

June 15, 2005

ASSEMBLY FAILS TO PASS 2005-06 BUDGET BILL

On Wednesday, June 15, the Assembly failed to pass the 2005-06 Budget (SB 77) approved by the Budget Conference Committee on June 10. SB 77 received more than a majority vote, but less than the two-thirds vote required to pass a budget. No Republicans voted for the Budget. The budget package spends \$89.2 billion, assumes revenues of \$84.4 billion, and provides a \$1.3 billion reserve. A \$6.8 billion carry-in balance would make up the difference between spending and revenues. The Assembly also debated a measure (AB 6) increasing the tax rates imposed on the wealthiest Californians with the revenues dedicated to education. This measure also received a majority vote, but less than the two-thirds vote required for passage.

The State Senate is scheduled to take up the budget at 5:00 pm on Wednesday, June 15. The Budget bill must receive a two-thirds vote in each chamber. At least six Republican votes are needed in the Assembly and at least two Republican votes are needed in the Senate in order to meet this threshold. The Legislature has not met the June 15 constitutional deadline for passage of the annual budget since 1986.

This analysis reviews major elements of the 2005-06 Budget as proposed in SB 77. Please check the CBP website at www.cbp.org for periodic updates on budget developments.

K-14 Education

SB 77 funds Proposition 98 at approximately the level proposed in the Governor's May Revision. The May Revision maintained the Governor's January proposal to keep 2004-05 Proposition 98 spending at the dollar level contained in the 2004-05 Budget Act. The Governor's proposal also uses the 2004-05 Budget Act as the basis for the 2005-06 Proposition 98 funding level. The Legislative Analyst's Office (LAO) has estimated that, over the two-year period, the difference between holding Proposition 98 at the 2004-05 Budget Act level and the target assumed in the 2004-05 budget agreement is \$3.1 billion due to higher than previously anticipated revenues. SB 77 funds enrollment growth and cost-of-living adjustments (COLAs) of 4.23 percent for revenue limits (general purpose support provided to schools) and other programs totaling \$2.040 billion.

SB 77 also rejects the Governor's proposal to shift \$469 million of the state's current payment into the State Teachers' Retirement System to school districts and community college districts.

According to the LAO, SB 77 also allocates \$242 million in one-time funding to schools as payment for prior-year education mandate costs. The Governor's May Revision proposed to use these one-time funds for nine new programs.

CalWORKs

SB 77 and related legislation:

- Suspend the statutory COLA for grants for low-income families for two years. This action would freeze the maximum monthly CalWORKs grant for a family of three in high-cost counties at \$723 through 2006-07 and could result in combined General Fund and federal Temporary Assistance for Needy Families (TANF) block grant savings of more than \$300 million over the two-year period. CalWORKs grants have lost nearly one-third of their purchasing power since 1989-90 due to prior grant reductions and COLA suspensions.
- Accept the Administration's proposal to use \$65.6 million in TANF funds for Child Welfare Services (CWS) in 2004-05 and \$172.6 million in TANF funds for CWS, the Department of Developmental Services, and the Foster Care Program in 2005-06. These transfers would reduce General Fund spending for these programs and reduce the amount of funding allocated to CalWORKs.

SSI/SSP

SB 77 and related legislation suspend the state SSP COLA for Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program grants for two years, for savings of more than \$400 million over the two-year period. SSI/SSP assists low-income persons who are elderly, blind, or have disabilities to meet basic needs and living expenses. Monthly grants are currently \$812 for individuals and \$1,437 for couples. This action would not preclude the state from "passing through" the annual federal COLA on the SSI portion of the grant. SSI/SSP grants would continue to lose ground to inflation if the 2005-06 Budget includes the state COLA suspension.

Health

SB 77 does not reflect the Governor's multi-part proposal to restructure the Medi-Cal Program, since both houses rejected most of it. However, SB 77:

- Allows expansion of Medi-Cal managed care to additional counties, with mandatory or voluntary enrollment of seniors and people with disabilities depending on the managed care model adopted.
- Modifies the Governor's proposal to cap Medi-Cal dental benefits for adults by establishing a higher cap of \$1,800 per year with more exclusions than the Governor's proposal would have allowed.
- Does not include changes to the state's system of financing safety-net hospitals, as negotiations between the state and federal governments over funding and the structure of a new system have not yet concluded.

In addition, SB 77:

- Includes the Governor's proposal to obtain additional federal funds for prenatal care services in the Medi-Cal Program and the Access for Infants and Mothers (AIM) Program for total state savings of \$290 million in 2004-05 and 2005-06.

- Does not include the Governor’s proposal to create a drug discount program with voluntary participation by drug manufacturers.
- Achieves General Fund savings by using Proposition 99 funds to cover the cost of certain hospital rate increases in the Medi-Cal Program.

Child Care

SB 77 reflects both houses’ rejection of most of the Governor’s proposed changes to the state’s subsidized child care system. However, SB 77 adopts the Governor’s proposal to create a centralized eligibility list in each county.

In-Home Supportive Services

SB 77 rejects the Governor’s proposal to reduce the state’s contribution toward In-Home Supportive Services workers’ wages to the minimum wage.

Transportation

SB 77 funds the Proposition 42 transfer of sales tax revenues attributable to fuel sales to transportation programs, as proposed in the May Revision. The Budget assumes that bonds backed by tribal gaming revenues will generate \$1 billion in 2005-06. These funds will be used to partially repay loans made from the Traffic Congestion Relief Fund to the General Fund.

SB 77 reflects the Governor’s January assumption that \$380 million in “spillover” revenues resulting from high gasoline prices will not be transferred from the General Fund to transportation programs.

State Employees

SB 77 reflects both houses’ rejection of the Governor’s proposed \$408 million in reductions to state employees’ compensation.

Housing

SB 77 and related legislation:

- Adopt language negotiated between the California Housing Finance Agency (CalHFA) and the Affordable Housing Collaborative to allow \$5 million of Proposition 46 funds to remain in the preservation program, rather than transferring the entire balance into the Governor’s Chronic Homelessness Initiative as proposed in the May Revision.
- Direct \$1 million in federal regional blueprint planning funds to councils of government (COGs) for Regional Housing Needs Assessments (RHNA’s).
- Authorize the Department of Housing and Community Development (HCD) to use up to \$5.2 million of Proposition 46 funds for migrant farmworker centers and approximately \$8.1 million for a new, more flexible migrant farmworker housing pilot program.
- Restore \$0.9 million to the Emergency Housing and Assistance Program, rejecting the Governor’s proposal to reduce the program by this amount.

Local Government

SB 77:

- Rejects the Governor’s May Revision proposal to repay cities and counties \$593.4 million – about half – of the Vehicle License Fee (VLF) “gap” loan owed to local governments. The gap loan was originally scheduled for repayment in August 2006.
- Includes \$25 million and budget bill language providing for a pool of funds for advance payment of the VLF gap loan as well as reimbursement to cities and special districts for booking fee costs. These funds would be allocated by the Department of Finance on a “hardship” basis.
- Restores full funding to the Small and Rural Sheriffs Program (\$18.5 million).
- Maintains funding for the Citizens’ Options for Public Safety (COPS) and Juvenile Justice Crime Prevention programs at \$100 million each.
- Restores the \$5.7 million reduction in the January Proposed Budget for ongoing grants to counties for property tax administration. The May Revision had proposed to restore about half of the reduction.

Community Colleges

SB 77 maintains the funding increase for growth in enrollment and a COLA for the California Community Colleges (CCC) contained in the Governor’s January Budget. SB 77 provides \$20 million, rather than the \$40 million proposed in the May Revision, to reduce disparities among community colleges with respect to funding received for each full-time equivalent student (FTES) enrollment. SB 77 allocates \$10 million to increase the funding rate for noncredit instruction and \$10 million to cover the cost of prior year CCC mandates. SB 77 does not assume an increase in CCC student fees.

Higher Education

SB 77 increases General Fund support for higher education by \$52 million above the level proposed in the May Revision. SB 77 provides a 3 percent COLA for both the California State University (CSU) and the University of California (UC) and increases for enrollment growth of 2.5 percent for the CSU and the UC. Funding for higher education reflects increases in student fees at both the CSU and the UC of 8 percent for undergraduates and 10 percent for graduate students, for \$190 million in new revenues.

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