



May 2003

## The 2003-04 Budget Deficit: Where Are We Today?

California faces a remaining budget gap of approximately \$30 billion. This gap reflects the Governor's January estimate of the budget deficit (\$34.6 billion) and legislative actions to date (approximately \$6.7 billion). In addition, the deficit is likely to grow by \$2 or \$3 billion when the Governor releases his May Revision on May 14 due to increased program expenditures and decreased revenues.

The Legislature has passed two packages of bills to reduce the deficit. The first package, passed in March, primarily reduced spending in the current year. The second package, signed by the Governor on May 5, primarily made actions in the budget year.

### Mid-Year Reductions

The Governor signed a mid-year package of spending reductions, contained in SB 18X and SB 19X, on March 18. The package reduced Proposition 98 (K-14) spending in 2002-03 by \$2.2 billion, primarily by deferring the June 2003 \$1.1 billion apportionment payments to public schools to July 2003. The Legislature also reduced the California Community Colleges 2002-03 budget by \$141.2 million. In addition, the Legislature reduced the California State University budget in 2002-03 by \$59.6 million and the budget for University of California by \$60.9 million. The plan also includes a \$100 million loan from the Traffic Congestion Relief Fund to the General Fund and makes various other adjustments. The K-14 education actions reduced spending to near the minimum allowed by the Proposition 98 guarantee and will lower the 2003-04 required spending level.

The package originally included SB 11X, which suspended cost-of-living adjustments (COLAs) for CalWORKs and Supplemental Security Income/State Supplementary Payment (SSI/SSP) recipients. However, this bill was held in the Senate and not part of the final package.

### April Package

The most recent package of bills, signed by the Governor on May 5, reduces the deficit by an estimated \$3.6 billion. About half the savings (\$1.85 billion) result from using proceeds from a pension obligation bond sale to make the state's contributions to employees' retirement funds. The plan also includes a number of health and education reductions.

Adult Medi-Cal enrollees will be required to file forms verifying their continued eligibility twice a year. In January, the Governor proposed requiring enrollees to file quarterly reports. The plan also includes cost savings for Medi-Cal dental services, such as requiring additional documentation before approving payment for claims. The plan also includes \$194.0 million in savings from implementing stricter accountability standards regarding county determination of

Medi-Cal eligibility. The savings would result from removing enrollees from Medi-Cal more quickly when they no longer meet eligibility requirements.

Education actions include \$327.6 million in K-12 reductions. This reduction consists of a \$161.9 million in the current year to reduce spending to the minimum Proposition 98 guarantee level, thereby producing \$165.7 million in budget year savings. The current year reduction includes deferring \$48.7 million in staff development payments from 2002-03 to 2003-04. The 2003-04 savings result because lower funding in 2002-03 decreases the 2003-04 Proposition 98 guarantee level.

### **Vehicle License Fee**

To date, the Legislature has not increased taxes to help close the budget gap. However, many observers anticipate that the so-called Vehicle License Fee (VLF) trigger will be pulled before the end of the fiscal year. The trigger was included in the original 1998 measure that reduced the VLF rate and provides for an automatic increase in the rate if the state has insufficient funds to continue payments to local governments to replace lost VLF revenues. The Governor's January budget discontinued \$2.9 billion in VLF backfill payments that cities and counties receive as general purpose revenues, but continued \$953 million in payments to counties that support programs transferred as part of the 1991 "realignment," which shifted program responsibilities to counties. Pulling the trigger would return the VLF rate to 1998 levels, thus restoring VLF revenues to cities and counties and discontinuing VLF backfill payments from the General Fund. Eliminating the backfill payments would result in \$953 million in General Fund savings attributable to the realignment backfill provided in the Governor's January Budget.

### **Senate and Assembly Republicans Offer Budget Plans**

The Senate and Assembly Republican Caucuses have outlined budget plans. The plans both roll a portion of the deficit forward into future years, and neither would raise additional revenues to help close the budget gap. The plans also include deep unallocated reductions. Appendix 1 compares the major features of each plan to the Governor's January budget proposals.

## Appendix 1: Comparison of Key Budget Proposals

	<b>Governor’s January Budget</b>	<b>Senate Republican Proposal</b>	<b>Assembly Republican Proposal</b>
<b>Solutions to Bridge the Deficit</b>	Proposes \$13.7 billion in program reductions, \$8.3 billion in new tax revenues, \$5.1 billion in shifts to local government, and \$7.5 billion in loans, transfers, and other fund shifts	Accepts Governor’s proposals, except as noted below	Accepts Governor’s proposals, except as noted below
<b>New Taxes</b>	Includes \$8.3 billion in new taxes to support realignment	Includes no new taxes	Includes no new taxes
<b>“Rollover” Provision</b>	None	Carries over \$3.0 billion deficit from 2003-04 to 2004-05	Refinances \$10.0 billion of deficit by dedicating one-half cent of existing sales tax over five years
<b>Across-the-Board Reductions</b>	None	Includes \$5.1 billion across-the-board reduction in 2003-04. While described as a 7.0 % reduction, if Proposition 98 is funded at the minimum level, this translates into an 18.6 percent reduction to remaining programs. <sup>1</sup>	Includes \$940 million, 10% across-the-board cut in state operations, except higher education and debt service in 2003-04; \$12.6 billion overall reduction in spending in 2004-05 to freeze spending at 2003-04 levels. If Proposition 98 is funded at the minimum level, this translates into a 33.3 percent reduction to remaining programs. <sup>1</sup>
<b>Spending Freeze</b>	None	Multi-year freeze beginning in 2004-05	Freeze in at least 2004-05
<b>Proposition 98</b>	Overfunds the Proposition 98 spending guarantee in 2003-04 by \$104 million	Would require suspension of the Proposition 98 guarantee in 2003-04 if across-the-board reduction applies to K-14 education	Reduces 2002-03 Proposition 98 funding by \$206 million; fully funds the Proposition 98 guarantee in 2003-04

<sup>1</sup> This calculation excludes programs in which the state cannot reduce spending because they are required by the state constitution or are necessary to fulfill federal spending requirements. These programs include state contributions to state employees’ retirement plans; debt service; health and dental benefits for state retirees; Court and Federal Mandates; Temporary Assistance for Needy Families (TANF) maintenance-of-effort spending; the federal minimum spending on State Supplementary Payment recipients; special education expenditures required to meet federal requirements; and reimbursement to local governments for property taxes lost as a result of the homeowners’ exemption. Expenditures for 2004-05 are assumed to be the same as those for 2003-04.

	<b>Governor's January Budget</b>	<b>Senate Republican Proposal</b>	<b>Assembly Republican Proposal</b>
<b>Selected Governor's Program Reductions/Savings Not Included</b>	N/A	Increases program obligations in 2003-04 by \$4.7 billion	Increases program obligations in 2003-04 by \$7.4 billion and by \$10.7 billion in 2004-05, despite the spending freeze
<b><i>Realignment</i></b>	Realigns \$8.3 billion in health, human services, and child care programs to counties	Rejects proposal	Rejects proposal
<b><i>Health</i></b>	Makes deep reductions to Medi-Cal	Accepts Governor's proposals	Rejects Medi-Cal proposals to reduce provider payments by 15%, rollback coverage for 293,000 under the 1931(b) program, and eliminate dental coverage for adults
<b><i>Local Government</i></b>	Eliminates Vehicle License Fee (VLF) backfill, which reimburses local governments for losses from VLF reductions; shifts \$250 million in local redevelopment funds to schools	Rejects elimination of VLF backfill; rejects shift of redevelopment funds	Rejects elimination of VLF backfill; rejects shift of redevelopment funds

	<b>Governor's January Budget</b>	<b>Senate Republican Proposal</b>	<b>Assembly Republican Proposal</b>
<b>Selected New Program Reductions/Savings</b>			
<b><i>Health</i></b>		\$1.1 billion in one-time savings from shifting Medi-Cal accounting method; across-the board reduction in 2003-04 (see separate description above)	\$2.5 billion, including \$1.1 billion in one-time savings from shifting Medi-Cal accounting method; \$31 million from Medi-Cal copayments; \$76 million by rescinding continuous eligibility for children; 20% reduction in Medi-Cal county administration (\$110 million); and elimination of state-only health programs (\$183 million)
<b><i>Human Services</i></b>		Across-the-board reduction in 2003-04 (see separate description above)	\$314 million, including elimination of state-only human services programs (\$145 million) and increasing CalWORKs sanctions for noncompliance with work requirements (\$10 million)
<b><i>Corrections</i></b>		Across-the-board reduction in 2003-04 (see separate description above)	\$519 million in reductions; additional reductions of approximately \$533 million if 10% reduction to state operations is applied to Corrections
<b><i>Higher Education</i></b>		Rejects proposal to increase community college fees; across-the-board reduction in 2003-04 (see separate description above)	Increases community college fees by an additional \$2 to \$26 per unit; increases reductions by \$200 million for CSU and \$400 million for UC
<b><i>Local Government</i></b>		Includes an unspecified \$500 million local government "contribution"	Eliminates COPS and Juvenile Justice Grants

	<b>Governor's January Budget</b>	<b>Senate Republican Proposal</b>	<b>Assembly Republican Proposal</b>
<b>Proposition 42</b>	Suspends approximately \$1 billion General Fund transfer in 2003-04 to transportation funds	Defers, but does not suspend, the transfer	Defers, but does not suspend, the transfer
<b>Indian Gaming Revenues</b>	Includes \$1.5 billion revenues from Indian gaming activity	Rejects new gaming revenues	Rejects new gaming revenues
<b>Risk Factors</b>	\$8.2 billion realignment proposal; \$1.5 billion in gaming revenues; actual revenues for 2002-03 are below estimates	Feasibility of a \$5.1 billion across-the-board reduction in 2003-04	Viability of a \$10.0 billion bond without new revenues; \$390 million in assumed additional federal funds; feasibility of a \$12.6 billion reduction in 2004-05
<b>Comments</b>		\$5.1 billion reduction in 2003-04 would require a 18.6 percent across-the board cut if Proposition 98 is funded at minimum	\$12.6 billion reduction in 2004-05 would require a 33.3 percent across-the board cut if Proposition 98 is fully funded at minimum; proposal makes over \$1 billion in reductions to Corrections
<b>Actions to Date</b>	General Fund savings of approximately \$6.7 billion from program reductions, funding shifts, and other actions taken in March and May 2003	General Fund savings of approximately \$6.7 billion from program reductions, funding shifts, and other actions taken in March and May 2003	General Fund savings of approximately \$6.7 billion from program reductions, funding shifts, and other actions taken in March and May 2003