

State Spending Plan for 1989-90

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Overview

This report summarizes the fiscal effect of the 1989 Budget Act (Chapter 93 - SB 165). In addition, it discusses major spending decisions that were enacted in bills other than the Budget Bill, that were part of an overall state spending plan for 1989-90. The report highlights the funding levels approved for the state's major programs in 1989-90, and compares these funding levels to those authorized in prior years. This report also discusses projected state revenues for 1989-90, including the key assumptions underlying the projections and revisions that have been made to them since the Governor's Budget was introduced in January.

The expenditure and revenue estimates contained in this report are not predictions of what the final budget totals for fiscal year 1989-90 will be. Rather, these estimates re-

flect: (1) the most recent projections of revenue to the General Fund and (2) the administration's assumptions about caseloads under various entitlement programs. As the fiscal year progresses, these estimates will be revised to reflect such factors as:

- Unanticipated economic developments;
- Changes in the rates of expenditure under entitlement programs, such as Aid to Families With Dependent Children (AFDC) and Medi-Cal;
- The enactment of new legislation;
- Administrative actions taken by the executive branch;
- Decisions handed down by the courts; and
- Actions taken by the Congress and the President on the 1990 federal budget. ❖

General Fund Condition

Table 1 shows the condition of the General Fund on June 30, 1989 and the effects on the General Fund of the revenue and expenditure programs approved for 1989-90.

The *actual* General Fund condition as of June 30, 1989 will not be known until September or October of 1989, when the State Controller reports revenues and expenditures for the year on an accrual accounting basis. The administration's current estimates of revenues

and expenditures indicate that the balance in the General Fund was \$866 million. Of this amount, \$251 million is already committed for unliquidated encumbrances, leaving an uncommitted balance in the Special Fund for Economic Uncertainties (SFEU) of \$615 million. The administration anticipates that the SFEU will have a balance of \$1.1 billion as of June 30, 1990.

Table 1
Condition of the General Fund*
1988-89 and 1989-90
(dollars in millions)

	<u>1988-89</u>	<u>1989-90</u>
Starting Balance -- July 1	\$182	\$866
Revenues and Transfers	<u>37,036</u>	<u>40,278</u>
 Total Resources Available	 \$37,218	 \$41,144
 Expenditures	 \$36,352	 \$39,608
Set-Aside	<u>—</u>	<u>142</u>
Total Expenditures	\$36,352	\$39,750
 Ending Balance -- June 30	 \$866	 \$1,394
 Special Fund for Economic Uncertainties	 (615)	 (1,143)
Unliquidated Encumbrances	(251)	(251)

* Source: Department of Finance.

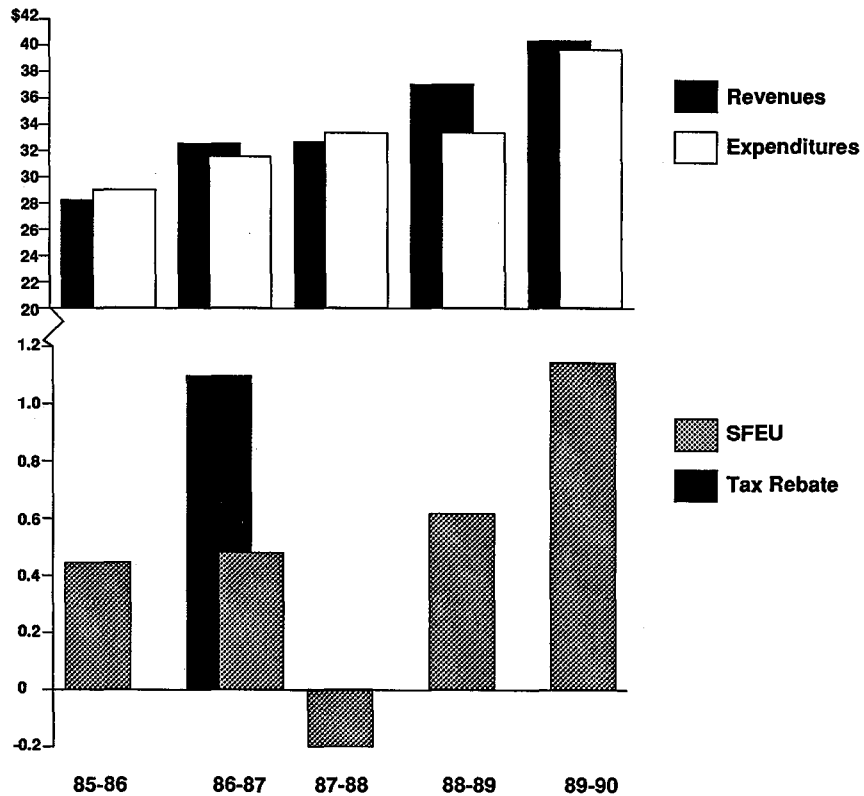
Chart 1 provides a historical perspective on the level of General Fund revenues, expenditures and the SFEU for the period 1985-86 through 1989-90. As the chart shows, General Fund expenditures exceeded General Fund revenues in 1987-88, leaving the state with a

deficit for that year. The chart also shows that the revenue and expenditure programs enacted in the 1989 Budget Act would bring the balance in the SFEU up to \$1.1 billion for 1989-90, or about 2.9 percent of General Fund expenditures.

Chart 1

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

1985-86 through 1989-90^a
(dollars in billions)



^aFigures for 1985-86 through 1987-88 are based on data from the State Controller's Office. Figures for 1988-89 and 1989-90 are from the Department of Finance.

The 1989 Budget Act and Related Major Legislation

The Budget Act for 1989 (Ch 93/89) was signed by the Governor on July 7, 1989. Table 2 presents a chronological summary of the changes made to the budget since it was proposed by the Governor on January 10, 1989.

Table 2
Summary of Action Taken on the 1989 Budget Act^a
(dollars in millions)

	<i>Expenditures</i>			<i>Total</i>
	<i>General Fund</i>	<i>Special Funds</i>	<i>Selected Bond Funds</i>	
Governor's Budget as submitted (January)	\$38,010	\$8,093	\$1,651	\$47,754
Changes initiated by the administration ^b	<u>1,702</u>	<u>-527</u>	<u>861</u>	<u>2,036</u>
Governor's Budget as revised (June)	\$39,712	\$7,566	\$2,512	\$49,790
Changes made by the Legislature	<u>456</u>	<u>-483</u>	<u>20</u>	<u>-7</u>
Legislature's Budget	\$40,168	\$7,082	\$2,532	\$49,782
Governor's Vetoes ^c	<u>-561</u>	<u>-64</u>	<u>-21</u>	<u>-646</u>
Total Spending, Budget as Chaptered^d	\$39,608	\$7,018	\$2,511	\$49,137
Additional spending proposed by the Governor	<u>142^e</u>	<u>15</u>	<u>--</u>	<u>157</u>
Total Expenditures as proposed by the Governor	\$39,750	\$7,033	\$2,511	\$49,294

^a Detail may not add to totals due to rounding.

^b Includes June 1 Department of Finance letters and other administration proposals.

^c Does not include technical veto of \$133 million (General Fund) for double-counting of appropriations contained in AB 198.

^d Includes both the Budget Bill (SB 165) and education funding contained in the AB 198/SB 98 spending package.

^e Includes \$10 million for restructuring of the toxics program which has already been approved as in Ch 269/89 (SB 475, Torres).

The Governor's Budget

Table 2 indicates that in his January budget, the Governor proposed that the state spend \$47.8 billion during fiscal year 1989-90. This amount included:

- \$38 billion in General Fund expenditures;
- \$8 billion in special funds expenditures; and
- \$1.7 billion in selected bond fund expenditures.

In May and June, the Governor proposed changes to the spending plan submitted in January that increased total expenditures by \$2 billion. These changes included an increase in General Fund spending of \$1.7 billion, a \$527 million decrease in special funds spending, and an \$861 million increase in spending from selected bond funds.

The significant increase in proposed General Fund spending resulted from the Department of Finance's increased estimate of Gen-

eral Fund revenues, released in May. A large portion of the increased expenditures shown in Table 2 for the June Governor's Budget reflects additional spending for education which was required as a result of the increased revenues, pursuant to the provisions of Proposition 98. These expenditures were ultimately funded through Chapters 82 and 83, Statutes of 1989 (SB 98, Hart and AB 198, O'Connell). The significant decrease in proposed spending from special funds and the increase in spending from selected bond funds is largely due to a change made by the Department of Finance in accounting for expenditures from the 1988 School Facilities Bond Acts.

Thus, as Table 2 shows, the Governor's revised spending plan called for expenditures totaling \$49.8 billion, of which \$39.7 billion was to come from the General Fund.

Legislative Action on the Governor's Budget

Legislative action on the Governor's budget resulted in a net expenditure decrease of \$7 million. This reflected a \$456 million *increase* in General Fund spending, a \$483 million *decrease* in special funds spending, and a \$20

million *increase* in spending from selected bond funds. As a result, the Legislature approved expenditures by the state totaling \$49.8 billion in 1989-90.

Other Major Legislation

In addition to the 1989 Budget Act, several other pieces of financial legislation were passed as part of overall budget negotiations this year. These other major spending bills fall into three categories: spending limits, education and transportation. A brief overview of the major bills in those three areas is given below.

Spending Limits. A number of significant changes in the state's 10-year old spending limit were initiated as part of budget negotiations this year. Most of the changes were contained in Resolution Chapter 66, Statutes of 1989 (SCA 1, Garamendi).

Senate Constitutional Amendment 1:

- Modifies the cost-of-living and population factors used to adjust state and local appropriations limits;
- Modifies the formulas used to determine the required minimum funding level for K-14 education by modifying the cost-of-living factor used in determining the minimum funding amount ;
- Changes the allocation of revenues in excess of the state's appropriations limit by: (1) providing that one-half of any revenues in excess of the state's appropriations limit shall be allocated to K-14 school districts, and the other half returned to state taxpayers; (2) removing the 4-percent cap on allocations of excess revenues to K-14 education; and (3) providing that allocations of excess revenues to K-14 are no longer to be considered in calculating the minimum funding guarantee;
- Provides a mechanism to reduce the minimum funding level required for K-14 education in "low revenue growth" years and pay back that reduction in years in which General Fund revenues grow more quickly than state personal income;
- Provides for a two-year averaging of any excess revenues; and
- Provides that appropriations: (1) for natural disaster costs; (2) for the costs of conducting appropriations limit override elections; (3) for new capital outlay expenditures; and (4) of additional transportation revenues do not count against the state's limit.

The changes to the State Constitution contained in SCA 1 will be presented to the voters on the June 1990 ballot and, if passed, would take effect on July 1, 1990.

Education. In addition to the changes to K-14 education funding contained in SCA 1, three other major education bills (SB 98, Hart; AB 198, O'Connell; and AB 1087, Hughes) were passed as part of overall budget negotiations this year. These bills: (1) include language clarifying the implementation of Proposition 98 (the "Classroom Instructional Improvement and Accountability Act of 1988" - passed by the voters on the November 1988 ballot), and (2) specify how the majority of the additional monies guaranteed for K-14 education by Proposition 98 shall be appropriated for 1988-89 and 1989-90.

Specifically, SB 98 appropriates a total of \$453 million to schools in 1988-89, largely as general purpose revenue to local education agencies (LEAs) and community college districts. Assembly Bill 198 appropriates a total of \$480 million for 1989-90, including \$180 million for supplemental grants to equalize categorical funding across school districts, \$177 million as general purpose revenue for LEAs and community college districts and \$76 million for revenue-limit equalization. Assembly Bill 1087 primarily makes technical corrections to AB 198.

The package of education bills also contains provisions that allow more state aid for education to count against local spending limits rather than against the state's spending limit. These provisions have the effect of increasing the amount of available state spending authority. With the passage of these bills, the Department of Finance estimates that the state will be \$199 million below its appropriations limit in 1988-89 and \$89 million below in 1989-90.

Transportation. Also as part of the overall spending negotiations this year, the Legislature enacted five measures (SB 300 - Kopp, AB 471 - Katz, AB 973 - Costa, AB 680 - Baker and AB 2218 - Ferguson) to reform state transportation programs and provide additional transportation revenues. In total, this "transportation package" is intended, over 10 years (1990-91 through 1999-2000), to raise about \$18.5 billion in new transportation revenues by:

- **Increasing Gas Taxes.** The current 9 cents-per-gallon state excise tax on motor vehicle fuels ("gas tax") would increase by 5 cents-per-gallon on August 1, 1990. It would increase an additional 1 cent-per-gallon each January 1 during the period 1991 through 1994 to provide a gas tax rate of 18 cents-per-gallon by January 1, 1994.
- **Increasing Truck Weight Fees.** Commercial vehicle ("truck") weight fees would increase by 40 percent on August 1, 1990 and by an additional 10 percent on January 1, 1995.
- **Issuing Bonds For Rail Projects.** Voters will be asked to authorize a total of \$3 billion of general obligation bonds (\$1 billion at each of three elections--June 1990 and November 1992 and 1994) to fund capital improvements on intercity, commuter and urban rail transit systems.

- **Dedicating Specified Sales Tax Revenues For Transportation.** Additional sales tax revenues arising from increasing the gas tax would be used for specified transportation programs rather than being deposited in the General Fund. The measures also change the formula by which the amount of existing sales tax revenues allocated for transportation programs is determined, thereby shifting an unknown additional amount in future years from the General Fund to transportation programs.

The increases in gas taxes and weight fees, and the first of the three bond measures, would only take effect if voters approve, at the June 1990 election, the modification to the state's appropriations limit proposed by SCA 1 (as described earlier).

Amounts Vetoed by the Governor

The Governor vetoed a total of \$646 million from the Budget Bill. This amount, which represents 1.3 percent of total expenditures approved by the Legislature, consists of:

- \$561 million appropriated from the General Fund;
- \$64 million appropriated from special funds; and

- \$21 million appropriated from selected bond funds.

Table 3 shows the program areas in which the General Fund and special funds reductions were made. As Table 3 shows, 86 percent of the Governor's General Fund and special funds vetoes were made in health and welfare programs.

Table 3
The 1989 Budget Act
Governor's Vetoes By Program Area
(dollars in thousands)

<i>Program</i>	<i>Amount Vetoed</i>			<i>Percent Of Total</i>
	<i>General Fund</i>	<i>Special Funds</i>	<i>Total</i>	
Legislative/Judicial/Executive	\$4,237	--	\$4,237	0.7%
State and Consumer Services	2,158	\$2,071	4,229	0.7
Business, Transportation & Housing Resources	12,548	19,766	32,314	5.2
Health and Welfare	871	37,634	38,505	6.2
Youth & Adult Corrections	533,261	2,000	535,261	85.7
K-12 Education*	150	--	150	0.0
California Community Colleges	3,609	--	3,609	0.6
Other Higher Education	188	--	188	0.0
Other Governmental Services	2,431	1,115	3,546	0.6
	<u>1,834</u>	<u>947</u>	<u>2,781</u>	<u>0.4</u>
Total Budget	\$561,287	\$63,533	\$624,820	100.0%

* Veto amounts have been adjusted to eliminate \$133 million per AB 198/SB 98 spending plan.

Governor's Set-Asides

At the same time that the Governor made his vetoes, he proposed additional expenditures of \$157 million (\$142 million from the General Fund and \$15 million from special funds), to be funded from vetoed funds "set aside" for these specific purposes. Table 4

identifies the individual components of the Governor's proposal for additional General Fund and special funds expenditures in 1989-90.

Table 4
Governor's Set-Aside Plan for
Additional Spending in 1989-90
(dollars in millions)

<u>Program</u>	<u>Governor's Proposal</u>
<u>General Fund</u>	
Commerce -- Tourism	\$1.9
Forestry -- Emergency fire suppression	40.0
Health Services -- Medi-Cal checkwrite	31.7
Health Services -- Medically Indigent Services Program	26.6
Health Services -- Toxics (SB 475, Torres)	10.0 ^a
Corrections -- Population growth	28.7
Criminal Justice Planning -- Campaign Against Marijuana Planting program	2.8
Industrial Relations -- Industrial Welfare Commission	<u>0.4</u>
Subtotal, General Fund	(\$142.1)
<u>Special Funds</u>	
Commerce -- Competitive Technology Program	\$3.0
Commerce -- Rural Infrastructure Program	2.0
Transportation -- Transit Capital Improvement Program	<u>10.0</u>
Subtotal, special funds	(\$15.0)
Total	\$157.1

^a Since the budget was signed, SB 475 has been approved by the Legislature and signed by the Governor as Chapter 269, Statutes of 1989.

Total Expenditures

Table 5 shows the level of state expenditures approved for 1989-90 and compares it to the level of expenditures in 1987-88 and 1988-89.

Total state expenditures authorized for 1989-90, which include expenditures from the General Fund, special funds and selected bond funds, amount to \$49.1 billion, excluding the additional expenditures proposed by the Governor. This amount is:

- \$653 million less than the Governor's revised budget, and

- \$3.6 billion, or 8 percent, *more* than the estimated level of expenditures in 1988-89.

General Fund expenditures for 1989-90 amount to \$39.6 billion. This is:

- \$104 million less than the Governor's revised budget, and
- \$3.3 billion, or 9 percent, *more* than the estimated level of General Fund expenditures in 1988-89.

Table 5
Total Expenditures^a
1987-88 through 1989-90
(dollars in millions)

<i>Fund</i>	<i>1987-88</i> <i>Actual</i>	<i>1988-89</i> <i>Estimated</i>	<i>1989-90</i> <i>Enacted</i>	<i>Change</i> <i>From 1988-89</i>	
				<i>Amount</i>	<i>Percent</i>
General Fund	\$33,342 ^b	\$36,352	\$39,608 ^c	\$3,256	9.0%
Special funds	6,614	7,535	7,018 ^c	-517	-6.9
Selected bond funds	<u>817</u>	<u>1,611</u>	<u>2,511</u>	<u>900</u>	<u>55.9</u>
Total State Expenditures	\$40,773	\$45,498	\$49,137	\$3,639	8.0%

^a Source: Department of Finance. Detail may not add to totals due to rounding.

^b Source: State Controller's Office.

^c Excludes additional spending proposed by the Governor.

Historical Perspective on General Fund Expenditures

To put this year's budget in perspective, the growth in expenditures authorized for 1989-90 must be compared with the growth in expenditures in recent years.

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

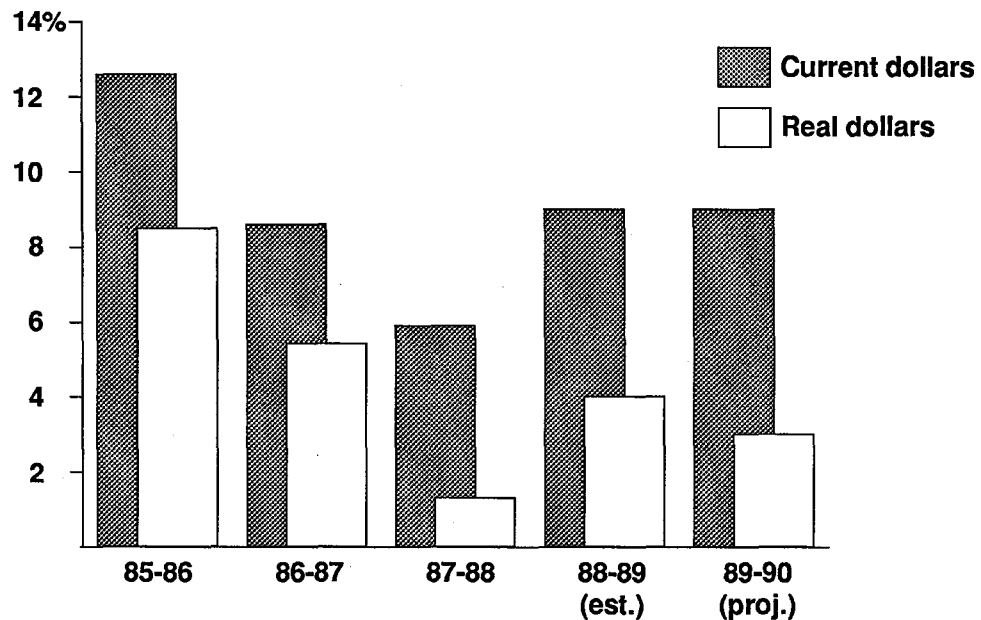
Chart 2 shows the growth trend in recent

General Fund spending, on an annual percentage basis, both in terms of current dollars and real dollars. It indicates that measured in *current* dollars, General Fund expenditures in 1989-90 will exceed 1988-89 expenditures by 9 percent, if no additional expenditures are approved by the Legislature and the Governor. When expenditures are adjusted for inflation and expressed in *real* terms, General Fund expenditures will increase by 3.8 percent between 1988-89 and 1989-90. Thus, although the amount of General Fund expenditures has grown between the current and previous year, most of the increase is attributable to the increased costs of goods and services.

Chart 2

Annual Percentage Change in General Fund Expenditures

1985-86 through 1989-90



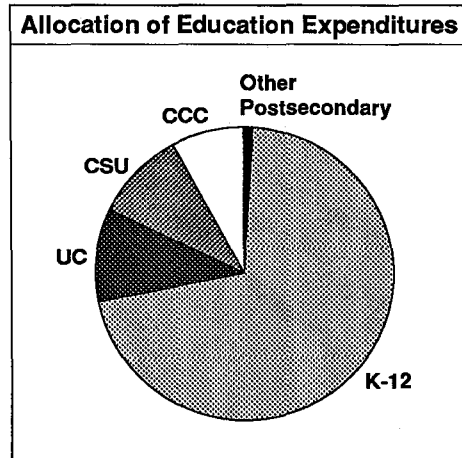
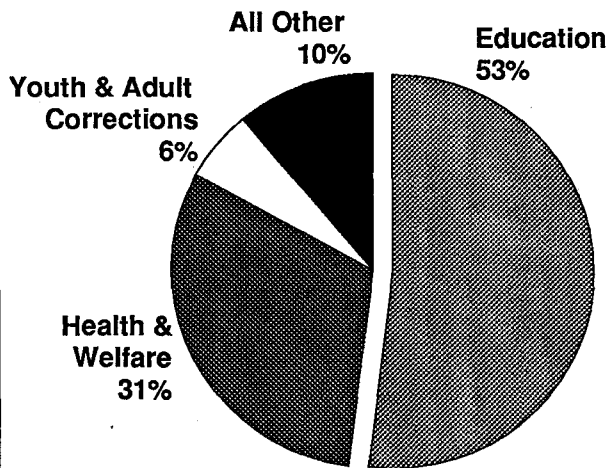
Major General Fund Expenditures by Program Area

General Fund expenditures approved to date amount to \$39.6 billion for 1989-90. Chart 3 shows the general program areas where these expenditures are expected to be made, and the percent of General Fund expenditures in each area. As Chart 3 shows, spending in the education area accounts for over one-half (53 percent) of total General Fund expenditures. Chart 3 also shows that nearly three-quarters (72 percent) of the spending for education is

for K-12 programs. Health and welfare programs account for the second largest percentage of total General Fund expenditures (31 percent), followed by youth and adult corrections (6.2 percent). The remainder of this section discusses the major General Fund spending issues that were before the Legislature in the budget process and provides information as to how those issues were resolved.

Chart 3

1989 Budget Act General Fund Expenditures by Program Area



K-12 Education

Chart 4 provides a historical perspective on total funding per unit of average daily attendance (ADA) for K-12 education for the years 1980-81 through 1989-90, both in current and real dollars. As the chart shows, 1989-90 per-ADA funding will grow 4.5 percent over last year's level. After adjusting for inflation, the

per-ADA funding will be slightly lower than in 1988-89. However, 1989-90 funding will be 16 percent higher than the level of per-ADA funding in 1982-83, immediately prior to the enactment of SB 813 (the Hughes-Hart Educational Reform Act of 1983).

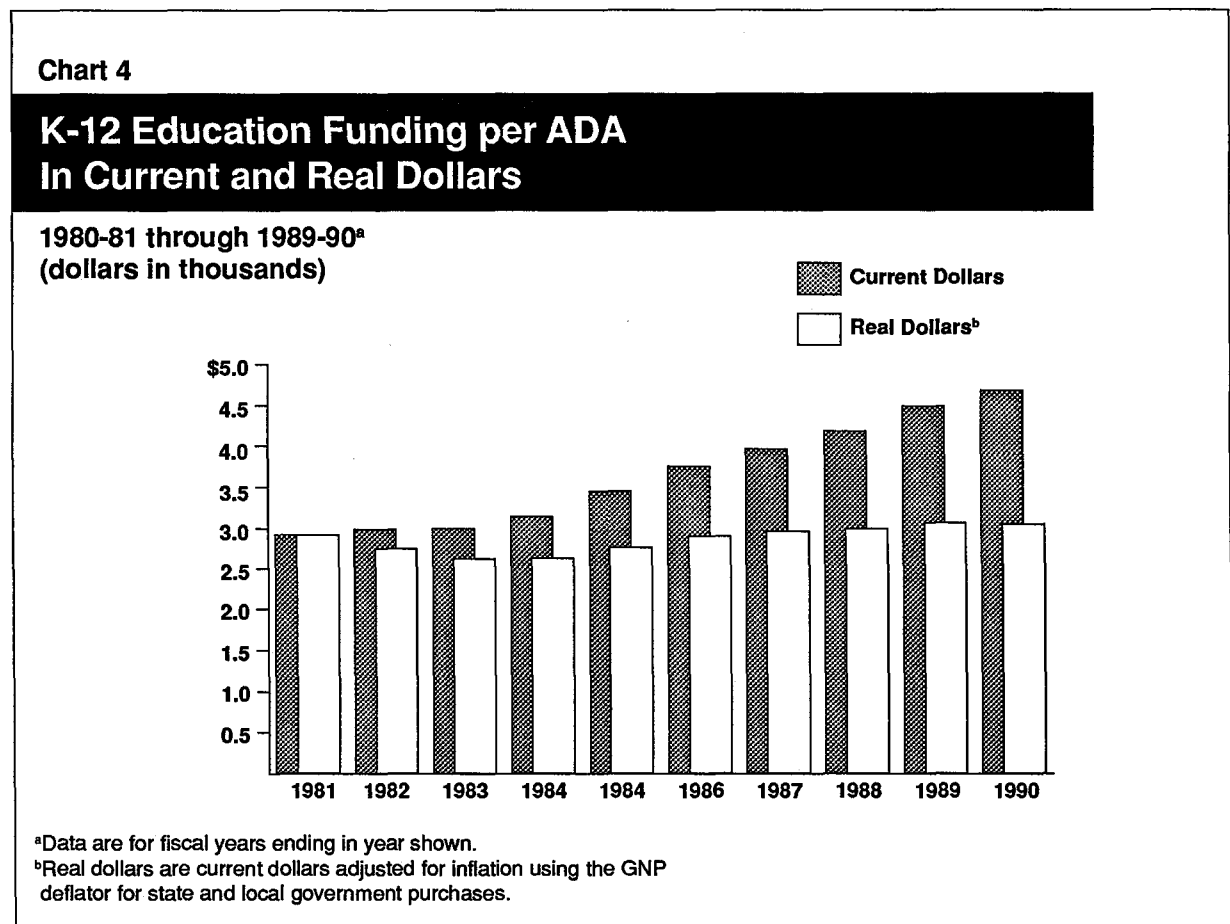
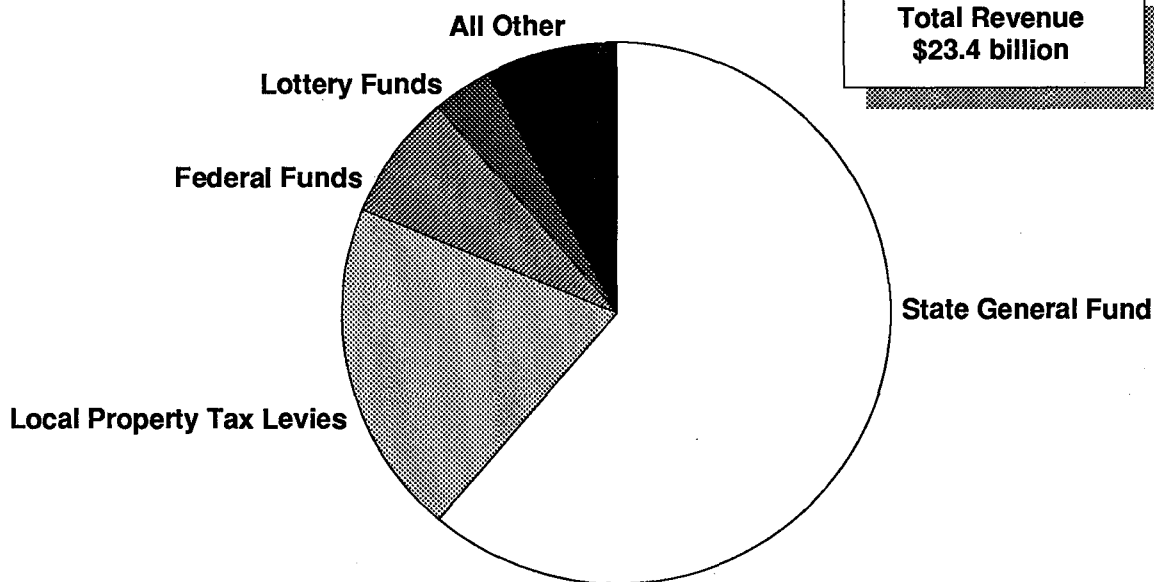


Chart 5 shows that 1989-90 total revenue for K-12 education programs is expected to total \$23.4 billion. This is an increase of \$1.7 billion, or 7.6 percent, over what was available in 1988-89. Chart 5 also shows that K-12 total funding consists primarily of \$14.4 billion (61

percent) from the General Fund and \$4.7 billion (20 percent) from local property tax revenues. The General Fund amount represents an increase of \$1.1 billion, or 8.4 percent, above the 1988-89 level.

Chart 5

**The 1989 Budget Act
Sources of K-12 Revenue^a**



^aFigures exclude funding for library programs and the proceeds of state general obligation bond issues for school facilities aid. They include, however, General Fund amounts for debt service on these bonds and interest on Pooled Money Investment Account loans.

Proposition 98. Proposition 98, the "Classroom Instructional Improvement and Accountability Act of 1988," provides K-12 schools and community colleges with a guaranteed minimum level of funding in 1988-89 and thereafter. Specifically, the measure provides that K-14 education shall receive the *greater* of its:

- 1986-87 percentage of the General Fund budget (about 40 percent), or
- Prior-year funding level, adjusted for enrollment growth and inflation.

In both 1988-89 and 1989-90, the budget for K-14 education is based on the *percentage share* requirement, as this calculation provides the higher level of funding. Table 6 shows that, in these two years, Proposition 98 will yield nearly \$1.5 billion in "new" funds (that is, funds above minimum statutory requirements) for K-14 education. These funds are appropriated in the 1989 Budget Act, SB 98 (Ch 82/89), AB 198 (Ch 83/89) and AB 1087 (Ch 92/89).

Table 6
Appropriations of "New" Proposition 98 Funds
In Budget Act, SB 98, AB 198, and AB 1087
(dollars in thousands)

K-12 Education

One-time, per-ADA funding	\$340,500	
COLAs: raise to 4.64%	262,295	
Supplemental grants	180,000	
Revenue limit equalization	73,500	
Year-round school incentives	35,700	
Economic Impact Aid expansion/reform	35,000	
Special education growth	33,000	
Deferred maintenance (1988-89)	23,000	
School Improvement Program (SIP) expansion, K-6	21,000	
Staff development (Ch 1362/88)	20,000	
Mandate reimbursements	19,753	
Drug education (OCJP)	16,700	
Educational technology	13,570	
SIP expansion, 7-8	10,000	
Home-to-school transportation	10,000	
Declining enrollment adjustment	6,000	
Gifted and Talented Education (GATE) expansion	3,000	
Dropout programs	3,000	
New teacher project expansion	1,300	
Indian centers expansion	1,011	
Special schools' employee compensation	850	
Safe schools (AB 450, La Follette)	500	
Institute of Computer Technology	338	
Alternatives to special education	170	
National Geographic project	100	
Subtotal, K-12 education	(\$1,110,287)	(75.2%)

Community Colleges

Reform legislation (Ch 973/88)	\$70,000	
One-time, per-ADA funding	45,000	
Matriculation	14,000	
Excess ADA growth	<u>6,500</u>	
Subtotal, community colleges	(\$135,500)	(9.2%)
<i>Proposition 98 reserve</i>	<u>230,000</u>	<u>(15.6%)</u>
TOTAL, K-14 education	\$1,475,787	(100.0%)

Table 6 also shows that nearly 75 percent of these new funds will be provided to K-12 education, with the balance appropriated to the community colleges. Of the \$1 billion provided K-12 education, roughly 86 percent is earmarked for four purposes:

- \$341 million in one-time allocations of approximately \$70 per ADA;
- \$262 million to increase funding for statutory COLAs from 3.23 percent to 4.64 percent and to provide COLAs to all education programs;
- \$180 million for a new program of "Supplemental Grants" (see inset); and
- \$74 million for additional, "level-up" revenue limit equalization aid.

The Proposition 98 implementing legislation provides that none of the \$230 million reserve shall be reappropriated prior to June 15, 1990. At that time, the amount of the reserve shall be adjusted downward, if necessary, to reflect any reduction in the amount of the Proposition 98 minimum funding requirement resulting from General Fund revenue shortfalls. Any amounts remaining in the reserve shall then be reappropriated according to the following priorities: (1) to fund any deficiencies in K-12 education programs, (2) to implement class size reduction (up to \$110 million), and (3) for other K-14 legislative initiatives.

New Supplemental Grants Program. In appropriating Proposition 98 funds for 1989-90, the Legislature earmarked \$180 million for a new concept in school finance -- Supplemental Grants. These grants provide additional funds to school districts which would otherwise receive below-average amounts of per-pupil resources from general-purpose school apportionments and 26 specified special-needs categorical aid programs. The Supplemental Grant program thus extends the policy of providing level-up equalization aid (which the Legislature adopted in response to the *Serrano v. Priest* decision) to include general-purpose school apportionments *plus* the specified categorical aid programs.

Specifically, AB 198 (Ch 83/89) provides that school districts receiving below-average amounts of per-pupil funding from these sources shall receive Supplemental Grant funds (not to exceed \$100 per pupil) to help bring them towards the statewide average for similar districts. The measure further provides that such funds must be spent for the purpose of funding one or more of the 26 specified categorical programs.

Higher Education

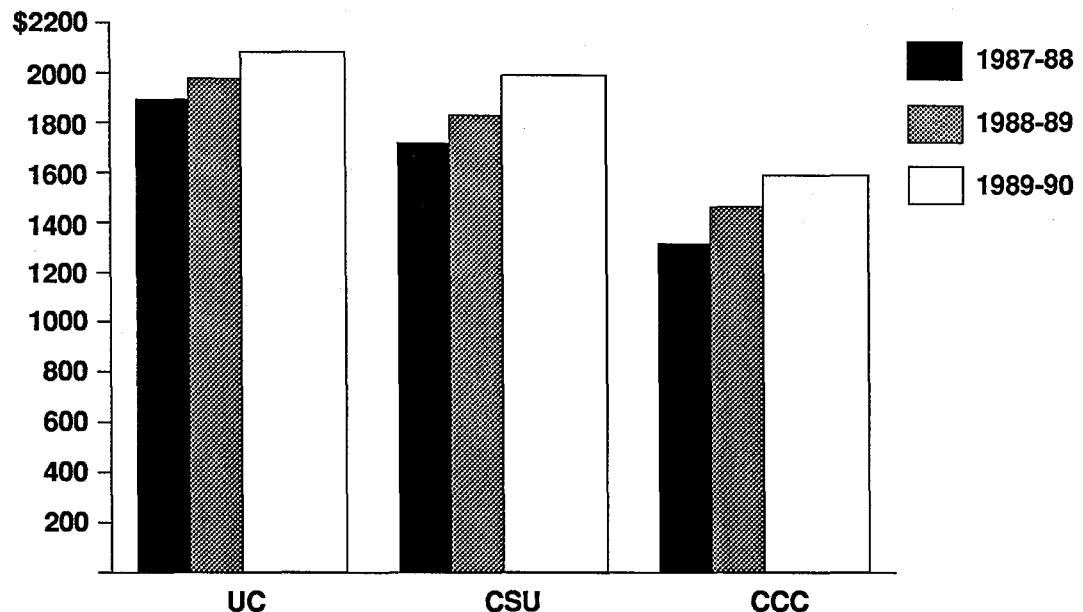
Chart 6 displays the change in General Fund expenditure levels between 1987-88 and 1989-90 for the three major components of the state's higher education budget--the University of California (UC), the California State University (CSU), and the California Community

Colleges (CCC). The UC is expected to spend 5.3 percent more this year than last, while the CSU is expected to increase expenditures by 8.9 percent. Finally, the California Community Colleges are expected to expend 7.3 percent more.

Chart 6

Higher Education General Fund Expenditures

1987-88 through 1989-90
(dollars in millions)



Of the new funds for community colleges, \$70 million is for the initial funding of Ch 973/88 (AB 1725, Vasconcellos), which established a long-term framework for reforming the California Community Colleges. The act specified reforms in seven program areas: (1) mission, (2) governance, (3) finance, (4) new programs and services, (5) affirmative action, (6) employment, and (7) accountability.

Table 7 shows higher education student fees from 1987-88 through 1989-90. The Governor proposed a 10 percent increase in resident student fees at the UC and the CSU in 1989-90. The Legislature, however, augmented the budget by \$24 million in order to reduce the proposed fee increases to 3 percent at the UC and 3.5 percent at the CSU. The Governor did not veto this augmentation.

Table 7
Higher Education Student Fees
1987-88 through 1989-90

<u>Fees</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>Change from 1988-89</u>	
	<u>Actual</u>	<u>Actual</u>	<u>Enacted</u>	<u>Amount</u>	<u>Percent</u>
University of California	\$1,374	\$1,434	\$1,477	\$43	3.0%
California State University	630	684	708	24	3.5
California Community Colleges	100	100	100	--	--

Health

In the spring, the Governor's revised budget proposed expenditures totaling \$6.1 billion from the General Fund for health programs. The Legislature added \$558 million, approving a total of \$6.7 billion from the General Fund for health programs, including \$10 million in Ch 269/89 (SB 475 Torres), which restructures funding for the toxics program.

The Governor vetoed a total of \$446 million in proposed health spending. The net General Fund budget for health contained in the 1989 Budget Act and Chapter 269 is \$6.2 billion, or \$112 million above the Governor's revised budget. In his veto message, the Governor proposed to set aside an additional \$58 million to fund (1) an additional Medi-Cal checkwrite in 1988-89 (\$32 million) and (2) equity adjustments for counties affected by changes in funding of the Medically Indigent Services program (MISP--\$26 million). At the time this report was prepared, the Legislature had not acted on these proposals.

Major components of the \$112 million in legislative augmentations approved by the Governor include (1) \$20 million for a cost-of-living adjustment (COLA) for AB 8 county health services, (2) \$14 million for expansion and a COLA for institutions for mental diseases, (3) \$29 million to reflect changes in accounting procedures for targeted case management services provided by Department of Developmental Services (DDS) regional centers, (4) \$13 million to restore a

portion of the savings due to proposals for containing the cost of Medi-Cal prescription drugs, (5) \$10 million for a Medi-Cal beneficiary COLA, and (6) \$12 million to restore a portion of the funding for the Office of Family Planning.

Major components of the \$446 million vetoed by the Governor include (1) \$116 million for local mental health services, (2) \$127 million for MISP, (3) \$24 million for the Office of Family Planning, (4) \$23 million for a COLA for DDS regional center providers, (5) \$58 million for AIDS, (6) \$10 million for proposed drug savings proposals, and (7) \$20 million for rate increases for Medi-Cal outpatient services provided by disproportionate-share hospitals.

Toxic Substances Control Program. In recent years, the Toxic Substances Control program has been supported by a combination of fees, special taxes and bond funds. The bond funds, which have supported site mitigation activities since 1985, were exhausted in 1988-89. In addition, fees supporting hazardous waste regulatory activities sunset on July 1, 1989. Due to these funding problems, the Legislature enacted, and the Governor signed, Ch 269/89 (SB 475, Torres), which (1) restructures funding for the toxics program and (2) appropriates funds needed for operation of the program in 1989-90.

Under Chapter 269, the program will be funded from the following sources:

Site Mitigation Activities:

- Existing and new fees and taxes on disposal of hazardous waste (\$30 million to \$35 million).
- Activity fee on responsible parties to cover Department of Health Services costs of overseeing hazardous waste site clean-ups (\$12 million).
- General Fund appropriation (\$10 million).
- Fines and penalties (\$3 million).

Hazardous Waste Regulatory Activities:

- Existing fees on hazardous waste generators and facilities (\$29 million).
- Activity fees for permit applications and for requests for waste classification (\$2 million).
- Environmental fee on corporations that handle hazardous materials (\$12 million). The fee would be based on the number of employees.
- Fines and penalties (\$3 million).

Medically Indigent Services Program (MISP). The Governor's Budget as amended proposed a \$100 million reduction in the MISP. This reduction was made on the basis of the availability of \$239 million in State Legalization Impact Assistance Grant (SLIAG) funds -- an increase of \$108 million over estimated expenditures in 1988-89 -- to support county health programs.

The Legislature restored the \$100 million in General Fund monies and reduced SLIAG funding to \$209 million in the 1989 Budget Bill. The Governor vetoed \$127 million from the General Fund - the Legislature's \$100 million addition, plus another \$27 million. Under the Governor's proposal, this \$27 million would be set aside for distribution to counties in order to ensure that no county actually experienced a net reduction in funding as a result of differences between the allocation of SLIAG funds and the allocation of MISP funds. These differences occur because the SLIAG funds are distributed based on claims for services provided to legalized immigrants, while MISP funds are distributed based on historical Medical expenditures for medically indigent adults. Details regarding allocation of the set-aside funds would be addressed in legislation.

Perinatal Substance Abuse. The Governor's Budget as amended proposed \$8 million in three state departments for five pilot programs in four counties (Alameda, Sacramento, San Diego, and Los Angeles) to address the problem of perinatal substance abuse. The Legislature added \$6.4 million to support four additional pilots (in Orange, Kern, San Francisco, and Santa Clara Counties) and to expand the proposed evaluation of the program. The Governor vetoed the Legislature's augmentations. Table 8 displays these actions in detail.

Table 8
Perinatal Substance Abuse Actions

<u>Issue</u>	<u>1989 Budget Bill</u> <u>As Approved by the Legislature</u>	<u>1989 Budget Act</u>
Number of pilots	Nine (five approved by Governor plus San Francisco, Kern, Orange, and Santa Clara)	Five (Alameda, Sacramento, San Diego, and two in Los Angeles)
Local assistance funding:		
• Department of Alcohol and Drug Programs (DADP)	\$4.9 million federal Alcohol, Drug, and Mental Health Services (ADMS) carryover funds plus \$4 million redirected federal ADMS carryover (unmet needs) funds	\$4.9 million federal ADMS carryover funds
• Department of Health Services (DHS)	\$2.8 million federal Maternal and Child Health (MCH) funds	\$1.5 million federal MCH funds
• Department of Social Services (DSS)	\$1.9 million General Fund	\$1.1 million General Fund
Evaluation	\$274,000 redirection	\$124,000
Support funding:		
• DADP	\$117,000 and two positions	\$54,000 and one position
• DHS	\$282,000 and three positions	\$219,000 and two positions
• DSS	\$154,000 and three positions	\$90,000 and two positions

Maternal and Child Health. The revised Governor's Budget proposed to spend \$11 million in newly identified federal Maternal and Child Health (MCH) funds as follows:

- \$3.2 million to offset General Fund expenditures in the program.
- \$2.6 million to offset a deficiency in the California Children's Services (CCS) program in 1988-89.
- \$1 million for the CCS program in 1989-90: \$804,000 for enhanced case manage-

ment and \$234,000 to pay the cost of new regulations.

- \$1.8 million for perinatal substance abuse pilot projects.
- \$3.4 million for a variety of other MCH programs.

The Legislature rejected: (1) the proposal to use \$3.2 million to offset General Fund expenditures, and (2) the CCS proposals. Instead, the Legislature used the available funds: (1) to increase the number of perinatal substance

abuse pilots from five to nine, and (2) to increase funding for various MCH programs, including some of the programs proposed for increases by the Governor.

In his vetoes, the Governor reduced the number of perinatal substance abuse pilots back to five and reduced the funding augmen-

tations the Legislature made to various programs, in order to free up \$3.2 million to offset General Fund expenditures. Table 9 displays how the \$11 million was allocated in the 1989 Budget Bill as approved by the Legislature and how the funds were ultimately allocated in the 1989 Budget Act.

Table 9
Department of Health Services
Maternal and Child Health (MCH) Proposals
(dollars in thousands)

	<i>1989 Budget Bill As Approved by the Legislature</i>	<i>1989 Budget Act</i>
Local assistance		
Sexually transmitted diseases	\$1,000	--
MCH plan	(200)	--
Diabetes in pregnancy	740	\$221
Comprehensive perinatal services	141	141
Adolescent family life program	1,800	1,800
Infant mortality		
Committee	140	140
Innovative projects	1,300	1,300
Injury control	200	200
Sudden infant death syndrome	1,000	800
High-risk infant follow-up	1,500	1,161
Pediatric critical care	135	--
Brochure on C-sections	90	--
Perinatal substance abuse	2,760	1,843
Offset expenditures in base program	--	<u>3,200</u>
Subtotals	(\$10,806)	(\$10,806)
Support	<u>282</u>	<u>282</u>
Totals	\$11,088	\$11,088

Family Planning. In the budget as introduced, the Governor proposed to delete the Office of Family Planning, for a savings of \$36.2 million, including \$34.6 million for local assistance and \$1.6 million for support.

The Legislature restored funding for the office. The Governor vetoed \$25.1 million, or

approximately two-thirds, of the funds restored by the Legislature.

Local Mental Health Services. The Governor's Budget proposed augmentations of: (1) \$25 million from Proposition 99 funds for local mental health services, and (2) \$8 million from the General Fund for pilot projects providing

coordinated services to the seriously mentally ill, pursuant to Ch 982/88 (AB 3777, Wright). The Legislature approved these augmentations and made the following additional General Fund augmentations:

- \$50 million for local mental health services. The Legislature adopted control language specifying that of this amount, \$37.5 million was to be allocated to counties as a cost-of-living adjustment (COLA). The remaining \$12.5 million and the \$25 million from Proposition 99 funds was to be allocated using the department's poverty/population formula, except that funds for counties with base allocations 11 percent or more higher (on an adjusted per capita basis) than the statewide average would be redistributed to counties the furthest below the statewide average.
- \$24 million for additional AB 3777 pilot projects.
- \$15 million for services to children as required by Ch 1361/87 (AB 377, Wright).
- \$10 million for residential care rate supplements.
- \$10 million for services for the homeless mentally ill.
- \$8.9 million for a COLA for institutions for mental diseases (IMDs).
- \$6 million for AIDS-related mental health services.
- \$5.5 million for services for special education pupils.
- \$5.2 million for additional IMD beds.
- \$2 million for expanding services to brain-damaged adults.
- \$1 million for various other projects.

With the exception of the changes to the IMD program, the Governor vetoed all of the Legislature's augmentations and control language.

Welfare and Employment Programs

The 1989 Budget Act appropriates \$6.1 billion from the General Fund for welfare and employment programs in 1989-90. This amount is \$554 million, or 10 percent, above estimated expenditures for these programs in 1988-89. Of the \$6.1 billion in anticipated General Fund expenditures in the current year, \$5.8 billion

(96 percent) will be made for programs administered by the Department of Social Services (DSS).

Table 10 shows the DSS General Fund expenditures by program for 1988-89 and 1989-90.

Table 10
Department of Social Services
General Fund Expenditures
1988-89 and 1989-90
(dollars in millions)

	1988-89 (est.) ^a	1989-90 (enacted)	Change	
			Amount	Percent
State Operations	\$81.4	\$86.6	\$5.2	6.3%
Local Assistance				
AFDC	2,334.8	2,552.8 ^b	218.0	9.3
SSI/SSP	1,969.4	2,142.5 ^b	173.1	8.8
County administration	167.0	173.3	6.3	3.8
Child welfare services	248.9	307.4	50.5	23.5
In-home Supportive Services	242.6	294.0	51.4	21.2
GAIN ^c	110.9	108.9	-2.0	-1.8
Other local assistance	124.1	130.6	6.5	5.2
Subtotal, local assistance	(\$5,197.7)	(\$5,709.5)	(\$511.8)	9.9%
Total, Department of Social Services	\$5,279.2	\$5,824.4	\$545.3	10.3%

^a Includes expenditures proposed in the deficiency bill (AB 2531, Maxine Waters).

^b Includes funds for 4.61 percent COLA provided in Item 5180-181-001.

^c Does not include \$44 million appropriated for GAIN by Control Section 22 of the 1988 Budget Act and \$28.3 million appropriated by the 1989 Budget Act.

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

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

In January, the Governor proposed to limit the projected growth in IHSS expenditures through a "program refocus" consisting of two parts: (1) a cap on the average hours of service per case, and (2) a limit on the hourly payment for all hours of IHSS to the minimum wage rate paid to individual providers. The administration estimated that this refocus would result in \$64 million in savings to the IHSS program. In May, the administration

reduced to \$37 million its estimate of the savings that would result from this refocus.

The Legislature rejected the proposed refocus, and restored \$37 million to the IHSS budget, which the Governor did not veto. Thus, the 1989 Budget Act fully funds the IHSS program based on anticipated caseload.

Greater Avenues for Independence Program. The Greater Avenues for Independence (GAIN) program provides education and training services to recipients of AFDC in order to help them find jobs and become financially independent.

The 1989 Budget Act provides \$375 million from all funds for the GAIN program in 1989-90. This amount is sufficient to fully fund anticipated caseloads in the current year. In addition, the Legislature passed and the

Governor signed into law Chapter 77/89 (AB 2171, Eastin). This measure makes the changes in the GAIN program that are needed to implement the Job Opportunities and Basic Skills Training (JOBS) program in California as of July 1, 1989. The federal Welfare Reform Act of 1988 requires states to implement a JOBS program, and provides additional federal funds for employment and training programs.

Prior to enacting Chapter 77/89, the Legislature assumed that California would implement JOBS on January 1, 1990 and included a half-year of additional federal JOBS funds in the GAIN budget for 1989-90. The effect of enacting Chapter 77/89 in time to implement JOBS on July 1, 1989 is to provide a full year of additional federal JOBS funds in 1989-90. These additional federal funds reduce the amount needed from the General Fund for GAIN in 1989-90. The Governor recognized this when he vetoed \$30 million from the GAIN General Fund appropriation.

A second major issue discussed by the Legislature with respect to GAIN involved the contract for GAIN case management services between Los Angeles County and Maximus, Inc.. The GAIN budget passed by the Legislature included language specifying that funds for GAIN case management services in Los Angeles would be available only upon certification that the contract with Maximus had been terminated. The Governor deleted this language.

Statutory Cost-of-Living Adjustments. The Governor's budget proposal assumed enactment of legislation to waive the statutory requirement for AFDC-FG and U and the SSI/SSP COLAs. The Legislature rejected this proposal, and provided the statutorily required increase of 4.61 percent for these grants. The Governor did not veto these legislative augmentations. The Budget Act contains \$235 million from the General Fund for these COLAs.

Aid to Families with Dependent Children-Foster Care (AFDC-FC). The Legislature proposed augmentations above the Governor's revised budget for both foster family home and foster care group home providers in the AFDC-FC program. Specifically, the Legislature proposed:

- An increase of \$11.8 million (\$7.9 million General Fund) to provide a 5.06 percent discretionary cost-of-living adjustment (COLA) for foster family homes.
- An increase of \$9.7 million (\$7.8 million General Fund) to provide a \$200 clothing allowance for every child who is placed in a foster family home.
- An increase of \$17.2 million (\$13.8 million General Fund) to fund legislation that would reimburse foster care group home providers according to a fixed schedule of rates.

The Governor vetoed each of the Legislature's proposals for the AFDC-FC program.

Youth and Adult Corrections

The 1989 Budget Act appropriates \$2.5 billion from the General Fund for youth and adult correctional programs in 1989-90. This amount is \$361 million, or 17 percent, above estimated expenditures in 1988-89. Of the total for youth and adult corrections, over three-quarters of the expenditures will be made

for programs administered by the Department of Corrections.

In addition to the spending contained in the 1989 Budget Act, the Governor has proposed an additional set-aside of \$28.7 million from the General Fund, to meet the costs associated

with estimated increases in the inmate population in state correctional facilities.

The rest of this section highlights two of the major spending issues addressed in the budget process in the youth and adult corrections area.

County Justice System Subvention Program. The County Justice System Subvention Program (CJSSP) is a block grant program that provides funds to counties for support of local alternatives to the Youth Authority and state prison.

In January, the Governor proposed support for the CJSSP of \$30.4 million from the Restitution Fund for 1989-90. This was a 55 percent reduction from the 1988-89 funding level of \$67.3 million, all of which was provided from the General Fund.

The Legislature provided support for the program at the 1988-89 approved level of \$67.3 million from the General Fund. The Governor approved the Legislative action.

Corrections. In his January budget, the Governor requested an increase of approximately \$100 million for the Department of Corrections (CDC) to support projected growth in the prison inmate population during 1989-

90. The January budget was based on projections that the inmate population would reach 85,970 inmates by June 30, 1990 (an increase of about 6,700 inmates from the projected 1988-89 level).

During the succeeding months, the inmate population grew much faster than the CDC anticipated, often at a net increase of more than 400 inmates per week. In June, the department released revised projections that estimated that the inmate population would increase to 94,995 inmates by the end of 1989-90, or about 9,000 more inmates than anticipated in the Governor's January budget.

In his June 1 letter, the Governor requested additional funds to support the increased inmate population and related services, bringing the total requested increase to \$196 million. During deliberations on the Budget Bill, the conference committee approved approximately \$167 million for inmate population growth, but rejected \$29 million of the Governor's requested increase. The Legislature also expressed its intent to provide additional funds through the deficiency process, if the funds are needed later in the year.

Other General Fund Spending Issues

The rest of this section discusses other major General Fund spending issues that were before the Legislature during the budget process.

Retirement - Purchasing Power Protection. The Governor's January budget presented a two-part proposal to provide purchasing power (inflation) protection to retired members of the State Teachers' Retirement System (STRS). First, it proposed to fund this benefit from the retirement fund rather than from the General Fund as in previous years. Second, it pro-

posed legislation to make purchasing power protection a guaranteed part of the STRS defined benefit package. It further proposed to fund the benefit through increased General Fund support to school districts, to reimburse them for increased retirement system contributions.

The Legislature enacted two bills (SB 1513, Campbell and SB 1407, Cecil Green) providing funding for the benefits in the budget year and beyond. First of all, funds were appropriated from the State Teachers' Retirement Fund (as

a loan to the General Fund) to pay the full cost of the benefits in the budget year and a decreasing share in future years. Secondly, the legislation provides that the Controller shall transfer the necessary funds from the General Fund to the Retirement Fund beginning in 1990-91 and increasing annually thereafter.

Switch in Funding for Resources Programs -- California Water Fund. As part of its deliberations on the 1989 Budget Bill, the Legislature took action to switch approximately \$32 million in proposed expenditures for various water resources programs from the General Fund to the California Water Fund (CWF). This substitution was possible because the State Water Project will generate as much as \$76 million in excess revenues during 1989-90. These revenues can be transferred by the Department of Water Resources (DWR) to the CWF for appropriation by the Legislature or for support of project facility construction.

Specific actions by the Legislature related to CWF appropriations in the 1989 budget included:

- Reducing proposed General Fund expenditures for the Department of Water Resources by \$25 million, and for the State Water Resources Control Board (SWRCB) by \$7 million;
- Substituting CWF monies for the General Fund reductions in both the DWR and the SWRCB budgets (\$32 million);
- Augmenting the Governor's budget proposal for support of the SWRCB by a total of \$2.3 million (subsequently vetoed by the Governor) to fund legislative priorities, primarily in the areas of solid waste assessments and studies of contaminated drinking water; and
- Approving the Governor's budget initiative to fund from the CWF in 1989-90 (1) the Delta Flood Protection Program (\$12 million) and (2) various DWR capital outlay projects (\$10 million).

Major Special Funds Expenditures

Special funds expenditures approved to date amount to \$7 billion for 1989-90. Of this total, 37 percent is for business, transportation and housing programs and 39 percent is for the state's shared revenues program. This section discusses the major special funds spending issues that were before the Legislature during the budget process.

Transportation

The 1989 Budget Act provides for estimated expenditures of about \$3.9 billion for transportation programs in 1989-90. This is about \$39 million (1 percent) above estimated 1988-89 expenditures. (The 1989-90 expenditures include over \$300 million in highway capital outlay expenditures which are contingent on approval of SCA 1 on the June 1990 ballot).

Funding Shortfall. The Governor's Budget submitted in January acknowledged a \$666 million state highway program funding shortfall in 1989-90. This is part of a \$3.5 billion anticipated shortfall over five years (1989-90 through 1993-94) in funding the adopted 1988 State Transportation Improvement Program (STIP).

In enacting the 1989 Budget Act, the Legislature approved the administration's proposal to address the 1989-90 funding shortfall by:

- Making one-time transfers of \$122 million from the Motor Vehicle Account and \$40 million from the State Highway Construction Revolving Fund to the State Highway Account;
- Changing the system of accounting for certain operations contracts to achieve one-time savings of \$70 million;
- Deferring award of \$600 million in highway projects to achieve \$360 million of savings in cash outlays in 1989-90; and
- Reducing highway maintenance expenditures by \$33 million and expenditures on other activities by \$41 million.

To address the longer term anticipated shortfall in 1988 STIP funding, and to provide funding for an expanded transportation program, the Legislature and the Governor enacted a "package" of transportation measures (as described earlier in this report) intended to increase transportation revenues by about \$18.5 billion over 10 years.

New Transportation Funding

The "transportation package" enacted by the Legislature and the Governor makes significant changes in California's transportation program.

Allocation of New Revenues. The transportation package allocates \$18.5 billion in anticipated *additional* tax revenues and bond proceeds over 10 years (1990-91 through 1999-2000) among various transportation programs. The allocations include:

- **State Transportation Improvement Program (STIP)**—\$3.5 billion to eliminate a five-year shortfall in funding the state's currently adopted highway construction program.
- **Rail Projects**—\$3 billion in bond funds to construct or improve intercity, commuter and urban rail transit systems.
- **Interregional Roads**—\$1.3 billion to construct or improve state highway segments principally serving interregional or intercounty travel and located outside of urbanized areas of the state.
- **Congestion Relief**—\$3 billion allocated, based on cost-effectiveness, among highway, street or transit projects designed to relieve traffic congestion.
- **State-Local Partnership**—\$2 billion to match an equal amount of local funds for eligible road, highway or rail transit projects.
- **Streets and Roads**—\$3 billion to cities and counties to maintain and improve streets and roads.
- **Other**—\$2.8 billion for traffic systems management (\$1 billion), highway maintenance and rehabilitation (\$1 billion), transit operations and capital improvements (\$500 million), soundwalls (\$150 million) and environmental enhancement and mitigation (\$100 million).

Toll Road Demonstration. The Department of Transportation is authorized to enter into agreements with private entities to construct and operate four transportation demonstration projects. The state would own the privately constructed facilities and lease them to the private entity for up to 35 years. The private entity would be authorized to charge tolls to provide it a reasonable return on investment after paying capital outlay, maintenance and operations costs.

Congestion Management Programs. The transportation package requires local governments to cooperatively develop county-wide congestion management programs (CMPs), to give certain funding priority to projects in the CMPs, and to provide a procedure for withholding specified streets and roads apportionments to any city and county not cooperating in implementing a CMP.

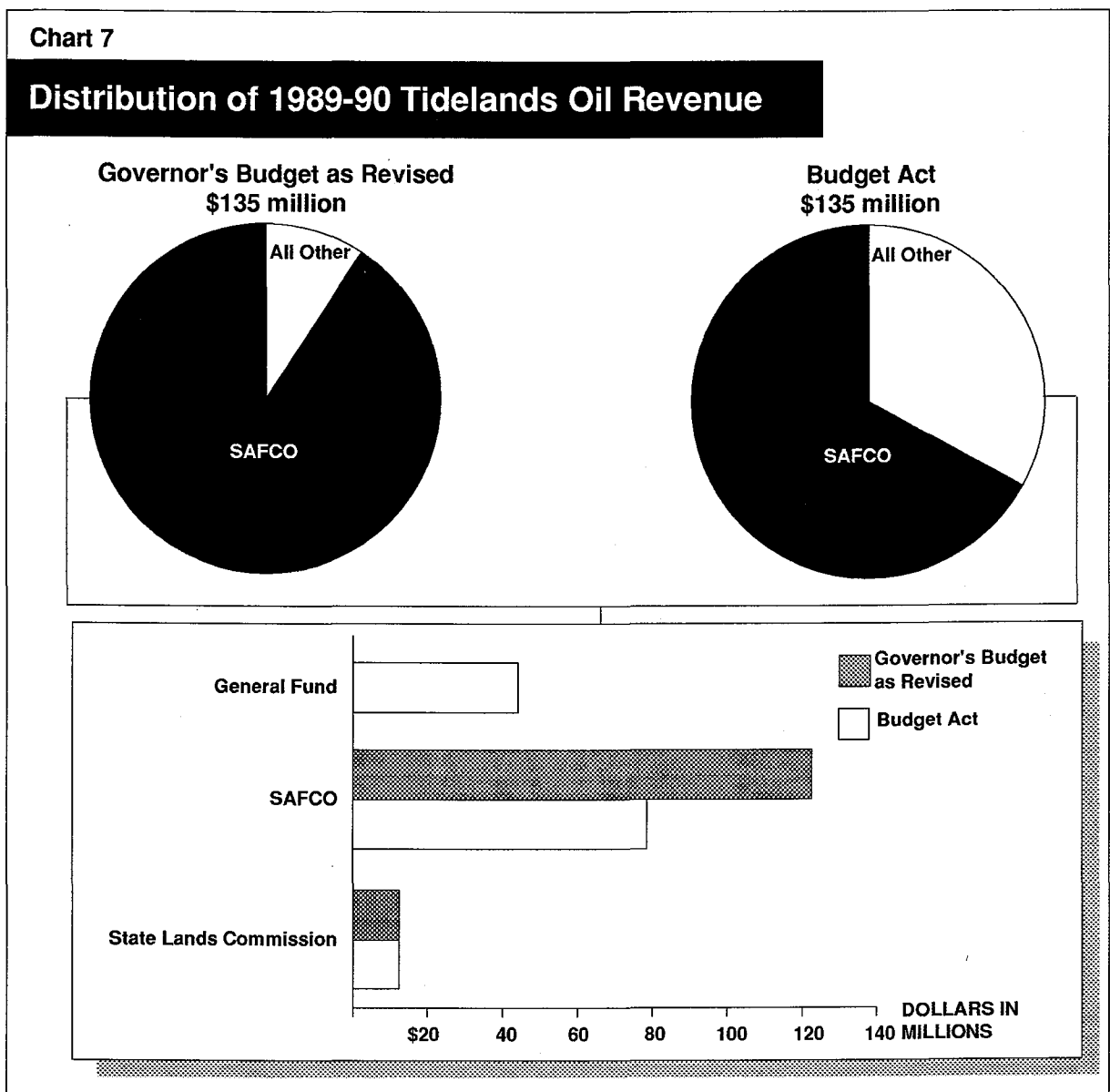
Other. The transportation measures also significantly revise roles, responsibilities and procedures for transportation planning and for the programming of funds among projects, and establish new procedures intended to "fast track" approval of eligible transportation projects to reduce project costs.

Tidelands Oil

In January 1989, the State Lands Commission (SLC) estimated that revenues from the state's tidelands oil operations would total \$50 million in 1989-90. This revenue amount was insufficient to provide funding for all the programs that receive tidelands oil money (in a priority order) pursuant to existing statute. The Governor's Budget proposed allocating the limited tidelands oil revenues, without regard to statutory priority, between support

costs for the SLC and the Special Account for Capital Outlay (SAFCO).

In May, the SLC revised its revenue estimate to \$135 million. The Legislature, in the Budget Act, transferred a portion of these additional revenues to the General Fund and deposited the remaining amount in SAFCO. Chart 7 shows the allocation of tidelands oil revenues: (1) proposed in the Governor's Budget, as revised and (2) provided in the 1989 Budget Act.



Proposition 99

The Governor's budget as amended contained a variety of proposals for spending revenues from the Cigarette and Tobacco Products Surtax Fund established by Proposition 99. These proposals included:

- Hospital Services and Physician Services Accounts. Establish a new California Health Care for the Indigent program (CHIP) to be administered by counties.
- Unallocated Account. Fund CHIP and augmentations to medical programs operated by a number of departments for: caseload growth, cost increases, service enhancements, new programs, and capital outlay.
- Health Education Account. Establish a new program for smoking-related health education to be administered by the Department of Health Services.
- Research Account. Establish a smoking-related research program to be administered by the University of California.
- Public Resources Account. Fund various new and existing programs in a number of Resource Agency departments for (1) wildlife habitat acquisition, maintenance, and improvements (\$22.4 million) and (2) state and local parks and recreation facilities development and program support (\$21.9 million).

Legislative Action. The Legislature approved a proposal to spend \$25 million from the Unallocated Account for mental health services. With this exception, the Legislature rejected all of the Governor's proposals for the Hospital Services, Physician Services, Unallocated, and Health Education Accounts. In-

stead, the Legislature appropriated (1) \$7 million from the Unallocated Account for parks projects and (2) a large portion of the remaining funds from these accounts in a control section, for allocation pursuant to legislation.

The Legislature allocated \$1.7 million from the Research Account for the cancer registry in the Department of Health Services, and approved the Governor's proposal for the remaining funds in the Research Account.

The Legislature approved approximately \$23.7 million in Public Resources Account expenditures proposed by the Governor's Budget and rejected various administration proposals for Public Resources Account expenditures to fund (1) fire suppression and prevention, (2) programs in which the Governor's Budget proposed to substitute Public Resources Account funding for General Fund or other special fund support, and (3) Robert-Z'berg-Harris local recreation grants. In addition, the Legislature approved augmentations to the Governor's Budget from the Public Resources Account totaling approximately \$16.8 million, primarily for state and local park and recreation projects.

Vetoed. The Governor vetoed the entire control section, \$7 million from the Unallocated Account for parks projects, and \$16.7 million of expenditures from the Public Resources Account. Thus, the bulk of the anticipated Proposition 99 revenue remains to be appropriated by the Legislature in separate legislation. Table 11 displays Proposition 99 expenditures in the 1989 Budget Bill as approved by the Legislature and in the 1989 Budget Act.

Table 11
Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures
(dollars in thousands)

	<i>Public Resources <u>Account</u></i>	<i>Unallocated <u>Account</u></i>	<i>Hospital Services <u>Account</u></i>	<i>Physicians' Services <u>Account</u></i>	<i>Research <u>Account</u></i>	<i>Health Education <u>Account</u></i>	<i>Administration Board of Equalization</i>	<i><u>Total</u></i>
Revenues								
1988-89	\$14,700	\$73,500	\$102,900	\$29,400	\$14,700	\$58,800	—	\$294,000
1989-90	<u>30,122</u>	<u>150,612</u>	<u>210,856</u>	<u>60,245</u>	<u>30,122</u>	<u>120,489</u>	<u>\$554</u>	<u>603,000</u>
Totals	\$44,822	\$224,112	\$313,756	\$89,645	\$44,822	\$179,289	\$554	\$897,000
	5.0%	25.0%	35.0%	10.0%	5.0%	20.0%	0.1%	100.0%
1989 Budget Bill as Approved by the Legislature								
Control Section 22.50	—	\$102,000	\$207,628	\$59,323	—	\$175,583	—	\$544,534
Department of Health Services								
Cancer registry	—	—	—	—	\$1,658	—	—	1,658
Department of Mental Health	—	25,000	—	—	—	—	—	25,000
University of California	—	—	—	—	42,038	—	—	42,038
Resources	\$40,572	6,988	—	—	—	—	—	47,560
Board of Equalization	—	—	—	—	—	—	<u>\$554</u>	<u>554</u>
Totals	\$40,572	\$133,988	\$207,628	\$59,323	\$43,696	\$175,583	\$554	\$661,344
Percent of revenues	90.5%	59.8%	66.2%	66.2%	97.5%	97.9%		73.7%
1989 Budget Act								
Department of Health Services								
Cancer registry	—	—	—	—	\$1,658	—	—	\$1,658
Department of Mental Health	—	\$25,000	—	—	—	—	—	25,000
University of California	—	—	—	—	40,923	—	—	40,923
Resources	\$23,847	—	—	—	—	—	—	23,847
Board of Equalization	—	—	—	—	—	—	<u>\$554</u>	<u>554</u>
Totals	\$23,847	\$25,000	—	—	\$42,581	—	\$554	\$91,982
Percent of revenues	53.2%	11.2%	—	—	95.0%	—	—	10.3%

Total Expenditures

Section 8(g) Revenue Fund

The Legislature approved expenditures totaling \$26 million from the Outer Continental Shelf Land Act, Section 8(g) Revenue Fund for a wide variety of programs, ranging from rural development and farmworker housing to support of a commuter rail project and pollution mitigation programs. Revenues to the fund come from royalties for oil pumped from submerged lands adjacent to California that

belong to the federal government. The Governor vetoed approximately \$6 million of the expenditures approved by the Legislature, indicating that adequate funds for support of these programs were available from other sources already included in the budget. Table 12 shows actions taken by the Legislature and the Governor with respect to 8(g) funds.

Table 12
Outer Continental Shelf Land Act, Section 8 (g) Revenue Fund
(dollars in thousands)

	<i>1989 Budget Bill As Approved By The Legislature</i>	<i>Governor's Veto</i>	<i>1989 Budget Act</i>
Funded Projects and Programs			
Department of Commerce			
Rural Renaissance Program	\$ 5,270	--	\$ 5,270 ^a
Housing & Community Development (HCD)			
Farmworker Housing Grants	3,000	-\$3,000	--
Office of Migrant Services	1,418	-1,418	--
Other Community Development Programs	480	-480	--
Department of Transportation			
Reappropriation for Various Highway Projects	11,698	--	11,698
Los Angeles-Santa Barbara Commuter Rail Project	1,000	-500	500
Air Resources Board			
Offshore Oil Mitigation for Fishermen ^b	1,950	--	1,950
Offshore Air Pollution Study and Grants	600	-600	--
Employment Development Department			
Wagner-Peyser Program	350	--	350
Other Agencies ^c	<u>246</u>	<u>--</u>	<u>246</u>
Totals	\$26,012	-\$5,998	\$20,014
8 (g) Fund Balance After Governor's Actions			\$ 5,998

^a The Governor's Budget (January 10 version) originally included \$8 million in funding for the Rural Renaissance Program.

^b Environmental Affairs Agency Program

^c Includes Tahoe Conservancy, State Lands Commission, S.F. Bay Conservation and Development Commission, and the Tahoe Regional Planning Agency.

General Fund Revenues

The overall condition of the state's General Fund depends upon both expenditures *and* revenues. Table 13 shows that 1989-90 General Fund revenues and incoming transfers from other funds are projected to reach \$40.3 billion. This is about \$3.2 billion, or 8.8 percent, more than the most-recent estimate of revenues and transfers for 1988-89. After adjusting for inflation, 1989-90 revenue growth in real terms is expected to be 3.6 percent. This revenue outlook presumes that the California economy will continue to expand during 1989-90, though at a slower pace than during 1988-89.

Table 13
General Fund Revenues and Transfers
1988-89 and 1989-90
(dollars in millions)*

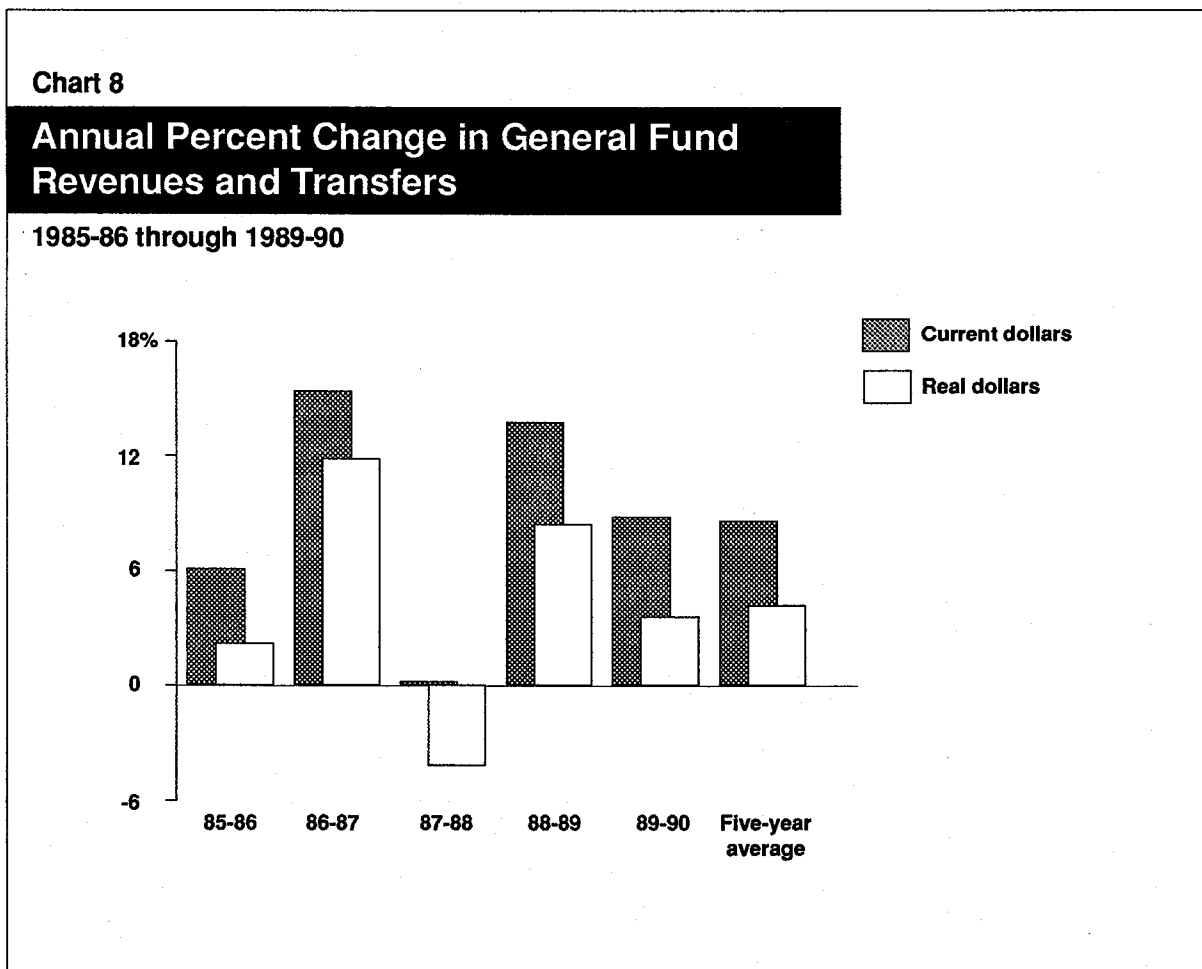
<u>Revenue Source</u>	<u>1988-89</u>	<u>1989-90</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percent</u>
Personal income taxes	\$15,960	\$17,580	\$1,620	10.2%
Sales and use taxes	12,520	13,450	930	7.4
Bank and corporation taxes	5,170	5,693	523	10.1
Other revenues and transfers	<u>3,387</u>	<u>3,555</u>	<u>168</u>	<u>5.0</u>
Totals, General Fund Revenues and Transfers	\$37,037	\$40,278	\$3,241	8.8%

* Governor's Revised Budget, Spring 1989.

Historical Perspective -- Revenue Growth Is About Average

Chart 8 shows that revenue growth has experienced wide year-to-year fluctuations since 1985-86, largely due to such factors as the effects of federal and state tax reform on the timing and volume of tax payments. Over this

entire period, however, revenue growth has averaged 8.6 percent in current dollars and 4.2 percent in real terms. Thus, the projected growth in 1989-90 revenues is about average from a recent historical perspective.



Large Upward Revenue Revisions Have Occurred

The General Fund revenue totals in Table 13 have undergone substantial revisions compared to the Governor's Budget as introduced in January 1989. Chart 9 shows that the estimates have been revised upward by over \$1 billion for 1988-89 and \$1.4 billion for 1989-90, or \$2.4 billion for the two years combined.

Most of these revisions are associated with the personal income tax. Table 14 summarizes the history of the 1989-90 revenue revisions. It indicates that the budget-related actions of the Legislature and Governor did not significantly affect the 1989-90 revenue estimate.

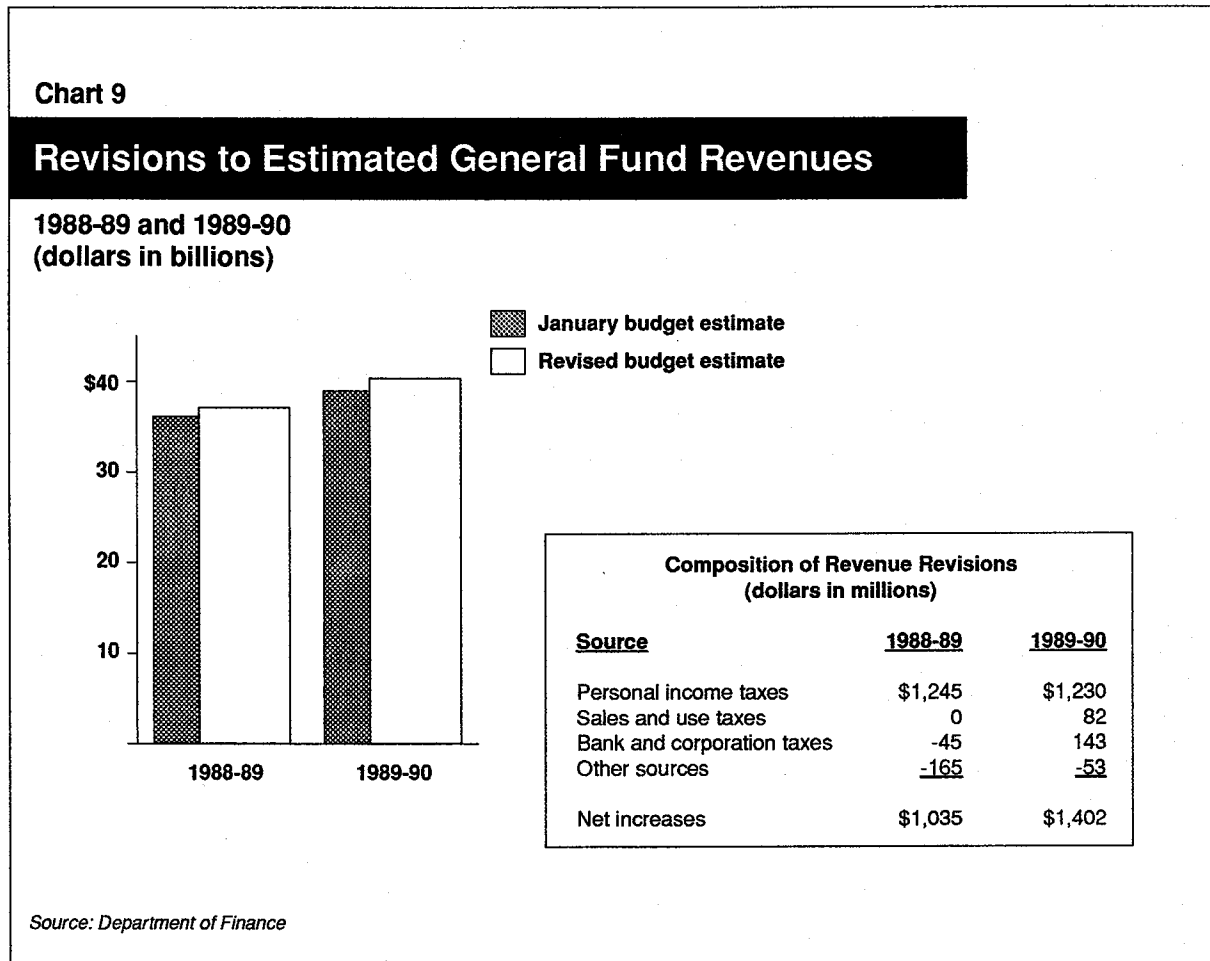


Table 14
History of Revisions to 1989-90 General Fund
Revenue and Transfer Estimates
(dollars in millions)

	<i>Projected</i>	
	<u>Revenues and Transfers</u>	
	<u>Change</u>	<u>Total</u>
Governor's Budget as submitted (January)		\$38,876
Spring Revision changes ^a		
-- Economic forecasting revisions	\$911	
-- Revisions to projected capital gains	640	
-- Revised estimates relating to law changes and court settlements	-98	
-- Lower interest earnings due to reduced external borrowing	-66	
-- Other factors	<u>-8</u>	
Subtotals	(\$1,379)	40,255
Conference Committee budget actions	23	40,278
Budget actions by the Governor	<u>--</u>	<u>40,278</u>
Total Changes	\$1,402	\$40,278

^a Based upon data from the Department of Finance.

Reasons for the Upward Revenue Revisions

Table 14 indicates that the large upward revenue revisions which have occurred since January are primarily due to two factors:

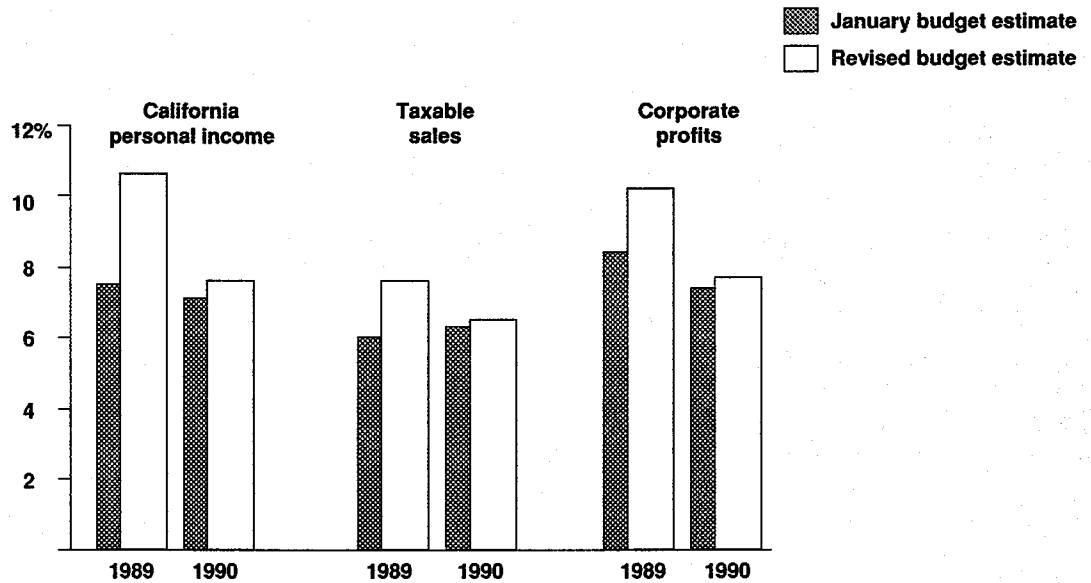
- First, *the administration's assumptions about 1989 and 1990 economic performance were revised upward.* For example, Chart 10 shows that the forecasts were raised for each of the three most important revenue-determining economic variables -- personal income, taxable sales and corporate profits. These economic revisions increased 1988-89 revenues by nearly \$360
- Second, *estimated 1988 and projected 1989 taxable profits from the sale of capital assets (that is, capital gains) also were increased,* based upon information from the 1988 income tax returns that were due in April 1989. This increased 1988-89 revenues by about \$885 million and added \$640 million to the 1989-90 revenue forecast.

Given the above, the accuracy of the 1989-90 General Fund revenue projection will depend primarily on the accuracy of the administration's assumptions regarding California's economic performance and the volume of 1989 capital gains.

Chart 10

Revisions to Key Revenue - Determining Economic Variables

1989 and 1990



Source: Department of Finance