

California Spending Plan 1998-99



The Budget Act and Related Legislation

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Summary

The 1998-99 budget, signed into law by Governor Wilson on August 18, 1998, authorizes total state spending of \$72 billion, including \$57.3 billion from the General Fund and \$14.7 billion from special funds. As in the prior year, healthy state economic and revenue growth enabled the Governor and Legislature to provide funds for both significant tax relief and a number of new and expanded program initiatives.

The new budget package includes a 25 percent reduction in the vehicle license fees beginning in January 1999, with potentially larger reductions in future years. It provides for significant spending increases for K-12 and higher education, including funds for a lengthened K-12 school year. The budget also provides for grant restorations and cost-of-living adjustments for major social services programs, as well as significant reforms to the Foster Care Program. Finally, it includes expansion of county fiscal relief for trial court costs.

For the second year in a row, the Governor and Legislature reached agreement on several major issues in late August, following the enactment of the budget. These agreements included: funds for the acquisition of the Headwaters Forest Preserve and the management of Colorado River water, funds for the construction of new prison cells and various inmate-related programs, a \$9.2 billion education bond measure (to be placed before the voters in November 1998), and enhanced State Teachers' Retirement System benefits.

Chapter 1

The 1998-99 Budget Act and Related Legislation

INTRODUCTION AND OVERVIEW

The 1998-99 *Budget Act* signed into law by Governor Wilson on August 18, 1998, together with related implementing legislation (trailer bills), comprise a 1998-99 budget package that authorizes total state spending of \$72 billion. As indicated in Figure 1, this spending total includes \$57.3 billion from the General Fund and \$14.7 billion from special funds.

Figure 1

The 1998-99 Budget Plan Total State Expenditures^a

(Dollars in Millions)

Fund Type	Actual 1996-97	Estimated 1997-98	Enacted 1998-99	Change from 1997-98	
				Amount	Percent
General Fund	\$49,088	\$53,344	\$57,262	\$3,918	7.3%
Special funds	13,262	14,413	14,692	279	1.9
Budget totals	\$62,350	\$67,657	\$71,954	\$4,297	6.4%
Selected bond funds ^b	\$2,173	\$2,494	\$3,402	\$908	36.4%
Totals	\$64,523	\$70,251	\$75,357	\$5,106	7.3%

^a Spending totals do not include impact of post-budget legislation signed by the Governor. In 1998-99, these measures will increase General Fund expenditures by about \$490 million and special fund expenditures by about \$10 million.

^b Does not include appropriations from lease payment bonds in totals.
Detail may not add to totals due to rounding.

Figure 2 (see page 4) shows the estimated General Fund condition as reflected in the signed budget. As a result of stronger-than-expected revenues in the spring of 1998, the 1997-98 fiscal year closed with a reserve of \$1.8 bil-

lion. In 1998-99, General Fund expenditures are expected to exceed revenues during the year, resulting in a decline in the 1998-99 year-end reserve to \$1.3 billion. The expenditure totals in Figure 2 *do not* include the impact of post-budget legislation signed by the Governor. Overall, these measures will reduce the 1998-99 year-end reserve by about \$241 million, to just over \$1 billion.

Figure 2			
1998-99 Budget Estimated General Fund Condition^a			
1997-98 and 1998-99 (Dollars in Millions)			
	1997-98	1998-99	Percent Change
Prior-year fund balance	\$907	\$2,227	
Revenues and transfers	54,664	56,985	4.2%
Total resources available	\$55,571	\$59,212	
Expenditures	\$53,344	\$57,262	7.3%
Ending fund balance	\$2,227	\$1,950	
Encumbrances	\$445	\$445	
Set-aside for education	—	250	
Budget Reserve	\$1,782	\$1,255	
Net impact of post-budget legislation	—	- \$241 ^b	
Adjusted Reserve	—	\$1,014	

^a Detail may not total due to rounding.
^b Consists largely of \$490 million net increase in spending of which \$250 million had been set-aside in the 1998-99 Budget Act for education.

Figure 3 summarizes the major agreements that were reached between the Governor and Legislature during 1998 in the areas of tax relief, education, social services, criminal justice, and resources.

Figure 4 provides programmatic detail of General Fund spending in 1996-97, 1997-98, and 1998-99 reflecting the budget as signed by the Governor. The budget plan includes above-average spending increases for higher education, trial court funding, and “all other” spending. The gain in the all other category partly reflects increased state subventions to local governments to offset the reduction in the vehicle license fee (VLF).

The figure also shows that health and welfare spending is projected to increase at a modest rate of 4.6 percent. This reflects slow growth in the Medi-Cal, the California Work Opportunity and Responsibility to Kids

Figure 3

Major Budget and Related Actions



Budget Provisions

- Initial 25 percent reduction in vehicle license fees, plus certain other tax relief measures.
- Increased funding for various programmatic changes in K-12 education.
- Large funding increases for higher education.
- Grant restorations and cost-of-living adjustments for social services programs.
- County fiscal relief for trial court funding.



Post-Budget Actions

- Funding for Headwaters Forest preservation, Colorado River water management, and other resources projects.
- Added prison capacity and new inmate-related programs.
- Enhanced pension benefits for teachers.
- Reimbursement for local developers fees paid to school districts.
- Restored various K-12 education items vetoes in budget.
- Salary increases for four bargaining units.

Figure 4

**General Fund Spending by Major Program Area
1998-99 Budget Act^a**

*1996-97 Through 1998-99
(Dollars in Millions)*

	Actual 1996-97	Estimated 1997-98	Enacted 1998-99	Change From 1997-98	
				Amount	Percent
K-12 Education	\$19,893	\$22,595	\$23,847	\$1,252	5.5%
Higher Education	6,180	6,657	7,561	904	13.6
CCC	1,872	2,114	2,340	226	10.7
UC	2,057	2,179	2,519	340	15.6
CSU	1,810	1,897	2,180	283	14.9
Other	441	467	522	55	11.8
Health and Welfare	14,848	14,664	15,342	678	4.6
Health Services	7,318	7,268	7,450	182	2.5
Social Services	6,247	5,993	6,208	215	3.6
Other	1,283	1,403	1,684	281	20.0
Corrections	3,805	4,202	4,443	241	5.7
Trial Court Funding	483	399	623	224	56.1
All Other	3,879	4,827	5,446	619	12.8
Totals	\$49,088	\$53,344	\$57,262	\$3,918	7.3%

^a Expenditures in this figure may differ from those discussed in Chapter 3 for two reasons. First, the expenditures in this figure reflect the *1998-99 Budget Act* and do not include post-budget legislation. Second, the expenditures in this figure are by *agency* whereas the expenditures discussed in Chapter 3 are by *program area*.

(CalWORKs), and Supplemental Security Income/State Supplementary Program (SSI/SSP) programs, partly offset by more rapid increases in such programs as In-Home Supportive Services, Foster Care, and Adult Protective Services.

In the remainder of this chapter, we (1) discuss the development of the 1998-99 spending plan, (2) provide a brief overview of the major provisions in the budget, and (3) discuss key *post-budget* legislation signed by the Governor. Chapter 2 discusses the tax provisions enacted in conjunction with the 1998-99 budget, while Chapter 3 discusses in more detail the major features of the new budget and subsequent enacted legislation.

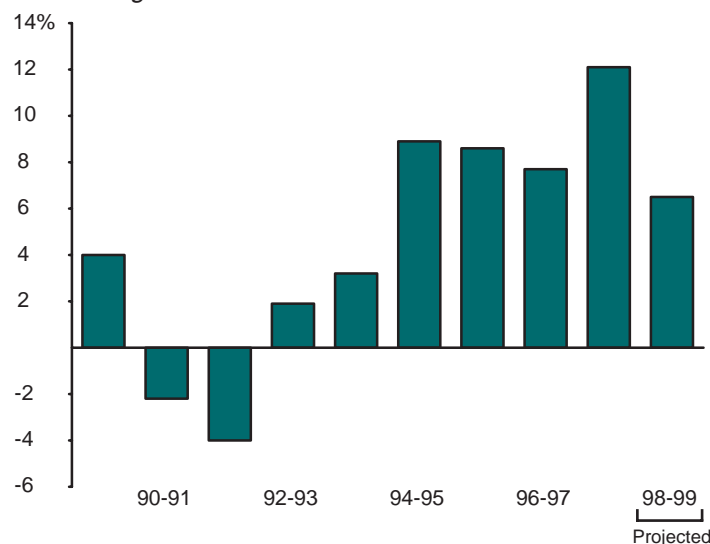
THE REVENUE PICTURE

The third consecutive year of healthy economic growth and sharp increases in General Fund revenues enabled the Governor and the Legislature to provide tax relief and undertake a variety of new program initiatives, while at the same time maintaining a significant budget reserve. As indicated in Figure 5, underlying General Fund revenues (that is, revenues adjusted to eliminate the impacts of legislation) increased by over 12 percent in 1997-98 and were projected by the administration to grow an additional 6.5 percent in 1998-99. (*Actual* revenues are expected to increase at a slower rate, due to

Figure 5

Underlying General Fund Revenue Growth^a

1989-90 Through 1998-99



^a General Fund revenues excluding the effects of revenue-related legislation enacted in the 1990s.

the impacts of tax reductions enacted in both 1997 and 1998.) These strong underlying revenue gains have primarily been due to major increases in personal income tax receipts, which in turn have been related to dramatic growth in capital gains realizations.

DEVELOPMENT OF THE BUDGET

Governor's January Proposal

On January 9, 1998, the Governor introduced his budget proposal for the 1998-99 fiscal year. The budget included an estimated \$55.4 billion in both General Fund revenues and expenditures, and a year-end reserve of \$296 million. The initial budget contained significant funding to cover the 1998-99 fiscal impacts of agreements reached in September 1997 involving tax relief, financial restructuring of the trial courts, health care for children, and higher education student fee reductions. However, after taking into account the fiscal impact of these measures, relatively limited funds were available for new or expanded programs in the 1998-99 budget. As a result, the budget included moderate increases in Proposition 98 spending (in line with the constitutionally required minimum funding guarantee), and a variety of trade-offs in the non-Proposition 98 portion of the budget.

Proposition 98. Within Proposition 98, the budget allocated funds to lengthen the school year to 180 days. It also earmarked funds for instructional training and assessment.

Rest-of-Budget. In the non-Proposition 98 portion of the budget, the Governor proposed significant funding in higher education. However, the budget contained reductions relative to current law in the areas of CalWORKs and SSI/SSP, as well as various other programs. Specifically, it proposed to make permanent a 4.9 percent CalWORKs grant reduction that was scheduled to expire in 1998-99, and to eliminate cost-of-living adjustments (COLAs) for both CalWORKs and SSI/SSP grants. The budget also proposed elimination of the renters' credit (which had been suspended each year since 1993), and provided funds for the equivalent of a 3 percent employee compensation increase.

The May Revision

Major Upward Revision to Revenues. The budget outlook changed dramatically in the 1998 May Revision, due to an improved revenue outlook. Based on continued healthy economic growth and much stronger-than-expected final income tax receipts in April 1998, the administration raised its estimate of General Fund revenues by \$1.8 billion for 1997-98 and \$2.5 billion for 1998-99, for a two-year total of \$4.2 billion (see Figure 6, page 8).

Figure 6

Changes in Projected Revenues During 1998-99

(In Millions)

	Department of Finance Projected Revenues	
	1997-98	1998-99
January budget	\$52,890	\$55,383
May Revision	54,645	57,847
Change from January	\$1,755	\$2,464
Final budget	\$54,664	\$56,985
Change from May	\$19	-\$862^a

^a The decline between the May Revision and final budget reflects adoption of a tax relief package which includes an increase in the personal income tax dependent credit, an income-limited renters' credit, and targeted business tax relief.

In contrast to the past two years, when higher revenue estimates triggered a corresponding increase in the Proposition 98 minimum funding guarantee, the increased revenues this year were available for tax relief and expenditure increases among both Proposition 98 and non-Proposition 98 programs.

Key May Revision Proposals. The Governor

proposed that the majority of the new revenues be used for tax relief, increased education funding, and a variety of one-time measures. Specifically, the May Revision proposed a two-step reduction in the VLF—a 50 percent reduction in the rate beginning January 1999, and an additional 25 percent reduction beginning January 2002. The measure would have reduced VLF receipts by \$995 million in 1998-99 (a half-year effect), about \$2 billion in 1999-00 (a full-year effect), and up to \$3.6 billion when fully phased-in 2002-03.

Other May Revision proposals included: (1) an increase in K-12 school funding, which would be achieved by over-appropriating the Proposition 98 minimum funding guarantee by \$500 million; (2) new *one-time* expenditures totaling \$1.2 billion for such purposes as direct appropriations for capital outlays, spending on deferred maintenance, and subventions to local governments to eliminate funds owed for flood control projects; and (3) COLAs for SSI/SSP grants beginning in November 1998.

Finally, the May Revision proposed to increase the 1998-99 year-end budget reserve up to \$1.6 billion. Part of this proposed reserve was earmarked by the administration to cover the costs of future reductions in the VLF.

Legislative Versions of the Budget

The versions of the budget that were passed by the Assembly and Senate in late May rejected the Governor's tax cut proposal and instead provided additional funds for education, health and welfare, local assistance, and a

variety of other programs. For example, both houses provided additional funds for K-12 education, restored social services grants and COLAs, expanded food stamp benefits for legal noncitizens, and included funding for a restored renters' credit and additional funding for employee compensation.

The Assembly and Senate versions of the budget were sent to Conference Committee for reconciliation in early June. Following more than two months of negotiations, the Legislature passed a compromise budget and sent it to the Governor on August 11. This budget included a compromise tax relief package, major increases in education funding, COLAs and grant increases for social services programs, and additional funds for employee compensation.

MAJOR FEATURES OF THE 1998-99 BUDGET

In this section, we discuss the programmatic features of the budget as signed by the Governor in August 1998. The programmatic descriptions do not include the post-budget measures which were signed into law in September. (Descriptions of the key post-budget actions are provided in a subsequent section of this chapter.)

Taxes. The budget package includes approximately \$1.4 billion in tax relief in 1998-99 and thereafter. The main provision is a 25 percent reduction in the VLF, potentially growing to a 67.5 percent reduction in future years if revenues significantly exceed current projections. Other tax provisions include a one-time increase in the personal income tax dependent credit, the restoration of a nonrefundable and income-limited renters' credit, an increase in senior citizens' tax relief, and various targeted business tax reductions.

K-12 Education. The budget provides for a significant increase in per-pupil spending in 1998-99. The budget passed by the Legislature included K-12 funding for general purpose apportionments (revenue limits) and enrollment increases. It also included about \$750 million for new or expanded initiatives. These include a "buyout" of three staff development days for teachers (\$195 million), funds for new textbooks (\$250 million), and funds for library and science laboratory materials (\$159 million). The budget also includes one-time funding for school district block grants, deferred maintenance, and school libraries.

Higher Education. The budget includes major funding increases for the University of California (UC), California State University (CSU), and California Community Colleges (CCC). Funding for both the UC and CSU systems includes monies for enrollment growth, faculty and nonfaculty salary

increases, deferred maintenance, instructional equipment, and computer upgrades. The budget also includes funding for the CCC's "Partnership for Excellence" and economic development programs.

Health. With regard to the Medi-Cal program, the budget includes rate increases for various health care providers. The Legislature had included partial funding for the construction of three comprehensive health centers in Los Angeles County and funds to continue prenatal benefits to undocumented immigrants. However, the Governor deleted funds for these purposes. Finally, the budget reduces the state "takeout" of disproportionate share hospital payments. The lowered state takeout results in a corresponding increase in funds available to public hospitals operated by counties, the UC, and local hospital districts.

Social Services. With regard to the CalWORKs program, the budget includes funds for the restoration of a previously enacted 4.9 percent grant reduction. It also provides for a 2.84 percent COLA for grants, as well as significant spending increases for CalWORKs-related services. With regard to the SSI/SSP, the budget provides for a 2.84 percent COLA plus an additional 1 percent increase to grant levels in 1998-99. Other provisions include new funds for a foster care initiative, an expansion of the Adult Protective Services program, and funds for state-only SSI/SSP and food stamp benefits for certain legal noncitizens.

Youth and Adult Corrections. The budget provides funding for inmate and parole growth for corrections programs, although the budget assumes a slightly slower growth rate than the Governor assumed. The Legislature included funding augmentations targeted for female juvenile offenders, development of out-of-home placements for delinquents, as well as added funds for various inmate and parolee programs. The Governor deleted most of these funds before signing the budget. However, the Governor later signed legislation which included many of these reforms. The budget also includes funds for local juvenile detention facilities.

Trial Courts. Under legislation passed in 1997, the state assumed from counties the majority of financial support for trial courts. This budget package increases from 20 to 38 the number of counties for which the state pays *all* trial court costs and reduces the remaining counties' contributions, both beginning in 1999-00.

Infrastructure, Transportation, and Resources. The budget includes \$50 million for the California Infrastructure Bank (which provides loans and grants for local technology and infrastructure projects). As regards transportation,

the budget includes funds for about 2,000 additional personnel-years (PYs) to deliver highway projects, as well as funds to repay the Public Transportation Account for a loan it made to the General Fund. The budget contains a significant increase in resources-related spending, including funds for forestry and habitat acquisition; fire protection; and State Water Project design, construction, and maintenance. Before signing the budget, the Governor vetoed \$132 million from various resource projects.

Employee Compensation. The budget passed by the Legislature had augmented the Governor's January proposal to include funding for a 6 percent pay increase effective July 1998 and an additional 3 percent effective January 1999. However, the Governor deleted the additional funds.

THE BUDGET TRAILER BILLS

In addition to the *1998-99 Budget Act*, the 1998-99 budget package includes several related measures enacted to implement and carry out the budget's provisions. Figure 7 (see pages 12-13) lists these budget trailer bills.

GOVERNOR'S VETOES

Before signing the budget, the Governor used his line-item veto authority to eliminate about \$1.5 billion in 1998-99 spending, including nearly \$1.4 billion from the General Fund and \$160 million from special funds. (As discussed below, some of these vetoed amounts were later restored following agreements in late August between the Governor and the Legislature, primarily in the areas of criminal justice and education.)

Proposition 98 Programs. Of the General Fund vetoes, \$408 million were in K-12 education, including funds for categorical program growth and various legislative augmentations. (About \$218 million of the \$408 million were restored in legislation signed by the Governor in September.) The Governor also vetoed \$88 million in 1997-98 Proposition 98 "settle-up" spending. In addition, he vetoed \$57 million in CCC funding.

Non-Proposition 98 Programs. The single largest reduction in this broad category involved employee compensation, where the Governor deleted about \$320 million (\$215 million General Fund) from the budget. Other areas of significant reductions included funds for prenatal services to undocumented immigrants, funds for the construction of comprehensive health

Figure 7

1998-99 Budget: Trailer Legislation

— Enacted —			
Bill Number	Chapter Number	Author	Subject
AB 858	331	Davis	Education: National Board Certification: merit grants.
AB 862	332	Ducheny	Education: school libraries.
AB 1331	315	Alquist	Education: Mathematics staff development.
AB 1428	319	Ortiz	Education: After school programs.
AB 1590	406	Thomson, M. Thompson	Trial Court Funding: County MOE.
AB 1734	333	Mazzoni	Education: Instructional strategies.
AB 1756	317	Havice	Education: School community policing.
AB 2041	312	Bustamante, Schiff, Villaraigosa, Pacheco	Education: Instructional materials.
AB 2261	325	Aguiar, Migden	Criminal Justice: Challenge grants.
AB 2284	318	Torlakson, Aroner	Education: After school programs.
AB 2442	316	Mazzoni	Education: Tuition reimbursement for mathematics teachers.
AB 2594	327	Wright	Criminal Justice: Repeat offender program for juveniles.
AB 2779	329	Aroner, Ducheny, Villaraigosa	Social Services: Various (welfare grant restoration and CO-LAs, SSI/SSP and food stamps for noncitizens, and child support automation).
AB 2780	310	Gallegos, Ducheny, Villaraigosa	Health: Various (Medi-Cal, public health, mental health, and developmental services).
AB 2784	326	Strom-Martin, Keeley	Resources: Various (flood control, parks and recreation).
AB 2793	339	Migden, Villaraigosa, M. Thompson	Criminal Justice: Local juvenile detention facilities.
AB 2797	322	Cardoza	Tax Relief: Various (VLF, renters' credit, dependent credit, strike fighter, senior and disabled property and renters' tax assistance, medical insurance for self-employed, federal conformity).
AB 2798	323	Machado	Tax Relief: Various (minimum franchise tax, space launch, manufacturer investment credit, employer child care, R&D conformity, estate tax conformity, enterprise zones, perennial plants)
SB 12	334	O'Connell, Peace, Davis	Education: Class size reduction.

Continued

The 1998-99 Budget Act and Related Legislation

— Enacted —			
Bill Number	Chapter Number	Author	Subject
SB 12	334	O'Connell, Peace, Davis	Education: Class size reduction.
SB 27	335	Maddy, Burton	Tax Relief: Horse racing license fees.
SB 295	338	Rainey, Lockyer	Criminal Justice: Internal Affairs investigations.
SB 933	311	Thompson	Social Services: Foster care and child welfare services.
SB 1193	313	Peace, Schiff	Education: Staff development.
SB 1564	330	Schiff	Education: Various K-12 and higher education provisions; CalWORKs child care.
SB 1584	321	Committee on Budget and Fiscal Review	Local Government: VLF allocations to recently incorporated cities.
SB 1589	328	Committee on Budget and Fiscal Review	General Government: Various (performance budgeting, Department of Corporations fees, Department of General Services).
SB 1602	401	Peace	Public Utilities Commission: Natural gas deregulation.
SB 1628	314	Maddy	Health: Fresno Regional Burn and Trauma Center.
SB 1756	320	Lockyer	Education: After school programs.
SB 2064	336	O'Connell	Education: Cal Grant Program.
— Vetoed —			
Bill Number	Author	Subject	
AB 1368	Villaraigosa, Brulte	Resources: Diesel emissions reductions.	
AB 2778	Villaraigosa	Health: Healthy Families Program.	
AB 2781	Honda	Social Services: IHSS public authorities.	
AB 2789	Thomson	Smog Check Program.	
SB 34	Vasconcellos, Solis	Health: Prenatal services for undocumented immigrants.	
SB 1565	Burton	Education: Property tax allocations.	
SB 1573	Solis	Health: Los Angeles comprehensive health clinics.	
SB 1575	Committee on Budget and Fiscal Review	Resources, Transportation, and Education: Park facilities, local transportation and education assistance.	
SB 1577	Sher	Resources: Cal-EPA sunset review.	
SB 1603	Committee on Budget and Fiscal Review	Criminal Justice: Corrections parole.	
SB 1605	Committee on Budget and Fiscal Review	Criminal Justice: Female parole program.	
SB 1657	Peace	Criminal Justice: Female juvenile offenders.	

centers in Los Angeles County, and monies for park acquisition and other resources-related purposes. The Governor also reduced various legislative augmentations in the areas of mental health, adult protective services, correctional inmate programs, and higher education facility maintenance.

POST-BUDGET ACTIONS

In late August, the Governor and the Legislature reached agreement on a number of issues, primarily in the areas of Proposition 98 education, criminal justice, resources, and State Teachers' Retirement System (STRS) benefits. A listing of the key post-budget legislation signed and vetoed by the Governor is shown in Figure 8. The net impact of the measures signed by the Governor is a decrease in the 1998-99 General Fund year-end reserve of \$241 million. Key agreements include:

Proposition 98 Education (\$32 Million Savings Relative to Budget). The Governor signed measures providing \$218 million for K-12 education programs. These include funds for COLAs and funding augmentations for various categorical programs. The *1998-99 Budget Act* had included a \$250 million set-aside for K-12 spending, so the net impact of these post-budget actions is a \$32 million increase in the General Fund reserve.

Criminal Justice (\$319 Million Cost). The Governor signed measures which will increase criminal justice spending above the *1998-99 Budget Act* amount by \$319 million. The measures increase prison capacity by authorizing 1,000 new high security cells at existing facilities and 2,000 beds in low security privatized facilities. The measure also expands drug treatment programs as well as other inmate and parolee programs. In addition, the measures provide funding for Juvenile Challenge Grants and additional local juvenile facilities.

Resources (\$370 Million Cost Relative to the Budget). The Governor signed legislation providing about \$500 million for various resources-related and flood control projects. Key expenditures include \$230 million for the acquisition of the Headwaters Forest Preserve and \$235 million for the management of Colorado River water. The budget had included \$130 million for Headwaters Forest preservation, so the net impact of the legislation on the state's fiscal condition was a \$370 million spending increase.

State Teachers' Retirement System Benefits (\$577 Million Savings). The Governor signed legislation which refinances the state's payments toward STRS' existing unfunded liability. Prior to this change, the state's payment

Figure 8

Post-Budget Implementing Legislation

— Chaptered ^a —			
Bill Number	Chapter Number	Author	Subject
AB 496	545	Lempert	Education: Math initiative for teaching.
AB 1102	1006	Knox	Education: Teachers' retirement benefit increases.
AB 1150	966	Prenter	Education: Teachers' retirement benefit increases.
AB 1291	1024	Strom-Martin	General Government: State firefighters' memorandum of understanding.
AB 1292 ^b	803	Migden	Education: Regional Partnership for Academic Achievement.
AB 1626	742	Wayne	Education: Pupil promotions.
AB 1639	743	Sweeney	Education: Remedial summer school.
AB 1812	1057	Machado	Resources: Stockton flood control area.
AB 1986	615	Migden	Resources: Headwaters Forest.
AB 2216	793	Escutia	Education: Advanced Placement Grant Program.
AB 2217	951	Villaraigosa	Arts: Simon Weisenthal Center.
AB 2321	526	Knox	Criminal Justice: Preventing Parolee Failure Program.
AB 2363	794	Honda	Education: International Baccalaureate Diploma Programs.
AB 2782	953	Keeley	General Government: Various state and local projects.
AB 2785	937	Richter	Resources: Claims against Lake Davis Northern Pike Eradication Project.
AB 2788	1017	Thomson and others	Trial Court Funding: Speed up of 1997-98 county MOE relief.
AB 2794 ^{a, b}	1050	Assembly Committee on Budget	General Government: Various state and local projects.
AB 2796	499	R. Wright, Baca, Schiff	Criminal Justice: Local juvenile detention facilities and youth centers.
AB 2804	967	Assembly Public Employees	Education: Teacher retirement benefit increases.
SB 50	407	Greene and others	Education Bond Act: Developer fees reimbursement.
SB 491	500	Brulte, Vasconcellos	Criminal Justice: New correctional program and increased capacity.
SB 1370	942	Polanco	Education: Summer school funding and categorical COLAs.

^a Some measures had appropriations reduced by Governor's item vetoes.
^b The majority of funds eliminated by Governor's item vetoes.

Continued

— Chaptered ^a —			
Bill Number	Chapter Number	Author	Subject
SB 1528	968	Schiff	Education: Study on health insurance for active and retired teachers.
SB 1574 ^b	1051	Senate Budget and Fiscal Review	General Government: Dredging, job training, transportation.
SB 1587	1007	Alpert, Baca	Social Services: Drug courts.
SB 1697	795	Hayden	Education: College preparation partnerships.
SB 1765	813	Peace	Resources: Lining of All-American canal.
SB 2108	508	Vasconcellos, Brulte	Criminal Justice: Appropriations for correctional treatment and county grant programs.
— Vetoed —			
Bill	Author	Subject	
AB 1697	Torlakson	General Government: Affordable housing.	
AB 2398	Ducheny	Education: Community College funding.	
AB 2791	Thomson and others	Trial Court Funding: Speed up of county MOE relief to 1998-99.	
SB 1477	Kopp	Transportation: Local roads and highways.	
SB 1561	Leslie	Education: Low performing schools.	

^a Some measures had appropriations reduced by Governor's item vetoes.
^b The majority of funds eliminated by Governor's item vetoes.

could have been over \$650 million per year for the next three years. Under the legislation, the unfunded liability will be amortized over a 30-year period. The Governor also signed legislation providing enhanced retirement benefits for teachers beginning in 1999. These benefits will result in additional state costs of roughly \$500 million per year beginning in 1999-00. The net effect of these actions is a one-time \$577 million reduction in General Fund contributions in 1998-99, but additional pension costs in future years.

Developer Fee Reimbursements (Potential \$120 Million Cost Relative to the Budget). In August, the Legislature passed a \$9.2 billion education bond measure which will be placed before the voters in November 1998. The measure includes a \$160 million appropriation from the General Fund to a special fund in 1998-99. Monies from the special fund would then be allocated during the next four years for housing assistance programs aimed at

offsetting developer fees paid by builders of low-income and moderate-income housing. The programs would provide down payment assistance to home buyers and financial assistance to developers of rental housing units. Since the budget included \$40 million for developer fee reimbursements, the net impact of this measure on the General Fund is a \$120 million spending increase if the bond measure is approved by the voters.

Chapter 2

The 1998-99 Tax Reduction Package

As noted in Chapter 1, the 1998-99 *Budget Act* contains a significant tax reduction package. This package includes a number of ongoing tax reductions totaling roughly \$1.4 billion in 1998-99. Beginning in 2000-01, additional tax cuts also are possible. Figure 1 summarizes the major tax-related provisions in the budget which are discussed below.

Figure 1	
Tax Relief Provisions	
<i>1998-99 (In Millions)</i>	
	Fiscal Impact
Vehicle License Fee (VLF) • Reduces fee by 25 percent	\$533 ^a
Personal Income Tax Dependent Credit • Increases credit from \$120 to \$253 in 1998	612
Renters' Credit • Allows nonrefundable, income-limited credit ^b	133
Senior Citizen Tax Relief • Increases eligibility income limits	— ^c
Targeted Tax Cuts • Dependent on failure of Proposition 7 ^d • Independent of Proposition 7 ^e	52 54
Total	\$1,384

^a Full-year impact of the 25 percent VLF reduction is about \$1 billion and would first occur in 1999-00.
^b Income limits are \$25,000 (single taxpayers) and \$50,000 (joint and head-of-household taxpayers).
^c Would not go into effect until 1999-00 at an annual cost of about \$70 million.
^d Measures that would only go into effect if Proposition 7 (air quality tax credits) did not pass in November 1998.
^e Measures that would go into effect independent of the vote on Proposition 7.

VEHICLE LICENSE FEE TAX CUT

The budget includes a permanent reduction in the vehicle license fee (VLF) of 25 percent, with the potential of greater reductions beginning in 2000-01 if General Fund revenues grow faster than currently projected.

Background

The VLF is an annual fee on the ownership of a registered vehicle in California, levied in place of taxing vehicles as personal property. The fee rate is 2 percent of a vehicle's current estimated value—calculated from the current owner's depreciated purchase price. The revenues are distributed to cities and counties.

Permanent Tax Cut

The permanent provision of the tax cut provides that beginning January 1, 1999, each vehicle owner's VLF owed will be reduced by 25 percent. The fiscal impact in 1998-99 will be about \$500 million—with the first full fiscal-year effect occurring in 1999-00 at about \$1 billion.

Possibility of "Triggering" Additional VLF Reductions

The tax package also provides for additional cuts in the VLF beginning in 2000-01 under certain circumstances. If specified revenue forecasts (triggers) are reached, then the total reduction in the VLF could reach as much as 67.5 percent by 2002-03.

In order for any of these additional tax cuts to be made permanent, triggers would have to be reached for two consecutive years. The maximum level of ongoing VLF tax relief that could be achieved would be determined by the forecasted level of General Fund revenues at the time of the 2002-03 budget. The triggers for 2003-04 are used only to determine the ongoing level of tax relief and cannot trigger new reductions. The triggers are all based on the Department of Finance's *1998-99 May Revision* revenue forecast for the 1998-99 through 2003-04 period.

Figure 2 shows these potential reductions, and the years during which they could be triggered. It shows, for example, that the 35 percent reduction has a four-year "trigger period." That means this reduction would be permanent if there were two consecutive years during the period when revenue growth hit the "trigger amount" (in this case, \$1.5 billion above the specified forecast). By comparison, the 55 percent and 67.5 percent reductions can be permanent only if the trigger amounts are reached in both 2002-03 and 2003-04.

Effect on Local Governments

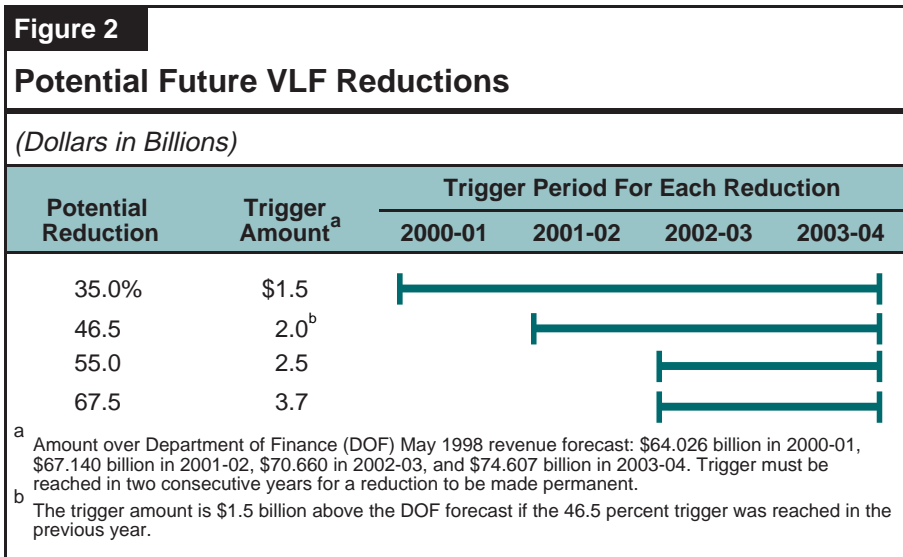
Cities and counties will continue to receive the same amount of revenues as under prior law, with the reduced VLF amounts replaced by General Fund spending. In any year in which the Legislature did not appropriate enough revenues to pay for the full amount of this backfill, the VLF tax cut would be reduced proportionately.

Adjustments for Future Tax Relief

In the event that the Legislature passes additional tax relief beginning in 1999, the VLF measure requires that two calculations be made for any fiscal year in which the General Fund revenue loss from the new relief totals more than \$100 million.

- ❖ *Adjustment of Triggers.* The various triggers are lowered by the same amount as the new tax relief measures in order to reflect the reduction in expected revenues.
- ❖ *Adjustment of VLF Percentages.* The VLF reduction percentages are recalculated to maintain the same level of total tax relief that would have occurred without the new tax measures.

If, for example, the Legislature passed an additional \$200 million in *non*-VLF tax relief effective in 2000-01, the following adjustments would be made. First, the trigger amount for 2000-01 (\$1.5 billion) would be lowered by \$200 million (to \$1.3 billion) to reflect the reduced amount of expected revenues. Second, if the trigger amount was reached in 2000-01, the percentage reduction



would be less than otherwise. It would be lowered to the level below 35 percent that provided \$200 million *less* in VLF tax relief. (The base 25 percent VLF reduction would not be subject to these adjustments.)

OTHER TAX PROVISIONS

Dependent Credit

The 1998-99 *Budget Act* agreement results in both an acceleration and increase in the personal dependent exemption credit allowed under the personal income tax. Under last year's tax relief package (enacted in September 1997), the dependent credit was to increase from \$68 to \$120 in 1998 and \$222 in 1999. Under *this year's* budget agreement, the credit will *instead* increase by a larger amount—\$253 in 1998 and \$227 in 1999. Thereafter, the \$227 credit amount will be indexed annually for inflation.

The substantial increase in the credit in 1998—from \$120 to \$253—will lower revenues in 1998-99 by \$612 million, compared to prior law. The smaller increase in the credit in 1999—from \$222 to \$227—will lower revenues by an estimated \$20 million in 1999-00 and subsequent years.

Renters' Credit

The renters' credit program—which provides a tax credit to Californians who rent their principal place of residence—is reinstated for 1998, after having been suspended since 1993. In its reconstituted form, the renters' credit will be nonrefundable and income-limited. The amount of the credit is \$60 for single renters and \$120 for married couples or heads of households, but not to exceed the filer's tax liability. The credit will be made available to single renters with incomes up to \$25,000, and to married couples or heads of households with incomes up to \$50,000. For 1998-99, the impact of the revised renters' credit will be \$133 million.

Senior Citizen Tax Relief

Two programs currently provide property tax assistance to low-income homeowners and renters who are either senior citizens (age 62 and older), disabled, or blind. For homeowners, the tax assistance is provided in the form of a partial reimbursement of property taxes paid; for renters, the amount of assistance is based on an estimate of the property tax paid by the renter. The budget plan increases the income eligibility limits from the current level of \$13,200 to about \$33,000 for 1999, and indexes the income limit based on inflation in future years. This provision will have a fiscal impact beginning in 1999-00, at an annual cost of approximately \$70 million.

Targeted Tax Measures

The budget contains a variety of other, targeted tax relief measures, totaling some \$106 million in 1998-99. Of this total, \$52.4 million would take effect only if Proposition 7 (the California Air Quality Improvement Act) is defeated in the November 1998 election. (Proposition 7 allocates up to \$218 million in tax credits annually over 13 fiscal years, for expenditures designed to improve air quality.) The remaining \$54 million in targeted tax reductions will take effect regardless of the election outcome of Proposition 7.

Figure 3 breaks out the \$106 million in targeted tax measures included in the budget by individual provision, and shows their five-year fiscal effects. The top section of the figure identifies the tax provisions which are *independent* of the vote on Proposition 7 (as noted earlier, these account for \$54 million in 1998-99 tax relief). Among these, the largest single reduction is for lowered horse racing fees, which is estimated to cost \$20 mil-

Figure 3					
Targeted Tax Relief Provisions					
<i>(In Millions)</i>					
	1998-99	1999-00	2000-01	2001-02	2002-03
Provisions Independent of Proposition 7					
Reduced horse racing fees	\$20.0	\$40.0	\$40.0	\$40.0	\$40.0
Federal conformity ^a	34.0	29.0	32.0	38.0	39.0
Joint Strike Fighter credit	—	—	5.0	61.0	64.0
Subtotals	\$54.0	\$69.0	\$77.0	\$139.0	\$143.0
Provisions Dependent on Proposition 7					
Research and development credit	\$15.0	\$18.0	\$20.0	\$17.0	\$18.0
Employer child care credit	10.0	11.0	13.0	15.0	17.0
Manufacturers investment credit software	6.0	7.0	8.0	9.0	10.0
Medical insurance deductible	—	12.0	14.0	16.0	18.0
Minimum franchise tax	4.0	11.0	11.0	11.0	11.0
Sales and use tax exemptions	11.4	22.8	22.8	22.8	22.8
Other ^b	6.0	6.0	6.0	6.0	6.0
Subtotals	\$52.4	\$87.8	\$94.8	\$96.8	\$102.8
Totals	\$106.4	\$156.8	\$171.8	\$235.8	\$245.8

^a Miscellaneous conformity measures, including student loan interest deductions, home office deductions, expensing of environmental remediation costs, employee stock option programs (ESOPs) for 1995, and deductible self-employed medical insurance for 1998.

^b Includes estate tax reductions, and the expansion and extension of enterprise zones.

lion in 1998-99 and \$40 million annually thereafter. The federal conformity measure basically brings several provisions of the California personal income tax and bank and corporation tax laws into line with changes made in federal tax laws during 1997 (per the federal Taxpayer Relief Act of 1997 and the Balanced Budget Act of 1997). The tax credit provision for the Joint Strike Fighter has no initial fiscal impact, but results in reductions beginning in 2000-01, reaching \$64 million in 2002-03.

The \$52.4 million in tax reductions in 1998-99 that are *dependent* on the defeat of Proposition 7 are shown in the lower part of Figure 3, along with their out-year impacts. The bulk of these reductions would accrue to businesses, through the personal income tax, bank and corporation tax, and sales and use tax. Among the more important reductions with respect to business activity are the expansion of the research and development credit, the eligibility of software development for the manufacturer's investment credit, and the reduction in the minimum franchise tax for new corporations. New sales and use tax exemptions are created for perennial plants, teleproduction equipment, and personal property purchased for space launch activities.

Chapter 3

Major Features of the 1998-99 Budget Plan

PROPOSITION 98 EDUCATION

The budget includes over \$35 billion in Proposition 98 spending in 1998-99 for K-14 education. This represents an increase of \$2.4 billion, or 7.3 percent, from the revised 1997-98 funding level. Figure 1 (see page 26) summarizes for 1997-98 and 1998-99 the effect of the budget package on K-12 schools, community colleges, and other specific agencies.

The Proposition 98 appropriation reflects the fact that the Legislature appropriated more General Fund monies than required to meet the constitutional minimum. Specifically, the Legislature appropriated \$177 million more than the 1997-98 minimum funding level and \$587 million more than what would have been required to satisfy the guarantee in 1998-99. (These amounts include \$50 million in each year in accordance with Proposition 227, the initiative requiring English-only instruction.)

K-12 Program Impacts

The K-12 portion of the Proposition 98 budget package includes:

- ❖ **1997-98.** Provides overall K-12 funding of \$5,454 per pupil for 1997-98, or \$68 more per pupil than anticipated in the *1997-98 Budget Act*.
- ❖ **1998-99.** Overall K-12 funding of \$5,735 per pupil in 1998-99, which represents an increase of \$281, or 5.2 percent, above the 1997-98 revised amount.

Figure 2 (see page 27) displays K-12 per-pupil funding amounts from 1991-92 through 1998-99. After adjusting for the effects of inflation and changes in attendance accounting, per-pupil funding has increased \$520, or 10 percent, over the period.

Figure 1			
Proposition 98 Budget Summary			
<i>1997-98 and 1998-99 (Dollars in Billions)</i>			
	1997-98		1998-99 Budget Act
	Budget Act	Revised	
K-12 Proposition 98			
General Fund	\$19.9	\$20.4	\$22.1
Local property taxes	9.0	8.8	9.2
Totals, K-12	\$28.9	\$29.2	\$31.3
<i>Average Daily Attendance (ADA)</i>	<i>5,359,444</i>	<i>5,357,024</i>	<i>5,453,060</i>
<i>Amount per ADA</i>	<i>\$5,386</i>	<i>\$5,454</i>	<i>\$5,735</i>
California Community Colleges			
General Fund	\$1.9	\$1.9	\$2.2
Local property taxes	1.4	1.4	1.4
Totals, Community Colleges	\$3.3	\$3.3	\$3.6
Other agencies	\$0.1	\$0.1	\$0.1
Loan repayment	\$0.2	\$0.2	\$0.3
Grand Totals Proposition 98	\$32.5	\$32.8	\$35.2
General Fund	\$21.8	\$22.3	\$24.6
Local property taxes	10.4	10.2	10.6

1998-99 Baseline Increases. Compared to the 1997-98 Budget Act, K-12 Proposition 98 funding increased by \$2.4 billion. The budget allocates \$1.6 billion to provide inflation and growth adjustments. Specifically, the budget includes about \$540 million to accommodate a projected 1.8 percent increase in the student population, \$833 million for a 3.95 percent K-12 revenue limit cost-of-living adjustment (COLA), and about \$200 million for a 2.18 percent K-12 categorical programs COLA.

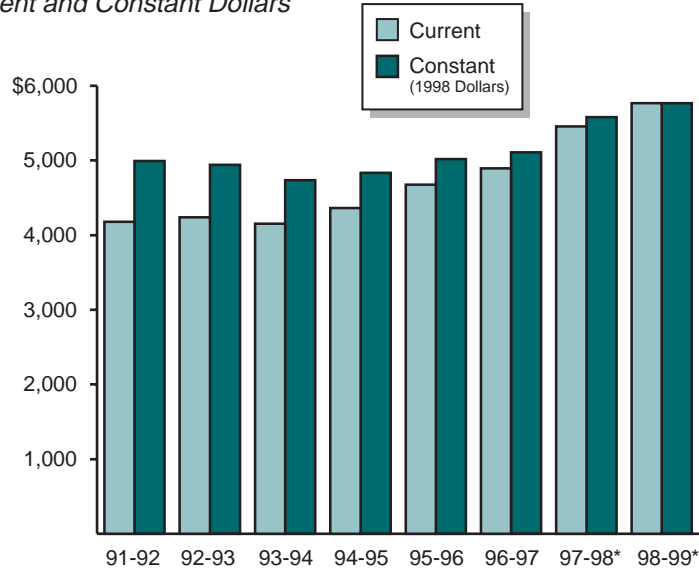
The budget directs the remaining increased funding for other purposes, including new programs and existing K-12 categorical programs (see Figure 3). The major discretionary increases in the budget are as follows:

- ❖ **Instructional Materials (\$250 million).** The new funds are sufficient to purchase a new textbook per student in one core subject area (mathematics, language arts, history/social science, or science) each year.

Figure 2

Proposition 98 Funding Per Student

Current and Constant Dollars



*ADA adjusted to exclude excused absences.

Textbooks purchased with these funds must meet state academic content standards.

❖ ***Longer School Year / Staff Development Days Buyout (\$195 million).***

The budget includes funds to increase the number of days students receive instruction (see inset on page 29 for details).

Figure 3

Major K-12 Education Expenditures 1998-99 Budget Act and Education Trailer Bills

(In Millions)

Purpose	Amount
Instructional materials	\$250
Staff development day buyout	195
School library materials	159
Deferred maintenance	115
High school class size reduction	44
After school programs	50
Proposition 227—bilingual education	50

❖ ***School Library Materials (\$159 million).*** The budget includes funds for schools to purchase school library materials and supplies. Schools will receive around \$30 per student for this purpose.

1997-98 and Prior Years “Settle-Up” Funding. Proposition 98 minimum funding levels are determined by one of four specific formulas, each using a set of specified factors. Because the factors change during the year, the minimum funding guarantee under Proposition 98 also changes. Any additional amount needed to satisfy the guarantee from a past fiscal year is referred to as Proposition 98 settle-up funding.

The budget contains approximately \$640 million in settle-up funding for K-12 programs. Figure 4 displays the major allocations of these monies. The budget appropriates most of these funds for one-time activities. Specifically, the budget allocates \$180 million in block grants to local school sites for

Figure 4

**Major K-12 Education Expenditures
Prior-Year Funds and “Settle-Up”**

(In Millions)

Purpose	Amount
School district block grants	\$180.0
Digital high school	86.0
School science laboratory materials	71.5
Proposition 227—bilingual education	50.0
Math staff development	30.0
Deferred maintenance	20.0
Community policing	10.0

one-time expenditures. Each school will receive about \$30 per student, with no school receiving less than \$10,000. As Figure 4 illustrates, the budget also includes one-time augmentations for the digital high school project (\$86 million) and various other purposes.

Governor’s Vetoes. The Governor vetoed \$88 million of settle-up funds and \$408 million in 1998-99 Proposition 98 funds for K-12 in the budget and trailer bills. The Governor also vetoed \$57 million of 1998-99 Proposition 98 funds for the community colleges. Of the 1998-99 vetoed funds, the Governor deleted funding for increases to beginning teacher salaries (\$50 million) and reduced funding for school desegregation (\$37.1 million).

Also, as part of the 1998-99 vetoed funds, the Governor vetoed \$250 million for programs related to school reform, but set aside these funds for subsequent legislation that would increase school accountability and improve student achievement. These “set-asides” included \$94 million for K-12 categorical program growth and COLA funding, \$75 million for remedial summer school, \$50 million for low-performing schools, and \$30 million for college preparation.

In the final days of the session, the Legislature passed several bills to restore these funds and to address the school reform concerns raised in the Governor's set-aside veto messages. Of these bills, the Governor vetoed SB 1561 (Leslie), which would have provided \$50 million for low-performing schools, because the bill did not meet the Governor's expectations regarding accountability. He signed several other bills that, together, restored \$218 million for 1998-99, including \$94 million for categorical programs growth and COLA, \$75 million for remedial summer school, \$30 million for remedial instruction for grades 7 to 9, and \$18 million for college preparatory programs. (See the appendix at the end of this report for a list of significant spending bills passed at the end of the session.)

The Governor also vetoed \$8 million in non-Proposition 98 funding for Department of Education state operations (executive management), approximately one-quarter of the department's operating budget. In his veto message, the Governor set the \$8 million aside, pending enactment of legislation to transfer specified legal counsel positions from the Department of Education to the Attorney General. Since the Legislature did not subsequently pass such legislation, resolution of this issue may require action by the Legislature early in the next session.

LONGER SCHOOL YEAR/ STAFF DEVELOPMENT BUYOUT

The budget changes the length of the school year and how the state funds staff development. Specifically, trailer legislation eliminated provisions in law that allowed schools to include up to eight staff development days as *part of* their 180-day school year. This change increases the minimum number of instructional days from 172 days to 180 days. (In recent years, schools included an average of four to five staff development days within their 180-day school year.)

In addition to lengthening the instructional year, the budget includes \$195 million to fund up to three staff development days that take place *outside* the required 180-day school year for teachers (\$270 per teacher per day) and one day for classified staff (\$140 per classified staff per day). School districts are free to fund more staff development days outside the instructional year, using their own discretionary funds. For 1998-99 only, schools that have set their calendars with less than the required 180 days of instruction will be allowed to apply for a one-time waiver of the new requirement.

HIGHER EDUCATION

The budget includes significant funding increases for the University of California (UC), California State University (CSU), California Community Colleges (CCC), and the Student Aid Commission. It provides sufficient funds to accommodate enrollment growth, as well as funds for growth in prior years that were not explicitly funded in prior budgets. The budget also provides \$55 million from the General Fund to compensate the three public systems for the revenue loss associated with a 5 percent undergraduate fee reduction mandated by Chapter 853, Statutes of 1997 (AB 1318, Ducheny). Figure 5 shows the change in funding for each major segment of higher education for 1998-99 from selected fund sources.

University of California

The budget provides \$340 million, or 16 percent, more in General Fund support for the UC in 1998-99 than in 1997-98. The major augmentations include:

Figure 5			
Higher Education Budget Summary Selected Funding Sources			
<i>(Dollars in Millions)</i>			
	1998-99 Budget	Change From 1997-98	
		Amount	Percent
University of California			
General Fund	\$2,518.8	\$339.9	15.6%
Student fees	750.2	1.1	0.2
Totals	\$3,269.0	\$341.0	11.6%
California State University			
General Fund	\$2,164.0	\$266.8	14.1%
Student fees	541.6	-4.8	-0.9
Totals	\$2,705.6	\$262.0	10.7%
California Community Colleges			
General Fund (Proposition 98)	\$2,173.8	\$233.7	12.0%
Property taxes	1,441.2	56.6	4.1
Student fees	155.3	-10.2	-6.2
Totals	\$3,770.3	\$280.1	8.0%
Student Aid Commission			
General Fund	\$351.8	\$57.1	19.4%

- ❖ \$79 million for (1) merit-based salary increases (\$35.2 million), (2) a 2 percent COLA for faculty and nonfaculty staff (\$31.6 million), and (3) a 2.5 percent parity increase for faculty (\$12.2 million).
- ❖ \$43.6 million for general enrollment growth of 5,200 students (\$37.6 million) and for 800 additional students specifically in engineering and computer sciences (\$6 million). The university had already accommodated about 4,600 of these students, but had not been funded explicitly for it in prior budgets.
- ❖ \$33.5 million to expand student-outreach programs to increase the percentage of high school graduates that attend college.
- ❖ \$20 million in one-time funds to reduce the university's substantial deferred maintenance backlog.
- ❖ \$50 million in one-time funds to upgrade instructional equipment (\$20 million), computer infrastructure (\$20 million), and library materials (\$10 million).

Figure 6 (see page 32) shows the per-student funding history for UC over the past 26 years adjusted for the effects of inflation.

California State University

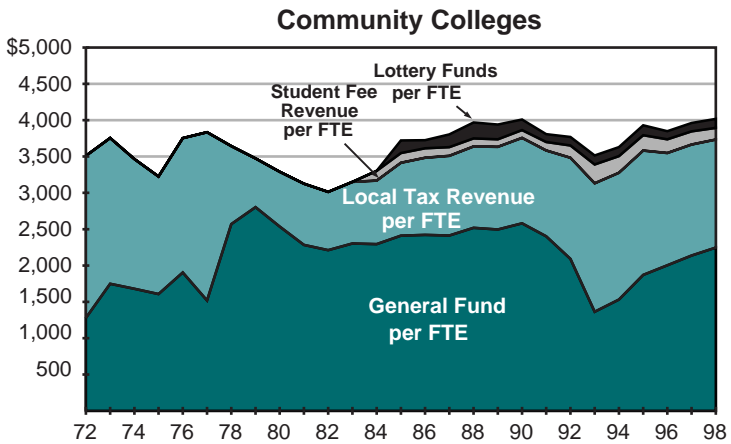
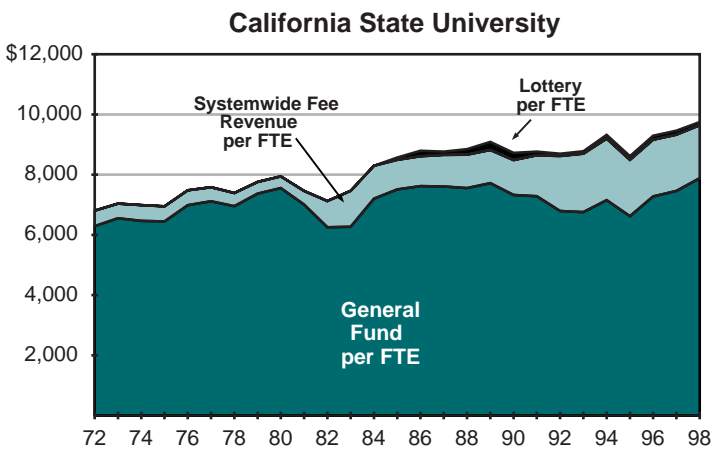
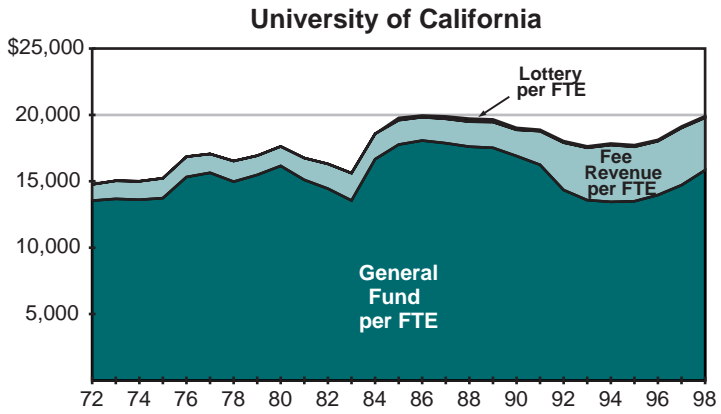
The budget provides \$267 million, or 14 percent, more in General Fund support for CSU in 1998-99 than in 1997-98. Major augmentations include:

- ❖ \$89 million to provide a 5 percent "pool" for employee compensation increases. How these funds are used (for COLAs, merit increases, and parity adjustments) will be determined through collective bargaining.
- ❖ \$52 million for general enrollment growth. Almost all of this growth occurred before 1998-99, but had not been funded explicitly in prior-year budgets.
- ❖ \$18 million for teacher credential programs, including \$9 million for enrollment growth and \$5 million (one-time) to establish a distance-learning credential program.

Figure 6

**Per Student Support of Segments
At Historic Highs**

1972 through 1998 (1998 dollars)



- ❖ \$70 million of one-time funds for computer infrastructure and technology (\$25 million), deferred maintenance (\$20 million), instructional equipment (\$15 million), and library materials (\$10 million).

Figure 6 also shows the per-student funding history for CSU over the past 26 years adjusted for the effects of inflation.

Community Colleges

The budget package contains major funding increases for community colleges. This resulted, in part, because the budget exceeds the Proposition 98 minimum funding guarantee for K-14 education by \$587 million. General Fund spending for community colleges totals approximately \$2.2 billion in the budget year. This represents a \$234 million, or 12 percent, increase above the 1997-98 level. Despite expected enrollment growth, student fee revenues are expected to decline by \$10 million, mainly due to the \$1 per credit unit reduction mandated for 1998-99 by Chapter 853.

1998-99 Expenditures.

Figure 7 illustrates the major program increases funded in 1998-99. The budget includes \$100 million for a new “partnership for excellence.” It also includes \$90.4 million to fund enrollment growth of 3 percent, and \$71.4 million for COLAs of 2.3 percent.

Figure 7	
Major Community College Increases 1998-99 General Fund	
<i>(In Millions)</i>	
Purpose	Amount
Partnership for excellence	\$100.0
Enrollment growth	90.4
Cost-of-living adjustment	71.4
Telecommunications/technology	10.0

The partnership for excellence funds will be distributed to districts on a per-student basis to improve the performance of colleges in teaching students. The CCC Board of Governors will develop outcome measures and goals upon which future performance will be assessed. Beginning with the 2001-02 fiscal year, the board will consider whether partnership for excellence funds should be allocated based on district performance.

Settle-Up Expenditures. The budget includes \$75 million in “settle-up” funding for 1997-98 and prior years for several one-time activities. Trailer bill language authorizes up to \$20 million of this amount to be used to backfill

property tax deficiencies for the 1997-98 fiscal year, if needed. Half of whatever remains would be allocated to districts on a per-student basis for instructional equipment, library materials, and technology infrastructure. The other half would be allocated by the Chancellor's Office on a project-priority basis for facility maintenance, architectural barrier removal, and abatement of hazardous substances.

Governor Vetoed Legislation to Add \$46 Million. The Governor vetoed \$57 million from the amount approved by the Legislature for the community colleges in the *1998-99 Budget Act*. The vetoes included \$11 million for noncredit instruction and \$8.9 million for equalization of state funding among college districts. Assembly Bill 2398 (Ducheny) would have provided \$11 million for the noncredit courses and \$35 million to "fully" equalize state funding among college districts. The Governor vetoed AB 2398.

Figure 6 (page 32) shows the per-student funding history for the Community Colleges for the past 26 years adjusted for the effects of inflation.

Student Aid Commission

The budget appropriates \$352 million from the General Fund for the Student Aid Commission in 1998-99. This is \$57 million, or 19 percent, above expenditures in 1997-98. The growth in the commission's budget provides for 5,056 additional new Cal-Grant awards and an increase in the maximum annual grant amount from \$8,184 to \$9,036.

HEALTH AND SOCIAL SERVICES

In this section, we describe the major features of the health and social services funding in the state spending plan. General Fund support for health and social services programs in 1998-99 totals \$15.3 billion, an increase of 4.6 percent over the prior year. This growth in expenditures is the net result of welfare grant increases, workload-related activities, and new or expanded programs such as the Foster Care Initiative, which were partially offset by various savings. The largest amount of savings resulted from caseload reductions and federal carryover funds in the California Work Opportunity and Responsibility to Kids (CalWORKs) program. Figure 8 shows the changes in expenditures in the major welfare grant programs and the Medi-Cal Program.

Figure 9 (see page 36) describes the major General Fund changes (from prior law) enacted in the *1998-99 Budget Act* and related legislation. The major health trailer bill was AB 2780 (Gallegos, Ducheny, Villaraigosa)

which, among other things, reduced the state administrative fee for the Disproportionate Share Hospital program and established a newborn hearing screening program. The major social services trailer bill was AB 2779 (Aroner, Ducheny, Villarai-gosa) which, among other changes, reversed a prior 4.9 percent CalWORKs grant reduction and reinstated the COLA for CalWORKs grants.

Figure 8

Medi-Cal and Major Welfare Grant Programs General Fund

1997-98 and 1998-99 (Dollars in Millions)

Program	1997-98	1998-99	Change	
			Amount	Percent
CalWORKs	\$2,050.7	\$1,798.8	-\$251.9	-12.3%
Foster Care	397.8	432.9	35.1	8.8
SSI/SSP	2,017.2	2,181.8	164.6	8.2
Medi-Cal	6,766.8	6,892.0	125.2	1.9

CalWORKs

In response to federal welfare reform legislation, the Legislature created the CalWORKs program in 1997. This program, which replaced the Aid to Families with Dependent Children (AFDC) program, provides cash grants and welfare-to-work services to families with children whose incomes are not adequate to meet their basic needs. The budget plan provides \$1.8 billion from the General Fund for the CalWORKs program in 1998-99. Even though the budget contains increased funding for welfare-to-work services and county fiscal incentives, General Fund spending is projected to decline by 12 percent in 1998-99 because of caseload reductions and the availability of unexpended federal Temporary Assistance for Needy Families (TANF) funds from prior years.

Grant Payments. The Legislature rejected the Governor’s proposal to make permanent a previously enacted 4.9 percent grant reduction and to eliminate the statutory COLA. These actions result in costs of \$230 million compared to the Governor’s budget but no cost in relation to prior law.

As a result of the grant and COLA restorations, effective November 1, 1998, the maximum grant for a family of three in high-cost counties will increase by \$46 to a total of \$611 per month, and the corresponding grant in low-cost counties will increase by \$44 to a total of \$582 (see Figure 10, page 37). Budget trailer bill legislation, however, provides that future COLAs will be suspended in any year where revenues are insufficient to

“trigger” an additional vehicle license fee reduction, beginning in 2000-01 (see the “Tax Provisions” section of this report).

Employment Services. The budget appropriates about \$1 billion for CalWORKs employment services (General Fund and federal block grant funds). The Legislature reduced the Governor’s request by (1) \$166 million for basic employment services because the funds are in excess of the estimated amount needed to fully fund the program, and (2) \$85 million

by deferring the state match for the new federal Welfare-to-Work block grant. The budget appropriation includes the full amount requested by the Governor (\$373 million) for county “fiscal incentives,” which are payments based on the state’s grant savings in the program.

M e n t a l Health Services for CalWORKs Recipients. The budget, as passed by the Legislature, included \$22 million from the General Fund for

Figure 9	
Health and Social Services Programs Major 1998-99 Policy Changes General Fund	
(In Millions)	
Program/Issue	Change From Prior Law
CalWORKs	
Grants	—
Services	\$10.0 ^a
SSI/SSP	
Grants	\$41.5
State-only program for noncitizens	19.4
Food Stamps	
Expand state-only program for noncitizens	\$70.7 ^b
Other Social Services Programs	
Foster Care Initiative	\$96.1
Adult Protective Services	20.0
IHSS personal care services “income eligibles”	-19.9
Developmental services provider rate increases	50.8
Developmental center staff	15.7
Regional center staff	20.8
Department of Aging programs	11.6
Drug courts	4.0
Medi-Cal	
Provider rate increases	\$48.6
Disproportionate share hospitals	40.0
Regional Burn and Trauma Center	25.0
Public Health	
Drinking water systems	\$15.2
Newborn hearing screening program	3.5
^a State match for federal Welfare-to-Work block grant.	
^b General Fund and federal TANF block grant funds.	

Figure 10

**CalWORKs and SSI/SSP
Maximum Monthly Grants**

1997-98 and 1998-99

	1997-98	1998-99	Change	
			Amount	Percent
CalWORKs ^a				
Low-cost counties	\$538	\$582 ^b	\$44	8.2%
High-cost counties	565	611 ^b	46	8.1
SSI/SSP				
Individuals	\$650	\$676 ^c	\$26	4.0%
Couples	1,156	1,201 ^c	45	3.9

^a Family of three.
^b Effective November 1, 1998.
^c Effective January, 1, 1999.

mental health services for CalWORKs recipients. This expenditure would have drawn down \$23 million in additional federal Medicaid funds. The Governor, however, vetoed these funds because the General Fund appropriation was above the minimum amount needed to meet the federal “maintenance of effort” requirement.

Caseload Reduction. Since reaching its peak in 1994-95, the CalWORKs/AFDC caseload has declined by about 20 percent (see Figure 11, page 38). For 1998-99, the caseload is projected to decline by 9.6 percent, resulting in grant savings of about \$350 million compared to 1997-98.

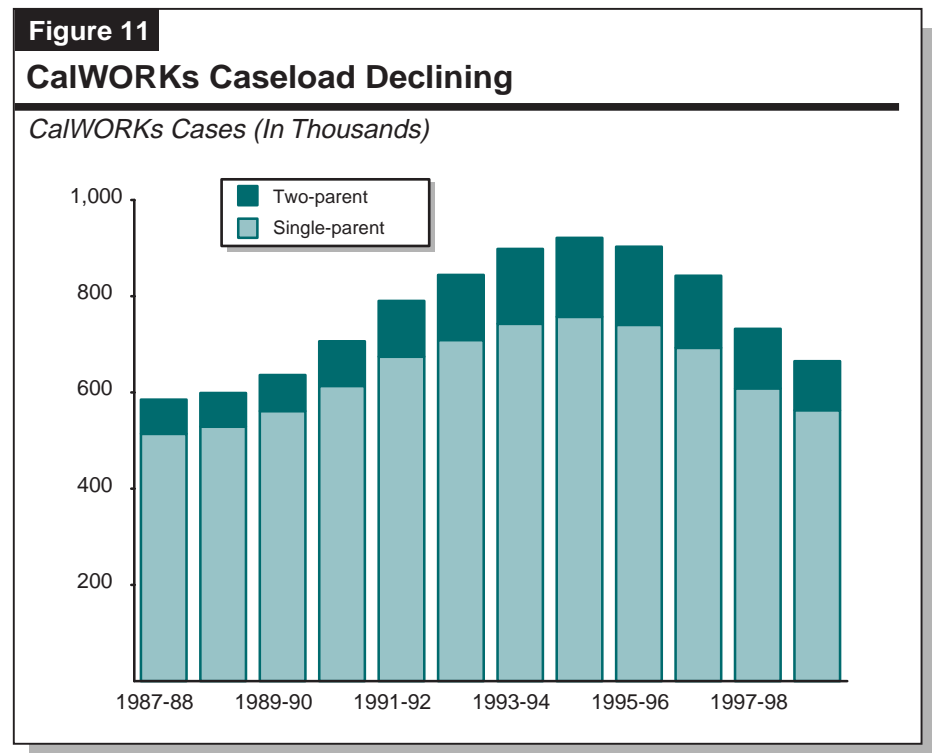
Supplemental Security Income/ State Supplementary Program

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 appropriates \$2.2 billion from the General Fund for the program in 1998-99, which is an increase of 8.2 percent over 1997-98. This spending increase is largely attributable to higher grants effective January 1999.

Grant Payments. The budget provides for the statutory COLA (2.84 percent), as proposed in the Governor’s budget, and an additional grant increase of 1 percent at a General Fund cost of \$42 million above both prior law and the amount proposed by the Governor. Effective January 1, 1999, the maximum grant for aged or disabled individuals will in-

crease by \$26 to a total of \$676 per month, and the corresponding grant for couples will increase by \$45 to a total of \$1,201 per month (see Figure 10).

State-Only Program for Certain Noncitizens. Federal welfare reform and related legislation made elderly legal noncitizens, who are not disabled, ineligible for SSI/SSP. In addition, noncitizens who cannot be naturalized because they are not considered permanent residents became ineligible for SSI/SSP benefits on October 1, 1998. (Pending federal legislation may restore eligibility for these noncitizens.) State budget legislation provides, for a two-year period, state-only benefits to these noncitizens (with certain exceptions) at a General Fund cost of \$19 million in 1998-99.



Special Circumstances Program. The Legislature rejected the Governor's proposal to permanently eliminate the Special Circumstances Program. This program, which had been suspended since 1992, provides emergency payments to SSI/SSP recipients for certain nonrecurring needs, such as replacing a broken refrigerator or repairing a leaky roof. The budget includes \$8.3 million General Fund for this program, offset by \$6 million in combined savings in SSI/SSP and Medi-Cal long-term care.

Food Stamps Program

The Food Stamps program provides food stamps to low-income persons. The cost of the food stamps coupons (over \$2 billion) is borne entirely by the federal government, with the exception of the state-only program for noncitizens that is discussed below.

Expanded State-Only Program for Legal Noncitizens. Budget legislation expands, for a two-year period, the existing state-only Food Stamps program for children and elderly noncitizens to include (1) noncitizens ages 18 through 64 and (2) certain noncitizens who arrived in the United States after August 1996. Eligibility for the program will be dependent on meeting a specified work requirement. The *1998-99 Budget Act* appropriates \$71 million for this expansion (which was partially offset by savings from new federal funds to cover the pre-existing state-only program for children and the elderly).

Foster Care Program/Child Welfare Services— Foster Care Initiative

The Foster Care program provides grants to pay for the care of children placed in foster family homes or group homes. The Child Welfare Services (CWS) program provides services to abused and neglected children and children in foster care and their families. The budget appropriates \$433 million from the General Fund for the Foster Care program in 1998-99, a 9 percent increase over estimated General Fund spending in 1997-98. The budget appropriates \$541 million for the CWS program in 1998-99, a 20 percent increase over estimated General Fund spending in 1997-98.

The budget includes an increase of \$103.7 million from the General Fund (including \$7.6 million for a group home COLA required under prior law) for various increases and reforms in the Foster Care and CWS programs. Figure 12 (page 40) summarizes the fiscal impact of the “Foster Care Initiative,” and the major features are described in Figure 13 (page 41).

Child Support Enforcement

Federal law requires the states to provide child support enforcement services to families receiving TANF. Non-TANF families may request the same services, or seek to obtain child support through a private attorney. Child support payments that are collected on behalf of TANF recipients are used to offset the public costs of TANF grants, except the first \$50 of monthly payments which are distributed to the custodial parent.

Figure 12	
Foster Care Initiative Fiscal Summary	
<i>(In Millions)</i>	
Proposed Activity	Cost
Additional staff to lower social worker caseloads	\$40.0
Six percent group home rate increase	16.0 ^a
Additional staff to provide for monthly social worker visits	13.2
Independent Living Program expansion	11.4
Expand day treatment services	8.9
Additional state operations staff	7.9
Six percent FFA rate increase	3.3
Subsidize cost of financial audits for small group homes	1.8
Subsidize cost of fingerprint checks for providers exempt from fees	1.3
Expand county staff training	0.8
Establish foster care ombudsman program	0.1
Eliminate "level of care" assessment	-1.0
Total	\$103.7^b

^a Includes \$7.6 million cost-of-living adjustment required under prior law.

^b The 1998-99 Budget Act also appropriated \$4 million to expand Children's System of Care program (Department of Mental Health) and \$3.8 million (Department of Education) to expand the Foster Youth Services program and conduct two studies regarding the education of group home foster children.

In California, the child support enforcement program is administered by county district attorneys under the supervision of the Department of Social Services (DSS).

Child Support Automation. The budget includes \$80 million from the General Fund and federal funds to launch a new approach to automating the child support enforcement program. The new approach follows the cancellation in November 1997 of the state's contract with a vendor to develop the Statewide Automated Child Support System.

Under the new approach, the Health and Welfare Agency Data Center intends to deploy a Statewide Case Registry (SCR) and Statewide Distribution Unit (SDU) which will enable the transmission of data and child support monies across county lines in compliance with recently enacted welfare reform laws. The administration's original plan called for counties to use one of seven automated case management systems to connect to the SCR and SDU. Assembly Bill 2779 amended the plan to allow up to four case management systems. Since the administration's plan has not yet been approved by the federal government and the federal government will not

Figure 13

**Foster Care Initiative
Major Features**

Social Worker Caseload Reduction. The budget provides funding to reduce county social worker caseloads. The amount provided will reduce social worker caseloads by about 8 percent.

Rate Increases. The budget provides a 6 percent rate increase for group homes and foster family agencies. Prior law required a 2.84 percent rate increase for group homes. (Statutory rate increases had been suspended since 1990.)

Monthly County Staff Visits. The initiative requires monthly visits by county staff to all foster children in group homes. The General Fund is required to pay the entire nonfederal cost of these visits. Prior regulations allowed visits to be as infrequent as once every six months for approximately half of group home foster children.

Independent Living Program (ILP) Expansion. The measure increases ILP funding and extends eligibility from ages 16 through 18 to ages 16 through 21. This program is designed to prepare children for emancipation from foster care.

Children's Services Development Program. The initiative authorizes counties to enter into performance agreements with private nonprofit agencies to expand day treatment alternatives to group home care. It permits the Department of Social Services (DSS) to waive foster care regulations when necessary to implement these programs.

Out-of-State Placements. The measure requires DSS to certify that out-of-state foster care group homes accepting placement of children from California meet the same standards as facilities which operate within the state, but allows DSS to waive specific licensing standards. It prohibits placement of foster children in out-of-state facilities that are not certified within 12 months of the effective date of the act. It requires that counties obtain a multidisciplinary team assessment and placement recommendation for all children in out-of-state group homes.

Assessment Guidelines. The initiative replaces the requirement that DSS implement a "level of care" assessment tool with a requirement that DSS issue to county placing agencies "best practice" guidelines for the assessment of a child and the child's family. It requires DSS to conduct a pilot project to test the effectiveness of the guidelines.

Fingerprint Checks. The initiative expands fingerprint requirements for applicants for employment having direct contact with clients in community care facilities. When the Livescan Fingerprint Imaging System is operational, it prohibits employment until fingerprint clearance is received. It requires applicants to submit fingerprints to the Federal Bureau of Investigation. It subsidizes the cost of fingerprint checks for providers exempt from fees.

Provisional Group Home Rates and Licenses. The initiative requires DSS to issue licenses and rates to new group homes on a provisional rather than permanent basis, for up to the first 18 months of operations.

Group Home Administrator Certification. The initiative requires group home administrators to become certified, and establishes training and experience requirements. It allows DSS to charge a \$100 fee for certification.

Psychoactive Medications. The initiative requires the Department of Mental Health to develop procedures to review treatment plans for children receiving psychoactive medications.

Continued

Figure 13
Foster Care Initiative Major Features <i>Continued</i>
<p><i>Education of Children in Licensed Institutions.</i> The initiative requires that local educational agencies share information with county placing agencies on the educational alternatives available to children in licensed institutions. It requires local educational agencies to share information when foster children shift educational placements.</p> <p><i>Independent Financial Audits.</i> The initiative requires all group homes to submit an annual independent financial audit to DSS, and subsidizes the cost of the audit for small group homes.</p> <p><i>Foster Care Ombudsman.</i> The initiative creates the Office of the Foster Care Ombudsman to provide information to children in foster care, receive complaints, and directly investigate or refer complaints for investigation.</p> <p><i>Law Enforcement Task Force.</i> The initiative requires DSS to convene a Law Enforcement Task Force to identify statutory and regulatory changes which would allow more effective prosecution of illegal activities by group home operators.</p>

reimburse for costs already incurred before approval is granted, it is unclear how much of the project—which will likely cost several hundred millions of dollars—will be funded with federal monies and how much will be funded from the state General Fund.

Adult Protective Services

The Adult Protective Services (APS) program provides assistance to the elderly and functionally disabled adults who are victims of abuse, neglect, or exploitation.

Program Expansion. The Governor proposed expanding the APS program by \$20 million. The Legislature augmented the Governor’s proposal by \$32.7 million, but the Governor vetoed this augmentation.

In-Home Supportive Services

The In-Home Supportive Services (IHSS) program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without such assistance. The program is administered by the DSS. The budget appropriates \$444 million from the General Fund for the IHSS program in 1998-99. This represents an increase of 15 percent over estimated General Fund spending in 1997-98, primarily due to increases in caseload and the minimum wage (most IHSS service providers earn the minimum wage).

Expansion of Personal Care Services Program. Budget legislation requires the Department of Health Services (DHS) to seek federal approval of a Medicaid State Plan amendment to extend coverage of personal care services to Medi-Cal “medically needy” individuals. This action will increase the federal share of costs in the IHSS program and will result in estimated General Fund savings of \$19.9 million.

Department of Developmental Services

The Department of Developmental Services contracts with 21 nonprofit regional centers to coordinate educational, vocational, and residential services for approximately 140,000 developmentally disabled clients each year. The department also operates five state developmental centers (DCs) that house nearly 4,000 residents.

Provider Rate Increases. The budget includes a \$48.3 million General Fund augmentation (including the state share of reimbursements) to increase rates for services provided to people with developmental disabilities. This includes services in community care facilities (13 percent increase) and day and respite care programs (7 percent). In-home respite workers will also receive an average pay increase of about 14 percent. In addition, Chapter 1043 (SB 1038, Thompson) appropriates \$2.5 million General Fund (including reimbursements) to provide increased wages and benefits for supported living workers.

Regional Center Staff. The budget includes \$20.8 million from the General Fund for additional staff at the regional centers: 757 new case managers, 105 supervisors, and 218 other positions such as information systems specialists, training officers, and related clerical staff.

Developmental Center Staffing Increase. The budget includes \$30.3 million (\$1.8 million General Fund and \$28.5 million in reimbursements, which are 49 percent General Fund) for new staff at the DCs. This includes 438 direct care workers, 107 support staff, and 32 peace officers.

Department of Aging

The California Department of Aging administers various programs providing services to the elderly and functionally disabled adults.

Expansion of Programs for the Elderly. The Governor’s budget proposed \$9.1 million to expand Adult Day Health Care, the Multipurpose Senior Services Program, Alzheimer’s Day Care Resource Centers, Linkages, the Foster Grandparent program, the Senior Companion program, Respite Purchase of Services, Respite Registry, and the Brown Bag program into areas

of the state that are currently unserved. The Legislature augmented the Governor's proposal by \$12.8 million, but the Governor vetoed \$10.3 million of the augmentation.

Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs (DADP) coordinates the state's efforts to prevent or minimize the effects of alcohol-related problems, narcotic addiction, and drug abuse. The department also serves as the coordinating agency for the California Mentor Initiative.

Drug Court Partnership Grants. Senate Bill 1587 (Alpert) appropriates \$8 million from the General Fund to create the Drug Court Partnership, a competitive grant program aimed at expanding the use of drug treatment as an alternative to incarceration for defendants who plead guilty to drug-related offenses. The Governor subsequently reduced the appropriation to \$4 million. The DADP and the Judicial Council will administer the grants, which are intended to continue through 2001-02 at a total General Fund cost of \$28 million, subject to appropriation in future budget acts. As of May 1998, 75 jurisdictions in 31 counties had a drug court in operation, primarily funded through federal grants.

Medi-Cal Program

The California Medical Assistance (Medi-Cal) program provides health care services to welfare recipients and to other qualified low-income persons (primarily families with children and the aged, blind, or disabled). The DHS administers the program. The budget appropriates \$6.9 billion from the General Fund to the department for Medi-Cal benefits in 1998-99, an increase of 1.8 percent over estimated General Fund spending in 1997-98. The DHS budget also includes \$10 billion of federal Medicaid funds in 1998-99. These Medicaid funds match state General Fund spending for Medi-Cal benefits in the DHS budget. They include additional federal funding to (1) provide supplemental payments to disproportionate share hospitals (DSHs) and (2) match state funds budgeted in other departments for several related programs.

Provider Rate Increases. The budget, as passed by the Legislature, included a total of \$57.9 million from the General Fund for various Medi-Cal provider rate increases plus \$74 million for a 6 percent increase in nursing home rates that was required pursuant to an adjustment mechanism in existing law. The Governor vetoed \$9.3 million by eliminating increases for optometrists and medical vans, and half the increase for outpatient hospital services. Figure 14 lists the rate increases that were included in the enacted budget.

Figure 14

Medi-Cal Provider Rate Increases

1998-99
(Dollars in Millions)

	Increase	
	Percentage or Other Basis	General Fund Cost
Long-term care facilities	6%	\$73.7
Adult primary and preventive care	10	10.2
Hospital outpatient services	5	6.3
In-home nursing	Based on cost survey	5.4
Ambulance emergency trips	50	4.0
Equalize children's rates with adult rates	Various	1.7
Early and periodic screening, detection, and treatment services for children	5	2.0
Primary and preventive care for children	20	19.1
Total		\$122.3

Reduced State "Takeout" From DSH Payments. The budget includes a General Fund augmentation of \$40 million in the Medi-Cal program to back-fill for an equivalent reduction in the state takeout from DSH transfers made by public hospitals operated by counties, the University of California, and local hospital districts. The state takeout is used to offset a portion of the General Fund cost of the Medi-Cal program. The remainder of the transfers, along with matching federal funds, are returned as DSH payments to qualifying public and private hospitals. The budget action reduces by \$40 million the amount of the transfers to the state needed to obtain the full allotment of DSH payments.

Regional Burn and Trauma Center. The budget includes \$25 million to partially fund construction of a new regional burn and trauma center in Fresno to replace facilities in the former county hospital, which is scheduled to close by 2003.

Los Angeles County Comprehensive Health Centers. The budget bill, as passed by the Legislature, included a General Fund appropriation of \$40 million to partially fund construction of three comprehensive health clinics in Los Angeles County. Budget legislation—SB 1573 (Solis)—makes the funding contingent on a commitment by the county to build a replacement hospital for the Los Angeles County-University of Southern California Medical Center with a capacity of at least 750 beds and also makes the hospital

replacement project eligible for future state funding. The Governor vetoed both the budget appropriation and SB 1573.

Continuation of Prenatal Care for Undocumented Immigrant Women. The budget bill, as passed by the Legislature, provided \$36.8 million to continue prenatal benefits for undocumented immigrants after December 31, 1998, as authorized by SB 34 (Vasconcellos). The Governor vetoed SB 34 and eliminated the funding in the budget. These state-only Medi-Cal benefits continue to be provided, however, under a court order pending the outcome of litigation challenging regulations of the DHS that would terminate the program. The Governor indicated that the vetoed funds are included in the General Fund reserve, pending resolution of this litigation.

Healthy Families Program

The Healthy Families Program, administered by the Managed Risk Medical Insurance Board with the assistance of the DHS, expands health care coverage for uninsured children in families with incomes up to 200 percent of the federal poverty level. The program began enrolling children in July 1998 and implements the federal Children's Health Insurance Program, enacted in 1997. Funding for California generally is on a 2-to-1 federal/state matching basis. Families pay a relatively low monthly premium and can choose from a selection of managed care plans for their children. Coverage is similar to that offered to state employees and includes some dental and vision benefits. The program also includes some modest expansions of Medi-Cal eligibility for children.

The budget provides a total of \$65.2 million from the General Fund for the program (including related Medi-Cal, administrative, and outreach costs) in 1998-99. (Initial General Fund start-up costs in 1997-98 were \$5.9 million.) The budget also includes a total \$132 million of federal funds for the program in 1998-99. By the end of 1998-99, the budget estimates that the number of children enrolled in the managed care plans under the program will be 201,000 (plus an additional 58,000 children covered by the Medi-Cal expansions).

Expand Eligibility. As passed by the Legislature, the budget included \$3 million from the General Fund to expand eligibility for children's health coverage under the new Healthy Families Program. The expansions, authorized by AB 2778 (Villaraigosa), increased the family income limit from 200 percent to 250 percent of the federal poverty level (with Medi-Cal income disregards) and made recently arrived legal immigrant children eligible for coverage. The Governor eliminated the additional funding and vetoed AB 2778.

Public Health

The DHS administers a broad range of public health programs. Among these are (1) programs that complement and support the activities of local health agencies controlling environmental hazards (including the protection of public drinking water systems), preventing and controlling disease, and providing health services to populations with special needs; and (2) state-operated programs, such as those which license health facilities and certain types of technical personnel.

Drinking Water Systems. The budget appropriates \$15.2 million from the General Fund to serve as the state match for \$76 million in federal funds for local drinking water systems. The budget provides that if a water bond measure is placed on the ballot and approved by the voters, the General Fund would be reimbursed from the bond proceeds.

Newborn Hearing Screening Program. Budget legislation established a newborn hearing screening program, at a cost of \$6.2 million (\$3.5 million from the General Fund) in 1998-99. Under this new program, all hospitals approved by the California Children's Services program (which deliver about 70 percent of all newborns in the state) are required to offer hearing screening tests to newborn infants.

JUDICIARY AND CRIMINAL JUSTICE

The 1998-99 budget for judicial and criminal justice programs totals \$6.3 billion, including \$5.7 billion from the General Fund and \$634 million from state special funds. This is an increase of \$636 million, or 11 percent, over 1997-98 expenditures. The increase is the result of two primary factors: additional costs associated with the state's increased financial responsibility for support of the trial courts and increases in spending to accommodate the projected growth in the state's prison and parole populations. Figure 15 (see page 48) shows the budget act appropriations for the major judiciary and criminal justice programs for 1998-99.

The amount is about \$104 million, or about 1.6 percent, below the Governor's proposed budget. Although the net amount is relatively close to the spending level proposed by the Governor, the Legislature made a number of changes to the Governor's budget, including deletions of some requests, additions of new policy initiatives and augmentations, and modifications to individual spending proposals.

Figure 15

Major Judiciary and Criminal Justice Programs Budget Summary

(Dollars in Millions)

	1997-98	1998-99 ^a	Change	
			Amount	Percent
Department of Corrections	\$3,680.9	\$3,896.5	\$215.6	5.9%
General Fund	3,635.7	3,851.7	216.1	5.9
Other funds	45.2	44.7	-0.5	-1.1
Department of the Youth Authority	\$349.5	\$311.9	-\$37.6	-10.8%
General Fund	331.9	307.8	-24.1	-7.3
Other funds	17.7	4.1	-13.5	-76.3
Offset for undocumented felons (federal funds)	\$199.4	\$195.1	-\$4.3	-2.2%
Board of Corrections	\$49.7	\$175.8	\$126.1	253.7%
General Fund	23.3	42.0	18.7	80.3
Federal funds	9.3	114.0	104.7	1,125.8
Other funds	17.1	19.8	2.7	15.8
Trial Court Funding	\$1,606.0	\$1,653.6	\$47.6	3.0%
General Fund	221.2	622.9	401.6	181.6
County contributions	890.0	571.7	-318.3	-35.8
Fines and penalties	291.0	224.0	-67.0	-23.0
Court-related fees and other	203.7	235.0	31.3	15.4

^a Based on appropriations contained in 1998-99 Budget Act. Does not include other appropriations contained in post-budget legislation.

Post-Budget Legislative Actions. Subsequent to the enactment of the 1998-99 Budget Act, the Legislature passed and the Governor signed a number of bills that appropriate an additional \$320 million from the General Fund in the current year for various judiciary and criminal justice programs.

Trial Court Funding

Under Chapter 850, Statutes of 1997 (AB 233, Escutia), the state is now primarily responsible for support of the trial courts. The budget includes \$1.7 billion for support of the trial courts in 1998-99. The amount includes \$623 million from the General Fund, \$224 million from fine and penalty revenues, \$235 million in court fees, and \$572 million transferred from counties to the state. Chapter 850 made substantial reductions in the amount of money counties are required to transfer to the state beginning in 1998-99, thus requiring the state to backfill the reductions with large in-

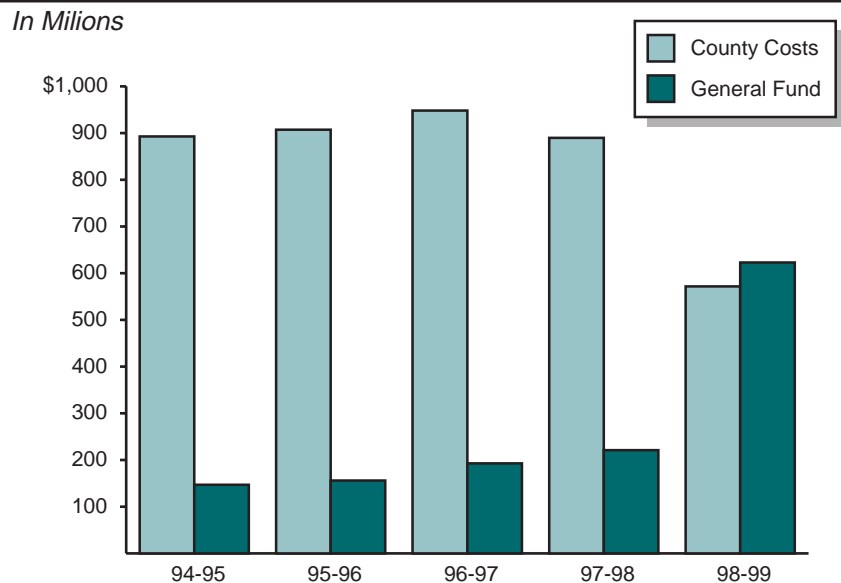
creases from the General Fund. Figure 16 compares the cost to the General Fund and to counties for support of the trial courts since 1994-95.

Legislative Budget Actions. In enacting the 1998-99 budget, the Legislature made several modifications to the Governor’s Trial Court Funding budget proposal, including:

- ❖ Deleted \$50 million (General Fund) proposed to support the Judicial Administration Efficiency and Modernization Fund, which was established in Chapter 850 to support efforts to promote improved access, efficiency, and effectiveness in the trial courts.
- ❖ Deleted \$9.9 million proposed to pay for 40 new trial court judge-ships that would have been established in 1998-99.
- ❖ Augmented \$27.8 million (\$12.5 million more than proposed by the Governor) to backfill reductions in county contributions to courts as a result of changes in county maintenance-of-effort (MOE) requirements, as allowed under Chapter 850.
- ❖ Augmented \$6 million to increase the rates paid to court interpreters (this augmentation was vetoed by the Governor).

Figure 16

Trial Court Funding^a



^a Includes only general purpose county and state support.

- ❖ Augmented \$4 million to increase juror compensation (also vetoed by the Governor).

Trailer Bill to Provide Additional County Relief in Subsequent Years. The Legislature adopted a trailer bill related to Trial Court Funding that was designed to provide additional fiscal relief to counties and results in substantial increases in costs to the state General Fund in subsequent years. Specifically, AB 1590 (Thomson), which the Governor signed, further reduced the county MOE levels for support of the trial courts beginning in 1999-00. The bill does this in two ways by: (1) increasing from 20 to 37 the number of counties for which the state will pay 100 percent of costs (thus, all counties with populations below 300,000 would make no contributions) and (2) reducing the MOE for the remaining 21 counties by 10 percent. The effect of these provisions will be to increase the state's costs by \$92 million beginning in 1999-00.

In addition, AB 1590 provided further MOE relief to counties for contributions they made in 1997-98. This relief will be provided over five years starting in 1999-00. The provision will cost the state about \$50 million, or about \$10 million annually, from 1999-00 through 2004-05.

Post-Budget Legislation. In late August, the Legislature also adopted two other bills that made further modifications to the county MOE levels and appropriated additional General Fund money to backfill the loss.

Assembly Bill 2788 (Thomson) provided the same MOE relief for the 1997-98 contributions (discussed above) but over a *three-year period* beginning in the *current year*. The measure appropriated \$16.6 million from the General Fund to cover these additional current-year costs. The measure also added one county to the list of counties for which the state will pay all costs. The Governor signed this measure.

Assembly Bill 2791 (Thomson) contained the same provisions as AB 2788, but also moved up the 10 percent MOE reductions and 100 percent county buy-outs from 1999-00 to the current year. This measure appropriated \$114 million from the General Fund to cover the additional costs. However, the Governor vetoed this measure.

Department of Corrections

The budget provides a total of \$3.9 billion (\$3.9 billion from the General Fund and \$45 million from other funds) for support of the California Department of Corrections (CDC). This represents an increase of about \$216 million, or 5.9 percent, above the 1997-98 level and is primarily due

to projected increases in inmate and parole populations. The budget assumes that the prison population will grow to about 166,000 inmates and the parole population will grow to about 115,000 parolees by the end of 1998-99. Figure 17 shows the prison and parole populations over the past five years and the level projected by the budget for the current year.

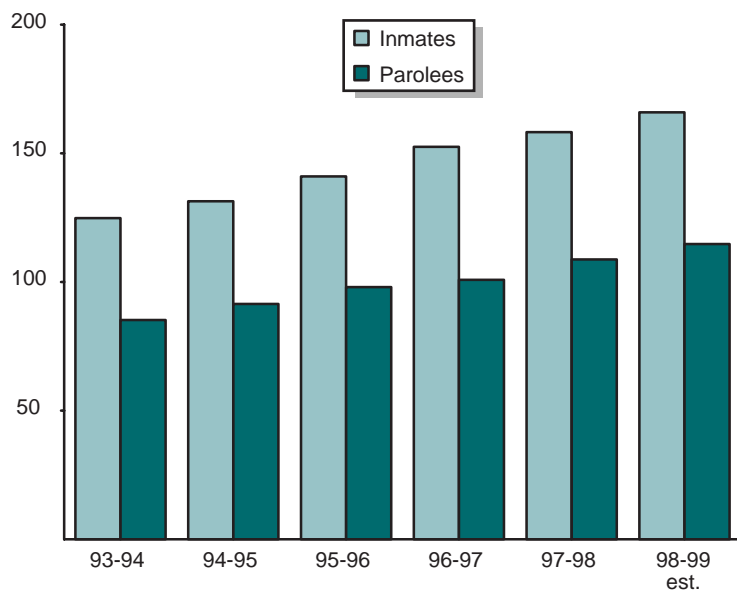
Legislative Changes to the Budget. In the *1998-99 Budget Act*, the Legislature made net General Fund reductions of about \$38.8 million below the Governor's requested budget for CDC. The most significant changes were reductions of \$52.5 million to reflect recent caseload trends and \$12.5 million budgeted for merit salary adjustments. In addition, the budget included an increase of \$18.6 million for various programs designed to rehabilitate and reduce future criminality of inmates and parolees. The Governor vetoed \$16.1 million of this amount, leaving only the Legislature's augmentation of \$2.5 million to expand inmate work and education slots in state prison to reduce inmate idleness.

Post-Budget Legislation. In late August, however, the Legislature enacted and the Governor later signed measures that provided funds for various inmate and parolee rehabilitation programs, including funds for some of the programs that the Governor had vetoed in the budget act. Specifically, SB 2108 (Vasconcellos and Brulte) provided a total of \$23.5 million for ex-

Figure 17

Prison Inmate and Parolee Population

(In Thousands)



panded drug treatment and other services for inmates and parolees. In addition, AB 2321 (Knox) provided \$3 million to expand and evaluate the Preventing Parolee Crime Program.

New Prison Capacity. The Governor had requested authority in the budget for CDC to contract for 5,000 beds at publicly or privately built and operated prisons (the beds would not have come on-line until 1999-00). However, the final version of the budget deleted the authority to contract for these beds. Subsequent legislation (SB 491, [Brulte and Vasconcellos]) was enacted, however, to authorize CDC to contract for 2,000 additional beds under specified conditions. In addition, SB 491 authorized expansion at ten existing prisons that would provide facilities to house a total of \$1,900 male inmates. Funding for construction of these facilities (\$74 million) was appropriated in SB 2108.

Incarceration and Supervision of Undocumented Felons

The budget as enacted for 1998-99 assumes a total of \$195 million in federal funds to offset the state's costs of incarcerating and supervising undocumented inmates and wards in state prison and the Department of the Youth Authority. In the January budget, the Governor assumed that the state would receive \$286 million in the budget year. In late May, however, the state learned that its share of recent federal appropriations would be significantly less than the Governor had assumed. As a consequence, the estimates were reduced for 1998-99, as well as for the two prior fiscal years for which the state is still expecting funding. As a result, General Fund costs increased by \$238 million in order to backfill for the anticipated loss in federal funds.

In addition, the Legislature chose to shift an additional \$15.8 million in federal prison construction grant funds to offset incarceration costs of undocumented felons, as permitted under federal law. Last year, the Legislature shifted \$54 million for this purpose.

Department of the Youth Authority

The budget provides \$312 million (\$308 million from the General Fund and \$4.1 million from other funds) for support of the Youth Authority. General Fund support for the Youth Authority declines by \$24 million, or 7.3 percent, from 1997-98 to 1998-99, primarily as a result of the declining ward population. There were no major policy changes in the budget.

Subsequent to the enactment of the budget, the Legislature appropriated \$25 million to the Youth Authority in AB 2796 (Wright) for distribution to nonprofit organizations for acquiring, renovating, or constructing community youth centers. The Governor signed AB 2796.

Board of Corrections

The budget provides \$176 million for the Board of Corrections. This amount includes \$42 million from the General Fund, \$16.9 million from special funds, \$114 million from federal funds, and \$2.9 million from bond funds. This amount was substantially higher than the amount requested by the Governor (\$86.6 million) for two principal reasons. First, the Legislature provided net General Fund augmentations of \$31 million for new and expanded criminal justice and juvenile delinquency grant programs for local governments. The Governor reduced the net augmentations by \$23.2 million. Second, the Legislature augmented \$81.4 million in federal funds for distribution to local governments to construct or expand local juvenile correctional facilities. The federal government provided these funds to the state for construction of state prisons, but federal law and regulation permit the state to use the funds for local juvenile detention facilities instead.

Post-Budget Legislation. Two bills mentioned above also provided substantial appropriations from the General Fund for programs in the Board of Corrections. Specifically, SB 2108 provided an additional \$50 million to the board for grants to counties under the Juvenile Crime Enforcement and Accountability Challenge Grant Program. In addition, the bill included \$27 million for a new grant program for counties (established in SB 1485, [Rosenthal]) for the purpose of expanding or establishing a continuum of responses to reduce crime and criminal justice costs related to mentally ill offenders. Assembly Bill 2796 included an additional \$100 million for the board to provide funding to counties for renovation, construction, replacement, and deferred maintenance of county juvenile correctional facilities.

TRANSPORTATION

The 1998 budget provides about \$2 billion for support of the Department of Transportation (Caltrans)—roughly 9 percent more than the 1997-98 amount. Included in this increase is funding to augment Caltrans' capital outlay support staff by almost 2,000 personnel-year equivalents in order to meet the expanded workload resulting from the 1998 State Transportation Improvement Program.

The budget also provides \$1.9 billion for transportation capital outlay projects—essentially the same as the 1997-98 level. In addition, the budget appropriates \$1.4 billion for a variety of local assistance programs. Approximately half of the funds are a pass-through of federal funds for highway and transit purposes. Of the remaining funds, \$310 million is for transit capital projects, \$100 million is for transit operating assistance, and \$200 million is for the State and Local Partnership program.

In adopting the 1998 budget, the Legislature made a partial repayment of \$46 million from the General Fund to the Public Transportation Account for a loan made in 1993-94. The Governor indicated in his veto message that he will direct that the full amount of the loan principal and interest owed, estimated to total \$113 million, be repaid from the General Fund in 1998-99.

Storm Damage Repair of Local Streets and Roads. In post-budget action, the Legislature enacted SB 1477 (Kopp) which appropriates \$300 million from the State Highway Account to counties and cities for local street and highway reconstruction and for repair of storm damage to local streets and highways. The amount will be allocated over two years, with \$200 million to be available in 1998-99 and \$100 million in 1999-00. Fifty percent of the funds will be allocated to counties and 50 percent will be allocated to cities in accordance with specified formulas. The Governor subsequently vetoed SB 1477.

RESOURCES

The 1998 budget, as adopted by the Legislature, provides a total of \$2.2 billion for resources programs, of which \$1.2 billion is from the General Fund, \$106 million from bond funds, and \$106 million from federal funds. The remaining \$965 million are special funds. Total resources expenditures are 16 percent higher than in 1997-98. Significant features include:

- ❖ \$351 million for the Department of Forestry and Fire Protection, including \$10.8 million for urban forestry, forest improvement programs, state demonstration forest acquisition, and water assessment and education; and \$20 million for emergency fire fighting purposes.
- ❖ \$81 million for habitat acquisition, restoration, and enhancement, including \$8 million for restoration of salmon and steelhead trout habitats.

Major Features of the 1998-99 Budget Plan

- ❖ \$20.6 million for acquisitions and implementation of the Natural Community Conservation Planning program in San Diego and Orange Counties.
- ❖ \$40 million to pay in 1998-99 part of the \$172 million owed by the state to local governments for the state share of costs of local flood control projects. A budget trailer bill appropriates the remaining balance owed—\$132 million—in three \$44 million annual installments from 1999-00 through 2001-02.
- ❖ An increase of \$62 million in State Water Project design, construction, and operations and maintenance expenditures.
- ❖ \$64 million from Proposition 204 bond funds for water supply and Bay-Delta restoration projects.
- ❖ \$10 million for feasibility studies for an offstream reservoir storage facility.

The Governor vetoed \$132.4 million from various resources programs including:

- ❖ \$45.6 million for habitat acquisition and restoration, and expansion of state forests.
- ❖ \$15.9 million for local park projects and grants.
- ❖ \$10 million for the River Parkway program and \$10 million for the Los Angeles and San Gabriel Rivers.
- ❖ \$50.9 million for various other resources projects, including \$15.7 million for dredging projects.

Post-Budget Actions. The Legislature restored \$24.7 million in various projects which had been vetoed by the Governor. Of that amount, \$15.7 million was for local dredging projects. The Governor subsequently vetoed \$22.6 million of these projects, including the \$15.7 million for local dredging projects.

Additionally, the Legislature augmented resources expenditures by a total of about \$530 million, including the following:

- ❖ \$230 million for the acquisition of the Headwaters Forest Preserve, the Elk Head Forest, the Elk River Property, Owl Creek, and the Grizzly Creek Marbled Murrelet Conservation Area—all within Humboldt County; \$15 million for economic assistance for Humboldt County; and \$500,000 for the Wildlife Conservation Board's administrative expenses and costs related to these acquisitions. The Governor subsequently reduced the appropriation for economic assistance to Humboldt County to \$12 million.
- ❖ \$235 million for management of Colorado River water, including (1) \$200 million to line the All American Canal as part of the efforts to conserve water so that it can be transferred from the Imperial Irrigation District to the San Diego County Water Authority and (2) \$35 million to construct storage and other facilities related to groundwater supplies.
- ❖ \$15 million for the state's share of costs for a flood control project in San Joaquin County and \$15 million for private property connections to sewer systems in coastal San Luis Obispo County. The Governor subsequently reduced the appropriation for the flood control project to \$12.6 million and vetoed the \$15 million for the sewer system infrastructure.
- ❖ \$9.2 million to compensate certain claimants, including the City of Portola and Plumas County, with respect to the Department of Fish and Game's northern pike eradication project at Lake Davis.
- ❖ \$5 million for preliminary plans, working drawings, and construction to preserve and restore the Leland Stanford Mansion State Historic Park.
- ❖ \$5.6 million in various other projects. The Governor subsequently vetoed about \$5.5 million of these projects.

Additionally, state firefighters received employee compensation increases totaling \$16.1 million, of which \$15.2 million comes from the General Fund. This item is discussed further in this report under the heading *Employee Compensation*.

ENVIRONMENTAL PROTECTION

The 1998 budget, as adopted by the Legislature, provides about \$880 million for environmental protection programs, including about \$665 million for various environmental protection agencies and \$215 million for local assistance. This amount is about \$9 million (1 percent) more than 1997-98 expenditures. Significant features include:

- ❖ \$25 million to the Air Resources Board (ARB) for a new grant program designed to reduce emissions into the air, mainly from heavy-duty diesel engines.
- ❖ A transfer of \$33 million from the Underground Storage Tank Cleanup Fund (which reimburses underground fuel tank owners for costs to clean up leaking tanks) to the Trade and Commerce Agency for loans to small businesses for tank upgrades to meet new federal standards.
- ❖ \$57 million from Proposition 204 bond funds for local water quality projects.
- ❖ \$10 million for the Department of Toxic Substances Control to clean up illegal drug labs.

The Governor vetoed legislative augmentations totaling \$7.8 million, including \$5.8 million for nonpoint source pollution and water recycling research. Additionally, the Governor deleted budget bill language adopted by the Legislature which tied the \$25 million for the ARB grant program to AB 1368 (Villaraigosa) and SB 1857 (Brulte). These bills—subsequently vetoed by the Governor—provided that the grant program would become inoperative if the air quality tax credit initiative (Proposition 7) is approved by the voters this November.

Post-Budget Action. The Legislature enacted legislation to restore \$1.7 million of the \$5.8 million that had been vetoed by the Governor for nonpoint source pollution prevention and water recycling research. The Governor subsequently vetoed this restoration.

LOCAL GOVERNMENT

The Legislature took a number of actions with a direct fiscal impact on local governments, particularly counties. These changes are summarized in Figure 18.

Figure 18	
Actions Affecting Local Governments	
<i>(In Millions)</i>	
Action	1998-99 Fiscal Impact
Juvenile Detention Facilities. Provided \$181 million to fund the construction and expansion of local juvenile correction facilities (\$100 million General Fund, \$81 federal funds).	\$181
Criminal Justice Grants. Provided \$100 million to fund various criminal justice and juvenile correction grant programs.	100
Trial Courts. Reduced county required contributions to trial courts. Additional relief will be provided beginning in 1999-00.	44
General Assistance. Allowed certain counties to continue lower general assistance grant amounts, if specified program changes are made.	Potentially up to tens of millions of dollars
County Hospitals. Reduced the state "takeout" from the Disproportionate Share Hospital program, primarily benefiting counties that operate hospitals.	40
Flood Control. Appropriated \$172 million over four years to pay the state share of costs related to flood control projects.	40
Local Libraries. Provided \$20 million more than in 1997-98 for the support of local public libraries.	20

CAPITAL OUTLAY

The capital outlay program for 1998-99 totals almost \$1.7 billion as shown in Figure 19. About 60 percent (\$1 billion) of this amount is from bonds, including \$577 million from a \$2.5 billion higher education general obligation bond measure that has been placed on the November 1998 ballot and \$327 million in lease-payment bonds. Future appropriations of \$474 million will be needed to complete the capital outlay projects funded in the budget. Other funding includes \$533 million from the General Fund, \$70 million from various special funds, and \$34 million from federal funds. The Governor vetoed about \$160 million in capital outlay appropriations

contained in the 1998-99 Budget Act mainly in the areas of higher education (\$100 million) and resources (\$45 million).

Some of the major projects and programs funded in 1998-99 include:

- ❖ Emergency Services—\$25 million for a new headquarters and state operations center near Sacramento.
- ❖ California Science Center—\$30 million for a new parking structure.
- ❖ Department of General Services—\$160 million for a new state office building near Sacramento to serve as the headquarters for the Department of Corrections, and \$72 million for earthquake safety improvements to 19 state buildings.
- ❖ Wildlife Conservation Board and state conservancies—\$308 million for land acquisition, including \$230 million to acquire the Headwaters Forest Preserve and other old-growth forests in Humboldt County.
- ❖ Department of Health Services—\$108 million to construct the second phase of a public health laboratory and office complex in Richmond.
- ❖ Department of Mental Health—\$38.4 million for facilities to house sexually violent predators. This includes \$33 million to construct a 250-bed addition to the Atascadero State Hospital and \$5 million for programming and site selection for a new 1,500-bed facility.
- ❖ Department of Corrections—\$72 million to build facilities to house 1,900 male inmates at ten existing prisons.
- ❖ University of California—\$190 million for 26 projects at eight campuses plus \$21 million for a new building as part of a second campus for medical research in San Francisco.

Figure 19		
1998-99 Capital Outlay Programs		
<i>(In Millions)</i>		
	Budget Amount	Future Cost
Legislative/Executive/Judicial	\$30.5	\$25.1
State and Consumer Services	272.2	21.5
Transportation	15.8	6.5
Resources	401.5	63.9
Health and Welfare	167.5	27.9
Corrections	117.4	176.2
Higher Education	637.5	145.8
General Government	25.1	7.2
Totals	\$1,667.5	\$474.1

- ❖ California State University—\$196 million for 24 major projects at 15 campuses and \$11 million for initial renovation of the former Camarillo State Hospital into an off-campus center.
- ❖ Community Colleges—\$205 million for 44 projects at 33 districts (36 campuses and off-campus centers) including funding to construct new off-campus centers at Folsom and Madera.

OTHER MAJOR PROVISIONS

State Teachers' Retirement System

The Legislature enhanced retirement benefits for members of the State Teachers' Retirement System (STRS) who retire on or after January 1, 1999 and provided General Fund support to pay for these new benefits through enactment of the following legislation:

- ❖ *AB 1150 (Prenter, Ashburn, and Honda)*. This measure increases retirement allowances by incrementally raising from 2 percent of final compensation per year of service at age 60 to a maximum of 2.4 percent at age 63.
- ❖ *AB 1102 (Knox)*. This measure: (1) increases the per-year-of-service factor by an additional two-tenths of 1 percent of final compensation (not to exceed 2.4 percent) for members who have 30 or more years of service credits; (2) grants credit for unused sick leave for purposes of calculating retirement benefits; and (3) establishes, as a vested right, purchasing power protection of up to 75 percent of the initial monthly retirement benefit.
- ❖ *AB 2804 (Committee on Public Employees, Retirement, and Social Security)*. This measure establishes a financing mechanism to pay for the benefits included in AB 1102 and AB 1150. The estimated net fiscal effect is a General Fund *savings* of nearly \$580 million in 1998-99, with annual General Fund *costs* of over \$500 million, potentially beginning in 1999-00.

Employee Compensation

The Legislature appropriated sufficient funds (\$706 million, all funds) to provide state employees a 6 percent salary increase effective July 1, 1998 and another 3 percent effective January 1, 1999. The availability of these funds was conditioned on the administration and employee bargaining units

reaching agreement for salary increases through the collective bargaining process. The Governor reduced this funding to \$279 million (\$141 million General Fund and \$138 million in other funds)—the amount he proposed in January. This would provide sufficient funds for a 3 percent salary increase but is subject to collective bargaining.

Before the final recess of the legislative session, the administration reached agreement on, and the Legislature ratified, memoranda of understanding (MOUs) for four bargaining units. These units cover about 32,000 of the more than 150,000 represented state employees. The MOUs—all of which expire June 30, 1999—address a wide range of issues such as salaries, state contribution for health benefits, retirement benefits, and civil service reform. A summary of the Department of Personnel Administration’s (DPA’s) estimated fiscal effect of these MOUs is shown in Figure 20.

As shown in the figure, the 1998-99 General Fund cost for these MOUs (\$154 million) is \$12 million more than the amount the Governor left in the budget for employee compensation. In addition, the DPA recently approved a 3 percent salary increase for excluded employees (managers and supervisors not represented by bargaining units) effective July 1, 1998. This action will result in additional General Fund cost in the neighborhood of \$30 million annually.

Figure 20

Cost of New Memoranda of Understanding^a

(In Millions)

Bargaining Unit	1998-99			Annualized		
	General Fund	Other Funds	Total	General Fund ^b	Other Funds ^b	Total
6—California Correctional Peace Officers Association	\$124.5	\$1.4	\$125.9	\$147.5	\$1.6	\$149.1
8—California Department of Forestry Firefighters	15.2	1.2	16.4	17.7	1.3	19.0
16—Physicians, Dentists, and Podiatrists	10.1	2.4	12.5	12.8	3.0	15.8
19—Health and Social Services/Professional	3.8	2.3	6.1	4.4	2.4	6.8
Totals	\$153.6	\$7.3	\$160.9	\$182.4	\$8.3	\$190.7

^a Estimated costs provided by the Department of Personnel Administration.

^b Legislative Analysts Office estimate of total cost distribution between General Fund and other funds based on 1998-99 distribution.

Year 2000 Computer Projects

In January, the Governor proposed augmentations totaling \$19.6 million (all funds) for state departments to fund efforts to modify computers to accommodate the year 2000 (Y2K). The Legislature augmented the amount by \$20 million (\$10 million from the General Fund, \$8 million from special funds, and \$2 million from nongovernmental cost funds) and placed the augmentation in a special appropriation item to be distributed to departments to cover unbudgeted Y2K costs. A principal reason for this augmentation was an April 1998 report to the Legislature from the Department of Information Technology that identified a large gap between Y2K costs identified by state departments and amounts budgeted for that purpose.

Arts Council

The Legislature approved a major increase in state support for the California Arts Council. Specifically, the Legislature provided a total of \$61.5 million, which included \$60.1 million from the General Fund, an amount that was almost four times greater than both the 1997-98 expenditures and the Governor's proposed 1998-99 budget. The amount included a \$20 million General Fund augmentation for the Arts Council's existing competitive grant programs. In addition, it included a General Fund augmentation of \$27.6 million for grants to 29 specified museums and arts-related organizations. The Governor reduced the total augmentation to \$30.2 million, which includes a \$6 million augmentation for existing competitive grant programs and \$24.2 million for grants to 21 specified museums and organizations. Legislation (AB 2217, Villaraigosa) enacted subsequent to the enactment of the *1998-99 Budget Act* and signed by the Governor increased funding for one of the organizations by \$2.5 million.

Housing

The budget sent to the Governor included a total of \$45 million in augmentations for housing programs not included in the Governor's May Revision. Of this total, the Governor vetoed \$39 million in spending. The remaining \$6 million will be used to fund the housing needs assessment mandate, migrant farm worker housing reconstruction, and an Indian housing assistance grant program.