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THE STATE EXPENDITURE LIMITATION INITIATIVE--  
A SURVEY OF POSSIBLE BUDGET REDUCTIONS AND TRANSFERS  
TO OBTAIN COMPLIANCE THROUGH 1977-78

AUGUST 29, 1973

**LEGISLATIVE ANALYST**

STATE OF CALIFORNIA  
STATE CAPITOL, SACRAMENTO

THE STATE EXPENDITURE LIMITATION INITIATIVE--  
A SURVEY OF POSSIBLE BUDGET REDUCTIONS AND TRANSFERS  
TO OBTAIN COMPLIANCE THROUGH 1977-78

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## TABLE OF CONTENTS

	<u>Page</u>
Introduction-----	1
Determining the Expenditure Limitation-----	2
Composition of the 1973-74 Revenue Base-----	3
Projected Workload Expenditures-----	5
Expenditure Projection 1973-74 to 1977-78 Workload Basis (Table 1)-----	7
Determination of Expenditure Reductions Necessary Under the Initiative-----	9
Impact of the Governor's Initiative on Future State Expenditures (Table 2)-----	10
Basis for Developing List of Potential Reductions-----	11
Transfers to the Private Sector-----	11
Eliminate or Reduce the Functions-----	12
Permissive Local or Federal Assumption of Functions or Funding-----	13
Display of Total Potential Budget Reductions-----	13
Potential Budget Reductions Required in Order to Comply With Expenditure Limitation 1974-75 (Table 3)-----	14
Major Potential Reductions-----	15
Property Tax Relief-----	15
Reductions in Public School Support-----	16
Eliminate State Student Aid Subsidies for Private Institutions of Higher Education-----	17
Tuition at the State University and Colleges and the California Community Colleges-----	18

Major Potential Reductions (contd)

Eliminate State Support for Noncredit Courses at the Community Colleges-----	19
Highway Funds-----	20
Capital Outlay-----	24
Regulation of Business-----	25
Consumer Affairs-----	28
Appendix A - State Expenditures Which can be Reduced in Order to Comply With Expenditure Limitation-----	30

## INTRODUCTION

You have asked us to suggest the manner in which the state's revenue and expenditure program may be affected by the passage of the Governor's proposed initiative next November and what areas of possible budget reduction could be considered by the Governor and Legislature.

As you know, the major feature of the proposed initiative is the establishment of an expenditure limitation which will restrict state government expenditures to a percentage of the personal income of Californians. The "goal" of the initiative is to reduce expenditures over the years until they reach 7 percent of personal income.

One of our chief concerns has been that the reduction in state expenditures will have a principal effect of shifting costs to local government. For this reason we give special attention to those items where reductions would induce a minimum pressure to shift rather than reduce costs. This will be difficult of achievement inasmuch as two-thirds of the state budget is comprised of payments to local government and the \$620 million which we see as the amount of savings called for in 1974-75 is equal to about 25 percent of state operations. The nature of these operations is such that reductions of 25 to 50 percent, as will be the effect in four years, is impractical.

It should be made clear that we are not recommending these reductions under normal conditions. They are almost entirely items which we would recommend only if required by passage of the initiative and subject also to review of the alternative proposals which the budget will incorporate. Since the administration has proposed and is supporting

the initiative, it seems apparent that they must have in mind a series of reductions which is in far more complete form than what we can put together at this time. We will give great weight to those recommendations when they are submitted.

In order to assess the impact of these expenditure reductions on existing programs and policies as you have requested, we must first determine the expenditure limitation amount and compare that to estimated workload expenditures.

#### DETERMINING THE EXPENDITURE LIMITATION

Under the initiative, the expenditure limitation for 1974-75 will be derived through the application of the following formula to the appropriate data.

$$\text{1974-75 Expenditure Limit} = \left( \frac{\text{1973-74 Revenue}}{\text{1973 Personal Income}} - .001 \right) \times \text{1974 Personal Income}$$

In each future year, the ratio in the first year's formula is reduced by .001 until the ratio reaches 7 percent of personal income. At that point, the initiative authorizes the Legislature, by a two-thirds vote, to prevent the ratio from declining any further.

This formula gives an extraordinary importance to the determination of 1973-74 revenues because (1) the ratio established in the first year becomes the base for the expenditure limit in future years, and (2) it influences the length of time the limitation must be in effect before it reaches the "7 percent goal". (After the first year, however, the determination of the annual state revenue amount is irrelevant to the determination of the expenditure limitation amount because the ratio declines automatically each year by one-tenth of one percent.)

Three kinds of problems exist in determining the 1973-74 revenue amount as defined by the initiative. First is the problem of legal definition of "revenues". We do not know precisely what state receipts are to be included in calculating a base revenue amount under the initiative. Second is the problem of determining the tax base. Because the state budget contains a surplus in 1972-73 and 1973-74, the state has enacted a six months' sales tax reduction and a variable income tax credit for 1973. Under the initiative, some but not all of the changes contained in that statute will reduce 1973-74 revenues for the purpose of calculating the expenditure limitation. Third is the problem that no one knows what the economy will do. There could be a slowdown in late 1973 or in 1974 which will decrease 1973-74 revenues.

#### COMPOSITION OF THE 1973-74 REVENUE BASE

The Governor initially estimated the 1973-74 revenue limitation base at \$9,759 million. He subsequently revised this to \$9,316 million. In line with legal opinions, new legislation and other developments we have further adjusted the base downward by \$831 million to \$8,485 million as follows:



	<u>Millions</u>	<u>Reasons</u>
Governor's revised estimate of the total base	\$9,316	
1) Deductions made by the Legislative Analyst		
a) Vets Farm and Home Building Fund	-293	Per Legislative Counsel opinion
b) Water project income	-107	Per Legislative Counsel opinion
c) First year effect of 7-1/2 percent income tax credit in the Initiative	- 60	Sec. 4 of Initiative does not contain a disclaimer to the revenue loss
Sub-total--Reductions before any legislative changes in the revenue base	\$ -460	
2) Deduction resulting from the adoption of SB 90-- 1973 Session		
a) Six-month sales tax postponement	\$ -316	
b) Difference between 20 percent and variable 1973 income tax credits	- 55	Per Legislative Counsel opinion
Sub-total--Reductions from enactment of SB 90	-371	
Total Deductions	\$ -831	
Net revenue base for Governor's Initiative	\$8,485	

The exclusion of the veterans and water income will have only an insignificant impact on the reduction in state expenditures because both the revenues and their related expenditures are excluded from our calculations. These exclusions, however, do have a significant impact on the length of time the Governor's expenditure limitation would be in effect before it reaches the 7 percent "goal." Using the Governor's estimated base of \$9.3 billion results in a ratio of 8.35 percent of personal income, and with this starting point it would take 14 years to reduce the ratio below 7 percent. However, the exclusion of about \$400 million in veterans and water income reduces the time the declining limitation would be in effect by about four years.

The other reductions noted above, such as the sales tax and personal income tax changes, further reduce the base to the point where only six years will be required to reach the 7 percent floor because the 1973-74 starting ratio, using a \$8,485 million net revenue base, is 7.60 percent.

#### PROJECTED WORKLOAD EXPENDITURES

Table 1 shows total projected workload expenditures, including certain nongovernmental cost funds, increasing from \$9,226 million in 1973-74 to \$12,301 million in 1977-78. We have also included in the projection the estimated effect of Chapter 209 Statutes of 1973 (SB 6) in the education category. The total cost of this legislation is estimated at \$87.6 million in 1973-74.

It was assumed in preparing these projections that there will be a continuation of strong economic activity during this period with a gradual tapering off becoming more apparent by 1977-78.

It is emphasized that these are workload projections and the separate program categories are anticipated to grow at divergent rates based on various demographic, economic (including inflationary price pressures) and other workload factors as they affect each program. There are a number of other variables that could significantly alter the projections. For instance in the Social Welfare category, potential state costs resulting from HR 1 (P.L. 92-603) are estimated as \$110 million per year after 1973-74. This amount is about the midpoint in a range of possible costs. Further federal reductions in grants-in-aid programs could also alter state costs.

Table 1  
Expenditure  
Projection 1973-74 to 1977-78  
Workload Basis  
(In Millions)

	1973-74	1974-75	1975-76	1976-77	1977-78	Projection Factor
<u>Education</u>						
Fixed by Constitution	\$ 946	\$ 952	\$ 958	\$ 964	\$ 970	\$ +6 million/1
Fixed by Statute /2	1,283	1,388	1,502	1,625	1,758	8.2%
Budget Act	263	279	295	313	332	6%
Subtotal	\$ 2,492	\$ 2,619	\$ 2,755	\$ 2,902	\$ 3,060	
<u>Higher Education</u>						
Budget Act	\$ 862	\$ 918	\$ 978	\$ 1,041	\$ 1,109	6.5%
<u>Debt Service</u>						
Fixed by Constitution	\$ 175	\$ 186	\$ 197	\$ 209	\$ 222	6%
<u>Social Welfare</u>						
Fixed by Statute	\$ 665	\$ 718	\$ 776	\$ 838	\$ 905	8%
Budget Act	129	139	150	162	175	8%
Potential HR 1 Cost	57	110	110	110	110	
Subtotal	\$ 851	\$ 967	\$ 1,036	\$ 1,110	\$ 1,190	Various
<u>Department of Health</u>						
Budget Act	\$ 1,078	\$ 1,164	\$ 1,257	\$ 1,382	\$ 1,538	Various
<u>Corrections and Youth Authority</u>						
Budget Act	\$ 220	\$ 233	\$ 247	\$ 262	\$ 278	6%
<u>Property Tax Relief</u>						
Fixed by Constitution	\$ 277	\$ 285	\$ 294	\$ 303	\$ 312	Various
Fixed by Statute	698	752	782	816	849	
Subtotal	\$ 975	\$ 1,037	\$ 1,076	\$ 1,119	\$ 1,161	
<u>Shared Revenues</u>						
Fixed by Statute	\$ 737	\$ 774	\$ 812	\$ 852	\$ 894	5%
<u>Public Works</u>						
Fixed by Statute	\$ 501	\$ 526	\$ 552	\$ 580	\$ 609	5%
<u>Salary Increases</u>						
Budget Act	\$ 217	\$ 337	\$ 464	\$ 575	\$ 669	Various
(Yearly increases)		(120)	(127)	(111)	( 94)	
<u>New Legislation</u>	--	\$ 50	\$ 100	\$ 150	\$ 200	\$+50 million/1
<u>Other</u>						
Fixed by Statute	\$ 56	\$ 60	\$ 64	\$ 68	\$ 73	7%
Budget Act	1,009	1,005	1,075	1,150	1,231	Various
Subtotal	\$ 1,065	\$ 1,065	\$ 1,139	\$ 1,218	\$ 1,304	
Total Governmental Cost Funds	\$ 9,173	\$ 9,876	\$10,613	\$11,400	\$12,234	
Nongovernmental Cost Funds	53	56	60	63	67	6%
Overall Total	\$ 9,226	\$ 9,932	\$10,673	\$11,463	\$12,301	7.4

/1 Amount per year.

/2 Includes cost of Chapter 209/1973(SB 6)

The expenditure programs in Table 1 are categorized into three program types: (1) those in which expenditures are fixed by the Constitution, (2) those fixed by continuing statutory authority, and (3) those subject to the Budget Act or other legislation each year.

The 8.2 percent growth rate projected for that portion by the education category fixed by statute results mainly from the provisions of Chapter 1406, Statutes of 1972 which provides increased state foundation program support with annual adjustments based on statewide assessed valuation.

Higher education is projected at 6.5 percent reflecting the strong inflationary tendencies present in all categories and a slight increase in student enrollment.

The projected growth rate in Social Welfare is a result of several factors, including the liberalization of HR 1 eligibility requirements for the disabled, an increase in caseload, especially in the unemployed category, a continuing inflationary trend and a projected economic slowdown toward the end of the period.

The projected growth rate for the Department of Health varies from 8 percent to 9.5 percent. This projection is based primarily upon an increase in the Medi-Cal caseload for the nonfederally eligible and a continuing rise in the medical component of the cost-of-living index.

The 6 percent annual growth rate projected for the Department of Corrections and the Youth Authority is again a result of increasing prices as well as increases in the inmate populations.

For salaries (including both General Fund and special fund categories) we have projected average increases of 6 percent in 1974-75 and 1975-76, a 5 percent increase in 1976-77 and a 4 percent increase in 1977-78. If the full 1973-74 salary increase, now before the Cost-of-Living Council, is not granted, the expenditure base will be reduced accordingly. However, any reduction would be added to the 1974-75 salary requirements.

#### DETERMINATION OF EXPENDITURE REDUCTIONS NECESSARY UNDER THE INITIATIVE

If you compare the expenditure limits under the initiative to the workload expenditure projections shown in Table 1, you find that in order to comply with the initiative it will be necessary to reduce state expenditures significantly. Table 2 makes this comparison and shows that the following reductions will be necessary:

1974-75	\$ 620 million
1975-76	\$ 718 million
1976-77	\$ 877 million
1977-78	\$1,366 million

The reduction of \$1,366 million in 1977-78 is disproportionately high because of the termination of federal revenue sharing. This five-year appropriation may be continued, of course, and this would reduce the necessity for reductions by about \$250 million.

Table 2  
Impact of the Governor's Initiative  
on Future State Expenditures  
(Amounts in Millions)

<u>Fiscal Year</u>	<u>California Personal Income</u>	<u>Governor's Limitation</u>	<u>Federal Revenue Sharing</u> <sup>/1</sup>	<u>Other Excluded Revenues</u> <sup>/1</sup>	<u>Total Revenues</u>	<u>Estimated Workload Expenditures</u>	<u>Required Expenditure Reductions</u>
		<u>Percentage</u>	<u>Amount</u>				
1973-74	\$ 111,616	7.60%	\$ 8,485	\$ 231	\$ 8,809	\$ 9,226	--
1974-75	120,018	7.50	9,003	215	9,312	9,932	\$- 620
1975-76	130,045	7.40	9,626	232	9,955	10,673	- 718
1976-77	141,180	7.30	10,309	175	10,586	11,463	- 877
1977-78	150,367	7.20	10,829	--	10,935	12,301	-1,366

<sup>/1</sup> The initiative does not limit expenditures which can be made from certain kinds of revenue, including federal funds, retirement funds, unemployment funds and income of the University of California and the State University and College systems.

## BASIS FOR DEVELOPING LIST OF POTENTIAL REDUCTIONS

When faced with the task of reducing expenditures in the magnitude forced by the initiative, it is tempting to simply make arbitrary across-the-board cuts. However, we believe such an approach is not responsible budgeting and that any reductions should be made on the basis of priorities following a careful examination of all programs.

We have reviewed the items in the 1973-74 budget to determine where reductions of the magnitude necessary to comply with the initiative could best be absorbed and have the least injurious effects on services rendered to the public by state government. In making our review we found the potential reductions fell logically into the following three categories:

1. Transfers to the Private Sector
2. Eliminate or Reduce the Functions
3. Permissive Local or Federal Assumption of Functions or Funding

We have classified the potential reductions into these three categories in Appendix A on page 30 entitled "State Expenditures Which Could be Reduced in Order to Comply with Expenditure Limitation." This appendix displays, in detail, the major potential reductions for the 1974-75 fiscal year. It includes comments on each potential reduction, explanations of how the reduction would be applied, its impact, and the advantages or disadvantages of its inclusion.

Transfers to the Private Sector. A basic premise of the initiative is that state expenditures should be reduced and that certain functions might more properly be performed by local or federal governmental agencies (at their option), by the private sector (at its option), or perhaps



should not be performed or financed at all. An example of potential transfers to the private sector would be most boards and commissions within the Department of Consumer Affairs. They fall into a quasi-governmental category because they exist primarily to license and regulate particular commercial and occupational groups. In the context of this assignment, these boards and commissions could be converted into private corporations, funded from private fees, but assigned the responsibility for regulating these quasi-government activities. This procedure would remove these expenditures from state budget totals but would permit the activity to continue under public control. Some activities, such as liquor pricing using the police power of the state, could be removed for the private sector to deal with.

Other transfers to the private sector could include: establishment of tuition charges at the California State University and Colleges and at the California Community Colleges, reduction of scholarships to persons attending private institutions and, in general, establishment of fee structures designed to pay more fully for services rendered, e.g., state park entrance fees. These suggested reductions are discussed in following sections and in the appendix of this report.

Eliminate or Reduce the Functions. This category of reductions includes functions which, under the expenditure reduction assumption, might be reconsidered as inappropriate state expenditures. In general, these are the newly established programs such as senior citizens' tax relief, renters' tax relief, expanded correctional programs and, in education, public library assistance, certain services provided through

the County School Service Fund, Miller-Unruh Reading Program, State Compensatory Education Program and Early Childhood Program. These suggested reductions are discussed in the following sections and in the appendix of this report.

Permissive Local or Federal Assumption of Functions or Funding.

This category of reductions includes functions which could be taken over by other governmental jurisdictions such as the assumption of a portion of the funding for the state highway system to local entities as discussed subsequently.

Display of Total Potential Budget Reductions. The three categories of potential budget reductions are shown in Table 3. The reductions are separated into the major state budget classifications for a total potential reduction of \$785.6 million and detailed reductions are shown in the Appendix.

It should be emphasized that these suggestions are displayed to show the great impact this magnitude of reductions would have upon all phases of agriculture, business and industry, as well as government, in California. Each recommendation should be carefully examined to determine its long-range implications and the statutory changes required for its implementation. In many cases these reductions could be accomplished efficiently; however, in other instances transitional problems could be most severe.

Table 3

Potential Budget Reductions Required  
In Order to Comply with Expenditure Limitation  
1974-75

	(1) Transfer to Private Sector	(2) Eliminate or Reduce Function	(3) Permissive Assumption of Function or Funding	Total
General Government	\$ 3,095,097	\$ 628,180	\$ 26,415,992	\$ 30,139,269
Property Tax Relief	-	59,000,000	-	59,000,000
Agriculture and Services	18,251,748	25,353,783	-	43,605,531
Business and Transportation	16,104,684	91,155,363	30,514,084	137,774,131 <sup>1/</sup>
Resources	10,746,200	4,650,000	27,000,000	42,396,200
Health and Welfare	886,000	3,629,258	-	4,515,258
Education	4,000,000	133,000,000	18,000,000	155,000,000
Higher Education	145,488,800	3,710,030	-	149,198,830
Capital Outlay	-	-	164,000,000	164,000,000
Totals	\$198,572,529	\$321,126,614	\$265,930,076	\$785,629,219

<sup>1/</sup>

This does not include \$456.9 million to shift 68 percent of state highway system (and corresponding CHP responsibilities) to local entities. This potential reduction could be phased in to relieve scheduled termination of federal revenue sharing in 1977-78.

## MAJOR POTENTIAL REDUCTIONS

The following several pages describe the more significant potential reductions. They expand the explanation given in the extensive list of reductions contained in the Appendix.

### PROPERTY TAX RELIEF

The initiative requires that if there are any reductions in the homeowners' exemption or business inventory exemption reimbursements to local government, the expenditure limit shall be reduced by an equal amount. Therefore, no reduction in these two programs is considered here. However, there are two tax relief programs which can be reduced without affecting the expenditure limitation. They are: (1) the Renters' Tax Relief Program enacted in Chapter 1406, Statutes of 1972 which will provide tax refunds to renters ranging from \$25 to \$45 beginning in 1974, and (2) the Senior Citizens' Property Tax Assistance Program which provides partial property tax reimbursement to homeowners over age 62 according to their income.

Renters' Tax Relief Program. This program was established to provide renters tax relief offsetting the sales tax increase enacted in Chapter 1406. Annual disbursements which are a mixture of personal income tax credits (\$70 million) and direct refunds (\$40 million) will total an estimated \$110 million during 1973-74. We believe it is reasonable to consider elimination of this program in 1974-75 (which will reduce state expenditures by about \$41 million) because revenue reductions which will ultimately result from the Governor's initiative will eliminate the basis for the enactment of tax relief to renters.

Senior Citizens' Property Tax Relief Program. The present program grants property tax assistance according to a sliding schedule of household income. Assistance ranges from 96 percent of property taxes paid on incomes below \$1,400 to 4 percent on incomes between \$9,500 and \$10,000. We suggest the following changes in this program which will reduce state assistance by \$18 million in 1974-75:

- (1) Reduce the household income limitation upon which assistance is based from \$10,000 to \$6,000. This change will reduce the number of claimants from 300,000 to 200,000.
- (2) Change the schedule of assistance so that persons with incomes between \$5,800 and \$6,000 receive assistance equal to 4 percent of property taxes paid rather than 32 percent. The levels of income upon which 50 percent assistance is provided is reduced from \$5,200 to \$4,200.

#### REDUCTIONS IN PUBLIC SCHOOL SUPPORT

Any significant expenditure reductions imposed by the expenditure limitation plan would probably require substantial reductions from public school support. Section 9a of the initiative precludes reducing expenditures for the school property tax roll-back in Chapter 1406 of 1972 (SB 90) but this section does not appear to preclude reductions in other subventions for education. SB 90 authorized an estimated \$561 million in increased state support to public school districts in 1974-75 including local property tax roll-back as well as new programs. On the basis of the last in, first out concept of reducing expenditures, that portion of SB 90 funding not identified as property tax roll-back should be considered for reduction.

This consists of new program funds for compensatory and early childhood education totaling \$107 million in 1973-74 increasing to \$122 million in 1974-75. Reduction of these funds (\$82 million for compensatory education and \$40 million for early childhood education) could be considered for reduction on the basis that these are new programs that could be halted with the least amount of disruption to existing school district programs.

In addition to the program increases in SB 90,,other potential program reductions could be considered from the \$19.2 million of other categorical aid (e.g., Miller-Unruh Reading Program)and \$10.8 million of existing compensatory education programs. We do not suggest serious consideration of these and have not included these in the totals.

ELIMINATE STATE STUDENT AID SUBSIDIES FOR PRIVATE INSTITUTIONS OF  
HIGHER EDUCATION

The Governor's initiative encourages reductions in state expenditures if private enterprise provides duplicating services. Several state funded student aid programs provide indirect subsidies to private institutions of higher education and one program provides a direct subsidy through contract. Because average student aid award levels for public institutions are less than those at private institutions, any reduction or elimination of awards for students attending private institutions would generate expenditure reductions.

Four programs administered by the State Scholarship and Loan Commission provide substantial subsidies to private institutions. They are: (1) State Scholarship Program, (2) Graduate Fellowship Program, (3) College Opportunity Grant Program, and (4) Medical Student Contract Program. By phasing out awards to students attending private institutions

beginning in 1974-75, students currently enrolled could continue their education without penalty. As a result of this proposal savings would tend to increase each year for a period of about four years and be approximately four times the amount of the 1974-75 estimate.

This proposal would save approximately \$5.5 million in 1974-75 if legislation eliminated the contract program and aid programs to students attending private institutions. It is assumed the same number of awards would still be granted but restricted to public institutions. Some additional state operating costs have also been assumed since many of the students who would have attended private institutions under the aid programs would be diverted to public institutions.

TUITION AT THE STATE UNIVERSITY AND COLLEGES AND THE  
CALIFORNIA COMMUNITY COLLEGES

Consideration might be given to establishment of an annual tuition of \$200 per FTE student at the State University and Colleges and \$100 per FTE student at the community colleges.

The University of California initiated a resident tuition charge (educational fee) in 1970-71. This charge for undergraduate students is \$300 annually. The State University and Colleges and the community colleges do not impose a resident tuition. This represents a difference in policy between the segments.

In addition to resident tuition other mandatory fees are charged resident students. The University has a registration fee of \$300 and the State University and Colleges has a materials and service fee of \$118. The proposed tuition would result in total charges as follows:

	<u>Existing</u>		<u>Proposed</u>	
	<u>Tuition</u>	<u>Total Fees</u>	<u>Tuition</u>	<u>Total Fees</u>
University	\$300	\$600	\$300	\$600
State University and Colleges	---	118	200	318
Community Colleges	---	---	100	100

The estimates of the dollar amounts to be generated from the increased tuition are maximum amounts without offsets for increased student aid needs, dropouts, diversion from the State University and College system to the community colleges, etc. Assuming no change in projected enrollments a \$200 fee at the CSUC system administered on a graduated scale similar to the existing materials and service fee would generate revenue of about \$56 million in 1974-75. A \$100 fee at the community colleges for credit courses administered on a per unit basis would generate an estimated \$65 million in 1974-75 as an offset to state support.

We would suggest this proposal as a viable method of reducing state spending but consideration should be given to the increased student aid needs which would require recognition and would offset part of these savings.

#### ELIMINATE STATE SUPPORT FOR NONCREDIT COURSES AT THE COMMUNITY COLLEGES

Students in "ungraded" classes (classes which carry no grade level designation and award no credit units) constituted 23 percent of the total community college enrollment of 922,000 in 1972-73. This enrollment is converted to ADA for which the state apportions support funds. These courses are similar in nature to the extension programs conducted at the University of California and the State University and Colleges on a self-supporting student fee basis.



This proposal would eliminate state support for courses which are noncredit and do not contribute to certificate and/or degree programs. These programs could continue as self-supporting fee programs. Existing law allows community colleges to charge tuition up to the full cost of instruction less state support for these ungraded courses attended by defined adults (students 21 or older enrolled in 10 class hours or less) with exceptions related to citizenship courses and elementary and high school diplomas. This authority could be extended to regular students taking these courses.

This proposal would save an estimated \$18 million in 1974-75 if this ADA were eliminated from the apportionments.

#### HIGHWAY FUNDS

Historically, expenditures of state highway users taxes for highway purposes have been dependent largely upon decisions made at the federal level relative to allocations from the Federal Highway Trust Fund. Until this month, with the approval of the Federal Aid Highway Act of 1973, the highest priority for road expenditures was for the federal Interstate Highway Program. In addition, previous federal highway legislation has been drafted in such a manner that state highway authorities have been given virtual control for all federal highway fund expenditures. However, the 1973 federal highway act in many ways appears to mark the beginning of a philosophy on the part of the federal government which is similar to its philosophy for the distribution of funds for public transportation purposes, i.e., local entities determine project priorities and receive funds directly from the federal government. The Federal Aid Highway Act of 1973 not only provided, for the first time, a trust fund diversion

of at least \$800 million for public transportation projects but also reduced proposed expenditures for the Interstate Highway Program by approximately one-half (\$4+ billion to \$2.7 billion). In addition, a number of new programs were initiated for urban areas which will give local government control over a large portion of federal revenues which previously would have been controlled by the state.

The above shift in federal policy will have a marked effect relative to the expenditure of state highway users taxes in that a large degree of flexibility will exist in policy decisions relating to what level of government can determine transportation priorities and at the same time there will be sufficient funding to make project plans a reality. Until recently, transportation priorities have been determined largely by the State Division of Highways, whether or not a road project served a state, regional, or local purpose. This is caused by the fact that the department controlled the vast majority of all of the federal and state fiscal resources by virtue of state policy and/or federal regulations.

On April 24, 1972, the Department of Public Works issued a report entitled "1971 Section 256 Report and California Continuing Functional Classification Study Report." This report was a result of a two-year study that was conducted by the department as required by a federal mandate. The purpose of the report was to examine the entire road system of the state and to classify such roads by means of designating the travel purposes of a given segment of road rather than designating roads simply in terms of whether a road was part of a state system of roads or a local system of roads.

In the report it is stated that, while the state highway system contains 16,100 miles of roadway, only 5,100 miles serve a statewide purpose and the remaining 11,000 miles should be delegated to the most responsive level of government. While in past years other regional transportation studies conducted by different entities have suggested the same conclusion, i.e., a large portion of the state highway system does not serve a state or national interest, local entities have not been in a position to assume responsibility for roads that truly serve local or regional interests because of the limited availability of funds to defray the expense of accepting such a responsibility.

In light of the department's 1972 study and the apparent change in federal philosophy, the state must be in a position to effectively provide services that represent state needs and at the same time provide local government with a revenue source with which to defray the expenses associated with the acceptance of responsibility for providing facilities which serve local purposes. While local government cannot be expected to accept in the 1974-75 fiscal year a major portion of such road responsibility, the required policy decisions and necessary statutory changes could be consummated by the 1977-78 fiscal year.

Assuming the adoption of the suggested potential reduction in state highway expenditures in the 1974-75 fiscal year of \$90,654,700 (see Appendix A, page 58), state expenditures of state users taxes (excluding all federal funding) would approximate \$536.8 million during the 1977-78 fiscal year. If the local governments were able to assume the suggested responsibility for roads during the 1977-78 fiscal year, an expenditure reduction of state funds of approximately \$365.1 million

could be experienced at the state level (see Appendix A, page 59). This reduction would result in the termination of about 12,000 state employees, an unknown portion of which would be absorbed by local governments. In effect, 68 percent of the current state highway system would be assumed by designated local entities. In order to provide the applicable local entities sufficient funding to defray this increased expenditure requirement, approximately 2.6 cents per gallon of the seven cents per gallon fuel excise tax now imposed by the state could be imposed at the local level. During the 1977-78 fiscal year approximately \$364 million in such revenues would be made available.

Even assuming no growth in federal apportionments now received by the state, at least \$80 million in federal highway users taxes could be assumed by local entities from a total of approximately \$378 million per year now received by the state for expenditure. The latter could be accomplished under existing federal law and not hinder the ability of the state to construct and maintain its 5,100 miles of highways using and matching the balance of available federal funds.

In conjunction with the proposed assumption of responsibility for a portion of the state's present road system by local entities, a corresponding expenditure reduction could be made in the 1977-78 budget of the California Highway Patrol in the amount of \$91,850,000 by having cities and counties assume the responsibility for patrolling these local roads (see Appendix A, page 57). This reduction in state funding would result in the termination of about 4,000 highway patrol personnel, both uniform and nonuniform. The termination of 16,000 state employees (12,000 in Public Works and 4,000 in the Highway Patrol) could cause severe individual relocation problems even if all were absorbed by local governments.

### CAPITAL OUTLAY

Capital outlay appropriations, under terms of the initiative, are counted toward the expenditure limitation when appropriated. However, expenditures from bond funds are not counted toward the limitation. Hence, in order to maximize expenditures all future capital outlay projects, except those from the Motor Vehicle Account in the State Transportation Fund and special funds specifically excluded from the expenditure limitation, i.e., Fish and Game Preservation Fund, could be funded by bond programs. Under this policy, expenditures could be reduced in 1974-75 in the following manner.

This bond program would affect projects normally funded by the General Fund, the Capital Outlay Fund for Public Higher Education<sup>/1</sup> and other miscellaneous special funds. Our estimate for 1974-75 appropriations from these sources assumes the same level of construction effort with an increase in construction costs of 7 percent. Hence, a total of \$150 million could be funded by bond programs thereby decreasing projected 1974-75 expenditures by that amount. It must be pointed out that this method of financing requires \$57.7 million in added interest cost for every \$100 million of bonds issued, assuming 20-year maturity with average redemption of 10.5 years, and a 5.5 percent average interest rate. Thus, although it would comply with initiative-mandated expenditure reductions, it would add to total state costs.

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<sup>/1</sup> Oil royalties in the Capital Outlay Fund for Public Higher Education may be interpreted as sale of real property and thus excluded by the initiative.

The last several budget acts have included appropriations from the Education Fee Fund (tuition) for capital outlay projects at the University of California. These funds are not included in the budget total and are excluded from the expenditure limitation. The University could use these funds to offset the state appropriation for the operating budget and replace capital outlay programs with state bond funds. Increasing the 1973-74 appropriation from this source by 7 percent provides for a reduction of \$14 million in 1974-75. The total reduction contained in these two elements therefore would be \$164 million.

#### REGULATION OF BUSINESS

Within the structure of California state government, a number of departments are involved in the regulation of various business activities. Included in this category are the following departments: Banking, Savings and Loan, Corporations, Insurance and Real Estate. Each department has numerous statutory responsibilities which are intended to provide the mechanism to regulate and supervise the practices peculiar to each kind of business activity. Specific suggestions for removing funding and control of these business activities from state government follow:

Banking. Consideration might be given to establishing an agency independent from state government to assume those responsibilities currently assigned by statute to the Departments of Banking and Savings and Loan. This private corporation could be patterned in some respects after the Federal Reserve Board and the Federal Home Loan Bank Board and designated the California Banking Board. As a private corporation, the members of which are state appointees, the body could be empowered to levy assessments on all participating banks and savings and loan associations. This would provide funding required to carry out the statutory responsibilities which would be assigned to the board.

As a publically appointed and controlled body the public policy associated with regulation could be carried out with funds which are nonpublic. Such a system would require very careful attention to establishing adequate regulatory authority and monitoring and reporting of actions. It is not a desirable situation, but the magnitude of special fund money spent for regulation by agencies such as the Banking and Savings and Loan Departments makes this an appropriate area for consideration.

Corporations. The actions related to the regulation of certain corporate activities in California could be delegated to an independent agency (which could be established as a private corporation). Such a body which we believe should be designated the California Corporations Commission could be given statutory powers to levy assessments against all designated corporations in order to establish funding for its regulatory activities. Additional authority to appoint public members would establish a governing body (the commission) responsible for administering the laws and regulations pertaining to California corporations. In the Appendix we identify the level of funding for activities related to the Department of Corporations. Corporate activities performed by the Secretary of State are also designated for removal from the state budget and transferred to the proposed California Corporations Commission.

Insurance. Regulation of insurance is the only interstate business which is wholly under the states rather than the federal government. As a California industry, its worth is estimated at \$8 billion.



With the advent of the Equity Funding fraud and pending legislation before the Congress relative to no-fault automobile insurance, it may be that the federal government will take steps to regulate the insurance industry.

In the absence of federal regulation, we suggest that a California Insurance Commission be established similar in nature to that regarding corporations. It is assumed that such a public member commission would take over most responsibilities relative to state regulation, licensing and auditing of insurance companies. A requirement that audits of insurance companies by private Certified Public Accountant firms be made available to the commission for examination could lessen the field examination requirements.

There is no question that regulation of the insurance industry is required. In our judgment, federal regulation is preferable to the independent "commission" approach discussed above. The tax collection function of the Department of Insurance could be transferred to appropriate state tax agencies.

Real Estate. With regard to the business activities associated with real estate, we suggest reducing only that portion of state funds associated with education and research in the field of real estate. The Department of Real Estate is not recommended for elimination as a state government entity because of its activities in (1) the licensing of real estate agents and brokers, (2) the setting of minimum standards for offerings of subdivided properties, and (3) the regulation of real estate securities and real estate syndicate securities.



Summary. The state level of funding for the Departments of Banking, Savings and Loan, Insurance and Corporations is currently budgeted at \$12,775,439 for the 1973-74 fiscal year. If we assume that 90 percent of the responsibility for business activities of these departments should rest with the independent agencies, the level of state support for the total operation would be about \$1.3 million.

#### CONSUMER AFFAIRS

The existing Department of Consumer Affairs (formerly the Department of Professional and Vocational Standards) is comprised of boards and bureaus which have the statutory objective of regulating various occupational groups. Licensing and enforcement of laws, rules and regulations are the primary function of these member boards and bureaus, each operating from a special fund.

Chapter 1394, Statutes of 1970 (which established the department) defined objectives and authorized activities which significantly broadened the department's responsibility and functions in the field of consumer affairs.

In the Appendix we suggest that funds which support the majority of the boards and bureaus be eliminated from the state budget.

In lieu of state regulation, we believe that each of these groups could establish a self-regulating body (similar to the State Bar) which would perform the licensing and regulatory activities currently performed by the boards and bureaus.

Substantial statutory changes would be required to establish these independent agencies and specific powers and self-regulatory responsibilities of each professional and/or business related function

must be precisely delegated by the Legislature. These agencies can be structured as private corporations with support from private funds. Enabling legislation should clearly define the responsibilities of these agencies and provide the policy guidelines within which each professional or vocational group would function.

We have not included removal from the structure of state government the State Athletic Commission, the Board of Guide Dogs for the Blind, the Bureau of Automotive Repair, the Board of Medical Examiners, the Contractor State License Board or the Bureau of Home Furnishings.

Because the public (consumers) interest must be protected, we propose that a Department of Consumer Affairs remain in state government to oversee the activities of these independent agencies. Under this arrangement, the state would not license or regulate the various groups but rather work (in conjunction with local government consumer protection agencies) to provide a mechanism to prevent abuses initiated by members of professional or vocational groups. A staff of investigators would be required to provide statewide support to local consumer protection units and to initiate action against abuses which occur on a statewide basis. We suggest that approximately \$1 million could be appropriated from the General Fund for operation of this department.

## APPENDIX A

STATE EXPENDITURES WHICH CAN BE  
REDUCED IN ORDER TO  
COMPLY WITH EXPENDITURE LIMITATION

### Categories\*\*

1. Transfers to the Private Sector
2. Eliminate or Reduce the Functions
3. Permissive Local or Federal Assumption  
of the Functions or Funding

## Categories \*\*

Transfers to the Private Sector  
Eliminate or Reduce the Functions  
Permissive Local or Federal Assumption  
of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

get m	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
	Justice	(1) Investigative Services (Crime Laboratories)	1	\$ 821,549	\$ 1,133,887	General	The state could abandon its plan to develop a statewide system of criminalistic laboratories, which will cost more than \$3.0 million annually in 1976 when federal support expires. As is largely now the practice, these services would be provided by the private sector or local law enforcement agencies.
		(2) Criminal Identification and Information	3	16,390,051	17,373,454	General and State Trans- porta- tion	Many of the Criminal Justice Information System (CJIS) functions could be left to the federal government. The National Crime Information Center, which is maintained by the Federal Bureau of Investigation, also maintains files of fingerprints, criminal histories, stolen property, guns, stolen vehicles and wanted persons. The files are maintained on a national basis to serve law enforcement agencies throughout the country. Other activities such as the California Law Enforcement Telecommunications System (CLETS) would probably need to be continued by the Department.

Categories \*\*

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State Expenditures Which Can be  
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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
2-43	Commission on Peace Officer Standards and Training	Peace Officer Training	2 or 3	\$14,574,630	\$8,996,000*	Peace Officer Training	Elimination of the total program would reduce state expenditures by approximately \$14.6 million annually. This program could function with substantial reductions of expenditures in all program elements. The commission could save approximately \$6,325,000 annually by reducing reimbursements to localities for training of peace officers from 100 to 50 percent. The commission raised the reimbursement rate from 50 to 100 percent on July 1, 1971 to reduce fund surplus.

\* The lower expenditure level for the 1974-75 fiscal year reflects the fact that the balance in the fund is not sufficient to continue the 100 percent reimbursement rate to localities for peace officers training and will necessitate an, as yet, undetermined rate reduction.

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- . Transfers to the Private Sector
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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
60	Secretary of State	Corporate Filings: Filing functions in the areas of articles of incorporation and other corporate-related actions; annual statements of corporate officers and addresses; trademark registration and other miscellaneous business-related filings	1	\$1,040,011	\$1,102,412	General	Establish a nonprofit, private corporation to manage the functions of the Secretary of State pertaining to establishing corporations. Adjust corporate filing fees to enable this nonprofit private corporation to be self-sufficient. (Current fees generate more than sufficient revenue.) Other functions of the Secretary of State's corporate filings program could then be absorbed by the Secretary of State with remaining resources.
50	Secretary of State	Uniform Commercial Code: Filing of specified types of financing statements and federal and state tax liens. Enables lenders to check out prospective borrowers for purposes of business loans.	1	615,847	652,798	General	Eliminate functions. If the private financial sector requires such a function it can establish one itself. For example, the Retail Credit Association was established privately to maintain credit data on individuals.

Categories \*\*

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
0.1	Secretary of State	Corporate Checklist: Office provides a checklist to corporate attorneys for use in submitting corporate-related documents to the office.	2	\$3,000	\$3,180	General	Eliminate the function. There is no statutory requirement for this service.

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
53	State Treasurer	District Securities Division.	1	\$190,000	\$206,000	General	Private financial consulting firms could perform project and bonding evaluation services. There would be no increase in local cost because the present General Fund cost is fully offset by fees.
76	Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun		3	\$43,904	\$46,538	Board of Pilot Commissioners' Special	Permit determination by local government.



## Categories \*\*

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
31	Senior Citizens' Property Tax Assistance Program	Provides up to 96 percent assistance in payment of property taxes to persons over 62 years of age with incomes less than \$10,000	2	\$62,000,000	\$18,000,000	General	Reduce income ceiling from \$10,000 to \$6,000 with 50 percent level of property tax assistance changed from \$5,200 to \$4,000.
85	Renters' Tax Relief	Provides refunds of \$25 to \$45 to individual renters to offset sales tax increase enacted in Chapter 1406, Statutes of 1972.	2	\$40,000,000	\$41,000,000	General	Revenue reductions mandated by the Governor's initiative eliminate necessity of providing continued sales tax relief to renters. Revenues will also increase \$70 million annually as a result of the elimination of the renters' personal income tax credit.

Categories \*\*

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
110	Tax Relief Administration	Allocates to departments for costs associated with administration of tax relief provisions of Chapter 1406.					
	Franchise Tax Board	Renters' Tax Relief 2		\$472,000	\$500,000	General	Administrative cost reduction reflects program elimination.
	State Controller	Renters' Tax Relief 2		\$90,000	\$95,000	General	Administrative cost reduction reflects program elimination.

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
11	Food and Agriculture	Control and Eradication of Plant Pests and Diseases	1	\$ 2,656,000	\$ 2,656,000	General	Benefiting industry pays part of costs now. Shift costs fully to industry or give industry the control function.
	Food and Agriculture	Nursery Service	1	\$ 283,000	\$ 283,000	Agricultural	Drop as state activity. To be conducted by industry.
	Food and Agriculture	Seed Potato Certification	1	\$ 92,000	\$ 92,000	Agricultural	Same as above.
	Food and Agriculture	Commercial Fertilizer Control	1	\$ 388,000	\$ 388,000	Agricultural	Same as above.
	Food and Agriculture	Seed Service	1	\$ 54,000	\$ 54,000	Agricultural	Same as above.
	Food and Agriculture	Market News	1&2	\$ 1,045,000	\$ 1,045,000	General	Drop as state activity, fund by fees, or transfer to industry.
	Food and Agriculture	Milk Marketing	1&2	\$ 3,138,000	Future reduction	Agricultural	Drop as state activity or transfer to industry. (Subject to further study on extent of curtailment of activity)
	Food and Agriculture	Exclusion and Detection of Plant Pests and Plant Diseases.	2	\$ 2,140,000	\$ 1,000,000	General	Reduce border inspection work.

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
13	Food and Agriculture	Supervision of Local Fairs	2	\$ 310,000	\$ 310,000	Fair & Expo.	Eliminate administrative cost for subventions to local fair below.
10	Food and Agriculture	Subventions to Local Fairs (Business and Professions Code, Sections 19622-19630).	2	\$8,000,000	\$8,000,000	Fair & Expo.	Eliminate subventions to local fairs for support and capital outlay.

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
117	Department of Commerce	Promotes business and industrial growth.	1	\$752,000	\$800,000	General	The department's three programs, (1) the promotion of business and industrial growth (2) the expansion of export trade, and (3) the promotion of tourism are a direct service to the private business sector and should be the responsibility of the State Chamber of Commerce and industrial trade groups.
118	Museum of Science and Industry	Public education of Science and Industry.	1	\$1,200,000	\$1,275,000	General	Located in Exposition Park in Los Angeles County this Museum could become self-supporting from a combination of private endowments and the institution of an excludable entrance fee.

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
	Department of Consumer Affairs	Licensing, regulation, investigation, protection of consumer interest in member boards and bureaus listed below.					It is proposed that the following boards and bureaus within the Department of Consumer Affairs be eliminated from the state budget. Statutory changes would be required to establish these various professional or vocational groups as independent private or public agencies which in the latter case, would be supported from fees.
119	State Board of Accountancy		1	\$535,441	\$602,527	Accountancy	
120	California State Board of Architectural Examiners		1	183,752	194,777	California State Board of Architectural Examiners	To protect the consumer interest on a statewide basis, we suggest that a reconstituted Department of Consumer Affairs be established and supported by an appropriation of \$1 million from the General Fund.
123	State Board of Barber Examiners		1	448,539	475,451	State Board of Barber Examiners	This state agency would work with local governmental consumer protection units and also deal with abuses and fraudulent activities of the various groups which occur on a statewide scale.
124	Cemetery Board		1	92,261	97,797	Cemetery	
125	Bureau of Collection and Investigative Services		1	238,176	252,467	Collection Agency	See page <u>28</u> for a detailed discussion of proposals related to consumer affairs.
126	Bureau of Collection and Investigative Services		1	215,897	228,850	Private Investigator & Adjuster	

## Categories \*\*

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
	Department of Consumer Affairs (Continued)						
128	State Board of Cosmetology		1	\$938,030	\$994,312	Board of Cosmeto- logy's Conti- gent	
129	State Board of Dry Cleaners		1	436,435	462,621	Dry Cleaners	
130	Bureau of Employment Agencies		1	286,057	303,220	Bureau of Em- ployment Agencies	
131	State Board of Funeral Directors and Embalmers		1	154,126	163,374	State Funeral Directors and Embalmers	
132	State Board of Registration for Geologists		1	49,060	52,004	Geology	
35	California State Board of Landscape Architects		1	50,531	53,563	State Board of Landscape Architects	



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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
	Department of Consumer Affairs (Continued)						
136	Nurses' Registry		1	\$ 11,405	\$ 12,089	Nurses' Registry	
137	State Board of Registration for Professional Engineers		1	768,702	814,824	Profess- ional Engineers'	
138	Bureau of Repair Services		1	484,454	513,521	Repair Services	
139	Certified Shorthand Reporters Board		1	69,508	73,678	Shorthand Reporters	
140	Structural Pest Control Board (Includes healing arts boards - Items 248-261)		1	566,755	600,760	Struc- tural Pest Control	
248	Board of Behavioral Science Examiners of the State of California		1	188,246	199,541	Behavioral Science Examiners	
249	Board of Chiropractic Examiners		1	135,014	143,115	State Board of Chiro- practic Examiners	



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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
	Department of Consumer Affairs (Continued)						
250	Board of Dental Examiners of California		1	\$406,963	\$431,381	State Dentistry	
252	Board of Medical Examiners of the State of California		1	79,716	84,499	Physical Therapy	
253	Board of Medical Examiners of the State of California		1	88,842	94,173	Hearing Aid Dispen- sers	
254	State Board of Examiners of Nursing Home Administrator's		1	99,252	105,207	Nursing Home Adminis- trators State License Examining Board	
255	California Board of Nursing Education and Nurse Registration		1	884,379	937,442	Calif. Board of Nursing Education and Nurse Regis- tration	

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
	Department of Consumer Affairs (Continued)						
256	State Board of Optometry		1	\$ 94,796	\$100,484	State Optometry	
257	Board of Osteopathic Examiners of the State of California		1	16,809	17,818	Contingent Fund of the Board of Osteopathic Examiners	
258	California State Board of Pharmacy		1	815,091	863,996	Pharmacy Board Contingent	
259	Board of Examiners in Veterinary Medicine		1	107,219	113,652	Board of Veterinary Examiners Contingent	
60	Board of Vocational Nurse and Psychiatric Technician Examiners of the State of California		1	552,621	553,978	Vocational Nurse & Psychiatric Technician Examiners'	

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
261	Department of Consumer Affairs (Continued)						
	Board of Vocational Nurse and Psychiatric Technician Examiners of the State of California		1	\$121,434	\$128,720	Vocational Nurse & Psychiatric Technician Examiners	
		Subtotal for Consumer Affairs			<u>\$9,669,841</u>		
		Support for reconstituted Department of Consumer Affairs			<u>-1,000,000</u>		
		Net Reduction			\$8,669,841		

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
146	Franchise Tax Board	Administration of Senior Citizens' Property Tax Assistance Program	2	\$1,330,000	\$470,000	General	Reduce administrative cost of Senior Citizens' Property Tax Assistance Program resulting from reducing the income ceiling from \$10,000 to \$6,000 The number of claimants is re- duced from 300,000 to 200,000.

## Categories \*\*

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 . Permissive Local or Federal Assumption  
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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
147	General Services	Reviewing proposed building code regulations and hearing appeals from construction industry.	1	\$ 42,658	\$ 45,217	General	OAC provides staff support to the Building Standards Commission. Transfer to private sector.
150	General Services	Printing for state agencies	2	\$ 558,229	\$ 591,723	Service Revolving Printing	Amount represents a five percent reduction in agency printing estimated to total \$11,164,589 in 1973-74.
150	General Services	Printing for Legislature	2	\$ 260,507	\$ 276,137	Service Revolving Printing	Amount represents a five percent reduction in legislative printing estimated to total \$5,210,142 in 1973-74. (Original source is Item 11 for legislative printing.)

Categories \*\*

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
54	Industrial Relations	(1) Conciliation Services	1	\$ 408,841	\$ 433,371	General	Labor relations specialists in the private sector could assume this function on a fee basis.
		(2) Apprenticeship Standards	2	1,863,434	1,975,240	General	Labor and management in the private sector could assume all responsibilities for apprenticeship training and program development. In terms of program accomplishment and need, this is a low priority activity for state involvement.
		(3) Industrial Safety	2	5,083,368	5,388,370	General	This program could be eliminated since the federal government, through the Occupational Safety and Health Act of 1970, has preempted states in industrial safety and health activities and permits states to administer such programs only in compliance with federal standards as reflected in an "approved" state plan. The federal government pays up to 50 percent of the costs of administering such plans.

## Categories \*\*

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 Permissive Local or Federal Assumption  
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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
155	Industrial Relations	Workmen's Benefits for Subsequent Injuries	1	\$2,368,225	\$2,510,319	General	The workmen's compensation insurance industry or private employers could assume the responsibility for workmen's compensation benefits for handicapped persons who sustain further injury. The state could require all employers to cover in their basic workmen's compensation insurance policies employees who have sustained a prior, permanent disability.



## Categories \*\*

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Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
63	Veterans' Affairs	Educational As- sistance to Veter- ans' Dependents	2	\$2,085,100	\$2,085,100	General	This program could be reduced or eliminated, thereby having veterans' dependents compete for scholarships on the same basis as other students. Children of veterans, who are 100% disabled or who died of service connected injuries, receive federal educational benefits.
64	Veterans' Affairs	Veterans' Home and Hospital	2 or 3	4,569,536	4,757,213	General	Either close this institution or increase care fees to eliminate state support. Federal and private institutions could assume these functions. Funding is currently derived as follows: General Fund 50% Federal Funds 27% Fees 23%
55	Veterans' Affairs	Subvention to County Veterans' Service Offices	2	500,000	500,000	General	This item could be eliminated. It represents approximately 18 percent of County Veterans' Service Office expenses.



## Categories \*\*

Transfers to the Private Sector  
 Eliminate or Reduce the Functions  
 Permissive Local or Federal Assumption  
 of the Functions or Funding

State Expenditures Which Can be  
 Reduced in Order to  
 Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
66	Alcoholic Beverage Control	Shared Revenues	2 or 3	\$13,450,000	\$11,700,000	Alcoholic Beverage Control	The Department of ABC collects various fees, approximately \$5.8 million of which goes directly into the General Fund and \$15 million into the ABC Fund. This latter fund is divided by statutory formula 90 percent to counties and cities and 10 percent to the General Fund. This 90 percent subvention (\$13,450,000) could be eliminated and the related fee dropped or the licensing function could be transferred to local government and they could be given the power to levy and collect the fees. This revenue would be adequate to pay for the licensing function.

Categories \*\*

- Transfers to the Private Sector
- Eliminate or Reduce the Functions
- Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
3-69	State Banking Department	(Local Agency Security) Administration of county, city, and district funds by depository banks (state and national)	3	\$ 35,000	\$ 37,100	General and State Banking	Authorize local governments to perform functions now performed by the State Banking Department.
70	State Banking	Certification of Securities	2	3,000	3,180	State Banking	Eliminate state certification of securities.
		Supervision of state-chartered banks and trust companies	†	1,823,947	1,933,383	State Banking	Major responsibilities of the State Banking Department could be transferred to an independent agency patterned after (in some respects) the Federal Reserve Board. On page 25, we discuss the organization of such an agency which we have designated the California Banking Board.
71	Corporations	Regulation of Security transactions, franchises, and administration of the Lender-Fiduciary Law	1	3,693,641	3,918,259	General	Establish a California Corporations Commission to regulate security transactions and provide general corporate surveillance. Empower commission to levy assessments from corporations sufficient to carry out statutory responsibilities. (See page 26 for additional information)

Categories \*\*

Transfers to the Private Sector  
Eliminate or Reduce the Functions  
Permissive Local or Federal Assumption  
of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
172	Department of Housing, Division of Codes and Standards	Inspection of mobile- home manufacturers, factory-built housing.	e- 1	\$2,450,000	\$2,600,000	General	Privately operated indepen- dent inspection agencies could be licensed by the state to perform inspection functions.

Categories \*\*

- . Transfers to the Private Sector
- . Eliminate or Reduce the Functions
- . Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
173	Insurance	Regulation of 1,000 insurance and title companies and 125,000 agents and brokers.	1	\$4,046,315	\$4,289,094	General	In the absence of federal regulation of the insurance industry, a California Insurance Commission should be established with the power to levy assessments on the industry in order to support required licensing and regulatory activities. (See page 26 for additional information.)
174	Riot and Civil Disorders Insurance	Subsidize insurance industry in providing riot and civil disorders Insurance.	2	200,000	200,000	General	This program should be deleted. The state should not subsidize the insurance industry.
176	Real Estate	Education and research in real estate	2	570,041	297,483	Real Estate Education Research and Recovery	Eliminate that portion of the fund which is used for education of real estate brokers and the advancement of research and teaching in the field of real estate.

## Categories \*\*

- Transfers to the Private Sector
- Eliminate or Reduce the Functions
- Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

get m	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
7	Savings and Loan	Examination of savings and loan associations	1	\$1,509,533	\$1,600,105	Savings and Loan Inspection	Establish a nonprofit private corporation to regulate the Department of Savings and Loan and Department of Banking activities (See page 25 for additional information.) This board can be patterned after the Federal Reserve Board and the Federal Home Loan Bank Board in some respects.
		Appraisal of real estate loans made by savings and loan associations	1	735,821	779,970	Savings and Loan Inspection	
		Administration	1	928,182	983,873	Savings and Loan Inspection	

Categories \*\*

Transfers to the Private Sector  
Eliminate or Reduce the Functions  
Permissive Local or Federal Assumption  
of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
184	California Highway Patrol (CHP)	Selective deployment of traffic officers on the county road system	3	\$ 17,714,136	\$18,776,984	Motor Vehicle Account, State Transportation Fund	The assumption of this function could be left to local authorities which would result in a budget reduction for CHP of \$18,776,984 starting in 1974-75.
		Traffic supervision and services on the State Highway System	3	107,284,056	See Comments	Motor Vehicle Account, State Transportation Fund	In conjunction with the Highway Fund proposed, a portion of this responsibility could be assumed by local authorities starting in 1977-78. This represents a budget reduction for CHP of \$91,850,000 starting in 1977-78. (See page 20 for further discussion.)

## Categories \*\*

Transfers to the Private Sector  
 Eliminate or Reduce the Functions  
 Permissive Local or Federal Assumption  
 of the Functions or Funding

State Expenditures Which Can be  
 Reduced in Order to  
 Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
N/A	Department of Transportation	1) Maintenance of Roadside Rests	2	\$ 1,880,000	\$ 700,000	State Highway Account	Potential reduction in non-essential functions are net of reimbursements if any. A reduction of \$90,654,700 in the 1974-75 fiscal year could be balanced with a reduction of three-fourths cents per gallon of the seven cents per gallon fuel excise tax. During the 1974-75 fiscal year approximately \$90,564,000 would be saved by a three-quarter cent reduction in the excise tax.
		2) Maintenance of Landscaping & Functional Planting		16,850,000	14,000,000		
		3) Highway Planting		11,500,000	12,075,000		
		4) Functional Betterments		10,250,000	10,762,500		
		5) Roadside Rests		1,500,000	1,575,000		
		6) Contingencies		28,500,000	29,925,000		
		Local Assistance:					
		7) Matching Funds (Federal aid Secondary Roads)		4,107,000	4,312,350		
		8) Subvention (Federal aid Secondary-Urban Extension)		5,027,000	5,278,350		
		9) Grade Crossing Projects		16,930,000	12,026,500		
		TOTAL		\$96,544,000	\$90,654,700		



## Categories \*\*

Transfers to the Private Sector  
Eliminate or Reduce the Functions  
Permissive Local or Federal Assumption  
of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
N/A	Department of Transportation	Administrative-Construction Maintenance of State Highway System	3	\$909.4 million	See Comments	State Highway Account	Based upon projected trends in federal financial aid and recommendations contained in April 24, 1972 Department of Public Works rpt. a potential expenditure reduction of approximately \$365.1 million could be accomplished during the 1977-78 fiscal year. This would involve a transfer of responsibility to local entities over a portion of the present state highway system. Revenue required to defray the \$365.1 million additional cost could be provided through the transfer of taxing authority from the state to local government. The latter would involve a reduction in fuel excise tax imposed by the state in the amount of 2.60 cents per gallon and the imposition of the excise tax at the local level. During the 1977-78 fiscal year approximately \$364 million in revenues would be generated. (See page 20 for detail). This transfer of function and funding could be implemented in addition to the expenditure and revenue reduction at the state level during 1974-75.



Categories \*\*  
 . Transfers to the Private Sector  
 . Eliminate or Reduce the Functions  
 . Permissive Local or Federal Assumption  
 of the Functions or Funding

State Expenditures Which Can be  
 Reduced in Order to  
 Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
194	Tahoe Regional Planning Agency	Planning and Regulating Development in Tahoe Basin	2	\$ 50,000	\$ 50,000	General	Eliminate support for interstate agency.
199	Air Resources Board	Basic support	3	\$2,348,000	\$2,000,000	General	Eliminate this subvention to local air pollution districts.
202	Air Resources Board	Subvention for control of air pollution	2	\$4,600,000	\$4,600,000	General	Substitute exempted state revenues in Environmental Protection Program Fund for General Fund support to finance overhead costs, land-use planning, etc.
206	Conservation	Payments to Cal-Tech for one-half their operating cost for seismo-graph network	1	\$ 34,200	\$ 34,200	General	Eliminate payment to private school.

Categories \*\*

- . Transfers to the Private Sector
- . Eliminate or Reduce the Functions
- . Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
206	Conservation	Fire suppression	1	0	0	General	Initiate timber severance tax and 20 cents per hundred assessment on state responsibility lands to produce \$14,200,000 to cover future year cost increases. (See report on Revenue Sources to support new role for Division of Forestry, by Legislative Analyst).
27	Parks & Recreation	Support Budget	1	\$24,520,000	\$ 9,000,000	General	Increase user fees to make the program more self-supporting (currently about 40%). Increase fees another \$9,000,000 to provide 100% self-support in 1976-77.
34	Water Resources	Watermaster service and administration	1	\$269,000	\$269,000	General	Administration and half the program costs to be paid by, or services done by, beneficiaries who are holders of water rights.
	Water Resources	Supervision of Safety of Dams	1	\$1,443,000	\$1,443,000	General	Increase fees to make inspections and evaluation services self-supporting.

Categories \*\*

- . Transfers to the Private Sector
- . Eliminate or Reduce the Functions
- . Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
34 cont.)	Water Resources	Tidelands oil revenues used for State Water Project Construction	3	\$25,000,000	\$25,000,000	Calif. Water Fund	Determine that this money is exempt as a sale of an asset (oil) or transfer the money from the California Water Fund to the General Fund and require water service contractors to advance funds to complete construction of State Water Project.

Categories \*\*

Transfers to the Private Sector  
Eliminate or Reduce the Functions  
Permissive Local or Federal Assumption  
of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
281	Corrections	(1) Parole	2	307,425	338,168	General	Delete 25.5 positions authorized for 1973-74 to reduce the conventional parole caseload. The Legislature approved one-half of the originally requested 51 new positions to reduce the caseload from 1:68 to 1:50
		(2) Parole	2	1,231,757	1,354,933	General	The low caseload (1:33) in the work unit program has not demonstrated a level of success commensurate with its costs and could be eliminated.
							(continued)

Categories \*\*

1. Transfers to the Private Sector
2. Eliminate or Reduce the Functions
3. Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
281 Contd.)	Corrections	(3) Release funds for parolees	2	\$1,424,280	\$1,652,165	General	Gate money could be reduced from \$200 per releasee to \$68 as authorized prior to 1973-74
		(4) Camp Program	2	71,011	78,112	General	Delete eight new security positions approved for conservation camps. (The Legislature deleted 7 of a requested 15 such positions.) Since their inception, these were 80-man camps which operated with six correctional personnel plus Division of Forestry personnel. However, in 1971-72, the department reduced the inmate population to 60 and administratively added an additional office at each of 15 camps. Due to the reduction of individual camp capacity and the demonstrated ability of the department to operate without the additional position.

(continued)

Categories \*\*

1. Transfers to the Private Sector
2. Eliminate or Reduce the Functions
3. Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
281 Contd.)	Corrections	(5) Institutional Staffing	2	\$ 187,164	\$ 205,880	General	Delete 19 stationary firemen and engineers. These new civil service positions were approved at this session to replace inmates who have traditionally operated the boiler plants. The department contended that population reduction restricted the number of minimum inmates available for this service. However, the recent and continuing population increase should alleviate this problem

Categories \*\*

1. Transfers to the Private Sector
2. Eliminate or Reduce the Functions
3. Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
293	California Hospital Commission	Preparation of a uniform hospital accounting system and the provision of other accounting services to improve the efficiency and effectiveness of hospital services.	1	\$ 886,000	\$ 886,000	Calif. Hospital Commission	The functions of this commission could be administered through a private nonprofit organization under the supervision of the hospital industry. The California Hospital Commission Fund is currently supported through fees levied against all hospitals, except federal hospitals, within the state.



Categories \*\*  
 1. Transfers to the Private Sector  
 2. Eliminate or Reduce the Functions  
 3. Permissive Local or Federal Assumption  
 of the Functions or Funding

State Expenditures Which Can be  
 Reduced in Order to  
 Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
--	Education	Public School Support	2	\$107,000,000	\$122,000,000	General	Halt new programs authorized in SB 90 for compensatory education on the basis that it would be less disruptive than reducing established programs. (For further discussion see page 16 ).



Categories \*\*

1. Transfers to the Private Sector
2. Eliminate or Reduce the Functions
3. Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
--	Education	County School Service Fund - Other Purposes	2	\$10,000,000	\$10,000,000	General	In our 1971 study of the County Superintendent of Schools office we recommended several select reductions in the other purposes service of the county superintendent. These services include coordination, audio-visual, library, courses of study development and teacher training. These services are no longer appropriately funded from the County School Service Fund because of changes in the number of local districts served and districts requesting service from the county office.

Categories \*\*

1. Transfers to the Private Sector
2. Eliminate or Reduce the Functions
3. Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
--	Education	Driver Training	3	\$17,000,000	\$18,000,000	Special	75 percent of traffic violation penalties is state revenue collected in the Driver Training Penalty Assessment Fund which is used to reimburse the General Fund for excess costs of driver training. This proposal would transfer the revenue and expenditures of this program to the local school districts.

Categories \*\*  
 1. Transfers to the Private Sector  
 2. Eliminate or Reduce the Functions  
 3. Permissive Local or Federal Assumption  
 of the Functions or Funding

State Expenditures Which Can be  
 Reduced in Order to  
 Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
300	Education	Special Schools	1	\$10,109,153	\$4,000,000	General	Shift all or part of the cost of room and board to the parents of students in state special schools. Full reimbursement of these costs would generate \$4 million in reimbursements at an average of \$2,250.
310	Education	Public Library Assistance	2	\$ 1,000,000	\$1,000,000	General	Eliminate the state subsidy to local public libraries designed to encourage the development of regional cooperative library systems. Now that 99 percent of the population is served by 21 systems, the need to continue this program is of lesser priority.

Categories \*\*  
 Transfers to the Private Sector  
 Eliminate or Reduce the Functions  
 Permissive Local or Federal Assumption  
 of the Functions or Funding

State Expenditures Which Can be  
 Reduced in Order to  
 Comply with Expenditure Limitation

udget em	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
6	University of California	Agriculture Extension	1	\$9,762,629	\$1,000,000	General	Arbitrary reduction to off- set failure to charge a fee for its services to the private sector. The reduc- tion should be directed to special surveys and con- sultations as requested by individuals.
8	University of California	Extended University	2	\$1,262,000	\$1,344,030	General	This new program is designed to expand educational service to a new clientele not pre- viously served (i.e., part- time students). Under fiscal constraints this expansion could be eliminated since this program is still in the pilot phase.
9	University of California	Undergraduate Teaching	2	\$1,000,000	\$1,000,000	General	This program, new in 1973-74, is a low priority for con- tinuation in 1974-75. Improvement of undergraduate teaching is already a re- quirement of the profession and should not need in- centives without additional financing.

Categories \*\*

Transfers to the Private Sector  
Eliminate or Reduce the Functions  
Permissive Local or Federal Assumption  
of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
327	Community Colleges	Tuition	1	---	\$65,000,000	General	Establish an annual tuition of \$100 per FTE student on a cost per unit basis to offset ADA apportionments. (For fuller discussion see page 18 ). (Consideration should be given to increased student aid to offset a part of these savings.
	Community Colleges ADA	Noncredit courses	1 and/ or 2	\$17,000,000	\$18,000,000	General	Eliminate state ADA support for courses which are non-credit and do not contribute to certificate and/or degree programs. These courses could be continued on a self-supporting fee basis. (For further discussion see page 19 ).

Categories \*\*

- . Transfers to the Private Sector
- . Eliminate or Reduce the Functions
- . Permissive Local or Federal Assumption of the Functions or Funding

State Expenditures Which Can be  
Reduced in Order to  
Comply with Expenditure Limitation

Budget Item	Department	Function	**	1973-74	1974-75 Potential Reduction	Fund	Comments
330	State Scholarship and Loan Commission	Private institution subsidy	1	\$ 37,432,760	\$ 5,488,800	General	Phase out the use of state scholarships and fellowships at private institutions. (For further discussion see page 17).
	Statewide	Capital Outlay	3	\$163,000,000	\$164,000,000	Various	Establish policy of bond financing for all capital outlay which would exclude these expenditures from the limitation but would be more costly. (For further discussion see page 24 ).