

June 2005

**THE 2005-06 BUDGET:
FROM THE MAY REVISION TO THE BUDGET CONFERENCE COMMITTEE**

The Legislature's budget subcommittees reviewed the Governor's 2005-06 Budget proposals during the spring and completed their work in late May following the release of the Governor's May Revision on May 13. The CBP's analysis of the May Revision is available at www.cbp.org. Unlike prior years, neither the Assembly nor the Senate approved the budget plans crafted by their respective budget subcommittees. Instead, issues on which the two houses failed to reach agreement were sent directly to the two-house Conference Committee on the 2005-06 Budget (SB 77), which began meeting on Wednesday, June 1. The Conference Committee members are:

- Assemblymember John Laird, D-Santa Cruz (Chair);
- Assemblymember Judy Chu, D-Monterey Park;
- Assemblymember Rick Keene, R-Chico;
- Senator Wesley Chesbro, D-Arcata;
- Senator Denise Moreno Ducheny, D-San Diego; and
- Senator Dennis Hollingsworth, R-Murrieta.

The Conference Committee completed a "first pass" through all of the items in the nearly 300-page agenda on Friday, June 3. The Committee may meet over the weekend and will continue deliberations during the week of June 6. The Committee has thus far held open several major issues, including the level of funding for K-14 education and whether to suspend state cost-of-living adjustments (COLAs) for grants to low-income families, seniors, and people with disabilities. Major issues before the Conference Committee are identified below. Please visit the CBP's website at www.cbp.org for periodic updates.

The Governor's May Revision, which addresses a shortfall of approximately \$6 billion, made relatively few changes to the Governor's 2005-06 Budget as proposed in January, although a few "big-ticket" revisions were announced, including:

- Dropping the Governor's proposal to issue an additional \$1.7 billion in deficit financing bonds;
- Shifting \$1.3 billion in sales tax revenues from the General Fund to transportation;
- Adding \$211.1 million in 2004-05 and 2005-06 for the Department of Corrections, largely related to previously assumed savings that are no longer anticipated; and
- Early repayment of \$593.4 million of the Vehicle License Fee (VLF) "gap loan" owed to counties and cities. The Governor's proposal would pay off approximately half of this outstanding debt a year early.

K-14 EDUCATION

The largest outstanding issue in this year's budget negotiations is funding for K-14 education. Disagreement between the Legislature and the Governor centers on the implementation of an agreement between the Governor and education advocates that led to the suspension of the Proposition 98 school funding guarantee in the current year. The disagreement stems from the fact that the Proposition 98 guarantee for 2004-05 has increased due to the state's higher than previously anticipated revenue collections.

The 2004-05 budget agreement suspended the Proposition 98 guarantee and established a target funding level for schools that was \$2 billion below the required level. In January, the Governor proposed to maintain 2004-05 Proposition 98 spending at the dollar level contained in the 2004 Budget Act. Education advocates, however, argue that funding should be based on the target established in the budget agreement. Over a two-year period, the difference between the Governor's position and the 2004-05 Budget target totals \$3.1 billion. The Senate increased Proposition 98 funding by \$2 billion above the level provided by the Governor for 2005-06. The Assembly maintained funding approximately at the level of the Governor's May Revision. However, in a May 31 press conference, Assembly Speaker Fabian Núñez indicated that the Assembly Democrats propose full funding of Proposition 98 by reinstating higher tax brackets on wealthy Californians.

The Governor also maintained his January proposal to shift part of the state's current payment into the State Teachers' Retirement System to school districts and community college districts. The state's payment is currently outside of the Proposition 98 guarantee. The shift would cost school districts \$469 million to continue pension contributions. Both the Assembly and Senate rejected this proposal.

The Governor's May Revision also provided \$251.8 million in one-time funding as partial payment for prior-year Proposition 98 obligations. The May Revision earmarked most of this one-time funding for nine new programs. The Senate voted to reject these new programs and instead allocate \$242.0 million to schools as payment for prior-year education mandate costs. The Assembly also voted to reject all but one of the Governor's new programs and allocate \$240.3 million to K-12 education to pay off prior-year mandate claims.

CALWORKS

The two houses rejected most of the Governor's proposed reductions and policy changes to the state's welfare-to-work program, including proposals to:

- Reduce grant levels by 6.5 percent beginning October 1, 2005. This change would reduce spending for CalWORKs by \$164.8 million in 2005-06.
- Eliminate the statutory requirement to provide an annual COLA for CalWORKs grants. However, the Assembly and Senate did not agree on whether to fund or to suspend, for one year, the 4.07 percent COLA that is scheduled to take effect on July 1, 2005. The Senate voted to fund the COLA, but the Assembly suspended it. As a result, this issue is before the Conference Committee. The maximum monthly grant for a family of three in a high-cost county would increase from \$723 to \$752 if the COLA is not suspended.

- Use \$201.4 million in federal Temporary Assistance for Needy Families (TANF) funds for county probation services.

The May Revision rescinded the Governor's January budget proposals to revise the CalWORKs sanctions policy and reduce the amount of earnings CalWORKs families can exclude when determining the grant level. The May Revision restored \$92.4 million in CalWORKs spending in 2005-06 to reflect the repeal of these proposals.

PROGRAMS FOR SENIORS AND PEOPLE WITH DISABILITIES

SSI/SSP

Both houses rejected the Governor's proposal to withhold the January 2006 federal COLA for Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants and to use those funds (\$97.7 million) to offset the state's costs for the program. However, the Governor's proposal to withhold the January 2006 state COLA is before the Conference Committee because the Senate rejected the COLA suspension, but the Assembly took no action. Suspending the state COLA would reduce state spending by \$131.9 million in 2005-06. The state has suspended SSI/SSP COLAs, delayed SSI/SSP COLAs, and/or reduced SSI/SSP grants in 11 out of the past 16 years.

IHSS

Both houses rejected the Governor's proposal to reduce state participation in In-Home Supportive Services (IHSS) provider wages to the state minimum wage (\$6.75 per hour). Currently, the state pays a share of the costs for IHSS provider wages and benefits up to \$10.10 per hour and up to the Maximum Allowable Contract Rates for IHSS contract providers. Under current law, the state would pay a share of wages up to \$11.10 per hour in 2005-06.

CHILD CARE

Both houses rejected the Governor's major proposed changes to the state's subsidized child care system, including proposals to:

- Reduce reimbursement rates for license-exempt child care providers, which could have reduced the number of license-exempt providers and increased families' difficulty in obtaining child care appropriate to their circumstances;
- Impose a time limit on Stage 3 child care for former CalWORKs families, which would have required many working, low-income families to join already overcrowded waiting lists for subsidized child care;
- Shift families in Stage 3 as of June 30, 2005, to the Alternative Payment Program;
- Establish tiered reimbursement rates for licensed child care providers; and
- Use the federal poverty level (FPL), instead of state median income (SMI), as the economic indicator to determine eligibility for subsidized child care. This change could have reduced the number of families who qualify for subsidized child care, since the FPL tends to increase more slowly than SMI.

MEDI-CAL

The Governor released a plan to restructure the Medi-Cal Program in January 2005. Both houses rejected the Governor's proposals to:

- Establish premiums for more than 500,000 Medi-Cal beneficiaries, including children, seniors, and people with disabilities. More than 90,000 beneficiaries could have lost Medi-Cal coverage under this proposal.
- Require mandatory enrollment of more than 800,000 additional beneficiaries, including seniors and people with disabilities, in Medi-Cal managed care. However, both houses voted to allow expansion of Medi-Cal managed care to additional counties. Enrollment of seniors and people with disabilities in these new counties would be either mandatory or voluntary, depending on the managed care model adopted.
- Allow a centralized contractor to process certain Medi-Cal applications for children.

Both houses modified the Governor's proposal to cap Medi-Cal dental benefits for adult beneficiaries by establishing a higher cap of \$1,800 per year with more exclusions than were included under the Governor's proposal. The Assembly and Senate did not take action on the Governor's proposed restructuring of the state's safety-net hospital financing system because negotiations between the state and federal governments over funding and the structure of the new system have not yet concluded. The state's current federal waiver governing financing for safety-net hospitals expires on June 30, 2005. An analysis of the Governor's restructuring plan is available on the CBP website at www.cbp.org.

TRANSPORTATION

Both houses supported the Governor's May Revision proposal to drop the suspension of the \$1.3 billion Proposition 42 transfer from the General Fund to transportation programs. Both houses also rejected the Governor's May Revision proposal to tie the availability of Proposition 42 funds to the passage of the Governor's "GoCalifornia" bill package, which includes a toll roads proposal.

STATE EMPLOYEES

Both houses rejected the Governor's proposed \$408 million in reductions related to state employees compensation, including:

- Creating a new defined-benefit retirement plan,
- Eliminating two paid state holidays,
- Providing health care benefits to new employees only after six months,
- Giving the Governor authority to furlough state employees for up to five days,
- Eliminating leave time from overtime calculations, and
- Capping the accrual of vacation and annual leave.

HOUSING

Both houses generally supported the May Revision's proposed "Governor's Chronic Homelessness Initiative." Both houses rejected the Governor's proposals to:

- Provide \$750,000 to the Department of Housing and Community Development for predevelopment loans for shelters and services for chronically homeless individuals. Instead, these loans would be funded with revenues raised through Proposition 63, the mental health services initiative passed by voters in November 2004.
- Allocate \$250,000 to an Interagency Council on Homelessness. Both houses reduced this amount to \$125,000.

Savings from these actions would be used to restore funding to the Emergency Housing and Assistance Program, which the Governor reduced by \$0.9 million in his January Proposed Budget.

In addition, the May Revision proposed a one-time \$1 million General Fund augmentation, to be combined with up to \$40 million of Proposition 46 housing preservation funds and \$10 million from the California Housing Finance Agency, for supportive housing with services for chronic mentally ill populations. The Legislative Analyst's Office indicated that the redirection of Proposition 46 funds was unnecessary. The Senate directed staff to draft language to allow a portion of the housing preservation money to be used for supportive housing. The Assembly also rejected the Administration's proposed language. This issue will be considered by the Conference Committee.

LOCAL GOVERNMENT

Both houses moved the Vehicle License Fee (VLF) "gap loan" issue to Conference Committee. The full VLF "gap" amount, \$1.2 billion, is attributable to the shortfall in state VLF payments to local governments for vehicle registration renewals and new registrations with due dates between July 1, 2003 and October 1, 2003. The May Revision proposed to repay cities and counties \$593.4 million – about half – of VLF revenues lost in 2003-04 due to the elimination of the VLF backfill. This "gap loan" is due to be repaid in full by 2006-07.

The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.
