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PRESS

Budget Message of
RONALD REAGAN

Governor of California

and

*Department of Finance
Letter of Transmittal*

1970-71 Budget



Transmitted to the
CALIFORNIA LEGISLATURE
Tuesday, February 3, 1970



RONALD REAGAN
GOVERNOR

State of California

GOVERNOR'S OFFICE
SACRAMENTO 95814

February 3, 1970

Budget Message

To the Members of the Legislature of California:

It is increasingly apparent to concerned citizens everywhere that no government—federal, state, county or city—can continue an ever-spiraling program of greater spending accompanied by heavier taxation. On the national level, the President has made it clear that even the immense resources of our federal government can be exhausted by this irresponsible game of leapfrog. Cities and counties also are finding their tax sources strained to the limit and new avenues of taxation non-existent.

In this context, I submit to you a budget which could well be described as a "hold-the-line" document. By careful scrutiny and the implementation of continuing efficiencies and economies, we have pared some programs and eliminated others no longer vital to the California of the 1970's. We have established our priorities to emphasize those programs of great merit and deep concern to the citizens of this State.

Overall expenditures, including the General Fund, Special Funds and bond funds, are projected at \$37 million less than estimated expenditures for the current fiscal year. This is approximately one percent lower than projected 1969-70 expenditures.

I have long felt that the budget for the State of California should be prepared as two separate documents. One would show those expenditures made by state government for and on behalf of its citizens. The other would list those revenues which are col-

lected by the State and returned directly to local government entities for expenditure at the local level; in these instances, the State is acting only as a tax collector.

If such a distinction were made, and I think it should be, each of us would have a much clearer understanding of just what it costs to run state government. With that in mind, I want to review with you some of the highlights of this year's budget, keeping clearly in mind that portion which is spent by the State and that portion which is merely collected by the State.

The budget for state operations, including both General and Special Funds, is proposed at \$1,821 million, a 7% increase over the revised estimate for this year.

Approximately \$62.5 million of this increase is for higher education. When this Administration came into office, \$421.8 million was budgeted for higher education for that fiscal year. This budget I present for 1970-71 proposes an expenditure for the same purposes of \$697 million, an increase in four years of 65.2%—clear evidence that education is a top priority in this Administration.

This budget also contains \$1,655.6 million for public schools, an amount which represents a 34.6% increase in budgeted allocations in the past four years.

The State is fortunate in having a large number of competent and dedicated employees. To prevent erosion of their purchasing power by inflation, we believe that an increase in salaries is justified. I have therefore allocated funds to cover the equivalent of a 5% pay increase for state employees. Additionally, I believe the State should increase its share of the payment for the employees' health insurance and I will support legislation to raise the State's contribution \$2.00 per month per employee in fiscal 1970-71.

The increase for higher education and pay increases total \$113.5 million. This is 95% of the proposed increase for the cost of state operations for 1970-71.

Although the funds requested for total state operations show only a modest increase, this gives little indication of the tremendous effort put forth by this Administration to hold down state expenditures. We have held the total number of state positions at slightly less than the current year level and have continued to resist the constant annual personnel increase which characterized state employment patterns prior to 1967.

Once again I must call attention to the ever-increasing amount of the taxpayers' money which is going into local assistance for welfare and Medi-Cal. In each category, expenditures will increase approximately 16% over the previous year and in four years the respective increase in each field has been 80%.

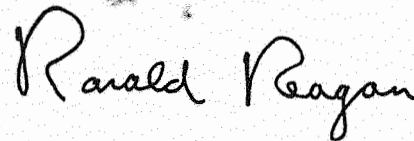
This increase in welfare and Medi-Cal in just four years, over and above what might be considered justifiable increases for inflation and population growth, is roughly equivalent to state support funding for an additional nine-campus University system.

Once again I will outline to the Legislature some suggestions for bringing this unchecked spending under control in those areas where the State has some measure of authority.

This year's budget again increases tax relief for our citizens: relief granted to senior citizens will go up \$1.8 million; relief to homeowners will climb \$20 million, and our continuing effort to reduce the inventory tax will account for \$53.2 million in tax relief.

I present to you a budget which equitably and fairly divides available funds among all needs in a manner which brings the greatest benefit to the largest number of citizens.

Yours very truly,

A handwritten signature in dark ink, reading "Ronald Reagan". The signature is written in a cursive, flowing style with a large initial "R".

Governor

Letter of Transmittal

Dear Governor Reagan:

Every budget is composed of revenues and expenditures. Turning first to the income expectations, there has not been a period in recent years when accurate projections were more difficult to make.

The nation stands at a fork in the economic road. Inflation has run rampant in recent years and there are those who think it may be beyond control already. On the other hand, the President is exerting great pressure to bring about stabilization.

As of this date, there are some indications the country may be entering a slight dip or recession. Nationally, housing starts are down substantially, sales of new automobiles are well below last year, and Christmas sales were disappointing to some retailers. If these trends continue, state revenues such as sales and income taxes will show a failure to grow, or possibly even a decline.

Conversely, the Congress continues to pass bills authorizing expenditures in excess of levels recommended by the executive, and strikes throughout the private sector show that upward pressures on wages and prices are strong. If these factors prevail, state revenues will continue to climb.

For the coming year, the Department of Finance has chosen a middle route, splitting the difference between low estimates if economic downturn occurs and high estimates if inflation runs unchecked.

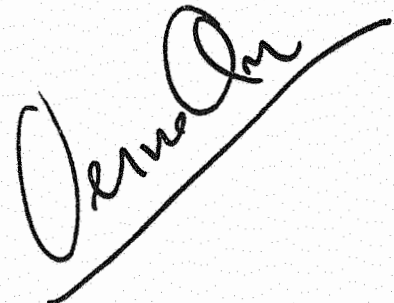
Turning to the expenditure side, we are confronted immediately by the spiraling costs of welfare and medical aid, in many cases mandated by statute. These programs are growing by 14 percent and 17 percent, respectively, far outstripping the growth in revenues.

Since we refuse to accept the tenets of those who would spend and spend, tax and tax, we have been forced to sharply and critically rethink spending in areas subject to executive control.

Much of this study has been highly beneficial, increasing efficiency and improving effectiveness. Programs which are no longer of major importance have been pared. There are some areas of great need, such as aid to local schools and environmental improvement, which could have beneficially used a substantial portion of the increases which it was necessary, under law, to allot to welfare and medical aid.

The major work on this budget was done with consummate skill by my highly respected predecessor, Caspar W. Weinberger, who resigned December 31, 1969, to accept a position of nationwide responsibility with the federal government. Through his achievements it is possible to present a budget which meets with your express desires that spending be held in tight rein and that there be no need for tax increases.

In accordance with Article IV, Section 12, of the State Constitution, I have the honor to submit to you the Budget of the State of California for the fiscal year commencing July 1, 1970, and ending June 30, 1971.



VERNE ORR
Director of Finance

February 3, 1970

PRESS★

Budget Message of
RONALD REAGAN

Governor of California

and

*Department of Finance
Letter of Transmittal*

1971-72 Budget



Transmitted to the
CALIFORNIA LEGISLATURE
Tuesday, February 2, 1971



State of California

GOVERNOR'S OFFICE
SACRAMENTO 95814

RONALD REAGAN
GOVERNOR

February 2, 1971

Budget Message

To the Members of the Legislature of California:

One year ago in my annual budget message, I called attention to the ever increasing amount of taxpayer money going into welfare and Medi-Cal. That trend has not only continued, but accelerated. In June, 1970, it was necessary to advise the Legislature that projected expenditures for these combined programs had already escalated \$65 million above initial expectations, before the fiscal year had commenced.

In November, 1970, it was apparent that even the enlarged June estimates were too low. Severe program deferments and curtailments were necessary to prevent extreme fiscal imbalance. This situation not only is being duplicated in nearly every state in the Union, but the problem has reached crisis stage in countless counties, and at the federal level the programs have been described as a "mess".

Something must be done, and done immediately.

I am presenting to you a budget which projects welfare expenditures for the fiscal year at below the current level.

Without prompt and affirmative action on all our parts, the inevitable choice lies between huge tax increases every year, and the complete elimination of countless worthwhile services our citizens have a right to expect from state and local government. We can take the easy path toward ruinous and confiscatory taxation, or we can elect the more difficult alternative of bringing the programs under control.

I have stressed countless times and will repeat again that we are not endeavoring to deprive the truly needy of the shelter, food and clothing necessary to sustain them through their temporary hardship. But we are firm in our resolve to strike from the welfare rolls those individuals and families who are employed, who are paid a living wage, and who find their ways to taxpayer generosity only because of the manner in which some of the laws are written. In order that the truly needy may have enough, we must rewrite our laws to eliminate those who are less than needy.

The budget which I am presenting can be balanced without any other legislation than that contained in the budget bill. However, I believe there is a better course which will more clearly reflect the generosity of the average Californian. This can be accomplished by sweeping welfare and Medi-Cal reform legislation. Shortly after this budget is placed in your hands, I will suggest specific programs to accomplish this goal.

There are a number of other areas in this budget worthy of special comment, and I shall set them forth.

Higher Education

For four years we have afforded higher education one of the highest priorities in our budgets. Total dollars available for higher education in the year I became Governor approximated \$415 million. In the current year it will exceed \$668 million. This 60% increase has outstripped the increase in enrollments and has also enabled higher education to keep abreast of rising inflationary costs.

Educational institutions traditionally submit budget requests which reflect many things they would like to do. It is a tribute to our educators that they express their goals and aspirations as definite requests. However, in a time of acute revenue shortage, there is a great deal which education can do to economize; steps which have not been taken within the past four years. I hasten to add that this is not a condition unique to California. Public and private universities and colleges across the nation are tightening their belts.

I am recommending that the budget for the University be held at current levels and the State Colleges increased approximately \$6 million. Both units are planning on enrollment increases.

It has long been considered customary that professors in the State College system teach twelve classroom hours per week and that those in the University teach nine. During the affluent decades of the 50's and 60's, it became common practice to recruit faculty by offering substantially reduced teaching loads in favor of research and other activities. Our studies of both the University and Colleges have shown clearly that the average teach-

ing load has dropped substantially below the norms which California citizens have grown to expect. In addition, the acute shortage of faculty which to some degree prompted the reduction in teaching load as a recruiting device has now ended. In fact, the pendulum has swung the other way and we have substantial numbers of potential professors who are unable to find employment.

In view of these circumstances, it would be grossly unfair to all other areas of state government not to expect higher education to accept its full share of the burden. We are confident that the budget we are proposing, despite enrollment increases and inflation, will permit both major segments of higher education to meet California's education needs in exemplary fashion. The budget will require an increased teaching load on the part of faculty in both segments, but it still will not bring the average teaching load above those standards which have been considered the norm. With proper administration, it will be quite possible to admit all qualified California applicants within the monies made available herein.

Local School Apportionments

The money allocated for local schools is very largely determined by statutory formulas. Last year the Legislature and the Executive Branch, working cooperatively, were able to increase the amount available for local schools by \$88 million. Technically, this was a one-year increase only and it was not necessary to place it in the budget for the coming year. Despite the State's serious financial problems, I have made sure that this substantial increase in funds is carried forward.

Salaries

We have a dedicated and effective group of civil servants. As California has grown and progressed, the numbers of such employees have correspondingly increased, and their efforts have been rewarded with substantial pay increases. During my first four years, for example, the employees received pay increases which totaled 20%. In addition, nearly half of our employees receive each year a merit salary increase of 5%, a condition which will continue during the budget year.

For the past ten years, pay increases have averaged about 5% each year, a total which exceeds the cost of living rise during the same period.

The Personnel Board did not recommend a general pay increase this year, but did suggest areas in which specific classes of employees might be raised. Just as in any family, there are years in which it is simply not possible to do all that might be desired. With unemployment much higher than we would like

and thousands of Californians vigorously seeking employment, many of them anxious to work at any job at any living wage, our state revenues are down.

Therefore, it is not possible to include a pay raise for employees in this budget. We are, however, suggesting a package of benefits which employees have consistently requested. These include unemployment insurance, a differential of night pay, and a differential for overtime work, all of which are funded in the budget. In addition, as promised last year, we are recommending the funding of an additional \$2 per employee per month as the State's share of health insurance, bringing the total per employee to \$12 per month.

Capital Outlay

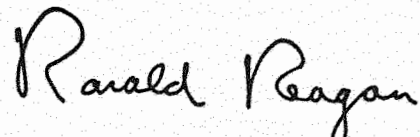
California's capital outlay needs have traditionally been met through a combination of bond funds and some incremental additions in the annual budget. Recently, the Regents of the University have increased educational fees and for the coming year plan to apply these monies to capital projects.

If the Legislature grants the request of the Trustees of the State Colleges to increase fees, it is highly probable some portion would be earmarked for building.

Currently California's bonds are selling well and highly desired water treatment facilities, recreational improvements around reservoirs, community college enlargements, as well as some park projects and funds for veterans loans, should be successfully financed by this means.

California faces grave financial problems. As I indicated in my State of the State message, their proper solution can only come about through the cooperative efforts of the Legislative and Executive branches. California's citizens will be looking to us in the months ahead.

With this pledge of cooperation in mind, I transmit to you the Budget for the State of California for the fiscal year commencing July 1, 1971 and ending June 30, 1972.


Governor

DEPARTMENT OF FINANCE
SACRAMENTO

OFFICE OF THE DIRECTOR

Letter of Transmittal

Governor Reagan:

Without doubt each Finance Director feels that the budget he is just completing for transmittal to the Governor represents the most difficult budget in the State's history. Certainly that feeling was held by many in the Department of Finance this year.

At the outset it was apparent that requests for expenditures were pyramiding far beyond available revenues. All segments of government were cautioned about the need for extreme economy. Budgets were scrutinized carefully at many levels prior to their presentation to you.

I cannot recall any segment of state government which did not realize the fiscal problems which confront us, nor any segment which did not cooperatively seek to hold down expenditures. Of course, all budgets represent compromise and this is no exception. There are numerous areas of government that would still prefer to see their individual allocations increased, even at the expense of some other area. This is entirely normal and represents the need which any individual operating unit can see, sometimes without a broad comprehension of similar needs or even more urgent problems that may exist elsewhere.

The current year's budget is a large and unwieldy volume, difficult to carry and confusing to use. We have, therefore, revised and streamlined the format in an effort to make it more useful, especially for those members of legislative committees who need to refer to it so frequently.

In accordance with Article IV, Section 12 of the State Constitution, I have the honor to submit to you the Budget of the State of California for the fiscal year commencing July 1, 1971 and ending June 30, 1972.

A handwritten signature in dark ink, appearing to read "Verne Orr", written over a horizontal line.

VERNE ORR
Director of Finance

February 2, 1971

