

The 1988 Budget Act

A Summary

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Overview

This report summarizes the fiscal effect of the 1988 Budget Act (Chapter 313 — AB 224). In addition, it highlights the funding levels approved for the state's major programs in 1988-89, and compares these funding levels to those authorized in prior years. This report also discusses projected state revenues for 1988-89, including the key assumptions underlying the projections and revisions that have been made to them since the Governor's Budget was introduced in January. Finally, this report indicates how the 1988-89 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 1988-89 will be. Rather, these estimates simply reflect (1) the most recent projections of reve-

nue to the General Fund and (2) the administration's assumptions about caseloads under various entitlement programs. 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 1989 federal budget. ♦

The 1988 Budget Act

The Budget Act for 1988-89 (Ch 313/88) was signed by the Governor on July 8, 1988. Table 1 presents a chronological summary of the

changes made to the budget since it was proposed by the Governor on January 10, 1988.

The Governor's Budget

Table 1 indicates that in his January budget, the Governor proposed that the state spend \$44.3 billion during fiscal year 1988-89. This amount included:

- \$36.1 billion in General Fund expenditures;
- \$6.3 billion in special funds expenditures; and
- \$1.9 billion in selected bond fund expenditures.

Subsequently, the Governor proposed changes to this spending plan that increased the total by \$216 million. These changes included a decrease in General Fund spending of \$17 million, a \$52 million decrease in special funds spending, and a \$285 million increase in spending from selected bond funds.

Thus, as Table 1 shows, the Governor's revised budget called for expenditures totaling \$44.5 billion, of which \$36.1 billion was to come from the General Fund.

Table 1
Summary of Action Taken on the 1988 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)	\$36,101	\$6,260	\$1,937	\$44,297
Changes initiated by the administration	-17	-52	285	216
Governor's Budget as revised (May)	\$36,083	\$6,208	\$2,222	\$44,513
Changes made by the Legislature	-505	11	55	-439
Legislature's Budget	\$35,578	\$6,219	\$2,278	\$44,075
Governor's Vetoes	-392	-55	-24	-471
Budget as chaptered	\$35,186	\$6,164	\$2,254	\$43,603
Additional spending proposed by the Governor	349	10	—	359
Total Expenditures as proposed by the Governor	\$35,534	\$6,174	\$2,254	\$43,962

^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 decrease of \$439 million. This reflected a \$505 million decrease in General Fund spending, an \$11 million increase in special funds spending, and a \$55 million increase in spending from selected bond funds. As a result, the Legislature approved expenditures by the state totaling \$44.1 billion in 1988-89. The large decrease in General Fund expenditures approved by the

Legislature primarily reflects its action to (a) eliminate appropriations for the Trial Court Funding program (\$358 million), (b) eliminate appropriations for K-12 education programs — Meade Aid and Urban Impact Aid — (\$87 million), and (c) increase the unallocated reductions in certain programs, including education and youth and adult correctional programs.

Amounts Vetoed by the Governor

The Governor vetoed a total of \$471 million from the Budget Bill, as shown in Table 1. This amount, which represents 1.1 percent of total expenditures approved by the Legislature, consists of:

- \$392 million appropriated from the General Fund (1.1 percent of approved expenditures);
- \$55 million appropriated from special funds (0.9 percent); and

- \$24 million appropriated from selected bond funds (1.1 percent).

Table 2 shows the program areas in which the General Fund and special funds reductions were made. As Table 2 shows, 61 percent of the Governor's vetoes were made in two general areas — Health and Welfare (43 percent) and Education (18 percent).

Table 2
The 1988 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	\$21,268	—	\$21,268	4.8%
State and Consumer Services	12,568	\$1,162	13,730	3.1
Business, Transportation & Housing Resources	5,973	14,253	20,226	4.5
Health and Welfare	190,864	573	191,437	42.8
Youth & Adult Corrections	612	—	612	0.1
Education	80,431	95	80,526	18.0
K-12	(16,526)	(95)	(16,621)	(3.7)
University of California	(23,729)	—	(23,729)	(5.3)
California State University	(23,751)	—	(23,751)	(5.3)
Hastings	(144)	—	(144)	—
California Community Colleges	(11,522)	—	(11,522)	(2.6)
Other Postsecondary	(4,759)	—	(4,759)	(1.1)
Other Governmental Services	67,307	25,404	92,711	20.7
Total Budget	\$392,113	\$55,173	\$447,286	100.0%

Total Expenditures

Table 3 shows the level of state expenditures approved for 1988-89 and compares it to the level of expenditures in 1986-87 and 1987-88.

Total state expenditures authorized for 1988-89, which include expenditures from the General Fund, special funds and selected bond funds, amount to \$43.6 billion. This amount is:

- \$910 million less than the amount proposed by the Governor in May, and

- \$1.8 billion more than the estimated level of expenditures in 1987-88.

General Fund expenditures for 1988-89 amount to \$35.2 billion. This is:

- \$897 million less than the amount proposed by the Governor in May, and
- \$1.9 billion, or 5.9 percent, more than the estimated level of General Fund expenditures in 1987-88.

Table 3
Total Expenditures^a
1986-87 through 1988-89
(dollars in millions)

Fund	1986-87 Actual	1987-88 Estimated	1988-89 Enacted	Change From 1987-88	
				Amount	Percent
General Fund	\$31,482 ^b	\$33,239	\$35,186 ^c	\$1,947	5.9%
Special funds	5,649	6,158	6,164 ^c	6	0.1
Selected bond funds	961	2,399	2,254	-146	-6.1
Total State Expenditures	\$38,092	\$41,796	\$43,603	\$1,807	4.3%

^a Source: Department of Finance. Detail may not add to totals due to rounding.

^b Source: State Controller's Office.

^c Excludes additional spending proposed by the Governor.

Additional Spending Proposals Are Pending

In acting on the Budget Bill, the Legislature included intent language that "funding for essential state programs not funded in the Budget Act of 1988 on account of the projected state revenue shortfall and the withdrawal of the tax-correcting proposal be provided for in separate legislation." Assembly Bill 1903 (Vasconcellos), as passed by the Senate, would authorize an additional \$555 million in General Fund expenditures for the 1988-89

fiscal year. This measure anticipates passage of AB 2778 (Isenberg), which would accelerate certain existing revenue collections to fund the increased expenditures.

The Governor has proposed additional General Fund expenditures of \$349 million for 1988-89 to be funded from vetoed funds "set aside" for specified purposes. Table 4 identifies the individual components of the two pending expenditure proposals.

Table 4
Additional General Fund Spending Proposals for 1988-89
 (dollars in millions)

<i>Program</i>	<i>AB 1903</i>	<i>Governor's Proposal</i>
Trial Court Funding	\$357.7	\$189.7
County Revenue Stabilization	—	47.5
Los Angeles County Settlement	—	20.0
Corrections	80.0	75.9
Youth Authority	12.0	14.4
Youthful Offender Parole Board	—	1.0
University of California	49.1	— ^a
California State University	35.4	— ^a
Student Aid	10.9	—
Veterans' Service Officers	1.1	—
Tourism Promotion	6.0	— ^a
Competitive Technology	2.0	— ^b
Resources Agency	0.6	— ^a
Total	\$554.8	\$348.5

^a The Governor has proposed that funding for this program be restored if funding sources to pay the cost can be identified.

^b The Governor proposes that \$10 million for this program be appropriated from the Special Account for Capital Outlay.

Historical Perspective on General Fund Expenditures

To put this year's budget in perspective, the growth in expenditures authorized for 1988-89 must be compared with the growth in expenditures in recent years.

Changes in state spending in "current" and "real" dollars. Changes in 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. Comparing growth rates in terms of "real dollars" allows expenditure growth rates in different years to be compared on a common basis.

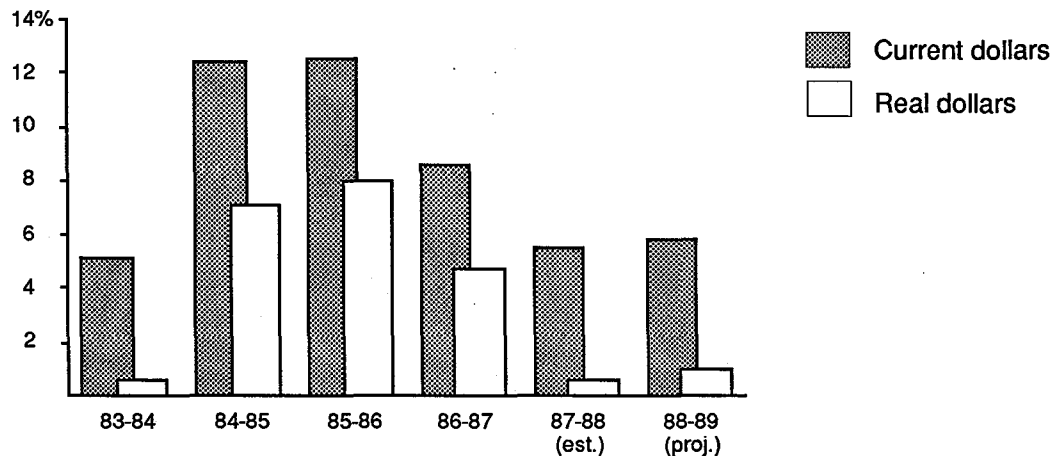
Chart 1 shows the growth trend in recent General Fund spending, on an annual percentage basis, both in terms of current dollars and real dollars. It indicates that measured in *current* dollars, General Fund expenditures in 1988-89 will exceed 1987-88 expenditures by 5.9 percent, if no additional expenditures are approved by the Legislature and the Gover-

nor. When expenditures are adjusted for inflation and expressed in *real* terms, however, General Fund expenditures increase by 1.0 percent between 1987-88 and 1988-89. Thus, although the *actual* amount of General Fund expenditures has grown between the current and previous year, the cost of goods and services has grown almost as fast.

Chart 1

Annual Percentage Change in General Fund Expenditures

1983-84 through 1988-89



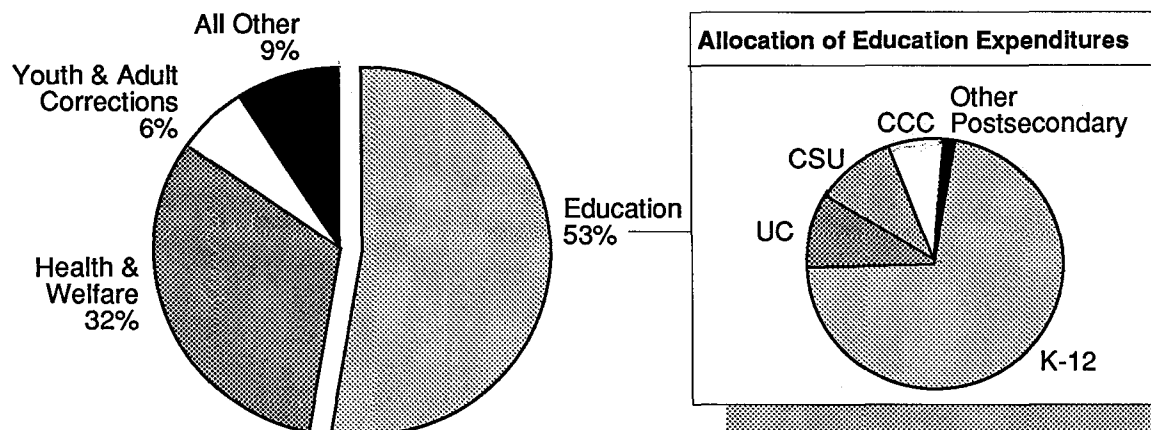
Total General Fund Expenditures, by Program Area

General Fund expenditures approved to date amount to \$35.2 billion for the 1988-89 fiscal year. Chart 2 shows the general program area where these expenditures are expected to be made, and the percent of General Fund expenditures in each area. As Chart 2 shows, spending in the education area accounts for over one-half (53 percent) of total General Fund expenditures. Chart 2 also shows that about 70 percent of the spending for education

is for K-12 programs. Health and welfare programs account for the second largest percentage of General Fund expenditures (32 percent), followed by youth and adult corrections (6 percent). The remainder of this section concentrates on the two program areas which account for about 86 percent of all General Fund expenditures — education and health and welfare programs.

Chart 2

1988 Budget Act General Fund Expenditures by Program Area



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 1979-80 through 1988-89, both in current and inflation-adjusted dollars. As Table 5 shows, total 1988-89 fund-

ing per average daily attendance (ADA) will grow 6.7 percent in current dollars over last year's level. After adjusting for inflation, however, the purchasing power of these allocations per ADA will increase by 2.1 percent.

Table 5
Trends in Total Revenues for K-12 Education
1979-80 through 1988-89

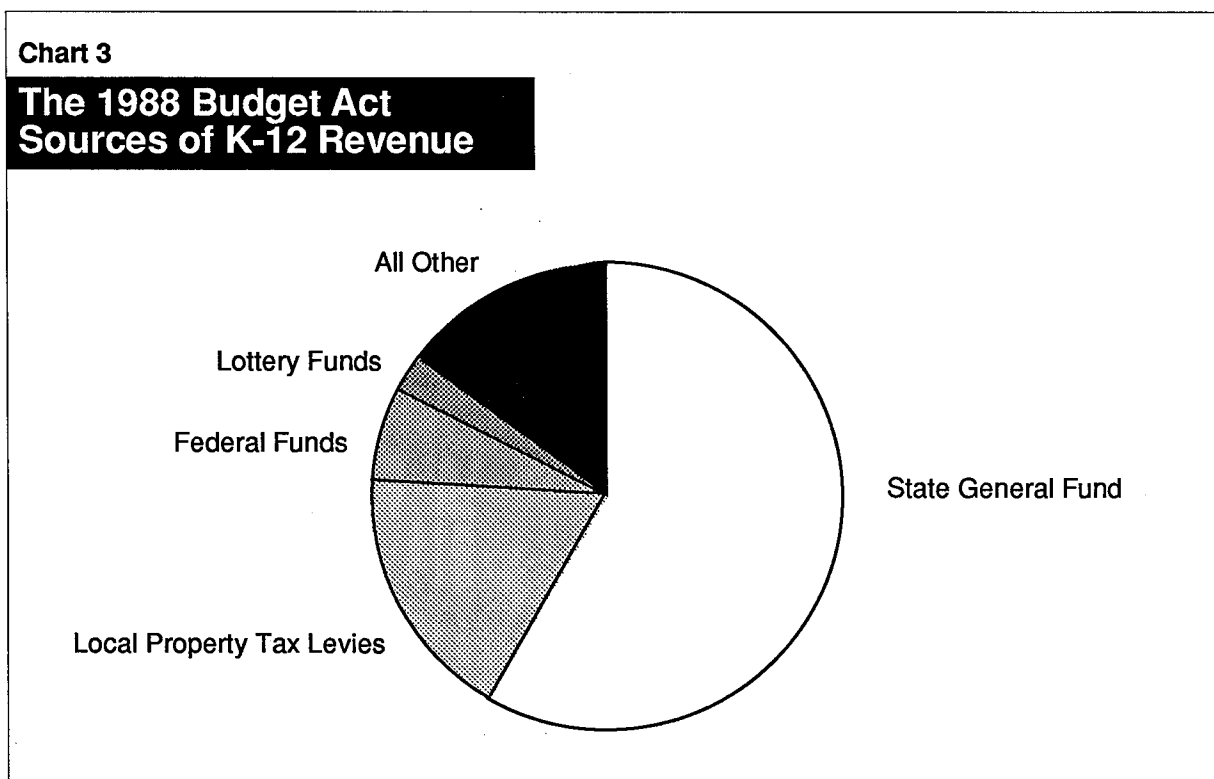
	Funding ^a (in millions)	ADA	Total Funding Per ADA		1979-80 Dollars Per ADA ^b	
			Amount	Percent Change	Amount	Percent Change
1979-80	\$10,981.6	4,206,150	\$2,611	—	\$2,611	—
1980-81	12,341.2	4,214,089	2,929	12.2%	2,663	2.0%
1981-82	12,615.4	4,200,678	3,003	2.5	2,545	-4.4
1982-83	12,864.1	4,230,065	3,041	1.3	2,433	-4.4
1983-84	14,150.0	4,259,631	3,322	9.2	2,536	4.2
1984-85	15,813.1	4,351,416	3,634	9.4	2,653	4.6
1985-86	17,931.6	4,468,699	4,013	10.4	2,806	5.8
1986-87 (estimated)	19,101.1	4,627,169	4,128	2.9	2,789	-0.6
1987-88 (estimated)	20,723.6	4,730,562	4,381	6.1	2,808	0.7
1988-89 (enacted)	22,750.6	4,866,927	4,675	6.7	2,868	2.1

^a Does not include expenditures for debt service on general obligation bonds and interest charges on loans from the Pooled Money Investment Account (PMIA).

^b "1979-80 dollars" equal current dollars deflated to 1979-80 dollars using the Gross National Product implicit price deflator for state and local purchases of goods and services.

Table 5 also shows that 1988-89 total revenues for K-12 education programs are expected to total \$22.8 billion. This is an increase of \$2 billion, or 9.8 percent, over what was available in 1987-88. These figures exclude expenditures for debt service on education-related general obligation bonds and interest on Pooled Money Investment Account loans.

As shown in Chart 3, this total consists primarily of \$13.3 billion from the General Fund and \$4.1 billion from local property tax revenues. The General Fund amount represents an increase of \$864 million, or 6.9 percent over the amount provided in 1987-88. The local property tax represents an increase of \$341 million, or 9.0 percent, above the 1987-88 level.



Higher Education. Chart 4 displays the change in expenditure levels for the three major components of the state's higher education budget—the University of California, the California State University, and the California Community Colleges. The University of California is expected to spend 3.0 percent more

this year than last, while the California State University is expected to increase expenditures between 1987-88 and 1988-89 by 2.8 percent. Finally, the California Community Colleges show the largest rate increase over the period—6.6 percent.

Chart 4

Higher Education General Fund Expenditures

1986-87 through 1988-89 (dollars in millions)

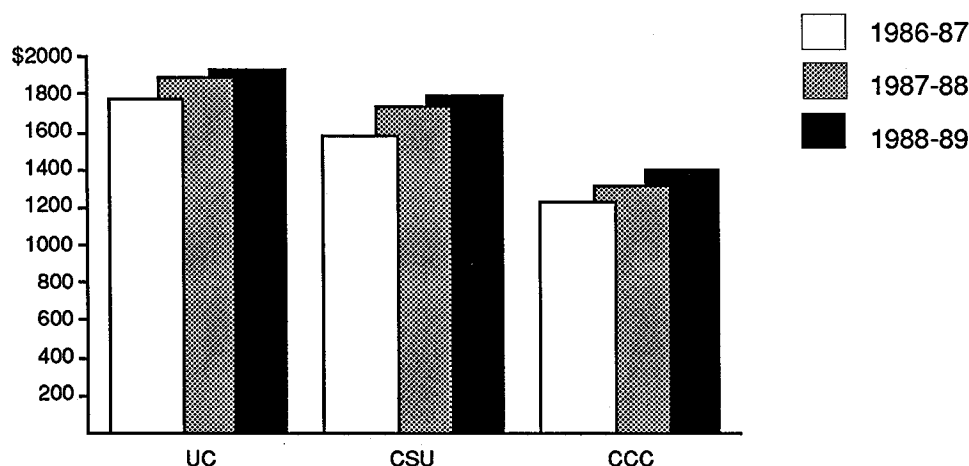


Table 6 shows the student fees for the higher educational programs for the period 1986-87 through 1988-89. As indicated, fees at the University of California have increased by 4.4 percent from 1987-88 to 1988-89, while fees at

the California State University have increased by 8.6 percent over this period. Fees at the California Community Colleges have remained unchanged since 1984-85.

Table 6
Higher Education Student Fees
1986-87 through 1988-89

Fees	1986-87 Actual	1987-88 Actual	1988-89 Enacted	Change From 1987-88	
				Amount	Percent
University of California	\$1,245	\$1,374	\$1,434	\$60	4.4%
California State University	573	630	684	54	8.6
California Community Colleges	100	100	100	—	—

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 1986-87 through 1988-89. As the table indicates, the

largest increase from 1987-88 to 1988-89 — \$242 million dollars — is for social services programs. This represents a 46 percent increase, and primarily reflects increased spending for the Greater Avenues for Independence (GAIN) program.

Table 7
General Fund Expenditures for Major Health and Welfare Programs
1986-87 through 1988-89
(dollars in millions)

Program	1986-87	1987-88	1988-89	Change From 1987-88	
	Actual	Estimated	Estimated	Amount	Percent
Medi-Cal ^a	\$2,574	\$2,798	\$2,986	\$188	6.7%
County Health ^a	959	968	999	31	3.2
SSI/SSP grants ^a	1,656	1,853	2,014	162 ^b	8.7
AFDC grants ^a	1,985	2,171	2,307	137 ^b	6.3
Mental Health	810	892	923	31	3.5
Developmental Services	437	475	485	10	2.1
Social Services programs ^a	386	524	767	242 ^b	46.2

^a Local assistance only.

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

General Fund Cost-of-Living Adjustments

The 1988 Budget Act provides \$1.2 billion from the General Fund for cost-of-living increases (COLAs) to various state programs. These increases range from 1.0 percent to 50 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 2.65 percent to 4.1 percent. The cost of these increases amounts to \$632 million.

The budget also contains \$88 million for employee compensation increases, all of which will be effective on June 1, 1989. The one-month increase amounts to 6.0 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 of 3.0 percent and 4.7 percent, respectively.

Community colleges will receive a 4.7 percent increase for apportionments and categorical programs, at a total cost to the General Fund of approximately \$91 million.

Both Supplemental Security Income/State Supplementary Program (SSI/SSP) and Aid to Families with Dependent Children—Family Group and Unemployed (AFDC/FG and U) recipients will receive a 4.7 percent increase in their benefits, at a total cost to the General Fund of approximately \$221 million. The AFDC/FG and U increase is effective July 1, 1988, while the SSI/SSP increase takes effect on January 1, 1989.

Table 8
The 1988 Budget Act
General Fund
Cost-of-Living Adjustments
(dollars in thousands)

Department/Program	Statutory COLA	Increase Provided in 1988-89	
		Percent	Amount
Health and Welfare			
Aging, Nutrition Programs	—	—	—
Alcohol and Drug Programs	—	—	—
Medi-Cal			
Noncontract Hospitals	7.1%	7.1%	\$5,559
Long-Term Care Facilities:			
Skilled Nursing and Intermediate Care Facilities	3.8	3.8	20,328
State Hospitals	7.5	7.5	13,352
Obstetrical Physicians	—	16.0	2,929
Childrens' Services	—	10.0	571
Home Health	—	10.0	372
Portable X-Ray	—	50.0	90
Capitation Contracts, noninpatient	3.3	3.3	6,436
Other Providers	—	—	—
Beneficiary Spin-off	4.7	4.7	8,909
Drug Ingredients	6.7	6.7	7,619
Health Services			
County Health (AB 8)	5.12	5.12	21,829
Medically Indigent Services	—	—	—
Public Health	—	—	—
Emergency Medical Services	—	—	—
Developmental Services			
Regional Centers:			
Out-of-Home Care (residential)	—	4.07	9,985
Personal Services	—	6.0 ^a	625
Other	—	—	—
Education Programs	—	—	—
Mental Health			
Local Mental Health Programs	—	—	—
Institutions for Mental Diseases	—	3.8	2,111
Social Services			
SSI/SSP	4.7 ^b	4.7	123,958
AFDC/FG and U	4.7	4.7	97,170
AFDC-FC—Family Homes	—	—	—
AFDC-FC—Group Homes	—	—	—
County Services Block Grant	—	—	—
IHSS Maximum Grant	4.7	4.7	826
IHSS Providers	—	—	—
Deaf Access	—	—	—
Maternity Care	—	—	—
Child Abuse Prevention	—	—	—
Adoptions	—	—	—
Community Care Licensing	—	—	—
Department of Rehabilitation	—	—	—

Table 8 continued

Department/Program	Statutory COLA	Increase Provided in 1988-89	
		Percent	Amount
Youth Authority			
County Justice System Subvention Programs	—	—	—
Delinquency Prevention	—	—	—
K-12 Education			
Apportionments: ^c			
District Revenue Limits	4.1%	4.1%	\$493,757
Necessary Small Schools	4.1	4.1	2,806
Meals for Needy Pupils	6.0	4.1	1,299
Summer School	4.1	4.1	3,936
Apprentice Programs	—	—	—
Small School District Transportation	—	—	—
Transportation	—	—	—
K-12—County Offices of Education	4.1	4.1	9,213
Regional Occupational Centers/Programs	—	—	—
Court-Ordered Desegregation ^c	4.1	4.1	10,444
Voluntary Desegregation ^c	4.1	4.1	1,998
Child Nutrition	2.65	2.65	1,079
American Indian Education Centers	—	—	—
Native American Indian Education	—	—	—
Child Care Program	—	4.1	11,532
Special Education ^c	4.1	4.1	71,411
Staff Development	—	—	—
Preschool	—	4.1	1,468
Libraries	—	—	—
Meade Aid	—	—	—
Urban Impact Aid	—	—	—
Gifted and Talented Education ^c	6.0	4.1 ^d	923
Instructional Materials (K-8) ^c	3.6	3.6	2,796
Instructional Materials (9-12)	—	—	—
Demonstration Programs in Reading and Math	—	—	—
Educational Technology	—	—	—
Economic Impact Aid/Bilingual Education	—	—	—
Adult Education ^c	6.0	4.1	10,691
Adults in Correctional Facilities	6.0	4.1	91
School Improvement Program (K-6) ^c	4.1	4.1	8,429
School Improvement Program (7-12)	—	—	—
Miller-Unruh Reading Program	—	—	—
High School Pupil Counseling	—	—	—
Specialized Secondary Schools	—	—	—
Dropout Prevention	—	—	—
Opportunity Programs and Classes	—	—	—
Foster Youth Services	—	—	—
Higher Education			
Community Colleges Apportionments	4.7	4.7	88,027
Community College Categoricals	—	4.7	2,732
Student Aid Commission Awards:			
Public			
Cal Grant A and B	—	1.0	187
Independent and Proprietary			
Cal Grant A and B	—	4.7	2,925

Table 8 continued

Department/Program	Statutory COLA	Increase Provided in 1988-89	
		Percent	Amount
Higher Education continued			
Cal Grant B			
Subsistence Allowance	—	4.5%	\$1,588
All Others			
Trial Court Block Grants	8.75%	—	—
State Contribution to STRS (AB 8)	5.15	5.15	12,457
State Library Grants	—	—	—
Employee Compensation:^a			
Civil Service and Related	—	6.0	52,599
University of California (faculty)	—	3.0	10,330
University of California (nonfaculty)	—	6.0	9,491
California State University (faculty)	—	4.7	8,886
California State University (nonfaculty)	—	6.0	6,897
Total			\$1,150,661

^a Effective June 1, 1989. Percentage figures shown reflect the proposed salary increase only. The dollar amount also includes funds for the maintenance of health benefits for the full year.

^b Effective January 1, 1989, pursuant to current law.

^c Funding for these programs is appropriated in a new "block grant" budget item. The COLA allocation could be reduced subject to the requirements of control language that is associated with the new item.

^d The budget provides a 4.1 percent COLA for the entire program, although current law requires that a 6 percent COLA be applied to only approximately 3 percent of the program's funding base.

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 1988-89 are projected to reach \$36.1 billion. This is about \$3.5 billion, or 11 percent, more than the most-recent estimate of revenues and transfers for 1987-88.

The projected growth in 1988-89 revenues includes increases of \$1.9 billion (14 percent) in personal income taxes, \$862 million (7.4 percent) in sales and use taxes, \$490 million (10 percent) in bank and corporation taxes, and \$290 million (9.2 percent) in the "all other" revenue category.

Table 9
General Fund Revenues and Transfers
1987-88 and 1988-89
(dollars in millions)

Revenue Source	1987-88 ^a	1988-89	Change	
			Amount	Percent
Personal income taxes	\$13,000	\$14,850	\$1,850	14.2%
Sales and use taxes	11,660	12,522	862	7.4
Bank and corporation taxes	4,790	5,280	490	10.2
Other revenues and transfers	<u>3,159</u>	<u>3,449</u>	<u>290</u>	<u>9.2</u>
Totals, General Fund Revenues and Transfers	\$32,609	\$36,101	\$3,492	10.7%

^a May Revision estimates.

Historical Perspective on General Fund Revenues

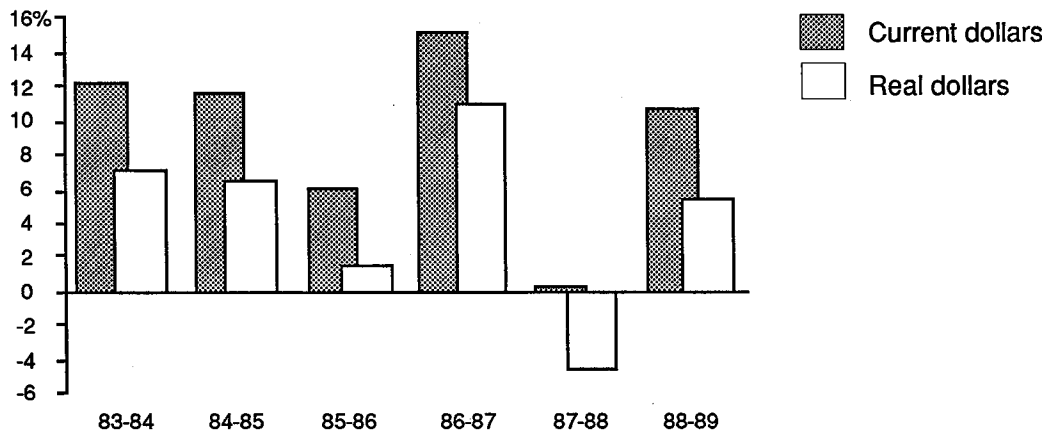
Chart 5 shows how projected 1988-89 General Fund revenue growth compares to revenue growth since 1983-84, both in current and real dollars. During the six-year period, the average revenue growth is 8.7 percent in cur-

rent dollars and 4 percent in real dollars. Thus, the growth projected for 1988-89 revenues — 11 percent in current dollars and 5.5 percent in real dollars — is above the average for recent years.

Chart 5

Annual Percentage Change in General Fund Revenues and Transfers

1983-84 through 1988-89



Key Assumptions Underlie the Revenue Projection

The healthy projected growth rate for 1988-89 revenues incorporates key assumptions in three areas:

- **Economic performance.** The California economy is projected to experience continued moderate growth throughout the rest of 1988 and first half of 1989, as it did throughout 1987 and the first half of 1988.
- **State tax reform.** It is assumed that a significant share of the \$1 billion revenue shortfall that occurred in April 1988 reflects unanticipated revenue losses attributable to state tax reform legislation enacted in 1987, and that much of this 1987-88 shortfall is permanent and will carry forward into 1988-89.

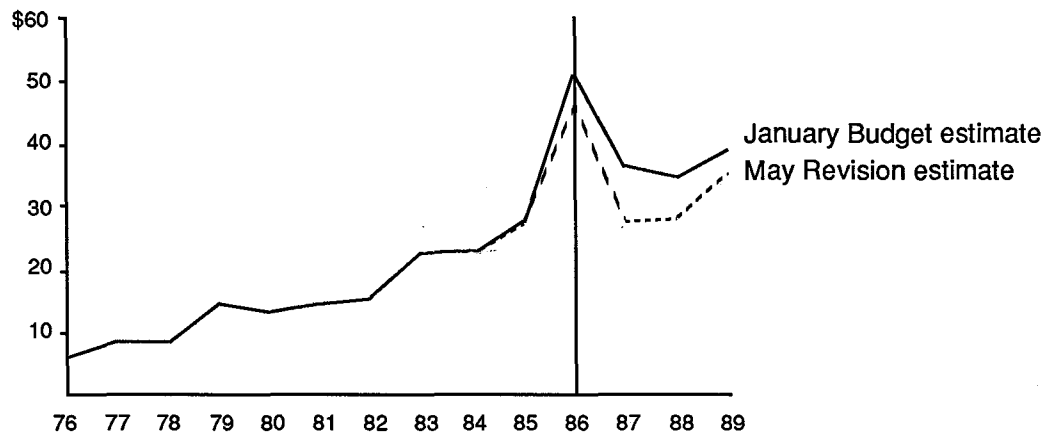
- **Capital gains.** Profits from the sale of capital assets for 1988 are projected to be substantially below what was assumed in January, but nevertheless are anticipated to increase modestly from their estimated 1987 level (see Chart 6).

Because data limitations have made it extremely difficult to identify the exact revenue effects of state tax reform and the current underlying trend in capital gains, the 1988-89 revenue projection is based upon *assumptions* regarding these factors. Thus, the accuracy of the revenue projection will depend on the accuracy of these assumptions.

Chart 6

Profits from the Sale of Capital Assets^a

1976 through 1989 (dollars in billions)



^a Source: Department of Finance. Data shown represent profits from the sale of capital assets, and have not been reduced to reflect the partial exclusions from taxation of medium-term and long-term capital gains that were in effect prior to 1987, or capital losses.

Revenue Growth Trend Reflects Pace of Economy

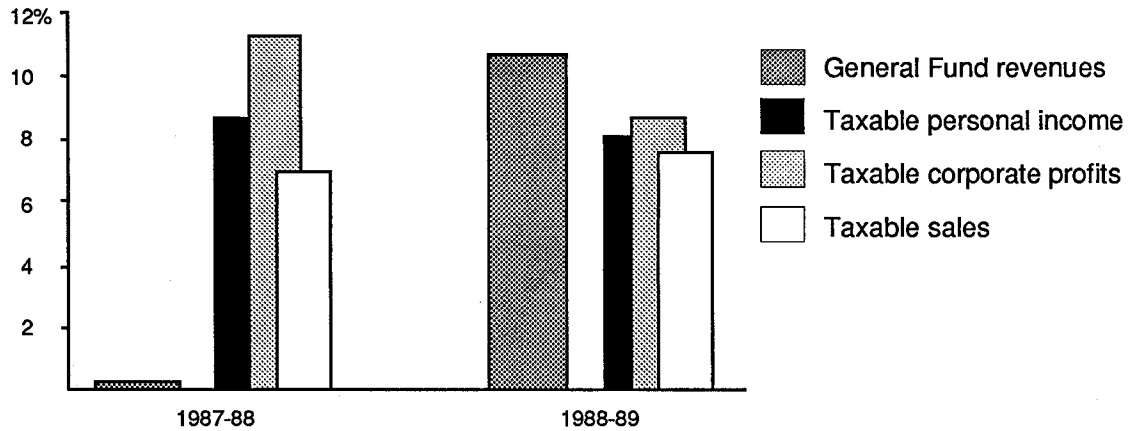
The healthy growth rate projected for 1988-89 General Fund revenues primarily reflects the current growth projections for such key revenue-determining economic variables as California personal income, corporate profits and taxable sales. As shown in Chart 7, this is a very different situation from last year when, despite moderate economic growth, 1987-88 revenues increased by only 0.2 percent. The

lack of correspondence between revenue growth and economic performance in 1987-88 was an anomaly resulting from various factors such as federal and state tax reform. In the case of personal income taxes, this had the effect of inflating 1986-87 revenues and reducing 1987-88 revenues. As a result, the revenue growth rate between these two years was artificially low.

Chart 7

Comparisons Between Percentage Growth in General Fund Revenues and Key Economic Variables

1987-88 and 1988-89



Substantial Revenue Revisions Have Occurred

The General Fund revenue totals in Table 9 have undergone substantial revisions compared to where they started last January in the Governor's Budget. The estimate for 1987-88 revenues has been revised downward by nearly \$1.1 billion, while the current estimate for 1988-89 revenues is \$148 million below the

original January 1988 estimate. Although the 1988-89 revision is not particularly large in absolute dollar terms, Table 10 shows that the net reduction reflects a variety of substantial but partially offsetting positive and negative adjustments. Specifically:

Table 10
History of Revisions to 1988-89 General Fund
Revenue and Transfer Estimates
(dollars in millions)

	<i>Projected Revenues and Transfers</i>	
	<i>Change</i>	<i>Total</i>
Governor's Budget as submitted (January)		\$36,249
May Revision changes ^a		
— Economic forecasting revisions	\$565	
— Revisions to projected capital gains	-530	
— Other identifiable adjustments	256	
— State tax reform and other unidentifiable factors	-738	
Subtotal	(-\$447)	
— Proposed revenue enhancements	800	
Totals, May Revision	(\$353)	36,602
Governor's withdrawal of proposed revenue enhancements	-800	35,802
Conference Committee Action		
— Adoption of COSF ^b revenue estimate	308	
— Other	31	
Subtotals	(\$339)	36,141
Action by the Governor		
— Rejection of COSF ^b revenue estimate	-308	
— Adoption of other Conference Committee changes	(31)	
— Revision to personal income tax projection	250	
— Other changes	18	
Subtotals	(-\$40)	36,101
Total Changes	-\$148	36,101

^a Individual changes estimated by Legislative Analyst.

^b Commission on State Finance.

- 1988-89 revenues were revised *downward* in May by nearly \$450 million. (This change was the net result of revenue decreases totaling nearly \$1.3 billion due to factors including state tax reform and lower-than-expected capital gains, partially offset by revenue gains of about \$565 million due to a stronger economy and about \$255 million from other adjustments.)
- As part of the May Revision, however, the Governor also proposed \$800 million in revenue enhancements, resulting in a net *upward* revenue revision in May of \$353 million.
- The Governor subsequently withdrew his revenue-enhancement proposal, thereby *reducing* his revenue estimate by \$800 million.
- The Conference Committee took action to *increase* the revenue projection by \$339 million, thereby bringing it up to slightly over \$36.1 billion. The Legislature also provided that the Governor had to certify the availability of \$36.1 billion in revenues as a condition for the full funding of K-12 education cost-of-living adjustments. The Legislature's revised revenue figure included an added \$308 million to

incorporate the revenue estimating assumptions of the Commission on State Finance (COSF).

- In acting on the budget, the Governor *increased* his own May revenue estimate by \$299 million, to a total of \$36.1 billion. This is \$40 million less than the revenue total adopted by the Legislature. The main reason for this difference was that

instead of adopting the COSF's revenue estimate, the Governor revised the May projection of personal income taxes by \$250 million. This was the amount of revenues the Legislature required be added in order for K-12 programs to receive full statutory cost-of-living adjustments. ♦

Condition of the General Fund

Table 11 shows the condition of the General Fund on June 30, 1988 and the effects on the General Fund of the revenue and expenditure programs approved for 1988-89.

The *actual* General Fund condition as of June 30, 1988 will not be known until September or October of 1988, when the State Controller reports revenues and expenditures for the year on an accrual accounting basis. The administration's current estimates of reve-

nues and expenditures, however, indicate that the balance in the General Fund was \$38 million on June 30, 1988. Of this amount, \$29 million is already committed, leaving an uncommitted balance in the Special Fund for Economic Uncertainties (SFEU) of \$9 million. The budget as enacted anticipates a Special Fund for Economic Uncertainties of \$952 million in 1988-89.

Table 11
Condition of the General Fund^a
1987-88 and 1988-89
(dollars in millions)

	1987-88	1988-89
Starting Balance — July 1	\$668.0	\$37.7
Revenues and Transfers	32,608.9	36,100.5
Total Resources Available	\$33,276.9	\$36,138.2
Expenditures	33,239.2	35,185.8
Ending Balance — June 30	\$37.7	\$952.4 ^b
Special Fund for Economic Uncertainties	(8.9)	(952.4) ^b
Other Reserves	(28.8)	—

^a Source: Department of Finance.

^b Of this amount, the Governor proposes that \$349 million be spent for Trial Courts (\$190 million) and other programs (\$159 million). If these expenditures are made, this balance would be reduced to \$604 million.

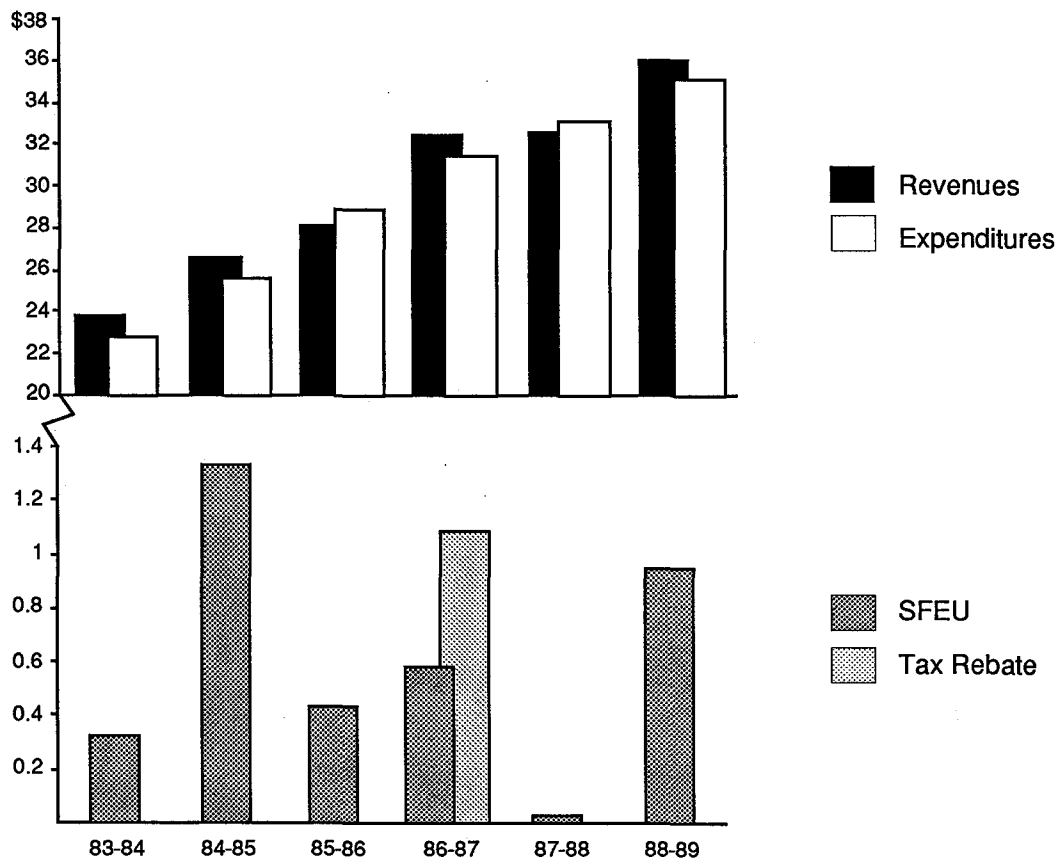
Chart 8 provides a historical perspective on the level of General Fund revenues, expenditures and the SFEU for the period 1983-84 through 1988-89. As the chart shows, General Fund expenditures exceeded General Fund revenues in 1985-86 and 1987-88, resulting in

decreases in the SFEU for those years. The chart also shows that the revenue and expenditure programs enacted in the 1988 Budget Act would bring the balance in the SFEU up to its highest level since 1984-85. ♦

Chart 8

Comparison of General Fund Revenues, Expenditures and the Special Fund for Economic Uncertainties (SFEU)

1983-84 through 1988-89 (dollars in billions)



Allocation of Tidelands Oil and Gas Revenues

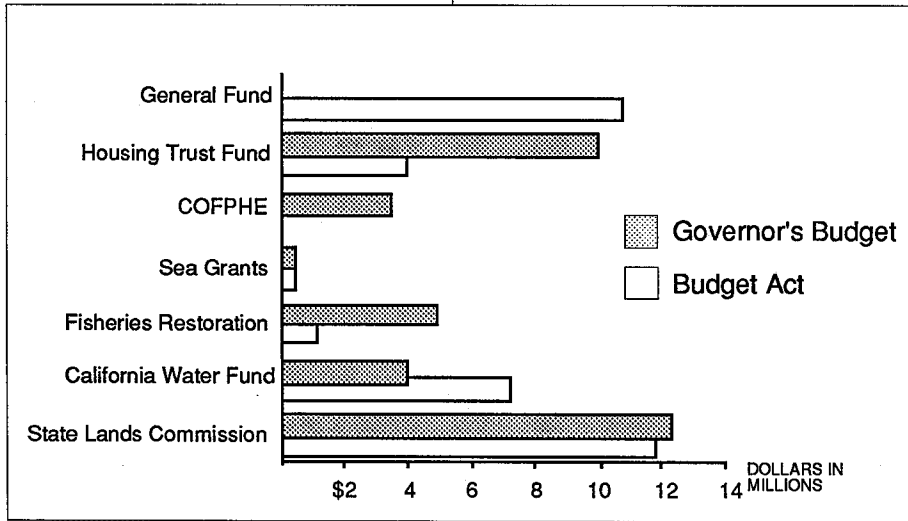
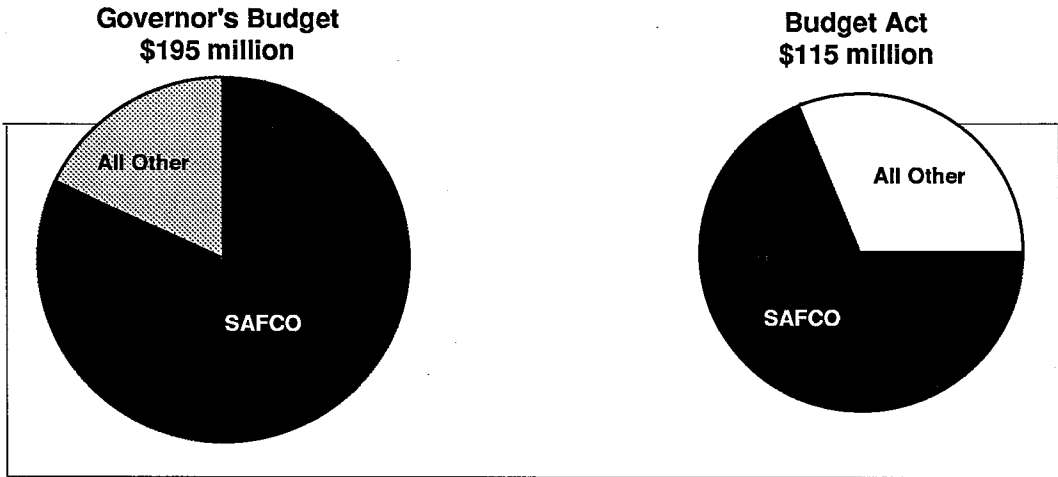
Prior to introduction of the Governor's Budget, the State Lands Commission (SLC) estimated that revenues received during 1988-89 from the state's tidelands oil operations would amount to about \$195 million. This level of revenues was far below the amount needed to provide funds for the numerous programs 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 most of the funds being allocated to the Special Account for Capital Outlay (SAFCO).

During the Legislature's deliberations on the budget, the SLC revised its revenue estimate for 1988-89 to \$115 million. The Legislature provided for the allocation of these reduced revenues in the final budget, including a transfer of \$10.7 million to the General Fund. Chart 9 shows the allocations of tidelands oil revenues provided in the Budget Act, and the allocations originally proposed by the Governor.

The Governor's actions on the budget result in a total of \$11.2 million in tidelands oil revenues available for appropriation in SAFCO. ♦

Chart 9

Distribution of 1988-89 Tidelands Oil Revenue



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.

For 1988-89, the Department of Finance indicates that "appropriations subject to limitation" will be \$163 million *below* the appropriations limit. However, this figure anticipates that the Legislature will approve legislation to provide \$190 million for the Trial Court Funding Program. On this basis, the department has increased its estimate of the state's limit by \$190 million to reflect the transfer of

responsibility for funding of the trial courts. In addition, the department assumes that the Legislature will approve the Governor's proposal for increased subventions to local governments totalling \$48 million. The department has therefore reduced the amount of "appropriations subject to limitation" by \$48 million. If the Legislature does not act to authorize these proposed expenditures, we estimate that the budget *exceeds* the state's limit by \$75 million. ♦