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WHAT ARE THE MAJOR DIFFERENCES BETWEEN THE MAY REVISION AND THE LEGISLATURE'S BUDGET (SB 77)?

On May 13, the Governor released his May Revision to the Proposed 2005-06 Budget. On June 15, both the Assembly and Senate rejected SB 77, the legislative version of the 2005-06 Budget that had been approved by Conference Committee, on a party-line vote. Both houses passed the budget by a majority, but less than the required two-thirds vote. This analysis reviews the major differences between the Governor's and Legislature's spending plans.

K-12 Education

- The Governor's May Revision maintained his January proposal to move \$469 million in teacher retirement costs, which the state currently pays out of non-Proposition 98 funds, under the Proposition 98 guarantee. The Legislature rejected this proposal and instead allocated an additional \$400 million in discretionary funds to local school districts. In May, the Legislative Analyst noted that the Governor's proposal could require an upward adjustment in the Proposition 98 guarantee that would eliminate the Governor's proposed savings.
- The Governor's May Revision also provided \$251.8 million in one-time funding toward prior years' Proposition 98 obligations, and earmarked most of this funding for nine new programs. The Legislature rejected the nine new programs and instead allocated \$242 million in one-time funding to schools as payment for prior-year education mandate costs.

CalWORKs

- The Governor proposed to eliminate the cost-of-living adjustment (COLA) required by current law and reduce CalWORKs grant levels by 6.5 percent. The Legislature suspended the COLA for two years, but rejected the Governor's proposal to reduce grants below their current level. The Governor's proposal would have reduced grant payments below their 1989 level.

IHSS

- The Governor proposed to eliminate state funding for In-Home Supportive Services (IHSS) provider wages above the state's minimum wage of \$6.75 per hour, a cut of \$213.7 million in 2005-06. The Legislature rejected this proposal and maintained state funding for its share of provider wages and benefits up to \$10.10 per hour.

SSI/SSP

- The Governor proposed to withhold the federal January 2006 COLA for Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants and use those funds (\$97.7 million) to offset the state's costs for the program, which helps low-income seniors and people with disabilities meet basic living expenses. The Governor also proposed to suspend the January 2006 state COLA for General Fund savings of \$131.9 million in 2005-06. The Legislature rejected the proposal to withhold the federal COLA, but suspended the state COLA for two years.

Child Care

- The Governor proposed major changes to the state's subsidized child care system, including reducing reimbursement rates for license-exempt child care providers, for savings of \$162.9 million in 2005-06. The Legislature rejected these proposals.

Medi-Cal

- The Governor proposed to restructure the Medi-Cal Program, including moving more than half a million seniors and people with disabilities into Medi-Cal managed care plans. The Legislature rejected the Governor's managed care proposal and rejected or modified other parts of the restructuring plan. However, the hospital financing waiver agreement between California and the federal government, announced on June 22, makes \$360 million in federal Medicaid funds contingent on the adoption of the Governor's managed care proposal.

State Employees

- In January, the Governor proposed \$408 million in reductions to state employees' compensation. The Legislature rejected the proposed reductions. In May, the Legislative Analyst noted that the Governor's savings "are dependent upon collective bargaining negotiations, which have just begun for the bargaining units involved."

Local Government

- In the May Revision, the Governor proposed to repay cities and counties \$593.4 million – about half – of the Vehicle License Fee (VLF) "gap" loan owed to local governments. The Legislature rejected this proposal and provided \$25 million for a pool of funds for advance payment of the gap loan as well as reimbursement to cities and special districts for booking fee costs. The gap loan is scheduled for repayment in August 2006.

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