State Spending Plan for 1990-91

The 1990 Budget Act and Related Legislation

Legislative Analyst's Office
August 1990

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Overview

This report summarizes the fiscal effect of the 1990 Budget Act (Chapter 467 - SB 899) including the effects of major legislation accompanying the budget which is part of the overall state spending plan for 1990-91. The report begins by recounting the history of this year's budget crisis, and describing how it was resolved. It then highlights the funding levels that were ultimately approved for the state's major programs in 1990-91. Finally, this report discusses projected state revenues for 1990-91, including the key assumptions underlying the projections and revisions that have been made to them since the Governor's Budget was introduced in January.

The expenditure and revenue estimates contained in this report are not predictions of what the final budget totals for fiscal year 1990-91 will be. Rather, these estimates reflect: (1) the most recent projections of revenue to the General Fund and (2) the administration's assumptions about caseloads under various entitlement programs. As the fiscal year progresses, these estimates will be revised to reflect such factors as:

- Unanticipated economic developments such as might result from the current conflict in the Persian Gulf;
- Changes in the rates of expenditure under entitlement programs, such as Aid to Families With Dependent Children (AFDC) and Medi-Cal;
- The enactment of new legislation;
- The fiscal effect of ballot measures approved by the electorate;
- Administrative actions taken by the executive branch;
- Decisions handed down by the courts; and
- Actions taken by the Congress and the President on the 1991 federal budget.

General Fund Condition

Table 1 shows the *administration's* estimates of the General Fund's condition on June 30, 1990 and the effects on the General Fund of revenue and expenditure programs approved for 1990-91.

These estimates of revenues and expenditures indicate that the balance in the General Fund was $694 million at the end of 1989-90. Of this amount, $279 million is committed for unliquidated encumbrances and $174 million must be reserved for Proposition 98 programs. On this basis, the uncommitted balance in the Special Fund for Economic Uncertainties (SFEU), on June 30, 1990 was $241 million. The administration estimates that the SFEU will have a balance of $1.3 billion as of June 30, 1991.

Table 1

The 1990 Budget Act Condition of the General Fund[a] 1989-90 and 1990-91
(in millions)

	1989-90	1990-91
Starting Balance — July 1	$1,134	$694
Revenues and Transfers	39,258	42,915
Total Resources Available	$40,392	$43,609
Expenditures	$39,698	$41,768
Set-Aside	—	264
Total Expenditures	$39,698	$42,032
Ending Balance — June 30	$694	$1,577
Special Fund for Economic Uncertainties	($241)	($1,299)
Unliquidated Encumbrances	(279)	(279)
Proposition 98	(174)	(298)

[a] *Source:* Department of Finance.

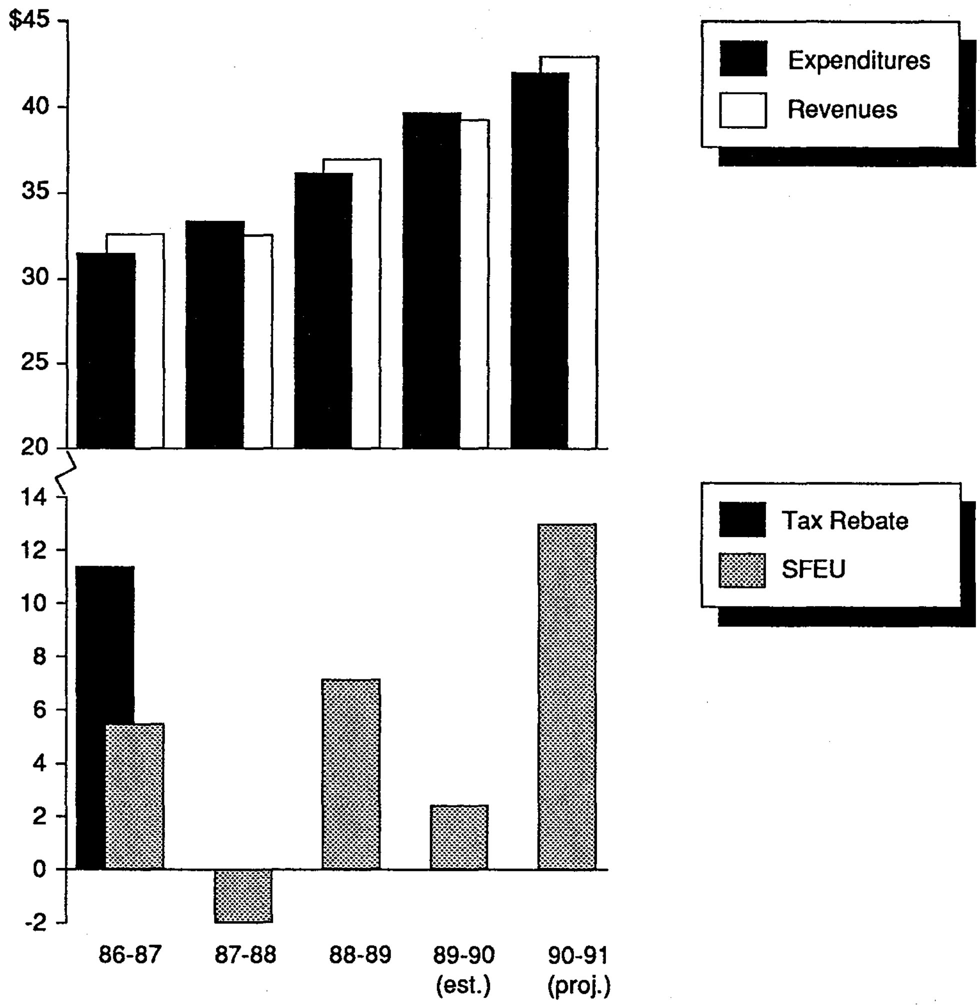
The actual General Fund condition as of June 30, 1990 will not be known until September or October of 1990, when the State Controller reports revenues and expenditures for the year on an accrual accounting basis. In July, the State Controller reported that the General Fund ended the 1989-90 fiscal year with a *cash* balance of zero in the General Fund and in the SFEU. The Controller's report further indicates that expenditures exceeded revenues and General Fund reserves by $645 million on a cash basis, and that this amount was financed by borrowing from other state special funds and accounts. *Although these figures may change to reflect the effect of accrual adjustments, they indicate that the General Fund's condition for 1989-90 is likely to have been less favorable than portrayed by the administration's figures.*

Figure 1 provides a historical perspective on the level of General Fund revenues, expenditures and the SFEU for the period 1986-87 through 1990-91. As the figure shows, the SFEU has been maintained at relatively low levels throughout the period indicated. The revenue and expenditure programs enacted in the 1990 Budget Act, however, would bring the balance in the SFEU up to $1.3 billion for 1990-91, or about 3 percent of General Fund expenditures, based upon the administration's estimates.

Figure 1

Comparison of General Fund Revenues, Expenditures, and the Special Fund for Economic Uncertainties (SFEU)

1986-87 through 1990-91
(in billions)



[a] Figures for 1986-87 through 1988-89 are based on data from the State Controller's Office. Figures for 1989-90 and 1990-91 are from the Department of Finance.

Total Expenditures

Table 2 shows the level of state expenditures approved for 1990-91 and compares it to the level of expenditures in 1988-89 and 1989-90.

Total state expenditures authorized for 1990-91, which include expenditures from the General Fund, special funds and selected bond funds, amount to $54.8 billion. This amount includes the amounts vetoed by the Governor from the K-12 budget, which must be spent in order to fulfill the Proposition 98 minimum funding guarantee for K-14 education. This level of total expenditures is $5.1 billion, or 10 percent, more than estimated expenditures in 1989-90.

General Fund expenditures for 1990-91 amount to $42 billion. This is $2.3 billion, or 5.9 percent, more than the estimated level of General Fund expenditures in 1989-90.

Table 2

The 1990 Budget Act
Total Expenditures[a]
1988-89 through 1990-91
(in millions)

Fund	1988-89 Actual	1989-90 Estimated	1990-91 Enacted	Change From 1989-90 Amount	Change From 1989-90 Percent
General Fund	$36,146[b]	$39,698	$42,032[c]	$2,334	5.9%
Special funds	6,223	7,762	8,859	1,095	14.1
Selected bond funds	2,514	2,271	3,898	1,627	71.6
Total State Expenditures	$44,883	$49,731	$54,789	$5,058	10.2

[a] *Source:* Department of Finance. Detail may not add to totals due to rounding.
[b] *Source:* State Controller's Office.
[c] Includes full funding for K-14 education under Proposition 98.

The 1990 General Fund Budget

After the longest budget negotiations in California history, the Budget Act of 1990 (Ch 467/90) was signed by the Governor on July 31, 1990. This section first describes the major fiscal events in the 1990 budget process and the agreement by which the budget negotiations were ultimately concluded. This discussion focuses on the General Fund only, and is followed by a separate section on state special and bond fund spending.

The Evolution of the 1990 Budget Problem

Table 3 recounts how the 1990-91 budget problem developed.

Initial Budget Situation. As Table 3 shows, when the Governor released his 1990-91 budget proposal in January of this year, it was estimated

Table 3

The 1990 Budget Act
Evolution of the 1990-91 Budget Problem

(in millions)

Governor's January Budget:		
Revenues and Transfers	$43,102	
Prior-year Resources	815	
Total resources	$43,917	
Workload Budget Expenditures	$44,215	
Reserve funding requirements (3% level)	1,603	
Total funding requirements	$45,817	
Budget Gap as of January		-$1,901
Subsequent Changes:		
Reduction in 1989-90 revenues	-$544	
Reduction in 1990-91 revenues	-1,064	
1989-90 expenditure reduction	125	
1990-91 expenditure increase	-257	
Total, subsequent changes		-$1,740
Budget Gap as of June		-$3,641

that the state faced a $1.9 billion funding gap. In other words, the cost of maintaining current service levels in existing programs, complying with existing state and federal requirements for the expansion of certain programs, and restoring the state's reserve to the 3-percent-of-expenditures level would require General Fund expenditures of $45.8 billion. Total General Fund resources for 1990-91, however, were only estimated to be $43.9 billion, leaving the state with a $1.9 billion shortfall between available resources and funding requirements. As we noted in our report *The 1990-91 Budget: Perspectives and Issues*, this gap between expenditure requirements and resources reflects a structural imbalance in the state's budget — expenditure commitments have outstripped the ability of the revenue base to support them on an ongoing basis.

The Governor proposed closing this gap by taking a number of actions, primarily by reducing service levels in many existing programs. Largely unaffected by the Governor's proposed reductions, however, were K-14 education and Youth and Adult Corrections. The largest reductions from current service levels were proposed in the areas of Health and Welfare.

Structural Budget Problem Worsens at Spring Revision. Prior to the time that final negotiations on the 1990-91 budget began, the Department of Finance (DOF) released new estimates of state revenues and expenditures. As Table 3 shows, the DOF estimated that revenues for 1989-90 would be approximately $544 million lower than anticipated in January and revenues for 1990-91 would be $1.1 billion lower than anticipated.

The department's estimates of state expenditures were changed to reflect the effect of changed caseloads and certain other efforts to reduce 1989-90 expenditures, including a spending freeze imposed by the Governor in June. For 1989-90, the administration estimated that General Fund expenditures would be approximately $125 million *less* than was anticipated in January. General Fund expenditures for the Governor's proposed 1990-91 budget, however, were estimated to increase by approximately $260 million.

Together, the $1.6 billion reduction in estimated revenues and the net increase in costs of $130 million brought the total funding gap to $3.6 billion, up from the $1.9 billion estimated in January.

How the $3.6 Billion Gap Was Resolved

This section describes how the $3.6 billion funding gap was resolved by the Legislature and the administration. As Table 4 indicates, a combination of revenue increases and expenditure reductions was ultimately agreed upon by the Legislature and the administration.

Legislative Action on the Budget Bill. As shown in Table 4, specific adjustments made by the Legislature to the Governor's Budget resulted in a net expenditure reduction of over $1 billion. This total is slightly higher (about $150 million) than the level of budget reductions *not* requiring legislation proposed by the Governor in January. Many of the Governor's original proposals are reflected in the adopted budget. However, there are several significant differences. For example, the

Table 4

The 1990 Budget Act
Outline of the Budget Agreement

(in millions)

Increased Revenues:		
Budget Bill Adjustments	$82	
Revenue Legislation	795	
Additional 1989-90 transfers	26	
Total, increased revenues		$904
Reduced Expenditures:		
Budget Bill:		
Specific Adjustments	$1,061	
Unallocated Reduction	222[a]	
Expenditure Legislation	1,091	
Governor's Vetoes (net)	364	
Total, reduced expenditures		$2,738
Total, Budget Package		**$3,642**

[a] Initial DOF estimate; does not reflect effect of potential adjustments.

Legislature rejected the Governor's proposal to reduce funding for caseload growth in the Child Welfare Services (CWS) program ($38 million) and his proposal to use bond funds for state operations purposes in the Department of Corrections and the California Youth Authority ($27.3 million). In addition, the Legislature made some reductions that were not proposed by the Governor in January, including a $175 million reduction in the Medically Indigent Services/County Medical Services programs and the elimination of the Assistance to Counties for the Defense of Indigents program ($13 million).

In addition to the $1,061 million in specific reductions discussed above, the Budget Bill also provided authority to the Director of Finance to make additional unallocated reductions in all appropriations for support of state agencies, with certain exceptions. The department's initial estimate of savings resulting from this authority is $222 million in 1990-91. Adjustments to this figure will occur, however, as the specific adjustments to be made for each department are determined.

Legislative Action on Other Spending Measures. The second component of this year's budget package was $1,091 million in expenditure savings achieved through the passage of legislation. This total compares to approximately $700 million in savings from expenditure legislation proposed in the January Governor's Budget. The major differences are the rejection of the Governor's proposed In-Home Supportive Services program and AB 8 County Health Services program reductions, and the inclusion of the State Teachers' Retirement System (STRS) and Public Employees' Retirement System (PERS) retirement contribution savings measures. Table 5 identifies each of the expenditure measures and its fiscal effect. More detailed descriptions of these measures and their impacts are included in the relevant program area discussions found later in this report.

Table 5

The 1990 Budget Act
Expenditure Legislation Accompanying the Budget

(in millions)

Measure	Description	Savings
Ch 457/90 (SB 2097, Maddy)	COLA suspensions:	
	AFDC	$114
	SSI/SSP	145
	AB 8	21
	IHSS	3
Ch 456/90 (AB 3573, Baker)	Medi-Cal drug savings, beneficiary COLA	34
Ch 466/90 (SB 2557, Maddy)	Trial Court Funding cuts	57
Ch 459/90 (SB 1333, Dills)	Optional mandates	31
Ch 449/90 (AB 160, Polanco)	Subventions to Redevelopment Agencies	29
Ch 460/90 (SB 1370, C. Green)	State Teachers' Retirement System	479
Ch 463/90 (SB 1809, Kopp)	Public Employees' Retirement System	126
Ch 464/90 (SB 2319, Alquist)	Renters' Credit	50
Total, expenditure legislation savings		$1,091

Legislative Action on Revenue Measures. The third component of the budget package is $795 million in increased state revenues attributable to new legislation. The Governor's Budget as proposed in January proposed no new legislation to increase revenues. Table 6 provides a brief summary of these measures. They are discussed in more detail in the section on revenues found later in this report.

Amounts Vetoed by the Governor. The Governor vetoed a total of $364 million from the Budget Bill, net of monies set aside for specific purposes and funds associated with expenditure legislation contained in the budget package.

Table 7 shows the program areas in which the General Fund reductions were made.

Table 6

The 1990 Budget Act
Revenue Legislation Accompanying the Budget
(in millions)

Measure	Description	Revenue
Ch 452/90 (AB 274, Isenberg)	Federal tax conformity	$561
Ch 453/90 (AB 1109, Katz)	Vehicle smog impact fee	50
Ch 450/90 (SB 57, Lockyer)	Unclaimed property escheat period	137
Ch 462/90 (SB 1806, Torres)	Drinking water fees	4
Ch 464/90 (SB 2319, Alquist)	Real estate tax withholding	43
Total, revenue legislation		$795

Table 7

The 1990 Budget Act
Governor's Vetoes By Program Area
(in millions)

Program	Amount Vetoed[a]
Legislative/Judicial/Executive	$4.7
State and Consumer Services	1.5
Business, Transportation & Housing	9.6
Resources	1.7
Health and Welfare	210.8
Youth & Adult Corrections	33.0
K-12 Education	44.3
California Community Colleges	23.4
Other Higher Education	13.2
Other Governmental Services	21.4
Total	$363.6

[a] Veto amounts do not include reductions associated with expenditure legislation and amounts vetoed but proposed for subsequent appropriation (set-asides).

The 1990 Budget for State Special and Selected Bond Funds

This section describes the changes made to the state budget for special and selected bond fund spending. Table 8 provides a summary of the changes.

Table 8

The 1990 Budget Act
Summary of Actions Taken on State Special and Selected Bond Funds

(in millions)

	Expenditures	
	Special Funds	Selected Bond Funds
Governor's Budget as submitted (January)	$7,870	$3,213
Changes initiated by the administration	1,119	703
Governor's Budget as revised (June)	$9,031	$3,916
Changes made by the Legislature	-89	-55
Legislature's Budget	$8,942	$3,861
Governor's Vetoes	-83	37
Total Spending, Budget as Chaptered	$8,859	$3,898

The Governor's Budget

Table 8 indicates that in his January budget, the Governor proposed expenditures of $7.9 billion from state special funds and $3.2 billion from selected bond funds during 1990-91. In May and June, the Governor proposed changes to the spending plan that increased special fund expenditures by $1.1 billion and selected bond fund expenditures by $703 million.

The increase in special fund expenditures resulted largely from voter approval of Proposition 111 in June, which allowed legislation increasing the state's gasoline tax and other transportation revenues to take effect. The additional revenues allowed for an expansion of the state's transportation budget. The increase in the budget for selected bond fund expenditures reflects voter approval of Proposition 108 in June, providing a $1 billion bond issue for mass transit improvements.

Legislative Action on the Governor's Budget

Legislative action on the Governor's Budget resulted in a net expenditure *decrease* of $89 million from special funds and $55 million from selected bond funds.

Amounts Vetoed by the Governor

The Governor vetoed a total of $83 million from state special funds, primarily funding for local flood control subventions. He also took actions on selected bond fund expenditures which have the effect of *increasing* the expenditure total. (A proposed reversion of existing funding authority for prison construction was deleted, thereby increasing funds available for expenditure.)

Historical Perspective on General Fund and Special Funds Expenditures

To put this year's budget in perspective, the growth in expenditures authorized for 1990-91 must be compared with the growth in expenditures in recent years.

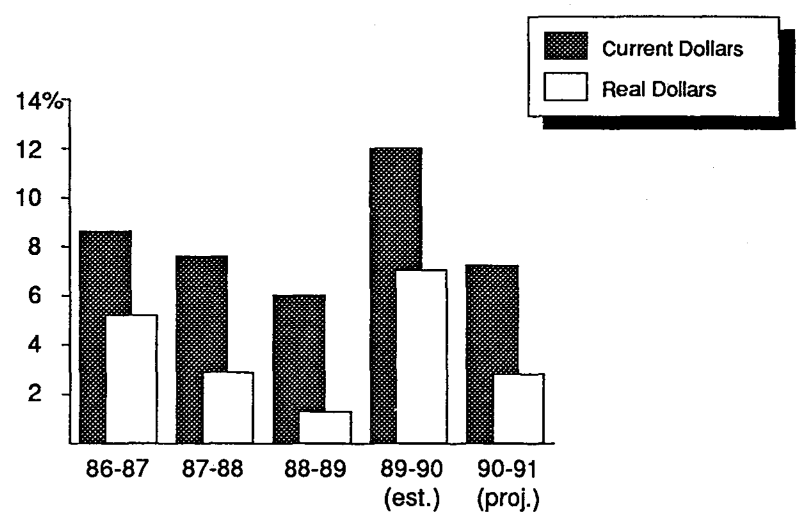
Changes in state spending in "current" and "real" dollars. Changes in spending levels can be compared two different ways — in "current" dollars and in "real" dollars. "Current" dollars make no allowance for the effect of inflation on purchasing power. In contrast, "real" dollars represent current dollars adjusted to remove the effects of inflation. Comparing growth rates in terms of "real" dollars allows expenditure growth rates in different years to be compared on a common basis.

Figure 2 shows the growth trend in recent total state spending (which includes spending from the General Fund and state special funds, but does not include spending from bond or federal funds), on an annual percentage basis, both in terms of current dollars and real dollars. It indicates that measured in current dollars, total state expenditures in 1990-91 will exceed 1989-90 expenditures by 7.2 percent, if no additional expenditures are approved by the Legislature and the Governor. When expenditures are adjusted for inflation and expressed in real terms, state expenditures will increase by only 2.8 percent between 1989-90 and 1990-91. Thus, although the actual amount of state expenditures has grown between the current and previous year, the cost of goods and services has grown significantly as well.

Figure 2

Annual Percentage Change in General Fund Expenditures

1986-87 through 1990-91

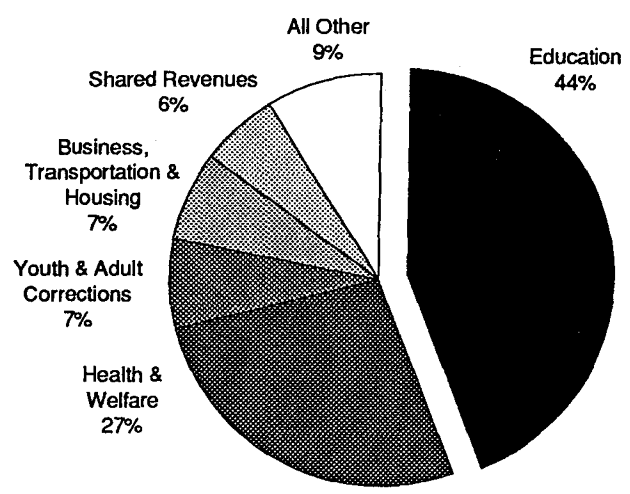


Major State Expenditures by Program Area

Total state expenditures (from the General Fund and state special funds) approved to date amount to $50.9 billion for 1990-91. Figure 3 shows the general program areas where these expenditures are expected to be made, and the percent of total state spending in each area. As Figure 3 shows, spending in the education area accounts for 44 percent of total state expenditures. Health and welfare programs account for the second largest percentage of total state expenditures (27 percent), followed by business, transportation, and housing programs (7.3 percent), and youth and adult corrections (6.9 percent). The remainder of this section discusses the major spending issues that were before the Legislature in the budget process and provides information as to how those issues were resolved.

Figure 3

1990 Budget Act
Total State Expenditures by Program Area



K-12 Education

Figure 4 provides a historical perspective on total funding per unit of average daily attendance (ADA) for K-12 education for the years 1982-83 through 1990-91, both in current and real dollars. As the figure shows, 1990-91 per-ADA funding will grow 1.5 percent over last year's level. After adjusting for inflation, the per-ADA funding will be lower than in 1989-90. (Much of this drop is due to deferring the state's contribution to the State Teachers' Retirement System unfunded liability into the 1991-92 fiscal year.) However, inflation-adjusted 1990-91 funding will be 13 percent higher than the level of per-ADA funding in 1982-83, immediately prior to the enactment of SB 813 (the Hughes-Hart Educational Reform Act of 1983).

Funding Sources

Figure 5 shows that 1990-91 funding for K-12 education programs is expected to total $24.9 billion. This is an increase of $1.4 billion, or 5.8 percent, over what was available in 1989-90. Figure 5 also shows that K-12 total funding consists primarily of $15.5 billion (62 percent) from the General Fund and $5.1 billion (20 percent) from local property tax revenues. The General Fund amount represents an increase of $634 million, or 4.3 percent, above the 1989-90 level.

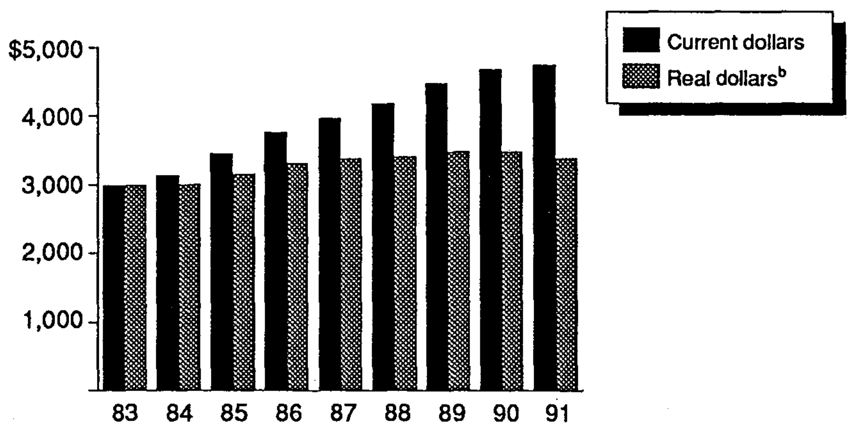
Proposition 98

Proposition 98, the "Classroom Instructional Improvement and Accountability Act of 1988," provides K-12 schools and community colleges with a guaranteed minimum level of funding in

Figure 4

K-12 Education Funding Per ADA In Current and Real Dollars

1982-83 through 1990-91[a]



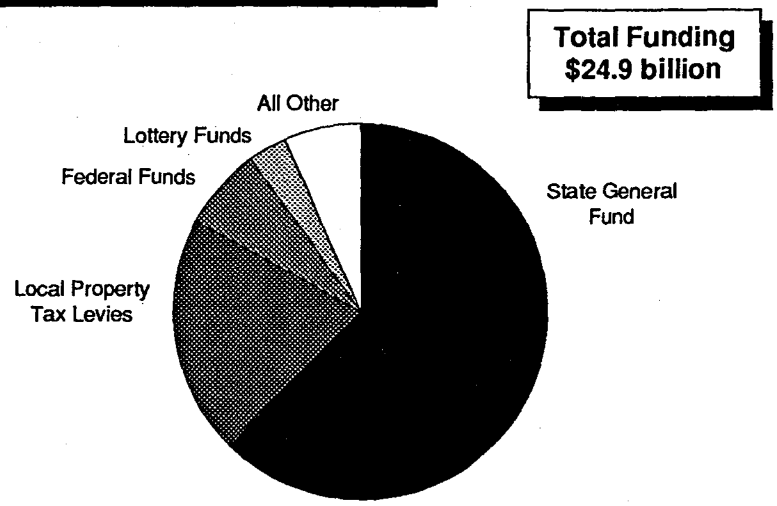
[a] Data are for fiscal years ending in years specified.
[b] As adjusted by the GNP deflator for state and local government purchases.

1988-89 and thereafter. Specifically, the measure provides that K-14 education shall receive the greater of its (1) 1986-87 percentage of the General Fund budget, which was approximately 41 percent (commonly referred to as Test 1), or (2) prior-year funding level, adjusted for enrollment growth and inflation (referred to as Test 2).

The state contribution to the Proposition 98 guarantee in the 1990 Budget Act is $17.1 billion. It is based on the *maintenance of prior-year funding level* requirement, or Test 2, as this calculation provides the higher level of funding.

Figure 5

The 1990 Budget Act Sources of K-12 Funding[a]



[a] Figures exclude funding for library programs and the proceeds of state general obligation bond issues for school facilities aid. They include, however, General Fund amounts for debt service on these bonds.

Governor's Vetoes and Set-Asides

Figure 6 summarizes the Governor's K-12 education vetoes which total $474.8 million. As the figure shows, the Governor vetoed a total of $435.4 million in Proposition 98 funding, and an additional $39.3 million in non-Proposition 98 funding.

Of the $474.8 million vetoed, the Governor has "set aside" $450.2 million for subsequent appropriation for K-12 education purposes in satisfaction of Proposition 98 minimum funding requirements. Table 9 summarizes the purposes for which the Governor proposes this funding be used, as further clarified in his press conference of August 23.

Figure 6

1990 Budget Act K-12 Education Vetoes

(in thousands)

Proposition 98	
Reduce COLAs from 4.76% to 3.0%	$354,710
Year-round school incentives[a]	43,093
Desegregation programs	10,906
Declining enrollment adjustment	7,300
School restructuring (SB 1274, Hart)[a]	6,800
Transportation equalization	4,000
Child development	4,000
Eliminate Indian Education Centers	2,372
Dropout programs growth	1,413
Other	845
Subtotal, Proposition 98	**$435,439**
Non-Proposition 98	
Driver training[a]	$21,235
Eliminate California Assessment Program[a]	12,422
Unallocated reduction, SDE	3,920
Staff development programs	1,651
Textbook clearinghouse	75
California State Summer School for the Arts	18
Subtotal, Non-Proposition 98	**$39,321**
Total Vetoes	**$474,760**

[a] Governor has proposed "set-aside" funding.

The Governor further proposes that, at the time of the 1991 May Revision, any amount in excess of $50 million remaining in the Proposition 98 reserve be allocated to school districts on a one-time, per-ADA basis. Under the Governor's proposal, these funds could only be used for specified purposes (including relocatable classrooms, year-round school air conditioning, instructional equipment and materials, and school buses), and could not be used for salaries.

Based on current estimates of the level of the Proposition 98 reserve, the Governor's proposal would result in a one-time allocation of $150 million, or approximately $29 per ADA. (This amount would be *in addition to* the $97 million one-time, per-ADA allocation shown in Table 9.) The $150 million number will change between now and May 1991, due to (1) changes in factors affecting the level of the Proposition 98 guarantee, such as enrollment and state and local tax revenues, and (2) changes in the amount of appropriations counting towards meeting Proposition 98 requirements.

Although the Governor has set aside funding for the specific purposes shown, he does not have the authority unilaterally to order that the funds

Table 9

The 1990 Budget Act Governor's "Set-Asides" For K-12 Education

(in thousands)

Class size reduction[a]	$189,006
One-time, per-ADA allocation[b]	96,751
Year-round school incentives	27,000
Driver training	21,000
Assessment system	8,883
School restructuring	6,000
Indian education centers	1,530
Proposition 98 reserve augmentation[c]	100,000
Total	$450,170

[a] Total of $220 million available for class size reduction, when combined with $31 million appropriated in Budget Act.
[b] Under Governor's proposal, funds could only be used for relocatable classrooms, year-round school air conditioning, instructional equipment and materials, and school buses.
[c] Department of Finance calculation of remaining amount owed for 1990-91 Proposition 98 minimum funding level, in addition to $100 million Proposition 98 reserve appropriated in Budget Act.

be spent in this manner. Rather, the use of Proposition 98 funds for the specific purposes indicated will require the enactment of appropriation bills by the Legislature either now or in the next legislative session. If the Legislature and the Governor fail to agree on how the $450 million in "set-aside" funding shall be spent, these funds will remain available through 1990-91 and most of 1991-92 for appropriation for Proposition 98-eligible programs.

Specifically, current law provides that, no later than April 1, 1992, the Controller and the Superintendent of Public Instruction shall determine the remaining amount owed K-14 education pursuant to Proposition 98. Following this determination, the Legislature has 90 days in which to appropriate this balance for specific Proposition 98-eligible purposes. If the Legislature fails to enact such a measure by the end of the 90-day period, the funding is to be apportioned by the Controller among schools and community colleges based on equal amounts per ADA.

Privately Operated Child Care. The 1990-91 Governor's Budget, as introduced in January, used a broad definition of appropriations counting towards meeting Proposition 98 minimum funding requirements. This definition, consistent with (then) current policy, included both public and private child care.

In June, a Superior Court decision in *CTA v. Huff* directed the state to use a narrower definition which excludes private child care from the guarantee. Consequently, in his veto message accompanying the 1990 Budget Act, the Governor directed that—consistent with the court decision in *CTA v. Huff*—$137 million in funding for privately operated child care programs not count towards meeting Proposition 98 requirements.

This change is significant because it (combined with other adjustments) results in a corresponding reduction of $170 million to the Proposition 98 minimum funding guarantee and "frees up" $33 million for other non-Proposition 98 programs. (The funds are "freed up" because the Proposition 98 guarantee has grown at a faster rate since 1986-87 than has funding for child care.)

The *CTA v. Huff* decision is currently being appealed. At present, therefore, it is not clear—under the terms of the California Constitution—whether appropriations in support of privately operated child care should count towards meeting Proposition 98 requirements (as provided for in current statutes) or should not count (as reflected in the Governor's veto actions).

Higher Education

Figure 7 displays the change in General Fund expenditure levels between 1988-89 and 1990-91 for the three major components of the state's higher education budget—the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC).

The UC is expected to spend 4.1 percent more from the General Fund this year than last (and is expected to serve 1,888, or 1.2 percent, additional FTE students), while the CSU is expected to increase its General Fund expenditures by 4.7 percent (and is expected to serve 7,120, or 2.7 percent, additional FTE students). Finally, the CCC is expected to expend 11 percent more from the General Fund, and is expected to serve 20,626, or 2.7 percent, additional state-funded ADA. The UC and CSU figures are subject to downward adjustment once the amount of any unallocated reduction (up to 3 percent) is determined.

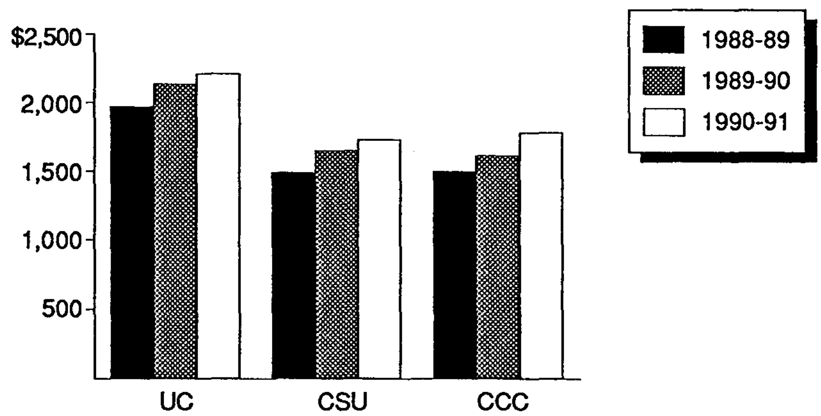
Of the new funds for community colleges, $70 million is to fund Phase II of Ch 973/88 (AB 1725, Vasconcellos), which established a long-term framework for reforming the CCC. With the funding provided for Phase II, the Legislature fully funds the commitment to community college reforms which will trigger the implementation of program-based funding in 1991-92 and the implementation of faculty tenure reforms.

Table 10 shows higher education resident student fees from 1988-89 through 1990-91. The budget proposes a 10 percent increase in resident student fees at UC and CSU in 1990-91, and proposes no fee increase for the CCC. The budget also proposes a 35 percent increase in resident medical and law student fees at UC.

Figure 7

Higher Education Expenditures From State Funds[a]

1988-89 through 1990-91 (in millions)



[a] Excludes student fees.

Table 10

The 1990 Budget Act
Higher Education Resident Student Fees
1988-89 through 1990-91

Fees	1988-89 Actual	1989-90 Actual	1990-91 Enacted	Change from 1989-90 Amount	Change from 1989-90 Percent
University of California					
Resident students	$1,434	$1,476	$1,624	$148	10.0%
Medical students	1,434	1,476	2,000	524	35.5
Law students	1,434	1,476	2,000	524	35.5
California State University	684	708	780	72	10.2
California Community Colleges	100	100	100	—	—

Health

In January, the Governor proposed expenditures of $7.3 billion for health services, including $6.6 billion from the General Fund and $700 million from special funds. The Legislature added a total of $123.3 million (an increase of $137.3 million in General Fund spending offset by a reduction of $14 million in spending from special funds). The Governor vetoed $159.1 million ($158.9 million General Fund and $220,000 special funds). As a result of these actions, the net 1990-91 budget for health is $35.8 million below the original proposed level ($21.5 million General Fund and $14.3 million special funds).

Related Legislation. Several of the measures enacted in connection with the budget affect health programs. These measures contain the following provisions:

- *Medi-Cal Program (Ch 456/90, AB 3573, Baker).* This measure (1) authorizes bulk purchase of incontinence supplies, (2) establishes a drug discount program, and (3) suspends the beneficiary COLA for one year.
- *AB 8 COLA (Ch 457/90, SB 2097, Maddy).* This measure suspends the statutory AB 8 COLA for one year.
- *Drinking water fees (Ch 462/90, SB 1806, Roberti).* This measure requires the Department of Health Services to impose fees on large water systems to support costs of the department's regulatory program. We estimate this provision will result in revenues of $3.6 million to the General Fund.

Department of Mental Health. The Governor's Budget proposed to transfer responsibility for providing mental health services to special education pupils from the Departments of Mental Health and Social Services to the State Department of Education. The Legislature rejected this proposal and added $15.1 million (General Fund) to the mental health budget to fund the program at the level funded in 1989-90. The Legislature also added $1.5 million (General Fund) to fund additional services under the adult system-of-care pilot project established by Ch 982/88 (AB

3777, Wright). Several reductions were also made to the mental health budget, resulting in a net augmentation of $14.5 million (General Fund).

The Governor vetoed a total of $75.8 million from the mental health budget. Major components of this reduction are the $1.5 million legislative augmentation for the AB 3777 pilot projects plus the following General Fund amounts that were included in his budget as introduced:

- $2.2 million proposed to expand AB 3777 pilot projects;
- $3.7 million for services for wards and dependents of the courts authorized by Ch 1294/90 (SB 370, Presley);
- $2.6 million to expand services for children provided under Ch 1361/90 (AB 377, Bronzan);
- $4.4 million to expand the number of beds available in institutions for mental diseases; and
- $61 million budgeted for local mental health programs. This amount represents a 12 percent reduction in the General Fund appropriation for local mental health services below the 1989-90 level.

Department of Developmental Services. The Legislature added a total of $30.9 million to the department's General Fund budget. This increase is the net effect of the following major changes: (1) an increase of $38 million to reflect the Legislature's rejection of a proposal to impose fees for regional center services, (2) a reduction of $18.6 million to reflect receipt of long-term care COLA funds from the Medi-Cal Program, (3) an increase of $2.5 million to provide health benefits to staff of the janitorial contractor at the state developmental centers, and (4) an increase of $7 million to provide rate adjustments to residential care facilities participating in the Alternative Residential Model (ARM).

The Governor vetoed a total of $20.1 million from the department's General Fund budget. This amount consists of the last two increases cited above plus two augmentations proposed in the budget as introduced: (1) $8 million for additional rate increases for ARM facilities and (2) $2.5 million for COLAs for regional center staff.

Medi-Cal. The Legislature increased the Medi-Cal General Fund budget by a total of $27.9 million. The Governor vetoed $13.7 million of these funds.

Legislative budget adjustments approved by the Governor include:

- Reduction of $67.6 million based on the May estimates of Medi-Cal spending;
- Reduction of $17.2 million for incontinence supplies based on recent spending trends and enactment of Chapter 456 (AB 3573, Baker);
- Reduction of $2.6 million to reflect bulk purchase of durable medical equipment and laboratory services;
- Reduction of $2.8 million proposed to fund a retroactive COLA for county eligibility workers;
- Augmentation of $36.3 million to restore full funding for medical transportation and five other optional benefits;
- Augmentation of $11.5 million and rejection of the administration's proposal to revise physician reimbursement rates;
- Augmentation of $13.2 million to fully fund abortions; and
- Augmentation of $42.3 million for a COLA for long-term care facilities. (The net cost of this augmentation is $23.7 million General Fund because of offsetting reductions in the Department of Developmental Services budget.)

The Governor vetoed legislative augmentations for (1) hospital outpatient services reimbursement rates ($9 million), (2) perinatal access improvements ($1 million), (3) ambulance rates ($1 million), and (4) dental rates ($2.5 million).

County Health Services Programs. The Governor's Budget as introduced proposed a $171.9 million General Fund reduction in AB 8 county health services ($150 million base reduction plus suspension of the statutory COLA and population adjustment) and a reduction of $25 million General Fund in the Medically Indigent Services Program (MISP). The Governor's Budget also proposed $34.6 million (Proposition 99 funds) to augment the California Healthcare for Indigents Program (CHIP). The Legislature (1) restored the AB 8 funds, (2) reduced MISP funding by an additional $150 million, and (3) deleted the CHIP augmentation to be consistent with the enactment of Ch 51/90 (AB 1154, Isenberg), which allocated the Proposition 99 funds for other purposes.

The Governor vetoed $21.9 million from AB 8 to be consistent with the Legislature's enactment of Ch 457/90 (SB 2097, Maddy), which suspends the statutory COLA and population adjustment.

Other Public Health Programs. The Legislature reduced the maternal and child health budget by $6.3 million (General Fund), based on a request by the Department of Finance, to reflect the availability of additional federal funds above the amount originally anticipated. The Legislature also (1) added $23.2 million (General Fund) to restore the family planning budget to its 1989-90 level, (2) added $4 million (General Fund) for additional family planning services, (3) added $11.6 million (General Fund) for AIDS programs, and (4) added $3 million (General Fund) for Alzheimer's disease programs in the Department of Health Services.

The Governor vetoed the $4 million augmentation for family planning, $9.8 million of the $11.6 million augmentation for AIDS programs, and the $3 million augmentation for Alzheimer's disease programs. He also reduced the maternal and child health budget by an additional $3 million (General Fund).

Other Health Programs. The Legislature added $2.1 million (General Fund) for the Family Physician Training Program operated by the Office of Statewide Health Planning and Development. The Legislature also scheduled funds for Department of Health Services programs located in Berkeley in separate items in the Budget Bill to prevent relocation of these programs.

The Governor vetoed the augmentation and the control language associated with the Berkeley items. He also vetoed $5 million (General Fund) contained in the budget as introduced for hazardous waste site cleanup.

Welfare and Employment

The 1990 Budget Act appropriates $6.6 billion from the General Fund for welfare and employment programs in 1990-91. Of this amount, $6.2 billion (95 percent) is appropriated for the local assistance portion of programs administered by the Department of Social Services (DSS).

Table 11 shows the DSS General Fund expenditures by program for local assistance in 1989-90 and 1990-91.

The following discussion highlights the major policy issues addressed in the budget process in the welfare and employment area.

In-Home Supportive Services. The In-Home Supportive Services (IHSS) Program provides assistance to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without assistance.

In January, the Governor proposed a "program reduction" of $71 million. The Legislature rejected the proposed reduction and restored the $71 million to the IHSS budget, which the Governor did not veto. Thus, the 1990 Budget Act fully funds the IHSS Program based on anticipated caseload.

Child Welfare Services. The Child Welfare Services (CWS) Program provides services to abused and neglected children and children in foster care and their families.

The 1990 Budget Act provides $472 million from all funds ($268 million General Fund) for the CWS Program in 1990-91. This amount reflects $55 million ($44 million General Fund) that the Governor vetoed from the appropriation for the program, as follows:

- $38 million ($27 million General Fund), which corresponds to what it would cost to fund the anticipated 1990-91 caseload growth in the three components of the program that serve ongoing cases, as opposed to investigations of new reports of abuse; and

Table 11

The 1990 Budget Act
Department of Social Services
General Fund/Local Assistance Expenditures
1989-90 and 1990-91

(in millions)

	1989-90 (est.)	1990-91 (enacted)	Change Amount	Change Percent
AFDC	$2,652.3	$2,962.9	$310.6	11.7%
SSI/SSP	2,207.2	2,274.8	67.6	3.1
County administration	184.7	180.0	-4.7	-2.5
Child welfare services	295.8	267.6	-28.2	-9.5
In-home supportive services	266.6	317.3	50.7	19.0
GAIN[a]	82.6	86.7	4.1	5.0
Other	131.8	124.5	-7.3	-5.5
Totals	$5,820.9	$6,213.8	$392.9	6.7%

a. Does not include $28.3 million and $11.2 million appropriated for GAIN by Control Section 22 of the 1989 Budget Act and the 1990 Budget Act, respectively.

- $17 million General Fund, which corresponds to the state's share of the portion of county staff costs that is attributable to the cost-of-living adjustments that counties granted in 1989-90.

The $55 million vetoed by the Governor represents nearly an 11 percent reduction below current service levels in the CWS Program. It is not likely that the counties will absorb the reductions *only* in the areas identified by the Governor in his veto message. This is because ongoing caseloads will continue to grow despite the reduction in funding because these caseloads are dependent on the number of initial child abuse investigations that county social workers make.

AFDC and SSI/SSP COLA. The Legislature appropriated $259.7 million from the General Fund to provide a 4.62 percent COLA for AFDC and SSI/SSP Programs in 1990-91. The Legislature, however, also enacted Ch 456/90 (AB 3573, Baker), which eliminated the statutory requirement for the COLAs for 1990-91. (The requirement for subsequent years remains in effect.) The Governor vetoed the appropriation for the COLAs in 1990-91.

The AFDC COLA would have increased the maximum monthly grant to a family of three persons by $32. The SSI/SSP COLA would have increased the maximum monthly grant to individuals by $29 to $33, depending on the recipient's eligibility category.

Youth and Adult Corrections

The 1990 Budget Act appropriates a total of $2.6 billion ($2.6 billion from the General Fund and $16 million from special funds) for support of youth and adult correctional programs in 1990-91. This amount is $292 million, or 12 percent, above estimated expenditures in 1989-90. The Department of Corrections will receive more than three-fourths of the total appropriation for youth and adult corrections.

County Justice System Subvention Program. The County Justice System Subvention Program (CJSSP) is a block grant program that provides funds to counties for support of local alternatives to the Youth Authority and state prison. Among other things, the block grants fund programs required by Ch 1071/76 (AB 3121, Dixon), which brought the state into compliance with federal law by making major changes in the adjudication and detention of minors, including: the separation of minors and adult offenders while incarcerated, the involvement of the district attorneys and public defenders in juvenile cases, and requirements associated with "status offenders" (juveniles who commit acts such as truancy, which would be considered criminal conduct for adults).

In January, the Governor proposed support for the CJSSP of $67.3 million from the General Fund (the same funding level provided in 1989-90) and the Legislature appropriated that amount.

The Governor, however, vetoed $33 million in funding provided for the program. The remainder of the appropriation ($34.3 million) will cover the mandated costs of Chapter 1071.

Corrections. In his January Budget, the Governor requested an increase of approximately $167 million for the Department of Corrections (CDC) to support projected population growth in the prison inmate and parole population during 1990-91. The January Budget was based on projections that the inmate population would reach 105,690 by June 30, 1991 (an increase of about 12 percent from the projected 1989-90 level) and the parole population would reach 70,525 (an increase of about 14 percent). The budget also was based on planned activation of new prisons in Imperial, Kern, and Madera Counties, and 2,400 community-based beds.

In the Spring Revision, the administration requested a net reduction of about $9 million, primarily because: (1) the projected inmate population was reduced to 105,010 inmates, (2) the parole population was increased to 74,845 parolees, and (3) the activation schedule for community-based beds had been significantly delayed.

The Legislature approved the administration's revised plans. In addition, the Legislature shifted approximately $26 million in new prison activation costs from bond funds to the General Fund. Although the Governor had proposed that the activation costs be funded from bond funds, the Legislature found that the request was an inappropriate use of this funding source.

Trial Court Funding Program. In January, the Governor proposed approximately $455 million from the General Fund for the Trial Court Funding Program. Under the program, the state provides block grants to counties to fund trial court operating expenses, supplements for specified new judgeships, contributions toward the salaries of municipal court judges, and contributions toward the salaries of justice court judges. Chapter 945, Statutes of 1988 (SB 612, Presley) provided for an annual adjustment to the block grants based on the average percentage increase in state employees' salaries in the previous year. The block grant amount for 1989-90 was proposed at $235,956 per judge, commissioner, or referee.

The Legislature appropriated $398 million, or $57 million, less than proposed in the Governor's Budget. The Legislature also enacted Ch 466/90 (SB 2557, Maddy) in July, which, among other things, deleted the annual adjustment for 1990-91 and reduced the base amount of the block grants for trial court operating expenses. As enacted in Chapter 466, the block grants for 1990-91 were reduced to $207,866 (no changes were made to the other court-related elements of the program). At the time this report was prepared, the Legislature was considering additional legislation to make technical changes to Chapter 466 which could change this amount.

Assistance to Counties for Defense of Indigents. In January, the Governor proposed $13 million from the General Fund for assistance to counties for the defense of indigent persons. This was a decrease of $6 million, or 32 percent, below estimated expenditures for 1989-90. Under this program, which is administered by the State Controller's Office, the state reimburses counties for the costs they incur in paying investigators, expert witnesses, and other individuals whom trial judges determine are necessary to prepare the defense of indigents in capital cases.

The Legislature deleted all funding for the program.

Transportation

The 1990 Budget Act provides for expenditures of $4.4 billion by the Department of Transportation (Caltrans) in 1990-91. This level of expenditures is made possible by passage of Proposition 111 (the Traffic Congestion Relief and Spending Limitation Act of 1990) and Proposition 108 (the Passenger Rail and Clean Air Bond Act of 1990) by the voters in June 1990. Enactment of these measures provided an estimated $925 million in new gas tax and truck weight fee revenues for transportation purposes in 1990-91 (including about $175 million subvened to cities and counties outside the Budget Act), and authorized $1 billion in general obligation bonds for rail.

With passage of Propositions 111 and 108, the following additional expenditures were included in the 1990 Budget Act:

- $446 million (including $261 million in federal funds) for highway capital outlay projects and $110 million for the State-Local Transportation Partnership Program.
- $300 million in Proposition 108 rail bond funds for intercity, commuter and urban rail projects and $79 million for transit capital improvements.
- $157 million to avoid staff resource reductions (including $104 million in engineering consultants) which would have been necessary in 1990-91 if Proposition 111 was not enacted, and $78 million in new staff resources.
- $18 million for advanced highway technology research.
- $48 million in other proposals.

Resources

The Legislature acted to reduce General Fund support and increase fee support for two resources-related programs. First, the Legislature reduced the Department of Parks and Recreation's (DPR's) General Fund support budget by $16 million, and increased the State Parks and Recreation Fund (SPRF) support for the department by a like amount to reflect an average increase in fees of approximately 40 percent (assuming a July 1, 1990 date for fee increases). The Governor vetoed approximately $5.3 million of the anticipated increased fee support for the department, thereby also requiring the department to reduce service levels.

Second, the Legislature reduced General Fund support and increased Agriculture Fund support for the Department of Food and Agriculture's pesticide regulatory program by $9 million to reflect an anticipated increase of 9 mills ($.009) in the pesticide mill tax. This increase is the subject of AB 2419 (O'Connell), currently pending in the Legislature. If AB 2419 is enacted, the department's pesticide regulatory program will be fully funded. If AB 2419 is not enacted, the department will need to make program reductions or seek an increased General Fund appropriation for the program. Program reductions probably would result in decreased field enforcement and in decreased pesticide monitoring and residue testing.

Fish and Game Preservation Fund Deficiency. The Department of Fish and Game (DFG) overestimated revenues to the Fish and Game Preservation Fund (FGPF) for 1989-90 and 1990-91. As a result, during its deliberations on the budget, the Legislature faced a 1989-90 deficit in the DFG's budget of $9.9 million, and a 1990-91 deficit of approximately $12.6 million. The department took administrative action to reduce 1989-90 expenditures by $3.3 million. The Legislature took action in the Budget Act to reduce the department's 1990-91 expenditures by $12.6 million in various programs. As part of its budget action, however, the Legislature adopted language allowing the DFG to reallocate the budget reductions among its programs so long as the department continued to meet specific criteria in its program reduction plan.

Currently, two bills are pending legislative action which would resolve the 1989-90 and 1990-91 shortfalls. Assembly Bill 3727 (Costa) would provide (1) a loan of $3.3 million to the department from the Off-Highway Vehicle Fund and (2) an appropriation of $3.6 million from the California Environmental License Plate Fund so that the DFG can close its 1989-90 books in the black. Assembly Bill 3158 (Costa) would provide, among other things, new and increased fee authority to the department in order to increase annual revenues to the FGPF by up to $18 million.

Proposition 117. Proposition 117, the California Wildlife Protection Act of 1990, (1) created the Habitat Conservation Fund (HCF), (2) requires the transfer of $30 million annually to the fund, and (3) specifies to which agencies the HCF should be appropriated. The measure requires the State Controller to annually transfer 10 percent of the monies in the Unallocated Account of the Cigarette and Tobacco Products Surtax Fund to the HCF to make up a portion of the $30 million. This amount is estimated to total $16 million in 1990-91. The measure requires the remainder to be transferred from the General Fund unless the Legislature takes specific action to transfer other funds to the HCF to total $30 million.

In order to avoid a General Fund transfer to the HCF in 1990-91, the Legislature took action in the Budget Act to transfer a total of $14 million from four special funds. This amount, when added to the estimated transfer from the Unallocated Account, meets the $30 million transfer requirement of Proposition 117. Specifically, the Legislature transferred:

- $1.8 million from the Fish and Wildlife Enhancement (1984 bond) Fund;
- $7.7 million from the Wildlife and Natural Areas Conservation (1988 bond) Fund;
- $4.3 million from the California Wildlife, Coastal, and Park Land (1988 bond) Fund; and
- $200,000 from the Public Resources Account, Cigarette and Tobacco Products Surtax Fund.

The Legislature then appropriated $30 million from the HCF to various departments as required by the measure. These appropriations include: (1) $11 million to the Wildlife Conservation Board, (2) $10 million to the Santa Monica Mountains Conservancy, (3) $4.5 million to the Department of Parks and Recreation, (4) $4 million to the Coastal Conservancy, and (5) $500,000 to the Tahoe Conservancy.

Other Spending Issues

This section describes other major spending issues that were before the Legislature during the budget process.

Appropriations Reduction (Trigger) Mechanism. Chapter 455/90 (SB 1783, Beverly), which was a component of the package of legislation accompanying the Budget Bill, provides a mechanism for the automatic reduction of appropriations under certain conditions. Specifically, it provides for the reduction in appropriations if state revenues are projected to be more than one-half percent less than the level of expenditures required to fund a "workload budget." All appropriations not protected by the State Constitution could then be reduced by the percentage difference between revenues and expenditures, but not by more than 4 percent. In some cases, the amount of the reduction would be further limited to the amount of any cost-of-living adjustment applicable to the program.

The mechanism would first be available in conjunction with the 1991-92 fiscal year. The Department of Finance (DOF) would determine whether the "workload budget" level of expenditures exceeded expenditures in May of each year. If so, the mechanism generally would become operative if the Commission on State Finance confirmed the department's findings.

Accounting Changes. Chapter 461/90 (SB 1744, Hart), also a component of the budget's legislative package, defines the terms "surplus" and "deficit" for state budgetary purposes. Specifically, it provides that the existence of a General Fund surplus or deficit shall be determined primarily by whether the General Fund has a positive or negative fund balance. It also provides that certain principles be followed in determining the fund balance for this purpose.

Optional Mandated Programs. Chapter 459/90 (SB 1333, Dills), implements the budget agreement relative to reimbursements for state-mandated local programs. This measure provides statutory authorization which the Legislature may use to suspend the operation of existing state-mandated local programs for one year. Programs could be suspended by specifying the programs in the Budget Bill. This authorization was used in the 1990 Budget Bill to effect the suspension of 19 state-mandated local programs, resulting in state General Fund savings of $31 million for 1990-91.

Redevelopment Agency Subventions. Chapter 449/90 (AB 160, Polanco) implements the budget agreement relative to reductions in state special supplemental subventions for redevelopment agencies. The measure provides for a change in the timing of the payment of these subventions and a one-time reduction in subvention amounts for 1990-91 which result in General Fund savings of $29 million.

Renters' Tax Credit. Chapter 464/90 (SB 2319, Alquist) reduces the amount of the state Renters' Tax Credit as contemplated by the budget agreement. Specifically, the measure reduces the credit available to married persons filing joint personal income tax returns from $137 to $120, or twice the amount available to single persons. This measure results in ongoing General Fund savings of $50 million per year.

STRS Funding Formula. Chapter 460/90 (SB 1370, Cecil Green) establishes a new formula for determining the annual General Fund contribution towards reducing the unfunded liability in the State Teachers' Retirement System (STRS). The measure provides that, beginning in 1991-92, the amount annually contributed shall be 4.3 percent of the total salaries paid to teachers in the preceding calendar year. The measure repeals, in 1990-91, current statutes that provide for annual General Fund contributions based on a specified schedule.

Because the measure eliminates the statutory appropriations in 1990-91, but delays implementation of the new statutory appropriations until 1991-92, it results in General Fund savings of $479 million in 1990-91. The measure would also result in General Fund savings of $43 million in 1991-92 and reduced amounts annually through 1998-99 because the contributions provided by this measure in the near term are less than those which would have been provided under previous law. The General Fund will then incur major increased costs annually through 2023-24, at which point the unfunded liability would be eliminated.

PERS Funding Changes. Chapter 463/90 (SB 1809, Kopp) implements three provisions which in total result in General Fund savings of $157 million in 1990-91 due to reductions in state retirement contributions. Specifically, the measure:

- Provides for transferring state employer contributions to the Public Employees' Retirement Fund (PERF) on a quarterly basis rather than monthly. This amendment effectively shifts the costs of the last quarter's payments from this year to 1991-92, thus saving the General Fund $103 million in 1990-91.

- Authorizes PERS to reduce state employer contributions by using a specified portion of the PERF reserve for deficiencies. If implemented by PERS, this change could save the General Fund $31 million in 1990-91.
- Authorizes PERS to adopt an amortization period of 40 years (rather than the current 27 years) for payment of the unfunded liability applicable to certain retirement categories. If implemented by PERS, this change could save the General Fund $23 million in 1990-91.

Fraud Early Detection. Chapter 465/90 (SB 2454, Royce) requires counties to operate early fraud prevention and detection programs in the Aid to Families with Dependent Children (AFDC) and food stamp programs, to identify fraudulent AFDC and/or food stamp applications before the applicant's eligibility is determined and aid is granted. Counties where this program could not operate in a cost-effective manner would not be subject to this requirement. Currently, 25 counties operate early fraud detection programs. Thus, the effect of this measure is to expand this program statewide to all counties that can cost-effectively operate the program. In addition, this bill requires the state to pay the county share of the administrative costs of this program and appropriates $2.3 million from the General Fund for these costs in 1990-91.

The Department of Social Services estimates that this bill would result in costs of $8.1 million ($2.3 million General Fund) in 1990-91, and $16 million ($4.3 million General Fund) in 1991-92 and annually thereafter. Beginning in 1991-92, these costs would be more than offset by AFDC grant savings of over $20 million (over $10 million General Fund) resulting from early detection of fraud in the AFDC and food stamp programs.

Tidelands Oil. In January 1990, the State Lands Commission (SLC) estimated that revenues from the state's tidelands oil operations would total $120 million in 1990-91. This revenue amount was insufficient to provide funding for all the programs that receive tidelands oil money (in a priority order) pursuant to existing statute. The Governor's Budget proposed allocating the limited tidelands oil revenues, without regard to statutory priority, between support costs for the SLC ($14 million), transfer to the California Housing Trust Fund ($3 million), transfer to the General Fund ($40 million), and transfer to the Special Account for Capital Outlay (SAFCO - $63 million).

In June, the Governor's Budget was revised to increase the transfer to the General Fund from $40 million to $62 million and increase the transfer to SAFCO from $63 million to $83 million. The $22 million increase in the transfer to the General Fund included revised revenue estimates and carry-over balances from 1989-90. Subsequently, the Legislature reduced SAFCO appropriations by $33.5 million and transferred that amount to the General Fund, providing a total transfer of $95.5 million. Figure 8 shows the allocation of tidelands oil revenues as proposed in the Governor's Budget as revised in June and as provided in the 1990 Budget Act.

Section 8(g) Revenue. The Legislature and the Governor approved expenditures totaling about $3 million from the Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund for a variety of programs, including environmental restoration at Lake Tahoe and offshore oil pollution mitigation. The Budget Act transfers almost all of the remaining balance in the fund, estimated at about $14.4 million, to the General Fund in 1990-91. Revenues to the fund come from royalties and other payments for oil recovered from submerged lands adjacent to California that belong to the federal government. Table 12 shows actions in the Budget Act regarding 8(g) funds.

Unitary Fund. The Legislature approved expenditures totaling $11.9 million from the Unitary Fund in 1990-91 for a wide variety of programs, ranging from export finance loan guarantees and agricultural export grants to support of rural small business development centers and inner city development programs. The Legislature also approved transfers totaling $48.1 million of unappropriated Unitary Fund revenues to the General Fund ($35 million on June 30, 1990 and $13.1 million on June 30, 1991). Revenues to the fund come from annual "election fee" payments by

Figure 8

1990-91 Distribution of Tidelands Oil Revenue

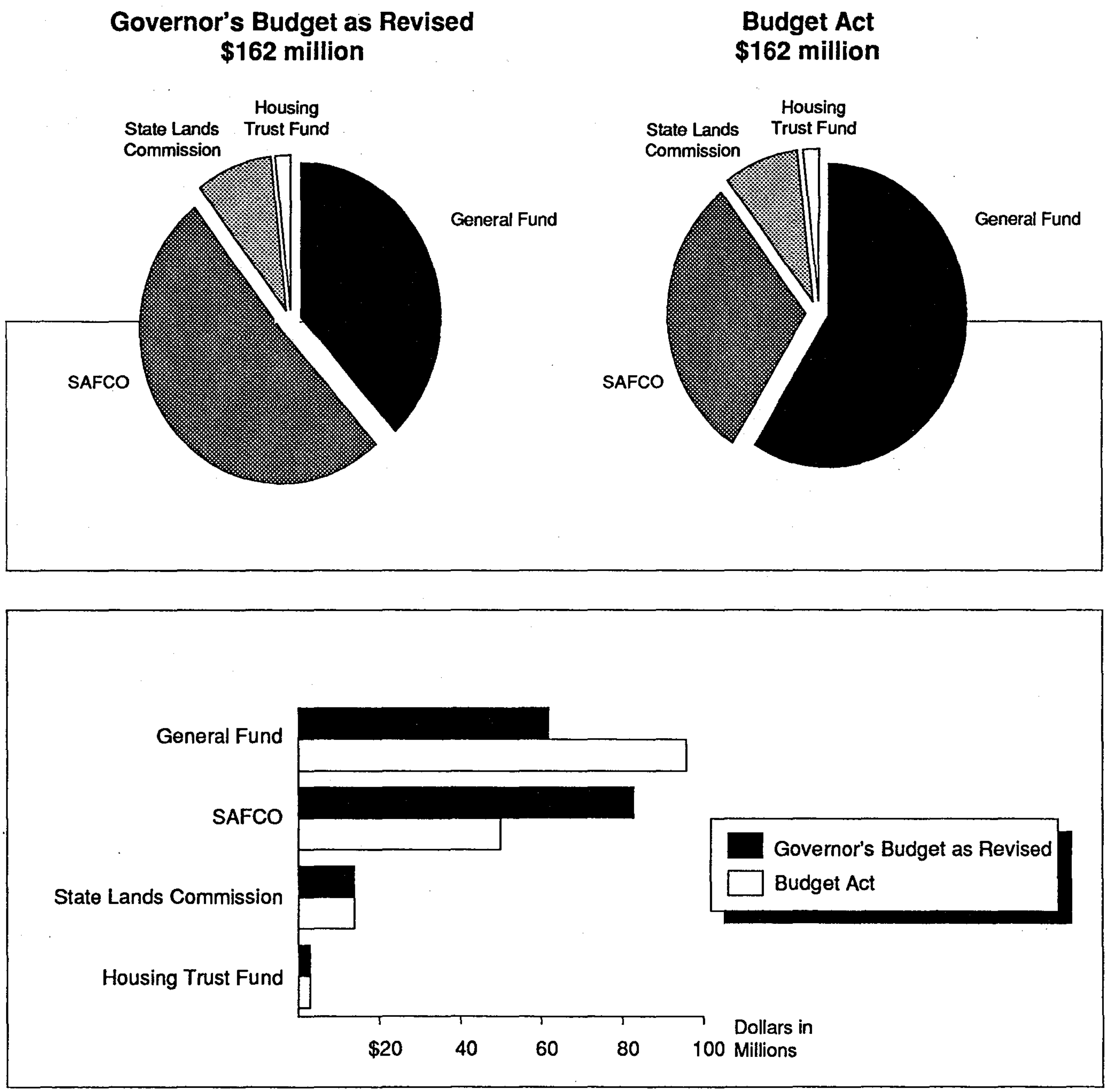


Table 12

The 1990 Budget Act Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund

(in thousands)

Funded Projects and Programs	1990 Budget Act
California Tahoe Conservancy	
Environmental restoration	$1,000
Erosion control program	34
Air Resources Board	
Offshore oil mitigation for fisheries[a]	1,850
State Lands Commission	
8(g) data analysis	100
Subtotal, projects and programs	$2,984
Transfer to General Fund[b]	14,372
Total	$17,356
8(g) Fund Balance	$100

[a]Environmental Affairs Agency program.

[b]Transfer of unappropriated balance (less reserve for employee compensation adjustments), as required by Item 9896. Amount of transfer is LAO estimate based on (1) actual revenues for 1989-90, per State Controller's Office, and (2) projected revenues for 1990-91, per Department of Finance estimates.

corporations that elect to have their income apportioned for state tax purposes on the basis of their domestic, as opposed to worldwide, business activities. The Governor vetoed $4 million of the expenditures approved by the Legislature, indicating that adequate funds for support were available from other sources already included in the budget, or that adequate information was not presented to justify an augmentation. This veto has the effect of increasing the 1990-91 transfer to $17.1 million. Table 13 shows actions taken by the Legislature and the Governor with respect to the Unitary Fund.

Unallocated Reductions. The Legislature and the administration agreed to provide the Department of Finance with the authority to make across-the-board unallocated reductions of up to 3 percent in support items of the 1990-91 Budget. Control Section 3.80 was added to the Budget Act to accomplish this. Initial estimates indicate that this section will result in savings of approximately $222 million. These savings may be reduced significantly once the specific reductions for each agency are determined.

State Appropriations Limit. Passage of Proposition 111 at the June 1990 election resulted in an increase in the state's annual spending limit. When the *1990-91 Governor's Budget* was released, the Department of Finance estimated that the state's spending limit would be $31,200 million in 1990-91. At that time, appropriations subject to limitation were estimated at $31,057 million, leaving the state approximately $143 million below its spending limit.

Proposition 111 modified the factors used to calculate the spending limit, resulting in a revised estimate of the 1990-91 limit of $32,059 million, an increase of approximately $1 billion over the January estimate. The estimate of appropriations subject to limitation was also revised after passage of Proposition 111. We now estimate that appropriations subject to limitation will be approximately $29,333 for 1990-91, leaving the state approximately $2.7 billion below its limit.

Table 13

The 1990 Budget Act Unitary Fund Allocations

(in thousands)

Expenditures	1990 Budget Bill As Approved By the Legislature	Governor's Vetoes	Budget Act
World Trade Commission			
Export Finance Loan Guarantee Program	$1,000	—	$1,000
Department of Commerce			
Tourism Marketing Program	1,900	—	1,900
Rural Small Business Development Centers	1,000	-$1,000	—
Inner City Development Initiative	3,000	-3,000	—
Local Development (unallocated)	2,000[a]	—	2,000
Unitary Fund Programs			
Supercomputer Center	2,000	—	2,000
Department of Food and Agriculture			
Agricultural Export Grants	1,000	—	1,000
Total Expenditures	$11,900	-$4,000	$7,900
Transfers			
To General Fund on June 30, 1990	$35,000	—	$35,000[b]
To General Fund on June 30, 1991	13,100	$4,000	17,100[b]
Total Transfers	$48,100	$4,000	$52,100

a. The Legislature intended these expenditures to be allocated for seismic/code improvements at the Pier 45 Commercial Seafood Center in San Francisco.

b. This amount reflects the unappropriated balance in the Unitary Fund. Of this amount, approximately $11 million has been impounded by the State Controller pursuant to court orders.

General Fund and Special Fund Revenues

The overall condition of the state's budget depends upon both expenditures *and* revenues. Table 14 provides information on 1990-91 state General Fund and special fund revenues. It shows that:

- *General Fund* revenues and incoming transfers from other funds are projected to reach $42.9 billion. This is about $3.7 billion, or 9.3 percent, more than the current estimate of what revenues and transfers were for 1989-90. After adjusting for inflation, 1990-91 revenue growth in real terms is expected to be 4.8 percent.
- *Special fund* revenues are projected to total $8.8 billion. This is $1.4 billion, or 20 percent, more than estimated 1989-90 special fund revenues. After adjusting for inflation, the projected increase is 15 percent.

This revenue outlook assumes that the California economy will continue to expand during 1990-91 at a modest pace.

Table 14

The 1990 Budget Act
General Fund and Special Fund Revenues and Transfers
1989-90 and 1990-91

(in millions)[a]

Revenue Source	1989-90	1990-91	Change Amount	Change Percent
General Fund				
Personal income taxes	$17,020	$18,709	$1,689	9.9%
Sales and use taxes	13,475	14,485	1,010	7.5
Bank and corporation taxes	5,000	5,905	905	18.1
Other revenues and transfers	3,763	3,816	54	1.4
Totals, General Fund	$39,258	$42,915	$3,658	9.3%
Revenues and Transfers				
Special Fund Revenues and Transfers	$7,355	$8,796	$1,441	19.6%
Total General Fund and Special Fund Revenues and Transfers	$46,613	$51,711	$5,099	10.9%

[a] Final Budget Estimate, July 1990. Detail may not add to totals due to rounding.

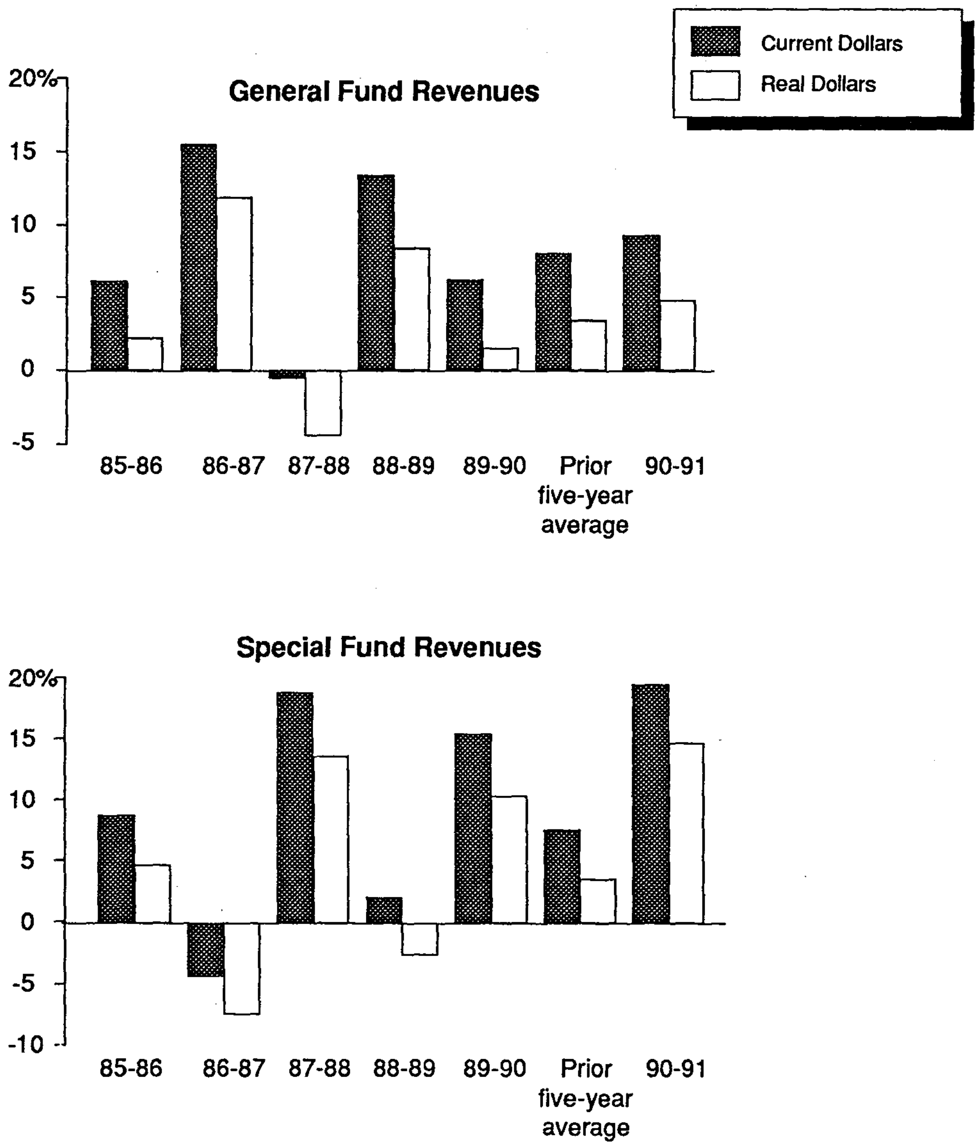
Historical Perspective—Above Average Revenue Growth

Figure 9 shows that both General Fund and special fund revenue growth have experienced wide year-to-year fluctuations since 1985-86. In the case of General Fund revenues, this is largely due to the effects of federal and state tax reform on the timing and volume of tax payments. Over the past five years, however, both General Fund and special fund revenue growth have averaged about 8 percent in current dollars and somewhat under 4 percent in real dollars. Thus, projected

Figure 9

Annual Percent Change in State Revenues

1985-86 through 1990-91



growth in 1990-91 revenues is above average from a recent historical perspective.

As discussed below, however, these above-average increases reflect various tax law changes which have boosted projected revenues for 1990-91. These changes include various budget-related revenue legislation which was adopted in response to revenue shortfalls experienced in Spring 1990. In the absence of tax law changes, 1990-91 General Fund and special fund revenue growth would be *below* average from an historical perspective.

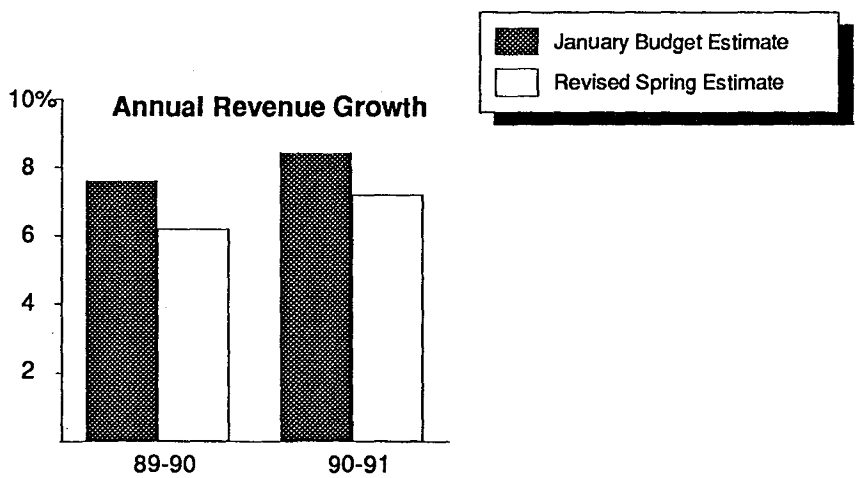
Large Downward General Fund Revenue Revisions Have Occurred

In Spring 1990, the General Fund revenue projections for both 1989-90 and 1990-91 underwent substantial downward revisions compared to the projections in Governor's Budget as introduced in January 1990. Figure 10 shows that the projected growth rates for General Fund revenues fell from 7.6 percent to 6.2 percent for 1989-90, and from 8.4 percent to 7.2 percent for 1990-91. This had the

Figure 10

Spring Revisions to Estimated General Fund Revenues

1989-90 and 1990-91



Composition of Spring 1990 Revenue Revisions (in millions)

Source	1989-90	1990-91	Two-Year Total
Personal income taxes	-$355	-$420	-$775
Sales and use taxes	65	-50	15
Bank and corporation taxes	-235	-500	-735
All other sources	-19	-94	-113
Net reductions	-$544	-$1,064	-$1,608

[a] *Source:* Department of Finance.

effect of reducing projected revenues by over half a billion dollars for 1989-90 and by nearly $1.1 billion for 1990-91, or $1.6 billion for the two years combined.

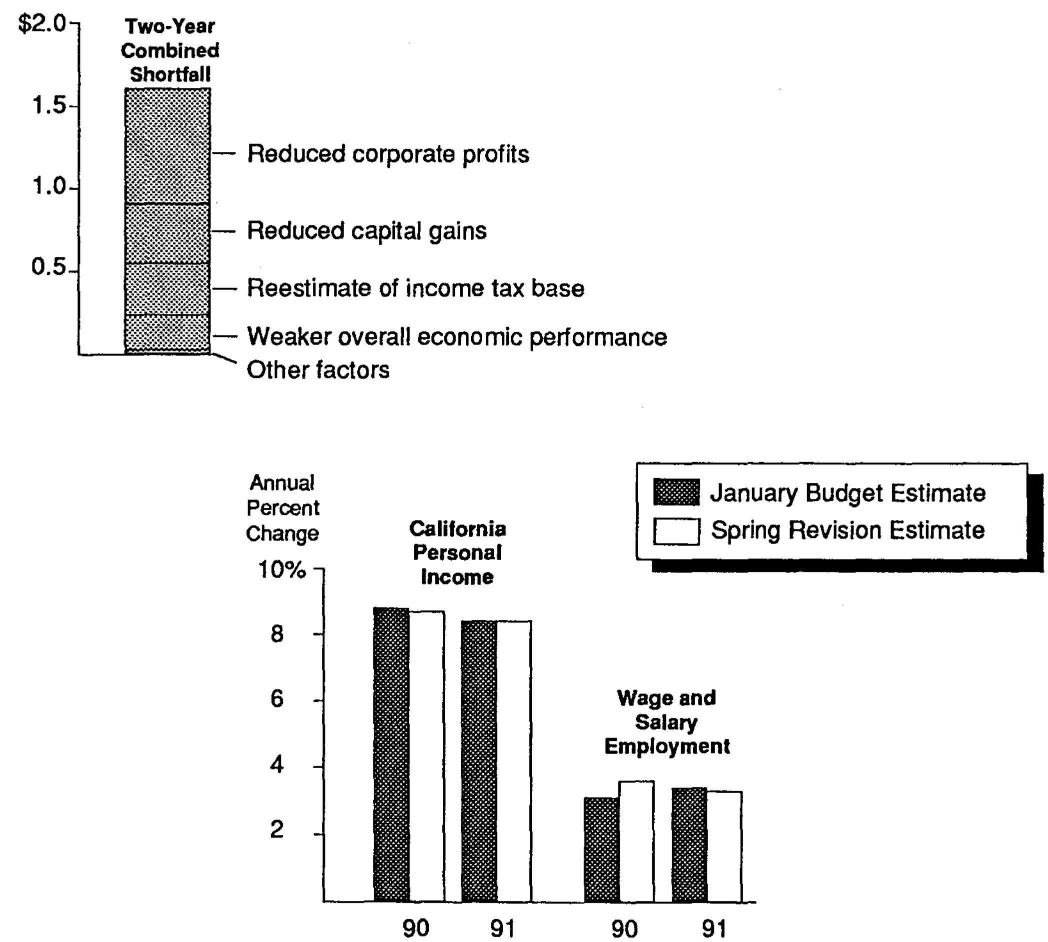
What Caused the Revisions?

Figure 10 shows that most of these downward revisions were associated with the personal income and corporation taxes. As shown in Figure 11, the two single largest causes for the revisions were downward adjustments to corporate profits and capital gains. Together, these two factors accounted for nearly $1.1 billion of the total $1.6 billion two-year shortfall. In contrast, weaker overall economic performance accounted for a relatively small amount — about $200 million — of the shortfall. This is because, as indicated in Figure 11, there was little downward adjustment in the forecast for such key economic variables as personal income and employment.

Figure 11

Reasons for the Spring Revenue Revisions

1989-90 and 1990-91
(in billions)



Steps Were Taken to Increase Revenues

In response to the Spring revenue revisions, a variety of budget-related actions and revenue legislation were adopted to partially make up for the shortfall in projected revenues. Table 15 summarizes the history of the 1990-91 revenue revisions. It indicates that the budget-related actions of the Legislature and Governor, combined with the revenue legislation, increased 1990-91 revenues by $877 million. Thus, these measures offset about 55 percent of the two-year $1.6 billion revenue shortfall identified in the Spring. As shown in Table 15, the current projection of 1990-91 revenues is $187 million below the initial projection made in January when the budget was introduced. The major changes include:

Table 15

The 1990 Budget Act
History of Revisions to 1990-91 General Fund Revenue and Transfer Estimates
(in millions)

	Projected Revenues and Transfers Change	Total
Governor's Budget as submitted (January)		$43,102
Spring Revision Changes[a]:		
Revisions to corporate profits	-$340	
Revisions to projected capital gains	-257	
Weaker overall economic performance	-210	
Other revisions involving corporate taxes	-160	
Reduced investment balances	-50	
Reduced transfers	-29	
Other factors	-18	
Subtotals	(-$1,064)	$42,038
Conference Committee budget actions	$82	$42,110
Revenue legislation:		
Federal tax conformity provisions	$561	
Unclaimed property acceleration	137	
Other measures	97	
Subtotals	($795)	$42,915
Total Changes	-$187	$42,915

[a] Department of Finance and Legislative Analyst, based upon data from the Department of Finance.

AB 274 (Isenberg) - Tax Conformity. Assembly Bill 274 (Isenberg) adopted amendments to Personal Income Tax and Bank and Corporation Tax Law conforming to changes made to federal tax law in 1987 and 1989. The administration expects the 1987 conformity provisions to yield $481 million and the 1989 conformity provisions to generate $80 million for a total of $561 million in General Fund revenues from these provisions in 1990-91.

AB 1109 (Katz) - Vehicle Smog Impact Fee. Chapter 453, Statutes of 1990 (AB 1109, Katz), an urgency measure, imposes a $300 per vehicle smog impact fee on vehicles being registered in California which were previously registered out-of-state. Vehicles which are certified to meet California emissions standards are exempt from this fee. The Department of Motor Vehicles (DMV) is required to collect the fee beginning November 1, 1990. Fee revenues will be deposited in the General Fund.

Currently, any new motor vehicle sold in the state must be manufactured to meet California emissions requirements. Some vehicles sold in other states are also manufactured to California standards. Vehicles which meet California standards are identified by a permanent certificate attached to the vehicle.

The DMV estimates that 370,000 vehicles will be subject to the smog impact fee annually. If all these vehicles comply with the state's registration and fee requirements, we estimate that after deducting DMV's collection costs, the fee will raise up to $110 million annually in additional revenues. For 1990-91, the fee is estimated to generate revenues of about $50 million, assuming less than 100 percent compliance with the measure's provisions.

SB 57 (Lockyer) - Unclaimed Property Escheat Period. Chapter 450, Statutes of 1990 (SB 57, Lockyer) made a number of changes to the state's Unclaimed Property Law. Specifically, SB 57 shortened the period after which most unclaimed property escheats to the state from five years to three years. This change is estimated to increase revenue to the General Fund by approximately $137 million in 1990-91.

SB 2319 (Alquist) - Real Estate Withholding. Senate Bill 2319 (Alquist) established a program of withholding on sales of California property by nonresidents. This measure requires the buyer of real property held by a nonresident to withhold 3 1/3 percent of the sales price of that property for tax purposes. The real estate settlement officer is responsible to notify the buyer in writing of this legal requirement, and remit the amount withheld to the Franchise Tax Board. Sales of personal residences and sales of less than $100,000 are exempt from the program.

The real estate withholding program is expected to generate General Fund revenues of approximately $43 million in 1990-91, $58 million in 1991-92, and $73 million in 1992-93. These revenue gains are due to (1) the acceleration of tax payments resulting in increased interest earnings, and (2) an increase in compliance to income tax laws by nonresidents.

New Special Fund Gas Tax Revenues

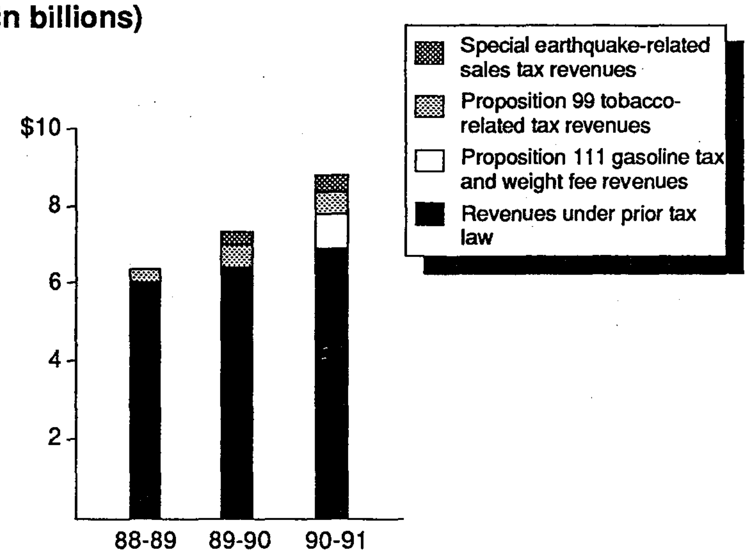
The abnormally large 20 percent increase in 1990-91 special fund revenues reflects $925 million due to increased gas taxes and truck weight fees which went into effect on August 1, 1990. These increases are due to Proposition 111 (June 1990), which increased the gasoline tax by 5 cents per gallon and truck weight fees by 55 percent. Proposition 111 also provides for additional one cent increases in the gasoline tax in each of the next four years. In the absence of these new revenues, special fund revenue growth in 1990-91 would be 7 percent, or somewhat below the average for the past five years.

The special fund revenue totals in Table 14 also include the effects of two other major tax changes. The first is the temporary one-quarter cent sales tax increase to fund earthquake relief which took effect November 1, 1989. The second involves the increased tobacco-related taxes due to Proposition 99 (November 1988), including the additional 25 cents-per-pack cigarette tax. Figure 12 shows the revenue effects of these changes.

Figure 12

The Effect of Recent Tax Law Changes on Special Fund Revenues

1988-89 through 1990-91
(in billions)



Percent Growth in Special Fund Revenues

	1989-90	1990-91
With tax law changes	15.5%	19.6%
Without tax law changes	6.5	7.0