Table 7 shows how expenditure levels have changed for the seven largest health and welfare programs during the period 1985-86

through 1987-88. As the table indicates, the largest *dollar* increase from 1986-87 to 1987-88 — \$188 million dollars — is for Supplemental Security Income/State Supplementary Program (SSI/SSP) grants. This represent an 11 percent increase over one year, and primarily reflects statutorily required cost-of-living increases and caseload growth. So-

Table 7

General Fund Expenditures for Major Health & Welfare Programs
1985-86 through 1987-88
(dollars in millions)

Program	1985-86	1986-87	1987-88	Change from 1986-87	
	Actual	Estimated	Estimated	Amount	Percent
Medi-Cal ^a	\$2,360	\$2,597	\$2,701	\$104	4.0%
County Health ^a	968	957	968	11	1.1
SSI/SSP grants ^a	1,408	1,644	1,832	188	11.4
AFDC grants ^a	1,790	1,986	2,078	92	4.6
Mental Health	751	819	884	65	8.0
Developmental Services	363	446	453	7	1.6
Social Services programs ^a	307	437	538	101	23.1

^a Local assistance only.

cial Services programs, which include the In-Home Supportive Services (IHSS) and Child Welfare Services programs, show the largest

percent increase (23 percent) over one year. This large increase primarily reflects caseload increases for these programs.

General Fund Cost-of-Living Adjustments

The 1987 Budget Act provides \$831 million from the General Fund for cost-of-living increases (COLAs) to various state programs. These increases range from 1.0 percent to 7.4 percent.

As Table 8 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

Table 8
The 1987 Budget Act
General Fund
Cost-of-Living Adjustments
(dollars in thousands)

	Statutory COLA	Increase Provided in 1987-88	
		Percent	Amount
Health and Welfare			
Aging	—	—	—
Alcohol and Drug Programs	—	—	—
Medi-Cal			
Noncontract Hospitals	7.40%	7.40%	\$38,047
Long-Term Care Facilities	5.70	5.70	37,353
Adult Day Health Care	—	7.30	193
Other Providers	—	—	—
Beneficiary Spin-off	2.60	2.60	5,616
Drug Ingredients	6.10	6.10	6,248
County Administration	—	—	—
Health Services			
County Health (AB 8)	1.67	1.67	6,977
Medically Indigent Services	—	—	—
Public Health	—	—	—
Emergency Medical Services	—	—	—
Developmental Services			
Regional Centers:			
Client Services	—	—	—
Personal Services	—	4.00 ^a	467
Education Programs	—	—	—
Department of Mental Health			
Local Mental Health Programs	—	—	—
Institutions for Mental Disease	—	4.70	2,279
Social Services			
SSI/SSP	2.60	2.60	67,647
AFDC/FG & U	2.60	2.60	50,677
AFDC—Foster Care	—	—	—
County Administration—Grants	—	3.72	5,632
Child Welfare Services	—	—	—
County Services Block Grant	—	—	—
IHSS Maximum Grant	2.60	2.60	368
IHSS Provider	—	—	—
Deaf Access	—	—	—
Maternity Care	—	—	—
Employment Programs	—	—	—
Child Abuse Prevention	—	—	—
Adoptions	—	—	—
Community Care Licensing	—	—	—
Department of Rehabilitation	—	—	—

Department/Program	Statutory COLA	Increase Provided in 1987-88	
		Percent	Amount
Youth Authority			
County Justice System Subvention Programs	—	—	—
Delinquency Prevention	—	—	—
K-12 Education			
Apportionments:			
K-12—District Revenue Limits	2.54%	2.54%	\$293,548
Meals for Needy Pupils	6.00	6.00	1,606
Summer School	2.54	2.54	1,842
Apprentice Programs	—	—	—
Small School District Transportation	—	—	—
Transportation	—	—	—
K-12—County Offices of Education	2.54	2.54	5,544
Regional Occupational Centers/Programs	—	—	—
Court-Ordered Desegregation	2.54	2.54	5,551
Voluntary Desegregation	2.54	2.54	1,121
Child Nutrition	4.05	4.05	1,609
American Indian Education Centers	—	—	—
Native American Indian Education	—	—	—
Child Care Program	—	—	—
Special Education	2.54	2.54	40,974
Staff Development	—	—	—
Preschool	—	—	—
California Library Services Act	—	—	—
Public Library Foundation	—	1.00	200
Meade Aid	—	—	—
Urban Impact Aid	—	—	—
Gifted and Talented	6.00	6.00	1,274
Instructional Materials (K-8)	1.90	1.90	1,394
Instructional Materials (9-12)	—	—	—
Demonstration Programs in Reading and Math	—	—	—
Educational Technology	—	—	—
Economic Impact Aid	—	—	—
Adult Education	6.00	6.00	14,001
Adults in Correctional Facilities	6.00	6.00	115
School Improvement Program (K-6)	2.54	2.54	4,887
School Improvement Program (7-12)	—	—	—
Miller-Unruh Reading Program	—	—	—
High School Pupil Counseling	—	—	—
Specialized Secondary Schools	—	—	—
Foster Youth Services	—	—	—
Opportunity Classes/Programs	—	—	—
Community Colleges			
Apportionments	3.40	3.40	66,356
Handicapped Student Services	—	3.40	843
EOPS	—	3.40	966
Student Aid Commission – Awards –All Others			
State Contribution to STRS	3.40	3.40	8,430
Employee Compensation:			
Civil Service and Related	—	4.00 ^b	77,582 ^c
University of California:			
Faculty	—	5.70 ^a	28,601
Staff	—	4.00 ^a	14,684
California State University:			
Faculty	—	6.90 ^a	26,979
Staff	—	4.00 ^a	10,896

^a Effective January 1, 1988.

^b General salary increase, effective January 1, 1988.

^c This amount includes funds to support: (1) a general salary increase of 4 percent effective January 1, 1988, and (2) the maintenance of health and dental benefits.

amounts to \$374 million.

The budget also contains \$159 million for employee compensation increases, all of which will be effective on January 1, 1988. The half-year increases amount to 4.0 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 5.7 percent to 6.9 percent.

Both SSI/SSP and Aid to Families with Dependent Children—Family Group and Unemployed (AFDC/FG and U) recipients will receive a 2.6 percent increase in their benefits, at a total cost to the General Fund of approximately \$118 million.

The 1987 Budget Act also provides \$88.9 million from the General Fund for payment to local jurisdictions as county block grants in lieu of COLAs. The Governor vetoed control section language which specified how these funds would be distributed. ♦

General Fund Revenues

The overall condition of the General Fund depends upon both expenditures *and* revenues. Table 9 shows that General Fund revenues and transfers in 1987-88 are projected to reach \$33.3 billion. This is \$800 million, or 2.5 percent, more than the most-recent estimate of revenues and transfers for 1986-87, after adjusting for actual cash collections through June 1987.

The projected growth in 1987-88 revenues includes *increases* of \$625 million (5.7 percent) in sales and use taxes, \$229 million (4.8 percent) in bank and corporation taxes, and \$159 million (5.5 percent) in the "all other" revenue category, partially offset by a *decline* of \$213 million (1.5 percent) in personal income taxes.

Table 9

Revenue Source	General Fund Revenues and Transfers (dollars in millions)		Change	
	1986-87	1987-88	Amount	Percent
Bank and corporation taxes	\$4,751	\$4,980	\$229	4.8%
Personal income taxes	13,923	13,710	-213	-1.5
Sales and use taxes	10,921	11,546	625	5.7
Other revenues and transfers	2,883	3,042	159	5.5
Totals, General Fund Revenues and Transfers	\$32,478	\$33,278	\$800	2.5%

Revenue Collections Distorted by Federal Tax Reform

The low growth rate in total revenues and the actual decline in personal income taxes projected for 1987-88 reflect inter-fiscal-year distortions caused by the 1986 Federal Tax Reform Act. Among other things, this legislation gave taxpayers incentives to report capital gains income in 1986 that otherwise would not have been reported until 1987 or

thereafter. The estimated effects of federal tax reform have been to increase 1986-87 revenues by over \$1.3 billion and decrease projected 1987-88 revenues by over \$500 million. Without these tax reform effects, the projected 1987-88 revenue growth shown in Table 9 would be over 8 percent, instead of only 2.5 percent.

Substantial Upward Revenue Revisions Have Occurred

The General Fund revenue totals in Table 9 represent substantial upward revisions to the revenue estimates made last January in the Governor's Budget. These upward revisions include over \$1.7 billion for 1986-87 and \$1.1 billion for 1987-88. About \$800 million of the 1986-87 revenue increase identified in May was due to a revision in the estimated effect of federal tax reform, from the \$0.5 billion esti-

mated in January to \$1.3 billion. This tax reform revision also took nearly \$300 million away from the January estimate of 1987-88 revenues. The remainder of the revenue revisions were related primarily to improvements in economic performance, including growth in personal income, employment, corporate profits, taxable sales, and home-building activity.

Revenue Effects of Budget Actions

Actions taken in connection with the 1987 Budget Act had the effect of increasing projected 1987-88 General Fund revenues by slightly more than \$1 billion over the amount stated in the Governor's Budget, as revised in May. These actions primarily reflect the Legislature's rejection of certain revenue-re-

lated proposals made by the Governor. The most significant of these was the administration's county health services disengagement proposal, which if adopted would have reduced 1987-88 General Fund revenues by \$938 million, and increased special fund revenues by a corresponding amount. ♦

Condition of the General Fund

Table 11 shows the condition of the General Fund on June 30, 1987, and the effects on the General Fund of the revenue and expenditure programs approved for 1987-88.

The *actual* General Fund condition as of June 30, 1987 will not be known until September or October of 1987, when the State Controller reports revenues and expenditures for the year on an accrual accounting basis. The administration's current estimates of revenues and expenditures, however, indicate that the balance in the General Fund was

\$1,677 million on June 30, 1987. Of this amount, \$1.1 billion is considered "Proposition 4 surplus" revenues, which are subject to return to taxpayers under the terms of Article XIII B of the State Constitution. In addition, \$10 million of the 1986-87 General Fund balance is already committed, leaving an uncommitted balance in the Special Fund for Economic Uncertainties of almost \$571 million. The Budget as enacted anticipates a Special Fund for Economic Uncertainties of \$1,026 million for 1987-88. ♦

Table 10

Condition of the General Fund^a
1986-87 and 1987-88
(dollars in millions)

	1986-87	1987-88
Starting Balance - July 1	\$686.3	\$580.7
Revenues and Transfers	<u>32,478.0</u>	<u>33,278.2</u>
Total Resources Available	\$33,164.3	\$33,858.9
Expenditures	<u>31,487.6</u>	<u>32,772.1</u>
Ending Balance - June 30	\$1,676.7	\$1,086.8
Special Fund for Economic Uncertainties	(570.7)	(1,025.8)
Other Reserves	(10.0)	(61.0)
Proposition 4 Surplus	(1,096.0)	0.0

^a Source: Department of Finance

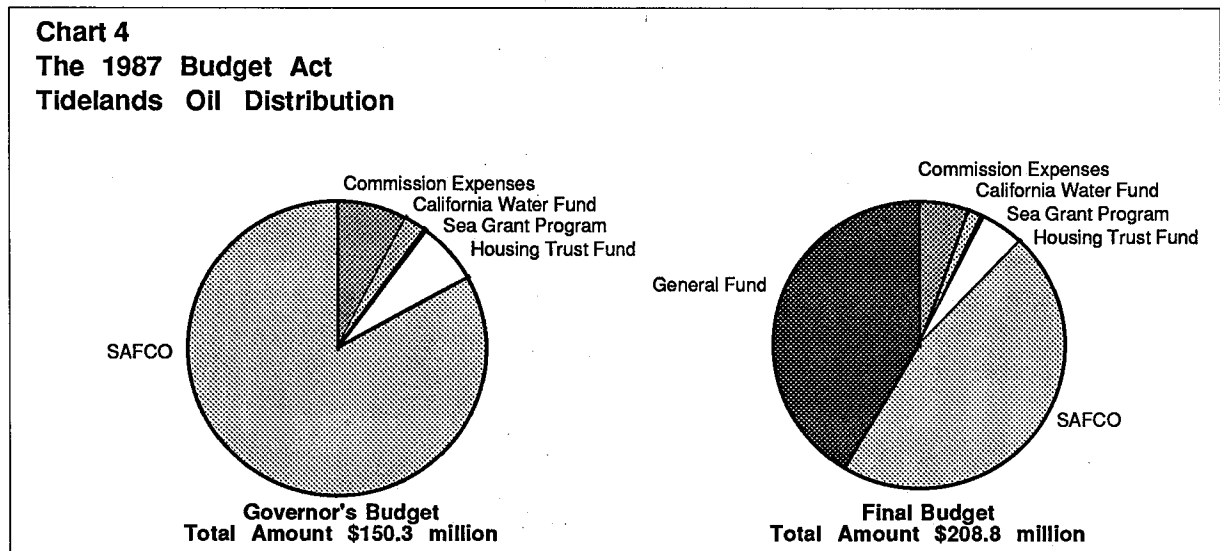
Allocation of Tidelands Oil and Gas Revenues

Prior to introduction of the Governor's Budget, the State Lands Commission (SLC) estimated that revenues received during 1987-88 from the state's tidelands oil operations would amount to about \$150 million. This level of revenues was far below the amount needed to provide funds for the numerous programs that are to receive funds (in a priority order) pursuant to existing statutes. The Governor's Budget proposed that the limited funds be allocated without regard to the priority established in existing law, resulting in no funds being allocated to the Central Valley Project, the Capital Outlay Fund for Public Higher Education, the State School Building Lease-Purchase Fund, or the Energy and Resources Fund.

During the Legislature's deliberations on the budget, the SLC updated its revenue estimate for 1987-88 to \$209 million. The Legislature provided for the allocation of these

revenues in the final budget, including a transfer of \$86.4 million to the General Fund. Chart 4 shows the allocations of tidelands oil revenues provided in the Budget Act, and the allocations originally proposed by the Governor.

Following the adoption of the budget by the Legislature, the SLC staff increased its 1987-88 tidelands oil revenues estimate to \$240 million. Given the higher revenue level and the Governor's actions on the budget, a total of \$56 million in tidelands oil revenue remains available for appropriation in the Special Account for Capital Outlay (SAFCO). In his budget veto message, the Governor stated that he would support appropriation of some of the additional revenues for the State Transportation Assistance program (\$25 million) and the Rural Renaissance program (\$18 million). ♦



The State's Appropriations Limit

Article XIII B of the State Constitution imposes a limit on the amount of tax-funded appropriations the state can make each year. In 1986-87, this limit resulted in the designation of \$1.1 billion in tax revenues as "excess," and therefore subject to return to taxpayers within two years. The method by which these funds will be returned to taxpayers has not yet been determined.

For 1987-88, the Department of Finance indicates that "appropriations subject to limitation" will be \$45 million *below* the appropriations limit. Our estimates of the limit and the allowable appropriations subject to the limit differ significantly from those of the Department of Finance. ♦