State Spending Plan for 1993-94

The 1993 Budget Act and Related Legislation

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Legislative Analyst's Office

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Cal Facts—California's Economy and Budget in Perspective, (May 1993). This booklet is a graphically oriented reference document answering frequently asked questions concerning the state.

Recent Policy Briefs and Issue Papers

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California's Economy and Budget in Perspective (January 6, 1993).

An Overview of the 1993-94 Governor's Budget (January 1993).

Making Government Make Sense (Reprint from the 1993-94 Budget: Perspectives & Issues.) (February 1993).

Making Government Make Sense: Applying the Concept in 1993-94 (May 1993).

Overview of the May Revision (May 1993).

Status Check—Local Sales Taxes—What Role Can They Play in the 1993-94 State Budget? (June 1993).

Focus (No. 1)—Budget 1993—Budget Overview (July 1993).

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Focus (No. 5)—Budget 1993—Higher Education (July 1993).

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Overview

This report summarizes the fiscal effect of the 1993 Budget Act (Ch 55/93, SB 80), including the effects of major legislation that was enacted as part of the overall state spending plan for 1993-94. The report begins with a review of the 1993-94 budget problem, which involved an $8 billion funding gap that resulted from the state's ongoing fiscal problems. It then describes the actions taken by the Legislature and the Governor to resolve the budget gap over a two-year period. The report also describes how the resolution of the 1993-94 budget problem differs from the approaches taken to address the state's budget problems in 1991-92 and 1992-93. We then discuss the state's General Fund outlook for 1993-94 and 1994-95 and review budget adjustments that affect the outlook. Next, we present the state's total spending plan from all funds and for the various program areas. Finally, the report describes the major budget actions within each program area and the budget's impact on local governments in greater detail.

Our review indicates that the recently enacted two-year budget plan is now out of balance due to a variety of budget adjustments. These adjustments, reflecting actions or decisions that already have occurred, increase spending over the two years by a total of $660 million, which results in a 1994-95 ending *deficit* of $560 million in the General Fund, absent corrective action, rather than the $100 million reserve that was projected by the Administration when the budget was adopted.

Chapter 1

The 1993-94 Budget Package

In this chapter, we discuss the budget problem that the Legislature and the Governor faced for 1993-94 and how the 1993-94 budget package addressed that problem.

THE 1993-94 BUDGET PROBLEM

During 1992-93, California's economy still was mired in recession while the national economy continued a weak recovery. This situation represented an abrupt departure from the state's experience after other postwar recessions, when California's economy recovered simultaneously with, or ahead of, the national economy. As a result, revenues fell significantly short of budget estimates for the third consecutive year, and the outlook for 1993-94 revenues worsened as well. At the same time, however, spending pressures continued to increase due to growth in school enrollment, health and welfare caseloads, and the number of prison inmates. Consequently, enacting the 1993-94 budget required the Legislature and the Governor to address both a significant 1992-93 ending deficit and a large 1993-94 operating shortfall.

Following the release of the *1993-94 Governor's Budget* in January 1993, we projected that the state faced a 1993-94 General Fund budget funding gap of $8.6 billion (please see *The 1993-94 Budget: Perspectives and Issues*, Part I). The Administration's May revision of its budget estimates, however, reflected somewhat slower growth in health and welfare caseloads and a slight increase in revenue compared with the January budget. Based on the May revision estimates, we revised our gap projection—to $8.0 billion. To put the size of the gap into perspective, it was equivalent to almost one-fifth of the total amount of General Fund spending in 1992-93. This funding gap represented the amount of savings, increased revenues, or other resources needed to offset:

- A projected 1992-93 year-end *deficit* of **$2.9 billion**.
- A projected 1993-94 operating shortfall of **$5.1 billion**, which was the difference between our estimate of 1993-94 "baseline" spending and available revenues under existing law.

Our estimated budget gap did not include any funds to establish a prudent reserve. Including the creation of such a reserve would have increased the gap to more than $9 billion.

Some of the budget balancing actions adopted for 1991-92 and 1992-93 were one-time or temporary in nature because a faster economic recovery was anticipated. Since revenues have not rebounded as expected, however, the expiration of temporary measures and one-time savings have added to subsequent budget gaps. For example, the $7.2 billion of tax increases adopted to address the 1991-92 funding gap included a half-cent increase in the state sales tax ending on June 30, 1993 and the suspension of the net loss carry forward for businesses until the 1993 tax year. As a result, about $1.9 billion of the $8 billion 1993-94 funding gap was attributable to the scheduled expiration of these revenue enhancements.

THE GOVERNOR'S BUDGET PROPOSAL

Figure 1 outlines the Governor's original January proposal to address the 1993-94 budget gap (as estimated at that time) and compares it with his modified proposal presented in the May budget revision.

The January Proposal

The Governor's January budget proposal attempted to resolve the entire 1993-94 funding gap and achieve a balanced budget in 1993-94 (although essentially without a reserve). The budget proposed to address half of the gap by shifting $4.3 billion of costs to other levels of government. Local governments would bear $2.7 billion of this burden, primarily through a shift of property tax revenue to schools and community colleges, where those revenues would replace state support. This shift would be on top of a similar $1.3 billion shift adopted in the 1992-93 budget package. The budget also assumed that the federal government would provide $1.6 billion of additional federal funds, including $1.4 billion to offset state costs of providing services to immigrants and their children.

Figure 1

Governor's Proposals to Address The 1993-94 Spending Gap January Budget and May Revision

(In Billions)

	January Budget	May Revision	Change
Cost shifts			
To federal government	$1.6	$0.8	-$0.8
To local governments	2.7	2.7	0.1
Subtotals	**$4.3**	**$3.5**	**-$0.8**
Program reductions			
Reduce General Fund programs	$2.0	$1.7	-$0.3
Shift special fund monies to General Fund	0.4	0.4	—
Subtotals	**$2.4**	**$2.1**	**-$0.3**
Cost Deferrals and Revenue Accelerations	$0.9	$1.8	$0.9
Reduce tax expenditures	$1.0	$0.5	-$0.5
Totals	**$8.6**	**$8.0**	**-$0.6**

Detail may not add to totals due to rounding.

Program funding reductions accounted for $2.4 billion of savings, the largest components of which were grant reductions under Aid to Families with Dependent Children (AFDC) and related welfare reform savings, higher education cuts, and using savings in special fund programs to assist the General Fund. Cost deferrals and accounting changes provided about $900 million in savings, including an off-budget loan to schools against their future Proposition 98 state funding entitlements. The budget also proposed saving $840 million by repealing the renters' tax credit retroactive to the 1992 tax year.

May Revision Proposed a Two-Year Budget Solution

Although the budget gap had declined by about $600 million at the time of the May revision, the amount of savings achievable by the budget solutions that the Governor had proposed in January had declined by an even larger amount ($1.9 billion). As a result, $1.3 billion of new budget solutions were needed. There were two primary reasons for the loss of potential savings. First, the budget recognized that the federal government was unlikely to provide most of the immigration funding assumed in January. Second, the January budget had assumed essentially immediate adoption and implementation of several major budget solutions, such as the repeal of the renters' tax credit, welfare grant changes, and the elimination of some Medi-Cal benefits. The May revision recognized that none of these proposals had been adopted yet and accordingly it revised the savings estimates downward to reflect a delay in their implementation until 1993-94.

The May revision included a variety of new budget solutions saving almost $600 million, but these left a remaining 1993-94 year-end deficit of $667 million in the General Fund. The Administration proposed borrowing to finance this deficit, which ultimately would be paid off in 1994-95, and characterized the proposal as a plan to pay off the carryover deficit from 1992-93 over two years.

SUMMARY OF ACTIONS TAKEN TO CLOSE THE GAP

A major feature of the budget package is the adoption of the Governor's proposal to shift $2.6 billion of property tax revenues from local governments to schools in order to reduce the state's education funding requirement under Proposition 98. The budget package partially offsets this loss to local governments by extending for six months the temporary half-cent state sales tax that was scheduled to expire on June 30, and allocating the revenue to local governments. The sales tax extension will become permanent if the voters approve Proposition 172 at the November 1993 special election. Local governments would receive about $1.5 billion annually from the tax.

The budget package also adopted the Governor's proposal for a two-year payoff of the 1992-93 carryover deficit. While most of the carryover deficit is paid off in 1993-94, the adopted budget plan leaves $540 million of the deficit to be repaid in 1994-95.

Figure 2 (next page) identifies the major actions taken to close the state's $8 billion budget funding gap, together with the Administration's estimates of the fiscal effect of these actions. In brief, the actions consisted of the following:

- ***Shifts to Other Levels of Government—$3.7 Billion.*** These shifts filled almost half of the gap. Most of the savings results from the property tax shift from local governments to schools. The overall budget package helps mitigate the impact on local governments by extending the temporary sales tax and increasing Vehicle License Fee allocations, among other actions. Increased federal funding—primarily for health and welfare services to immigrants—provides an additional $850 million.

- ***Cost Deferrals, Loans, and Revenue Accelerations—$2.4 Billion.*** The largest cost deferrals are the new off-budget loan of $786 million for K-14 education in 1993-94 and the $540 million carryover deficit. Deferring the state's employee retirement contributions and accounting changes provide most of the remaining savings.

- ***Program Reductions—$1.1 Billion***. Special fund reductions and transfers provide $528 million to close the General Fund gap. Significant General Fund savings also result from reductions to Supplemental Security Income/State Supplementary Program

Figure 2

Summary of Actions Taken To Close the 1993-94 Budget Gap[a]

(In Billions)

Shifts to other levels of government	**$3.7**
Local government:	
Property tax shift to education	$2.6
Reduce Medi-Cal funding to counties	0.1
Other	0.1
Subtotal	**$2.8**
Federal government:	
Immigrant health and welfare costs	0.6
IHSS: shift to federal medicaid program	0.1
Other	0.1
Subtotal	**$0.9**
Cost deferrals, loans, and revenue accelerations	**$2.4**
Proposition 98:	
New K-14 off-budget loans in 1993-94	0.8
Defer scheduled CCC loan repayment	0.1
1993-94 carry over deficit	0.5
Defer state employee retirement contributions	0.3
Cash accounting for debt service	0.3
Special fund loans	0.2
Accelerate tax settlements	0.1
Other	0.1
Program reductions	**$1.1**
Shift special fund monies to General Fund programs	0.5
Unallocated reductions and shortfalls at UC and CSU	0.2
SSI/SSP: reduce grants and no federal COLA pass-thru	0.2
Medi-Cal: restrict services and limit provider payments	0.1
Workers' compensation reform: savings to state agencies and schools	0.1
Other General Fund reductions (net)	0.2
Proposition 98: augment per-pupil funding	-0.1
Higher Eduction: augment student aid	-0.1
Increased resources	**$0.8**
Tax actions:	
Suspend renters' credit	0.4
Repeal small business health care credit	0.1
Improve audits and collections	0.1
Increased higher education fees	0.2
Total	**$8.0**

[a] Figures reflect both 1992-93 and 1993-94 effects. Detail does not add to total due to rounding.

(SSI/SSP) grants to the disabled and elderly, and from reductions to higher education.

- ***Increased Resources—$825 Million***. Suspending the renter's credit for two years (until 1995) provides $390 million in 1993-94. Improved tax collection and increased higher education fees provide an additional $315 million to support state programs.

Chapter 4 of this report more fully discusses the major elements of the budget package. Figure 3 (next 2 pages) lists the major legislation that was enacted to carry out the budget agreement.

Budget Strategies Have Changed

Figure 4 (page 12) illustrates the different approaches that were used to resolve the massive budget gaps that faced the state over the last three years. About two-thirds of the $14.3 billion 1991-92 budget gap was filled with additional revenues, including $7.2 billion from tax increases. Program reductions provided the next largest amount of gap solutions—$4.1 billion.

After the large 1991-92 tax increases, the resolution of the 1992-93 budget gap of $11.2 billion relied very little on increased revenues. Instead, a combination of three strategies provided most of the budget solutions. Program reductions made the largest contribution ($4.1 billion), with the largest share of the savings coming from education programs ($1.7 billion). Cost deferrals and revenue accelerations provided $2.9 billion, including an off-budget Proposition 98 loan of $973 million. Cost shifts of $2.3 billion to other levels of government (including a property tax shift of $1.3 billion from local governments to schools) provided the other major share of budget solutions for 1992-93.

By comparison, most of the 1993-94 budget gap was resolved through cost shifts to other levels of government or by deferring costs and accelerating revenues, as described earlier in this chapter. These two approaches provided a total of $6 billion to address the $8 billion 1993-94 budget gap.

Figure 3

**1993-94 Budget
Major Implementing Legislation**

Measure	Description
Workers' Compensation Package[a]	• Reforms workers' compensation system, resulting in savings for employers, including the state and local governments.
Res. Ch 41/93 - SCA 1	• Proposition 172 at November 1993 election. If approved, makes half-cent sales tax permanent for local public safety purposes.
Res. Ch 42/93 - SCA 9 (Roberti)	• If approved at June 1994 primary election, establishes renters' tax credit in the California Constitution.
Ch 56/93 - AB 2351	• Eliminates various state advisory boards and commissions.
Ch 59/93 - SB 443	• Mandate Relief : Permanently abolishes several suspended local mandates.
Ch 60/93 - SB 452	• Mandate Relief: Relaxes or suspends various local mandates.
Ch 61/93 - AB 2031	• Local Government: Authorizes certain local agencies to negotiate lower retirement benefits for new employees.
Ch 62/93 - AB 760 (Statham)	• Suspends renters' tax credit for 1994 and 1995 tax years.
Ch 63/93 - SB 271	• Provides for two-year payoff of 1992-93 deficit and changes accounting for bond interest from accrual to cash.
Ch 64/93 - SB 627	• Mandate Relief: Revises various health and welfare local mandates.
Ch 65/93 - SB 683	• Local Government: Increases state subventions for local open-space programs.

[a] Includes Chapters 4 (SB 31, Johnston), 117 (SB 983, Greene), 118 (AB119, Brulte), 119 (SB 484, Lockyer), 120 (AB 1300, Willie Brown), 121(AB 110, Peace and Brulte), 227 (SB 1105, Leslie), 228 (SB 30, Johnston), statutes of 1993.

Note: Senate bills are by the Senate Committee on Budget and Fiscal Review and Assembly bills are by the Assembly Ways and Means Committee unless an author is noted.

Figure 3 CONTINUED

1993-94 Budget
Major Implementing Legislation

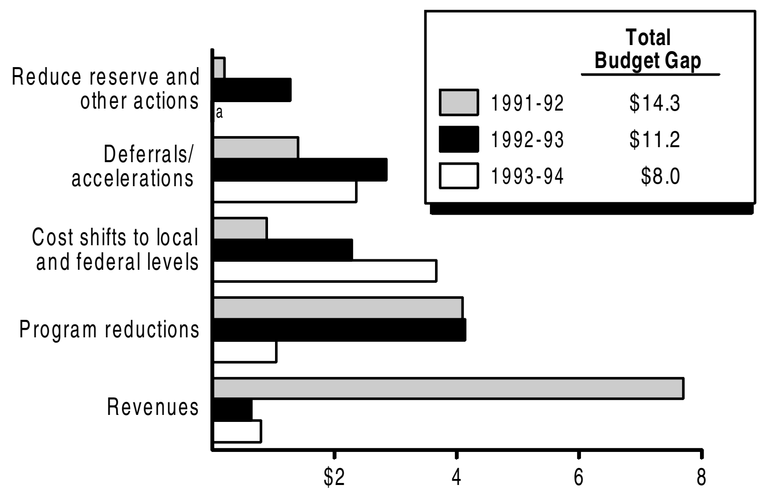
Measure	Description
Ch 66/93 - SB 399 (Hart)	• Proposition 98: Contains the major education funding provisions of the budget package. • Authorizes increase in California State University student fees.
Ch 67/93 - SB 1012 (Maddy)	• Increases community college fees.
Ch 68/93 - SB 1135	• Shifts $2.6 billion of local property taxes to schools. • Increases local vehicle license fee allocations.
Ch 69/93 - SB 35	• Health and Welfare: Reduces AFDC and SSI/SSP grants, implements welfare reforms, and makes other changes to implement budget.
Ch 70/93 - SB 86	• Mandate Relief: Revises mandates for local justice systems.
CH 71/93 - SB 240	• Defers the state's Public Employees' Retirement System retirement contribution.
Ch 72/93 - SB 1033	• Mandate Relief: Authorizes counties in fiscal distress to reduce general assistance grants.
Ch 73/93 - SB 509	• Extends the temporary half-cent sales tax through December 30, 1993 and allocates funds to counties and cities.
Ch 74/93 - SB 711	• Repeals small business health care tax credit.
Ch 75/95 - AB 102	• Extends tax agencies' authority to settle tax disputes. • Increases state's administrative charge for collecting local sales taxes.

Note: Senate bills are by the Senate Committee on Budget and Fiscal Review and Assembly bills are by the Assembly Ways and Means Committee unless an author is noted.

Figure 4

Comparison of Strategies to Address Budget Gaps 1991-92 Through 1993-94

(In Billions)



[a] The $8 billion 1993-94 budget gap does not include any amount to restore a reserve, which would have added more than $1 billion to the gap.

GENERAL FUND CONDITION AT THE TIME OF BUDGET PASSAGE

Figure 5 shows the General Fund condition for 1992-93 and 1993-94, based on the 1993-94 budget package and presented according to the state's traditional budgetary accounting practice. The General Fund ended 1992-93 with an estimated deficit of $2.8 billion, of which $2.2 billion will be paid off in 1993-94 and $540 million will be carried over into 1994-95, the year in which it is anticipated to be paid off. Total budgeted spending from the General Fund for 1993-94 is $38.5 million—a 6.3 percent decline from 1992-93. The spending amounts shown in Figure 5 do not include the off-budget loans to schools and community colleges against their future state funding entitlements.

Figure 5

Estimated General Fund Condition At Enactment of 1993 Budget Package

(In Millions)

	1992-93	1993-94	Percent Change
Prior-year balance	-$2,166	-$2,233	
Revenues and transfers	41,041	40,623	-1.0%
Total resources available	$38,874	$38,390	
Expenditures	$41,107	$38,520	-6.3%
Fund balance	-$2,233	-$130	
Reserve	**-$2,753**	**-$540**	
Other obligations	$520	$410	

Details do not add to totals due to rounding.

The ending deficit of $540 million in Figure 5 contrasts with a 1993-94 ending reserve of $613 million shown by the Administration in its budget summary documents. The difference—$1.153 billion—represents borrowing that the Administration intends to use to finance the deficit and provide its stated "reserve." The proposed borrowing is a means of financing the deficit, however, rather than a means of eliminating it.

Chapter 2

Current Outlook for 1993-94 and 1994-95

In this chapter, we review the Administration's two-year plan for achieving a balanced state budget, and present our assessment of that plan in light of recent developments.

THE ADMINISTRATION'S TWO-YEAR BUDGET PLAN

As discussed in Chapter 1, the 1993-94 budget that was approved by the Legislature and the Governor pays off the $2.8 billion 1992-93 General Fund deficit over two years under a mechanism authorized by Ch 63/93 (SB 271). Consequently, the 1993-94 budget represents the first year of a two-year budget plan. Accordingly, the Department of Finance developed projections of 1994-95 General Fund revenues and expenditures in order to determine the effects of 1993-94 budget decisions on the 1994-95 budget balance. Figure 1 (next page) shows the Administration's two-year budget plan (restated to conform to the state's traditional budget accounting practice), starting with the budget adopted for 1993-94 and including projected 1994-95 revenues and expenditures. As the figure shows, the Administration's plan projects a balanced budget in 1994-95, but with only a very small General Fund reserve of $100 million.

Current Look for 1993-94 and 1994-95

Figure 1

The Administration's Two-Year Plan To Balance the General Fund Budget

(In Millions)

	1993-94	1994-95
Prior-year balance	-$2,233	-$130
Revenues and transfers	40,623	42,418
Total resources available	**$38,390**	**$42,288**
Expenditures	$38,520	$41,778
Fund Balance	-$130	$510
Reserve	**-$540**	**$100**
Other obligations	$410	$410

Detail may not add to totals due to rounding.

THE BASIS FOR THE ADMINISTRATION'S 1994-95 PROJECTIONS

The Department of Finance based its revenue projection on its economic outlook for California. That outlook calls for the state's economy to begin its recovery in the fourth quarter of 1993, but with only modest gains in employment throughout 1994.

The department's spending projection takes a conservative approach. Generally, 1994-95 spending was held at the 1993-94 level adjusted only for specific caseload or enrollment increases and for changes in costs required by existing law or by contract, such as debt service on state bonds and employee compensation increases under existing agreements. The spending projection does not include any general inflation adjustment or discretionary increases, except for a $100 million "growth estimate" (about 0.2 percent of spending). Proposition 98 funding in the projection is the minimum guarantee amount consistent with the revenue projection ($14.4 billion). This amount is sufficient to fund anticipated enrollment at the current per-pupil funding level plus $110 million, of which $55 million would be used to reduce outstanding Proposition 98 loans pursuant to Ch 66/93 (SB 399, Hart). Because those loans total $1.8 billion, the budget plan would leave $1.7 billion to be paid off out of Proposition 98 spending in subsequent years.

Even under the department's conservative approach, projected General Fund spending grows by almost $3.3 billion or 8.5 percent in 1994-95. Although the increase is large, we estimate that more than half of the amount is needed to meet existing obligations or to replace one time savings or temporary funding as follows:

- Increase needed to provide minimum Proposition 98 guarantee—$931 million.
- Increased debt-service costs—$337 million.
- Scheduled employee compensation increases—$246 million.
- Loss of one-time accounting savings—$234 million.
- Reduced federal SLIAG and other funds—$178 million.
- Begin repayment of special fund loans—$62 million.

The items above total $2 billion, leaving $1.3 billion of projected spending growth for non-Proposition 98 programs. This represents an increase of 5.1 percent, to fund growth in health, welfare, and corrections caseloads that have been growing close to or above this rate, and to provide for some higher education enrollment growth.

BUDGET ADJUSTMENTS

Figure 2 (next page) lists budget adjustments that we have identified since the adoption of the budget package. These adjustments increase spending by a total of $288 million in 1993-94 and $372 million in 1994-95. They reflect actions or decisions that already have occurred, such as federal budget actions. Although the precise

Current Look for 1993-94 and 1994-95

Figure 2

General Fund Budget Adjustments 1993-94 and 1994-95

(In Millions)

	1993-94	1994-95
Federal Funding Adjustments		
Medi-Cal: State costs for undocumented persons not funded	$240	$240
SSI/SSP: Fees for federal administration of state grants	15	22
AFDC and Food Stamps Administration—reduced match	11	45
Medi-Cal: Additional state share of increased federal DSH payments	-43	—
Other Adjustments		
Section 3.90: Shortfall in allocated spending reductions	40	40
Corrections—inmate population exceeding estimates	25	25
Totals	**$288**	**$372**

amounts for some of the adjustments are subject to change, these adjustments are appropriate to recognize in budget totals at this time.

Most of the adjustments result from federal actions. The largest of these is the loss of $240 million assumed in the budget from a new federal program that would have reimbursed a portion of the state's share of the cost of providing Medi-Cal services to undocumented immigrants. President Clinton's budget had proposed funding this new program, but Congress did not include it in the enacted federal budget. Congressional budget action, moreover, imposes increased costs on the state for federal administration of SSI/SSP grants to the elderly, blind and disabled, and for food stamp administration. On the positive side, the federal government has raised its ceiling on payments to disproportionate-share hospitals (DSH), hospitals with large amounts of uncompensated care. Although the state budget anticipated some increase in these DSH payments, the announced increases are retroactive and will provide a one-time gain of about $43 million of additional funding to the Medi-Cal program in 1993-94 under recent legislation.

Control Section 3.90 authorizes the Director of Finance to reduce General Fund expenditures by up to $50 million. The budget assumes $50 million of General Fund savings attributable to

Section 3.90. On August 31, however, the Department of Finance announced that it would allocate only $10 million of reductions, leaving a $40 million shortfall.

Finally, the number of prison inmates has been running slightly ahead of budget estimates, which will add about $25 million to corrections spending.

IMPACT OF ADJUSTMENTS ON THE 1994-95 BUDGET PLAN

Figure 3 shows the effect of the adjustments that we have identified on the two-year budget plan. Over the two-year period, the adjustments add a total of $660 million in spending to the plan. As a result, the 1993-94 deficit would increase from $540 million to $828 million,

Figure 3

Adjustments Throw 1994-95 General Fund Budget Plan out of Balance

(In Millions)

	1993-94	1994-95
Prior-year balance	-$2,233	-$418
Revenues and transfers	40,623	42,418
Total resources available	**$38,390**	**$42,000**
Budgeted and planned expenditures	$38,520	$41,778
Adjustments	288	372
Total expenditures	**$38,808**	**$42,150**
Potential ending balance—June 30	-$418	-$150
Reserve	**-$828**	**-$560**
Other obligations	$410	$410

Detail may not add to totals due to rounding.

and there would be a General Fund deficit of $560 million at the end of 1994-95 instead of a $100 million reserve. As a result, 1994-95 is likely to be another difficult year.

Even beyond 1994-95, there are a number of savings measures and revenue provisions which trigger off or lose their effect, as shown in Figure 4. (The figure does not include the $1.8 billion in loans to K-14 school districts that are scheduled to be repaid in future years as offsets against the Proposition 98 minimum funding guarantee.) Consequently, given current prospects for the state's future economic growth, the state will face tight budgets for the next couple of years.

Figure 4

Temporary Budget Solution Measures—Impact on Future Budgets

(In Millions)

	Annual	
	Cost Increase	**Revenue Loss**
1995-96		
Temporary 10 percent and 11 percent tax brackets expire		$750[a]
Renters' tax credit restored starting 1995		450
Resume state's employee retirement contributions	$475	
End redevelopment funding shift to schools	65	
1996-97		
End suspension of AFDC cost-of-living adjustments	100's	
End suspension of SSI/SSP cost-of-living adjustments	100's	
Restoration of 1992-93 AFDC and SSI/SSP grant reductions	650	
End income limits for renters' tax credit	100	
Unspecified		
Repay transportation funds for loans for rail bond service	188[b]	

[a] Full-year amount. Loss would be significantly less in 1995-96.

Chapter 3

State Expenditures

Figure 1 shows the total amount of state expenditures budgeted for 1993-94 and compares it to total state spending in the previous two years.

Figure 1

The 1993 Budget Act
Total State Expenditures

(In Millions)

Fund	Actual 1991-92	Estimated 1992-93	Enacted 1993-94	Change from 1992-93 Amount	Change from 1992-93 Percent
General Fund	$43,327	$41,107	$38,520	-$2,587	-6.3%
Special funds	11,193	11,859	12,117	258	2.2
Selected bond funds	1,760	4,700	1,548	-3,152	-67.1
Total state expenditures	**$56,280**	**$57,666**	**$52,185**	**-$5,481**	**-9.5%**

Total budgeted state spending for 1993-94 amounts to $52.2 billion. This amount includes spending from the General Fund, special funds, and selected bond funds. Total spending in 1993-94 declines by almost $5.5 billion (9.5 percent) compared with estimated total spending in 1992-93. General Fund spending falls by $2.6 billion (6.3 percent), which primarily reflects the savings in state school aid due to the property tax shift from local governments to schools that is included in the budget package. Spending from special funds increases slightly—by $258 million or 2.2 percent. Budgeted spending from selected bond funds drops to only one-third of last year's spending amount—a reduction of $3.2 billion. The primary reason for reduced bond fund spending is that most of the state's authorized general obligation bonds have been committed to projects.

Most of the state's expenditures are from the General Fund. In 1993-94, General Fund spending will amount to $38.5 billion, or 74 percent of total state expenditures.

SUMMARY OF ACTION ON THE BUDGET BILL

Figure 2 shows the changes made by the Legislature to the 1993-94 levels of expenditures proposed by the Governor, and the Governor's subsequent veto actions. General Fund expenditures in the final spending plan are about $1.2 billion greater than the Governor originally proposed in January. Most of this increase ($877 million) was included in the Administration's May budget revision to replace savings that were no longer achievable (as discussed in Chapter 1). The Legislature's actions resulted in a net increase of $314 million beyond the May revision request. Most of this increase was to restore funding for reductions proposed by the Governor in

Figure 2

1993 Budget Act and Implementing Legislation
Summary of Changes to January Proposal

(In Millions)

	General Fund	Special Funds	Selected Bond Funds	Totals
Governor's Budget as submitted	**$37,333**	**$12,358**	**$1,470**	**$51,161**
Changes proposed by the administration	877	-64	93	906
Governor's Budget as revised (May)	**$38,210**	**$12,294**	**$1,564**	**$52,067**
Legislative changes (net)	314	-152	-14	148
Budget as passed by the Legislature	**$38,524**	**$12,142**	**$1,549**	**$52,215**
Governor's vetoes	-4	-25	-2	-31
Total spending plan	**$38,520**	**$12,117**	**$1,548**	**$52,185**

Details may not add to totals due to rounding.

higher education and health and welfare and to provide a small increase for K-12 education.

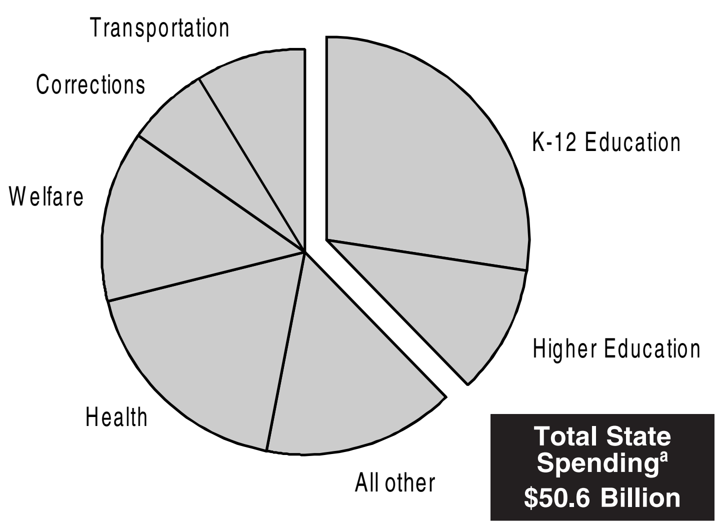
The final budget plan reduces spending from special funds by $241 million compared with the Governor's January proposal. In part, this reduction reflects actions that shifted special fund monies to the General Fund and to local governments.

MAJOR STATE EXPENDITURES BY PROGRAM AREA

Budgeted state spending from the General Fund and special funds totals $50.6 billion in 1993-94. Figure 3 shows how this total spending is divided among the major program areas. As the figure shows, the largest share of state spending is for education programs (38 percent of total state spending). Health and welfare programs

Figure 3

1993 Budget Act Total State Spending By Major Program



[a] General Fund and Special Funds, excludes bond funds and federal funds.

account for almost one-third of total spending (32 percent). Transportation programs and youth and adult corrections are the other major spending areas, with 8.7 percent and 6.6 percent of total spending, respectively.

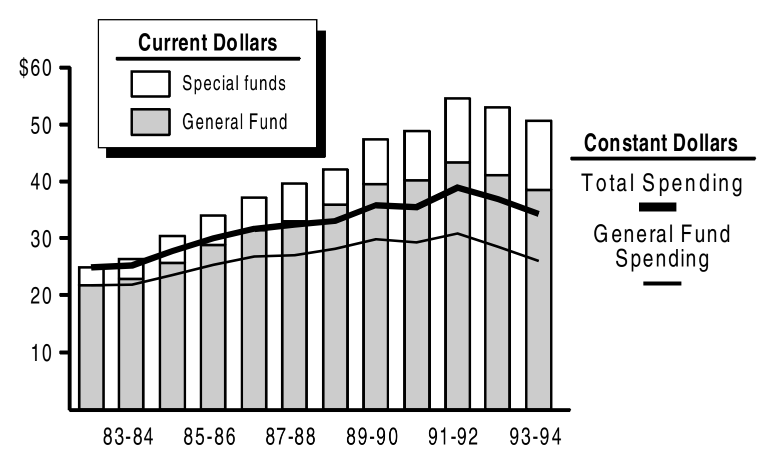
HISTORICAL PERSPECTIVE ON GENERAL FUND AND SPECIAL FUND SPENDING

To put this year's budget in perspective, Figure 4 shows state spending trends since 1982-83. The figure includes state expenditures from the General Fund and special funds in both "current dollars" (amounts as they appear in the budget) and "constant dollars" (current dollars adjusted for the effects of inflation). This adjustment allows comparisons of the "purchasing power" of state spending over time. Figure 5 illustrates annual percentage changes in spending from the General Fund and special funds during the same period.

Figure 4

State Spending[a]
Current and Constant Dollars
1982-83 Through 1993-94

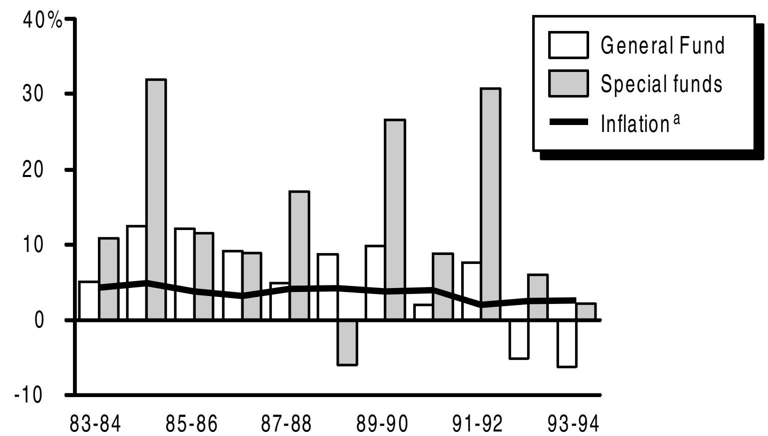
(In Billions)



[a] Excludes bond funds and federal funds.

Figure 5

Annual Percentage Change in General Fund And Special Fund Spending 1983-84 Through 1993-94



[a] GNP deflator for state and local government purchases.

As Figure 4 shows, total spending has declined in both 1992-93 and 1993-94, which is in sharp contrast with the earlier trend of increased annual spending. Total spending grew at an overall annual rate of 8.1 percent from 1982-83 to 1991-92. After adjusting for inflation, the annual growth rate was still 5 percent. Based on the enacted budget, however, total spending in 1993-94 will be 7.1 percent less than total spending in 1991-92 (in current dollars), and adjusted for inflation the decline will be even steeper—about 12 percent.

Spending growth prior to 1992-93 was driven mainly by increased spending from special funds, as shown in Figure 5. In 1982-83, spending from special funds equaled about 15 percent of General Fund expenditures, but in 1993-94 this figure will grow to 31 percent. Increased spending from special funds reflects a variety of factors. Proposition 99 added a cigarette and tobacco surtax and placed the revenue in a dedicated special fund. Proposition 111 authorized increased gasoline tax rates to fund transportation projects. Revenues from certain tax increases in 1991-92 were placed in a special fund to finance state/local realignment of health and welfare programs. Also, a number of fee-supported programs have been established or expanded in recent years.

Spending from special funds will continue to grow in 1993-94, but at a much slower pace than previously, as Figure 5 illustrates. Prior to 1992-93, special fund spending grew at an annual rate of about 13 percent, compared with a budgeted growth of only 2.2 percent in 1993-94.

Chapter 4

Major Features Of the 1993 Budget Plan

This chapter provides a description of the major features of the 1993 budget plan. It includes individual discussions of the budget actions within each of the major program areas, as well as discussions of the budget actions that affect local governments and special fund programs.

LOCAL GOVERNMENT FUNDING

The budget agreement imposes a $2.6 billion transfer of local government property tax revenue to K-14 school districts for 1993-94, similar to the $1.3 billion transfer imposed as part of the 1992-93 budget agreement. Counties account for over $2 billion of this transfer.

The budget agreement mitigates the effects of the property tax transfer on local governments by providing (1) increased sales tax and vehicle license fee allocations to cities and counties totaling up to $1.6 billion and (2) relief from mandated local program responsibilities in a number of program areas and certain other financial changes, which will generate savings possibly totaling in the hundreds of millions of dollars. Moreover, recent federal action subsequent to legislative action on the state budget will significantly offset the burden of the property tax transfer for some counties by providing increased federal reimbursements for the costs of health services which counties already provide to indigents. If Proposition 172 (which permanently extends the current temporary half-cent sales tax) is approved by the voters on November 2, then it is likely that most *counties* will not experience major deterioration in their overall financial picture in 1993-94 relative to 1992-93, considering the other mitigating factors discussed above. Beginning no later than 1994-95, however, counties will experience significant reductions in resources available to support services to residents as one-time revenue offsets are no longer available.

Due to the lower level of property tax transfers required from them, cities and redevelopment agencies should be able to accommodate the 1993 budget actions without significant program disruptions. The outlook for many nonenterprise special districts is at this point highly uncertain, however, as many of these districts face the loss of half or more of their revenues.

This section describes the property tax changes, as well as the revenue and expenditure offsets, and the details of how they are to be implemented. It then describes how these changes will affect the various types of local government entities.

Property Tax Transfers

As occurred in 1992-93, the budget agreement—Ch 68/93 (SB 1135) transfers a portion of local governments' property tax allocations to local school districts and community college districts (K-14 education), thereby reducing the amount of state school funding required by Proposition 98.

Figure 1 shows how the property tax transfer is distributed by type of local government, and its effect on the overall distribution of the property tax. As the figure shows, the amount of property tax revenues allocated to local governments was reduced by a total of $2.645 billion, with reductions in county allocations accounting for over 75 percent of the total (over $2 billion). Cities will lose $313 million in property tax allocations, and special district allocations will be reduced by $244 million. Finally, redevelopment agencies will contribute $65 million annually for 1993-94 and 1994-95 only. The net impact on K-14 education is that school and community college districts will receive almost 54 percent of the property tax allocations statewide.

Figure 1

1993-94 Distribution of Property Tax Revenues by Type of Local Government[a]

(In Millions)

	Property Tax Distribution Before Shift		Property Tax Shift	Property Tax Distribution After Shift	
	Amount	Percent		Amount	Percent
Counties	$5,816	31.2%	-$2,023	$3,793	20.3%
Cities	2,210	11.8	-313	1,897	10.2
Special districts	1,488	8.0	-244	1,244	6.7
Redevelopment agencies	1,721	9.2	-65	1,656	8.9
K-14 School districts	7,419	39.8	2,645	10,064	53.9
Totals	**$18,654**	**100.0%**	**—**	**$18,654**	**100.0%**

[a] Excludes property taxes levied for debt service.

Property Tax Transfers Recapture Proposition 13 Fiscal Relief. In general, the property tax transfers from cities, counties, and special districts are intended to "recapture" a large portion of the state assistance provided to these entities annually since the passage of Proposition 13 in 1978. For cities and special districts, this assistance consisted of a transfer of property tax support from school and community college districts to local governments (with a corresponding increase in state General Fund support for schools). For counties, most of the assistance consisted of state program "buy-outs" and changes in the state-county sharing ratios for a number of health and welfare programs. Most counties also received a transfer of property tax revenues as part of this state assistance package. Redevelopment agencies did not receive bailout assistance.

Figure 2 (next page) shows the amount of Proposition 13 fiscal relief provided to local government entities before and after implementation of Chapter 68. As the figure shows, while Chapter 68 represents a substantial reduction—roughly 41 percent—in the state assistance provided to local governments, there is significant state assistance remaining ($3.6 billion—primarily for counties).

Figure 2

Total Value of Remaining Proposition 13 Fiscal Relief For Local Governments

(In Millions)

	1993-94 Starting Value	Ch 68/93 (SB 1135) Reduction	Net 1993-94 Value
Counties	$4,976	$2,023	$2,953
Cities	674	313	361
Special districts	510	244	266
Totals	**$6,160**	**$2,580**	**$3,580**

Actions Taken to Mitigate Impacts of Property Tax Transfers

As part of the budget package, the Legislature and the Governor acted to partially mitigate the impact of the property tax transfers on cities and counties. On the revenue side, these mitigations include:

Sales Tax Revenues. Chapter 73, Statutes of 1993 (SB 509), extends through December 31, 1993, the temporary half-cent increase in the state sales tax that was to have expired on June 30, 1993. Chapter 73 makes the revenue from the tax extension (estimated at $744 million) available to cities and counties for support of local public safety activities. In addition, the Legislature has placed Proposition 172 (Res. Ch 41/93—SCA 1) on the November 2, 1993 election ballot, which would make the temporary half-cent sales tax permanent and dedicate it to funding public safety activities at the local level. If approved by the voters, this measure would provide cities and counties an additional $714 million in 1993-94, and approximately $1.5 billion in increased sales tax revenues annually thereafter. These sales tax funds would be allocated to cities and counties, generally in proportion to their property tax losses.

Vehicle License Fee Allocations. Chapter 68 increases Vehicle License Fee (VLF) allocations on a one-time basis to cities ($90 million) and counties ($40 million) in proportion to their property tax losses. This is accomplished by reducing VLF support for the Department of Motor Vehicles and, instead, substituting other transportation funds. In addition, up to $50 million in VLF revenue which could result annually from enhanced collection activities will be allocated one-half to cities and one-half to counties, on a per capita basis.

In addition to the property tax transfer and revenue allocations discussed above, the budget agreement affects local governments by (1) repealing or making optional a number of state mandated local programs and (2) changing a variety of locally-administered programs, primarily in the areas of health and welfare and in criminal justice. In addition, new federal guidelines will provide significantly more funds to California counties to reimburse them for the costs of providing hospital care to indigent persons. Figure 3 summarizes these other major changes, which are discussed in greater detail in other sections of this report. In the aggregate, the changes shown in Figure 3 represent a substantial net savings to counties, and a much smaller savings to other local governmental entities. The overall net benefit to counties will depend on the actual savings that result from legislative action which reduced the number of state mandated local programs. While the amount of these savings are unknown, the budget agreement assumed that they would total several hundreds of millions of dollars.

Effects of Tax and Revenue Changes on Counties

Property Tax Transfer. As Figure 4 (page 27) shows, Chapter 68 requires a shift of $2.023 billion in property tax revenues from counties to school districts in 1993-94. Of this amount, $25 million will be apportioned to counties on a per capita basis ($0.80 per capita). Half of the remaining required reduction ($999 million) will be allocated generally in accordance with the Governor's 1993-94 May Revision proposal, which reflects (1) the fiscal relief provided to most counties following passage of Proposition 13, (2) the amount of property taxes allocated to special districts within the county, and

Figure 3

Other Major Program Changes Affecting Local Government Revenues and Expenditures 1993-94

Program	Fiscal Effect (In Millions)	Affected Entities	Vehicle
Health and Welfare			
+ Increased federal payments for indigent care in hospitals	$480	Counties	Federal guidelines
+ Increased federal support for IHSS	55	Counties	Ch 939/92 (AB 1773)
+ Delayed increases in foster care group home rates	30	Counties	Ch 69/93 (SB 35)
− Reductions in negotiated hospital inpatient rates	30	Counties	Budget Act
+ Potential reductions in General Assistance	up to 150	Counties	Ch 72/93 (SB 1033)
Criminal Justice			
+ Increased revenue for juvenile camps and ranches	33	Counties	Budget Act
− Increased costs for operation of trial courts	46	Counties	Budget Act
Miscellaneous			
+ Increased payments under the Williamson Act	21	Counties	Ch 65/93 (SB 683)
− Increased payments to the BOE for administrative services	13	Cities, counties, special taxing agencies	Ch 75/93 (AB 102)
+ Workers' Compensation cost savings	Unknown	All local entities	Various[a]
State Mandated Local Programs			
+ Repeal or suspension of certain state mandates	Unknown, potentially up to several hundred million	Primarily counties	Ch 70/93 (SB 86) Ch 59/93 (SB 443) Ch 60/93 (SB 452) Ch 64/93 (SB 627)

[a] Includes: Chapters 4 (SB 31), 117 (SB 983), 118 (AB 119), 119 (SB 484), 120 (AB 1300), 121 (AB 110), 227 (SB 1105), and 228 (SB 30), Statutes of 1993.

(3) the amount of federal immigration funding (State Legalization Impact Assistance Grants) estimated to be allocated to each county in the budget year. The remaining reduction will be allocated to counties based on the level of taxable sales in the county relative to the level of taxable sales in the state as a whole.

County Revenue Offsets. Offsetting this loss of county property tax revenue is (1) a total of up to $65 million ($40 million one-time and up to $25 million ongoing) in VLF allocations and (2) up to $1.3 billion in increased sales tax revenues. Most of these offsetting revenues will be allocated to counties based on their loss of property tax revenues. In addition, the budget agreement requires the counties to forego approximately $63 million in reimbursements from school districts for property tax administration costs. Consequently, as shown in Figure 4, the net revenue reduction, assuming passage of Proposition 172 in November, is roughly $656 million.

Figure 4

1993-94 Funding Reductions and Offsets By Type of Local Government

(In Millions)

	Property Tax Shift	Full-year Sales Tax Offset	Vehicle License Fee Offset	Property Tax Admin. Costs	Net Reduction 1993-94
Counties	$2,023	$1,365	$65	$63	$656
Cities	313	93	115	—	105
Special districts	244	—	—	—	244
Redevelopment agencies	65	—	—	—	65
Totals	**$2,645**	**$1,458**	**$180**	**$63**	**$1,070**

"Teeter Plan" Adoption Provides Temporary Relief. Chapter 130, Statutes of 1993 (SB 742), provides a one-time mitigation of the property tax transfer to counties which elect to begin distributing property taxes to other jurisdictions within the county based on the "Teeter Plan." Under the Teeter Plan, counties must essentially "buy out" other jurisdictions' share of the tax delinquencies from prior years as well those expected for the current year, so that these jurisdictions—including school districts—receive a one-time "boost" in their property tax allocations. Counties, in turn, retain all of the delinquency collections and penalties. Chapter 130 also allows new Teeter Plan counties to reduce the amount of their required property tax transfer to schools in 1993-94 by the amount of this "boost" in K-14 school property tax allocations. The extent to which implementation of the Teeter Plan by counties in 1993-94 will offset the property tax transfer is unknown but probably substantial. It will depend on (1) the number of counties choosing to participate and (2) the total amount of outstanding delinquencies in the participating counties.

Increased Federal Revenues Provide Additional Relief. Subsequent to deliberations on the budget, the federal government raised the cap on the amount of federal reimbursements that California hospitals may receive for the treatment of indigent patients, retroactive to 1991-92. Consequently, those counties which operate county hospitals will receive about $450 million of the roughly $600 million in increased treatment reimbursements expected in 1993-94, and roughly $200 million in increased reimbursements annually thereafter. Because these are federal reimbursements for costs which the counties already are incurring, the effect of the change in federal guidelines is to increase county discretionary revenues by the amount of the reimbursement.

Effects of Tax and Revenue Changes on Other Local Government Entities

City Governments. Chapter 68 requires county auditors to reduce property tax allocations to city governments by a total of $313 million in 1993-94. Of this amount, $288 million would be reduced generally in proportion to the estimated value of each city's Proposition 13 assistance under AB 8, with the requirement that no city lose more than $19.31 per capita. Roughly 18 percent of cities will have no property tax transferred under Chapter 68. These cities generally did not benefit from state bailout after Proposition 13, or were incorporated after Proposition 13 was adopted in 1978. In addition, Chapter 68 requires all cities to shift an additional $25 million to schools, apportioned on a per capita basis ($1.02 per capita). Chapters 68 and 73 and Proposition 172 provide in part for increased revenues to cities to offset a portion of the cities' property tax transfers, as shown in Figure 4. These offsetting revenues total up to $208 million in 1993-94, consisting of (1) up to $115 million ($90 million one-time and up to $25 million ongoing) in increased VLF allocations and (2) $93 million in increased sales tax revenues, primarily allocated to cities relative to their property tax losses. Thus, the net reduction of revenues to cities, assuming the voters approve Proposition 172 in November, is about $105 million, or roughly 34 percent of the 1993-94 city property tax transfer.

Special Districts. Chapter 68 reduces the total property tax allocations to special districts by $244 million, but generally exempts enterprise, transit, hospital, fire, and certain water districts from these reductions. In general, this means that all other special districts will lose what remains of their original Proposition 13 assistance. The budget agreement does not provide revenues to offset any of these special district property tax losses. As a result, many nonenterprise special districts (for example, library and recreation and park districts) face the loss of half or more of their revenues. As nonenterprise districts, they have few options for mitigating these losses.

Redevelopment Agencies. Redevelopment agencies must contribute a total of $65 million in property taxes annually for 1993-94 and 1994-95. The amount for each agency will be determined by the Director of Finance in proportion to the agency's share of the net tax increment apportioned to all agencies. Under Chapter 68, this reduction is temporary, and will be restored in 1995-96.

Educational Revenue Augmentation Fund. The $2.6 billion taken from the local agencies discussed above is to be deposited in the Educational Revenue Augmentation Fund (ERAF) for allocation to school districts. However, no allocation would be made to a district if such an allocation would result in increasing funding beyond the "revenue-limit" entitlement for that district (allocations above the district revenue limit would not offset state school apportionments).

PROPOSITION 98

In this section, we describe the major features of the budget package as they relate to the Proposition 98 minimum funding guarantee for K-12 schools and community colleges (K-14 education). Most of the package's education provisions are contained in Ch 66/93 (SB 399, Hart).

Proposition 98 Budget Package

Proposition 98 provides K-12 schools and community colleges with a guaranteed minimum level of state funding in 1988-89 and thereafter. The Proposition 98 portion of the budget package is designed to minimize the state's current and future minimum funding obligations under Proposition 98, while also providing:

- Overall K-12 funding of $4,207 per pupil in 1992-93 and $4,187 per pupil in 1993-94. The effective level of spending in 1993-94, however, is $4,208 due to certain reductions in school district costs.

- K-12 general-purpose funding of $3,219 per pupil in 1992-93 and $3,200 per pupil in 1993-94, with the effective level of spending $3,219 per pupil in 1993-94.

- Community colleges total funding at the 1992-93 level. (Including non-Proposition 98 General Fund appropriations, there is a year-to-year increase of $32 million, or 1.2 percent.)

To achieve these goals, the budget package contains the following major elements:

Downward Revision of the Guarantee in 1992-93. In the 1992-93 budget, the Legislature appropriated $16.6 billion from the General Fund to provide the minimum funding required under Proposition 98 as estimated at the start of the fiscal year. In May 1993, however, the Department of Finance recalculated the minimum funding level to be $16.3 billion, or $313 million less than the amount included in the 1992 Budget Act. This revised figure was based on lower estimates of General Fund revenues and K-12 average daily attendance (ADA).

The 1993 budget package reduced Proposition 98 spending in 1992-93 by $313 million so that the revised Proposition 98 appropriation for 1992-93 equaled the minimum funding level. The Legislature accomplished this reduction by:

- Reverting $25 million in appropriations to the General Fund.
- Designating $98 million as satisfying remaining obligations for the minimum funding guarantees from prior fiscal years. These funds actually were provided to support school programs in 1992-93, however.
- "Recapturing" $190 million from schools by characterizing this portion of school funding as a loan in 1992-93, to be repaid from the Proposition 98 amount appropriated to schools in 1993-94.

As a result, even though Proposition 98 spending in 1992-93 was reduced by $313 million, actual state funds provided to schools fell by only $25 million. The remaining $288 million, while not counting toward the minimum funding level in 1992-93, was still provided to schools in 1992-93.

Loans to Schools and Community Colleges. In addition to the 1992-93 "recapture" loan (discussed above), the budget package also authorizes General Fund loans for 1993-94 of $609 million to K-12 schools and $178 million to community colleges. Although these amounts are available for spending by K-14 programs in 1993-94, they are not counted in the state's spending totals and do not count towards the Proposition 98 minimum funding level in 1993-94. Thus, they do not increase the base for calculating the state's future Proposition 98 minimum funding obligations. Moreover, these loans are to be repaid in future years as offsets against the state's Proposition 98 funding requirements in those years. In effect, these loans will be "repaid" by reducing the minimum amount of funds that the state must provide to K-14 education programs in those years.

Chapter 66 combines the 1993-94 loans with similar loans made to schools and community colleges in 1992-93 and structures the repayment provisions for the combined loans, which total $1.8 billion. In any year in which the minimum funding level exceeds the amount needed to maintain per-pupil funding for school districts and prior-year total funding of community colleges as adjusted by adult population growth, half of this excess amount would be used to repay the combined loans.

Property Tax Shift. The budget package reduces local governments' share of the local property tax by $2.6 billion and simultaneously increases the share that is allocated to school and community college districts by the same amount. This action reduces the General Fund portion of the minimum funding level, thereby saving the state General Fund $2.6 billion.

We discuss the property tax shift in more detail in the local government section of this report.

Community College Fees. Chapter 67, Statutes of 1993 (SB 1012, Maddy), raises community college fees from $10 to $13 per unit per semester. These provisions, discussed in more detail in the higher education portion of this report, will result in net fee revenue increases of $78 million above the amount estimated in January.

Other Provisions. Chapter 66 includes a "poison-pill" provision, which suspends the Proposition 98 minimum funding guarantee in 1993-94 at the level assumed in the budget package in the event of a successful legal challenge to the recapture and property tax shift provisions of the budget package. This poison-pill provision suspends the minimum funding guarantee for 1993-94 if any appellate court determines that either the recapture or shift provision is "unconstitutional, unenforceable, or otherwise invalid."

Chapter 66 also corrects the technical flaws with the "recapture" of $1.1 billion from 1991-92 appropriations that was part of the 1992-93 budget package. With this correction, the state will realize the $1.9 billion in savings that were assumed in the 1992-93 budget from the recapture and subsequent revision of the Proposition 98 minimum funding level for 1992-93.

Summary of Proposition 98 Funding

Figure 5 (next page) summarizes, for 1992-93 and 1993-94, the effect of the budget package on Proposition 98 funding for schools, community colleges, and other agencies that provide educational services. This display shows total resources available on a "cash" basis, not just resources counted within the 1992-93 and 1993-94 Proposition 98 funding amounts. This is the most meaningful indication of the actual resources available to schools in a given year. Figure 5 shows that state loans from Proposition 98 funding in future years and community college fees added a total of about $1.1 billion in cash for K-14 programs in 1992-93 and will add about $1 billion in 1993-94.

As indicated in Figure 5, on a cash basis, the funding level for K-12 schools drops by $19 per pupil from 1992-93 to 1993-94. As we discuss below, however, offsetting cost reductions to K-12 programs will permit the 1993-94 budget to provide the same effective level of funding for classroom needs as in 1992-93. The 1993 Budget Act provides the community colleges $1 million less from Proposition 98 sources than the colleges received during 1992-93. (Including non-Proposition 98 appropriations, there is a year-to-year increase of $32 million, or 1.2 percent.)

Figure 5

Proposition 98 Programs
1993 Budget Act and Education Trailer Bill

(Funding In Millions)

	1992-93	1993-94
K-12 programs		
State appropriations	$14,954	$12,549
Local taxes	6,514	8,790
Recapture and other shifts	-795	-190
IDDA/EPDA offset	97	—
Loan	732	609
Adjusted cash totals	**$21,502**	**$21,758**
ADA—new method[a]	5,073,708	5,157,138
Community colleges		
State appropriations	$1,263	$880
Local taxes	1,034	1,399
Fees	122	217
IDDA/EPDA offset	14	—
Loan	241	178
Adjusted cash totals	**$2,674**[b]	**$2,673**[b]
Other agencies	**$74**	**$77**
Total Proposition 98		
State appropriations	$16,291	$13,506
Local taxes	7,548	10,189
Recapture and other shifts	-795	-190
Fees	122	217
IDDA/EPDA offset	111	—
Loan	973	787
Adjusted cash totals	**$24,250**	**$24,508**
Change from January budget		$334
Change from 1992-93		258
Amount per ADA—new method	**$4,238**	**$4,219**
Amount per ADA—old method	**$4,207**	**$4,187**

Details may not add to totals due to rounding.

[a] "New method"—as mandated by legislation. ADA for the purposes of calculating Proposition 98 excludes K-12 students concurrently enrolled in adult education programs. Proposition 98 ADA differs from ADA calculated for other purposes.

[b] Including non-Proposition 98 General Fund appropriations, there is a year-to-year increase of $32 million (1.2 percent).

K-12 Program Impacts

Apportionments. The budget provides a total of $7.6 billion of state funding for general-purpose apportionments (revenue limits) to school districts and county offices of education. Adding property taxes and loans available to these entities, the budget provides $16.7 billion in general-purpose funding. The school district share of this amount represents $3,200 per pupil, a reduction of $19 from the per-pupil amount supported by the 1992 Budget Act. The budget package, however, includes cost reductions that are estimated to fully offset the funding reduction. Specifically, the budget package:

- Achieves $63 million in savings by eliminating the authority of counties to levy fees on school districts for the collection of property taxes.

- Assumes $40 million in school district savings from reform of the workers' compensation system.

Statutory Provisions for Apportionments. In a change from recent practice, funds for school district and county office apportionments are provided by statutory formulas (as modified by language in Chapter 66), rather than by a specific dollar appropriation in the Budget Act. Chapter 66 contains language needed to ensure that the statutory formulas provide the correct amount of funds anticipated in the budget agreement. By relying on the statutory formulas, funding for schools and county offices will be adjusted automatically if property tax collections or pupil counts are higher or lower than estimated in the budget.

Attendance Accounting. Chapter 66 contains language continuing current attendance accounting practices. This has the effect of nullifying a preliminary Attorney General's opinion that a pupil must attend school for the minimum day—at least four hours—for districts to claim state funding for that pupil. The statutory provision in Chapter 66 permits districts to claim full funding for most students who attend school during any part of the school day.

Categorical Programs. The budget continued the use of the single appropriation (mega-item) to fund most categorical programs. The item provides $4.6 billion for 39 individual programs. It authorizes schools to redirect up to 5 percent of the funds allocated to each specific program to other categorical programs funded under the mega-item. The funds in the mega-item are allocated among programs in proportion to the amount of funding received by each program during 1992-93. Within each program, allocations to school districts are based on statutory formulas. Most mega-item programs received a small (1.2 percent) reduction from the 1992-93 funding level.

Very few categorical programs received augmentations. Among the augmentations are $50.6 million for special education growth, $11.7 million to expand the California Learning Assessment System testing program, $11.6 million to provide full-year support for school restructuring grants, $5.6 million for child development growth, and $3 million to provide start-up funding for new school breakfast programs.

K-12 Funding From All Sources

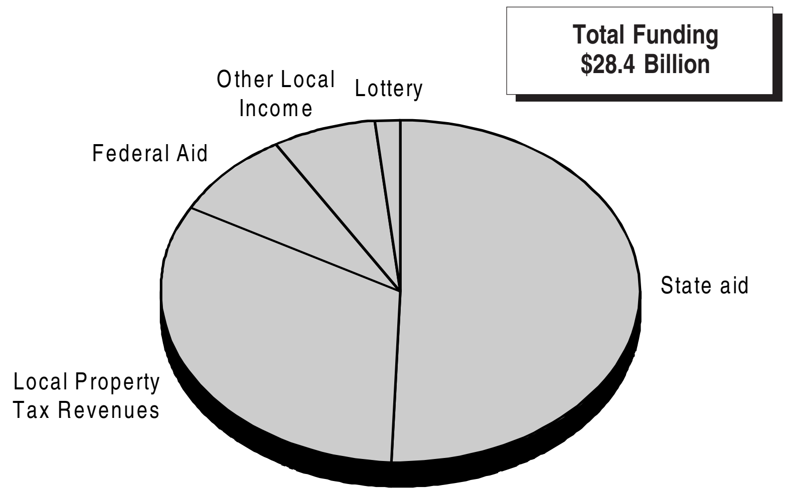
In 1993-94, funding available for expenditure on K-12 education from all sources—including both Proposition 98 and non-Proposition 98 funding—will total $28.4 billion (see Figure 6). This amount represents an increase of $540 million, or 1.9 percent, over what was available in 1992-93. Of the $28.4 billion in total funding, $21.8 billion (77 percent) represents state and local funding provided under Proposition 98.

Figure 6 shows that funding from state and local sources (including non-Proposition 98 funding) is about 90 percent of total funding. Other major funding sources are:

- Federal aid—$2.3 billion (8.3 percent of total funding).
- Lottery revenues—$482 million (1.7 percent of total funding).

Figure 6

**The 1993 Budget Act
Sources of K-12 Education Funding[a]**



[a] Excludes funding for library programs and the proceeds of state general obligation bond issues for school facilities aid. Includes, however, General Fund payments for debt service on these bonds.

Non-Proposition 98 funding from state and local sources includes primarily (1) state General Fund payments to the State Teachers' Retirement System and for debt service on school construction bonds and (2) local revenues from such sources as developer fees, sales of equipment and supplies, cafeteria revenues, and interest income.

Figures 7 and 8 (next page) show total K-12 funding per unit of ADA—in both current and "constant" (inflation-adjusted) dollars—for the years 1984-85 through 1993-94. They show that per-ADA funding in inflation-adjusted dollars has increased by 7.3 percent during the ten-year period, despite reductions of 3.6 percent in 1990-91 and 1.9 percent in 1993-94.

Figure 7

K-12 Education Funding Per ADA Current and Constant Dollars 1984-85 Through 1993-94[a]

(In Thousands)

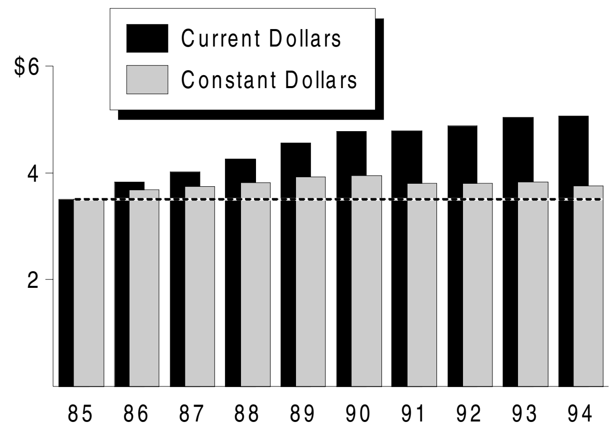


Figure 8

K-12 Education Funding By Funding Source and Per ADA Current and Constant Dollars 1984-85 Through 1993-94

	Funding (Millions)								
	State Aid	Local Property Tax Levies	Lottery	Federal Aid	Other Local Income	Total	ADA (Thousands)	Current Dollars Per ADA	Constant Dollars Per ADA
1984-85	$9,940	$3,298	—	$1,095	$918	$15,251	4,353	$3,504	$3,504
1985-86	10,805	3,596	$556	1,126	1,003	17,085	4,470	3,822	3,681
1986-87	12,174	3,804	411	1,167	979	18,535	4,612	4,019	3,749
1987-88	12,486	4,108	590	1,345	1,592	20,121	4,723	4,260	3,814
1988-89	13,568	4,466	911	1,517	1,767	22,229	4,872	4,563	3,920
1989-90	15,013	4,797	781	1,634	1,943	24,168	5,060	4,777	3,952
1990-91	15,770	5,252	602	1,826	1,786	25,236	5,273	4,786	3,808
1991-92	16,510	5,642	432	2,041	1,845	26,470	5,416	4,887	3,813
1992-93 (Estimated)	16,298	6,907	482	2,237	1,905	27,829	5,522	5,040	3,833
1993-94 (Budgeted)	14,365	9,204	482	2,350	1,969	28,370	5,592	5,073	3,759
Cumulative change									
Amount	$4,425	$5,906	$482	$1,255	$1,051	$13,119	1,239	$1,569	$255
Percent	44.5%	179.0%	—[a]	114.7%	114.6%	86.0%	28.5%	44.8%	7.3%

[a] Not a meaningful figure.

HIGHER EDUCATION FUNDING

Figure 9 (next page) shows funding for each segment of higher education for the period 1991-92 through 1993-94 from selected fund sources. It shows that in terms of total funding, the community colleges fared better than all other higher education segments in 1993-94. The combination of state General Fund, student fees, and local property tax support results in an overall funding increase of 1.2 percent for the community colleges. In contrast, funding support for the California State University increased by 0.7 percent, while University of California support declined by 1.1 percent.

Figure 10 (page 41) shows student fee levels for each segment for the same three-year period. Below, we highlight the significant budget actions in the segments of higher education.

The University of California

The 1993 Budget Act provides $84.4 million (4.5 percent) less in General Fund support for the University of California (UC) in 1993-94 compared to 1992-93. The Legislature augmented the Governor's January budget to ensure that UC student fees increase by no more than $630 per student (22 percent) in 1993-94. (The UC Regents had proposed a fee increase of $995—35 percent—for the budget year.) Accounting for increases in fee revenues, the UC will experience a reduction from the current year of 1.1 percent.

The Legislature also augmented the budget to allow a regents' proposed faculty and staff salary reduction of 5 percent to be lowered to 3.5 percent.

We anticipate that UC student enrollment will decline slightly in the budget year from around 153,000 students in 1992-93, to around 151,000 students, consistent with a UC plan to reduce enrollment. The UC plans to reduce enrollment because it believes it has admitted more students than required by the Master Plan in past years. The Legislature expressed its intent in the *Supplemental Report of the 1993 Budget Act* for the UC to (1) continue in the budget year to accept all applicants who are fully eligible under the Master Plan

Figure 9

Higher Education Budget Summary Selected Funding Sources 1992-93 Through 1993-94[a]

(Dollars in Millions)

	Estimated 1992-93	Budget Act 1993-94	Change From 1992-93 Amount	Change From 1992-93 Percent
University of California				
General Fund	$1,878.5	$1,794.2	-$84.4	-4.5%
Student fee offset[b]	—	63.1	63.1	—[c]
Totals	**$1,878.5**	**$1,857.3**	**-$21.3**	**-1.1%**
California State University				
General Fund	$1,501.0	$1,483.3	-$17.7	-1.2%
Student fee offset[b]	—	463.0	54.5	—[c]
Totals	**$1,501.0**	**$1,510.8**	**-$9.8**	**-0.7%**
California Community Colleges (local assistance)				
General Fund (Proposition 98)	$1,263.0	$879.5	-$383.5	-30.4%
General Fund loan	241.0	178.0	-63.0	-26.1
General Fund (non-Proposition 98)	8.7	41.3	32.6	374.7
Student fees[b]	121.5	216.7	95.2	78.4
IDDA/EPDA retirement savings offset	14.0	—	-14.0	-100.0
Totals	**$2,682.2**	**$2,714.5**	**$32.3**	**1.2%**
Hastings College of the Law				
General Fund	$12.0	$11.5	-$0.5	-4.5
Student fee offset[b]	—	0.5	0.5	—[c]
Totals	**$12.0**	**$12.0**	**—**	**-0.3%**
California Maritime Academy[d]				
General Fund	$6.2	$6.2	—	0.3%
Student fee offset[b]	—	—[e]	—[e]	—[c]
Totals	**$6.2**	**$6.3**	**$0.1**	**1.0%**
Student Aid Commission (Cal Grants)				
General Fund	$146.9	$200.3	$53.3	36.3%

[a] Details may not add to totals due to rounding.
[b] Fee revenues shown are after allowance for financial aid for needy students.
[c] Not a meaningful figure.
[d] Comparison to 1992-93 excludes $535,000 carryover from 1991-92.
[e] Less than $50,000.

Figure 10

**Higher Education Student Fees
1991-92 Through 1993-94**

	Annual Fee Per Full Time Student			Change From 1992-93	
	1991-92	1992-93	1993-94	Amount	Percent
University of California					
Undergraduate/graduate	$2,274	$2,824	$3,454	$630	22.3%
Medicine /law	2,650	3,200	3,830	630	19.7
California State University	936	1,308	1,440	132	10.1
California Community Colleges[a]	120	300	390	90	30.0
Hastings College of the Law	2,650	3,200	3,830	630	19.7
California Maritime Academy	978	1,369	1,506	137	10.0

[a] 1991-92 fees were $6 per unit per semester, with a maximum charge (cap) of $60 per semester (the charge for the first ten units). 1992-93 fees were $10 per unit without a cap. 1993-94 fees are $13 per unit without a cap. Charges shown are for full-time students, defined as students enrolled for 15 units per semester. Excludes BA degree holders, who have been charged $50 per credit unit beginning in 1992-93.

and (2) provide 30 days written notice to the Legislature (prior to implementation) if the UC decides not to accept all Master Plan eligible students for 1994-95. We anticipate that the UC will operate at a student/faculty ratio 8 percent higher than the budgeted ratio, at 19:1 rather than 17.6:1, in an effort to accommodate all Master Plan eligible students in 1993-94.

The Legislature also expressed its intent in the supplemental report that the UC (1) reformulate its systemwide guidelines for faculty teaching loads in order to increase teaching and teaching effectiveness, (2) develop an administrative process to ensure their implementation, and (3) use teaching hospital revenue to repay funds the regents borrowed in 1992-93, rather than student fee revenue as the regents had proposed.

The California State University

The 1993 Budget Act provides $17.7 million (1.2 percent) less in General Fund support for the California State University (CSU) in 1993-94 compared to 1992-93. The Legislature augmented the Governor's January budget to ensure that CSU student fees increase by no more than $132 (10 percent) in 1993-94. (The CSU Trustees had proposed a fee increase of $480, or 37 percent, for the budget year.) Including fee revenues, the CSU will experience a 0.7 percent increase in resources over the current year.

The budget anticipates a loss in enrollment of approximately 10,000 students in 1993-94 in comparison to 1992-93 actual enrollment levels. This projected enrollment loss results from the ongoing impact of prior-year budget shortfalls (reduced course availability, for example) and from past and proposed fee increases. We believe that the enrollment loss may not be as great, given the Legislature's augmentation to reduce the fee increase.

The Legislature also adopted supplemental report language directing the CSU *not* to reduce (1) faculty positions in 1993-94 or (2) the number of course sections offered to students that are needed for normal progress to degree in 1993-94 in comparison to 1992-93. Under the language, an overall reduction in course sections would be permitted under specified circumstances.

We anticipate that the CSU will operate at a student/faculty ratio 11 percent higher than the budgeted ratio, at 20:1 rather than 18.1:1, in an effort to accommodate students in 1993-94. Even with this effort, we estimate that the projected enrollment of 247,000 students will fall approximately 37,000 short of Master Plan enrollment levels.

California Community Colleges

The 1993 budget package increases funding for community colleges by $32.3 million (1.2 percent) compared to the amount actually received in 1992-93. (In 1992-93 the community colleges received $52.8 million less than the budgeted amount, primarily due to a property tax shortfall. Thus, the 1993 budget represents a

$20.5 million, or 0.7 percent, decrease compared to the amount assumed in the 1992 Budget Act.) The budget includes a new General Fund loan of $178 million to the community colleges against future state Proposition 98 funding entitlements. This loan is in addition to a similar 1992-93 loan of $241 million.

As shown in Figure 9, the budget assumes a net fee revenue increase of $95.2 million, consisting of increases of (1) $55 million due to increasing the regular fee from $10 to $13 per credit unit beginning July 1, 1993, and (2) $40.2 million due to the full-year impact of fee increases implemented in January 1993.

Hastings College of the Law

The budget provides approximately the same overall support for Hastings in 1993-94 compared to 1992-93. Fees at Hastings are set at the same level as those charged to law students at the UC. Enrollment at Hastings will be approximately 1,230 students in 1993-94, approximately the same level as 1992-93.

California Maritime Academy

The budget provides approximately the same overall support for the California Maritime Academy (CMA) in 1993-94 compared to 1992-93 (exclusive of carryover funds in 1992-93). Enrollment at the CMA will be approximately 475 students in 1993-94, approximately the same level as 1992-93.

Student Aid Commission

Figure 9 shows an increase of $53.3 million (36 percent) in Cal Grant funding, primarily consisting of (1) $38.1 million to restore reductions made in 1991-92 and 1992-93 and (2) $13.1 million to offset the effects of the UC and CSU fee increases. With these increases, roughly one in four of those eligible for a Cal Grant will receive an award, compared to one in five in the current year. For UC and CSU students awarded grants, the award amounts will cover roughly 100 percent of the fees, compared to about 65 percent in the current year.

HEALTH AND WELFARE FUNDING

In this section, we describe the major features of the health and welfare funding in the budget package. Most of the statutory changes required to implement health and welfare savings and program reforms are contained in Ch 69/93 (SB 35). The 1993-94 budget for health and welfare programs includes $13.3 billion from the General Fund. This amount represents an increase of $168 million, or 1.3 percent, over estimated General Fund spending for these programs in 1992-93. Although anticipated health and welfare caseloads will continue to grow rapidly (in the range of 6 percent to 7 percent), the cost of caseload increases is partially offset by additional federal funds, various funding reductions and the full-year savings resulting from reductions enacted in the prior year.

Figure 11 describes the major funding reductions enacted in the 1993 Budget Act and related legislation.

Figure 11

Major Funding Reductions In Health and Welfare Programs 1993-94—General Fund

(In Millions)

Program/Issue	Amount
Medi-Cal	
Federal SLIAG funds	$268.1
Federal funds for services to undocumented persons	240.0
Increased disproportionate-share payments	50.0
Negotiated hospital inpatient rates	50.0
Limit high-cost dental procedures	44.0
Federal funds for perinatal services to undocumented persons	30.0
Redirection of Proposition 99 funds	20.3
AFDC	
2.7 percent reduction in grants	62.4
Welfare reform augmentations	-67.4
Postpone foster care rate increases	21.3
Federal emergency assistance funds	14.0
SSI/SSP	
2.7 percent reduction in grants	148.6
No “pass-through” of federal COLA	64.5
Assume receipt of federal SLIAG funds	51.7
IHSS	
Personal care option	109.0

The California Medical Assistance Program

The California Medical Assistance (Medi-Cal) Program provides health care services to public assistance recipients and other individuals who cannot afford to pay for these services. The Medi-Cal Program implements the federal Medicaid Program in California and receives federal matching funds for most services. The budget appropriates $5.5 billion from the General Fund for the program in 1993-94, which is an increase of 3 percent over expenditures in 1993-94.

Federal Funds for Services to Undocumented Immigrants. The budget assumes enactment of a new federal program to offset state costs for health services provided to undocumented immigrants. The budget is based on an estimate that California will receive $240 million of the $400 million that was proposed in the President's budget for that purpose during the 1994 federal fiscal year. However, these funds were not approved by the Congress. Consequently, the program will experience a shortfall of $240 million in 1992-93.

Federal Funds for Increased Disproportionate-Share Payments. The budget reflects a substantial increase in federal funds for a program that provides supplemental Medi-Cal payments to hospitals with a large number (disproportionate share) of indigent patients, commonly referred to as the "SB 855 program." Under this program, Medi-Cal uses funds transferred from counties (about $900 million statewide) and matching federal revenues (about $800 million) to make supplemental payments to hospitals to offset the burden of uncompensated medical care (for non-Medi-Cal patients). Most of the payments are made to county-operated facilities. The state retains a portion of the county funds to help finance the regular Medi-Cal Program.

Currently, the total amount of payments allowed under the program is capped by federal law. The budget reflects federal action that authorizes an increase in the program, thereby increasing both payments to hospitals (by roughly $600 million) and increasing the amount that the state retains from funds transferred by counties by an estimated $93 million (the budget had assumed only a $50 million increase in the state share).

Reductions in Hospital Inpatient Rates. The California Medical Assistance Commission (CMAC) negotiates reimbursement rates for hospital inpatient services provided to Medi-Cal beneficiaries. The budget assumes the CMAC will negotiate reimbursement rates sufficient to achieve General Fund savings of $50 million.

Medi-Cal Optional Benefits. The budget package does not include the Governor's proposed elimination of a number of the federally optional benefits, except that it restricts the type of adult dental services that will be reimbursed by Medi-Cal. Specifically, Chapter 69 provides that the Medi-Cal Program will no longer cover dentures, root canals, and various other procedures, except as required for "special medical conditions," for a savings of $44 million. These changes will not affect services for persons under age 21.

Federal Funds for Perinatal Services to Undocumented Immigrants. The budget assumes receipt of $30 million in federal funds for perinatal services to undocumented women as a result of a recent federal court case authorizing states to claim federal matching funds for the costs they incur to provide these services.

Proposition 99 Funds Redirected. The budget redirects $20.3 million from the Cigarette and Tobacco Products Surtax Fund (established by Proposition 99) to pay for perinatal services to undocumented women, thereby freeing up a like amount of General Fund monies. The redirected funds come from Proposition 99 funds that were unexpended during 1992-93.

Aid to Families With Dependent Children Program

The Aid to Families With Dependent Children (AFDC) Family Group (FG) and Unemployed Parent (U) Programs provide cash grants to low-income families and children. The AFDC Foster Care Program provides grants to pay for the care of children placed in foster care family homes or group homes. The Budget Act appropriates $3 billion from the General Fund for the AFDC Program in 1993-94, which is an increase of less than 1 percent over 1992-93.

Reduction in Maximum Grants. Chapter 69 reduces the AFDC (FG and U components) maximum grants by 2.7 percent from their levels in 1992-93, for a General Fund savings of $62 million. As Figure 12 shows, this reduces the maximum grant for a family of three persons from $624 per month to $607.

Program Augmentations. The savings from grant reductions will be more than offset by a total of $67 million in program augmentations.

- The budget provides a General Fund increase of $41 million for the expansion of the Greater Avenues for Independence (GAIN) Program. In addition, the budget caps county matching fund requirements to the level of actual 1992-93 expenditures in order to encourage greater county participation. The GAIN Program provides education and job training to AFDC recipients.

- Chapter 69 also eliminates time limits on the "$30 and one-third disregard" of earnings. This is intended to encourage AFDC recipients to increase their work effort by allowing working recipients to retain the first $30 of their monthly earnings plus one-third of their remaining monthly earnings without a reduction in their cash grant. This change is estimated to result in a General Fund cost of $13.1 million in 1993-94 because recipients will be eligible for a larger grant than under prior law, which provided that the "one-third disregard" was applicable only to the first four months of earnings and the "$30 disregard" only to the first 12 months.

- The budget includes an increase of $7.4 million from the General Fund in order to obtain the maximum available matching federal funds to cover child care costs up to the 75th percentile of the local market. Under prior law, the monthly child care allowance was limited to a fixed amount on a statewide basis—$175 per child two years of age and over, and $200 per child under two years.

- The budget includes a General Fund increase of $5.9 million to establish the Cal Learn Program authorized by Chapter 69. The program creates incentives for pregnant and parent teens to stay in school and graduate by providing (1) a bonus of $100 for every report card period in which the recipient achieves satisfactory progress (at least a "C" average) and (2) a $500 payment upon graduation. A recipient will have his or her cash grant reduced by $100 per report card period for not achieving at least a "D" average. The program will also provide resources for child care, transportation, and intensive case management.

Additional Work and Savings Incentives. Chapter 69 also includes the following reforms to encourage AFDC recipients to work and accumulate savings:

- Personal resource (savings) limits increase from $1,000 to $2,000 and the allowable value of an automobile increases from $2,500 to $4,500 for AFDC recipients only (that is, not for applicants).

- AFDC and food stamp recipient families may accumulate up to $5,000 in restricted savings accounts for use in starting a business, purchasing a home, or providing postsecondary education or training for a child.

Postpone Foster Care Rate Increases. Chapter 69 postpones, for one year, part of the statutory rate increase scheduled for foster care group homes. The budget also suspends the authorization to upgrade group homes to higher rate classification levels due to "program changes." These actions will result in General Fund savings of $21 million in 1993-94.

Federal Emergency Assistance Funds for Foster Care. The Budget Act anticipates receipt of federal Title IV-A funds due to implementation of the proposed Emergency Assistance (EA) Program. Federal regulations governing the Title IV-A program allow states to claim reimbursements for activities that provide emergency assistance to needy families with children. The federal funds will offset General Fund expenditures for up to six months of services for certain foster care cases, emergency shelters, and eligible direct services for children. The EA Program is scheduled for implementation in January 1994 and receipt of the federal funds will result in estimated General Fund savings of $14 million in 1993-94.

Foster Care "Specialized Care" Increase. The budget funds a statutory provision ($4.3 million General Fund) to provide incentives and assistance (generally, payments or services) to families caring for foster children with specialized care needs.

Supplemental Security Income/ State Supplementary Program

The Supplemental Security Income/State Supplementary Program (SSI/SSP) is a state- and federally funded program that provides grants to low-income aged, blind, and disabled persons. The Budget Act appropriates $2.1 billion from the General Fund for the program in 1993-94, which is 9.7 percent below estimated expenditures in 1992-93.

Reduction in Maximum Grants. Chapter 69 reduces the SSI/SSP maximum grants by 2.7 percent, effective September 1, 1993, for a General Fund savings of $149 million. This reduces the maximum grant for aged or disabled individuals (the largest category of recipients) from $620 per month to $603. Figure 12 shows the grant reductions for recipients in independent living situations.

No "Pass-Through" of Federal Cost-of-Living Adjustment. The federal Cost-of-Living Adjustment (COLA) for SSI/SSP recipients will not be "passed through" to recipients in January 1994; instead, the state will reduce its share (the SSP component) of the grant by a corresponding amount. The total SSI/SSP grant will

Figure 12

**AFDC and SSI/SSP
Monthly Maximum Aid Payments
1992-93 and 1993-94**

		1993-94	
	1992-93[a]	Prior Law[b]	Budget Package
AFDC			
Family of three	$624	$624	$607
SSI/SSP			
Aged or disabled			
Individual	620	633	603
Couple	1,140	1,160	1,109
Blind			
Individual	689	702	670
Couple	1,333	1,353	1,297

[a] SSI/SSP grants effective January 1993 (reflects January 1993 federal COLA).
[b] Assumes pass-through of January 1994 federal COLA and continuation of food stamps cash-out for the SSI/SSP program.

remain unchanged. In the absence of this action, aged or disabled recipients, for example, would receive a COLA of $13 per month.

In-Home Supportive Services

The In-Home Supportive Services (IHSS) Program provides services to eligible aged, blind, and disabled persons so that they may remain safely in their own homes.

Increased Federal Reimbursements. The budget projects increased federal reimbursements for IHSS services. Recent legislation (Ch 939/92—AB 1773, Moore) revised the IHSS Program so that certain services qualify for federal reimbursement under the Medicaid Personal Care Option, resulting in General Fund savings of $109 million in 1993-94. Federal Medicaid regulations allow states to claim 50 percent federal funding for personal care services.

The budget also fully funds caseload increases and restores the current-year reduction in service hours for the IHSS Program.

IHSS Managed Care. Chapter 69 allows counties to use managed care contracts to provide IHSS services to nonseverely impaired (NSI) recipients who are 65 years of age or older. In the regular IHSS Program, costs are funded based on authorized hours of service. Under the managed care system, contract providers would be paid a "capitated" (or per-person) rate. Tulare County is presently conducting an IHSS managed care pilot project.

Chapter 69 also limits the costs of the managed care contracts to 88 percent of June 1992 average costs for NSI cases. Savings, therefore, will depend on the extent that counties choose to deliver IHSS services through managed care contracts. These provisions sunset on July 1, 1997. The Budget Act does not assume any savings in 1993-94.

State Legalization Impact Assistance Grant

The budget assumes that the federal government will allocate to California all of the $467 million of State Legalization Impact Assistance Grant funds requested by the Governor. Of this amount, $327 million is scheduled to offset state General Fund entitlement costs ($268 million for the Medi-Cal Program, $52 million for SSI/SSP, and $7 million for other programs). The remaining funds will be allocated primarily to counties.

Counties Authorized to Reduce General Assistance Grants

General Assistance (GA) is a county-funded program that provides aid to indigents who are not eligible for AFDC or SSI/SSP grants (generally, able-bodied adults without children). Chapter 1033, Statutes of 1993 (SB 1033), authorizes counties to apply to the Commission on State Mandates for permission to adopt a GA level of aid below the existing statewide standard. Counties must demonstrate to the commission that, without such relief, other basic services could not be maintained. The existing standard for GA ranges from $287 to $300 per month for one person in 1993-94 and may be reduced for persons in shared housing arrangements. Under Chapter 1033, the commission could permit counties to reduce their grants for a 12-month period to $221 (with a further reduction for persons who share housing). This could result in annual savings of up to approximately $150 million to counties.

JUDICIARY AND CRIMINAL JUSTICE FUNDING

The 1993-94 budget for judiciary and criminal justice programs (trial courts, adult and youth corrections, and other justice-related programs) includes $3.8 billion from the General Fund and $328 million from state special funds, for a total of $4.1 billion in state funds. The General Fund amount represents an increase of $176 million, or 4.9 percent, above estimated spending for these programs in 1992-93.

Figure 13 and the following text describe the major General Fund changes in the 1993 Budget Act.

Figure 13

Major Funding Changes in Judiciary and Criminal Justice Programs 1993-94—General Fund

(Dollars in Millions)

	Change from 1992-93	
	Amount	Percent
Judiciary	-$4.6	-3.3%
Trial Court Funding	-118.6	-19.4
Department of Corrections	256.9	10.8
Department of the Youth Authority	38.8	12.4
Department of Justice	2.0	1.3
Office of Criminal Justice Planning	2.4	9.5

Judiciary

The 1993 Budget Act provides $138 million for support of the judiciary, which includes the California Supreme Court, the Courts of Appeal, Judicial Council, and the Commission on Judicial Performance. This represents a reduction of $4.6 million, or 3.3 percent, below 1992-93 expenditures. In addition to several minor reductions to specific programs, the Legislature reduced the judiciary's budget by $11.7 million below the level proposed in January. This reduction was unallocated, not being tied to specific functions or programs. The Judicial Council will eventually allocate the reduction among the Supreme Court, Courts of Appeal, Judicial Council, and Commission on Judicial Performance. Thus, at this time, it is not possible to determine what impact this reduction will have on the operations of the judicial branch.

Trial Court Funding

The budget provides $673 million ($437 million from the General Fund and $175 million from special funds) for state support of the local trial courts in 1993-94, or about $44 million less in all funds than the amount provided in the current year. As a result, the state will pay about 44 percent of statewide trial court expenses. This is substantially below the intended level of 60 percent that was previously expressed by legislation.

The reduction will create additional funding pressures on counties, which provide the balance of financial support for trial courts. In addition, $517 million of the total state support is generated from local revenues (fines and fees) which are collected at the local level, forwarded to Sacramento, and then redistributed to local trial courts.

Department of Corrections

The budget provides $2.73 billion ($2.64 billion from the General Fund) for support of the Department of Corrections (CDC), or about 11 percent more than the 1992-93 level. The increase is primarily due to projected increases in the inmate and parole populations. The only significant reduction made to the department's budget was an unallocated cut of $9 million below the level proposed in the Governor's January budget for departmental administration.

Inmate and Parole Caseloads. Although a number of changes were contemplated by the Legislature that would have saved money by reducing the number or length of stay of offenders in prison and on parole, the final budget did not include any changes. The budget is based on the Administration's projected inmate population of 122,000 inmates by June 30, 1994. This represents an increase of approximately 7.5 percent in 1993-94. The parole population is projected to reach 94,000 parolees by June 30, 1994, an increase of about 6.4 percent. Experience during the first two months of 1993-94 indicates that the inmate population will likely exceed projected levels, requiring substantial deficiency funding by the end of the fiscal year.

New Prisons. The budget includes $66 million in one-time costs to open new prisons in Riverside and Imperial Counties in the budget year. These facilities will add approximately 4,600 medium-security beds to the state's prison system.

Administration. The budget includes an unallocated reduction of $9 million for the departmental administration, or about 7 percent from the January budget. This will likely result in reductions in management areas including budgets, planning, program compliance and review, and oversight in departmental headquarters and the state's 25 prisons, 40 conservation camps, and 130 parole offices.

Federal Funds for Incarceration of Undocumented Felons. The Governor's January budget assumed that the state would receive an additional $250 million in federal funds for the incarceration of undocumented immigrants in state prison who have been convicted of a felony (the department estimates that about 13 percent of the inmate population are undocumented persons). Although the Governor's Budget assumed the receipt of the $250 million, the CDC's budget was not reduced by that amount. The final budget, however, assumes that the state will receive no federal funds. The budget bill requires the CDC to continue to seek federal funding and to pursue amendments to federal treaties that would facilitate the deportation of undocumented felons to their home countries.

Department of the Youth Authority

The budgets provides $358 million ($352 million from the General Fund) for support of the Department of the Youth Authority, or about 12 percent above the current year amount. This increase is due primarily to a $33 million augmentation by the Legislature to provide support for the operation of county-run juvenile probation camps and ranches. The budget also includes an increase of $2 million for support of slight increases in Youth Authority wards (increase of 2.7 percent) and parolees (increase of 7 percent).

Other Criminal Justice Programs

The budget included slight changes to other major criminal justice programs, including:

Department of Justice. The budget provides $216 million ($152 million from the General Fund) for support of the Department of Justice, which is roughly equivalent to the current-year level. The most significant action taken by the Legislature on the department's budget was an unallocated reduction of $7 million to the criminal law division.

Office of Criminal Justice Planning. The budget provides $99.3 million ($42.3 million from state funds and $57 million from federal funds) for support of the Office of Criminal Justice Planning. This amount represents a reduction of 1.7 percent in all funds from the 1992-93 level, and is principally attributable to slight reductions in special funds revenues and federal funds. The total includes an augmentation of $2.9 million (General Fund) provided by the Legislature for programs that assist victims of crime.

GENERAL GOVERNMENT

Renters' Tax Credit

As part of the 1993 budget plan, Ch 62/93 (AB 760, Statham) suspends the Renters' Tax Credit Program for the 1993 and 1994 tax years. This program provided a refundable personal income tax credit of $60 for individuals ($120 for married couples), subject to an income limitation in 1993 of $21,239 for individuals ($42,477 for married couples). The state normally includes the funding for these tax credits in the annual budget, and accounts for the payment of these credits as an *expenditure* (rather than a revenue loss). As a result, the suspension of the program will reduce state costs for the program by $390 million in 1993-94 and $425 million in 1994-95.

Voters to Decide Program's Future. Under existing law, the renters' credit program will again become operative for the 1995 tax year. In addition, the income limitations will no longer be applicable beginning with the 1997 tax year. As part of its action on the state budget agreement, the Legislature approved SCA 9 (Resolution Chapter 42, Statutes of 1993), which will be submitted to the voters at the June 1994 primary election. Senate Constitutional Amendment 9 would add a provision to the State Constitution requiring that the credit be provided to qualified renters beginning in the 1995 year, so that the credit could not be suspended or eliminated after that time.

Public Employees' Retirement System

The budget package includes several significant actions affecting the Public Employees' Retirement System (PERS) and the state's contribution for employee retirement.

Administrative Budget. The Budget Bill, as introduced, did not include appropriations for retirement-related operations of PERS, because the California Pension Protection Act of 1992 (Proposition 162) gives PERS authority to spend retirement trust funds without appropriations by the Legislature. To provide a means of legislative oversight, however, the Legislature (1) identified in the Budget Act the amount ($114 million) the PERS board proposed to spend for administrative purposes in 1993-94 and (2) required the board to report periodically to the Legislature.

State Contribution to PERS. The Administration's budget did not recognize the entire General Fund savings that resulted from changing state payments to the PERS to semi-annual, six months in arrears, pursuant to Ch 707/92 (SB 1107). The budget package, however, recognizes the entire savings and, therefore, reflects an additional one-time $145 million General Fund savings in 1993-94 resulting from Chapter 707. In addition, Ch 71/93 (SB 240) was enacted to shift the state's payments from semi-annual, six months in arrears, to annual, 12 months in arrears. This change results in one-time General Fund savings of an additional $195 million in 1993-94 and $260 million in 1994-95. Savings from these deferrals of retirement contributions will be offset by higher future state contributions over a period of several decades.

Employee Compensation

The Budget Act contains $234 million ($134 million General Fund) for cost-of-living adjustments (COLAs) for state employees (other than employees of the University of California and the California State University). The General Fund amount includes almost $64 million for the 5 percent COLA negotiated by the Administration in the memorandum of understanding (MOU) for correctional employees (Bargaining Unit 6). That COLA took effect June 30, 1993. Represented employees covered by other MOUs and nonrepresented employees receive 5 percent COLAs effective January 1, 1994.

CAPITAL OUTLAY

Program Expenditures

As shown in Figure 14, the 1993-94 budget includes almost $1.1 billion (about 90 percent from bond funds) for capital outlay (excluding transportation and the State Water Project). This amount is $51 million less than that included in the Governor's Budget, as revised. Major legislative changes included the following:

- Net reductions of $10 million and $6 million, respectively, for various projects proposed for the California Community Colleges and the Department of Parks and Recreation.

- Reductions of $12 million for projects of various departments that were proposed to be funded from the Special Account for Capital Outlay (SAFCO). These reductions resulted in an increase of the transfer of SAFCO funds to the General Fund.

- A reduction of $17 million to defer construction funding for a Department of Corrections telecommunications infrastructure project.

Almost $900 million, or 82 percent of all capital outlay appropriations, is for the three segments of higher education. Also included in the budget is $13 million to install lethal electrified fences at nine prisons and $11 million to begin the design of three state office building projects in the Bay Area. It will cost an estimated $370 million to complete construction of these three buildings.

Figure 14

1993-94 Capital Outlay Program (Excluding Highways and the State Water Project)

(In Millions)

Program Area	1993 Budget Act
Legislative/Executive/Judicial	—
State and consumer services	$22.5
Transportation	34.2
Resources	59.8
Health and welfare	9.8
Youth and adult correctional	53.7
Higher education	889.8
General government	16.3
Total	**$1,086.1**

Bond Debt Service

Current Debt Service Costs. We estimate that the state's General Fund debt service payments will be about $2 billion during 1993-94. This is about 4.9 percent of estimated General Fund revenues.

Future Debt Service Costs for Projects in the 1993-94 Budget Act. The budget includes appropriations totaling about $970 million from bond funds. This amount consists of (1) $520 million from voter-approved general obligation bonds for higher education, prisons, parks, and state office buildings, and (2) $450 million from lease-payment bonds solely for higher education projects. The bonds for these projects will be sold in 1993-94 and future years. The state's General Fund debt service costs for these bonds will average about $90 million annually for about 20 years, until the bonds are paid off.

Debt Service Accounting. As part of the 1993 budget package, Ch 63/93 (SB 271) was enacted to change the state's accounting for interest due on general obligation bonds from an accrual basis to a cash basis. (Interest costs will now be accounted for in the fiscal year that the semi-annual payments are made to bond holders, rather than being accrued as a liability as the interest accumulates.) This action, which does not change the state's debt service payments to bond holders, results in a one-time General Fund budgetary savings of $252 million in 1993-94.

Tidelands Oil Revenue

In January 1993, the Governor's Budget proposed allocating the estimated $88 million in tidelands oil revenues to (1) support the State Lands Commission ($9 million), (2) the California Housing Trust Fund ($3 million), (3) the SAFCO ($41 million), and (4) for transfer to the General Fund ($35 million). In May, based on an estimated reduction in tidelands oil revenue, the Governor's Budget was revised to reflect an $11 million reduction in the SAFCO allocation. Legislative reductions to the Governor's revised SAFCO proposal resulted in an additional transfer of $19 million to the General Fund (resulting in a total transfer of $54 million). The Governor vetoed $3 million of this transfer.

SPECIAL FUND TRANSFERS AND LOANS

Special funds provided a significant amount of savings toward resolving the 1993-94 General Fund budget gap. In total, $528 million from special funds were used to achieve General Fund savings. This was done either by (1) using special funds to support activities that have been supported by the General Fund in the past or (2) transferring money out of special funds into the General Fund. In many cases, these actions will result in immediate reductions to special fund programs in 1993-94. In other cases, such as the transfer of special fund reserves to the General Fund, the effect on programs supported by special funds may be spread out over several years in the future. Figure 15 shows the major transfers for 1993-94.

Figure 15

Major Special Fund Transfers to the General Fund—1993-94

(In Millions)

■ Tidelands oil revenue	$51.0
■ Rental of state property (State Highway Account)	35.0
■ Sale of vehicle-related information (Motor Vehicle Account)	30.0
■ Motor vehicle fuel tax revenues (Harbors and Watercraft Revolving Fund)	26.1
■ Public Utilities Commission Reimbursement Account	16.0
■ Energy Resources Programs Account and other energy-related funds	14.5
■ Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund	9.8
■ Interest on various transportation-related special funds	39.9
■ Interest income from various special funds (Control Section 13.50)	46.0
■ Fines and penalties (Control Section 13.60)	27.0
■ Delinquency fees (Control Section 13.70)	20.0
■ Unencumbered balance in various special funds (Control Sections 13.80 and 13.81)	35.7

While the budget includes many actions that use special fund money to assist in resolving the 1993-94 General Fund budget gap, generally the Legislature did not eliminate these programs or their ongoing funding mechanisms. Consequently, the General Fund savings or revenues that result from these actions are one-time in nature.

Loan for Debt Service on Rail Bonds. The budget also includes a new loan of $91.5 million from the Transportation Planning and Development (TP&D) Account (used for transportation planning and mass transportation purposes) to the General Fund to pay rail bond debt service expenses in 1993-94. This loan is to be repaid to the TP&D Account with interest.

Deferral of Repayments on 1992-93 Loans. The 1992-93 budget provided a total of $150 million in loans from special funds to the General Fund. The largest of these was a $96 million loan from the State Highway Account (SHA) and the TP&D Account for rail bond debt service costs—similar to the 1993-94 loan from the TP&D Account. The 1993-94 budget agreement does not include any repayment of those 1992-93 special fund loans.

Vehicle License Fee "Roundabout." In addition, the budget also shifted $130 million in Motor Vehicle License Fee Account money from the support of the Department of Motor Vehicles (DMV) to cities and counties, in order to mitigate some of the shift of property tax revenue to schools. The budget, instead, substituted other transportation funds for the DMV's support. A similar roundabout mechanism provided $100 million to cities and counties in 1992-93.

TRANSPORTATION

The 1993-94 budget provides about $1.8 billion from various funds for the support of the Department of Transportation—about the same level as in 1992-93. This amount reflects the following actions:

- A reduction in departmental administration of $54.7 million—25 percent below the Governor's Budget.

- A reduction of $8.1 million for highway design and engineering to reflect anticipated efficiencies.

- Provision of $4.3 million for a high-speed rail study.

Of the $1.8 billion, about $1.7 billion is for highway capital outlay purposes, including $32 million in SHA funds for seismic retrofit of the state-owned toll bridges.

In terms of local assistance, the budget provides $160 million for the State-Local Transportation Partnership Program (which provides state matching grants for locally funded projects)—$40 million less than proposed by the Governor. It also provides approximately $124 million for transit capital improvements and guideway projects. In addition, funding requested by the Governor for the State Transit Assistance program (transit operating subventions) was reduced by $59.2 million, to essentially the 1992-93 level. These actions enabled TP&D Account funds to be used to indirectly free up funding for the $130 million motor vehicle license fee roundabout that provides $130 million to local governments (discussed earlier).

RESOURCES

The budget provides $1.2 billion from state funds (including $369 million from the General Fund) for state operations and local assistance for natural resources programs in 1993-94. This is about $66 million (5.2 percent) less than in 1992-93. In particular, the 1993 budget includes:

- About $32 million (12 percent) less in General Fund support for the Department of Forestry and Fire Protection than in 1992-93. The reduced funding level reflects reductions in emergency fire suppression costs following the severe fire season in 1992-93.

- About $1.2 million (2.6 percent) less in General Fund support for the Department of Parks and Recreation. The 1993 budget also includes special fund transfers totaling about $22.5 million, to substitute for the use of General Fund monies for support of the department (similar transfers were made in 1992-93).

- About $19 million more in local subventions from the Special Account for Capital Outlay and the Delta Flood Protection Fund for flood control by the Department of Water Resources than in 1992-93.

ENVIROMENTAL PROTECTION

The budget provides about $564 million (all funds) for environmental protection programs in 1993-94. This amount is about $97 million (21 percent) more than in 1992-93—primarily due to special fund increases for (1) the cleanup of leaking underground tanks and (2) the cleanup of solid waste landfills. The following actions contributed to the 1993-94 General Fund budget solution:

- $2 million reduction in pesticide use enforcement and assessment of environmental hazards from pesticide use.

- $4.8 million reduction in the General Fund for the State Water Resources Control Board's water quality protection and water rights allocation programs.