

CALIFORNIA

· BUDGET PROJECT ·

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WHAT'S IN THE GOVERNOR'S PROPOSED 1997-98 BUDGET?

The following briefly summarizes key proposals contained in the Governor's Budget. CBP will prepare additional analyses of the budget during the upcoming weeks.

Economic Context

- ◆ The budget assumes continued strong economic growth, with wage and salary employment increasing by 329,000 (2.6 percent) between 1996 and 1997 and 251,000 (1.9 percent) between 1997 and 1998. The assumed rate of job growth is slightly less than that forecast by the Legislative Analyst (LAO) in November.
- ◆ Personal income, a critical determinant of state tax revenues, is anticipated to increase by 6.6 percent in 1997 and 5.9 percent. The LAO's projections of personal income growth are lower for both years.

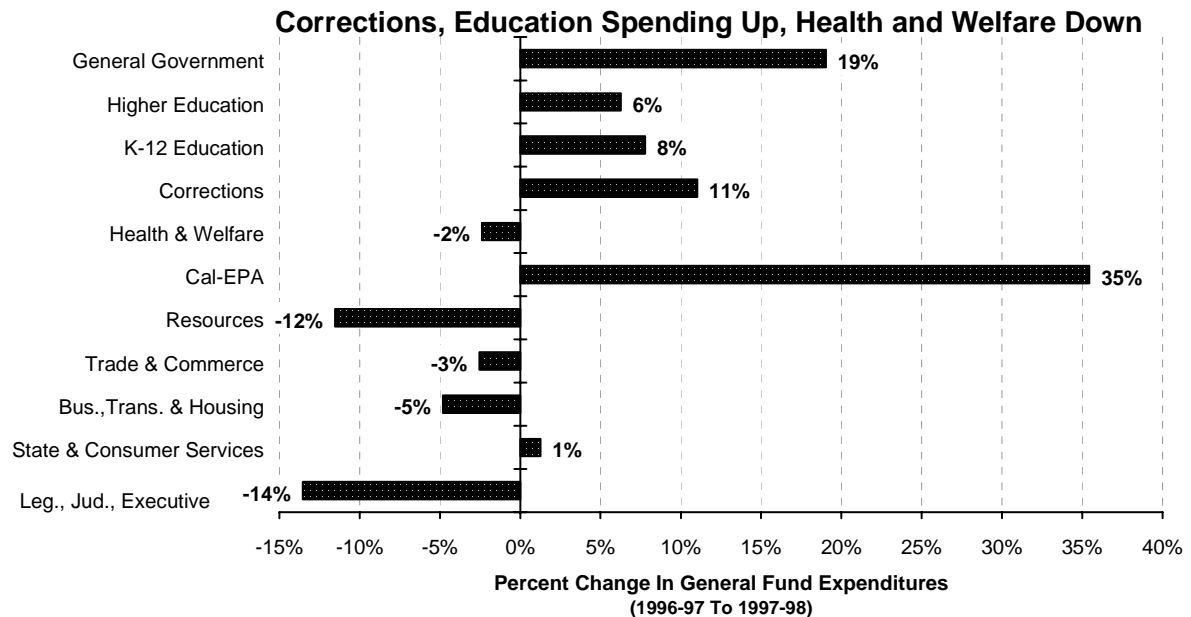
Overview

- ◆ The budget assumes that the state will end fiscal year 1996-97 with a \$648 million fund balance (1.3 percent) and fiscal year 1997-98 with a balance of \$1 billion (2.0 percent). These estimates assume enactment of the Governor's policy and budget proposals. Based on current law, the LAO estimates that the state will end 1996-97 with an \$8 million reserve and 1997-98 with a deficit of \$261 million. Key differences between the two estimates include the Governor's proposal to repeal the renters' tax credit (see below) and proposals to continue AFDC and SSI grant reductions.
- ◆ 1997-98 General Fund expenditures are expected to exceed \$50 billion for the first time. Spending for education, Cal-EPA, and corrections are up significantly, while spending for health and welfare, resources, and state and consumer services are down (see below).

Revenues Up, Renters' Credit Out, Corporate Tax Cut Proposed

- ◆ Due to the strength of the state's economic recovery, projected 1997-98 General Fund revenues are up 4.7 percent over the current year. However, in inflation adjusted terms, 1997-98 proposed expenditures are only 1.4 percent above 1991-92 levels, while the state's population is up by 9.0 percent.

- ◆ The budget assumes repeal of the renters' tax credit, which is restored for the 1997 tax year under current law. This proposal represents a \$525 million tax increase for approximately 5.8 million California taxpayers.
- ◆ On the other hand, the Governor proposes an additional 10 percent corporate income tax cut, phased in over two years. This reduction comes on top of a 5 percent cut signed into law in 1996. This proposal, along with one to increase the number of corporations that can file as Subchapter S corporations and claim a reduced tax rate, will reduce state revenues by \$93 million in 1997-98, \$336 million in 1998-99, and \$562 million in 1999-2000.



Source: Governor's Budget Summary, 1997-98

School Funding Receives Another Big Boost

- ◆ The Governor's proposal fully funds Proposition 98's school funding guarantee. As a result of enrollment and revenue growth, the Proposition 98 guarantee will increase by \$1.9 billion in 1997-98, accounting for 61 percent of additional state General Fund tax revenues. Despite the significant increase in school funds enacted as part of the current year's budget and the Governor's proposed 1997-98 increase, total 1997-98 per pupil spending is still 0.3 percent lower than that in 1985-86, after adjusting for inflation.
- ◆ The increase in K - 12 funding is divided between class size reduction (26 percent), statutory growth (27 percent, reflecting increasing enrollments), cost-of-living adjustments (31 percent), and equalizing school apportionments and deficit reduction as required by Proposition 98 (16 percent). Specific initiatives proposed by the Governor include broadening last year's class size reduction effort to cover grades K - 3 and augmenting available funds by \$304 million; a reading initiative (\$57.5 million); beginning teacher support and assessment (\$10 million); and single gender schools (\$5 million). Child care programs receive an additional \$94.5 million and technology programs receive \$75.2 million.

- ◆ No student fee increases are proposed under the higher education budget.

Governor's Welfare Plan Proposes Stricter Time Limits, Less Money

- ◆ As part of the budget and in response to the federal welfare reform measure signed into law in August, the Governor offered his plan to reform California's welfare system. In brief, the Governor's plan proposes to establish the California Temporary Assistance Program (CalTAP). Under CalTAP:
 - ⇒ Individuals receiving aid as of January 1, 1998 will be limited to a maximum of 24 months of assistance during any 36 month period. New applicants for assistance will be limited to 12 months of aid out of a 24 month period. Children in time limited families will be eligible for an unspecified noncash assistance program based on the grant cost for the household, excluding the amount attributable to the adult member of the family.
 - ⇒ Grant levels are reduced by 15 percent after a family has received assistance for six months.
 - ⇒ Legal immigrants in the US as of 8/22/96 (the date the federal measure was signed into law) will remain eligible for assistance. Those who enter after 8/22/96 will be subject to the five year bar and exceptions contained in the federal welfare reform law.
 - ⇒ Families with a severely disabled parent or child and those with a non-aided, non-parent relative will be exempt from time limits. Undocumented parents of citizen children will be required to participate in community service activities in order for children in the household to receive assistance.
 - ⇒ The child care guarantee for families participating in GAIN will be eliminated for parents who enter work or work related activities.
 - ⇒ The grant structure will be modified and current income disregards eliminated. Families who work while on assistance will be allowed to keep a portion of their earnings. However, the amount families keep will be less than under the current structure.
 - ⇒ The increased funding for child care included as part of the budget refers to the state's increased allotment of Child Care and Development federal block grant funds. The state will receive \$53.7 million in additional funds for fiscal year 1996-97 and \$79.5 million in fiscal year 1997-98.
- ◆ The budget does not backfill for lost federal dollars for legal immigrants who lose eligibility for SSI/SSP as a result of federal welfare reform. Similarly, the budget assumes that legal immigrants who qualify for In Home Supportive Services (IHSS) as a result of eligibility for SSI lose both benefits.
- ◆ The budget assumes repeal of the statutory requirement that counties provide General Assistance.

- ◆ The budget allocates additional federal funds and savings attributable to grant reductions to employability assessments (\$79.6 million); GAIN (\$60 million in 1996-97 and 1997-98); discretionary programs, increased enrollment due to the loss of SSI eligibility for some disabled children, and child support (\$110.1 million); reporting and case tracking (\$33.2 million); retraining county welfare staff (\$79.4 million); and to replace funds lost to county juvenile justice programs as a result of a federal policy change in 1995 (\$140.9 million). The budget assumes that \$274 million in 1996-97 and \$288.1 million in 1997-98 will be shifted from welfare programs to other areas of the budget as a result of the elimination of the federal match requirement.
- ◆ The budget assumes increased federal funds (\$216 million) for Medi-Cal services provided to undocumented immigrants. Similar amounts have been assumed in previous budgets, however, Congress has not allocated these funds as part of the federal budget in previous years. The budget also assumes elimination of prenatal care for undocumented immigrants, resulting in \$80 million in General Fund savings.

Additional Funds for Public Health, Family Planning

- ◆ A \$35 million allocation is included for a new Infant Health and Protection Initiative aimed at detection and early intervention in cases involving substance exposed infants.
- ◆ A number of public health programs receive funding augmentations including tuberculosis control (\$2.9 million), family planning services for the working poor (\$19.8 million), family physician training (\$2.3 million), and an early mental health initiative (\$3 million).

Significant Increase In Capital Outlay/Infrastructure Expenditures

- ◆ The budget proposes issuance of a \$200 million bond measure to fund an Infrastructure Development Bank. This proposal was part of last year's Governor's Budget, but was not enacted by the Legislature.
- ◆ Budgeted state infrastructure expenditures include \$486 million for higher education; \$444 million for design of three new prisons, construction of one new prison, and other public safety related investments; \$96 million in environmental programs; \$138 million in fire and other safety infrastructure projects.

Prison Population Up

- ◆ Youth and adult corrections spending is up by \$422 million. The number of adult inmates in state prisons is forecast to increase by 8,853 (5.9 percent) during the budget year.
- ◆ The budget assumes continuation of the COPS program, which provides \$100 million in state funds for local public safety programs.