

GOVERNOR PROPOSES \$10.2 BILLION IN BUDGET ADJUSTMENTS

On Friday, December 6, Governor Gray Davis released \$10.2 billion in proposed spending reductions and other adjustments. The Governor's proposals include:

- \$2.038 billion in 2002-03 spending reductions;
- \$6.620 billion in 2003-04 spending reductions;
- \$815.6 million in fund shifts over the two-year period;
- \$699.7 million in transfers and other revenues over the two-year period;
- \$25.4 million in 2002-03 loans; and
- No increased taxes and modest fee increases.

The largest reductions are slated for transportation, education, and local government. The proposal also includes substantial cuts to state employee compensation costs and a reduction in contributions to an account that provides purchasing power protection for retired teachers' benefits. The following provides a cursory overview of the Governor's release. Future CBP analyses will examine these proposals, as well as those that will be made in the Governor's proposed 2003-04 Budget. Text of the Governor's release can be found at http://www.dof.ca.gov/HTML/BUD_DOCS/Bud_link.htm.

The Governor's release notes that "the anticipated recovery of the US and California economies has not yet materialized." The continued slowdown is expected to reduce General Fund revenues below anticipated levels, thereby widening the budget gap to an unknown magnitude.

HEALTH CARE

The Governor's proposal makes \$201.8 million in reductions in Department of Health Services (DHS) spending, including Medi-Cal funding reductions of \$167.5 million. The Governor proposes to:

- Reduce Medi-Cal provider rates by 10 percent effective April 1, 2003, for General Fund savings of \$90.4 million in 2002-03.
- Eliminate selected Medi-Cal optional benefits for adults over age 21, including dental services, medical supplies, podiatry, acupuncture, chiropractic services, psychology, independent rehabilitation centers, and occupational therapy. Eliminating these benefits, effective April 1, 2003, would result in General Fund savings of \$63.3 million in 2002-03.
- Reinstate Medi-Cal quarterly status reports effective April 1, 2003, for a savings of \$5 million General Fund in 2002-03 and \$85 million General Fund in 2003-04. Prior estimates suggest that an estimated 246,667 persons would lose health coverage during a full fiscal year if quarterly reporting were reinstated.
- Rescind expansion of 1931(b) Medi-Cal eligibility to families with income up to 100 percent of the federal poverty level, resulting in \$6.2 million in savings in 2002-03 and increasing savings in subsequent fiscal years. The Governor proposes to introduce legislation to rescind the expansion and limit eligibility to families with income up to approximately 61 percent of the federal poverty level effective April 1, 2003. Prior estimates suggest that an estimated 146,190 parents, mainly new applicants, would lose coverage by rescinding eligibility during a full fiscal year.

- Levy an assessment of 6.5 percent on intermediate care facilities for the developmentally disabled, resulting in revenues of \$5 million in the current year and \$20 million annually.
- Reduce funding for Medi-Cal and Healthy Families outreach activities by \$1.9 million in 2002-03.
- Revert \$25.8 million General Fund that was included in the 2001 Budget Act for Disproportionate Share Hospitals (DSH) but remains unspent due to lower than anticipated debt service payments.

The Governor also proposes various other spending reductions in the DHS, including:

- Reducing General Fund support for cancer research from \$12.5 million to \$6.2 million in 2002-03.
- Reducing Tobacco Settlement Fund (TSF) spending for prostate cancer treatment in 2002-03 from \$20 million to \$10 million. The resulting TSF savings will be transferred to the General Fund.

In addition, the Governor proposes to merge the Emergency Medical Services Authority (EMSA) into the DHS, effective July 1, 2003.

SOCIAL SERVICES

The Governor proposes to:

- Suspend the June 2003 CalWORKs cost-of-living adjustment (COLA) for a savings of \$12.2 million. The Governor also proposes to suspend the statutory October 2003 COLA.
- Suspend the June 2003 SSI/SSP COLA for General Fund savings of \$22.3 million. The Governor also proposes to suspend the January 2004 COLA.

CHILD CARE

The Governor's proposals:

- Eliminate CalWORKs Stage 3 child care as of April 1, 2003, for a savings of \$98.8 million. Eligible recipients would receive child care while on aid and for two years after leaving aid, for a maximum of seven years.
- Eliminate the Child Development Policy Advisory Committee effective July 1, 2003, for a savings of \$367,000 in 2003-04.

K-14 EDUCATION

Due to a decline in expected General Fund revenues, the 2002-03 Proposition 98 funding guarantee for K-12 education and the California Community Colleges (CCC) has dropped. In light of this, the Governor proposes \$1.7 billion in reductions to 2002-03 General Fund K-14 Proposition 98 appropriations. Of this amount, \$1.5 billion comes from K-12 education, \$135 million from the CCC, and \$143 million from eliminating the Proposition 98 set-aside reserve. The Governor proposes specific reductions including \$1.1 billion for across-the-board reductions in aid to local schools and the CCC. The Governor also proposes deferring \$870

million in payments of claims for state mandates in 2003-04. Community colleges would not receive a backfill for a \$37.5 million drop in estimated property tax revenues under the Governor's proposal. The Governor would ease restrictions on the use of districts' reserve funds and provide additional flexibility in categorical program funding to help districts cope with the cuts.

UC/CSU

The Governor's proposal includes reducing 2002-03 General Fund support for the University of California (UC) by \$74.3 million, including \$19 million in unallocated reductions; \$3.3 million in outreach reductions; and \$18 million in savings from research programs including the Multi-Campus Unit for Labor Studies research. The Governor proposes \$59.6 million in unallocated reductions to 2002-03 General Fund support for the California State University (CSU).

STATE OPERATIONS/EMPLOYEE COMPENSATION

The Governor proposes to reduce the state General Fund contribution to the State Teachers' Retirement Fund by \$500 million in 2003-04. This proposal includes a statutory commitment to restore funding if long-term purchasing power protection is threatened. The Governor proposes a \$470 million reduction in state employee compensation in 2003-04. According to the proposal, possible actions to reach this total include deferring scheduled salary increases, lowering future salary or benefit expenditures, layoffs, and furloughs. The proposal directs the Department of Personnel Administration to negotiate this reduction.

The Governor also proposes \$320.8 million in reductions in state operations in the current year, partly in response to the 2002-03 Budget directive to reduce state operations by \$750 million. According to the release, possible actions to reach this total include eliminations and reductions of departments and programs, program funding shifts, cuts and eliminations in non-essential operating expenses such as out-of-state travel, federal funding increases, and prior year savings. The Governor proposes to reduce state employment by 257.7 personnel years (PYs).

TRANSPORTATION

The Governor proposes transportation spending reductions of \$1.8 billion. Of this amount, \$1 billion comes from suspending the transfer of the proceeds of sales taxes on vehicle fuels to the Transportation Investment Fund authorized by Proposition 42, which was approved by the voters in March. Suspension of the transfer requires the Governor to issue a proclamation that declares that the transfer would result in "a significant negative fiscal impact on the range of functions of government funded by the General Fund of the State" and passage of a measure suspending the transfer by a two-thirds vote of the Legislature. Other transportation reductions include a \$100 million reduction in funding for the Traffic Congestion Relief Fund (TCRF); forgiveness of a \$500 million payment due in 2003-04 from past loans from the TCRF to the General Fund; deferral of a \$50 million loan payment to the State Highway Account (SHA); and elimination of an estimated \$90 million in local street and road funding through the SHA.

HOUSING

The Governor's proposal reduces funding for the Department of Housing and Community Development, which has experienced significant reductions since its historically high allocation of half a billion dollars in 2000-01, by \$38.1 million. The reductions include a shift of \$11 million in farmworker housing grant funding to bond funds. The reductions are in addition to \$8 million in transfers to the General Fund linked to the passage of Proposition 46 in the November 2002 election.

LOCAL GOVERNMENT

The Governor proposes to continue the suspension of payment for various reimbursable non-Proposition 98 mandates in the budget year, for a savings of \$769.4 million in 2003-04. Other major provisions include a proposal to transfer an estimated \$500 million in balances in Community Redevelopment Agencies' unspent Low and Moderate Income Housing Funds (LMIHF) to the state. These funds are local property tax dollars that redevelopment agencies are required to spend on building, rehabilitating, and preserving low- and moderate-income housing.

TECHNOLOGY, TRADE, AND COMMERCE AGENCY (TTCA)

The Governor proposes \$13.5 million in reductions to the TTCA, whose General Fund budget was reduced by nearly half in the 2002-03 Budget. As enacted, the 2002-03 Budget funded the TTCA at \$42 million.

RESOURCES AND ENVIRONMENTAL PROTECTION

The Governor proposes to:

- Raise state park fees by up to \$12, including day use, museum, and camping fees. This would generate approximately \$4.5 million in 2002-03.
- Make various changes to a number of departments and boards, including reducing funding for the Department of Toxic Substances Control by \$4.1 million General Fund. This funding is used for off-highway emergency response actions and the development of guidelines and training regarding removal of illegal drug laboratories.

OTHER REDUCTIONS

The Governor also proposes the following reductions in other departments:

- Department of Aging: Reduce spending by \$2.5 million in various programs, including eliminating funding for the Brown Bag Program as of April 1, 2003, saving \$180,000 General Fund. This program provides surplus fruits, vegetables, and other unsold food products to low-income elderly individuals.
- Department of Alcohol and Drug Programs: Reduce spending by \$1.5 million, including a \$1 million General Fund reduction for various non-Medi-Cal alcohol and drug services programs.

- Department of Mental Health: Reduce spending by \$4.8 million, including eliminating Early Mental Health Services.
- Department of Rehabilitation: Reduce General Fund spending by \$21.8 million, in part by consolidating the Habilitation Services Program within the Regional Centers for savings of \$2.2 million in 2003-04.
- Department of Community Services and Development: Eliminate General Fund support for the Naturalization Service and Mentoring Programs effective July 1, 2003.