

Betting on a Brighter Future: The Social and Economic Context of the Governor's Proposed 2002-03 Budget

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Major Findings

- ▶ While traditional measures of economic well-being made substantial improvement at the end of the last decade, the number of California families that are working, but poor, increased over the decade.
- ▶ The state's substantial budget shortfall results from a sharp drop in revenues attributable to the economy and, specifically, the slump in the stock market. Tax cuts enacted over the past decade reduced 2001-02 revenues by more than \$7.5 billion, adding to the budget gap.
- ▶ The Governor has proposed a two-year package of "gap bridging" measures, including \$2.4 billion in current year spending reductions.
- ▶ The Budget minimizes the use of spending reductions to balance the budget and makes a serious effort to preserve funding for core state services. However, the reliance on borrowing and one-time measures means that substantial deficits are likely to emerge in future years.
- ▶ Moreover, many of the "gap bridging" proposals are likely to increase state costs and/or reduce future revenues.

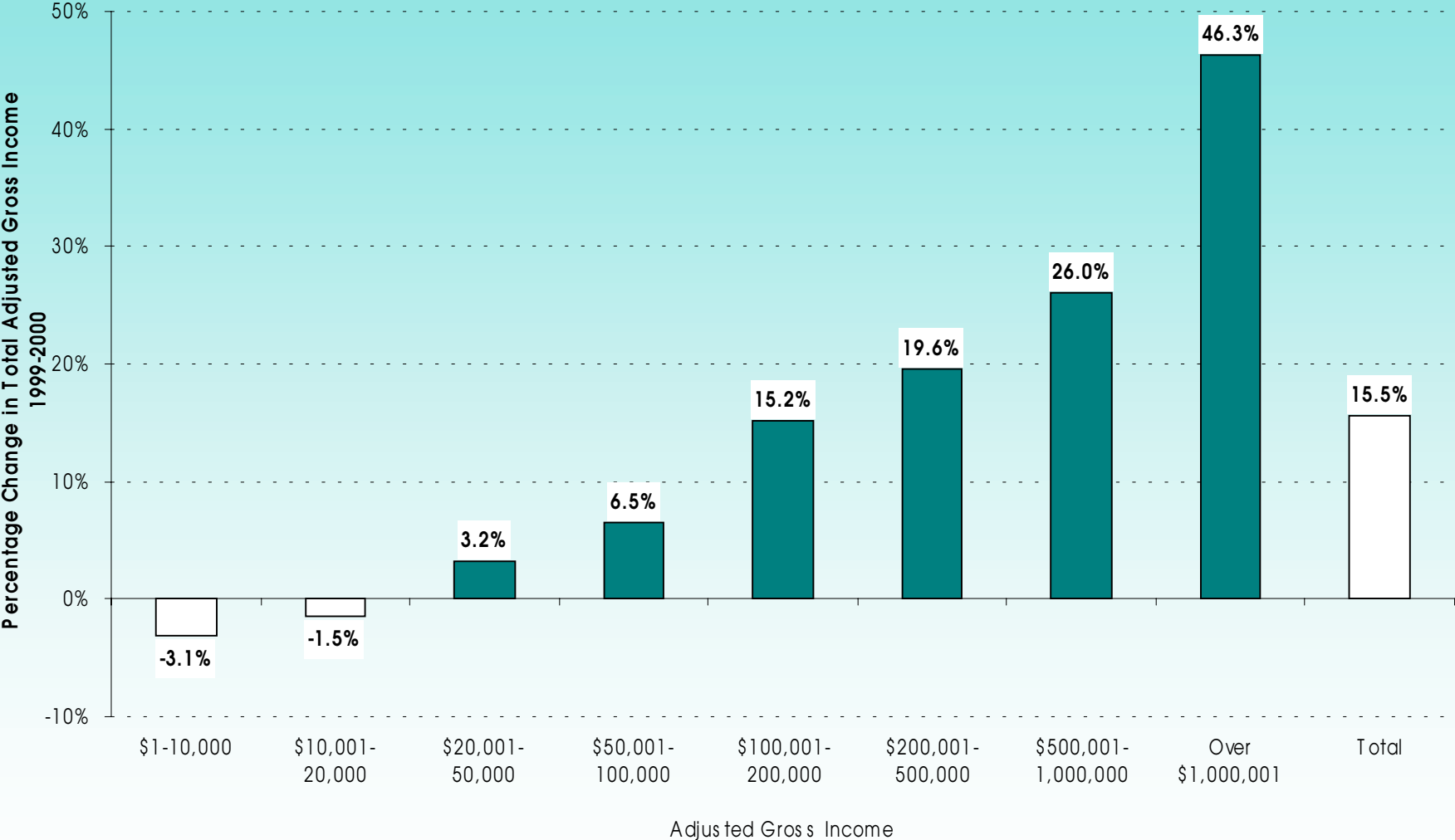
What Are the Major Policy Issues Confronting California?

- ▶ How does the Budget address both the state's short-term cyclical and longer term structural deficits? How does the Proposed Budget position California, not only for the year ahead, but also for the future?
- ▶ What will the downturn in the economy mean for low and middle income Californians? How should the state help those who have lost their jobs or otherwise suffered from the recession? Is the state doing all that it can to maximize opportunities for all Californians?
- ▶ Does California's tax system provide sufficient resources to meet the state's diverse and growing needs?
- ▶ What impact will federal tax and budget policies have on California?

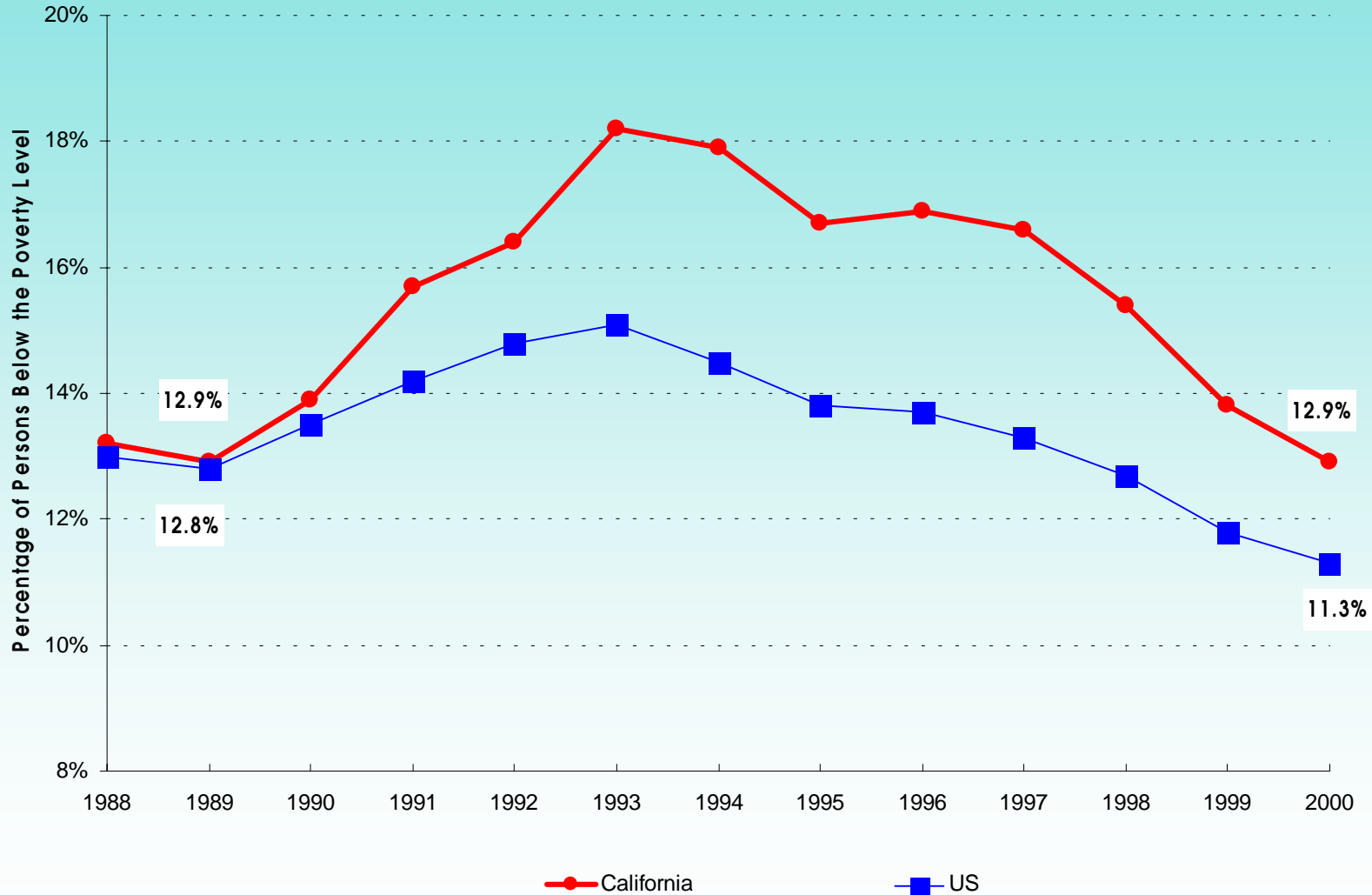
The Gains from the Economic Expansion of the Late 1990s Were Not Broadly Shared

- ▶ The expansion that ended early last year finally began to pay off at the end of the decade:
 - California's 2000 poverty rate dropped to where it was in 1989, the peak of the last expansion. However, during the same period the national rate dropped 1.5 percentage points below its 1989 level.
 - 2000 median household income surpassed 1989 levels (\$46,802 as compared to \$44,512, in 2000 dollars).
- ▶ However, the number of working poor increased during the recession and has not returned to pre-recession levels. In 2000, over 1.8 million of California's working families had incomes below 200 percent of the poverty line (\$35,300 for a family of four in 2001).
- ▶ Latino families are disproportionately represented among the working poor and near poor. During the late 1990s, 59.6 percent of the state's working poor families were Latino, along with 50.7 percent of working families with incomes between 100 and 200 percent of the federal poverty line. In contrast, Latino headed families accounted for 25.0 percent of the state's working families.
- ▶ Hourly wages declined for workers at the low (20th percentile) and middle (50th percentile) of the earnings distribution between 1989 and 2000, after adjusting for inflation.
- ▶ The current downturn will likely slow the gains made in recent years and increase the economic vulnerability of millions of low income Californians.

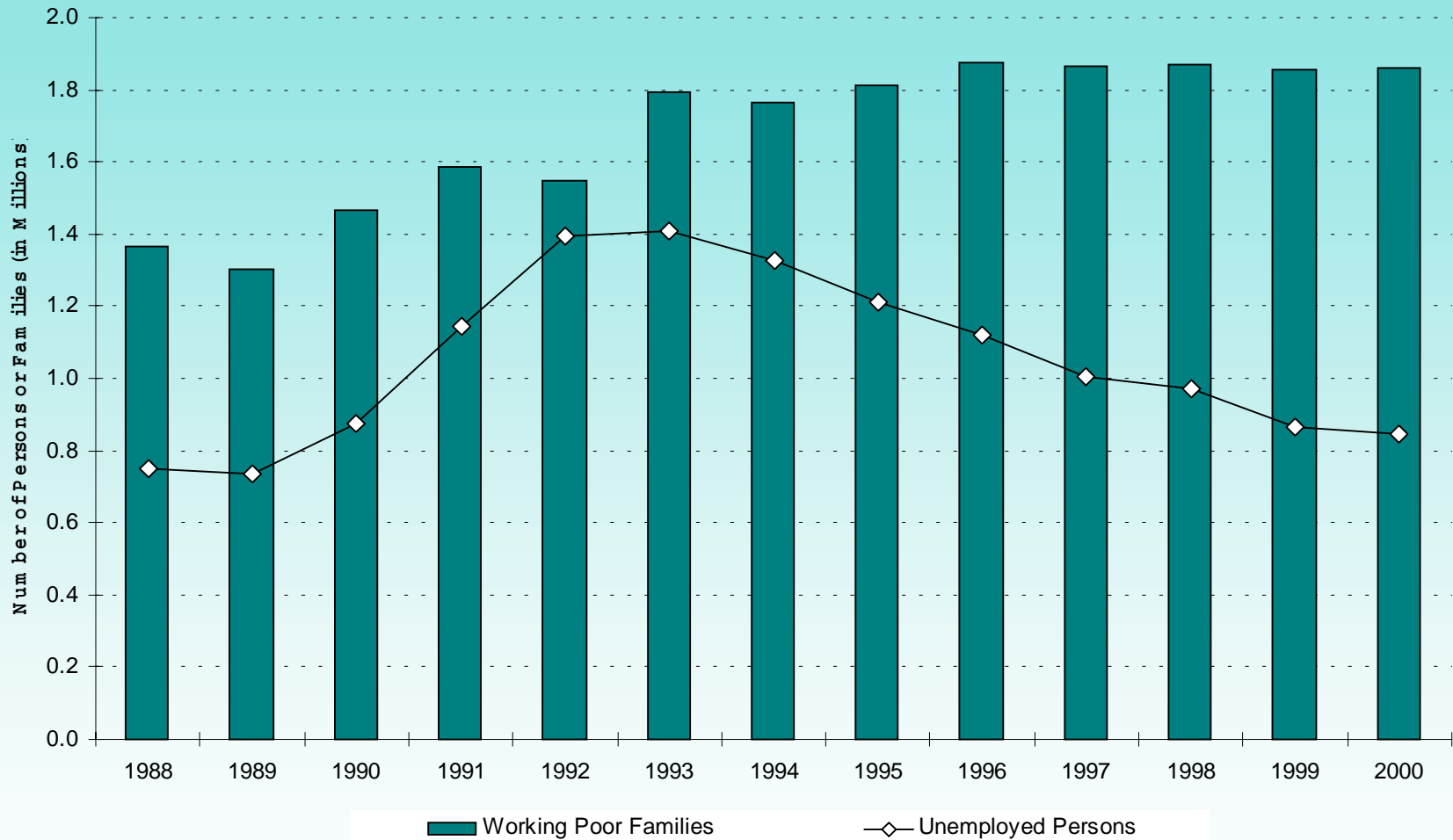
Income Growth is Strongest at the Top



California's Poverty Rate Remains Higher Than That of the Nation

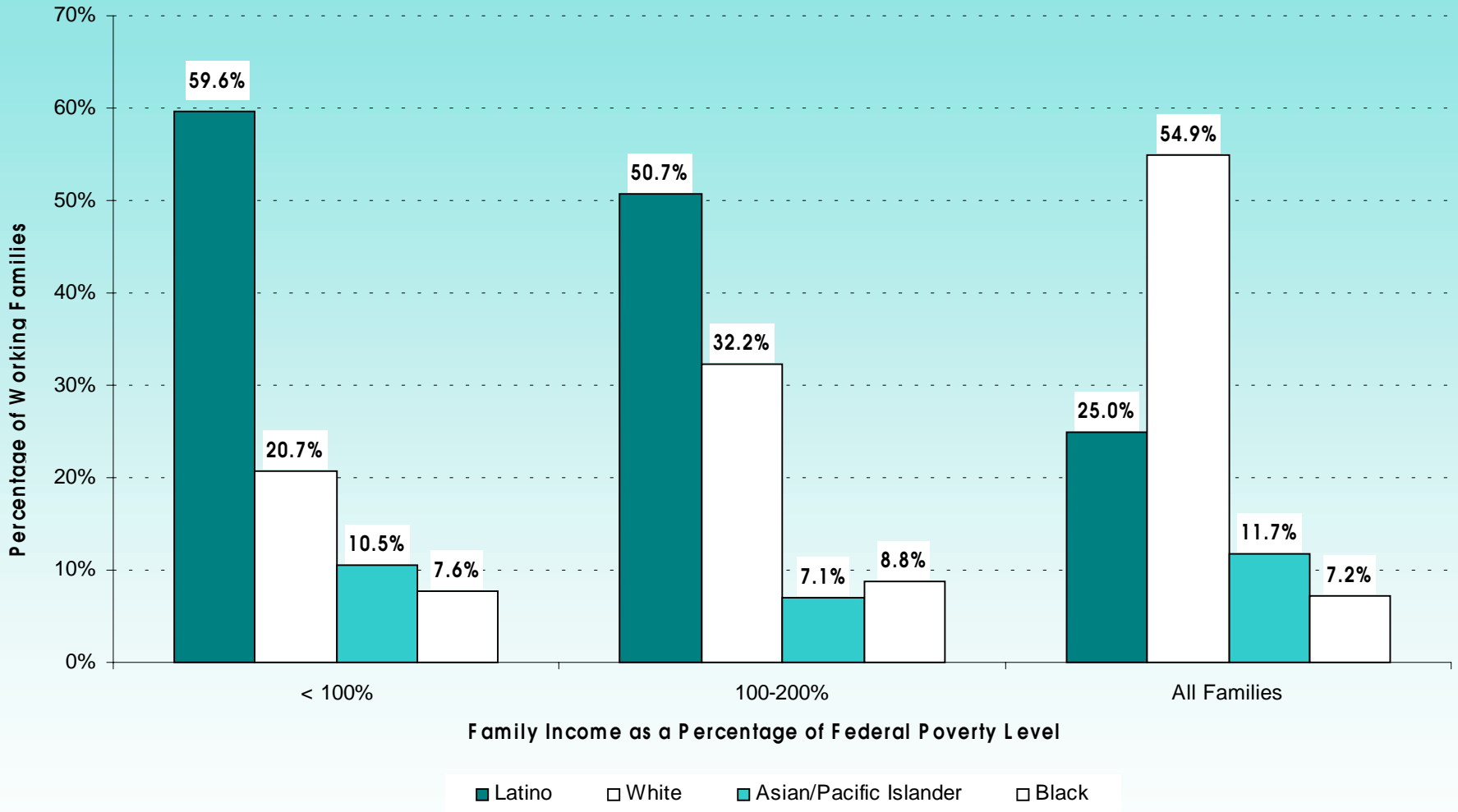


Economic Boom Did Not Reduce Number of Working Poor



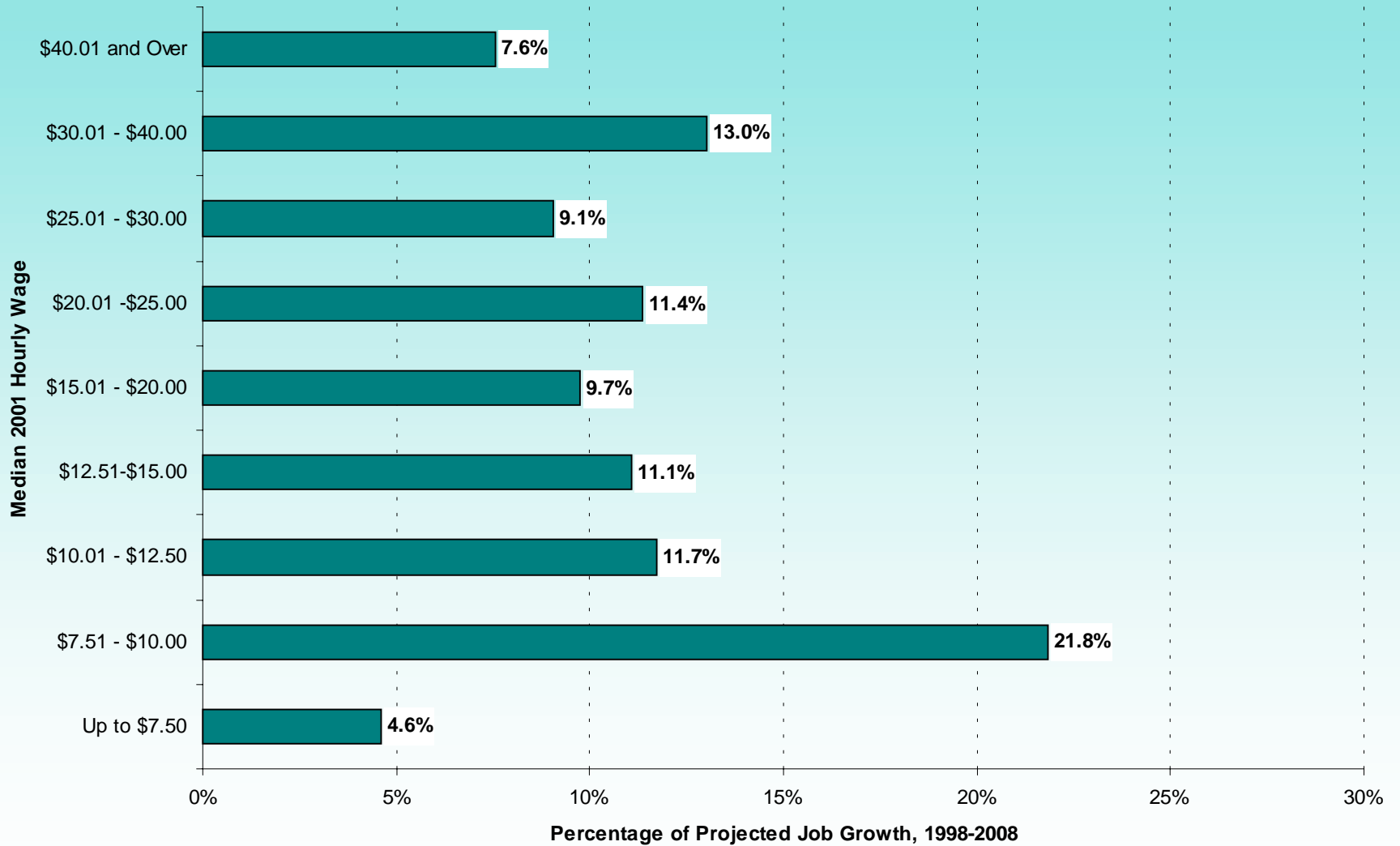
Note: Working Poor Families include only those with incomes of up to 200 percent of the federal poverty level, at least one adult between the ages of 25 and 64, and at least one adult without an illness or disability that prevents him or her from working.

Working Poor Families Are More Likely to be Latino

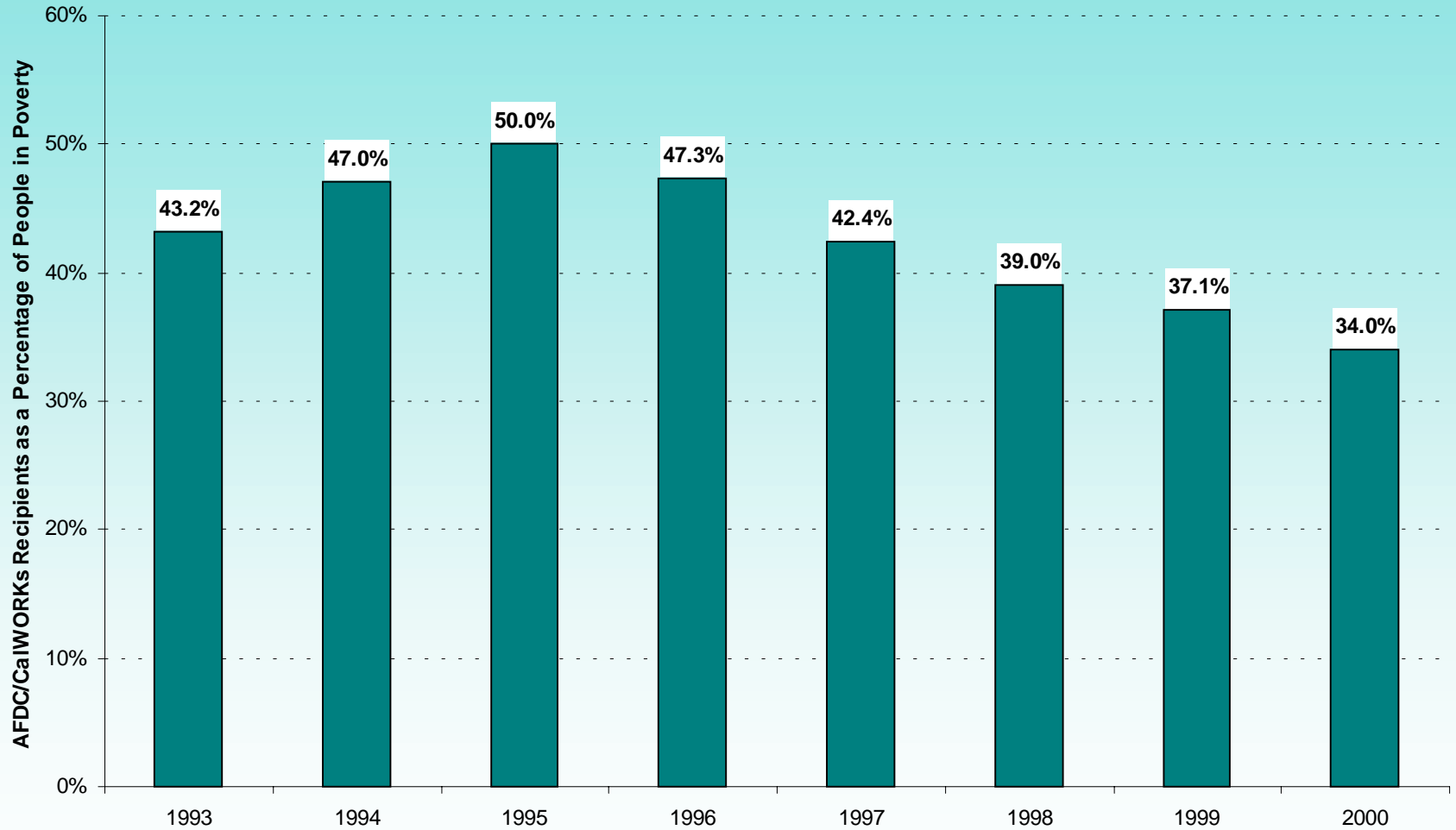


Note: Includes only working families with at least one adult between the ages of 25 and 64 and at least one adult without an illness or disability that prevents him or her from working.

Most Job Growth in California is in Relatively Low-Wage Occupations



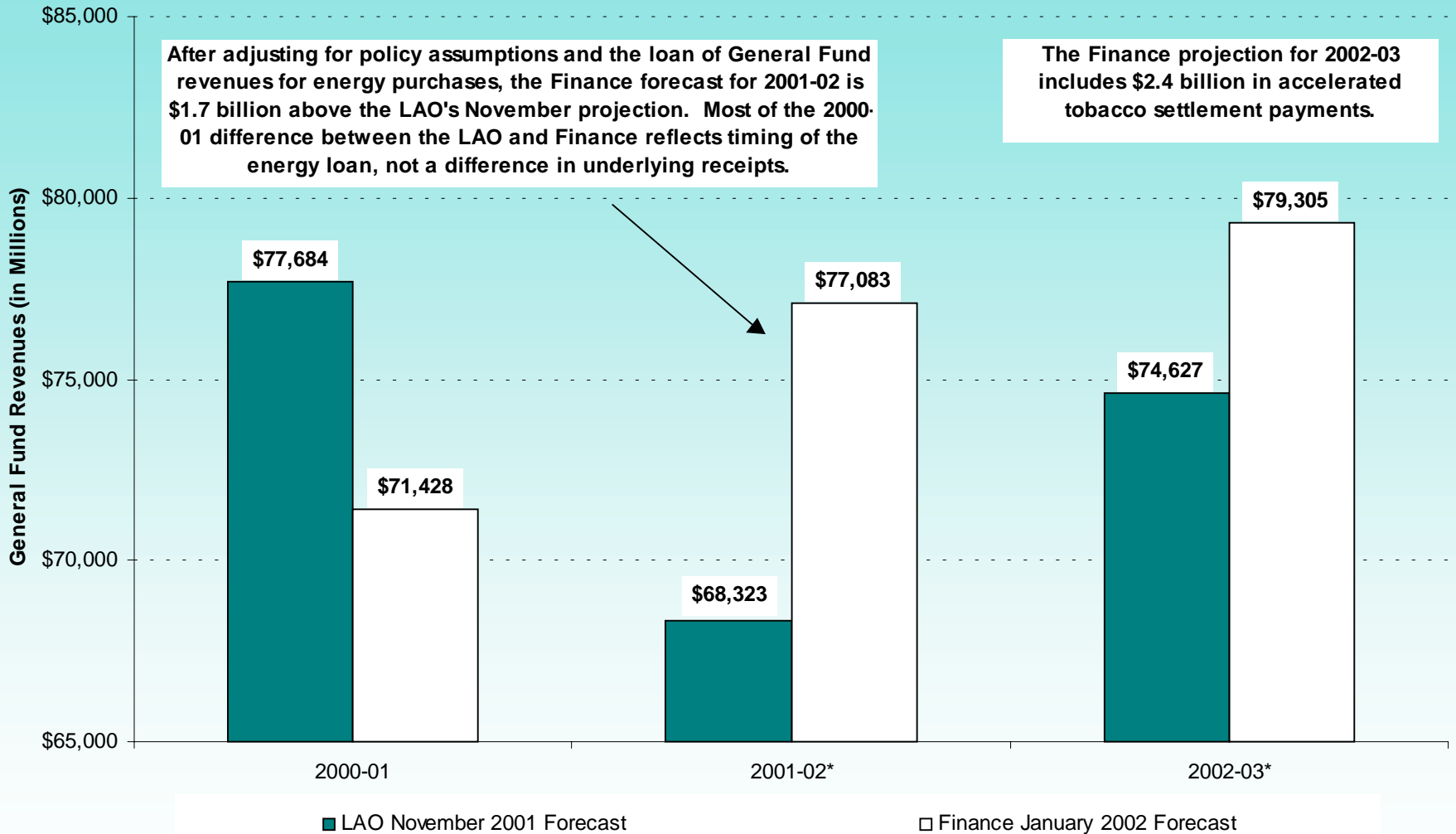
People in Poverty Are Less Likely to Receive Cash Assistance



The Proposed Budget Assumes Modest Economic Growth

- ▶ The basic economic assumptions underlying the Governor's Budget are similar to those in the November forecast prepared by the Legislative Analyst's Office (LAO). Where they differ, the Governor's outlook tends to be more conservative, with smaller near-term employment and personal income gains. Both forecast a relatively mild recession through mid-2002 and then an economic rebound.
- ▶ The Governor's Budget forecasts wage and salary employment growth of 0.3 percent in 2002, personal income growth of 2.6 percent, and taxable sales growth of 0.8 percent. For 2003, the Governor's Budget assumes job gains of 2.4 percent and a 7.5 percent increase in both personal income and taxable sales.
- ▶ In at least one important area – projected personal income taxes (PIT) from stock market-related activity – the Governor's Budget is more optimistic than the LAO. While the Governor's Budget assumes a 47 percent drop in revenues from stock option income and capital gains between 2000 and 2001, the LAO's November forecast assumed a decline of 60 percent. In comparison to the LAO's forecast, the Governor's Budget may overestimate PIT revenues by \$2 billion in 2001-02 and \$1.3 billion in 2002-03. Moreover, the LAO warns that the revenue situation could worsen significantly "...if recent negative collection trends continue."
- ▶ The Governor's Budget identifies several potential risks to its forecast, including "a sharp retrenchment by consumers [and] a deepening and extension of the high-tech recession." The LAO's list of risks to its recovery forecast also include potential ongoing economic effects of the September 11 terrorist attacks and a potential "stagnation or further decline" in the stock market.

Governor's Revenue Forecast Substantially More Optimistic Than the Legislative Analyst's November Estimate

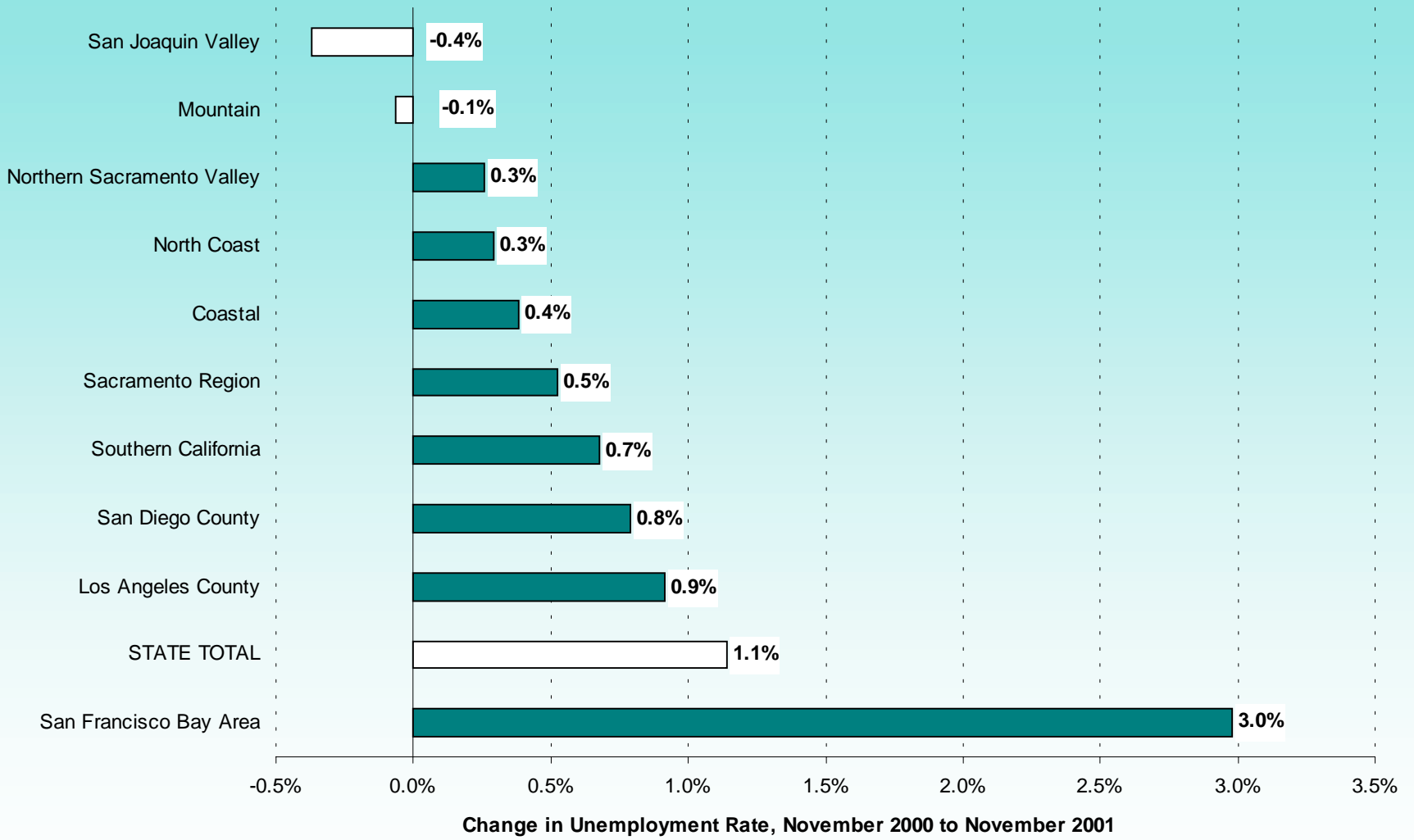


After adjusting for policy assumptions and the loan of General Fund revenues for energy purchases, the Finance forecast for 2001-02 is \$1.7 billion above the LAO's November projection. Most of the 2000-01 difference between the LAO and Finance reflects timing of the energy loan, not a difference in underlying receipts.

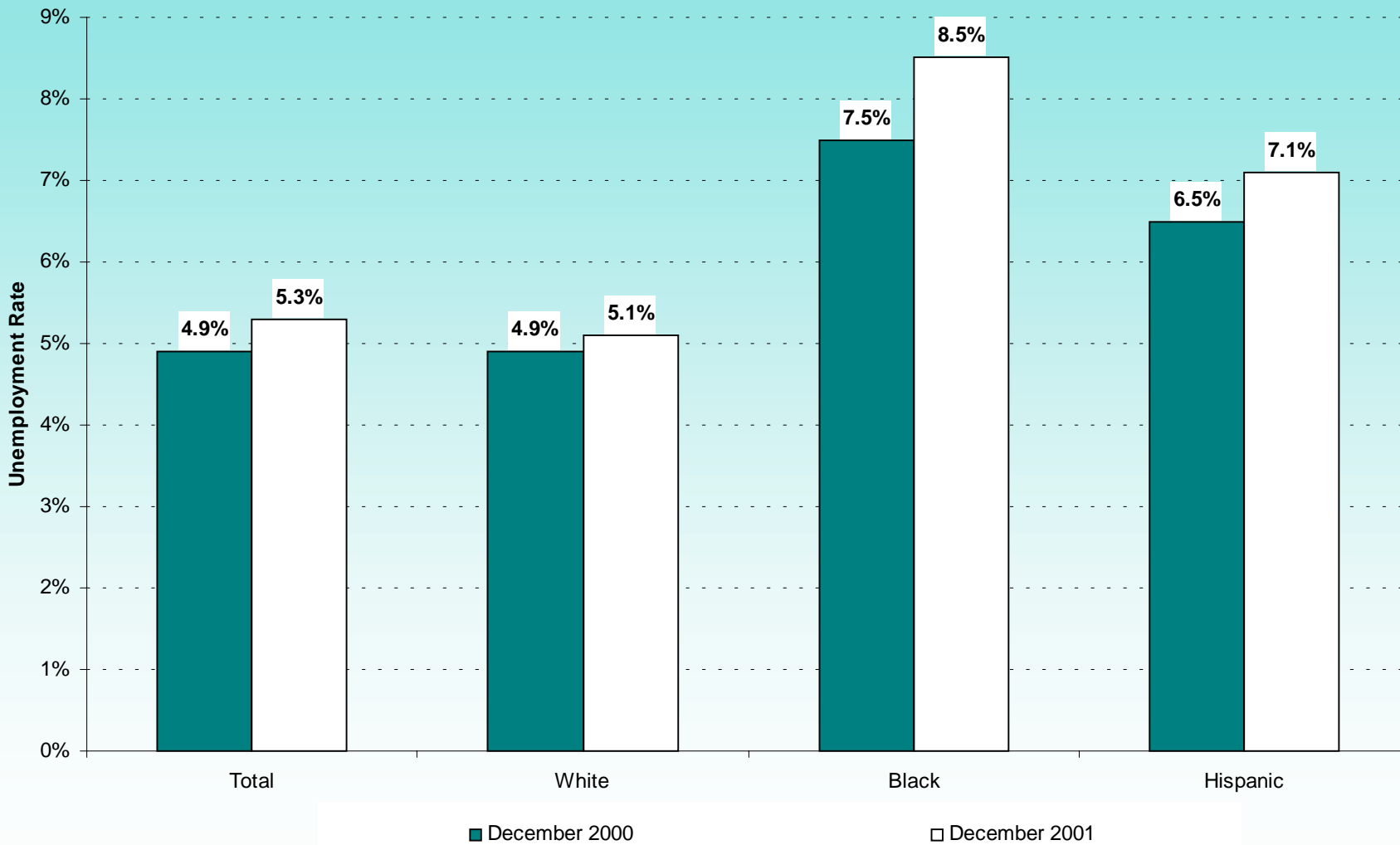
The Finance projection for 2002-03 includes \$2.4 billion in accelerated tobacco settlement payments.

*Estimated.

Unemployment Increase Greatest in the Bay Area



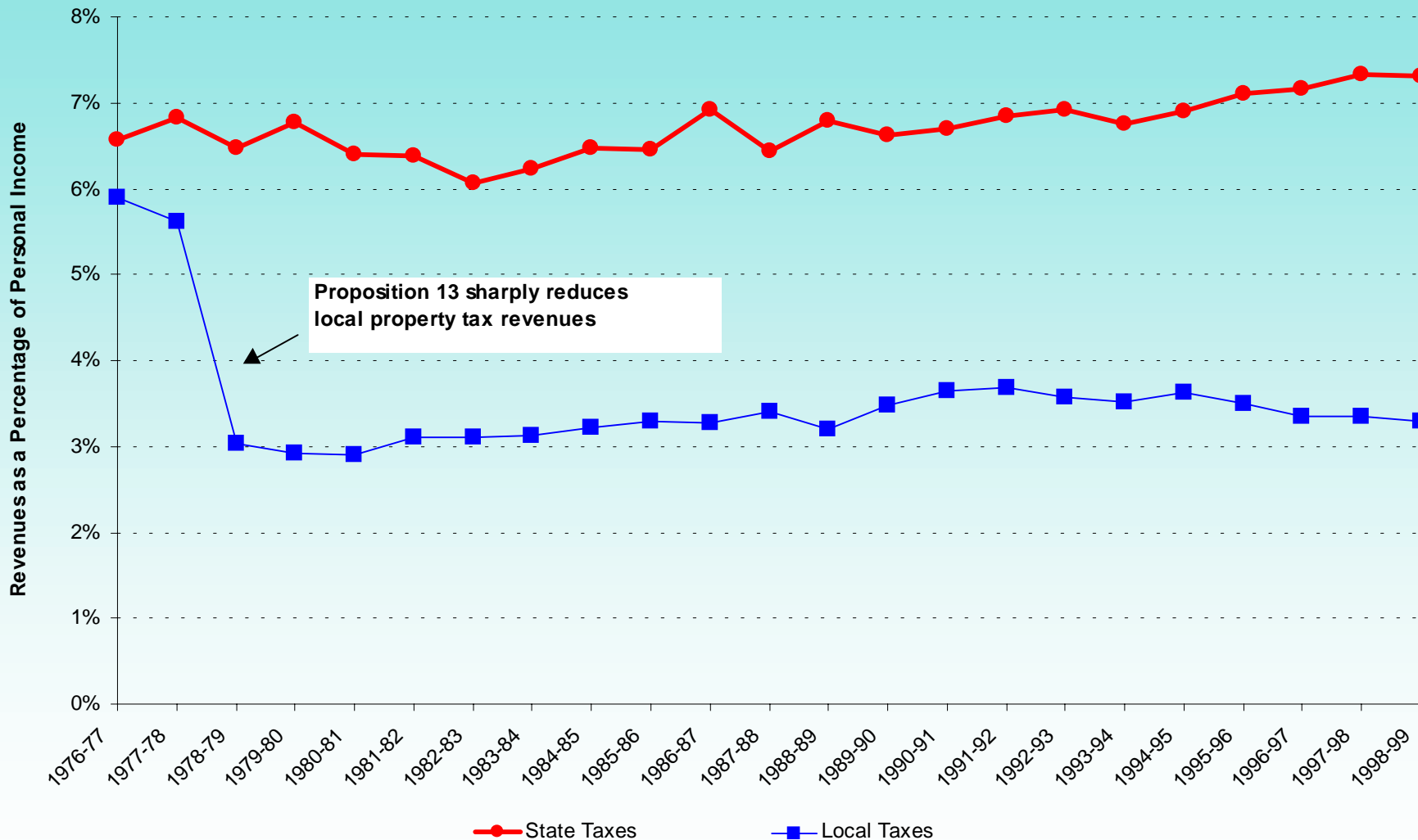
The Rise in 2001 Unemployment is Higher for Black and Hispanic Workers



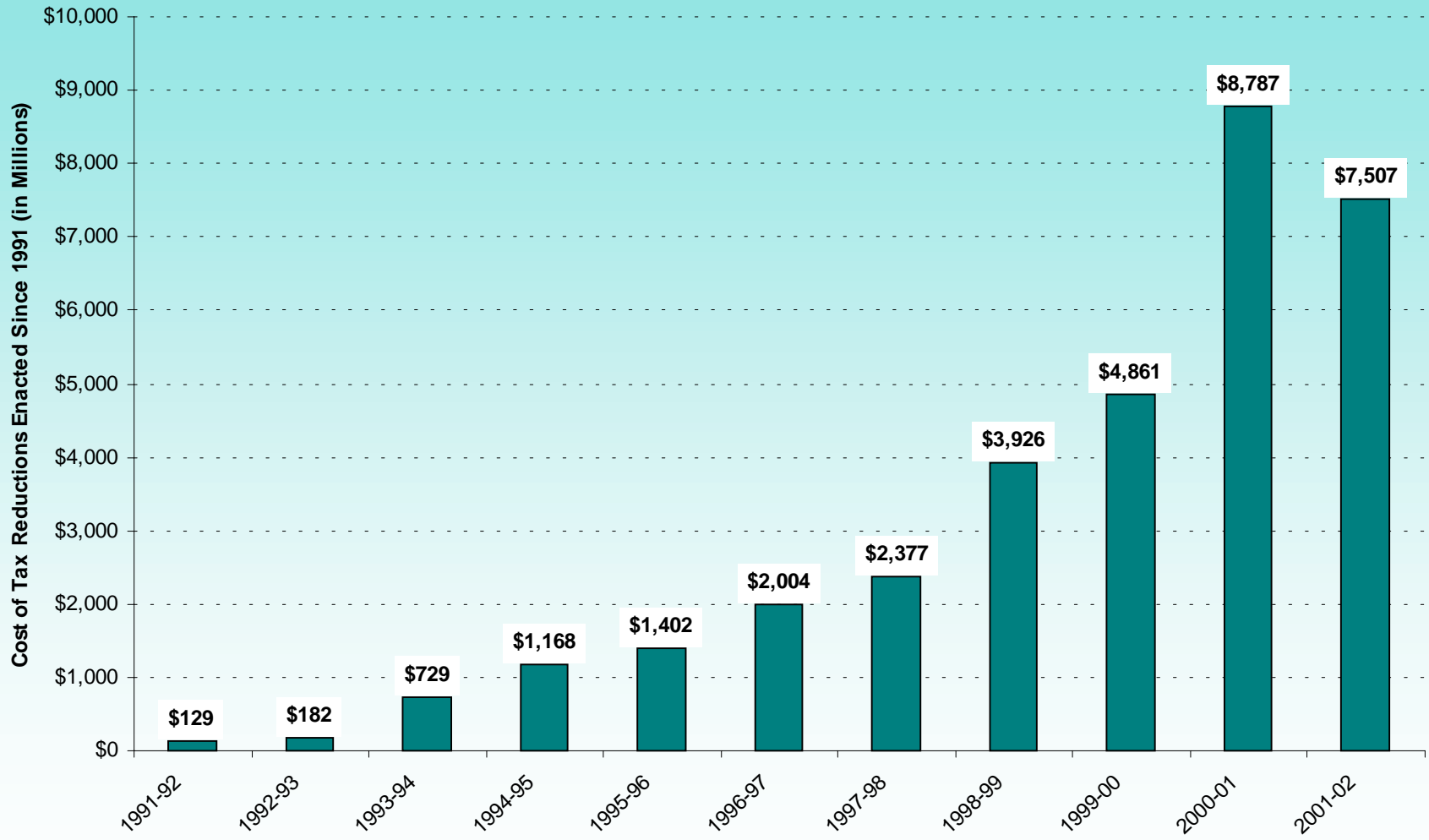
California's Budget Faces a Short Term Cyclical Problem and a Long Term Structural Problem

- ▶ The state's fiscal problems have both a short and long term component. The short term component is due to the downturn in the economy and, in particular, the drop in the stock market, while the long term problem stems from an imbalance between state revenues and expenditures.
- ▶ According to the Legislative Analyst's November long term forecast report, the state would experience operating deficits (that is, expenditures would exceed revenues) through 2006-07 based on current policies. The ongoing reductions proposed by the Governor in November and January will shrink the gap, while measures that increase future costs and/or decrease future revenues will widen the gap.
- ▶ A portion of the current gap is attributable to the large volume of tax reductions enacted over the past decade. Tax cuts enacted since 1991-92 reduced 2001-02 revenues by more than \$7.5 billion.
- ▶ California's current fiscal problems are not new and are not unique. The state has run operating deficits in 13 of the past 24 years.
- ▶ Factors driving demands on state services include population growth, the state's large low income population, an increase in the number of elderly Californians, and the state's aging infrastructure. While K-12 enrollment growth is expected to slow in the next several years, age trends will increase demands on California's higher education system. During the late 1990s, spending increased in a number of areas to restore reductions made during the tough budget years of the early 1990s.

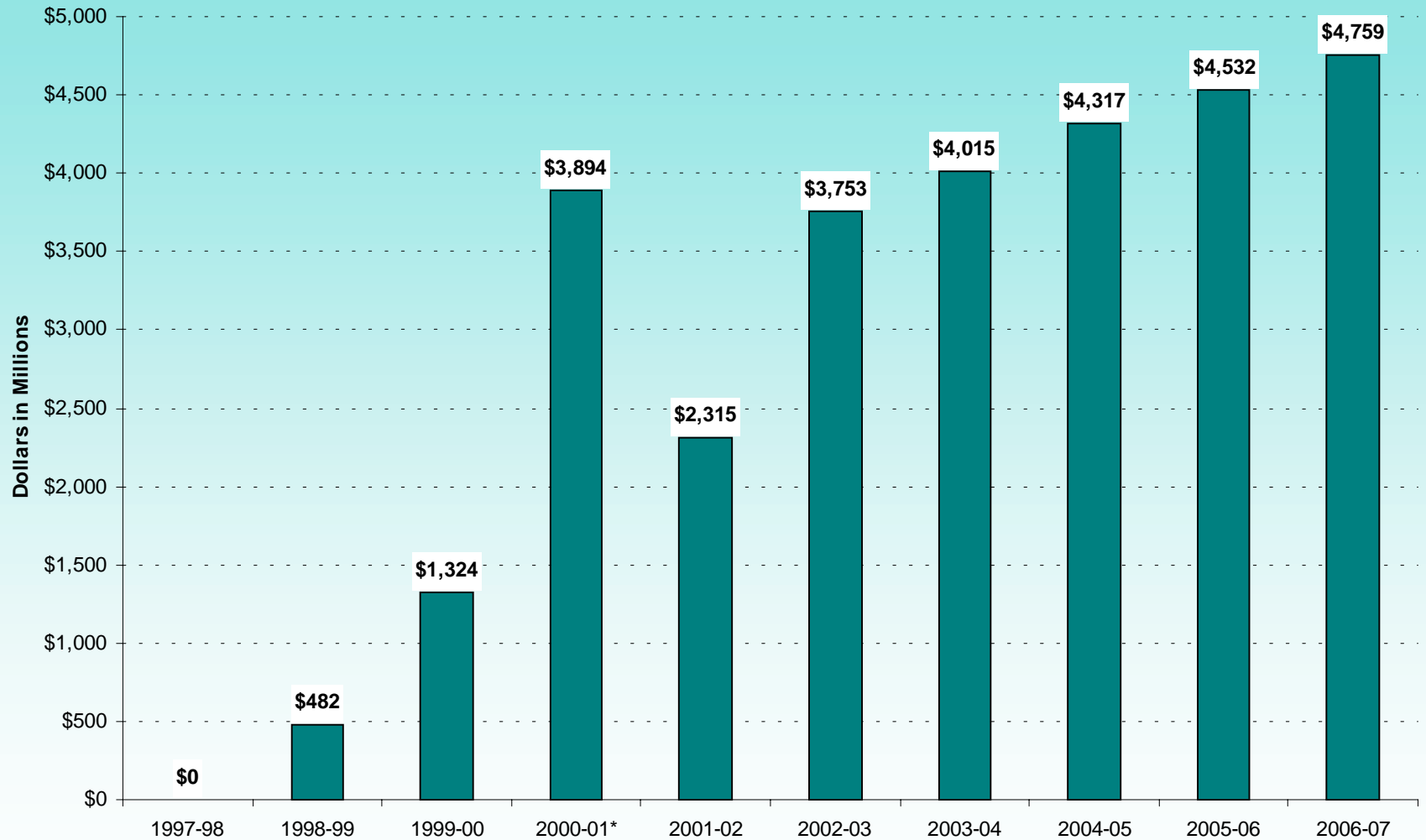
In the 1990s, Strong State Tax Revenue Growth Drove State and Local Finances



State Will Lose \$7.5 Billion in 2001-02 Due to Tax Cuts Enacted Over the Past Decade



Cost of VLF Backfill to Rise Substantially in 2002-03

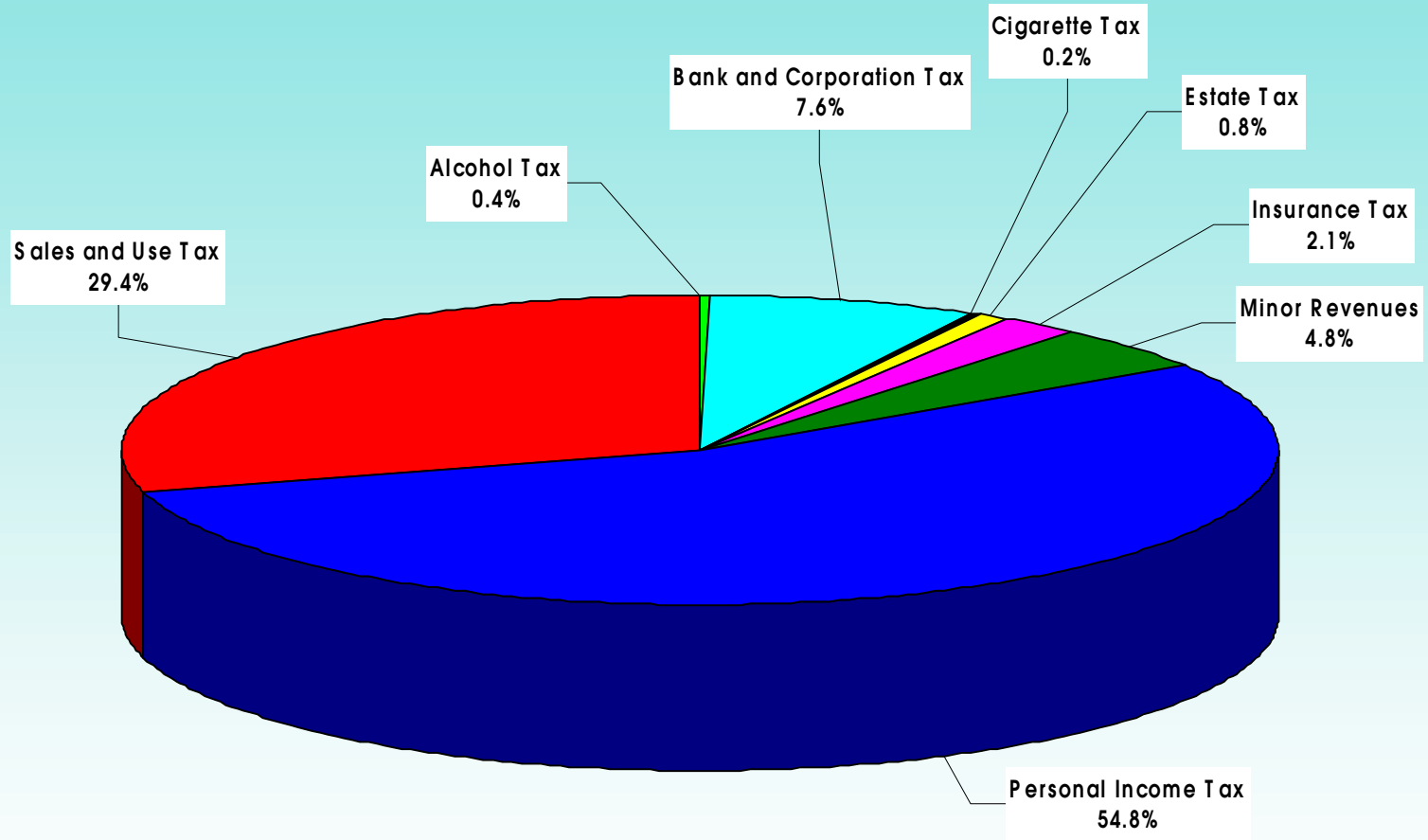


*2000-01 includes \$1.223 billion of the 2001-02 cost.

The Basics: Little Change in Total Spending

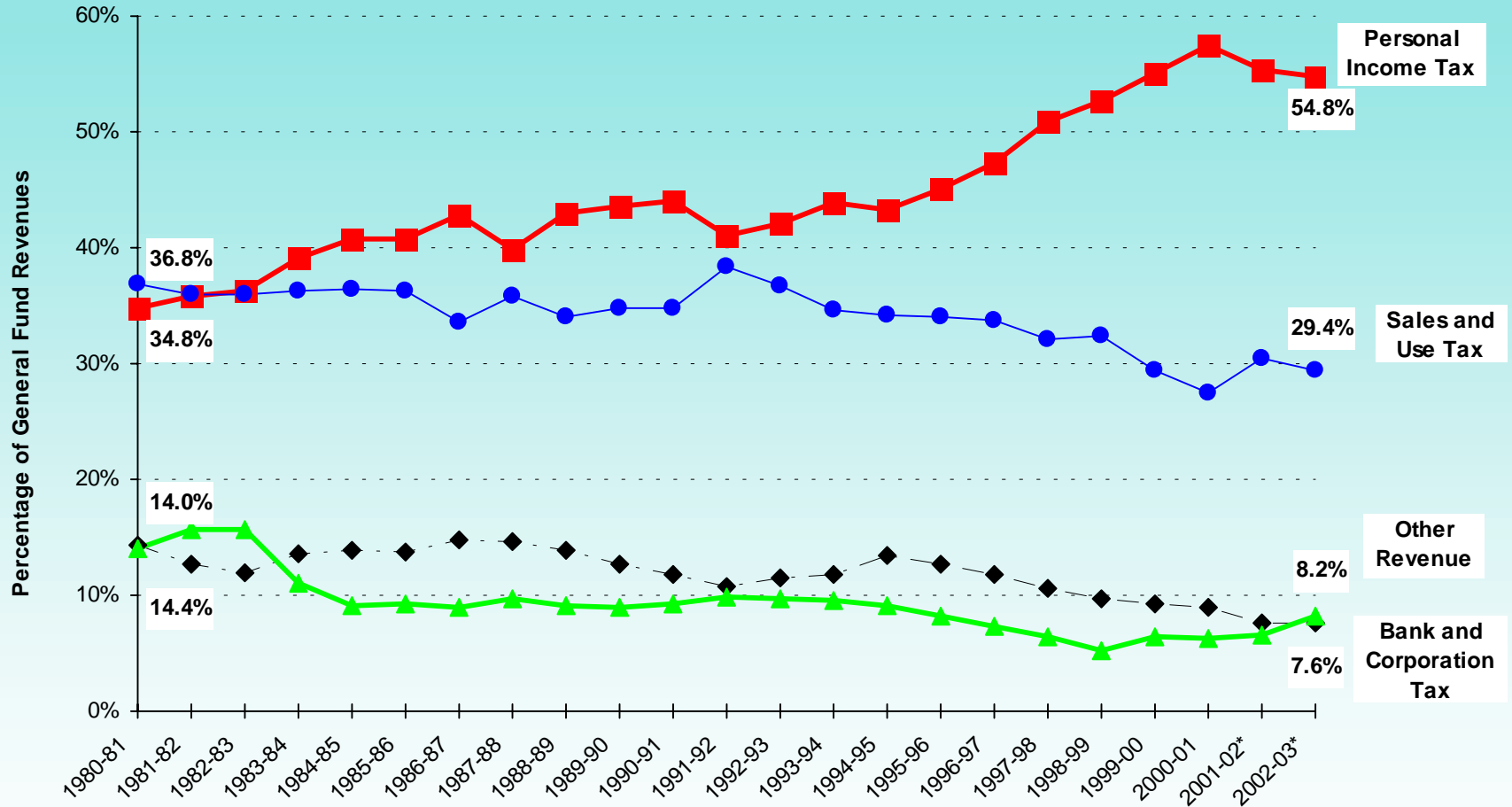
- ▶ The Proposed Budget, which includes both current (2001-02) and budget (2002-03) year spending reductions, outlines a two-year solution to the state's fiscal crisis. In order to reflect the changes made in the current year, as well as those proposed for the budget year, this analysis compares 2002-03 revenues and expenditures to the levels in the 2001-02 Budget as signed into law in July, rather than as modified by mid-year spending cuts and revenue forecasts.
- ▶ A primary contributing factor to the current \$12.5 billion deficit is the sharp decline in tax collections attributable to capital gains and stock options, which dropped from a peak of \$17.7 billion in 2000-01 to an estimated \$9.5 billion in 2001-02.
- ▶ The Proposed Budget increases General Fund spending by \$43 million, or 0.1 percent, as compared to the 2001-02 spending plan signed into law by the Governor in July. Although significant reductions are proposed in Health and Human Services, K-12, and Higher Education programs, the cuts are roughly proportional to these agencies' share of General Fund increases over the past several years.
- ▶ Spending reductions make up less than half (41 percent) of the Governor's plan to fill the \$12.5 billion gap in funding. The Governor's proposal fills the rest of the gap through a combination of fund shifts, anticipated federal funding increases, and a series of loans, accelerations, and transfers.
- ▶ The Budget includes a reserve of \$511 million (0.6 percent of proposed expenditures).

Personal Income Tax Provides Over Half of 2002-03 General Fund Revenues



Projected 2002-03 General Fund Revenues = \$77.7 Billion

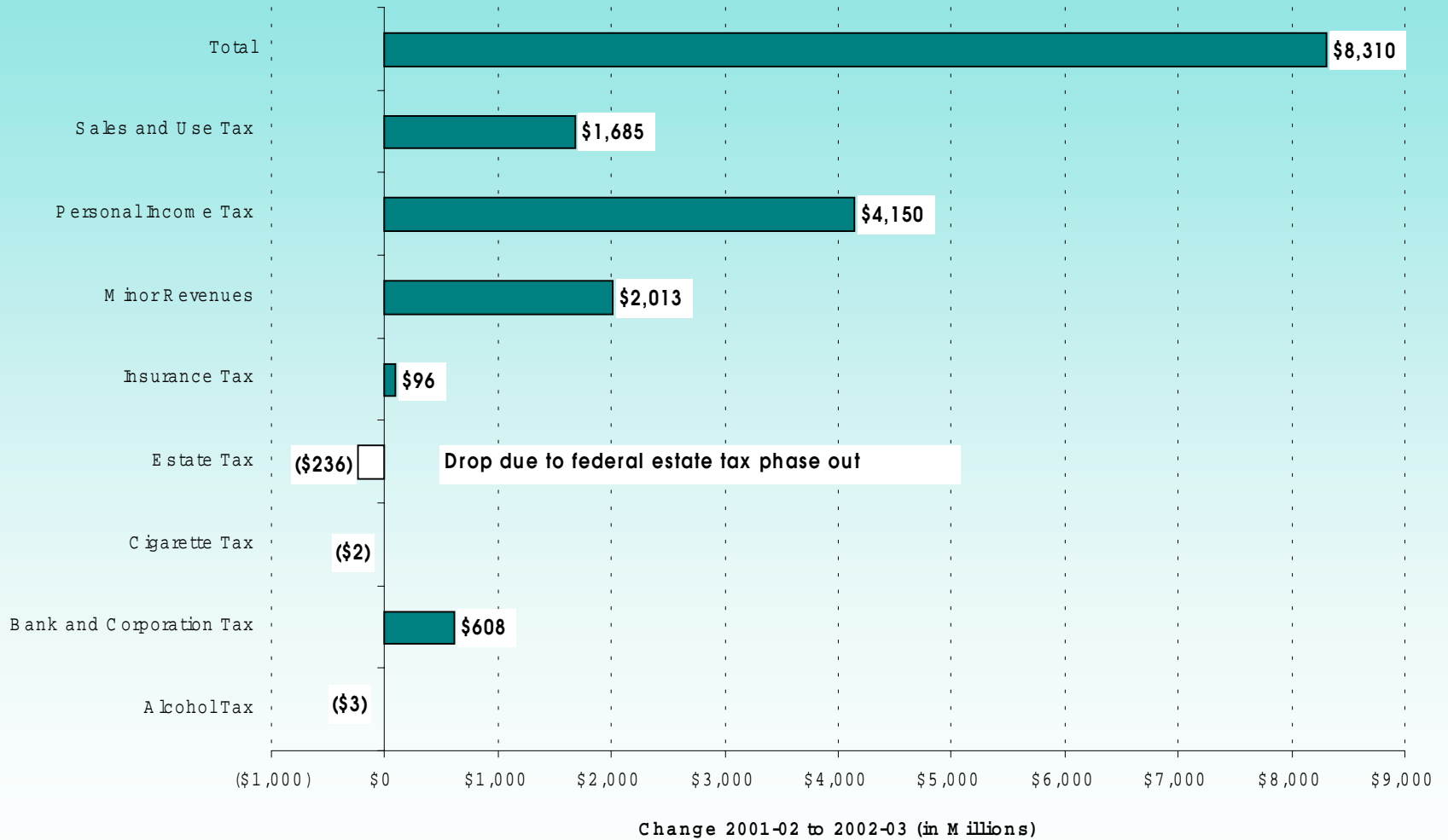
Personal Income Tax Provides the Largest Share of State General Fund Revenues



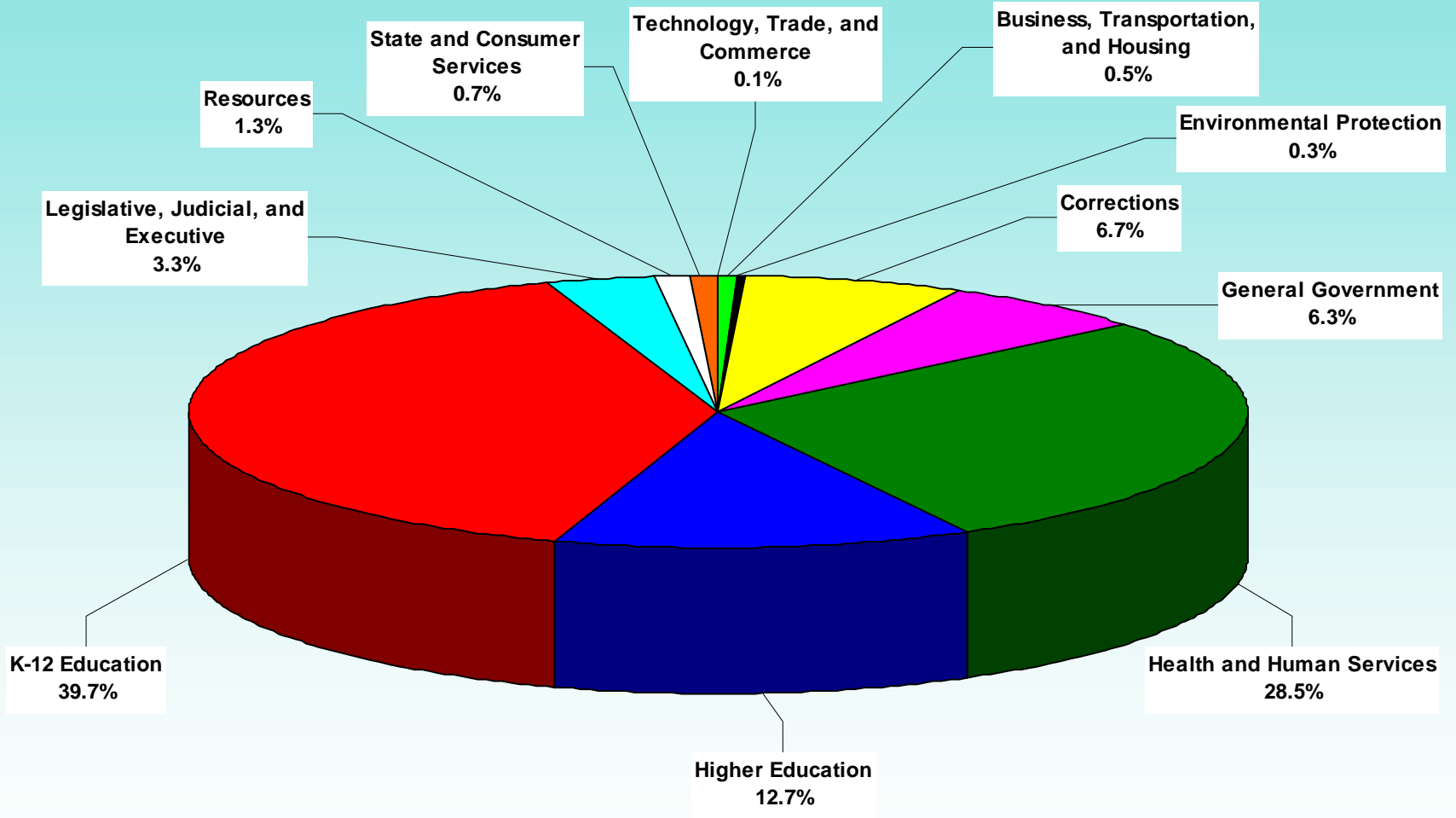
*2001-02 and 2002-03 are estimates.

Note: Other Revenue includes Alcoholic Beverage Tax, Cigarette Tax, Horse Racing License Fees, Estate Tax, Insurance Tax, Trailer Coach License Fees, Minor Revenues, Transfers, and Loans.

Budget Year Revenues Are Expected to Increase

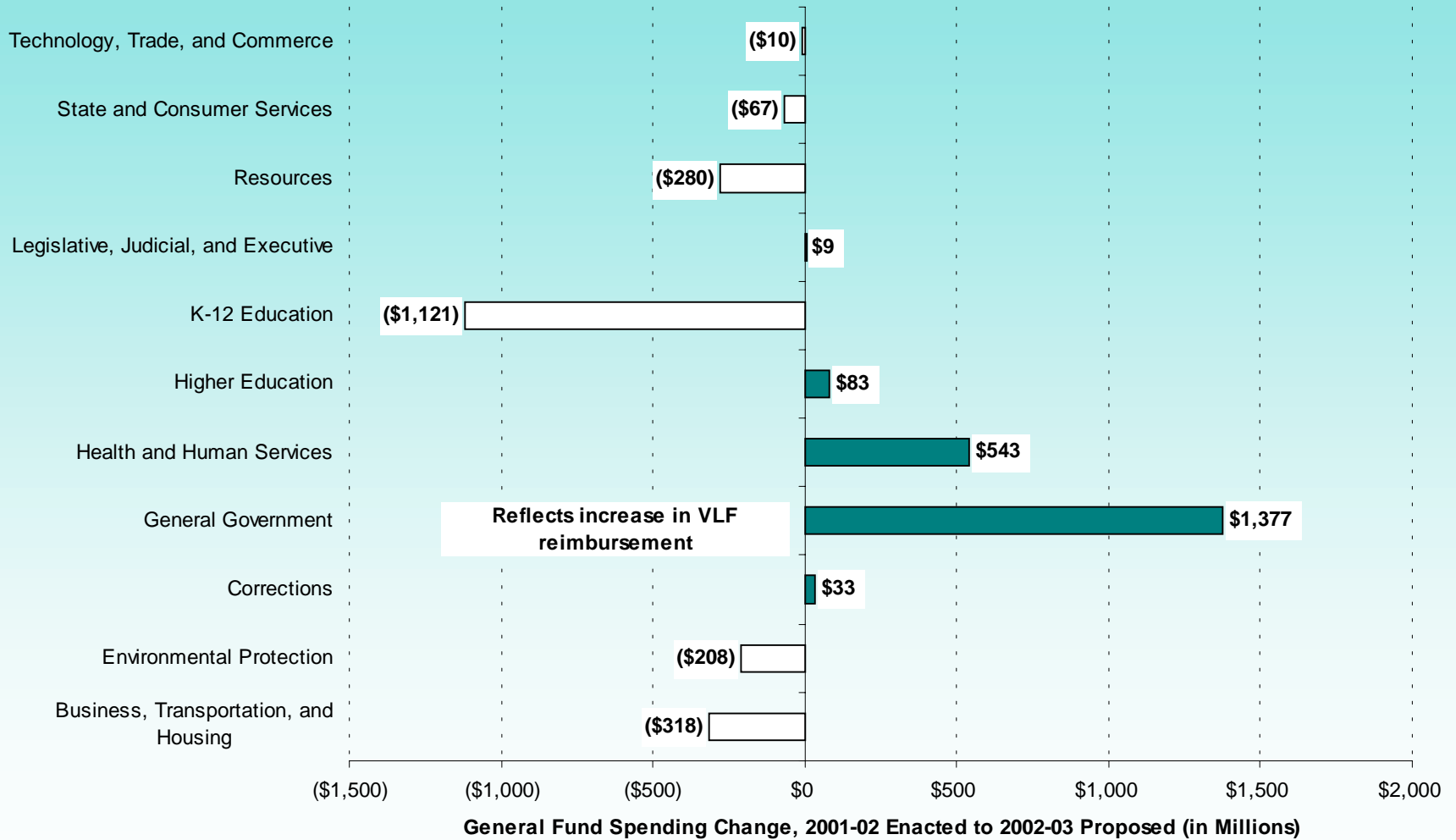


Education Accounts for Largest Share of 2002-03 Spending General Fund Spending by Agency

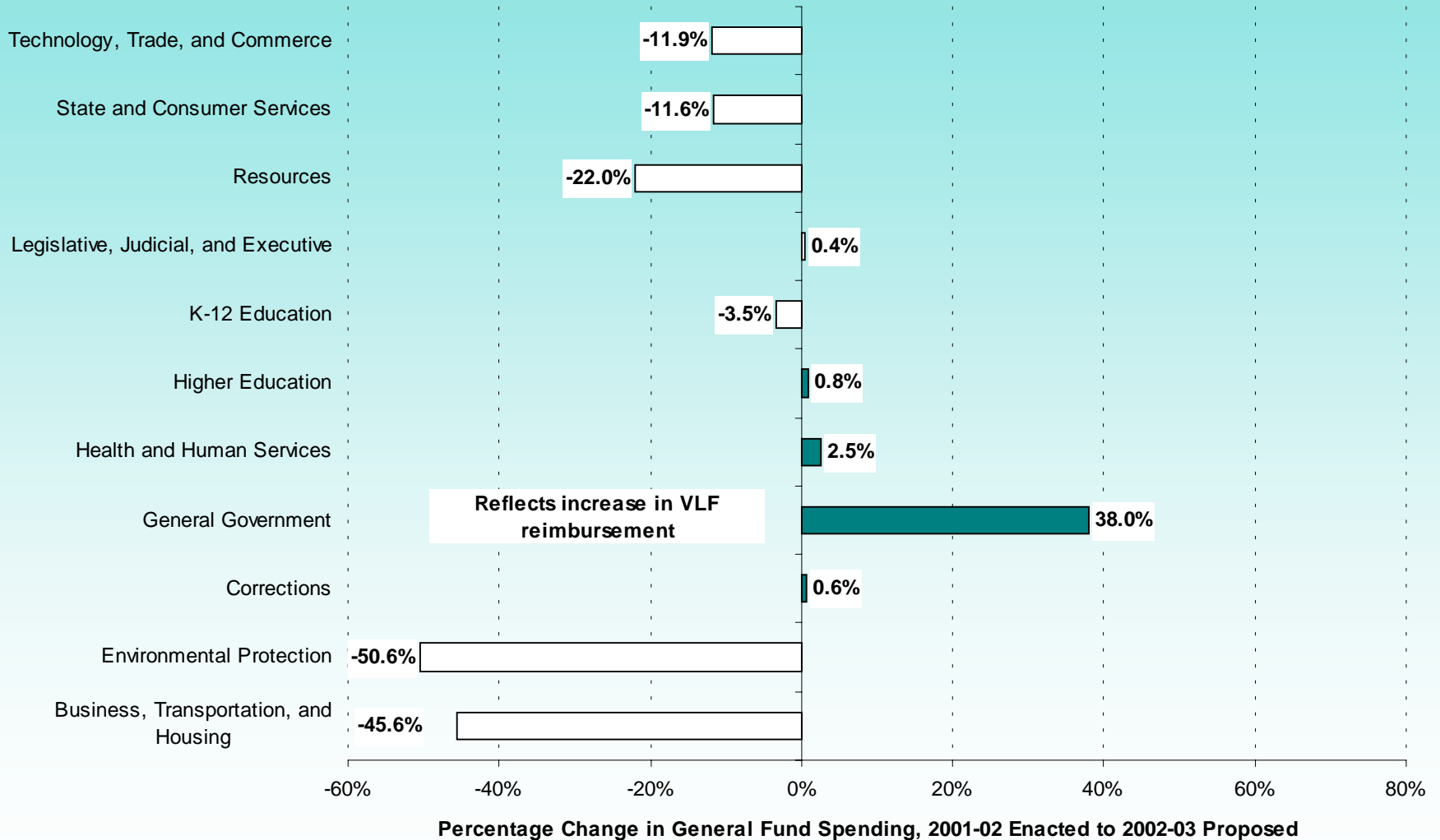


Proposed 2002-03 General Fund Expenditures = \$78.8 Billion

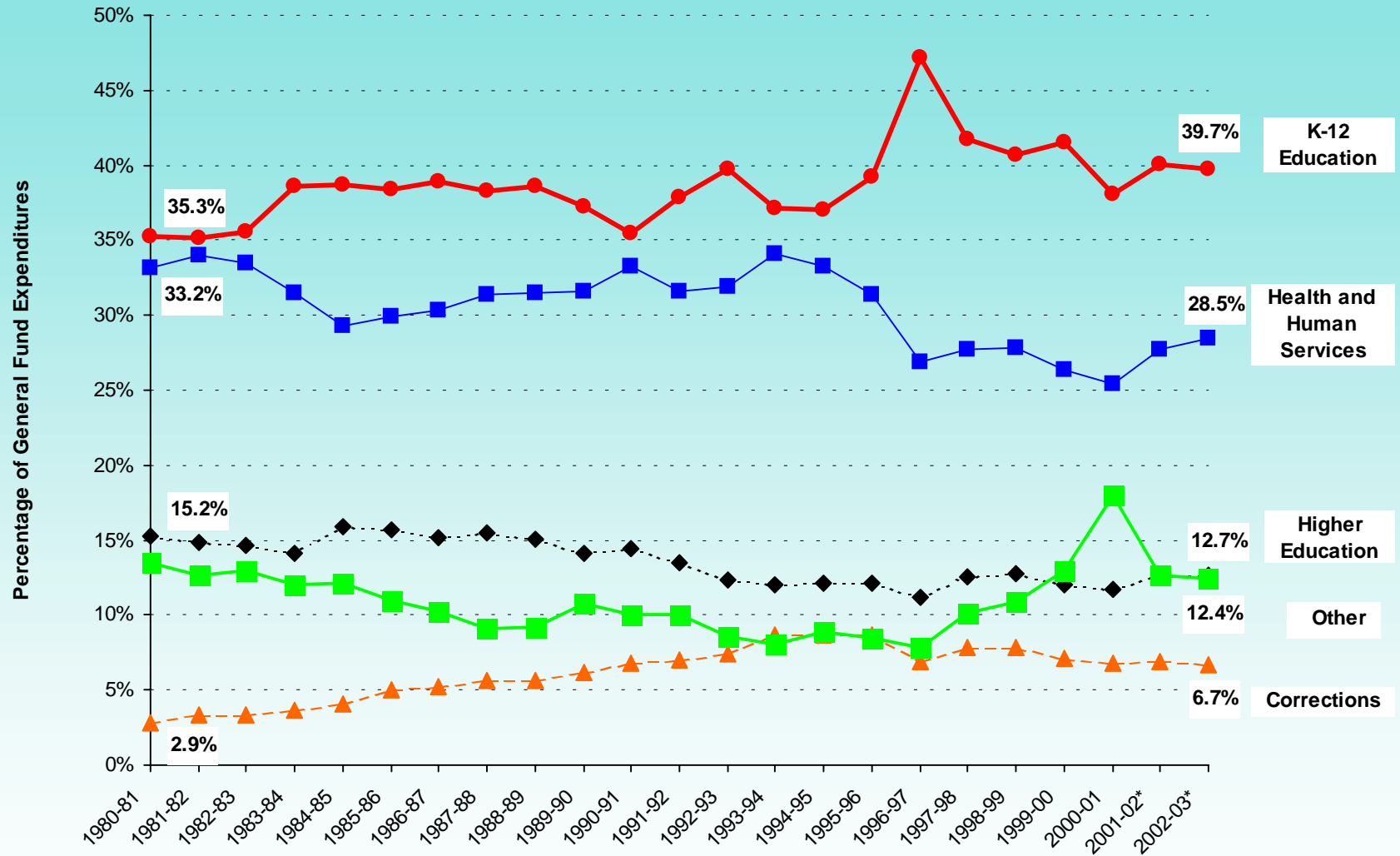
Largest Dollar Increase is for General Government



Largest Percentage Increase is for General Government



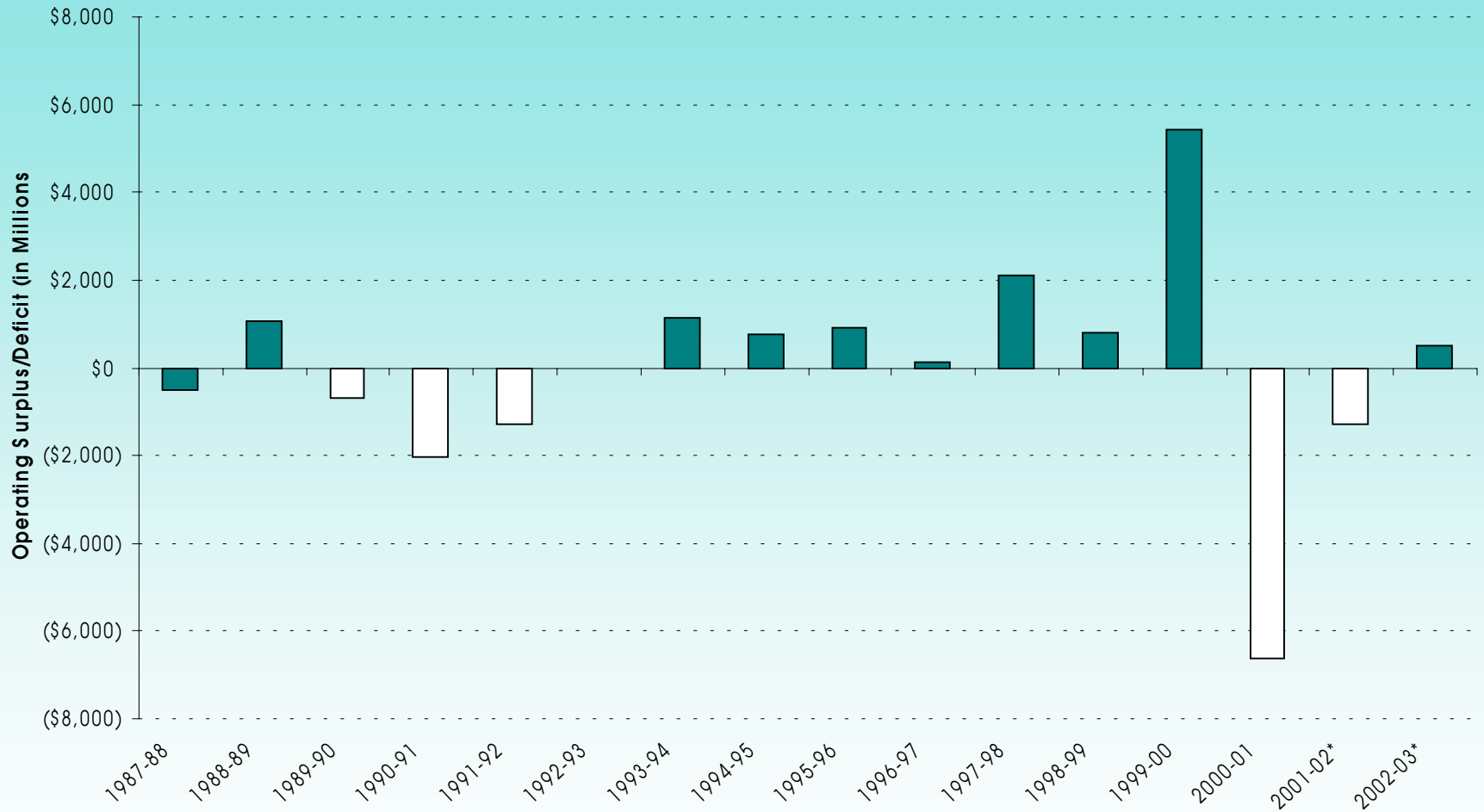
K-12 Education Continues to Receive Largest Share of State General Fund Spending



*2001-02 estimated, 2002-03 proposed.

Note: Other includes Legislative, Judicial, Executive; State and Consumer Services; Business, Transportation and Housing; Technology, Trade, and Commerce; Resources; Environmental Protection; and General Government.

Proposed Budget Provides for Modest Operating Surplus in 2002-03

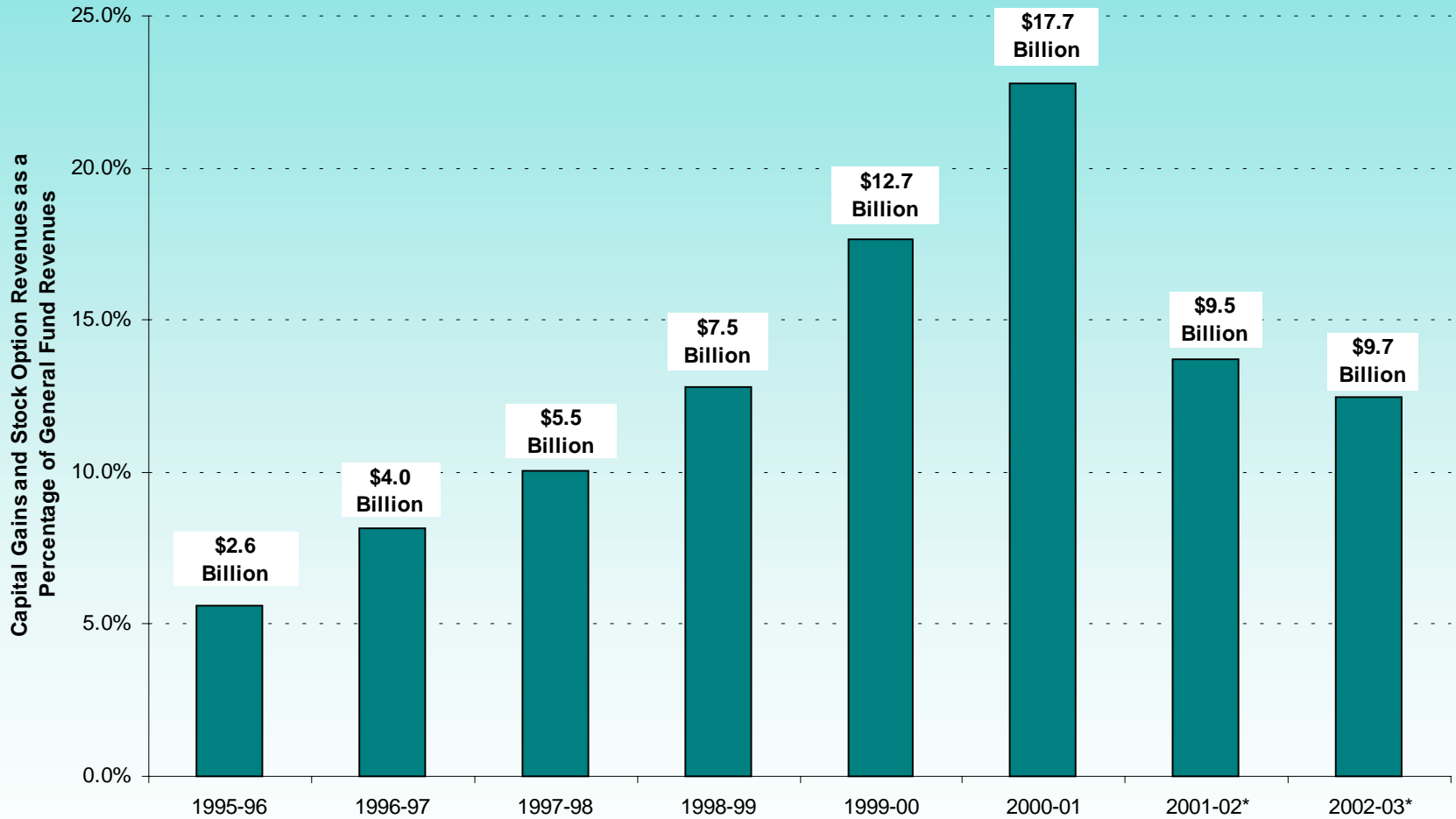


*2001-02 and 2002-03 are estimates.

Most of the Drop in Revenues Occurs in 2001-02

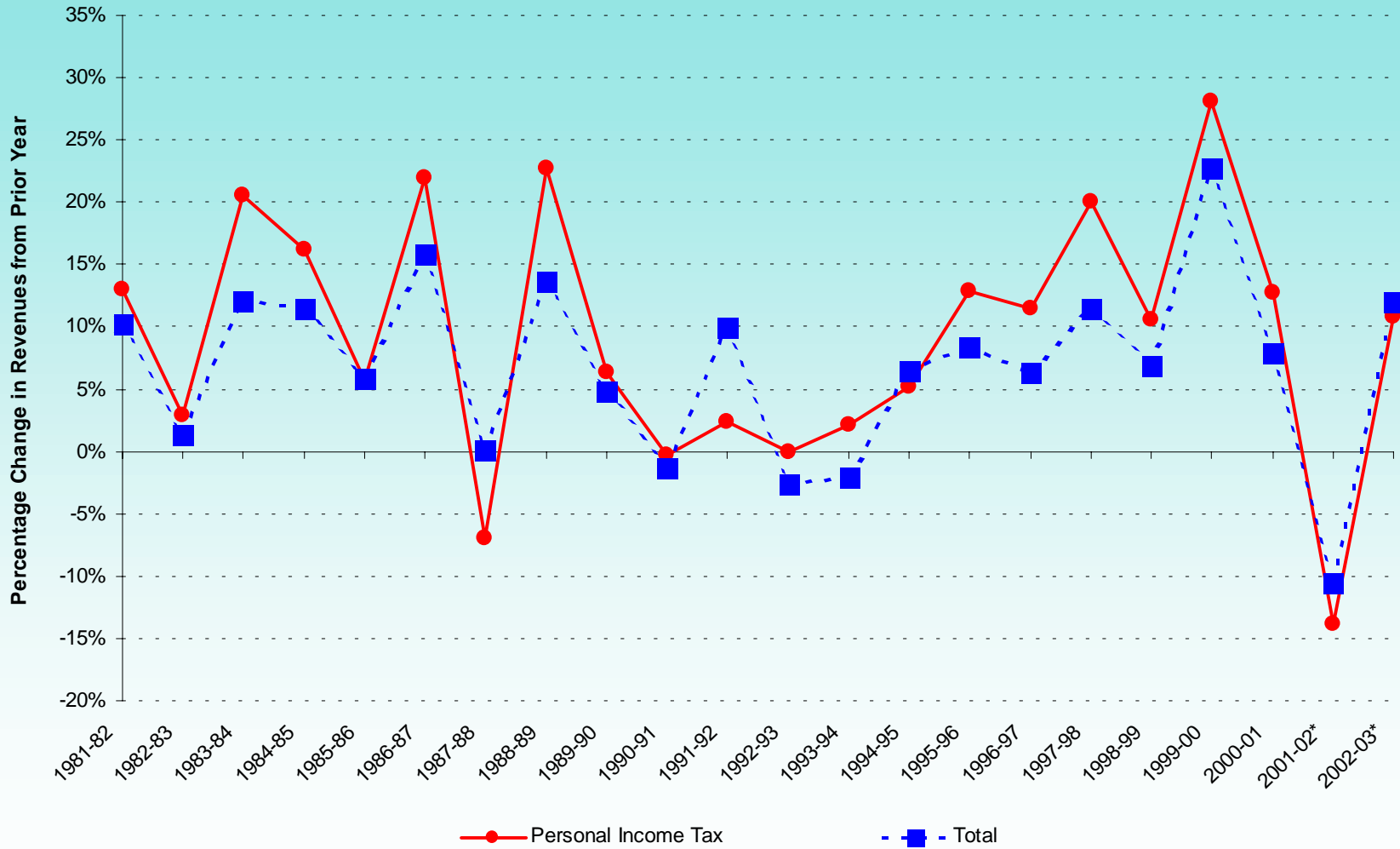
- ▶ The budget shortfall results from a sharp (\$8.2 billion) drop in anticipated revenues between 2000-01 and 2001-02 and an \$8.3 billion increase between 2001-02 and 2002-03. The estimate of 2001-02 personal income tax collections has deteriorated by \$3.7 billion since the forecast used as the basis of the current year's budget.
- ▶ Over half (54.8 percent) of state General Fund revenues come from the personal income tax. California's income tax is highly progressive. The 11.0 percent of taxpayers with incomes over \$100,000 received 53.7 percent of the income and paid 79.4 percent of the tax in 2000.
- ▶ Most of the shortfall stems from a drop in taxes paid on stock options and capital gains. The Governor's Budget assumes that taxes paid on these two income sources will fall by \$8.2 billion between 2000-01 and 2001-02. In November, the LAO estimated a drop of \$10 billion. The state's reliance on taxes attributable to volatile income sources is one reason why the budget shortfall is larger than the relatively modest downturn in the economy might suggest.
- ▶ The share of profits paid in corporate income taxes by corporations reporting net income fell by 42.6 percent between 1981 and 1999, despite that fact that income reported by the same corporations nearly tripled during the same period. Corporate tax collections continue to provide a declining share of General Fund revenues, due in part to the growing use of tax credits and alternative corporate structures, such as Subchapter S status and limited liability companies.

Capital Gains and Stock Option Revenues Increase Instability of General Fund



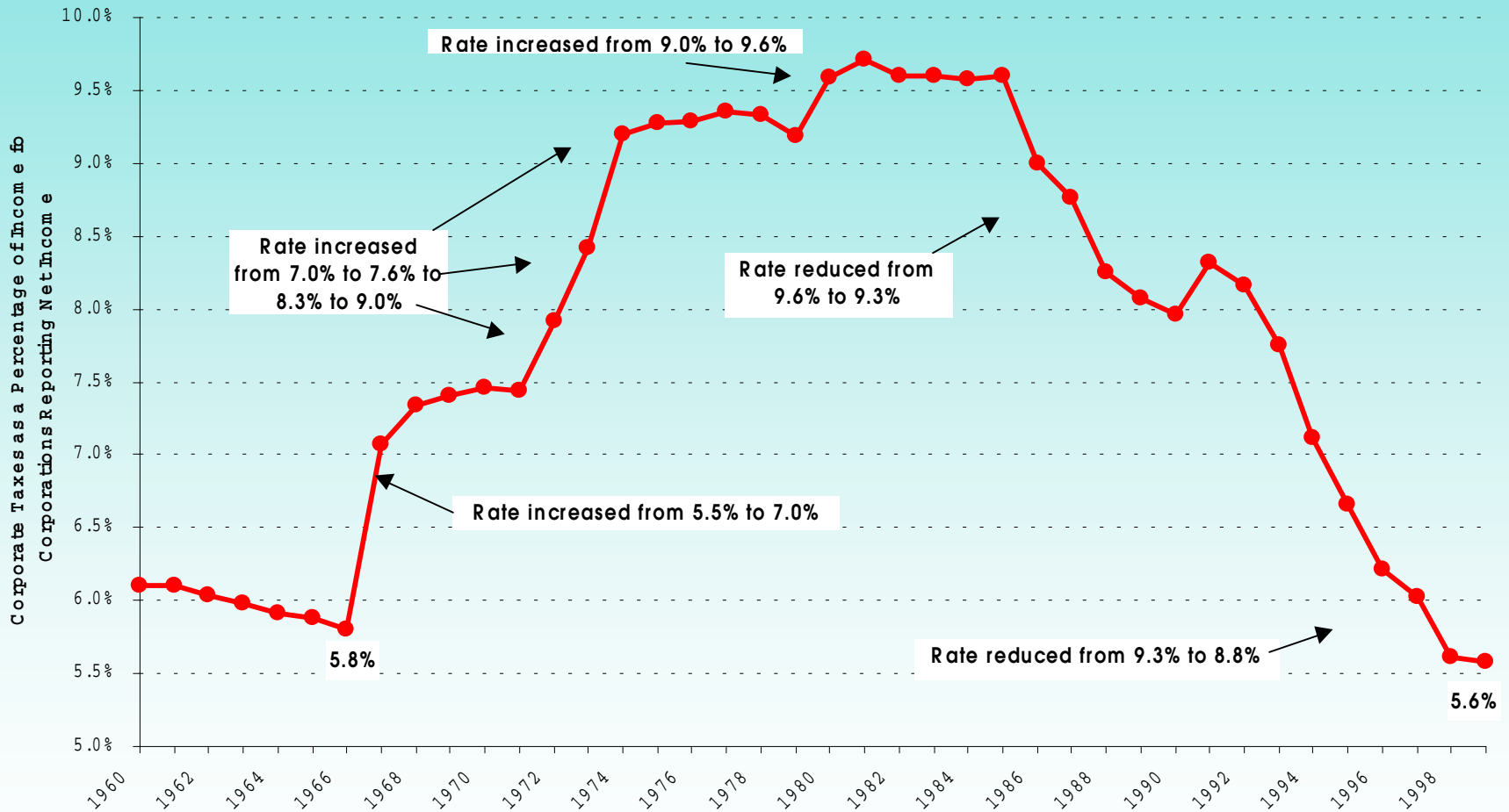
*2001-02 and 2002-03 are estimates.

Instability in State Revenues Due to Reliance on Volatile Personal Income Tax

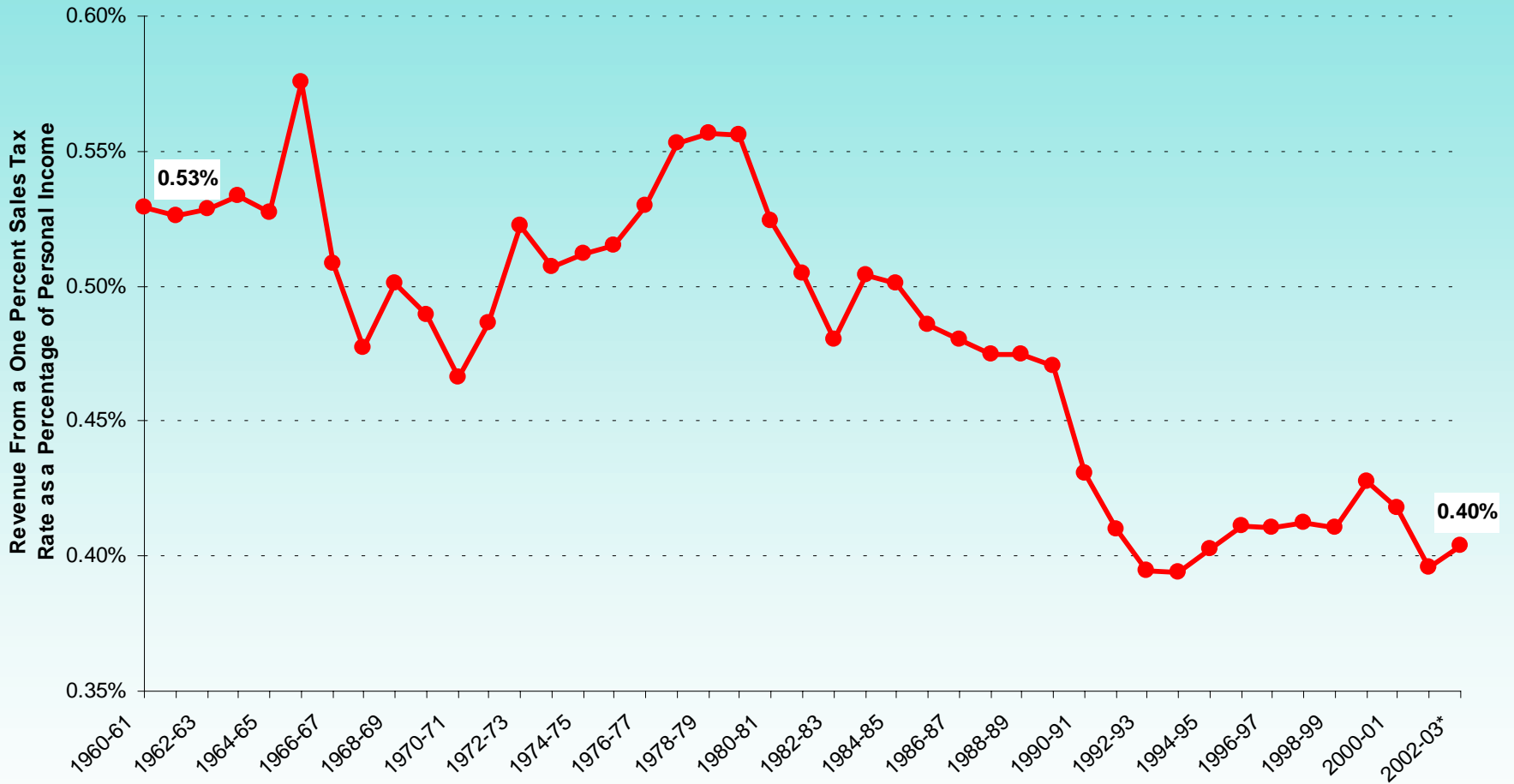


Share of Corporate Income Paid in Taxes Remains Low

California's Effective Corporate Tax Rate is Substantially Lower than the Statutory Rate



Sales Tax Collections Decline as a Share of Personal Income



*2001-02 and 2002-03 are estimates.

Note: Revenues are adjusted for sales tax rate differences.

How Does California Compare? (Revenues as a Percentage of Personal Income)

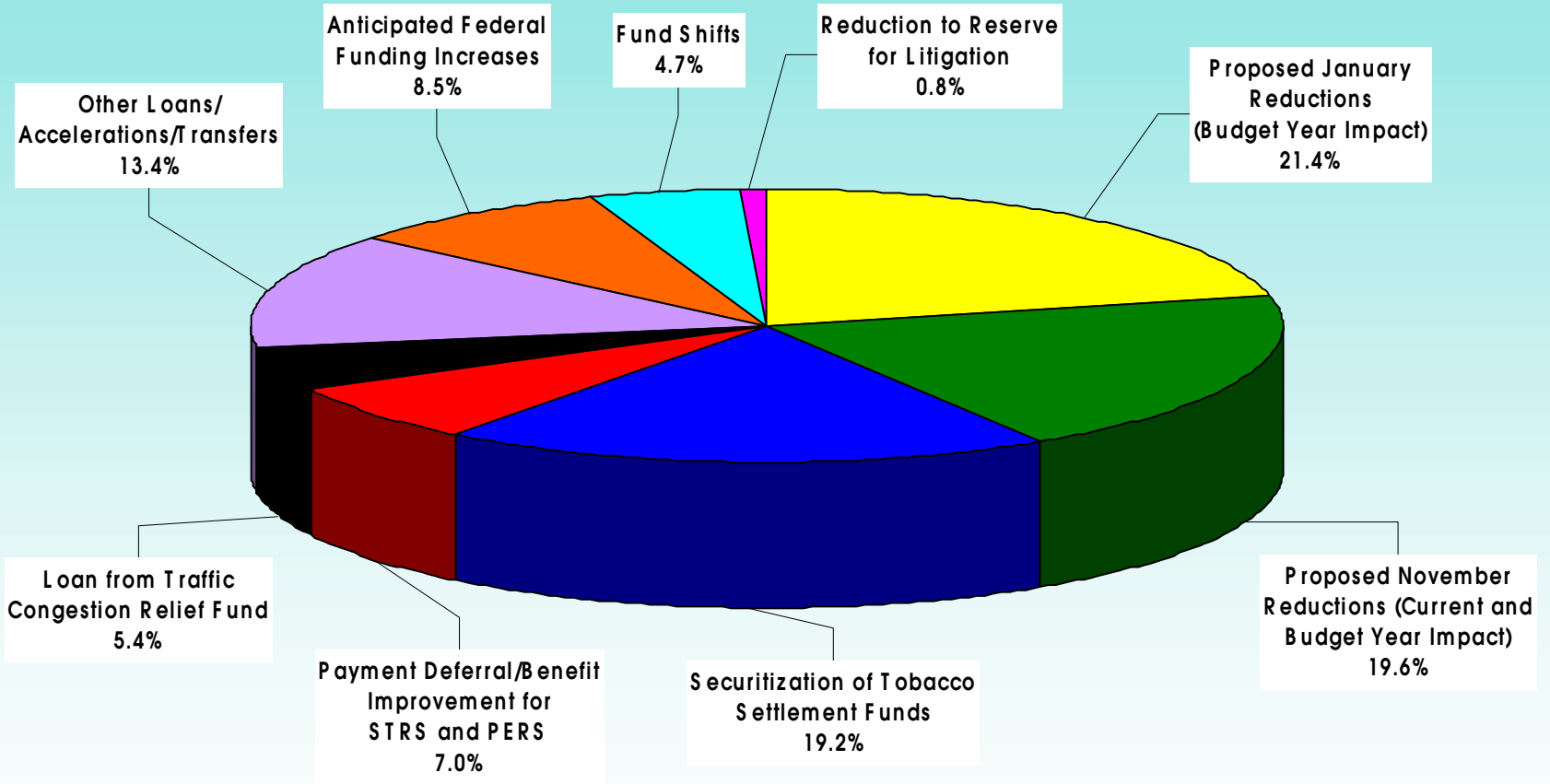
	<u>CA Rank</u>	<u>CA</u>	<u>US</u>
Total State and Local Own Source Revenues* (1998-99)	14	20.9%	19.6%
Total State and Local Tax Revenues (1998-99)	21	10.6%	10.5%
State Tax Revenues (1999-00)	10	8.5%	7.0%
Total Local Tax Revenues (1998-99)	34	3.3%	4.1%
Total State and Local General Sales Tax (1998-99)	18	2.8%	2.6%
Total State and Local Property Tax (1998-99)	33	2.6%	3.1%
State General Sales Tax (1999-00)	23	2.4%	2.3%
Motor Fuels Tax (1999-00)	43	0.3%	0.4%
Tobacco Tax (1999-00)	19	0.1%	0.1%
Alcoholic Beverage Tax (1999-00)	39	0.0%	0.1%
Individual Income Tax (1999-00)	4	4.0%	2.5%
Corporate Income Tax (1999-00)	5	0.7%	0.4%

*Total Own Source is the broadest measure of revenues that includes taxes and fees, but does not include intergovernmental transfers.

Closing a \$12.5 Billion Gap

- ▶ The Governor proposes to close the \$12.5 billion spending gap using a combination of spending reductions (\$5.2 billion), fund shifts (\$586 million), anticipated federal funding increases (\$1.1 billion), and a series of revenue accelerations, loans, and transfers (\$5.6 billion).
- ▶ The largest single “gap bridging” measure is the securitization of a portion of the state’s tobacco settlement payments. The state would issue \$2.4 billion in bonds repaid by settlement payments of \$62 million in 2002-03 and \$190 million per year for 22 years thereafter, for a total of \$4.2 billion. Based on the experience of states that have securitized tobacco settlement payments, the total cost of borrowing may be higher. The amount of funds available in future years would be reduced by the amount that goes to repay the bonds.
- ▶ The Legislative Analyst estimates that the state would face a \$4.0 billion operating deficit in 2003-04 if all of the budget balancing proposals are implemented based on the revenue and expenditure estimates presented in the Budget. The 2003-04 gap would be larger under the LAO’s more pessimistic revenue estimates or if other proposed solutions fall through.

How the Governor Proposes to "Bridge the Gap"

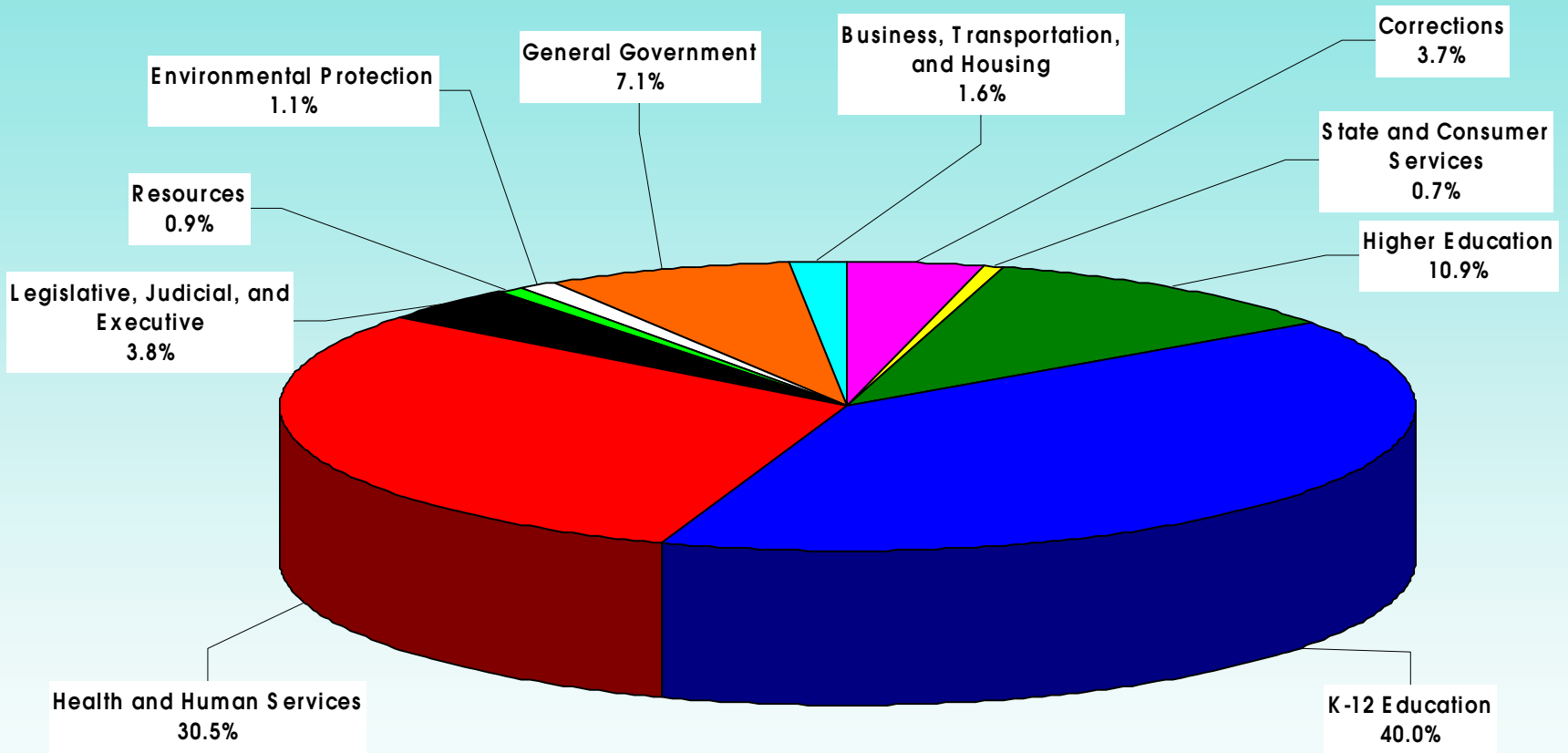


Total Spending Gap = \$12.5 Billion

Budget I Includes \$5.2 Billion in Spending Reductions

- ▶ The \$5.2 billion in proposed spending reductions include \$2.4 billion in reductions in current and budget year spending announced in November; \$2.7 billion included in the Proposed Budget; and a \$100 million reduction in the reserve for litigation.
- ▶ Major January reductions include \$1.1 billion in Health and Human Services programs, \$487 million in K-12 Education, and \$451 million in Higher Education. The Budget also proposes \$590 million in reductions to state operations and other programs.
- ▶ Health and Human Services programs account for 28.6 percent of the total proposed reductions, roughly proportional to the agency's share of the 2001-02 General Fund budget (27.8 percent). In comparison, Corrections spending, which made up 6.7 percent of 2001-02 General Fund spending, receives 0.5 percent of the proposed reductions. K-12 Education made up 41.2 percent of the 2001-02 General Fund budget, but is targeted for only 27.2 percent of the proposed cuts.
- ▶ Proposed spending reductions are roughly proportional to funding increases between 1998-99 and 2001-02, with a few notable exceptions. For example, spending on programs under the Business, Transportation, and Housing Agency, which has only increased by 1.6 percent during the period discussed, receives 5.8 percent of the proposed cuts; Cal-EPA and Resources receive 7.1 percent of the spending cuts, but only 2.0 percent of the recent increase in spending. Health and Human Services programs accounted for 30.4 percent of the General Fund spending increases between 1998-99 and 2001-02 and account for 28.6 percent of the proposed reductions.

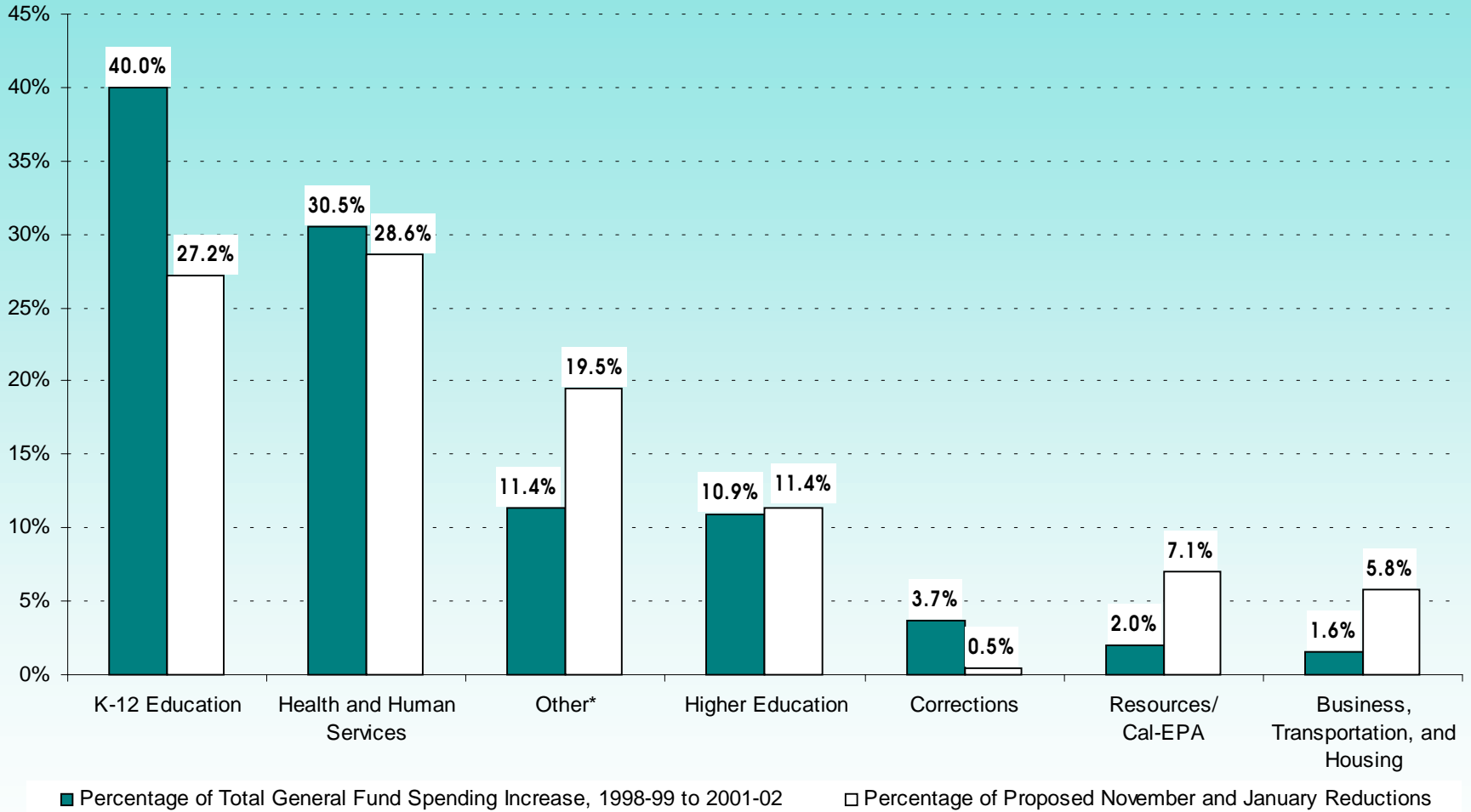
Where Has the Money Gone? Percentage of the 1998-99 to 2001-02 General Fund Spending Increase by Agency*



Total General Fund Spending Increase = 37.5 Percent (\$21.5 Billion)

*Technology, Trade, and Commerce Agency expenditures decreased by 25 percent over this period, equal to -0.1 percent of the increase in General Fund expenditures. Chart compares the 1998-99 Budget as Enacted to the 2001-02 Budget as Enacted and does not reflect mid-year spending reductions.

Spending Cuts Roughly Mirror Recent Increases



*Other includes Technology, Trade, and Commerce; State and Consumer Services; Legislative, Judicial, and Executive; and General Government.

Federal Policies: Part of the Problem and the Solution

- ▶ The state will incur substantial revenue losses over the next several years due to the phase out of the federal estate tax, of which states receive a share each year. California will lose \$367 million in 2002-03, with the loss rising to \$1.27 billion in 2005-06 due to the federal phase out.
- ▶ The Proposed Budget assumes \$1.1 billion in additional federal funding, including:
 - \$400 million in additional federal funds to offset the state cost of Medi-Cal services in the current year.
 - \$181 million in savings from a waiver of federal penalties for the state's delayed implementation of a statewide automated child support system.
 - \$50 million in added federal funds by maximizing federal reimbursements for individuals in various health and social services programs.
 - \$35 million due a federal restoration of food stamp benefits to immigrants who currently receive food stamps through the California Food Assistance Program (CFAP).
 - \$50 million in anticipated federal funds to cover a greater share of the state's cost for the incarceration of undocumented felons.
 - \$350 million in anticipated federal funding to offset current and prospective state and local government antiterrorism expenditures.
- ▶ Observers believe that it is unlikely that the state will receive all of the federal dollars assumed in the Budget.

Budget Balancing Measures Increase Future Years' Costs and/or Decrease Future Years' Revenues

- ▶ Other “gap bridging” measures include:
 - A \$672 million loan from the Traffic Congestion Relief Fund (TCRF) to the General Fund. The loaned funds are the proceeds of the sales tax imposed on gasoline that were shifted from the General Fund to the TCRF in 2000-01.
 - \$879 million in deferred employer contributions to the Public Employees Retirement System (PERS) and State Teachers Retirement System (STRS). The state would repay this amount in future years, and the retirees would receive additional benefits in exchange for the deferral.
 - \$579 million in loans from restricted special funds to the state’s General Fund. These loans will be repaid with interest.
 - \$178 million from conforming state tax law more closely to federal law. The proposal increases revenues in 2002-03 by accelerating certain tax payments, but reduces revenues by \$59 million in 2003-04 and \$75 million in 2004-05 through provisions allowing larger tax-deferred retirement fund contributions and other changes.
 - \$349 million in other revenue accelerations.
- ▶ One time measures that do not affect future years include transferring \$201 million of cash balances in unrestricted special funds to the General Fund, and \$155 million in cost shifts to special funds.

What Are the Major Risk Factors?

- ▶ The Budget assumes that the economic downturn will be brief and that a moderate expansion will begin in the second quarter of 2002. A lengthier downturn would depress state revenues and increase demand on “safety net” services.
- ▶ The Budget assumes that current year tax collections attributable to stock options and capital gains will be approximately \$2 billion higher than the LAO’s forecast for 2001-02 and \$1.3 billion higher in 2002-03. The LAO has noted that December tax payments were weak, suggesting additional risk in the Budget’s more optimistic assumptions.
- ▶ On the other hand, the Budget assumes the drop in per capita personal income, the inflation factor used for the Proposition 98 guarantee, will be greater than the LAO’s November forecast. A smaller drop in per capita personal income would require added spending for programs subject to the spending guarantee.
- ▶ The Budget includes repayment of the \$6.2 billion loan for energy purchases and \$300 million of interest by the end of the current fiscal year. The state can continue to carry the loan on its books into the next fiscal year, but a lengthy delay in repayment could cause cash flow problems.
- ▶ The Budget’s assumptions of additional federal dollars are subject to considerable uncertainty. Moreover, Congress must reauthorize the Temporary Assistance for Needy Families (TANF) and Child Care and Development Block Grant (CCDBG) by the end of the current federal fiscal year. These programs provide federal dollars for state programs for low income families and children.

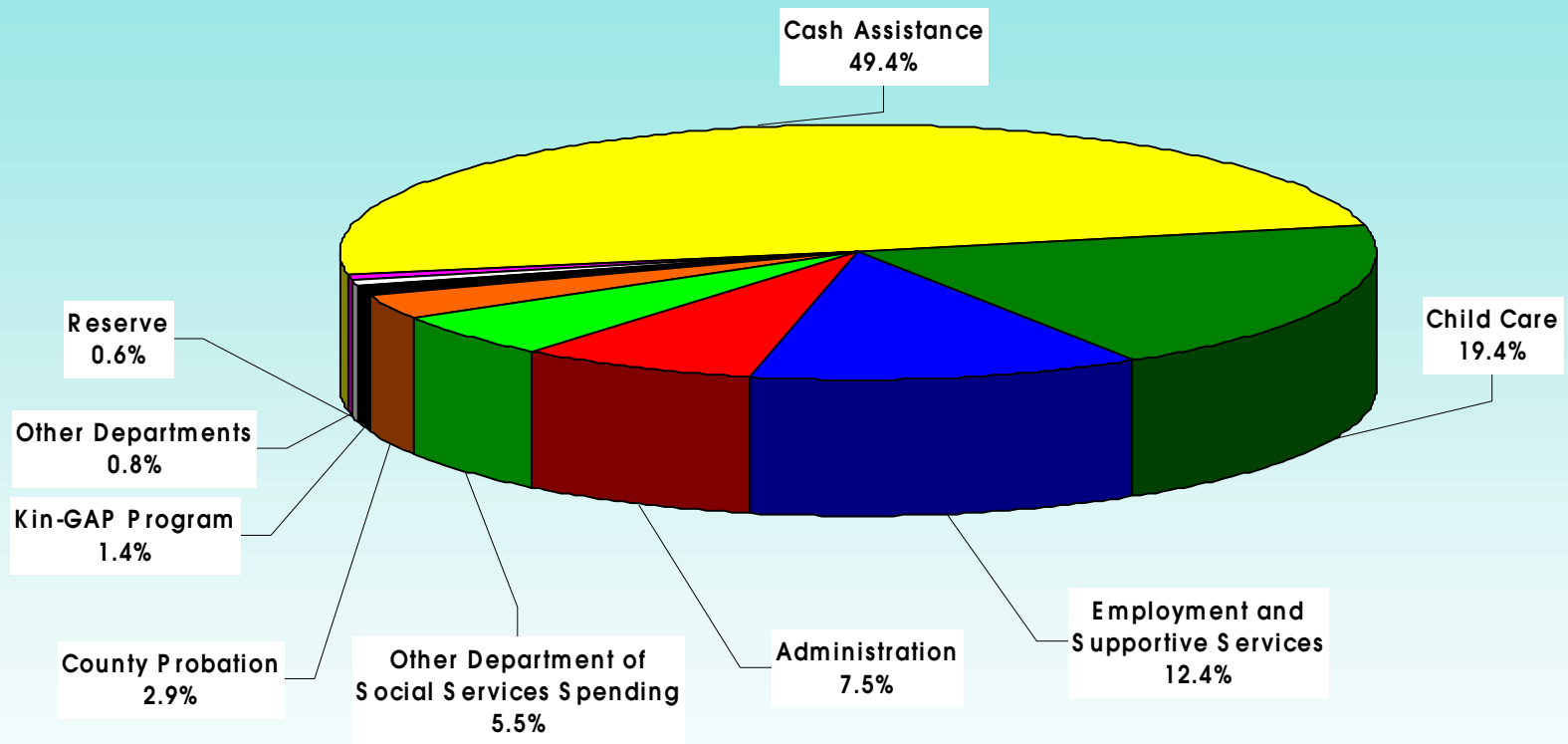
Budget Minimally Funds Prop 98 Guarantee

- ▶ The Budget proposes a total 2002-03 Proposition 98 funding level of \$46.0 billion for K-14 programs, a 1.1 percent increase over the 2001 Budget Act level of \$45.5 billion. The state General Fund's share of 2002-03 Proposition 98 funding is \$31.4 billion, a 1.9 percent decrease from the 2001 Budget Act share of \$32.0 billion. The decrease in the state's share of funding is due to an anticipated 7.8 percent growth in local property tax revenues.
- ▶ The Proposed Budget shows a 2.2 percent increase over 2001-02 Proposition 98 funding due to the assumption that the Legislature will enact the Governor's November proposal to reduce spending by \$843.5 million.
- ▶ The Budget fully funds Proposition 98 statutory growth and cost of living adjustments (COLAs) for K-12 programs, resulting in \$7,058 per pupil, an increase of \$136 or 2.0 percent over the revised 2001 Budget Act level. However, the Legislative Analyst's Office estimates that the 2002-03 Proposition 98 guarantee could be \$935 million higher than the Governor's estimate. This is due to a difference between the Governor's and the LAO's estimate for the inflation factor used to calculate the guarantee.
- ▶ In order to provide the full COLA (\$599.1 million) and growth (\$304.5 million) adjustments to districts for general purpose spending, the Governor proposes \$487.0 million in spending reductions for K-12 programs in addition to the proposed November cuts. The Budget also proposes that \$112.3 million in increased Federal Special Education funding replace, rather than augment, General Fund spending for special education.

CalWORKs Expenditures Kept in Check

- ▶ The Governor proposes to bridge an estimated CalWORKs program deficit of several hundred million dollars with a combination of one-time and ongoing measures. The deficit results from cost increases as counties fully implement welfare-to-work programs, increased demand for child care, a modest caseload increase due to the downturn in the economy, and higher grant payments due to recent years' cost of living adjustments, combined with the fact that the federal TANF block grant has not increased and the state has funded CalWORKs and related programs at the minimum level required by federal Maintenance of Effort requirement (\$2.7 billion). Specifically, the Budget:
 - Does not include a cost of living adjustment for recipients or an inflation increase for county CalWORKs administration (\$161 million federal and state fund savings).
 - Uses one-time performance incentive funds (\$169 million TANF funds) previously paid to the counties for the core CalWORKs program.
 - Eliminates funding (\$94 million General Fund) for Community College employment services and Department of Education adult education for CalWORKs recipients.
 - Reduces child care expenditures for CalWORKs families by \$183 million (\$2.5 million General Fund) by increasing family fees and reducing reimbursement rates to providers.
 - Provides counties with a flexible block grant to fund employment services, eligibility administration, child care, mental health and substance abuse services, and juvenile probation.
- ▶ The overall CalWORKs caseload is projected to rise in 2002-03. However, families will begin hitting the CalWORKs five-year time limit in January 2003, resulting in a loss of the adult's portion of the grant and loss of eligibility for most employment services. Families that are employed after reaching the time limit are eligible for transitional child care and job retention services.

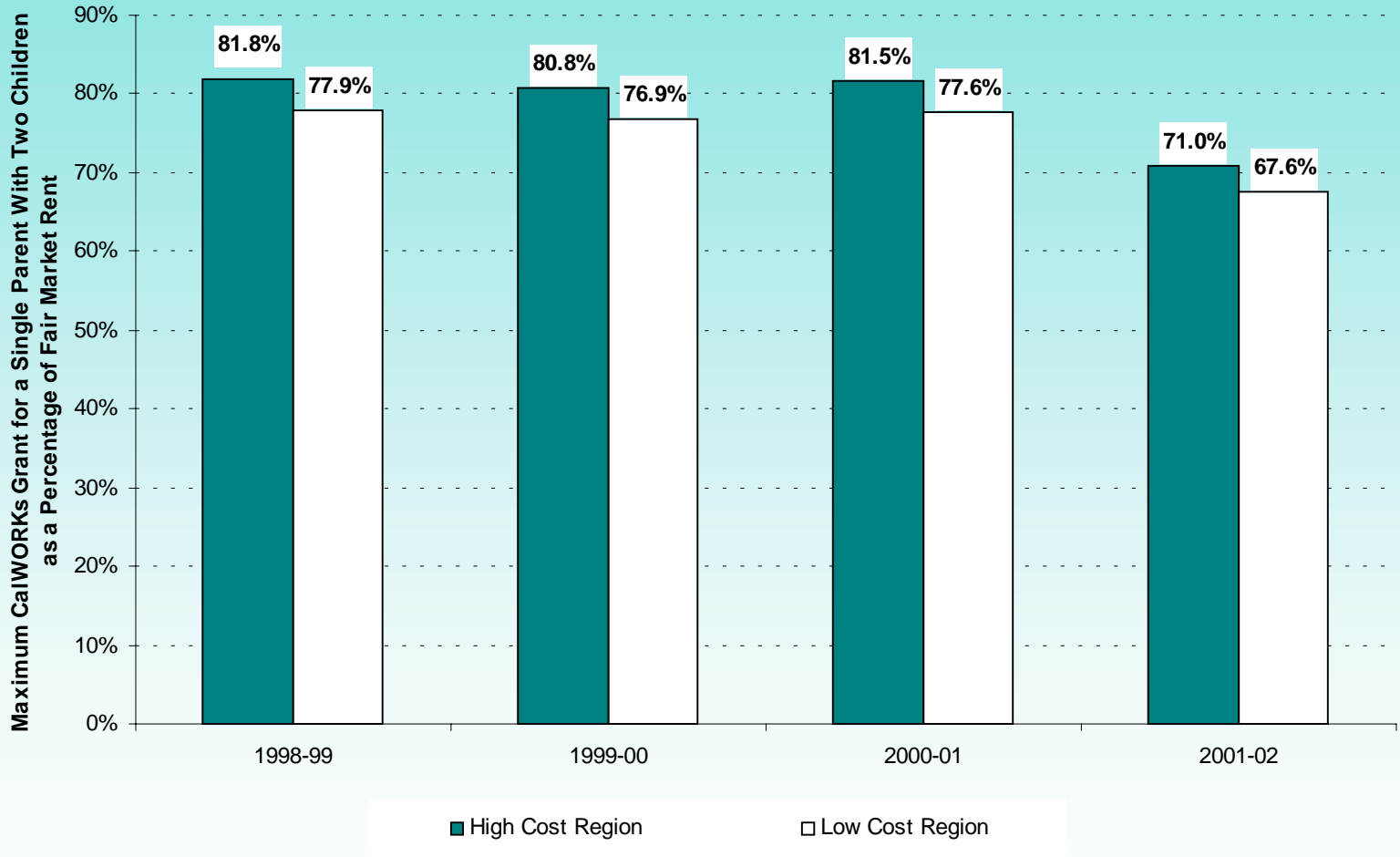
Less Than Half of Budgeted CalWORKs Expenditures Are for Cash Assistance in 2002-03



Total = \$6.9 Billion Including Federal Funds

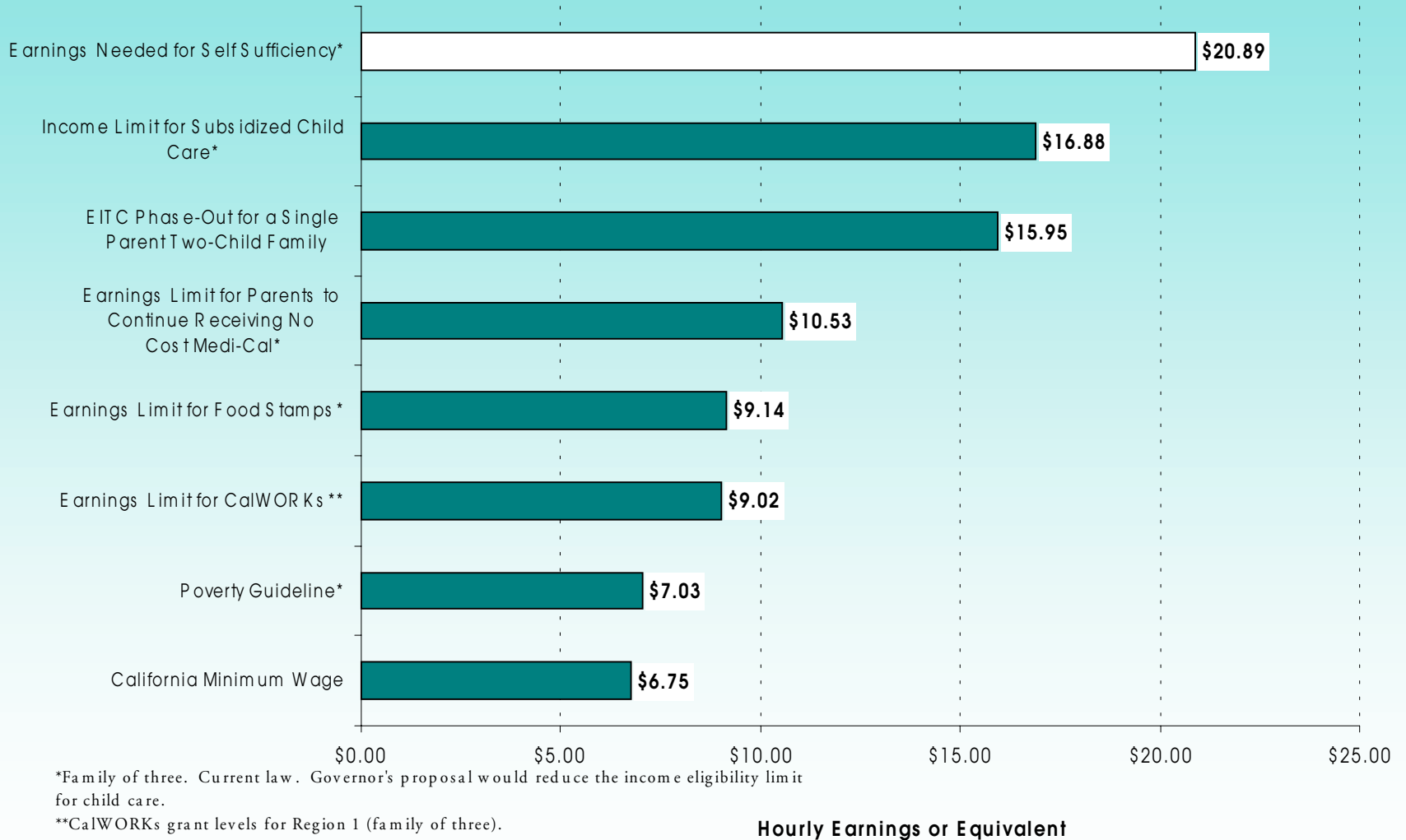
Note: May not sum to 100 percent due to rounding. Includes a proposed expenditure of \$169 million previously appropriated for performance incentive funds, but does not include \$431 million that the Governor proposes to re-appropriate to counties as incentive funds.

CalWORKs Families Struggle to Keep Up with Housing Costs

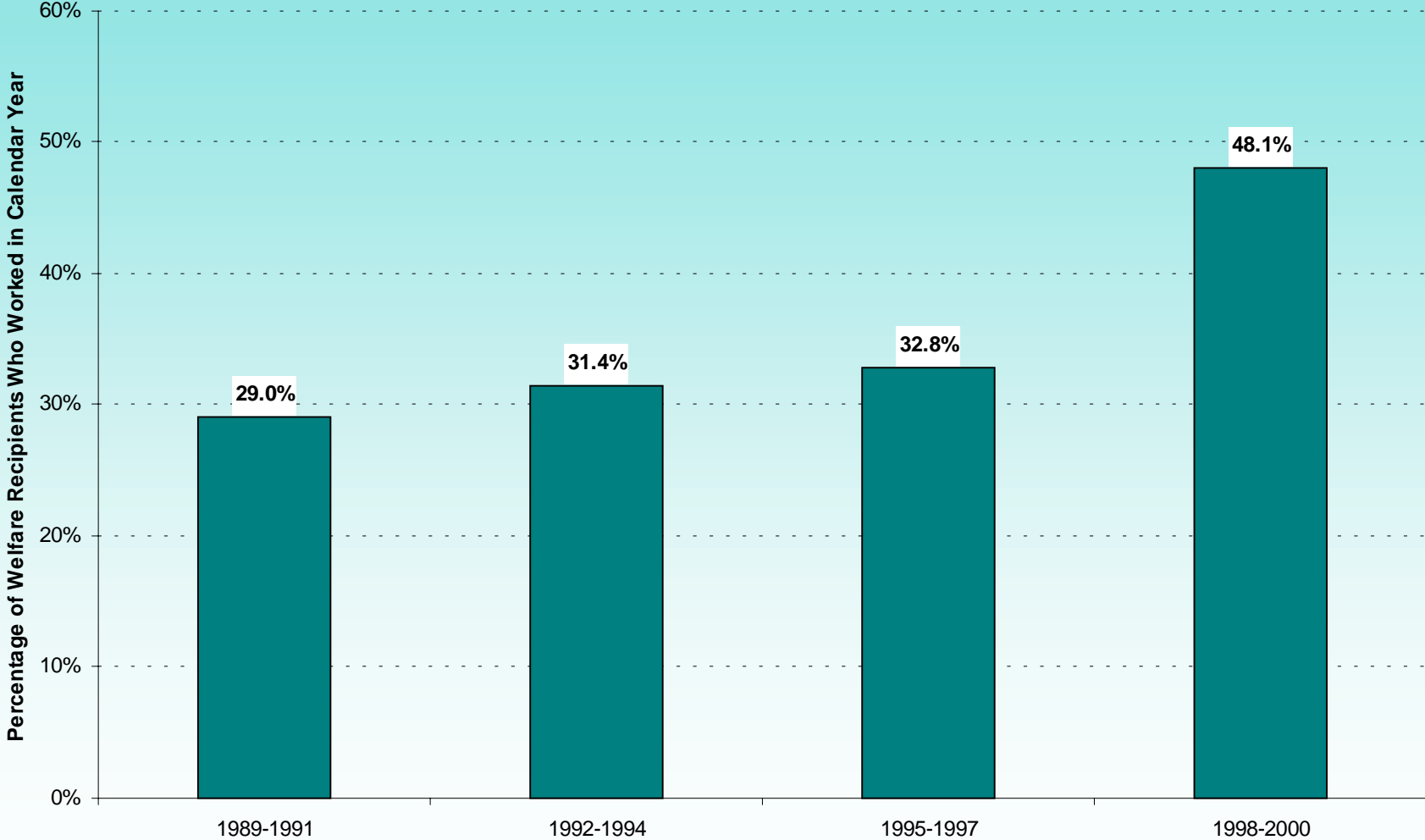


Note: The Fair Market Rent methodology for some high cost areas changed in 2001-02.

Supports for Working Families End Before They Reach Self Sufficiency



Work by Welfare Recipients has Increased

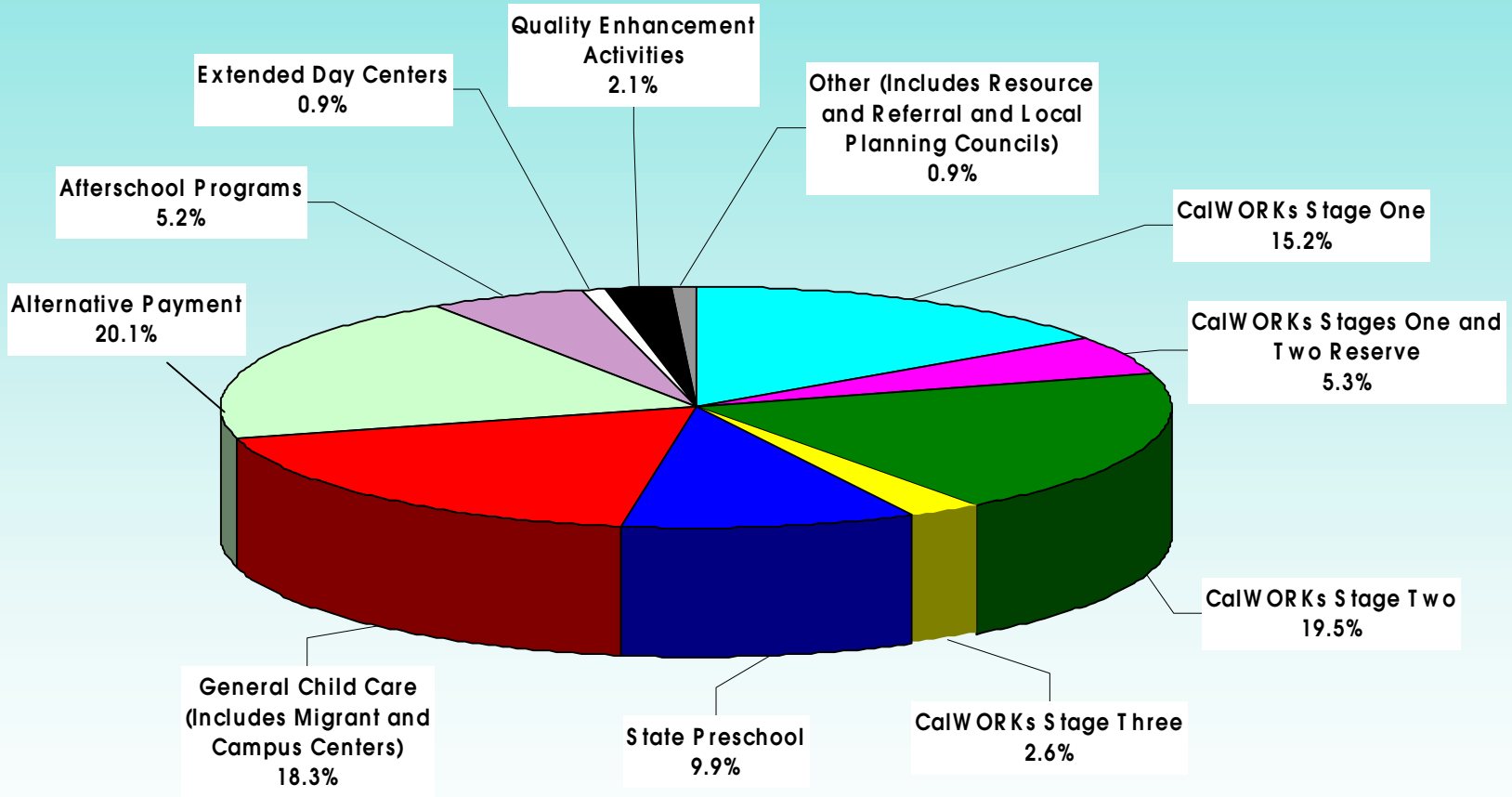


Source: CBP calculations of US Census Bureau data

Governor Proposes Sweeping Changes to Child Care Programs

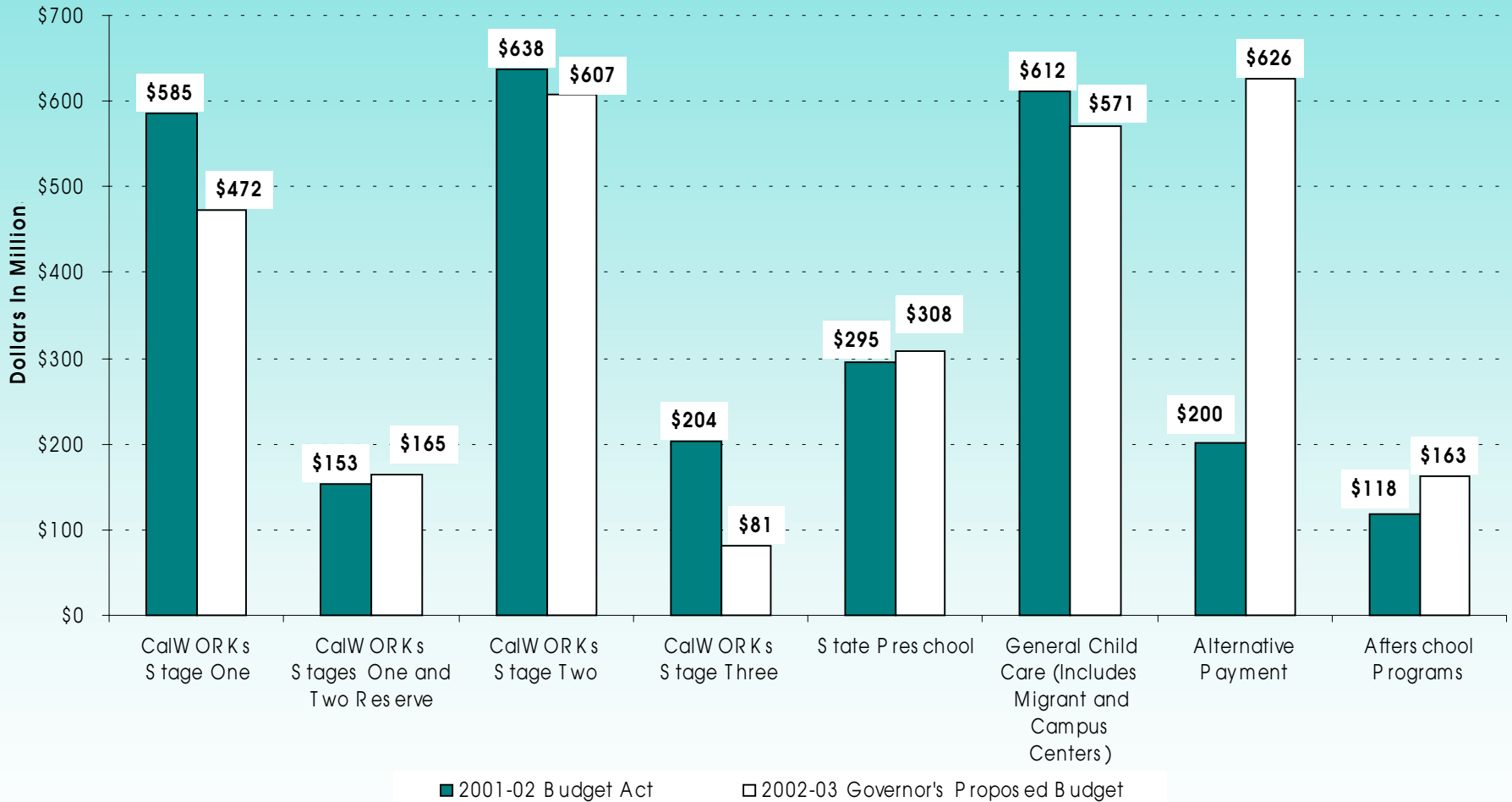
- ▶ The Budget allocates \$3.1 billion for child care in 2002-03, 3.7 percent over 2001-02 levels, including \$2.5 billion (\$1.6 billion General Fund) administered by the California Department of Education (CDE), an increase of 9.2 percent, and \$637 million (\$119 million General Fund) by the Department of Social Services (DSS), a 13.7 percent reduction. The Budget provides a \$26.1 million cost of living adjustment (\$20.8 million General Fund) to the CDE to fund a 2.15 percent increase for eligible child care programs.
- ▶ The Budget proposes sweeping changes in state child care programs, including elimination of the Stage Three set-aside for former CalWORKs families, increased family fees, reduced market rate caps for provider payments, lower income eligibility ceilings, and a phase-out of the Extended Day (Latchkey) program. The Budget assumes \$400 million in savings that, along with other funds, would be used to serve 102,000 additional children, primarily in the Afterschool and Alternative Payment programs.
- ▶ The Budget reduces funding for CalWORKs Stages One and Two and the General Child Care (contracted center-based) programs and increases funds for the Alternative Payment (voucher) and Afterschool programs. Funding for families currently served in the Stage Three child care program, for families who have received child care for two years after leaving CalWORKs, is transferred to the Alternative Payment program where families may continue to receive service. However, families whose two-year period of post CalWORKs child care ends after March 31, 2003 would not be guaranteed continued assistance.

2002-03 Proposed Child Care and Development Spending



Total = \$3.1 Billion Including Federal Funds

Funds Shift from CalWORKs Stages One and Three and General Child Care to Alternative Payment and Afterschool Programs

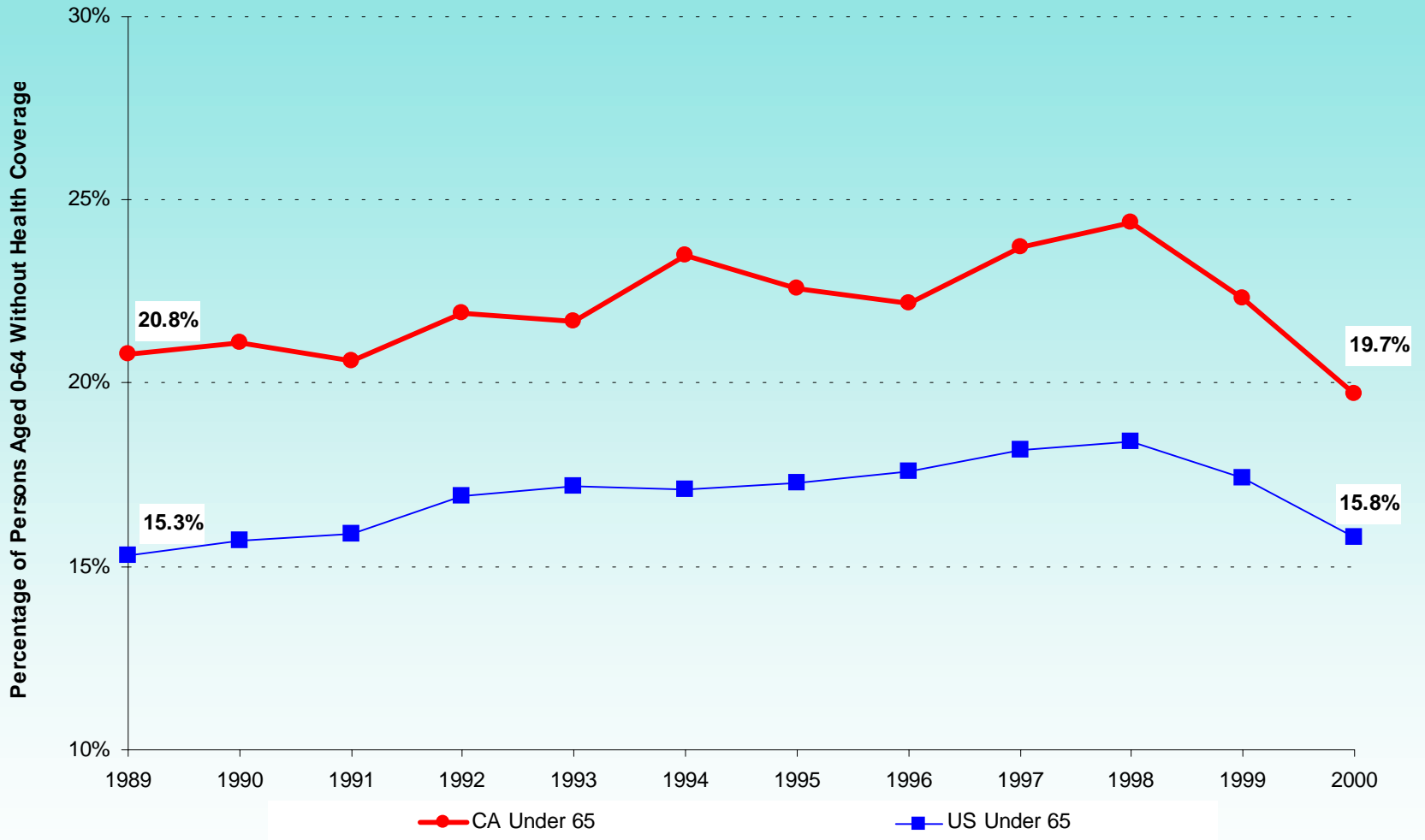


Note: Includes federal

Modest Reductions in Health Spending

- ▶ While the Budget increases 2002-03 funding for the Medi-Cal program by 4.6 percent, several measures reduce program costs, including eliminating cost of living and inflation adjustments for county administration (\$117 million General Fund savings), cost controls for the Medi-Cal drug program (\$100 million General Fund savings), reduction of recent physician rate increases (\$78 million General Fund savings), and requiring co-payments for Medi-Cal recipients of \$1 to \$5 (\$31 million General Fund savings).
- ▶ The Budget postpones the expansion of the Healthy Families Program (HFP) to cover parents until July 2003, for a savings of \$54 million in 2001-02 and \$161 million in 2002-03. HFP enrollment is projected to increase by 85,000 children.
- ▶ The Budget shifts the caseload from the Child Health and Disability Prevention (CHDP) program to the Medi-Cal program and HFP, resulting in savings of \$70 million. Funds are shifted to Medi-Cal (\$30 million) and HFP (\$15 million) to reflect increased caseload. The Governor also increases funding for the Expanded Access to Primary Care (EAPC) program by \$17.5 million to serve children not eligible for Medi-Cal or HFP.
- ▶ The Budget increases the fee the state charges public and University of California hospitals for the Disproportionate Share Hospital (DSH) program by \$55 million, resulting in General Fund savings of the same amount. These same hospitals are also subject to new federal regulations that reduce the so-called upper payment limit (UPL), which will reduce hospital revenues by an estimated \$250 million or more in federal funds each year beginning March 19, 2002.

Despite Significant Improvement, More Non-Elderly Californians Lack Health Coverage Than in the US Overall



Note: Changes in survey methodology led to lower estimates of the number of uninsured in 2000.

Other Noteworthy Spending and Policy Changes

- ▶ The 2002-03 Budget reduces General Fund support for housing programs arguing that a proposed \$2.0 billion housing bond will make up the difference. The Budget maintains funding for Farmworker Housing (\$14.0 million) and Emergency Housing Assistance (\$11.3 million), while ongoing funding for Supportive Housing, Multifamily Housing, and the Jobs Housing Balance Improvement Programs was eliminated.
- ▶ The Budget suspends the state cost of living adjustment (COLA) for Supplemental Security Income/State Supplementary Payment (SSI/SSP) recipients and Foster Care providers. The Budget also provides no inflation adjustment for county administration of Foster Care, food stamps, or In-Home Supportive Services (IHSS). SSI/SSP recipients will receive a federal COLA of 1.8 percent; CAPI recipients will receive an equivalent COLA from state funds.
- ▶ The Budget reorganizes existing departments to form a new Labor Agency, made up of the Employment Development Department (EDD), the Department of Industrial Relations (DIR), the Workforce Investment Board (WIB), and the Agricultural Labor Relations Board (ALRB) with the goal of improving coordination of workforce development activities. Existing apprenticeship programs, now administered by the DIR, California Department of Education (CDE), and California Community Colleges (CCC), would be consolidated under the DIR.