

## GOVERNOR RELEASES PROPOSED 2001-02 BUDGET

On January 10, Governor Gray Davis released his proposed budget for the 2001-02 fiscal year. The following provides a “quick and dirty” overview of key trends and spending initiatives in the Budget. While we have endeavored to maintain a high standard of accuracy, numbers and analyses may change as we dig deeper into the Budget. CBP’s annual budget briefing will be held in late January or early February. Watch our web site for additional information on this not-to-be-missed event.

### THE BIG PICTURE

- The Governor’s Proposed Budget proposes \$104.7 billion in expenditures, a 4.0 percent increase over the current year. General Fund expenditures are budgeted at \$82.9 billion, a 3.9 percent increase.
- General Fund revenues are budgeted at \$79.4 billion, a 3.2 percent increase. The estimated increase in General Fund expenditures is lower than that of recent years for several reasons. First, the Governor assumes a more modest level of economic growth. Second, the Proposed Budget transfers \$468 million in tobacco settlement payments to a special fund. The past two budgets allocated settlement payments to the state’s General Fund.
- The Governor proposes \$108 million in tax cuts including a three-day sales tax “holiday” for clothing and computer purchases and a number of business tax incentives including \$71 million in expansions of the manufacturers investment tax credit. The \$27 million estimated revenue loss for the sales tax holiday works out to a 76 cent per person tax savings.
- The economic forecast used as the basis of the Budget’s revenue projections assumes that the growth in personal income will slow in 2001 and that inflation will decline modestly. However, the Budget assumes that the 2001 personal income growth rate is higher than that contained in the 2000 May Revision.
- A substantial fraction of recent years’ growth in personal income tax revenues is attributable to taxes paid on capital gains and stock options. According to the Budget Summary, stock options account for between one-quarter and one-half of annual wage growth over the past three years. Capital gains are estimated to account for 11.0 percent of General Fund revenues and stock options are estimated to account for an additional 10.0 percent of the General Fund. The Budget Summary notes that as recently as 1994-95, these two sources of income together accounted for just 5.0 percent of General Fund revenues. Furthermore, the Summary states that “SEC reports suggest that just seven high technology companies generated nearly half of this (stock option) income.” The Budget’s growing reliance on these two income sources complicates efforts to forecast revenues due to the volatility of the stock market in recent months.
- The percentage increase in proposed General Fund expenditures between 2000-01 and 2001-02 is as follows: 7.4 percent for K-12 Education, 6.3 percent for Health and Human Services, 10.1 percent for Higher Education, 22.6 percent for State and Consumer Services, 22.3 percent for Resources, 4.0 percent for Corrections, and 32.8 percent for Environmental Protection. Proposed General Fund expenditures declined for Technology, Trade, and

Commerce (7.3 percent); Legislative, Judicial, and Executive (0.6 percent); General Government (24.5 percent, primarily attributable to the payment of a portion of the 2001-02 VLF reimbursement to local governments in 2000-01); and Business, Transportation, and Housing (27.6 percent).

- Proposed 2001-02 spending subject to the State's Appropriation Limit is \$5.4 billion below the limit. Estimated 2000-01 expenditures subject to the limit were \$3.7 billion below the limit.
- The Budget assumes that the 2001-02 reserve will be insufficient to trigger a continued ¼ cent reduction in the state's sales tax rate in calendar 2002.
- The Proposed Budget includes a \$1.9 billion reserve, 2.3 percent of General Fund expenditures. The Budget also includes a \$500 million set-aside for legal contingencies. Virtually all of the \$500 million set-aside for legal contingencies contained in the 2000-01 Budget has been spent settling lawsuits over special education expenditures, Medi-Cal reimbursement rates for outpatient services provided by hospitals, and the federal government's entitlement to a portion of pension fund savings.

#### STATE OF THE STATE FOCUSES ON ENERGY

The Governor's Budget includes a \$1 billion set-aside in the Resources Agency to address both the demand and supply issues of California's energy crisis. While the Proposed Budget does not detail proposals under consideration, the Governor outlined several initiatives in his State of the State address on Monday. These include: \$250 million in cash incentives aimed at reducing energy consumption; a new power authority that would purchase and build power plants; reduction of electricity consumption by state government; an increase in the number of "peaking" facilities to satisfy higher than normal electricity demand; restructuring the boards of the entities that direct electricity distribution; facilitating low-cost long-term contracts between utilities and power generators; increasing the state's capacity to compel power plants to provide electricity and to punish generators that withhold electricity; and expanding the Governor's authority if power outages are imminent. The Governor also underlined the importance of keeping the utility companies from going bankrupt.

The Budget also includes \$21.1 million through existing programs to expedite the process to bring power plants on-line, reduce electricity consumption, and promote renewable energy sources, including \$4.9 million to provide energy and weatherization assistance to low income families.

#### CALWORKS

- The Governor's Budget projects a continued decrease in the CalWORKs caseload for the budget year.
- The Governor's Budget states that total CalWORKs expenditures will be \$7.0 billion, including \$5.7 billion in the Department of Social Services (DSS), \$506.4 million in the California Department of Education (CDE) and California Community Colleges for child care, \$100 million for a child care reserve, and \$477.8 million in other departments' budgets.
- The Governor's Budget proposes state spending on the Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) requirement at 75 percent (\$2.7 billion). California successfully appealed a prior decision that the state had not met work participation rates, allowing the state to reduce 2000-01 MOE expenditures on a one-time basis by \$153.9 million General Fund.

- The Governor's Budget proposes setting aside a general TANF reserve of \$84.9 million (federal TANF funds) for unanticipated program needs.
- The Governor's Budget proposes a \$100 million child care reserve to be used by DSS or the CDE for Stage 1 or Stage 2 child care.
- Of the \$55.7 million TANF Block Grant Reserve included in the 2000 Budget Act, \$5.3 million went to pay for a pregnancy special needs benefit; the remaining \$50.4 million is slated to go toward \$91.6 million in counties' employment services budget requests that were initially denied, then were appealed and approved.
- \$20 million of California's \$36.1 million TANF bonus award will be transferred to the Department of Health Services for continuation of the Community Challenge Grant Program for teen pregnancy prevention. The federal government awards TANF bonus funds to states for performance in, among other things, job retention and earnings among CalWORKs participants.
- The Budget proposes \$1.6 billion for county block grants for services, administration, and child care; \$55.2 million for substance abuse services; \$54.1 million for mental health services; and \$88.6 million to help fulfill the state's part of the match for federal Welfare-to-Work funds.
- The Budget proposal includes no funding for new performance incentive payments to counties and notes that counties have earned \$1.2 billion through 1999-00 and spent only \$46.2 million as of October 2000.
- A cost of living adjustment (COLA) will bring the grant level for a family of three from \$645 to \$676 in high cost counties and from \$614 to \$644 in low cost counties.
- The Budget includes \$12.2 million for fraud detection in the CalWORKs and Food Stamps programs with the State Fingerprint Imaging System.

#### OTHER SOCIAL SERVICES

- The Budget proposes a total of \$2.9 billion General Fund for the Supplemental Security Income/State Supplemental Payment (SSI/SSP) program, including an increase for an estimated 2.2 percent caseload growth and COLAs. The January 1, 2002 COLA will increase the monthly Payment Standard to \$747 for an individual and \$1,326 for a couple.
- The Budget proposes \$97.6 million General Fund for the Cash Assistance Program for Immigrants (CAPI), which provides state-funded assistance to certain elderly, blind, and disabled immigrants. The Budget notes that the expansion of CAPI to immigrants who arrived in the U.S. after August 22, 1996 sunsets on September 30, 2001 and does not assume an extension of this date.
- General Fund expenditures for In-Home Supportive Services are expected to be \$843.3 million in the budget year, including a \$22.2 million increase resulting from minimum wage increases.

#### TOBACCO SETTLEMENT FUND

The Governor's Budget proposes using Tobacco Settlement Fund moneys solely for health care programs, including expanding health coverage for the uninsured, cancer research and treatment, and anti-tobacco efforts. These are funds that tobacco companies must pay to states over the next 25 years. Specifically, the Governor's Budget proposes to use California's \$468 million in the budget year as follows:

- \$76.1 million to expand the Healthy Families Program (HFP) to uninsured parents of children enrolled in HFP and Medi-Cal.
- \$74.4 million for a previously enacted HFP expansion to an estimated 106,000 children in families with income between 200 and 250 percent of the federal poverty level (FPL).
- \$47.0 million toward a previously enacted expansion providing no-cost Medi-Cal to aged, blind, and disabled persons with income below 133 percent of the FPL.
- \$123 million toward a previously enacted Medi-Cal expansion to an estimated 249,000 individuals in families with income at or below 100 percent of the FPL.
- \$20 million to provide breast cancer treatment to an estimated 1,250 uninsured and underinsured individuals with income below 200 percent of the FPL.
- \$20 million to provide prostate cancer treatment to an estimated 1,200 uninsured and underinsured individuals with income below 200 percent of the FPL.
- \$20 million (\$5 million one-time) for grants to nonprofit organizations and local governments aiming to reduce the incidence of youth smoking.
- \$64.9 million to the Child Health and Disability Prevention Program (CHDP) to provide preventative health assessments and immunizations to low income children between the ages of 6 and 18.
- \$23 million for a reserve.

#### MEDI-CAL

- The 2001-02 Budget allocates \$132 million less for the Medi-Cal program than the revised 2000-01 Budget. The reduction results from the use of Tobacco Settlement Funds for specified expansions in Medi-Cal.
- The Budget estimates that the number of people enrolled in Medi-Cal will increase by 12.3 percent, to 5.85 million, due primarily to eligibility expansions and simplified application processes. Recent expansions in Medi-Cal eligibility include no-cost coverage for two-parent working families with incomes at or below 100 percent of the FPL; the working disabled with incomes below 250 percent of the FPL; and seniors and disabled individuals with incomes below 133 percent of the FPL. Procedures to simplify the eligibility process include the elimination of quarterly status reporting, providing continuous eligibility for children, and continuing coverage eligibility for persons leaving CalWORKs until their annual Medi-Cal redetermination date.
- The Budget allocates \$128 million (\$64.2 million General Fund) to increase Medi-Cal reimbursement rates for outpatient services provided by hospitals by 30 percent, effective July 1, 2001. For the next three years, the rates will increase annually by an additional 3.33 percent. At the conclusion of the three years, a new policy for determining rates will be put in place. This augmentation is part of the settlement of litigation between the State and hospitals. Hospitals will also receive a one-time payment of \$350 million (\$175 million General Fund) as part of the settlement.
- The Budget includes \$19.8 million (\$9.9 million General Fund) to pay premiums for beneficiaries in Medicare Health Maintenance Organizations who are also Medi-Cal beneficiaries, beginning in January 2001.
- The 2000-01 Budget includes an additional \$5 million one-time augmentation, from Proposition 99 funds, to provide health insurance to more individuals who cannot obtain coverage through the individual insurance market.

## HEALTHY FAMILIES

- The Budget includes \$733.1 million (\$125.2 million General Fund and \$74.4 million Tobacco Settlement) for the Healthy Families Program (HFP) to serve an additional 200,000 children by June 30, 2002. The Budget allocates \$201.5 million (\$76.1 million Tobacco Settlement Fund) to expand the HFP to the parents of children eligible for the HFP or Medi-Cal in families with incomes up to 200 percent of the FPL. The Budget estimates that the expansion will serve 174,000 uninsured adults by June 30, 2002. The Budget assumes that total HFP enrollment will reach 735,000 children and adults by June 30, 2002.

## PUBLIC HEALTH

- The Budget allocates \$676.9 million for Public Health programs, a \$73.9 million (9.8 percent) decline from 2000-01.
- Permanently suspends the General Fund contribution to the County Medical Services Program (CMSP). The Budget Summary cites substantial reserves in the local CMSP fund account and expansions of health care coverage through Medi-Cal and Healthy Families as the rationale for the suspension.
- The Budget includes an increase of \$5.1 million for rising AIDS Drug Assistance Program demand and increased drug costs.

## PROPOSITION 99

- Revenue from the Tobacco Tax and Health Protection Act of 1988 (Proposition 99) continues to decline due to decreased use of tobacco products. Consequently, estimated 2000-01 revenues decreased by \$11.9 million to \$360 million. For 2001-02, estimated revenues are down \$5 million to \$355 million.

## PROPOSITION 36

- As directed by Proposition 36, the Budget appropriates \$60 million General Fund in 2000-01 and \$120 million annually through 2005 for substance abuse treatment for persons convicted of specified non-violent drug possession charges. The 2000-01 allocation has been transferred to the counties through a newly created Substance Abuse Treatment Trust Fund.

## “AGING WITH DIGNITY”

- The Budget includes \$1.9 million (\$1 million General Fund) to improve State oversight of nursing homes; \$1 million (\$508,000 General Fund) to develop an assisted living waiver, thereby increasing alternatives to nursing home care; and \$1 million (\$500,000 General Fund) to develop an assessment tool to determine which individuals could be placed in state-funded long-term care located in community settings.

## DEPARTMENT OF MENTAL HEALTH

- The Budget includes an increase of \$210 million (\$75.4 million General Fund) above the 2000-01 revised Budget, for a total of \$2 billion (\$953.2 million General Fund) in expenditures for state mental health hospitals and community mental health programs. The increase reflects higher caseloads in state hospitals and various other programs. The Budget also includes \$34.5 million in one-time General Fund dollars for deferred maintenance and security improvement projects in four state hospitals and \$352.5 million for the construction of a Sexually Violent Predator Facility in Coalinga and new construction and minor remodeling projects.

## HOUSING

The 2001-02 Budget allocates \$317.2 million in General Fund money for the Department of Housing and Community Development (HCD), a decrease of \$243.5 million (43.4 percent) below last year. Programs that received significantly reduced funding in this year's budget include Self-Help Housing, Farmworker Housing Grants, homeless assistance, and multifamily housing construction. The Budget includes \$20 million for economic development grants in Central Valley communities and \$7.5 million for migrant farmworker housing rehabilitation in Merced and Yolo counties.

The Budget Summary also notes that federal law recently increased the statewide cap on revenue bonds for housing from \$50 to \$75 per person and the allocation of low income housing tax credits from \$1.25 to \$1.75 per person. The Summary estimates that the higher bond cap will finance an estimated 7,500 additional rental units and 4,000 new home purchases each year and that the increase in tax credits will facilitate construction of 2,400 rental units per year.

## K-12 EDUCATION

- The Budget increases per pupil Proposition 98 spending by \$479 (7.2 percent) from the current year to the budget year, to \$7,174. The state is currently on Test 3 of the Proposition 98 guarantee, since per capita personal income growth exceeds general fund revenue growth. However, the Budget proposes to "overfund" the Proposition 98 funding guarantee by \$1.9 billion in the budget year by funding at the higher Test 2 level.
- The Budget provides a 3.91 percent cost of living adjustment (\$1.184 billion) for revenue limits, special education, child development, and categorical programs.
- The Budget proposes a total 2001-02 Proposition 98 funding level of \$46.4 billion (\$32.8 billion general fund), a \$3.5 billion increase over the 2000-01 funding level.
- The governor's new K-12 education initiatives include: \$100 million to increase the school year by 30 days for middle school students; \$30 million in the budget year to increase the number of students enrolled in algebra and the number of qualified algebra teachers for grades 7-12; \$335 million for professional development in reading and math for K-12 teachers and instructional aides; and \$15 million over three years to train school site administrators.
- The Budget includes money to fund the settlement of a lawsuit over special education, including \$270 million in one-time retroactive payments, the first installment of a \$25 million payment that continues per year for ten years, and \$100 million in ongoing funds for an increase in the per pupil special education funding.
- The Budget provides an increase of \$8.8 million for deferred maintenance; \$20 million in incentive grants for schools to purchase data systems; and \$20 million for high tech high schools.

## CHILD CARE

The Budget includes a 3.91 percent COLA for California Department of Education (CDE) administered child care programs (\$45.5 million; \$36.3 million General Fund and \$9.2 million federal funds) and \$5.4 million to help child care contractors offset increased costs associated with the increase in the state minimum wage. The Budget allocates \$67 million to fund the full-year costs of the expansion of State Preschool, General Child Care, and Migrant Child Care programs included as part of the 2000-01 Budget. Funding for CalWORKs child care remains

essentially flat, however the Budget shifts \$97.8 million from Stage 2 to Stage 1. The Budget's sole expansion in General Fund supported child care programs is a \$20 million increase in the After School Learning and Safe Neighborhoods Partnerships Program.

The Budget Summary notes that the child care policy review begun by the administration last year is expected to culminate this spring with recommendations to enable "existing resources" to "more efficiently ... serve the State's neediest families." In a separate initiative, the Governor has asked the Secretary of the Governor's Office of Education to work with the state Children and Families First (Proposition 10) Commission to take a "comprehensive look at the issue of childcare and early education."

## HIGHER EDUCATION

The proposed 2001-02 Budget assumes no fee increases or reductions for University of California, California State University, or the California Community Colleges.

- University of California. The Budget provides a \$202.5 million (6.3 percent) increase in General Fund support and funds a 3.3 percent projected enrollment increase. The Budget allocates \$108 million for four California Institutes for Science and Innovation (three existing, one new). It also includes \$20.7 million for summer classes at three UC campuses in an effort to convert them to year-round operation and \$162.4 million for capital outlay and start-up expenses for UC Merced.
- California State University. The Budget provides a \$215.9 million (8.8 percent) increase in General Fund support and funds a 3.0 percent projected enrollment increase. The Budget allocates \$17.5 million for Governor's Teaching Fellowships and \$18.5 million for the Governor's K-12 Technology Training Initiative. The Budget also includes \$12.4 million for summer classes at three CSU campuses.
- Community Colleges. The Budget provides a \$228.8 million (8.1 percent) increase in General Fund support and funds a 3.0 percent projected enrollment increase. The Budget includes \$300 million for the Partnership for Excellence Program. It also includes \$62 million for part-time faculty compensation and \$7.9 million to increase the number of part-time faculty office hours.
- Cal Grant Program. The Budget includes a \$127.9 million augmentation for last year's Cal Grant allocation.

## LOCAL GOVERNMENT

The Budget Summary provides a lengthy discussion of state aid to local government, including the state's share of costs for programs that are administered at the local level. Specific initiatives cited in the Budget include:

- \$250 million in one-time discretionary funding to local governments, to be allocated 50 percent on a per capita basis and 50 percent based on local governments' contributions to their counties' respective Educational Revenue Augmentation Fund.
- \$398.5 million in state support for local public safety programs, including the COPS program, county juvenile crime prevention programs, technology grants for local law enforcement, local crime lab funding, High Technology Theft Apprehension and Prosecution Program, and anti-methamphetamine efforts.
- Permanent elimination of the annual \$20.2 million General Fund contribution to the County Medical Services Program.

- A \$40 million one-time General Fund allocation to establish a touch screen voting pilot project in three California counties. State support would be dependent upon a local match.
- \$200 million in additional support over the next two years for the Jobs-Housing Balance Improvement Program and \$20 million for Central Valley infrastructure development. In addition, the Governor would allow local governments to use Jobs-Housing Balance funds for any purpose, rather than restricting their use to infrastructure.

## RESOURCES

The Budget provides a \$454 million increase in funding for programs overseen by the Resources Agency. However, this figure includes the \$1 billion set aside for initiatives to address the state's energy crisis combined with significant reductions in a number of department budgets including \$265.7 million in the Wildlife Conservation Board, \$92.7 million in the Coastal Conservancy, and \$250 million in Parks and Recreation. Initiatives funded in the Budget include a \$20.3 million increase for the Lake Tahoe Conservancy, \$11.2 million to strengthen the ability of the Civilian Conservation Corps to respond to fires and floods, and \$7 million to enable the Department of Forestry and First Protection to replace outdated communications equipment.

## TRANSPORTATION

- The Budget proposes \$6.6 billion for transportation including \$2.3 billion in local assistance for constructing and operating highways and road and transit systems, and \$4.2 billion in spending on capital projects.
- Per last year's budget agreement, the governor allocates \$1.1 billion in proceeds from the General Fund sales tax on gasoline for the Traffic Congestion Relief Program. Of this amount \$678 million is for designated capital projects, \$171 million goes toward the State Transportation Improvement Plan, \$171 million is for local streets and road maintenance, and \$85 million goes to the public transportation account.
- The Budget proposes an increase of \$88 million over the 2000 Budget Act for local transit operations.
- New transit initiatives include \$98 million for track improvement projects on the San Joaquin, Surfliner, and Capitol Corridor routes; \$18 million for rural transit system grants; \$9.5 million to increase rail service frequency; and \$20.3 million for CalTrans to retrofit diesel vehicles to use cleaner burning fuels.

## ENVIRONMENTAL PROTECTION

The Budget includes a \$139.5 million General Fund increase for the California Environmental Protection Agency, including a \$100 million augmentation for beach clean-up, \$8.1 million to enforce storm water regulations to prevent unlawful discharges, and \$50 million for a program providing incentives for zero emission vehicle purchases.

## PUBLIC SAFETY

The Budget assumes that the inmate population within the California Department of Corrections will increase by 1.0 percent between June 30, 2001 and June 30, 2002. The Budget projects that parole population will grow 2.6 percent during the same period. Corrections spending is budgeted at \$4.8 billion, an increase of \$220.8 million over the revised 2000-01 Budget. Notable initiatives funded in the Budget include:

- \$7 million for grants to local law enforcement agencies to collect data on the race of persons stopped for traffic offenses.
- \$1.8 million and ten additional officers to expand farm labor vehicle inspection and safety certification statewide.

A more detailed summary is available on the Senate Budget and Fiscal Review Committee's web site at:

[http://www.sen.ca.gov/htbin/testbin/seninfo\\_dated?sen.committee.standing.bfr.reports](http://www.sen.ca.gov/htbin/testbin/seninfo_dated?sen.committee.standing.bfr.reports).