

## CALIFORNIA BUDGET PROJECT

Email Update

January 11, 2000

The following presents a "broad brush" overview of the Governor's Proposed 2000-01 Budget. The California Budget Project will explore various aspects of the Proposed Budget over the upcoming weeks and months. The information in this summary may be updated as additional details become known. Please check our web site [www.cbp.org](http://www.cbp.org) for updates.

### HIGHLIGHTS OF THE GOVERNOR'S 2000-01 BUDGET

- The Budget increases General Fund spending by \$5.1 billion (8.0 percent) over the 1999-00 Budget Act for a total of \$68.8 billion. In addition to proposed 2000-01 augmentations, the Budget increases 1999-00 spending by \$2.1 billion over the amounts provided in the Budget Act. The Budget assumes that General Fund revenues will total \$68.2 billion, a \$3.1 billion (4.7 percent) increase over 1999-00.
- The Budget provides a \$1.2 billion reserve, which is equal to 1.8 percent of General Fund expenditures.
- As compared to the Legislative Analyst's November budget, the Governor assumes that an additional \$643 million will be available in 2000-01 (\$1 million from 1998-99, \$311 million in 1999-00, and \$331 million in 2000-01). The Budget estimates that current (1999-00) year revenues will be \$2.179 billion (3.5 percent) above the level assumed when the Budget was enacted last June.
- Despite the higher than anticipated revenues, the Budget as proposed runs operating deficits in both 1999-00 and 2000-01 (that is, expenditures will exceed revenues).
- The Budget includes \$2.9 billion in one-time spending and set-asides, including \$665 million to refund smog impact fees declared unconstitutional by the courts, a \$500 million set aside for other "legal contingencies;" \$121 million for transit projects and equipment; \$100 million in local law enforcement technology grants; a \$100 million national heritage preservation tax credit; \$100 million for teachers' downpayment assistance and school bus replacement; and \$100 million for legislative initiatives.
- The largest share of the state's General Fund goes to K-12 education (\$28 billion, 40.7 percent). The Budget increases per pupil spending subject to the Proposition 98 guarantee by \$268 (4.4 percent) to \$6,313.

### THE CALIFORNIA ECONOMY

- The Budget assumes continued strong economic growth, moderating somewhat in 2000 and 2001 as compared to 1999.

- The Governor's forecast assumes stronger growth in personal income and taxable sales – key factors in determining revenue growth – than does that of the Legislative Analyst in both 2000 and 2001.
- Risks to the Budget's economic forecast include the impact of interest rate hikes by the Federal Reserve and the performance of the stock market. The Budget singles out for mention the fact that stock market analysts are "increasingly uncomfortable" with the market value of "dot.com" companies and California's relatively high concentration of firms in this industry segment.

## RISKS TO THE BUDGET

- The significant amount of one-time spending proposed in the Budget will provide additional protection against unforeseen occurrences.
- A large share of the higher than anticipated revenues derive from personal income taxes paid on capital gains. Capital gains are difficult to predict and a drop in the stock market could have a substantial impact on state revenues.
- The proposed Budget makes more cautious assumptions regarding receipt of federal aid than the budgets of recent years.

## TAXES

The Budget includes \$167 million in new targeted tax relief proposals including \$100 million for a one-time credit for land donated for conservation purposes and \$67 million in ongoing relief. New multiyear reductions include a phased-in increase in the percentage of losses that businesses can carry forward from 50 to 60 percent (\$1 million); a \$500 tax credit for taxpayers who are or who care for elderly or disabled persons in their home (\$47 million); a \$1000 credit for new employees hired by small aerospace firms (less than \$1 million); an exclusion from income for employer-paid graduate school expenses (\$10 million); an increase in the state Low Income Housing Tax Credit (\$15 million in future years); sales tax exemptions for investments in rural areas (\$5 million); a two-year tax credit for investments in biomass generation (\$10 million); and an increase in the research and development credit (\$4 million).

## K-12 EDUCATION

- The Governor's 2000-01 Budget proposes to increase per pupil spending by \$268 (4.4 percent) from the current year to the budget year, to \$6,313 per student. The Budget "overfunds" the Proposition 98 school funding guarantee by \$257.4 million in 2000-01 and provides a 2.84 statutory COLA for revenue limits, special education, child development, and categorical programs.
- The proposed Budget increases in 1999-00 and 2000-01 K-12 education spending subject to the Proposition 98 guarantee totals \$2.175 billion, including the

Governor's new initiatives (\$490 million), growth and statutory adjustments (\$738 million), and cost-of-living adjustments (\$947 million).

- The Governor's new K-12 Education Initiatives include: programs tied to student achievement (\$202.1 million), including the Governor's Merit Scholarship Program (\$112 million); support for Teacher Recruitment and Training (\$277.1 million), including incentives for new teachers and \$50 million in one-time funds for housing assistance; Technology and Academic Partnership programs (\$434.1 million), including advance placement courses, grants for computers and computer wiring, and mentoring programs.
- Although the Budget proposes a set-aside of \$500 million for legal contingencies, no funds are set aside specifically for settlement of the special education mandates lawsuit.
- The Budget includes an increase of \$22.3 million in General Fund support for deferred maintenance.

## HIGHER EDUCATION

The Governor's 2000-01 Budget assumes no new fee increases or reductions for University of California (UC), California State University (CSU), or California Community Colleges (CCC). Specifically:

- **University of California.** The Budget provides an increase of \$328 million (General Fund) to support projected 3.6 percent enrollment growth and five percent in operational funding increases and COLAs. The Budget also includes \$75 million in partial funding for three new California Institutes for Science and Innovation and \$14.3 million in bond funds for acceleration of UC Merced construction.
- **California State University.** The Budget provides an increase of \$191 million (General Fund) to support projected 4.5 percent enrollment growth and five percent in operational funding increases and COLAs.
- **Community Colleges.** The Budget provides a \$161.5 million increase (General Fund). Community College funding from all sources would rise by \$348.3 million (6.5 percent). The Budget assumes enrollment growth will increase 3.0 percent and provides a 2.84 percent statutory COLA.
- **Financial Aid.** The Budget provides a \$30.5 million increase in the Cal Grant program; \$28.3 of this amount will create 7,000 new Cal Grant awards for financially needy students. The remaining \$2.2 million will increase the maximum award to students at private universities to \$9,703.

## HEALTH AND HUMAN SERVICES

## HEALTHY FAMILIES

- The Budget proposes \$336 million (\$121.4 General Fund) for the Healthy Families Program (HFP), an increase of \$111.5 million (\$41.8 million General Fund) above the 1999-00 Budget Act level. This augmentation is due to anticipated growth in the program, rather than specific program changes. The Budget includes \$4.9 million to provide coverage to recent legal immigrant children who enrolled in the HFP in 1999-00. The Budget Summary implies that this program may not be extended for new applicants in this category.
- The Budget provides a \$9.4 million (\$1 million General Fund) augmentation for outreach and advertising, bringing the HFP outreach total to \$31.8 million.
- The Budget proposes allowing families who are eligible for Medi-Cal to enroll in the HFP. This option is not currently allowed under federal law.

## MEDI-CAL

- The Budget includes an increase in General Fund support for Medi-Cal of \$540.6 million (6.6 percent). The Budget notes that as Medi-Cal caseloads decline, the percentage of the caseload that are aged, blind, or disabled has grown, resulting in an increase in per case costs.
- The Budget proposes a \$26.2 million (\$10.0 million General Fund) augmentation to combat Medi-Cal fraud and abuse. The Governor's Budget projects budget year savings of \$26.3 million (\$12.2 million General Fund) as a result of fraud prevention efforts, for a net cost savings to the Medi-Cal program.
- The Budget includes \$245.8 million (\$122.9 General Fund) to continue last year's expansion of Medi-Cal to adults in working poor families, including two parent families, with incomes up to the federal poverty level and \$4.8 million (\$2.4 million General Fund) to provide Medi-Cal eligibility with monthly sliding scale premiums to working disabled persons with incomes up to 250 percent of federal poverty level (\$1,717 per month).
- The Budget provides a \$4.8 million (\$2.4 million General Fund) augmentation to provide Medi-Cal without a share of cost to approximately 13,000 medically needy, aged, and disabled persons earning up to 100 percent of federal poverty level (\$687 per month), as part of the "Aging with Dignity" Initiative.
- The Budget continues funding for prenatal and long-term care for undocumented immigrants.
- The Budget reduces the administrative fee paid by county and University of California hospitals under the Disproportionate Share Hospital Program (DSH) by "up to" \$30 million in 2000-01, but suggests that this amount could be used to increase payments to emergency room physicians and on-call specialists.

## CalWORKs

- The Budget reduces total CalWORKs expenditures from \$7.2 billion in 1999-00 to \$6.9 billion in 2000-01; \$5.7 billion of this amount goes to the Department of Social Services (DSS), with the remaining amount divided among the Department of Education (CDE, \$729 million), the California Community Colleges for child care (\$15 million); a child care reserve that can be used by either the DSS or CDE (\$150.0 million); \$155.5 million in other departments' budgets, and \$196.6 million in county budgets.
- For the current year, the Budget anticipates \$97.3 million in savings attributable to grant payments due to caseload reduction and \$28.1 million due to increases in recipients' earnings. The Budget assumes savings of \$162.8 million due to continued caseload decline in 2000-01.
- The Budget reflects California's ability to reduce spending under the federal TANF Maintenance of Effort (MOE) requirement since the state met federal work participation rates. The Budget reduces state expenditures that count toward the MOE from \$2.9 billion to \$2.7 billion, a \$181.8 million reduction.
- The CalWORKs budget includes \$20.0 million plus another \$45.5 million (\$65.5 million total) in federal TANF Bonus Award funds for reductions in out-of-wedlock births and moving welfare recipients to work. The Budget allocates the bonus payment for reducing out-of-wedlock births to continuing the Community Challenge Grant program.
- The Budget reduces CalWORKs spending for county substance abuse and mental health services by \$5.7 and \$3.6 million, respectively.
- The Governor's Budget notes that counties are claiming incentive payments that exceed state allocations and proposes a decrease of \$258.9 million in County Performance Incentive payments and a reassessment of the county fiscal incentive funding formula.
- The Budget includes a cost of living adjustment (COLA) for CalWORKs grants of 3.61 percent, at a cost of \$112.1 million. CalWORKs cash grant payments for a family of three will increase from \$626 to \$649 in Region I and from \$596 to \$618 in Region II.

#### SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTAL PAYMENT

- The Budget provides a 5.5 percent increase in SSI/SSP expenditures due to caseload growth and COLAs. The Budget assumes a 3.61 percent cost-of-living adjustment effective January 1, 2001, which will increase the individual SSI/SSP grant payment from \$692 per month to \$717.
- The Governor's Budget does not extend the September 30, 2000 sunset of the Cash Assistance Program for Immigrants' expansion to immigrants arriving in the country after August 22, 1996.

#### FOOD STAMPS/FOOD ASSISTANCE

- The Budget does not extend the September 30, 2000 sunset date for the expansion of the California Food Assistance Program (CFAP) for immigrants arriving in the country after August 22, 1996 and projects a reduction of \$5.8 million (General Fund) in CFAP due to declining caseloads and food coupon costs together with the sunset.

## DEPARTMENT OF CHILD SUPPORT SERVICES

Last year's child support reform legislation established a new Department of Child Support Services (DCSS). The Budget shifts staff from the Department of Social Services to the new department and adds 134.7 new positions. The budget allocates \$963.3 million (\$358.8 million General Fund) for the new DCSS.

## PROPOSITION 99

As a result of declining tobacco consumption, expenditures for Proposition 99 supported programs will decline by \$36.7 million. Research Account programs are slated for a \$69 million reduction.

## "AGING WITH DIGNITY"

The Governor proposes a number of initiatives designed to "help seniors remain at home and lead independent lives in the community, and to enhance the quality of care in California nursing homes." In addition to proposals described above, this initiative includes:

- Funding for a five percent wage increase for nursing home workers (\$32.5 million General Fund cost) and the state's share of costs for raises for In-Home Supportive Services (IHSS) workers in counties with public authorities of up to \$6.60 per hour at the current state-county sharing ratio for IHSS program costs (\$28.5 million to continue last year's wage increase, plus \$20 million for the additional increase). The Governor proposes additional raises for IHSS workers if state revenues reach specified targets.
- \$8 million in General Fund support for bonus payments to nursing home facilities that serve high proportions of Medi-Cal patients.
- \$20 million in one-time grants will fund efforts to implement and expand community-based adult care alternatives to nursing homes.
- Establishing an information clearinghouse and education program for senior housing options and a senior wellness education campaign (\$2 million General Fund).
- Earmarks \$50 million in federal Welfare-to-Work and Workforce Investment Act funds for training homecare and nursing home workers.

- \$5.5 million in General Fund support for unannounced inspections and increased review of poor performing nursing homes.

## CALIFORNIA CHILDREN AND FAMILIES COMMISSION

The Budget forecasts a decline in the tobacco tax revenues raised by Proposition 10 from \$733 million in 1999-00 to \$719 million in 2000-01. Eighty percent of funds collected (after a \$12.6 million backfill to Proposition 99 programs) - \$575.6 million in the current year and \$564.4 in the budget year - will be allocated to county commissions for early childhood development programs. The remaining 20 percent of funds (\$143.9 million and \$141.1 million in current and budget years, respectively) are allocated to the state Commission.

## DEPARTMENT OF MENTAL HEALTH

The Budget provides an increase of \$59 million in General Fund support for state hospitals and \$20 million for 2000-01 only, to double the amount of state support for local programs providing comprehensive services for the homeless, parolees, and probationers with mental illnesses. The programs include substance abuse treatment, housing assistance, and employment assistance aimed at mentally ill persons who are at risk of becoming involved in the criminal justice system.

## CHILD CARE AND DEVELOPMENT

The Budget proposes to spend a total of \$2.5 billion on child care and development programs administered by the California Department of Education and Department of Social Services, an increase of 10 percent from 1999. Approximately 50 percent of this amount serves children in CalWORKs families. The Budget also promises a review of child care policy and resources, during 2000, to consider "ways of funding child care demand ... within available resources." Major initiatives include:

- A \$95.1 million increase -- to \$172.6 million -- in funding to continue services to children beyond the two years of service guaranteed to CalWORKs families after termination of cash aid.
- A \$49 million expansion of the part-day state preschool program.
- \$56 million in one-time funds for the Child Care Facility Revolving Fund for purchase of portable facilities.
- \$53 million to maintain funding for after-school programs.

## HOUSING

The Governor's 2000-01 Budget maintains current funding levels for most housing programs and proposes an increase of \$1.2 million for the Self-Help Housing Program, which provides technical assistance grants to housing sponsors who train and supervise

groups working together to build each others' homes; \$11 million for a new low-interest loan program for multifamily housing construction, acquisition, and rehabilitation established in legislation last year; and a permanent increase in the Low Income Housing Tax Credit from \$35 million to \$50 million.

## LOCAL GOVERNMENT

The Governor's 2000-01 Budget proposes:

- Permanent elimination of state funding for the County Medical Services Program (CMSP), which provides health care to medically indigent adults in small counties. The Administration argues that local reserves are "substantial" and that the state has expanded health care coverage in other areas.
- \$100 million (General Fund) in one-time technology grants to local law enforcement. \$75 million is intended for high-technology equipment; the remaining \$25 million will go to school safety, juvenile crime, and anti-gang efforts.
- A \$139 million increase in Trial Court Funding. Augmentations include \$20 million for salary adjustments, \$22 million for case-processing technology, and \$17 million for jury reform, including increased juror compensation.
- A "use-it-or-lose-it" policy for existing unspent transportation funds totalling \$1.1 billion. If a local agency does not reach a specified point in the allocation/approval process with the California Transportation Commission by July 31, the state will allocate the money instead within the general region. These funds include \$300 million in local gas tax funds for roads and streets, as well as \$800 million in federal funds for Congestion Management and Air Quality projects and Regional Surface Transportation projects.

## INFRASTRUCTURE AND CAPITAL OUTLAY

- The Budget provides \$121.0 million in one-time funding for intercity and urban/commuter rail projects, including \$30 million for the San Diego Corridor and \$36 million to upgrade and expand the Altamont Commuter Express.
- In order to address expected shortfalls in the Public Transportation Account (PTA), the Budget transfers \$45 million annually from non-gas tax revenues in the State Highway Account to the PTA.
- The Governor's *Transportation 2000* proposal includes \$750 million attributable to extending the State Transportation Improvement Program (STIP) from 4 to 7 years. The extension creates a longer planning horizon for transportation projects with the intent of allowing local agencies to complete planning and begin construction earlier than under the current process. The \$750 million in funding represents amounts that would become available regardless of the proposed change and thus are not "new" funds. The Budget also proposes to re-estimate

unused STIP balances, freeing up \$150 million, for a total of \$900 million. The Governor plans to "challenge" local transportation agencies to match these funds on a 1-to-1 basis. Finally, the proposal imposes a "use it or lose it" requirement on local governments with respect to \$1.1 billion in local gas tax and federal transportation funds.

- The Budget includes \$75 million for three new Institutes for Science and Innovation. The Governor intends for these funds to be matched on a 2-to-1 basis by federal or private funds.

## ENVIRONMENTAL PROTECTION

The Budget allocates \$896 million (all funds) to the Cal-EPA for environmental protection, a seven percent increase over 1999. The state Air Resources Board is slated for the largest year to year increase -- 33 percent. The Budget includes \$50 million to replace old school buses with those using less-polluting fuels, \$3.3 million to investigate and provide technical assistance for toxic school site clean up, and \$2.9 million to increase investigation and inspections of "egregious environmental violations." In addition, the Budget proposes to establish a Children's Environmental Health Center.

## NATURAL RESOURCES

The Budget allocates \$2.4 billion (all funds) to the California Resources Agency, a 12 percent reduction from 1999. Most of the reductions are attributable to reduced support for the Lake Tahoe Conservancy and Santa Monica Mountains Conservancy. Spending for the Department of Parks and Recreation is reduced by \$268 million (54 percent) from 1999 levels. The reduction reflects the large amount of one-time park spending in the 1999-00 Budget. Major initiatives include a \$35 million augmentation for emergency fire suppression activities and \$32 million to increase use of alternative-fuel vehicles by the state.

## STATE EMPLOYEES

The Administration completed negotiations with 21 state employee collective bargaining units in 1999. The Budget includes \$864.6 million (\$377.8 million General Fund) for increased employee compensation costs in 1999-00 and \$1.2 billion (\$559.5 million General Fund) in 2000-01, plus \$60 million (\$30 million General Fund) to provide funding for compensation adjustments, such as recruitment and retention differentials.

## PUBLIC SAFETY

The Budget assumes that the inmate population at the Department of Corrections (CDC) will grow by 1.4 percent, to 166,521 inmates, by June 2001. At the California

Youth Authority (CYA), the inmate population is projected to decrease by 10 wards, to 7,420, by June 30, 2001. The leveling off of the inmate population continues a trend seen in recent years. Budgeted spending for Corrections is up 6.6 percent over that of the 1999-00 Budget Act (\$315 million). Specific initiatives include:

- \$10.4 million to provide intensive parole supervision for serious and violent offenders who have committed a second "strike" under the state's "Three Strikes and You're Out" law. This proposal is designed to reduce the ratio of parolees to parole agents from 70:1 to 40:1.
- \$100 million for one-time grants to local law enforcement for the purchase of high technology and other safety equipment and a \$21.3 million expansion in the Citizens' Option for Public Safety (COPS) program to provide minimum grants of \$100,000 for each local jurisdiction.
- \$9.2 million for a new "boot camp" in San Luis Obispo for students facing expulsion from school for "zero tolerance" offenses, including carrying a gun, sexual assault, and selling drugs.