

CALIFORNIA LEGISLATURE
1965 REGULAR SESSION

ANALYSIS OF THE BUDGET BILL

of the

STATE OF CALIFORNIA

for the

Fiscal Year July 1, 1965, to June 30, 1966

Report of the Legislative Analyst

to the

Joint Legislative Budget Committee

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LETTER OF TRANSMITTAL

STATE CAPITOL
SACRAMENTO, CALIFORNIA
February 18, 1965

THE HONORABLE GEORGE MILLER, JR., *Chairman*
and Members of the Joint Legislative Budget Committee
State Capitol, Sacramento, California

GENTLEMEN: In accordance with the provisions of Government Code, Sections 9140-9143, and Joint Rule No. 37 of the Senate and Assembly creating the Joint Legislative Budget Committee, defining its duties and providing authority to employ a Legislative Analyst, I submit an analysis of the Budget Bill of the State of California for the fiscal year July 1, 1965, to June 30, 1966.

The duty of the committee in this respect is set forth in Joint Rule No. 37 as follows:

“It shall be the duty of the committee to ascertain facts and make recommendations to the Legislature and to the houses thereof concerning the State Budget, the revenue, and expenditures of the State, and of the organization and functions of the State, its departments, subdivisions and agencies, with a view of reducing the cost of the state government, and securing greater efficiency and economy.”

I should like to express my gratitude to the staff of the State Department of Finance and the other agencies of state government for their generous assistance in furnishing information necessary for this report.

Respectfully submitted,

A. ALAN POST
Legislative Analyst

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I. INTRODUCTORY STATEMENT

FORM OF THE ANALYSIS

This Analysis of the Budget is designed to furnish the Legislature with a broad overview of the major financing problems which it will consider in acting upon the Budget Bill, as well as providing a detailed review of the cost factors and policy issues incorporated in each of the separate items of the Budget Bill. Since about two-thirds of state expenditures are not in the Budget Bill, the analysis includes appropriate discussion of major expenditure programs which must be considered in balancing the budget, even though they are not included in the bill.

It is noted here that the Budget Bill, constituting that portion of the total budget which must be acted upon by the Legislature each session to carry out the budget as proposed by the Governor, actually covers only about one-third of the budget program. The remaining two-thirds is appropriated by existing statutes or by the Constitution. Moreover, in the case of the 1965 Budget the Governor has elected to restrict the printed budget, and the Budget Bill, to a workload or so-called "bare bones" program which is to be supplemented subsequently by the presentation of bills or Budget Bill amendments which will implement a program of additional costs as outlined in his Budget Message of January 25, 1965.

Our Analysis will, therefore, in the body of this report, include analyses and recommendations as to each of the items in the Budget Bill, while brief comments will be made concerning the Governor's "Phase Two" program in the introductory statement which follows, accompanied by review of revenue estimates and major fiscal issues connected with the budget as initially introduced by the Governor.

In presenting our Analysis to the Legislature, we have this year taken steps to organize our report so as to provide the most definitive and useful analysis possible relative to the critical tax problems faced by the 1965 Legislature, and in addition to construct its presentation so that it will serve the purpose of materially advancing the objective of bringing to California a more complete and effective program and performance budget. Our analysis of agency budgets therefore takes, as a first step, the form of program statements with related costs. These have been constructed as accurately as possible from accounting data which, for the most part, are not designed to produce program cost information. The programs described will then be appraised in terms of their performance using data developed in cooperation with the agencies to reflect criteria and standards of performance most useful to the Legislature. Necessarily this review will suffer from imperfections and inadequacy of data, but we believe that it is a distinct improvement over previous analyses and constitutes a desirable step forward in our efforts to produce better budgeting and better budget review. It is important to note that the evaluation of performance is

based on 1963-64, rather than the current fiscal year because 1963-64 is the last year for which actual data are available. Both 1964-65 and 1965-66 are estimates.

A basic feature of the Analysis this year is to confine our recommendations for reduction essentially to those which can be produced by improvements in the performance of established functions—improvements, so to speak, in efficiency and economy, while a new section called “Policy Options” has been used to discuss budget reductions which we believe are appropriate for legislative consideration although they involve a change in the laws or in established policies. More than one option may be suggested in the case of a single program, reflecting increasingly substantial suggested changes in policy, with attendant increased savings.

SUMMARY OF RECOMMENDED REDUCTIONS

The various reductions recommended on the basis of efficiency and economy total almost \$36 million, of which almost \$35 million are General Fund reductions. In addition we recommend reductions in State Construction Bond funds totaling \$5.5 million, which has a direct bearing on future General Fund requirements. Due to inadequate supporting data we are unable as yet to make a final recommendation on about \$59 million in proposed bond fund expenditures.

Our suggested policy options, requiring changes in law or in established policy, offer further reductions aggregating \$88 million if the option providing greatest savings in each program was adopted in every instance.

OVERALL EXPENDITURE TOTALS

The overall expenditure total for 1965-66 is estimated at \$4,026.8 million, including \$408.2 million in bond program expenditures. Beyond this the Governor has suggested additional expenditures of \$125 million in a so-called phase two program, not detailed in the budget, of which \$75 million would be a net increase to the totals and \$50 million would offset bond expenditures. The total does not include the special program for flood relief, which may total about \$37 million, or expenditures of bond funds for parks and recreational purposes. The bond program proposals are shown as follows:

State Construction Program Fund -----	\$141,742,968
California Water Resources Development Bond Fund -----	263,236,921
Central Valley Water Project Construction Fund -----	3,244,676
Total -----	<u>\$408,224,565</u>

It is not standard accounting procedure to include bond funds in the state expenditure totals. Inclusion here is for comparative purposes only and subsequent sections on budget expenditures exclude the bond funds.

The proposed phase two program as yet has not been developed in sufficient detail to facilitate use in budget component distributions and comparisons at this time. Since it has been proposed by the Governor, however, and will in due course be developed for legislative consideration in the form of specific bills, or as budget bill amendments, we provide in a later section a brief description of the items suggested by the Governor. (See pages xiii to xix.)

GENERAL BUDGET SUMMARY

The 1965-66 budget (excluding bond funds) proposes a total outgo of \$3,618,603,209, a gain of 4.6 percent over the total of \$3,460,415,164 estimated for 1964-65. In comparison, the budget total for 1963-64 was \$2,977,741,898. The 1965-66 total, therefore, represents an increase of \$640,861,311, or 21.5 percent, from the 1963-64 budget. The following comparison shows the changes in outgo between 1964-65 and 1965-66 in the three major categories comprising the budget.

		<i>Change from 1964-65</i>			
	<i>1964-65 *</i>	<i>1965-66</i>		<i>Amount</i>	<i>Percent</i>
Support	\$1,049,926,832	\$1,117,405,350	Up	\$67,478,518	+6.4%
Capital outlay	474,692,046	340,410,413	Down	134,281,633	-28.3
Local assistance	1,935,796,286	2,160,787,446	Up	224,991,160	+11.6
Totals	\$3,460,415,164	\$3,618,603,209		\$158,188,045	+4.6%

* Revised estimate as contained in 1965-66 Governor's Budget document.

The above table indicates a large drop in capital outlay expenditures for 1965-66 in contrast to 1964-65. This is a misleading conclusion, however, and the reduction results from a continuing practice of adjusting current year expenditures to reflect large carryover balances in special funds from year to year. This adjustment process is illustrated for the 1963-64 fiscal year for which the full cycle becomes evident.

Special Funds Capital Outlay Expenditures for 1963-64

	<i>Millions</i>
As proposed in 1963-64 Governor's Budget document	\$315.1
As reestimated in 1964-65 Governor's Budget document	438.6
Actual as shown in 1965-66 Governor's Budget document	343.9

It is evident that the reestimated 1963-64 capital outlay expenditure (as shown in the 1964-65 budget document) was not very accurate relative to actual expenditures for that year. The similarly inflated reestimate for 1964-65 as shown in the 1965-66 budget document, therefore, indicates that it is not prudent to estimate an actual drop in capital outlay expenditures (as is implied in the 1965-66 budget document) between 1964-65 and 1965-66.

This revision process as illustrated above is largely attributable to the current practice of carrying over large amounts from year to year in the state highway program. Since these funds are continuously appropriated and dedicated for this purpose, the actual expenditure level is not affected but the practice causes confusion in making year-to-year comparisons in expenditure levels.

GENERAL FUND FINANCIAL PICTURE

The budget problem continues to center in the General Fund and is characterized by expenditures rising faster than revenues. The problem was temporarily alleviated with enactment of the special tax measures which increased revenues beginning in 1963-64, however, this added stimulus has now largely passed. In addition, the federal tax cuts in 1964 have added impetus to state revenue collections. The estimated carryover balance of free surplus at \$134.5 million is largely the consequence of these two actions.

In spite of large carryover balances from the previous year and estimates of a favorable revenue picture, a year end deficit of \$58.6 million is anticipated at the end of 1965-66. The present income structure and prior-year surplus are insufficient to support the expected increase of \$206.6 million or 8.6 percent, in General Fund outgo. A significant factor in this large outgo increase is the 1964 school legislation liberalizing the apportionment formula.

In order to meet the expected deficit a tax program has been proposed by the Governor totaling \$75.3 million in new revenues to the general fund in 1965-66, with increases to \$244.7 million in 1966-67. Details on the program are shown in a separate section of this summary.

The 1965-66 budget problem together with the proposed resources and means of solving it and reflecting a small surplus at the end of the fiscal year is shown in the following financial summary.

General Fund Condition (In millions)		
Beginning surplus (July 1, 1965) -----		\$134.5
1965-66 income (includes revenues and transfers) -----		2,396.0
Total resources -----		\$2,530.5
Proposed outgo -----	\$2,596.1	
Less net expenditures of committed reserves (financed from prior appropriations) -----	7.0	
Net outgo -----		\$2,589.1
Ending deficit (June 30, 1966) -----		58.6
Proposed tax program revenue to meet deficit in 1965-66		75.3
Ending surplus (June 30, 1966) if tax program enacted--		\$16.8

REVENUE ESTIMATES

Income totaling \$3,511,664,997 for 1965-66 is estimated by the Department of Finance. This amount includes \$107,333,471 of proposed new tax revenues. Not included, however, is tax revenue to support the \$125 million proposed phase two budget or the \$37 million special vehicle fuel tax which the Governor will propose for flood relief. Including these latter two programs would increase total income to around \$3,673.7 million.

General Fund income is estimated to total \$2,471,320,808. A breakdown into the components of this total is shown below. This does not include any funds for the phase two program components of General Fund income.

	<i>Millions</i>
Revenue from present tax base-----	\$2,362.1
Proposed tax program for 1965-66-----	75.3
Transfers into the General Fund-----	33.9
Total -----	\$2,471.3

The proposed transfers consist almost entirely of two items—a transfer of \$29.9 million of oil revenues from the California Water Fund and of \$3.8 million from the School Land Fund.

The revenues as estimated for 1964-65 and for 1965-66 (including the effect of the \$75.3 million in proposed new taxes) are shown in the following table:

General Fund Revenues
(In millions)

<i>Taxes, fees, etc.</i>	1964-65	1965-66	<i>Increase</i>	
			<i>Amount</i>	<i>Percent</i>
Sales and use -----	\$962.0	\$1,022.1	\$60.1	6.2
Bank and corporation -----	422.0	423.0	1.0	0.2
Personal income -----	394.5	392.2	-2.3	-0.6
Tobacco -----	75.4	174.0	98.6	130.8
Inheritance and gift -----	109.0	113.1	4.1	3.8
Insurance -----	94.4	103.3	8.9	9.4
Alcoholic beverage -----	69.4	78.0	8.6	12.4
Horse racing -----	37.5	39.6	2.1	5.6
Other sources -----	85.3	92.2	6.9	8.1
Total -----	\$2,249.4	\$2,437.4	\$188.0	8.4

Under existing tax law revenue is anticipated to increase by \$112.7 million. This is smaller than the normal year-to-year increase and results largely from the aftereffects of the 1963 tax package and the proposed withholding plan which, if adopted, will decrease 1965-66 revenues of the personal income tax by \$28 million.

A two-year tax program is proposed in the budget which would raise \$75.3 million for the General Fund in 1965-66, as indicated above, and \$244.7 million in the 1966-67 fiscal year. According to Department of Finance estimates, this would be sufficient to provide support at the workload budget level during these two years. (Again, no part of the phase two program is included for either year.) The table on the following page is a summary of this program showing the specific tax and revenue changes proposed.

Local governments would receive a part of the cigarette tax amounting to 1.5 cents per package in lieu of local cigarette taxes now being imposed. This would amount to \$36.7 million of special fund revenues for 1965-66 not included in the above totals.

The level of General Fund revenue as budgeted at \$2,437.4 million for 1965-66 should be realized if a favorable trend of economic advance continues during 1965 and into 1966. However, this total should be viewed as being near the maximum in a range of the revenue potential that at this time can be reasonably expected for the year and includes proposed new tax revenue. The small carryover free surplus expected at the end of 1965-66 (which will result only if the proposed tax program is passed) leaves a small margin to absorb a possible shortfall should one develop. Some of the economic assumptions pertinent to the revenue picture are considered in the following sections.

Economic Situation in 1964

The national economy has reached higher levels during 1964 than had generally been expected a year ago. Led by strong consumer expenditures, which have been stimulated by the tax cut in March, and supported by governmental expenditures, increasing private investment and continued expansion of consumer credit, the gross national product of the country is expected to total about \$623 billion for 1964. This is up \$39.1 billion, or 6.7 percent, from the total of \$583.9 billion for 1963.

The California economy was also strong during 1964 with income and revenue generally exceeding the forecasts prepared in 1963. There was, however, continued weakness in defense oriented industries in the state

**Governor's Tax Program
General Fund**

This outline shows the proposed changes and amounts involved in the budget period and for the ensuing fiscal year.

	<i>(In millions)</i>	
	<u>1965-66</u>	<u>1966-67</u>
Tobacco tax		
Increase the cigarette tax to 8 cents per package with 1½ cents returned to local governments-----	\$85.6 *	\$89.3 *
Impose tax of 20 percent of wholesale price on other tobacco products-----	11.4	12.4
Total, tobacco tax -----	\$97.0	\$101.7
Personal income tax		
Adopt withholding procedures and estimated tax declarations effective January 1, 1966, with forgiveness of one-half of tax on 1965 incomes-----	-\$28.0 †	\$56.5 †
Prorate exemptions and standard deductions when taxpayers are not residents for full year-----	-	6.0
Total, personal income tax -----	-\$28.0	\$62.5
Inheritance and gift taxes		
Reduce annual gift exclusion to \$3,000-----	\$0.2	\$0.5
Include all insurance in the value of estate-----	0.6	2.9
Raise rates on class A beneficiaries-----	2.7	16.5
Integrate inheritance and gift taxes-----	0.5	2.6
Tax general powers of appointment-----	0.4	1.0
Tax bequests to charities of over \$25,000 at class A rates---	2.0	8.0
Eliminate discounts for early payments, shorten due date to 15 months, require estimated payments within nine months and charge interest thereafter-----	-12.0	22.5
Combine classes C and D with class D rates and class C exemption-----	-	-
Total, inheritance and gift taxes -----	-\$5.6	\$54.0
Sales and use taxes		
Extend tax to rented personal property-----	\$3.2	\$13.5
Eliminate occasional sale exemption on motor vehicles, boats and airplanes-----	3.9	8.1
Total, sales and use taxes -----	\$7.1	\$21.6
Support changes		
Department of Alcoholic Beverage Control-----	\$4.7	\$4.8
Districts Securities Commission-----	0.1	0.1
GRAND TOTALS, (General Fund) -----	\$75.3	\$244.7

* Excludes an estimated \$36.7 million in 1965-66 and \$38.8 million in 1966-67 to be collected by the state and returned to local governments.

† Net receipts after administrative expense.

and the unemployment rate has continued at around 1 percent higher than the national rate.

As of February 1965 the upswing in the economic cycle is four years old, making it the longest expansion phase since World War II. The preponderance of evidence indicates a continuation of the expansion at least through the early months of 1965, but for the year as a whole a lower rate of increase.

National Outlook for 1965

Although a generally favorable year is expected in 1965, there may be a tapering off in the rate of advance in the latter part of the year. The major forces for expansion during the first half will likely be those

which have supported the strong 1964 advance. Significant among these are consumption expenditures, investment in plant and equipment, and rising state and local governmental expenditures. Additional stimulus may come from augmentations to inventories which so far have been at comparatively low levels.

A brief discussion of some of the factors which appear to be most pertinent to the state of the economy in 1965 are listed as follows:

1. Consumer Expenditures. A continuation of the current expansion is expected with further stimulus coming from the 1964 tax cut at least into 1965. The increased payments, however, on income tax due in April 1965 because of underwithholding of 1964 income taxes may have a depressing effect. The proposed excise tax cuts, however, would likely be larger and be enacted earlier if any significant weaknesses appear. Stimulus from consumption expenditures also depends on continued high sales of automobiles which have already been strong for three years in a row.

2. Investment. The 1964 year was especially strong for plant and equipment investment with a rise of about 13 percent estimated over 1963. A more moderate rise of 8 to 10 percent is expected for 1965.

3. Inventories. Most sources expect a larger buildup in business inventories in 1965 than has occurred during 1964. Inventories have been maintained at very low levels as compared to past standards and with more uncertainty as to future price levels in some areas and the possibility of a steel strike, in addition to depleted stocks in some cases, a more rapid rate of accumulation appears to be underway.

4. Governmental Expenditures. Federal expenditures are expected to increase moderately in 1965, but the major stimulus will come from state and local expenditures which have been advancing steadily year after year. Large bond authorizations voted by the people in 1964 also indicate increased expenditures of this type in 1965.

5. Consumer Credit. There has been a strong advance in consumer credit during the present economic upswing. There is increasing concern being expressed that current levels of consumer debt are too high. While some further advances appear likely the leverage for further expansion has been reduced.

6. Construction. Construction is generally predicted at near 1964 or slightly lower levels in 1965. Housing at the same or slightly below the 1964 level appears to be a reasonable forecast. There continues to be some surplus of housing in many sections of the nation.

7. Corporate Profits. The level of corporate profits was up sharply in 1964 over 1963. At the best only a small additional increase in profits before taxes is expected in 1965, but if labor settlements follow the 1964 pattern profits may remain at about the 1964 level. A further gain in profits after taxes can be expected, however, as part of the tax cut becomes effective this year.

8. Employment and Unemployment. There has been a moderate upswing in employment nationally during 1964. The economic stimulation from the tax cut has been evident as a factor in reducing unemployment. A rate of 5.0 to 5.5 percent is expected for 1965 indicating little if any further improvement. Some of the most serious unemployment problems will continue to be centered in workers at the teenage and early twenties levels.

These are only a few of the multitude of economic forces which will play a part in the outcome for 1965. The international balance of payments situation can tend to increase domestic credit rates and have other far-reaching effects on the internal economy. A change in defense policies would have an immediate effect on the economic outlook. A material change in the outlook would also result from a prolonged strike in any major industry.

Under these circumstances an increase in GNP from the expected level of about \$623 billion for 1964 to a range of between \$650 billion and \$665 billion appears likely. This would represent a lesser advance than between 1963 and 1964 unless the extreme upper limits of the range are reached. Prices are assumed to increase about 1.5 percent and, therefore, no inflationary boom is in prospect. An estimating level assumed for GNP within this range is \$658 billion, which would show an increase of \$35 billion, or 5.6 percent, over the 1964 total.

There appears to be a distinct possibility of some economic imbalances developing during 1965 and the current economic upswing could top out or closely approach this phase by the end of the year unless some major new source of stimulus develops. This may result if the prospective excise tax cuts are enacted.

California Economy

The steady expansion of state population will continue with a total population of 18,815,000 expected as of July 1, 1965. This is up 581,000, or 3.2 percent, from the total of 18,234,000 on the same date in 1964.

Personal income for California is expected to total about \$56.2 billion in 1964. A level in the range of \$59 billion to \$60 billion seems likely for 1965. At an estimated figure of \$59.4 billion the increase in state personal income would amount to 5.7 percent as compared to 7.4 percent estimated gain for 1964 over 1963.

Although many of the factors in the state economic picture for 1965 are merely reflections of the national situation, there are several which are having more direct impact and some that are unique to the state. The force of economic trends is often relatively greater in California than for the nation as a whole. This is indicated by the fact that although the state is expected to grow at a slightly faster rate than the nation during 1965, the slowdown in rate expected for California is more drastic and will tend to narrow the growth differential. Some of the elements in bringing about this situation are briefly discussed in the following paragraphs.

The state is especially sensitive to changes in defense and space expenditures. Although this has been a rapidly advancing segment of the California economy in the past, there has been a curtailment of defense business going to the state during 1964 with a consequent decline in employment which has not been fully offset by gains in space and other manufacturing. Defense procurement policies are subject to sudden fluctuations and any estimates of future levels should be considered in this light. In this context some further decline in defense expenditure in the state is forecast for 1965, but the decline is expected to be less than occurred during 1964.

State construction activity has been slightly lower in 1964 than during 1963 and a total construction level slightly lower than 1964 is anticipated for 1965. This, however, indicates a continued strong rate

of construction for the state. Construction of housing, even with the surpluses apparent in some major areas, is expected to continue at a strong pace even though at a lower rate than for 1964.

A major problem in California continues to be unemployment. Although the national situation has improved somewhat during 1964, the unemployment rate for the year in California will be approximately 6 percent—about the same level that has been the case since 1962. The current level of unemployment for the state is about one percentage point higher than the national rate. No great improvement in this differential or the California situation is foreseen for 1965 with the national rate forecast at between 5.0 percent and 5.5 percent and the California rate expected to average 6 percent or slightly higher for the year.

PROPOSED PHASE TWO PROGRAM

The Governor has recommended an additional 1965-66 expenditure and revenue program which will be presented in detail at a later date. The program will essentially consist of budget augmentations totaling approximately \$125 million. New taxes in the same amount will be required to finance the program. Items of expenditure to be included consist of the following:

1. Salary Increase ----- \$33.5 Million

Proposes adoption of the Personnel Board salary recommendations consisting of a five percent increase for 76 percent of civil service employees and a 2.5 percent increase for the remaining 24 percent. In addition, proposes a 5 percent across-the-board increase for all employees of the state college system and the University of California.

It is noted that the proposal for an across-the-board 5 percent salary increase for nonacademic personnel of the educational institutions does not follow the recommendations of the Personnel Board for civil service positions as the board is proposing a 5 percent increase for only 76 percent of the employees under its jurisdiction. This difference in salary increase proposals would be a break from the past practice under which nonacademic and civil service employees doing like work received like salary increases.

Detail on the \$33.5 million program plus estimates of special fund costs is shown in the following table:

Proposed Salary Increase Funds, 1965-66

Class	General Fund	Special Fund	Total state cost	Nonbudgeted (federal, etc).
Civil service -----	\$18,650,000	\$19,046,000	\$37,696,000	\$447,000
Exempt -----	550,000	36,000	586,000	
State colleges				
Academic -----	4,075,000		4,075,000	
Nonacademic -----	2,375,000		2,375,000	
Subtotal -----	\$6,450,000	\$ ---	\$6,450,000	\$ ---
University				
Academic -----	5,188,000		5,188,000	
Nonacademic -----	2,554,000		2,554,000	
Hastings -----	34,000		34,000	
College of Medicine --	74,000		74,000	
Subtotal -----	\$7,850,000	\$ ---	\$7,850,000	\$ ---
Grand total -----	\$33,500,000	\$19,082,000	\$52,582,000	\$447,000

2. *Capital Outlay* ----- \$50 Million

Would finance at least \$50 million a year of capital outlay from new tax revenues. This action would not change the total amount of funds allocated to capital outlay needs. It substitutes the General Fund for the state construction program fund as the source of funds for a portion of the total program.

3. *Aid to special school programs* ----- \$10 Million

Would provide special aid for educationally and culturally handicapped children. The aid would be provided through direct state financing and in conjunction with federal poverty and welfare programs. This proposal constitutes a new program rather than a continuation or improvement of an existing program previously established or contained in the 1965-66 budget. To date, there is no indication from the departments concerned as to the type of program to be proposed or the form in which the program will be offered.

A brief discussion of a proposal for expanding the compensatory education program which the Advisory Committee on Compensatory Education will present to the 1965 Session of the Legislature is included on pages 219-221 of this analysis. The advisory committee estimates that the first year state costs of its proposal will be \$22 million. The ultimate cost may be as high as \$64 million.

4. *Mental retardation* ----- \$2.5 Million

Proposes to start increasing the level of service in programs for mentally retarded and apparently includes both an action objective as well as administrative strengthening within the Department of Mental Hygiene. It appears that Public Health may receive an as yet unspecified portion of the \$2.5 million first-year expenditure to be used in establishing centers for specialized and expert care of premature infants.

5. *Resources* ----- \$5 Million

Would set aside \$5 million in tidelands revenues to finance the costs of recreation and fish and wildlife enhancement at the state water project. The regular budget provides for financing the onshore recreation facilities from the General Fund and the boating facilities from the Small Craft Harbor Revolving Fund. However, the remaining costs of acquiring the lands around a reservoir used for recreation and that portion of the construction costs of the dam allocated to recreation and fish and wildlife enhancement are not financed and the Department of Water Resources is now spending water bond proceeds for these costs which will eventually have to be repaid with interest. Since state policy provides no repayment revenues for these facilities, there is no means to repay principal and interest for water bond proceeds spent on these features.

6. *Reduce hours for forest firefighters* ----- \$755,000

This proposes reducing the duty week of state forest firefighters from 104 hours to 96 hours at a cost of \$755,000 a year. The 1961 Legislature appropriated funds to decrease the length of the duty work week from 120 hours to 104 hours for the division's fire control personnel. This proposal to reduce the duty week to 96 hours does not include the re-

duction of hours for the seasonal firefighter from 104 to 96. We have proposed in this analysis that the duty week be returned to 120 hours for seasonal firefighters at a savings of \$232,000 to the General Fund. See page 807.

7. *Welfare cost sharing with counties* ----- \$8 Million

The different welfare programs have a different cost sharing relationship as between the counties and the state. This proposal would apparently provide a single ratio for all categories and shift \$8 million of the cost from the counties to the state in the budget year. The detail supporting this particular proposal is not available.

8. *Educational television* ----- \$1.5 Million

No specific detail is available at this date on this program proposal.

9. *Strengthening library resources* ----- \$1.4 Million

A total of \$1,415,000 is proposed, of which \$600,000 is said to be for the state college library development program. No detailed breakdown of this figure is available at this time but we assume it will be added to budgeted funds to provide approximately \$360,000 for books and the balance for staff and operating expense. The message also refers to \$600,000 for libraries at the University of California. Other proposals include \$175,000 for additional state assistance to public libraries (in addition to the existing library assistance program of \$800,000 which is discussed on page 922 of this analysis) and \$40,000 for additional support for the State Library.

10. *Miscellaneous Programs and Contingencies* ----- \$12 million

A number of different programs are included in this category. However, there is only very limited detail available on some of the programs and none on others. These are listed and explained as far as possible in the following sections:

A. *Housing and Community Development Department*

It is understood the Division of Housing at present in the Department of Industrial Relations and the staff in the Department of Finance assigned to the present Housing and Community Development activities will be the nucleus of the new department. It is further understood that a first-year cost of between \$270,000 and \$380,000 of additional General Fund support will be required to implement this plan.

B. *Flood Relief*

The amount and means of financing repair of flood damage is subject to further estimate and negotiation. Various financing alternatives include the suggested one cent a gallon fuel tax, an appropriation similar to Item 446.7, Budget Act of 1958, or transfer of funds from the California Water Fund.

C. *Antipoverty Program*

The budget includes a proposal for \$62,431 as the state's share of the initial administrative cost in participating in the federal government's antipoverty program. This proposal apparently would include \$2 million which is referred to but not included in the workload budget.

Cost implications relate to the fact that in the various types of programs outlined for assistance through the Economic Assistance Act the federal assistance drops to 50 percent of cost rather than 90 percent. Thus programs, whatever they might be, that the Governor envisions costing the state \$2 million in the 1965-66 fiscal year, will cost the state \$10 million in the 1966-67 fiscal year. The law provides that the 90 percent federal sharing will go down to 50 percent after June 30, 1966.

D. State Tourism Program

This would provide funding of the state tourism program which was established in the Governor's office by Chapter 101 of the 1964 First Extraordinary Session (AB 27) but for which no money was provided for its support.

Estimate of cost for the program as presented last year was \$200,000. No additional information is available as yet relative to new cost proposals.

E. Specialized Medical Care for Certain Types of Medically Handicapped Children

It appears that this proposal relates to those crippled children with chronic handicapping conditions such as blood dyscrasias, metabolic disorders, disorders of the endocrine system, certain neoplasms of childhood and similar conditions which are not now included in the crippled children's services program. The Department of Public Health estimates that the first year cost of adding these conditions to this program will be \$129,000.

F. Establishment of Children's Units at Camarillo and Napa State Hospitals

Children's units are already established at these hospitals and the proposal is evidently for the purpose of enriching the level of staffing.

G. Release Time for the Academic Senates of the State Colleges

No information is available as to cost and program scope.

H. Site Studies at New Colleges

The Department of Finance reduced to \$100,000 in Item 351(c) and \$50,000 in Item 349(b), the amounts available to the State College Trustees and the University respectively, for general studies which could include new college site investigations. We are told that \$55,000 would be earmarked for the site studies. The inclusion simply leaves the door open if the University and trustees wish to pursue the extra funds.

I. Research Funds for the University

Would support research intensifying efforts leading to the development of farm harvesting machinery. We estimate this amount to total about \$150,000.

J. A Work Furlough Program for Adult Prison Inmates and Encouragement of the Expanded Use of Local Probation

This program proposes releasing adult inmates to county facilities up to 120 days prior to their normal release date to participate in daytime employment with night and weekend incarceration in the county facility. This is comparable to the Huber plan initiated several years ago by the State of Wisconsin and in recent years by the Sheriff of Santa Clara County. The department estimates that in the first year 18 counties will participate with a first-year cost of \$200,000. In our opinion, the department could parole these selected inmates to the new work unit parole program and save the \$200,000.

A probation subsidy program bill has been drafted but firm estimates of cost are not yet available. However, some preliminary indications are that an appropriation of about \$1 million will be requested for allocation to participating counties.

These two proposals will require legislation amending the statutes.

K. New Data Processing Service Center and Control Program

This proposal appears to be based on a report prepared by a special steering committee which contains the following recommendations:

No. 3. A data processing policy function be established in the Department of Finance at the deputy director level, supported initially by a professional staff of two.

No. 4. A data processing systems function be established in the Department of General Services supported initially by at least 20 analysts.

No. 5. An ADP service center be established in the Department of General Services.

General Services now has 12 data processing systems analysts on its staff. The addition of eight plus two in the Department of Finance plus related expenses would probably cost \$125,000 to \$150,000 per year.

L. Strengthen the Treatment Program at the Veteran's Home

Apparently about \$600,000 would be included for this proposal. Possibly this would comprise around \$266,000 for conversion of McKinley Barracks to nursing home use. That action would lead to the need for a marked increase in staff in future budgets because it would enable the home to increase total membership and to concentrate on high level care. There is no doubt that a demand for such care exists; there is a policy question regarding whether the state should provide it.

The department also requested 83 additional positions for a budget year cost of \$415,000 to improve the level of service. Although the Department of Finance has repeatedly rejected most of the increases reflected by the request, it is apparent that the Governor's statement gives the department an opportunity to solicit support for at least part of the funds required.

The major new programs involved include staffing:

(1) An intensive care unit	\$51,000
(2) Extension of inhalation therapy service	46,000
(3) Education of bedside care personnel	138,000
(4) Physical medicine and rehabilitation service	55,000
(5) Intensify nursing home care	85,000

We did not consider these possibilities in our budget analysis. Our analysis of Item 267 includes a discussion of the shift in emphasis to the current demand for intensive care versus the use of the hospital as a service unit to the domiciliary members concept that prevailed in the past.

M. State Lands Staffing Increase to Handle Development of the East Wilmington Tidelands Oil Field

As mentioned in our analysis, this program might cost \$350,000 per year including an expenditure of \$100,000 proposed by the State Lands Commission from oil revenues for a study of the problem by outside consultants.

It should be noted that while these costs would be wholly reimbursed from oil revenues they would have the effect, under the current formula, of reducing the state's share of the revenues which it would otherwise receive by 50 percent of such costs.

N. Funds for Control of Cigarette Smoking and Alcoholism

No program costs are available at this time. The program apparently will be based on reports concerned with these subjects which will be submitted by the Department of Public Health in the near future.

11. Special Fund Programs -----(No estimate of cost available)

In contrast to the phase two General Fund programs, these would not require new revenue sources.

A. Increased Officers for the Highway Patrol

No detail is available at this time relative to the number of additional patrolmen and the proposed cost.

B. Strengthening the Driver Improvement Program

This would increase funds to extend the actions taken relative to negligent motor vehicle operators. With funds available at present the department is taking action only on the mandatory provisions in the statutes. The program is discussed on pages 636 and 637 of this analysis. No estimates are available of funds necessary to extend this program as proposed.

C. Certain Construction Projects Not Meeting Workload Criteria

This proposal probably includes such items as air conditioning for mental hospital buildings (an example is the receiving and treatment facilities) and expansion of state parking facilities. No cost estimates are available at this time.

Proposed Revenue Program to Finance the Phase Two Budget

Several alternative revenue proposals are mentioned by the Governor to raise the approximately \$125 million estimated cost of the phase 2 program. These include the following:

1. Raising income tax rates one-third on each bracket of taxable income. At the lowest level, the tax would go up from 1 percent to 1.3 percent and at the highest rate, it would go from 7 percent to 9.3 percent. This proposal is included if the pay-as-you-earn collec-

tion system has been adopted and no prior income tax increase has been necessary. This is estimated to raise \$127 million in 1965-66.

2. Raising income tax rates by increasing the maximum rate progressively from 7 to 15 percent on income over \$35,000 and deny special treatment on long-term capital gains. It is estimated this proposal would raise \$130 million with more than one-half of the total coming as an offset from federal taxes.

3. Lower present state income tax exemptions to the federal level of \$600 per person. This is estimated to raise \$130 million in 1965-66.

4. Allow an income tax credit in lieu of present personal exemptions, credit for dependents and standard deductions. Principal impact would tend to be in the upper income ranges and the level of the credit would be set to raise about \$130 million.

5. Extension of the sales tax to gas, electric and communication services. This proposal is estimated to raise about \$100 million a year.

6. Other alternatives for consideration outside the income tax area are mentioned but no tax revenue estimates are available. These could be modified and combined to the extent necessary to produce the desired revenues. The following possibilities are listed:

- A. Increase the Bank and Corporation Tax.
- B. An unincorporated business tax (of the type now levied in New York).
- C. Increase in taxes on alcoholic beverages.
- D. Severance tax on petroleum and natural gas and/or reduction of depletion allowances.
- E. Increase parimutuel taxes.
- F. Elimination of the property deduction benefit of insurance companies on their home office buildings as an exemption from the state gross premiums tax.
- G. Admissions and amusement taxes and granting of additional thoroughbred racing days.
- H. Another possibility includes an increase in the sales tax although it was stated that this is not felt to be as desirable for consideration as the other items.