State Spending Plan for 1991-92

The 1991 Budget Act and Related Legislation

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LAO

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Overview

This report summarizes the fiscal effect of the 1991 Budget Act (Ch 118/91-AB 222, Vasconcellos) including the effects of major legislation accompanying the budget which were enacted as part of the overall state spending plan for 1991-92. The report begins by recounting the history of this year's budget crisis, and summarizing how it was resolved. It then highlights the funding levels that were ultimately approved for the state's major program areas, and provides detailed descriptions of the major structural components of the budget plan. Finally, the report discusses projected state revenues for 1991-92, including the effects of revenue legislation accompanying the budget and the key assumptions upon which the revenue estimates are based.

The expenditure and revenue estimates contained in this report are not predictions of what the final budget totals for fiscal year 1991-92 will be. Rather, these estimates reflect: (1) the most recent projections of revenue to the General Fund and other state funds and (2) the administration's assumptions about caseloads under various entitlement programs. As the fiscal year progresses, these estimates will be adjusted to reflect such factors as:

- Unanticipated economic developments which may result from changes in the assumed pace of economic recovery.
- Changes in the rate of expenditure under entitlement programs, such as Aid to Families With Dependent Children (AFDC) and Medi-Cal.
- The enactment of new legislation.
- The success of as-yet unidentified administrative actions to be taken by the executive branch, including the result of current collective bargaining negotiations, to achieve the level of expenditure savings anticipated by the budget plan.
- Decisions handed down by the courts.
- Actions taken by the Congress and the President on the 1992 federal budget.

Overview

Chapter 1

The State's Budget Funding Gap

The *1991-92 Governor's Budget*, released in January of 1991, projected that the state faced an 18-month General Fund budget funding gap of $7.0 billion. As shown in Figure 1(next page), this funding gap represented the amount of savings, increased revenues, and other resources needed to offset:

- A projected 1990-91 fiscal year deficit of **$1.9 billion**.
- The projected 1991-92 operating shortfall of **$3.7 billion** which is the difference between 1991-92 "workload budget" expenditures and available revenues.
- The funding requirements for rebuilding the state's reserve fund of **$1.4 billion**.

The workload budget expenditure level essentially represents the level of expenditures needed to pay for the cost of currently authorized services, adjusted for changes in caseload, enrollment, and population. In addition, adjustments are made for certain price and statutory cost-of-living changes, legislation, and certain other factors, pursuant to Ch 1209/90 (AB 756, Isenberg). On this basis, 1991-92 state General Fund expenditures were projected to increase by more than 10 percent over 1990-91 levels, while available revenues were projected to increase by only 4 percent.

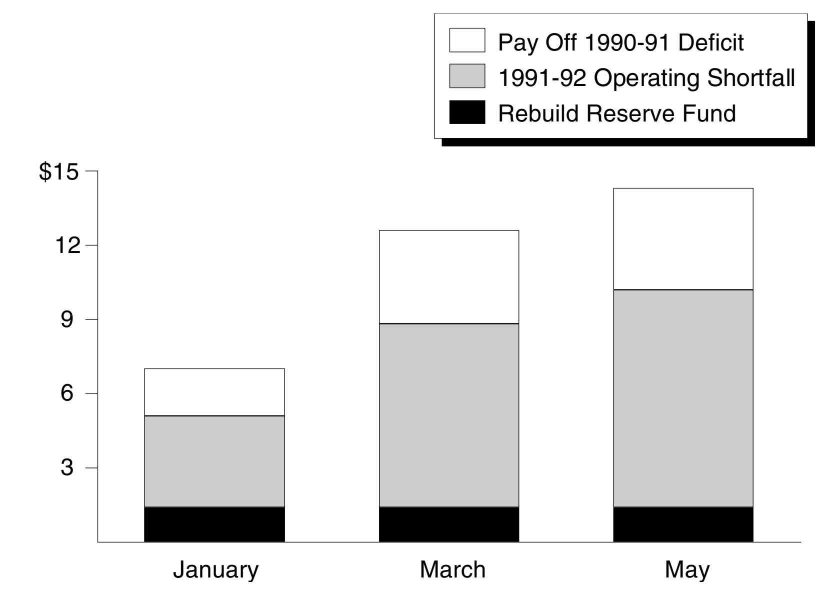
Evolution of the Budget Funding Gap

Figure 1(next page) also shows how the *administration's* estimates of the budget funding gap changed after the *1991-92 Governor's Budget* was introduced. In late March, the Governor announced that the gap had increased from $7.0 billion to $12.6 billion, reflecting substantial revisions to the administration's estimates of revenues and expenditures. Specifically, the failure of the state's economy to perform at the level anticipated in January caused the administration to revise its estimates of revenue downwards by $4.5 billion during the 1990-91 and 1991-92 fiscal years combined. In addition, increasing caseloads and other factors caused the administration to increase its estimate of expenditures by $1.1 billion.

The budget funding gap was increased further at the time of the May Revision. Noting the continued weakness in the state's economy, the administration announced that the budget funding gap had grown from $12.6 billion to $14.3 billion. This change was attributable entirely to a

Figure 1

Growth of the State's 1991-92 Budget Funding Gap



further $1.7 billion reduction in the administration's estimates of revenue for the 1990-91 and 1991-92 fiscal years. Thus, in crafting a state budget for 1991-92, the Legislature and the administration faced a budget funding gap equivalent to *one-third* of the state's General Fund workload budget.

Summary of Actions Taken to Close The Gap

Tale 1 identifies the major legislative actions taken to close the state's budget funding gap, together with the administration's estimates of the fiscal effect of these actions. As shown in the table, these actions provide:

- $9.1 billion in *increased resources*, primarily from higher state and local taxes, fund transfers, and accounting changes.
- $3.4 billion in *expenditure reductions*.
- $1.6 billion in *cost shifts,* including retirement contribution savings.

Together, these actions constitute $14.1 billion of the budget solution. The remaining $200 million needed to fully close the $14.3 billion gap was accomplished by lowering the funding target for the state's reserve fund from $1.4 billion to $1.2 billion. Each of the major elements of the budget agreement are more fully described in Chapter IV of this report.

Table 1

Summary of Actions Taken to Close the Budget Funding Gap

(in billions)		
Estimated Budget Funding Gap		$14.3
Solutions:		
Increased Resources:		
State-level tax increases	$5.1	
Local-level tax increases (program realignment)	2.1	
Fee increases	0.5	
Special fund transfers	0.7	
Accrual accounting (net)	0.7	
Subtotal, increased resources		***$9.1***
Expenditure Reductions:		
Unallocated "trigger" reductions	0.8	
Employee compensation savings	0.4	
Specific program reductions:		
Proposition 98	1.9	
Other	0.6	
Increased trial court funding	-0.2	
Subtotal, expenditure reductions		***$3.4***
Cost shifts:		
Retirement contribution savings	0.7	
Increased federal funding	0.3	
Trial court revenue recapture	0.3	
Other	0.3	
Subtotal, cost shifts		***$1.6***
Total actions		**$14.1**

Tables 2 and 3 list the major expenditure and revenue legislation that were enacted to carry out this budget agreement.

Table 2

The 1991 Budget Act
Major Revenue Legislation Accompanying the Budget

(in millions)

Measure	Description	Revenue
Ch 85/91 (AB 2181, Vasconcellos)	Sales tax rate increases, removal of exemptions	$4,138
Ch 117/91 (SB 169, Alquist)	New top income tax brackets, expanded tax withholding, federal tax conformity, net operating loss suspension	2,225
Ch 87/91 (AB 758, Bates)	Vehicle license fee increase	769
Ch 92/91 (SB 451, Maddy)	Accrual accounting changes	657
Ch 86/91 (AB 30, Murray)	Alcoholic beverages surtax	201
Ch 103/91 (SB 107, Beverly)	Health care tax credit delay	100

Table 3

The 1991 Budget Act
Major Expenditure Legislation Accompanying the Budget

(in millions)

Measure	Description	Net Savings
Ch 42/91 (AB 661, Hannigan)	Proposition 98 funding shift	$835
Ch 76/91 (SB 1049, Maddy)	Proposition 98 funding shift	398
Ch 75/91 (SB 188, Maddy)	Proposition 98 1989-90 funding	133
Ch 89/91 (AB 1288, Bronzan)	Health program realignment	1,600
Ch 91/91 (AB 948, Bronzan)	Social services program realignment	522
Ch 83/91 (AB 702, Frizelle)	Retirement contribution reductions	667
Ch 117/91 (SB 169, Alquist)	Renters' tax credit income limit	135
Ch 97/91 (SB 724, Maddy)	AFDC/SSI program reductions	377
Ch 90/91 (AB 1297, Isenberg)	Trial court funding changes	292
Ch 331/91 (SB 21, No Author)	Trial court funding shortfall	205

Chapter 2

General Fund Condition

Table 4 shows the *administration's* estimates of the General Fund condition on June 30, 1991 and the effects on the General Fund of revenue and expenditure programs approved for 1991-92.

These estimates of revenues and expenditures indicate that the balance in the General Fund was -$1,359 million at the end of 1990-91. Taking into account the $350 million which must be reserved for unliquidated encumbrances, the uncommitted balance in the Special Fund for Economic Uncertainties (SFEU), on June 30, 1991 was -$1,709 million. The administration estimates that the SFEU will have a balance of $1,213 million as of June 30, 1992.

Table 4

The 1991 Budget Act
Condition of the General Fund[a]

1990-91 and 1991-92
(in millions)

	1990-91	1991-92
Starting Balance — July 1	$612	-$1,359
Revenues and Transfers	38,548	46,290
Total Resources Available	**$39,160**	**$44,931**
Expenditures	$40,519	$42,979
Set-Asides	—	389
Total Expenditures	**$40,519**	**$43,368**
Ending Balance — June 30	-$1,359	$1,563
Special Fund for Economic Uncertainties	-$1,709	$1,213
Unliquidated Encumbrances	$350	$350

[a] Source: Department of Finance.

General Fund Condition

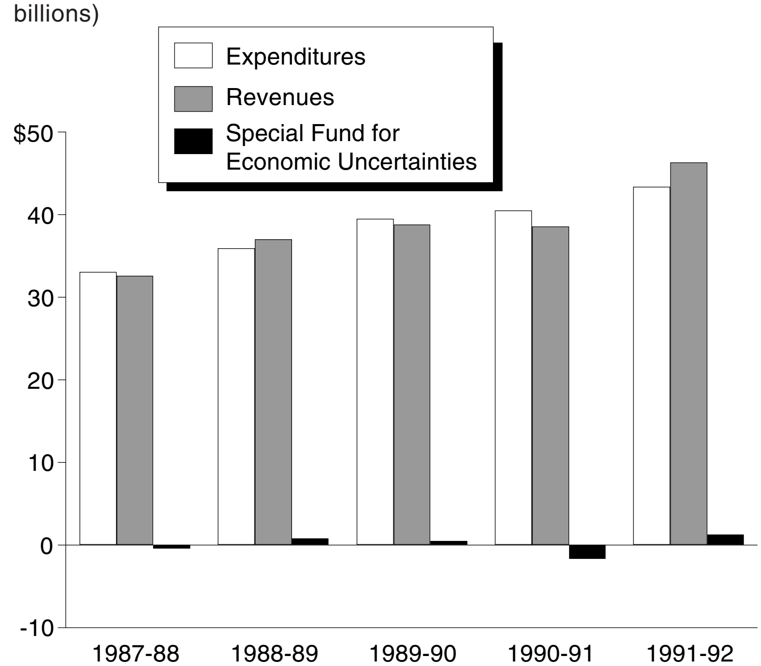
The actual General Fund condition as of June 30, 1991 will not be known until September or October of 1991, when the State Controller reports revenues and expenditures for the year on an accrual accounting basis. In July, the State Controller reported that the General Fund ended the 1990-91 fiscal year with a *cash* balance of zero in both the General Fund and in the SFEU. The Controller's report further indicates that expenditures exceeded revenues and General Fund reserves by $2.6 billion on a cash basis, and that this amount was financed by borrowing from other state special funds and accounts. *Although these figures will change to reflect the effect of accrual adjustments, they indicate that the General Fund's condition for 1990-91 is likely to have been less favorable than portrayed by the administration's figures.*

Figure 2 provides an historical perspective on the levels of General Fund revenues, expenditures and the SFEU for the period 1987-88 through 1991-92. As the figure shows, the SFEU has been maintained at relatively low levels throughout the period. The revenue and expenditure programs enacted in the 1991 Budget Act, however, would bring the balance in the SFEU up to $1,213 million for 1991-92, or about 2.8 percent of General Fund expenditures, based upon the administration's estimates.

Figure 2

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

1987-88 through 1991-92
(in billions)



Chapter 3

Total Expenditures

Table 5 shows the level of state expenditures approved for 1991-92 and compares it to the level of expenditures in 1989-90 and 1990-91.

Total state expenditures authorized for 1991-92, which include expenditures from the General Fund, special funds and selected bond funds, amount to $57.1 billion. This level of total expenditures is $4 billion, or 7.6 percent, more than total estimated expenditures in 1990-91, and approximately $1.4 billion more than the level proposed in the Governor's Budget in January. These amounts include $391 million in funding "set-aside" by the Governor to :

- Restore funding reductions in corrections, K-12 education and certain other programs ($180 million).
- Offset the potential loss of federal immigration funding ($158 million).

Table 5

The 1991 Budget Act Total Expenditures[a]

1989-90 through 1991-92
(in millions)

				Change from 1990-91	
Fund	**Actual 1989-90**	**Estimated 1990-91**	**Enacted 1991-92**	**Amount**	**Percent**
General Fund	$39,456	$40,519	$43,368	$2,849	7.0%
Special funds	7,872	8,905	11,991	3,086	34.7
Selected bond funds	1,266	3,691	1,767	-1,924	-52.1
Total State Expenditures	**$48,594**	**$53,115**	**$57,126**	**$4,011**	**7.6%**

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

- Provide funding for drought-related program costs ($53 million).

The vast majority of the state's expenditures are from the General Fund. In 1991-92, General Fund expenditures will amount to $43.4 billion, or roughly 76 percent of the state's total. This amount is $2.8 billion, or 7 percent, more than the estimated level of General Fund expenditures in 1990-91, and approximately $86 million more than was proposed by the Governor in January. This comparison is distorted, however, by the effect of the actions taken to shift state program costs to counties (program realignment), because this action essentially shifts General Fund costs to a state special fund (the Local Revenue Fund). If these costs had continued to be reflected in the General Fund, then General Fund expenditures would have increased by $5.1 billion, or 13 percent.

Annual expenditures from special funds account for a significantly smaller percentage (21 percent) of the state's total budget. Special funds expenditures will total approximately $12 billion for 1991-92. This amount is $3 billion, or 35 percent, more than the estimated level of special funds expenditures for 1990-91. Again, this comparison is distorted by the program realignment legislation, which has the effect of increasing special funds expenditures. Special funds expenditures other than those associated with the program realignment package are expected to increase by 10 percent.

Selected bond fund expenditures represent the spending of monies raised from the sale of state general obligation and certain revenue bond issues. The $3.7 billion spending level in 1990-91 is relatively high by historical standards, and reflects bond issues approved at the June 1990 election. Compared to 1990-91 expenditures, the level of selected bond fund spending approved for 1991-92 is nearly $2 billion, or 52 percent, lower.

Summary of Action on the Budget Bill

Table 6 shows the adjustments made by the Legislature to the Governor's Budget, and the Governor's veto actions.

As shown in Table 6, while *total* spending anticipated for 1991-92 increased by approximately $1.4 billion between the time of the January Governor's Budget and the enactment of the final budget, General Fund spending increased by only $86 million. This largely reflects the shifting of $2.1 billion in formerly General Fund costs to state special funds resulting from program realignment, as described earlier. The General Fund cost savings resulting from this shift were then largely offset by the increased expenditures associated with the Legislature's decision to fully fund the Proposition 98 minimum funding guarantee for K-14 education

Table 6

The 1991 Budget Act
Summary of Actions Taken On State Expenditures[a]

(in millions)

	General Fund	Special Funds	Selected Bond Funds	Totals
Governor's Budget as Submitted	$43,282	$10,824	$1,600	$55,707
Changes initiated by the administration	-1,032	1,208	158	334
Governor's Budget as Revised (May)	**$42,250**	**$12,032**	**$1,758**	**$56,040**
Changes made by the Legislature	806	-20	101	887
Legislature's Budget	**$43,056**	**$12,012**	**$1,859**	**$56,927**
Governor's vetoes	-77	-23	-92	-192
Governor's set-asides	389	2	--	391
Total Spending Plan	**$43,368**	**$11,991**	**$1,767**	**$57,126**

[a] Detail may not add to totals due to rounding.

in 1991-92. The Legislature was able to provide most of the funds needed to meet the Proposition 98 funding requirements by taking action to shift $1.2 billion in funding from 1990-91 to 1991-92.

Major State Expenditures by Program Area

Total state expenditures (from the General Fund and state special funds) approved to date total $55.4 billion for 1991-92. Figure 3 (next page) shows the general program areas where these expenditures are expected to be made, and the percent of total spending in each area. As Figure 3 shows, spending in the education area amounts to 43 percent of total state spending. Health and welfare programs account for the second largest percentage (30 percent), followed by business, transportation and housing programs (7 percent), and youth and adult corrections (6 percent).

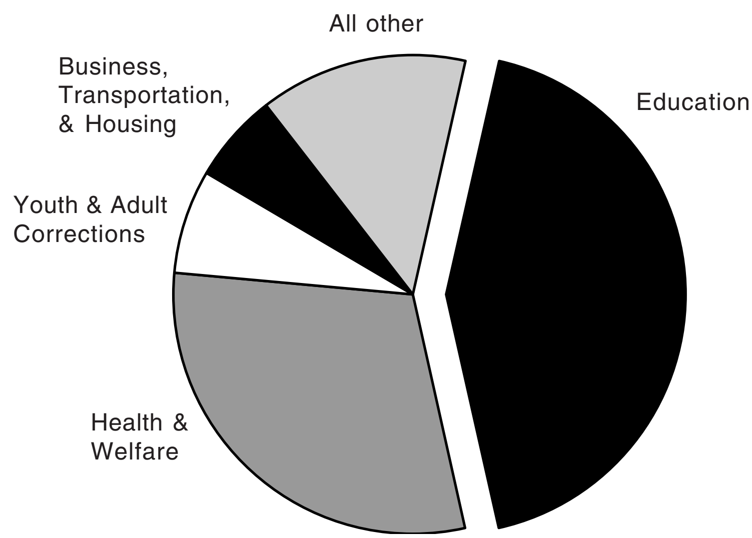
Historical Perspective on General Fund and Special Funds Expenditures

To put this year's budget in perspective, the growth in expenditures authorized for 1991-92 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 in two different ways — in "current" dollars and in "real " dollars. "Current" dollars make no allowance for

Figure 3

1991 Budget Act
Total State Expenditures by Program Area



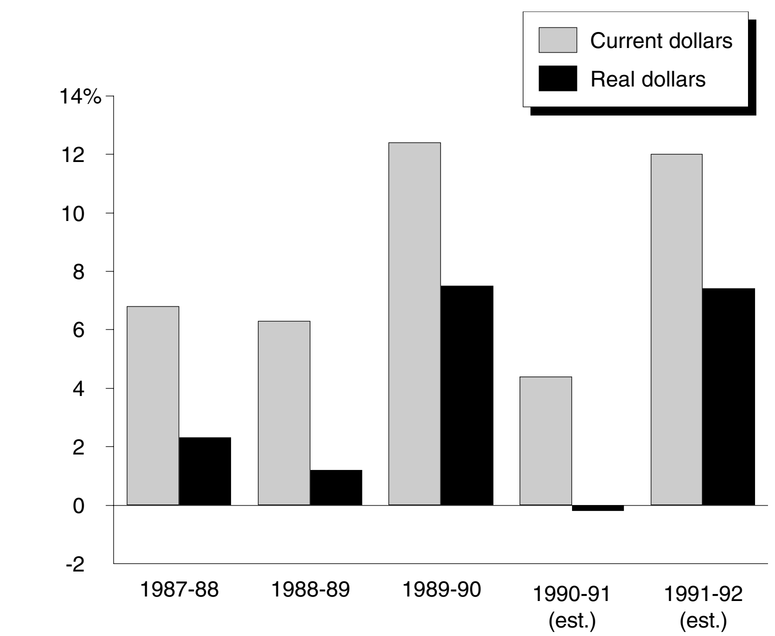
the effect of inflation on purchasing power. In contrast, "real" dollars represent current dollars adjusted to remove the effects of inflation. Comparing growth rates in terms of "real" dollars allows expenditure growth rates in different years to be compared on a common basis.

Figure 4 shows the growth trend in recent total state spending (which includes spending from the General Fund and state special funds, but does not include spending from bond or federal funds), on an annual percentage basis, both in terms of current dollars and real dollars. It indicates that measured in current dollars, total state expenditures in 1991-92 will exceed 1990-91 expenditures by 12 percent, if no additional expenditures are approved by the Legislature and the Governor. When expenditures are adjusted for inflation and expressed in real dollars, however, total state expenditures will increase by 7.4 percent from 1990-91 to 1991-92. Thus, although the actual amount of state expenditures has grown between the current and previous year, the cost of goods and services has grown as well.

Figure 4

Annual Percentage Change in General Fund And Special Funds Expenditures

1987-88 through 1991-92



Total Expenditures

Chapter 4

Major Features of the 1991 Budget Plan

This section of the report provides a description of the major features of the 1991 budget plan. It includes separate discussions of the most significant program changes, and the major base program reductions. It also discusses several major new program initiatives enacted along with the budget. Changes in tax revenues enacted as part of the budget plan are discussed in Chapter 5.

State and Local Program "Realignment"

The Governor's Budget proposed a transfer of responsibility for community-based mental health programs and the AB 8 county health services program from the state to counties as part of a "realignment" of state and local programs. The budget proposed to eliminate a total of $939 million in General Fund support for these services ($433 million for mental health and $506 million for AB 8 county health services), and to provide counties with additional revenues from an increase in the alcohol tax and the vehicle license fee (VLF).

The Legislature adopted these programmatic changes as part of a significantly expanded realignment package enacted by Chapters 87, 89, and 91, Statutes of 1991 (AB 758, Bates, and AB 1288 and AB 948, Bronzan). The realignment passed by the Legislature included three major components: (1) program transfers from the state to the counties, (2) changes in state/county cost-sharing ratios for certain social services and health programs, and (3) an increase in the state sales tax and the VLF earmarked for supporting the increased financial obligations of counties. Table 7 summarizes the major components of realignment, as well as the amount of General Fund expenditures transferred to counties and funded by the revenue increases.

Table 7

Components of State and Local Program Realignment

(in millions)

Transferred Programs			Costs Shifted to Counties
Mental Health			**$750**
• Community-based Mental Health Programs[a]			452
• State Hospital Services for County Patients			210
• Institutions for Mental Diseases (IMDs)			88
Public Health			**$506**
• AB 8 County Health Services			503
• Local Health Services (LHS)			3
Indigent Health			**$435**
• Medically Indigent Services Program (MISP)[b]			348
• County Medical Services Program (CMSP)			87
Local Block Grants			**$52**
• County Stabilization Subventions			15
• County Juvenile Justice Subventions			37
County Cost-Sharing Ratio Changes	**State/County Shares of Nonfederal[c] Program Costs**		**Costs Shifted to Counties**
	Prior Law	**Realignment**	
Health			
• California Childrens' Services	75 / 25	50 / 50	**$30**
Social Services			**$411**
• AFDC - Foster Care (AFDC-FC)[d]	95 / 5	40 / 60	363
• Child Welfare Services (CWS)[e]	76 / 24	70 / 30	42
• In-Home Supportive Services (IHSS)[e,f]	97 / 3	65 / 35	235
• County Services Block Grant (CSBG)[e]	84 / 16	70 / 30	13
• Adoption Assistance Program	100 / 0	75 / 25	12
• Greater Avenues for Independence (GAIN) Program	100 / 0	70 / 30	26
• AFDC - Family Group and Unemployed Parent (AFDC FG & U)	89 / 11	95 / 5	-155
• County Administration (AFDC-FC, FG, U, foodstamps)	50 / 50	70 / 30	-95
Net Additional County Expenditures			**$2,212**
Additional Revenues to Counties			**Projected 1991-92**
• State Sales Tax			$1,422
• Vehicle License Fee (VLF)			769
			$2,191

[a] Includes $3.7 million for mental health assessments and treatment for court wards and dependents, as provided for by Ch 1294/89 (SB 370, Presley).

[b] A portion of expenditures for the MISP reflects the earmarking of $116 million in revenues to replace funding that is anticipated to be lost in 1992-93 due to the expiration of funding under the federal Immigration Reform and Control Act (IRCA). **(continued, next page)**

The realignment measures eliminated a total of $1,743 million in projected state expenditures for transferred programs, and increased net county sharing ratio costs by approximately $469 million. As Table 7 indicates, these actions increased county expenditure requirements by a total of $2,212 million for 1991-92. The Legislature also enacted Chapter 87, which increases VLF and the state sales tax revenues by approximately $2,191 million for 1991-92.

Program Transfers. Chapter 89 of the realignment statutes transferred varying degrees of administrative and programmatic responsibility to counties for:

- *Community-Based Mental Health Services.* These services include short- and long-term treatment, case management, and other services to seriously mentally ill children and adults, and are administered by county departments of mental health.
- *State Hospital Services for County Patients.* The state hospitals provide inpatient care to seriously mentally ill persons placed by counties, the courts, and other state departments.
- *Institutions for Mental Diseases (IMDs).* IMDs provide generally short-term nursing level of care to the seriously mentally ill.
- *AB 8 County Health Programs.* Under this program, counties carry out general public health activities and indigent patient care services.
- *The Medically Indigent Services Program (MISP).* Under MISP, larger counties provide indigent patient care to persons not eligible for the Medi-Cal Program.

Table 7 footnotes, continued

[c] "Non-federal costs" reflects costs remaining after accounting for the federal contribution. In some cases the federal government covers 100 percent of the costs of serving recipients (e.g.,time-eligible refugees), in other cases there is no federal contribution (e.g., "state-only" foster care cases), and in other cases the federal government covers a percentage of total costs (usually 50 percent).

[d] Includes the county share of the foster care group home rate adjustment required by Ch 1294/89 (SB 370, Presley).

[e] Prior to realignment, the county shares of CWS, IHSS, and CSBG were fixed, with the CWS and CSBG shares increased by the percentage COLA's that counties granted their employees. The prior law ratios presented here reflect the *effective* state and county shares of costs for these programs in 1990-91.

[f] Chapter 91 requires the counties to pay 35 percent of the *total cost* of the IHSS program. In effect, the state pays for the remaining 65 percent of the program, even though the state uses all of its federal block grant under Title XX of the Social Security Act to fund the program. This is because these federal funds ($331 million) are fungible with General Fund monies. That is, the state could use these federal funds to substitute for General Fund support of a number of other program areas, including child development services, child welfare services, and adult protective services.

- *County Medical Services Program (CMSP).* Under the CMSP, smaller counties provide indigent patient care to persons not eligible for the Medi-Cal program.
- *Local Health Services (LHS) Program.* This program provides public health staff to small, rural counties.

For mental health programs, Chapter 89 established additional flexibility for counties in the use of funds that support services provided through the state hospitals, IMDs, and community-based programs. The legislation authorizes counties, beginning in 1992-93, to increase or decrease their use of state hospital beds by up to 10 percent annually. In addition, the legislation authorizes counties to use funds currently restricted for the purchase of IMD services for any mental health purpose, again beginning in 1992-93. Under Chapter 89, the state Department of Mental Health continues to review county expenditure plans and is charged with ensuring that counties meet maintenance-of-effort requirements associated with the federal Alcohol, Drug Abuse, and Mental Health (ADAMH) block grant, and perform various functions necessary to comply with federal Medicaid law.

The AB 8 program was established by Ch 282/79 (Leroy Greene) to provide block grants to counties for funding inpatient and outpatient services and public health programs. The MISP provides funds for indigent health care to counties with populations over 300,000, while the CMSP provides such funds for the smaller counties. Under "realignment," the specific AB 8 and MISP statutes were eliminated, and thus the funds associated with these programs may be used for indigent and public health generally.

For the CMSP, specific statutes defining the program were retained and/or modified, and the state continues to have fiscal responsibility for the program's costs, to the extent these costs exceed specified county-by-county dollar limits specified in Ch 89/91. (These dollar limits are based on the projected revenue growth for the affected counties.)

The Budget Act also eliminated two block grants to counties. These block grants were provided under the County Justice Subvention Program (CJSP) and the County Revenue Stabilization Program (CRSP). The CJSP provided assistance to counties for local juvenile justice program operations. The CRSP provided targeted assistance to smaller counties and was intended to partially stabilize fiscal conditions in these counties.

The realignment package includes enough revenue to fund these block grants at the level proposed in the Governor's Budget. However, under Chapter 91, these programs must compete for funding at the county level with other "realigned" caseload-driven programs.

County Cost-Sharing Ratio Changes. Chapter 91 increased the county share of nonfederal costs for certain health and social services programs, and reduced the county share for others as detailed in Table 8. Specifically, Chapter 91 increased the counties' share of the following programs:

- *California Childrens' Services (CCS) Program.* The CCS Program provides medical diagnosis, treatment, and therapy to financially eligible children with specific handicapping conditions.
- *AFDC-Foster Care.* This program pays for the care provided to dependent children who are removed from their homes due to child abuse and neglect and to wards of the court who have committed criminal or status offenses.
- *Child Welfare Services (CWS) Program.* The CWS Program investigates allegations of child abuse and neglect and provides services to abused and neglected children in foster care and their families.
- *In-Home Supportive Services (IHSS).* This program provides assistance to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without assistance.
- *Adoption Assistance Program.* This program provides monthly grants to parents who adopt "difficult to place" children.
- *Greater Avenues for Independence (GAIN) Program.* Under the GAIN Program, AFDC-FG recipients receive education and job training services in order to help them find jobs and become financially independent.

Chapter 91 also reduced the county share of grant costs in the AFDC Family Group and Unemployed Parent Programs, and for county administration of the AFDC programs.

Revenue Provisions. Under Chapter 89, the Legislature established a Local Revenue Fund into which the additional revenues attributable to the increase in the sales tax are deposited. Chapter 89 allocates both VLF and state sales tax funds among the counties, generally according to the amount of funding counties would have received in 1991-92 had prior law for the various programs continued. Under the State Constitution, VLF proceeds are subvened directly to counties and may not be earmarked for specific purposes. However, Chapter 89 requires counties to deposit into the Local Revenue Fund an amount equal to the increase in VLF funds in order to expend the sales tax revenues deposited into the fund by the state.

Chapter 89 also sets out various county requirements for the use of these funds, including that they may only be used for the activities provided for under the various indigent and public health, mental health, and caseload-driven social services programs that were the subject of realignment. In addition, the legislation authorizes counties to move up to 10 percent of funding from one major program area to another, within certain restrictions. Finally, the legislation set out procedures and formulas for allocating additional revenues from increased VLF and sales tax collections anticipated in future years among the programs and across counties.

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. In *normal* or *high* revenue-growth years, this guarantee is based on the *greater* of:

- *Test 1-Percent of General Fund Revenues.* This is defined as the 1986-87 percentage of General Fund tax revenues provided K-14 education--about 40 percent.
- *Test 2—Maintenance of Prior-Year Service Levels.* This is defined as the prior-year level of total funding for K-14 education from state and local sources, adjusted for enrollment growth and inflation.

In *low* revenue-growth years (in which General Fund revenue growth per capita is more than 0.5 percentage point below growth in per capita personal income), the Proposition 98 guarantee is based on:

- *Test 3—Adjustment Based on Available Revenues.* This is defined as the prior-year total level of funding for K-14 education from state and local sources, adjusted for enrollment growth and for growth in General Fund tax revenues, *plus* 0.5 percent of the prior-year level.

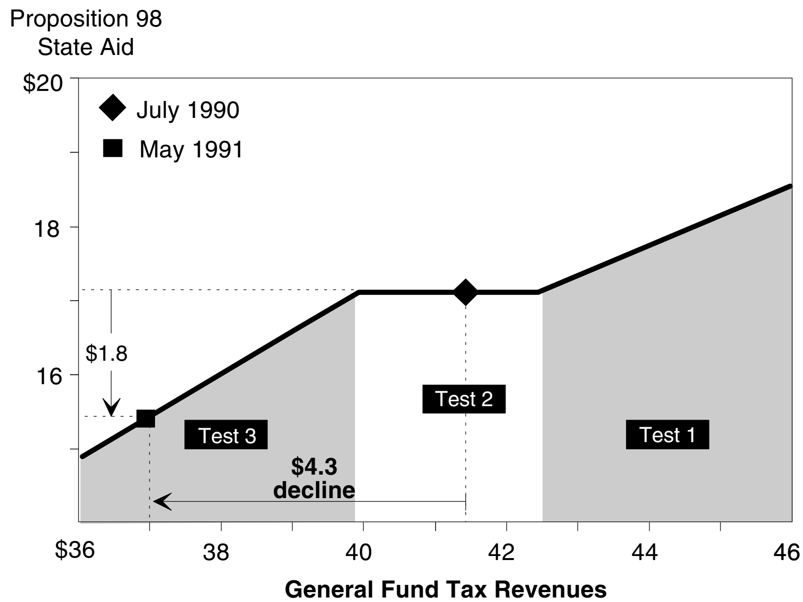
1990-91 Funding Level. Figure 5 shows how the computation of the Proposition 98 guarantee for 1990-91 changed between July 1990 and May 1991. Specifically, the figure shows that the Legislature approved a total level of state funding for Proposition 98 of *$17.1 billion* when it passed the 1990-91 budget in July 1990. This amount, which was subsequently reduced to $16.7 billion by gubernatorial vetoes, was based on the assumption that the minimum funding guarantee would be determined by Test 2 (the maintenance of prior-year service levels test).

The figure also shows, however, that estimated 1990-91 General Fund tax *revenues decreased by $4.3 billion* and, as a result, the basis for computing the Proposition 98 guarantee shifted from Test 2 to Test 3. Absent any

Figure 5

Proposition 98 Funding Guarantee

1990-91
(in billions)



further legislative action, the level of funding already appropriated for K-14 education in 1990-91 would have exceeded the Test 3 minimum requirement — $15.3 billion — by $1,366 million. (This amount, when added to the veto-related funding reductions, yields the $1.8 billion "gap" shown in the figure.) In order to avoid this outcome, the Legislature enacted legislation to:

- Count $133 million of this amount towards fulfilling remaining amounts owed schools for the 1989-90 Proposition 98 guarantee.
- Reduce funding for schools by $1,233 million in 1990-91 while simultaneously providing them with an equivalent loan in 1990-91 from funds counting towards the 1991-92 guarantee (in effect, "shifting" the remaining $1,233 million in excess of the 1990-91 minimum guaran-

tee across fiscal years, in order to satisfy 1991-92 requirements).

1991-92 Funding Level. Table 8 shows that the state contribution to the Proposition 98 guarantee in the 1991 Budget Act is $18.4 billion. It is based on the *maintenance of prior-year service levels* requirement, or Test 2, and consists primarily of the following:

- $15.4 billion for K-12 education programs.
- $1.7 billion for community college programs.
- $1.2 billion loaned to K-12 schools and community colleges for 1990-91 expenditures (as noted above).

(Elsewhere in this analysis, all references to school funding reflect actual amounts *received* in each fiscal year; thus, each segment's share of the $1.2 billion loan to K-12 schools and community colleges is included in its respective total funding for *1990-91*.)

Table 8

Proposition 98 Funding

1990-91 and 1991-92
(in millions)

			Change from 1990-91	
	1990-91	**1991-92**	**Amount**	**Percent**
State aid:				
K-12 schools	$14,924	$15,428	$504	3.4%
Community colleges	1,691	1,696	5	0.3
Other purposes[a]	63	65	2	2.7
Subtotals	**$16,678**	**$17,189**	**$511**	**3.1%**
"Shift" across fiscal years[b]	-$1,366	$1,233	$2,599	—[c]
Subtotals, state aid	**$15,312**	**$18,422**	**$3,110**	**20.3%**
Local property taxes:				
K-12 schools	$4,952	$5,310	$358	7.2%
Community colleges	793	854	61	7.7
Subtotals, local property taxes	**$5,745**	**$6,164**	**$419**	**7.3%**
Totals	**$21,057**	**$24,586**	**$3,529**	**16.8%**

[a] Department of Developmental Services, California Youth Authority, state special schools, Indian education centers, and employee compensation.
[b] See text for discussion.
[c] Not a meaningful figure.

Comparison to Governor's Budget Proposal. As part of his overall plan to balance the state budget (as revised in May), the Governor proposed to *suspend* the Proposition 98 minimum funding requirement in 1991-92, and reduce funding for K-14 education by approximately $1.7 billion below the Test 2 minimum. When combined with the roughly $400 million in veto-related funding reductions below the *revised* 1990-91 Test 2 level, funding for K-14 education would have been $2.1 billion below amounts needed to maintain current service levels over the two-year period.

The funding plan ultimately adopted by the Legislature, and approved by the Governor, instead (1) let stand the $400 million in veto-related funding reductions below the revised 1990-91 Test 2 funding level and (2) further reduced the level of 1990-91 appropriations counting towards Proposition 98 by nearly $1.4 billion and, in effect, applied $1.2 billion of this amount towards meeting the 1991-92 minimum requirements. (These actions had *no impact* on the amount of funding *actually received* by schools in 1990-91 and 1991-92, relative to the Governor's Budget proposal.) Finally, the plan appropriated $424 million in additional, "real" funding for K-14 education in 1991-92, above amounts originally proposed by the Governor.

From the schools' perspective, the most significant consequence of not suspending Proposition 98 may occur in 1992-93. This is because, while schools received "only" $424 million in additional funding above the Governor's proposal for 1991-92, the Test 2 funding level for 1992-93 will be based on maintaining a 1991-92 level which *includes* the $1.2 billion in funding "shifted" across fiscal years. Provided that General Fund revenue growth is sufficiently strong, therefore, funding for K-14 education in 1992-93 may significantly exceed amounts needed to maintain *actual* 1991-92 funding levels, even after allowing for enrollment growth and inflation.

K-12 Education

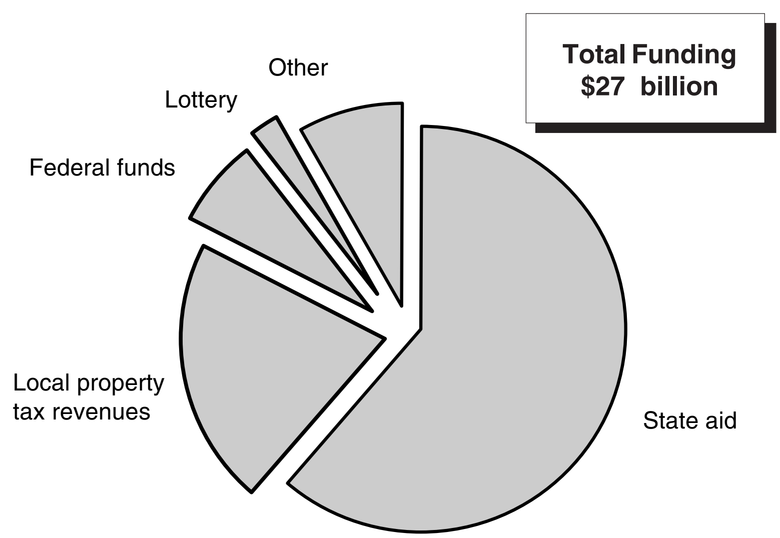
In 1991-92, funding for K-12 education from all sources—state, local, and federal—will total $27 billion, making it the single largest program in the state budget. This amount represents an increase of $1.6 billion, or 6.2 percent, over what was available in 1990-91. Of the $27 billion in total funding, $20.7 billion (77 percent) represents state and local funding guaranteed by Proposition 98.

Figure 6 shows that K-12 total funding consists primarily of $16.5 billion (61 percent) in state aid and $5.7 billion (21 percent) from local property tax revenues. The state aid amount represents an increase of $928 million, or 6 percent, above 1990-91 levels.

Figure 7 provides an historical perspective on total funding per unit of average daily attendance (ADA) for K-12 education for the years 1982-83 through 1991-92, both in current and real (inflation-adjusted) dollars. As the figure shows, real 1991-92 funding per ADA will be lower than in 1990-91. However, this funding will be nearly 13 percent *higher* than the level of per-ADA funding in 1982-83, immediately prior to the enactment of SB 813 (the Hughes-Hart Educational Reform Act of 1983).

Figure 6

The 1991 Budget Act
Sources of K-12 Education Funding[a]



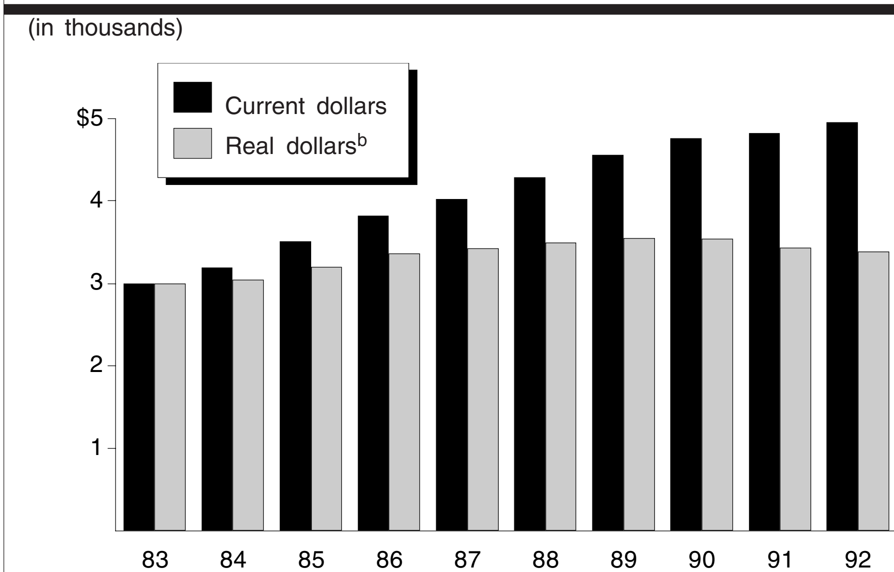
[a]Figures exclude funding for library programs and the proceeds of state general obligation bond issues for school facilities aid. They include, however, General Fund payments for debt service on these bonds.

Governor's Vetoes and Set-Asides

Table 9 summarizes the Governor's Proposition 98-related vetoes, all of which were within the K-12 education budget, totaling $63.9 million. Of this amount, $50 million was intended to encourage the Legislature to resolve an issue related to attendance accounting, for which the administration had originally proposed reducing schools' funding by $250

Figure 7

K-12 Education Funding Per ADA In Current and Real Dollars 1982-83 through 1991-92[a]



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

million. Specifically, the Governor objects to an administrative practice of the State Department of Education, under which a student is deemed to have completed the required 4-hour minimum school day if he or she (1) was *enrolled* for a minimum day's worth of classes and (2) was under the supervision of a school employee for *any* time period prior to leaving school. Presumably, if this issue is resolved to the administration's satisfaction, part or all of the $50 million may be restored.

The Governor's veto message also indicates that he has "set aside" $9.2 million for legislation to establish a new pupil testing program (of which $5 million would count towards Proposition 98 minimum funding requirements) and an additional $5 million in Proposition 98 funding to provide comprehensive service grants to state-subsidized preschool programs upon enactment of AB 1670 (Hansen).

Table 9

1991 Budget Act Proposition 98-Related Vetoes

(in thousands)

K-12 Education	
Attendance accounting	$50,000
Pupil testing	5,000 [a]
Child development	4,407 [a]
Beginning teacher study	2,300
Partnership academies	1,484
Desegregation (San Jose)	700
Total	**$63,891**

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

Although the Governor has set aside funding for these purposes, he does not have the authority unilaterally to order that the funds be spent in this manner. Rather, the use of Proposition 98 funds for these — or any other — purposes will require the enactment of appropriation bills by the Legislature. If the Legislature and the Governor fail to agree on how to spend remaining amounts of Proposition 98 funding owed schools and community colleges, these funds will remain available for appropriation through 1991-92 and most of 1992-93 for Proposition 98-eligible purposes.

Specifically, current law provides that, no later than April 1, 1993, the Director of Finance and the Superintendent of Public Instruction shall determine the remaining amount owed K-14 education pursuant to Proposition 98 for 1991-92. Following this determination, the Legislature has 90 days in which to appropriate this balance for specific Proposition 98-eligible purposes. If the Legislature fails to enact such a measure by the end of the 90-day period, the funding is to be apportioned by the Controller among schools and community colleges based on equal amounts per ADA.

PERS-Related Savings

In addition to providing $424 million in direct augmentations above amounts originally proposed by the Governor, the Legislature also reduced K-12 school and community college district costs by approximately $300 million in 1991-92, on a one-time basis, through the enactment of Chapter 83, Statutes of 1991 (AB 702, Frizelle). This measure "recaptured" a total of approximately $1.8 billion in funding from two accounts (the Investment Dividend Disbursement Account (IDDA) and Extraordinary Performance Dividend Account (EPDA)) within the Public Employees' Retirement System (PERS), and provided for an equivalent, one-time reduction in the amount of employer contributions on behalf of employees covered by PERS. (The IDDA and EPDA accounts, which were repealed by Chapter 83, provided additional, ad hoc purchasing power protection for retirees, to the extent that PERS' actual investment earnings exceeded actuarial assumptions.) This issue is discussed further beginning on page 30 — Pension System Changes.

For schools and community colleges, Chapter 83 results in a total of roughly $300 million in savings through reduced contributions to PERS in 1991-92. For community colleges, these savings accrue directly to the affected districts, based on their actual PERS contributions. In the case of school districts, however, there is an additional "twist": the state recaptures the amount of each district's *actual* savings (which may vary significantly on a per-pupil basis) and redistributes the savings among *all* districts in roughly equivalent amounts per unit of average daily attendance (ADA). In practical terms, each district will receive approximately $50 per ADA.

Trial Court "Realignment"

The Legislature enacted two pieces of legislation — Chapter 90 (AB 1297, Isenberg) and Chapter 189 (AB 544, Isenberg) — to provide substantially increased state funding for trial courts and generate additional revenue for the state. Specifically, the measures: (1) increased the state's share of operating costs of trial courts, (2) transferred revenues to the state from local governments, (3) established mechanisms to improve collections of unpaid fines, forfeitures, and penalties, and (4) enacted a variety of reforms in the trial courts that are designed to increase efficiency and reduce costs for support of the trial courts in the long run.

The fiscal effect of these changes is outlined in Table 10 (next page). As the table shows, the Department of Finance estimates that the legislation will result in net savings to the state of about $292 million in 1991-92.

Background. The California Constitution vests the state's judicial power in the Supreme Court, the courts of appeal, and the superior, municipal, and justice courts. The superior, municipal, and justice courts are the state's "trial courts." The Trial Court Funding Program, enacted by Ch 945/88 (SB 612, Presley), the Brown-Presley Trial Court Funding Act, provided for the state to assume primary responsibility for funding the operations of the trial courts in counties that chose to participate in the program. In 1990-91, the state funded about 38 percent of the total costs of trial courts and the counties funded the remainder.

Increased Funding for Trial Courts. Chapter 90 increased the state's share of funding for trial courts in 1991-92 to 50 percent. This results in additional costs of about $222 million above amounts originally proposed in the Governor's Budget in January.

Chapter 90 specifies that it is the *intent* of the Legislature to increase the state's share of funding for trial courts by five percent per year until the state's share is 70 percent in 1995-96. Additional funding for the courts would be subject to future actions of the Legislature, presumably in the annual Budget Bill.

Transfers of Local Court Revenues. Prior to Ch 90/91, court-related fine and forfeiture revenues were divided between counties and cities, based on the location of the violation of law that resulted in the fine. In order to offset the additional costs of state funding the trial courts, Chapters 90 and 189 reduced the city and county share of non-parking fines by transferring 50 percent of the cities' share and 75 percent of the counties' share to the state, beginning in 1991-92.

Table 10

Fiscal Effect of Trial Court Realignment

1991-92 (dollars in millions)

Revenues:	
Transfers to State[a]:	
50 percent of city revenues	$77.0
75 percent of county revenues	208.0
Subtotal	**$285.0**
Increases:	
Enhanced collections	$55.0
Penalty assessments	79.0
Traffic school fees[b]	98.0
Subtotal	**$232.0**
Total, Revenues	**$517.0**
Costs:	
Trial courts	$221.6
Judicial Council administrative costs	2.6
Judicial Retirement System	0.9
Total, Costs	**$225.1**
Net Savings	**$291.9**

[a] Also known as trial court revenue recapture.
[b] Includes both revenue transfers and fee increase.

Enhanced Collections of Fines, Penalties, and Forfeitures. Chapters 90 and 189 established a number of new mechanisms to assist local governments in collecting unpaid fines, penalties, and forfeitures. These changes were partially designed to generate additional revenues to the state to cover the costs of additional state funding of trial courts. These mechanisms include income tax and lottery intercepts, wage garnishment, use of private collection agencies, holds on vehicle registration and driver's license renewals, use of credit cards and personal checks for payment. In order to provide an additional incentive for persons to pay their unpaid fines and penalties, Ch 90/91 declares amnesty on the payment of motor vehicle violations that were due on or before April 1, 1991.

Court Efficiencies and Savings. Chapter 90 includes a number of reforms to increase the efficiency of the trial courts. Although these reforms are designed to reduce the long-term costs of court operations, no savings were estimated from these reforms in the budget year.

The most significant reform requires all superior and municipal courts to coordinate their operations. Coordination plans must be reviewed and approved by the state Judicial Council by July 1, 1992. The measure requires the courts to consider specific options in developing the plans and specifies that the plans should provide for reductions in court operating costs of at least 3 percent in 1992-93, an additional 2 percent in 1993-94, and an additional 2 percent in 1994-95.

Filling the $205 million "Hole". In May, the Governor requested a reduction of $205 million for support of the Trial Court Funding Program. The Governor indicated that this reduction would recognize a "windfall" to cities and counties from his proposals to broaden the sales tax base and realign certain health and welfare programs between the state and local governments. The Governor proposed to backfill the $205 million by redirecting equivalent Vehicle License Fee (VLF) revenues ($140 million from counties and $65 million from cities) for support of the Trial Court Funding Program.

In the Budget Act, the Legislature approved the Governor's plan to reduce the Trial Court Funding Program by $205 million, but did not redirect VLF revenues as he had proposed. Without filling the $205 million "hole," counties would have been responsible for these costs from their own revenues.

In order to address this issue, the Legislature enacted Ch 331/91 (SB 21, no author), which appropriated $205 million to fill the "hole," and established several new revenue sources to cover the appropriation.

Pension System Changes

The 1991 budget plan includes a total General Fund savings of $667 million realized through various changes in funding requirements for the state's two largest retirement systems — the Public Employees' Retirement System (PERS) and the State Teachers' Retirement System (STRS). Chapter 83, Statutes of 1991, (AB 702, Frizzelle) contains the statutory changes for STRS and PERS which are required to implement the budget plan.

Public Employees' Retirement System

The budget plan includes three major changes which directly affect the funding requirements for PERS in 1991-92. In addition, Chapter 83 makes several changes in the responsibilities of the PERS Board of Administration which could increase the Governor's ability to influence future funding requirements for the system. Each of these changes is outlined below.

Restructure Purchasing Power Protection Program. Prior to the changes implemented by Chapter 83, the PERS administered the Investment Dividend Disbursement Account (IDDA) which provided supplemental payments to retirees to ensure that the purchasing power of their allowances did not fall below 75 percent of the purchasing power provided by their original allowance. The PERS also administered the Extraordinary Performance Dividend Account (EPDA) which provided payments sufficient to add another 5 percent of purchasing power (80 percent when combined with IDDA payments). The law provided that the provision of these benefits was contingent on the availability of funds, and thus, was not guaranteed to retirees. The law also provided for the accounts to maintain specified levels of reserves which at the end of 1990-91 totaled $1.8 billion.

Chapter 83 eliminated the IDDA and EPDA accounts and required that the reserves be used to offset state, local public agencies, and local school employers' retirement contributions. The reserve amount was sufficient to fully offset the contributions of these employers in 1991-92, and thus the measure will result in savings of $350 million to the state, $300 million to K-14 schools (discussed earlier), and $460 million to various local public agencies. The measure also would leave an additional $700 million available to offset state and local public agencies contributions in 1992-93.

In place of IDDA and EPDA, Chapter 83 established a new purchasing power program which would be provided as a vested benefit. The program would be funded by (1) up to 1.1 percent of the investment earnings on PERS' member accounts and (2) a portion of the interest that previously would have accrued to members who withdraw their contributions upon leaving state service. Under the program, retirees would receive purchasing power protection of up to 75 percent of their original allowance, or whatever lesser percentage can be supported by the funding formula.

Increase Assumed Yield on Investments. The 1991 budget plan also assumes that the state's General Fund contribution to PERS will be reduced by $200 million in 1991-92. These savings would result from an increase in the rate of return assumed for the investments made by PERS. The Governor's Budget as introduced in January proposed that PERS increase this assumption from the current 8.5 percent to 9.5 percent because investment performance in previous years had consistently exceeded the 8.5 percent assumption. The budget assumed that implementation of the proposal would result in savings of $86 million in 1991-92. Savings were revised upward to $200 million following subsequent analyses by PERS staff.

Mandate Tier II Retirement. The third major change enacted by Chapter 83 is the requirement that most new state employees participate in a second tier retirement program. The new program would provide a lesser benefit than the miscellaneous Tier I program which was previously available to all employees. The new program would not require employees to make any financial contribution to their retirement, and would also require a lesser contribution from the state. The Department of Finance estimates that the mandatory Tier II program would save the General Fund $5 million in 1991-92. The extent to which these savings will be realized, however, depends on the number of new employees hired by the state in 1991-92.

Reduce PERS Board Responsibilities. In addition to the provisions which have a direct fiscal impact, Chapter 83 provides that the Governor shall appoint an independent actuary to conduct annual valuations and establish the actuarial assumptions used to determine the employers' contribution rate. The measure provides that the Governor will use the actuary's findings to establish employer contribution rates in the annual Budget Act. Under previous law, the actuarial determinations were provided for by PERS and the employer contibution rates were adopted by the PERS Board of Administration.

State Teachers' Retirement System

Chapter 1370, Statutes of 1990 (SB 1370, Cecil Green) established a schedule for the state to meet its funding obligations to the State Teachers' Retirement Fund (STRF) over a 40 year period. Using this formula the state contribution for 1991-92 would have been $470 million. This amount would have been transferred from the General Fund to the STRF in 12 monthly installments.

As part of the 1991 budget plan, Chapter 83/91 requires that these payments be made to the STRF on a quarterly, rather than monthly, basis. Effectively, this change results in a General Fund savings of $117 million in 1991-92 because the last quarter's payment is made in the following fiscal year — on July 1, 1992. A similar strategy was implemented for PERS funding requirements in 1990-91 by Chapter 1251, Statutes of 1990 (SB 2465, Cecil Green).

State Employee Compensation

The 1991 budget plan includes several provisions which reduce funding for employee compensation.

Unallocated Reduction — $351 million. Section 3.90 of the 1991 Budget Act imposes an unallocated General Fund reduction of $351 million in employee compensation. The Department of Finance has allocated this reduction to the affected state agencies. However, several of the means for reducing compensation must be collectively bargained with represented employees and or require statutory changes to implement. The following methods for achieving this reduction have been proposed by the administration and are currently being negotiated with employee groups:

- Reducing the total workforce through layoffs.
- Reducing salaries of all state employees.
- Requiring employees to pay for a greater portion of their health benefits costs.

Health Benefits Contributions. In addition to the unallocated reductions the 1991 Budget Act does not provide funding for the employer's cost for increased health benefit premiums. Thus, the budget assumes that employees will pay the increased premium cost and save the General Fund about $34 million. These savings, however, cannot be achieved absent an agreement with the employee groups.

Higher Education Funding

Table 11 displays the change in General Fund expenditure levels from 1989-90 through 1991-92 for higher education. Overall, General Fund higher education expenditures for 1991-92 are budgeted at a level that is $69.6 million (1.2 percent) less than the 1990-91 estimated amount. Table 11 shows that the 1991-92 General Fund budget level for the University of California (UC) is $2.1 billion, a decrease of $29.8 million (1.4 percent) below 1990-91. The California State University system is budgeted at a level that is $53.8 million (3.2 percent) below 1990-91. The California Community Colleges' budgeted level is estimated to be $1.7 billion, an increase of $1.7 million (0.1 percent) above the 1990-91 level.

Table 11

Higher Education
Summary of General Fund Budgets

1989-90 through 1991-92
(dollars in thousands)

	1989-90	1990-91	1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
University of California	$2,076,662	$2,135,733	$2,105,888	-$29,845	-1.4%
California State University	1,631,540	1,699,014	1,645,249	-53,765	-3.2
California Community Colleges	1,554,615	1,706,167	1,707,867	1,700	0.1
Hastings College of the Law	13,346	13,531	13,593	62	0.5
California Maritime Academy	6,772	7,047	7,075	28	0.4
Student Aid Commission	152,610	160,123	172,938	12,815	8.0
California Postsecondary Education Commission	3,478	3,594	2,954	-640	-17.8
Council for Private Postsecondary and Vocational Education[a]	—	—	—	—	—
Totals	**$5,439,023**	**$5,725,209**	**$5,655,564**	**$69,645**	**-1.2%**

[a] This council is self-supporting. The council's proposed 1991-92 budget is $2.9 million.

Table 12 (next page) shows higher education resident student fees from 1989-90 through 1991-92. For UC, Table 12 combines the Budget Act fee increase of 20 percent and the Regent's additional 20 percent increase resulting in an overall increase of 40 percent.

Unallocated "Trigger" Reductions

Under the provisions of Chapter 458, Statutes of 1990 (AB 2348, Willie Brown), state General Fund appropriations are to be reduced by up to 4 percent whenever state General Fund revenues are insufficient to fund the state's "workload budget" expenditure level. This automatic reduction provision is referred to as the "trigger." The determination as to whether the trigger is activated is to be made by the Director of Finance on or before May 21 of each year, subject to certification by the Commission on State Finance. In May, the Director determined that General Fund revenues would be approximately 25 percent short of the amount needed to fund the workload budget, and the Commission certified the general accuracy of these estimates.

Table 12

Higher Education
Student Fees in California Public Institutions

1989-90 through 1991-92

	Actual 1989-90	Actual 1990-91	Budgeted 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
University of California					
Undergraduate/Graduate	$1,476	$1,624	$2,274	$650	40.0%[a]
Medicine/Law	1,476	2,000	2,650	650	32.5
California State University	708	780	936	156	20.0
Hastings College of the Law	1,476	2,000	2,650	650	32.5
California Maritime Academy	928	1,020	1,224	204	20.0
Community Colleges	100	100	120	20	20.0

[a] This fee is the combined increase of 20 percent in the Budget Act and the UC Regent's additional 20 percent increase.

The 1991 Budget Act reflects the reductions required by the trigger statute, as well as certain modifications to these reductions agreed to by the Legislature and the administration. Section 1.2 of the Budget Act implements the trigger reductions for 1991, which amount to approximately $802 million. Because these reductions were made on an "unallocated" basis, there is no information available as of this writing as to how the reductions will actually be implemented. The administration has requested all state agencies to develop implementation plans detailing how these savings will be achieved.

Base Program Reductions

The budget also makes numerous "base" reductions to specific programs. Base reductions represent either the total *elimination* of specific services previously provided, as is the case of the AFDC-U program, or reductions in the *level* of services previously provided, as in the case of AFDC grants. These reductions are discussed below.

Social Services Programs. The budget made the following major reductions in the social services area:

- ***Suspension of AFDC COLAs, Reduction of Maximum AFDC Grants.*** General Fund savings of $259.5 million in 1991-92. Chapter 97, Statutes of 1991 (SB 724, Maddy) reduces the 1991-92 AFDC maximum aid payments

(MAP) by 4.4 percent from their levels in 1990-91 ($100.2 million) and suspends the 1991-92 COLA ($159.3 million). Additionally, Chapter 97 changes the way AFDC grants are determined for those recipients with income. Specifically, the grant for recipients with income is now determined by subtracting nonexcluded income from the "need standard" (which remains at its 1990-91 level) rather than the MAP. The effect of this change is to establish a work incentive for recipients. Chapter 97 also suspends the MAP COLA for fiscal years 1992-93 to 1995-96, but requires that the need standard be increased in each of these years by an amount equal to 70 percent of the annual increase in the California Necessities Index (CNI). The effect of increasing the need standard in future years will be to increase the incentive for recipients to work by increasing the amount of income they will be allowed to keep without an offsetting grant reduction.

- ***Reform of the AFDC Homeless Assistance Program (HAP).*** General Fund savings of $6.8 million. Chapter 97 reduces the amount of HAP temporary shelter assistance available to a family, tightens eligibility for the HAP, and increases the waiting period between HAP grants.
- ***Other AFDC Program Changes.*** Net General Fund savings of $15.5 million. Chapter 97 (1) eliminates the state-only AFDC-Unemployed Parent Program ($11.1 million), (2) extends the Early Fraud Detection Program to all counties ($3.2 million), and (3) disqualifies AFDC recipients who intentionally commit program violations ($1.2 million).
- ***Suspension of Foster Care COLAs***. Net General Fund savings of $19.3 million. Chapter 97 suspends the 1991-92 foster care group home COLA required by Ch 1294/89 (AB 370, Presley) for a General Fund savings of $8.9 million. The budget also includes General Fund savings of $10.4 million due to the suspension of the 5 percent COLA contemplated by Chapter 1294. This COLA was to be allocated to foster family homes that care for children with specialized health care needs.
- ***Suspension of SSI/SSP COLA, Pass-Through of Federal SSI COLA.*** Net General Fund savings of $74.5 million in 1991-92. Chapter 97 suspends the state SSI/SSP COLA in each of the years from 1991-92 through 1995-96. Chapter 94, Statutes of 1991 (AB 385, Epple) specifies,

however, that any federal COLA given to the SSI grant will be passed through during this same period. The combined effect of passing through the federal COLA and eliminating the state COLA will be that recipients' grants will increase by about half of the amount that they would have increased under prior law.

Department of Developmental Services

- ***Regional Centers.*** The Governor's Budget proposed two separate reductions to the regional centers budget totaling $31.5 million: (1) $5.8 million to reflect proposed legislation that would require regional centers to develop client's Individual Program Plans (IPPs) when needed, instead of annually (as required at the time), and (2) $25.7 million in an unallocated reduction. The 1991 Budget Act consolidated these two reductions into a single unallocated reduction. Chapter 93/91 (SB 1045, McCorquodale) (1) requires regional centers to develop client IPPs at least every three years and (2) specifies the process for implementing the regional centers' unallocated reduction.

Medi-Cal

- ***Medi-Cal Eligibility (Ch 97/91, AB 336, Hunter).*** As we discuss in the section on Social Services, the Legislature approved a 4.4 percent reduction in the AFDC maximum aid payment (MAP). Normally, a reduction in the AFDC MAP would affect Medi-Cal eligibility for medically needy beneficiaries because the AFDC MAP is used to determine Medi-Cal eligibility for these individuals. However, this measure requires the DHS to continue to determine Medi-Cal eligibility based on the AFDC MAP in effect on June 30, 1991 rather than on the reduced MAP.
- ***Medi-Cal Impact of Eliminating AFDC Beneficiary COLA.*** The 1991 budget plan includes $12.5 million in General Fund savings due to the enactment of legislation waiving the requirement for inflation adjustments for AFDC grants for 1991-92. This change eliminates the "spin-off" costs of the AFDC COLA to the Medi-Cal Program. These costs occur when increases in the AFDC grant level (1) reduce the portion of medical expenditures paid for by medically needy beneficiaries and (2) increase the number of individuals who qualify for AFDC and therefore become automatically eligible for Medi-Cal.

Other Major Features

Proposition 99. Chapter 278/91 (AB 99, Isenberg), reauthorizes for three years various health and education programs funded by Proposition 99, the Tobacco Tax and Health Protection Act of 1988. Specifically, the measure appropriates $540.3 million in 1991-92, as displayed in Table 13.

Table 13 (next page) shows, from 1990-91 to 1991-92, Proposition 99 resources available for expenditure are expected to decline by $89 million, or 14 percent. This decline is primarily due to two factors: (1) the revenues from the tobacco products surtax are projected to decline by $14 million, or 3 percent, and (2) the amount of available funds carried over from previous years is projected to decline by $66 million, or 47 percent.

The major new program funded through Proposition 99 is a perinatal insurance program, funded primarily through a reduction in funding for health education programs. Specifically, the measure provides $45 million to establish the Access for Infants and Mothers (AIM) program, to provide insurance coverage for women with incomes of between 200 and 250 percent of the federal poverty level seeking pregnancy-related and neonatal medical care. (Chapter 278 provides that women with incomes of less than 200 percent of the federal poverty level would continue to be served through the Medi-Cal Program.) The Major Risk Medical Insurance Board, which is to administer the program, would enter into contracts with private insurers for subscriber coverage. Premium costs would be paid for through Proposition 99 funds and enrollee fees, based on a sliding fee scale. (Please see our May 1991 report, *Implementation of Proposition 99: An Overview,* for a more detailed review of Proposition 99 programs.)

Capital Outlay. The 1991 Budget Act includes $554 million for the state's capital outlay program (excluding highways and the state water project). As shown in Table 14, this amount is $37 million less than that included in the Governor's Budget as revised. Major legislative changes included the following:

- A reduction of $42 million for capital outlay programs funded from the Special Account for Capital Outlay (SAFCO). In general, the budget includes only those SAFCO-funded projects that meet critical fire/life safety needs and that will be ready to proceed in the budget year.
- A reduction of $24.3 million for Department of Parks and Recreation (DPR) projects. Except for one project, funded from the Off-Highway Vehicle Account, the DPR capital outlay program was deleted from the 1991 Budget Act.

Table 13

Proposition 99 Revenue and Expenditure Highlights Selected Accounts[a]

(dollars in thousands)

	Estimated 1990-91	Budgeted 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Resources				
Revenues from tobacco surtax	$491,698	$477,588	-$14,110	-2.9%
Interest income	23,800	14,400	-9,400	-39.5
Carryover from previous year	140,063	74,508	-65,555	-46.8
Totals	**$655,561**	**$566,496**	**-$89,065**	**-13.6%**
Expenditures and transfers				
Department of Health Services				
California Healthcare for Indigents Program (CHIP)	$315,854	$226,304	-$89,550	-28.4%
Clinics	18,265	16,561	-1,704	-9.3
Child Health and Disability Prevention Program (CHDP)	22,309	35,646	13,337	59.8
Health education programs	99,465	59,120	-40,345	-40.6
Expansion of Medi-Cal perinatal services	14,717	24,346	9,629	65.4
Department of Mental Health	30,000	40,000	10,000	33.3
State Department of Education	36,011	27,700	-8,311	-23.1
Major Risk Medical Insurance Board				
Major Risk Medical Insurance Program (MRMIP)	—[b]	30,000	30,000	—[c]
Perinatal insurance program	—	44,803	44,803	—[c]
Other programs	44,432[d]	35,861[d]	-8,571	-19.3
Totals, all programs	**$581,053**	**$540,341**	**-$40,712**	**-7.0%**
Reserve carried over to next fiscal year	$74,508	$26,155	-$48,353	-64.9%

[a] Selected accounts are: Health Education, Hospital Services, Physician Services, and Unallocated.

[b] Funded at $30 million in 1990-91, through an appropriation from 1989-90 funds.

[c] Not a meaningful figure.

[d] Includes transfer of $13.7 million in 1990-91 and $13.3 million in 1991-92 from the Unallocated Account to habitat funds pursuant to the requirements of Proposition 117.

The Legislature decided during budget deliberations to appropriate funds through separate legislation for this purpose. As of this writing, no bill was moving through the Legislature.

- An augmentation of $41.3 million from earthquake safety bond funds to repair or replace two buildings at the Museum of Science and Industry. These buildings were ordered closed by the State Architect in October 1990.
- A redirection of $152 million previously appropriated for prisons in Los Angeles and Susanville in order to fund construction of a women's facility in Madera. The Governor vetoed this redirection, leaving funding available to complete the Los Angeles prison.

Tidelands Oil. In January 1991, the State Lands Commission (SLC) estimated that revenues from the state's tidelands oil operations would total $165 million in 1991-92. 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. In lieu of statutory priority for distribution of tidelands oil revenues, the Governor's Budget proposed allocating the limited revenues as follows: support costs for the SLC ($13 million), transfer to the California Housing Trust Fund ($3 million), and transfer to the Special Account for Capital Outlay ($149 Million).

Table 14

1991-92 Capital Outlay Program (Excluding Highways and the State Water Project)

(in millions)

Project Area	Revised Governor's Budget	1991 Budget Act
Legislative/Judicial/Executive	$1.2	$1.2
State and Consumer Services	8.5	46.6
Transportation	6.9	6.7
Resources	102.0	68.4
Health and Welfare	26.1	7.0
Youth and Adult Correctional	20.4	19.0
Higher Education	403.2	399.6
General Government	22.5	5.3
Totals	**$590.8**	**$553.8**

In June, the Governor's Budget was revised to reflect a $6 million reduction in anticipated revenue and to provide a $30 million transfer to the General Fund. These changes resulted in a decrease in the transfer to SAFCO of $36 million.

The Legislature reduced SAFCO appropriations by an additional $50 million. This included the deletion of most SAFCO-funded capital outlay projects that did not address critical fire and life safety needs and reduction of amounts for state operations. This reduction and the $30 million proposed by the Governor allowed the Legislature to transfer a total of $80 million to the General Fund.

The Governor vetoed $1.3 million of the amount allocated to the California Housing Trust Fund. This $1.3 million remains unappropriated in the SAFCO. Figure 8 shows the allocation of tidelands oil revenues as proposed in the Governor's Budget as revised in June and as provided in the 1991 Budget Act.

Recent Settlement of Tidelands Oil Antitrust Suit Increases Amount in SAFCO. In 1975, the State Lands Commission and the City of Long Beach filed suit against seven oil companies, alleging that the companies conspired to fix the price of crude oil that the state sold to these companies from 1971 to 1977. Two companies settled prior to July 1991 (one in 1984 and another in January 1991). Since adoption of the 1991 Budget Act, four of the remaining companies have offered to settle the suit for a total of $180 million in cash, about $165 million of which will go to the state, plus about $40 million over 10 years from dedication of pipelines to common carriers.

The State Lands Commission and the Governor approved the proposed settlement in August 1991. The settlement must be approved by the court. Assuming court approval, the commission expects that the state will have received the $165 million cash payment by November 1, 1991. Under the provisions of Section 11.50 of the 1991 Budget Act, these funds will be deposited in the SAFCO.

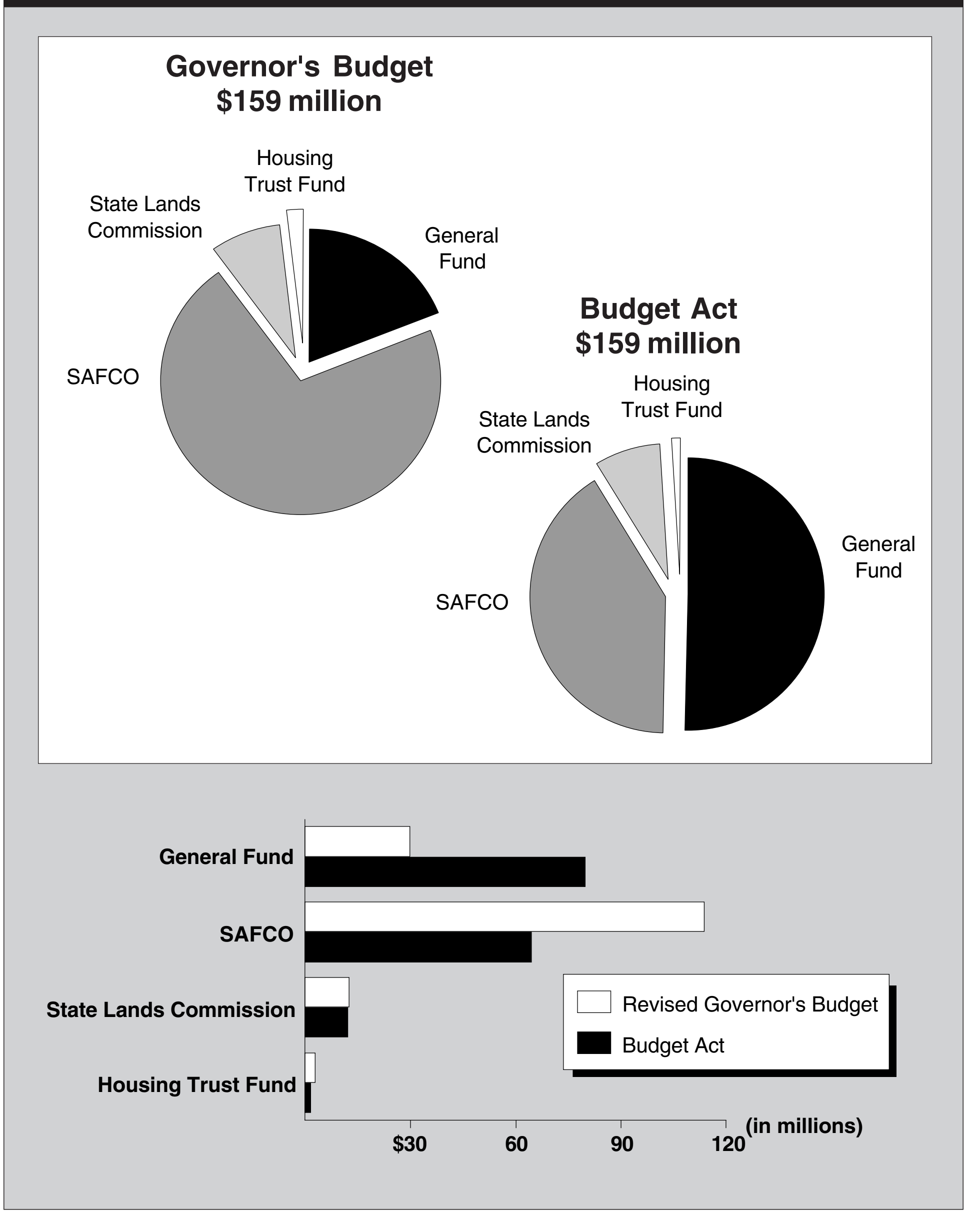
Major Program Initiatives

The budget reflects several new program initiatives which increase spending above the workload budget level. These include:

- ***State Preschool Expansion.*** The budget appropriates $44 million (plus $500,000 for state administration) for the first year of a multi-year program to expand the availability of state-subsidized preschool, with the goal of eventually serving all eligible three- and four-year-olds from low-income families. Statutory authority for this expansion is contained in pending legislation—AB 1670 (Hansen). The

Figure 8

1991-92 Distribution of Tidelands Oil Revenue



Governor's veto message indicates that he has set aside an additional $5 million in Proposition 98 funding to provide comprehensive service grants to state-subsidized preschool programs upon the enactment of AB 1670.

- ***Healthy Start.*** The budget appropriates $20 million to establish a new Healthy Start pilot program in grades K-6. This program will provide funding for school districts to refer pupils to public health and social service providers, with the aim of better local coordination and integration of these services. Authority for the program is contained in pending legislation — SB 620 (Presley).
- ***Medi-Cal Program (Ch 95/91, AB 336, Hunter).*** This measure expands the Medi-Cal program's use of managed health care plans and fee-for-service managed health care plans. Effective January 1, 1994, the measure makes enrollment in a managed health care plan automatic for all Medi-Cal beneficiaries unless the beneficiary specifically requests to receive a monthly Medi-Cal card and seek services from an individual provider. In order to reject the managed care option, beneficiaries must certify that they have a doctor-patient relationship with a provider who is willing to provide Medi-Cal services. Under current law, beneficiaries automatically receive a monthly Medi-Cal card unless they specifically request to enroll in a managed health care plan.
- ***Teen Pregnancy Initiative.*** The 1991 Budget Act includes $15 million for various programs designed to reduce the number of teenage pregnancies in California: (1) $5 million for a statewide health education and media campaign entitled Education Now Babies Later (ENABL), (2) $3 million for family planning outreach to teens at high risk of unplanned pregnancies, (3) $5 million to make Norplant a contraceptive option, and (4) $2 million for expanding Adolescent Family Life case management services.
- ***Family Planning.*** The 1991 Budget Act appropriates a total of $66.4 million for family planning. The funding for 1991-92 is $30 million, or 82 percent, greater than the $36.4 million appropriated for 1990-91. Included within the $30 million are augmentations of (1) $13 million for the outreach, ENABL and Norplant components of the Teen Pregnancy Initiative discussed above, as well as (2) $10 million for services for teens and substance abusers and (3) $7 million to replace federal funding for family planning providers who choose not to adhere to new federal funding requirements that, among other things, prohibit the discussion of abortion.

- ***California Childrens' Services (CCS) Reform.*** In addition to realigning local CCS services (discussed earlier), the 1991 Budget Act provides $1.2 million to support major administrative reforms in the state's operation of the program, including reducing case backlogs, computerizing case records, examining the consolidation of all state-financed therapy services, and developing a new methodology of financing county administrative costs.
- ***Mental Health Services in Schools.*** The 1991 Budget Act sets aside $10 million for early mental health counseling, as originally proposed in the Governor's Budget. Assembly Bill 1650 (Hansen), which at the time of this analysis was pending action in the Senate, provides for a state/local matching grant program with school districts. Under the provisions of the bill, mental health intervention services would be provided either directly in elementary schools or through referrals to the local community. The state, in awarding grants to school districts, would give preference to proposals that, among other things, serve pupils who are in or at risk of out-of-home placement.

Chapter 5

General Fund and Special Funds Revenues

The overall condition of the state's budget depends upon both expenditures *and* revenues. Table 15 (next page) provides information on 1991-92 state General Fund and special funds revenues. It shows that:

- *General Fund* revenues and incoming transfers from other funds are projected to reach $46.3 billion. This is about $7.7 billion, or 20 percent, more than the current estimate of revenues for 1990-91. After adjusting for inflation, 1991-92 revenue growth in real terms is expected to be 15 percent.
- *Special funds* revenues are projected to total $12.1 billion. This is $3.2 billion, or 36 percent, more than estimated 1990-91 special fund revenues. After adjusting for inflation, the projected increase is 31 percent.

In both cases, the growth reflects the effect of revenue measures enacted along with the 1991 Budget Act. In addition, this revenue outlook assumes that the California economy will begin to recover from the recession in early 1991-92, and expand at a moderate rate thereafter.

Historical Perspective — Tax Increases Produce Above Average Revenue Growth

Figure 9 (see page 46) shows that both General Fund and special funds revenue growth have experienced wide year-to-year fluctuations since 1986-87. In the case of General Fund revenues, this is largely due to the effects of federal and state tax reform on the timing and volume of payments and, more recently, to the recession in the California economy. Over the past five years, however, annual General Fund revenue growth has averaged 7 percent in current dollars and 2 percent in real dollars.

Table 15

The 1991 Budget Act
General Fund and Special Funds Revenues and Transfers

1990-91 and 1991-92
(in millions)[a]

Revenue Source	1990-91	1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
General Fund				
Personal income taxes	$16,850	$19,629	$2,779	16.5%
Sales and use taxes	13,420	17,018	3,598	26.8
Bank and corporation taxes	4,540	5,385	845	18.6
Other revenues and transfers	3,738	4,258	520	13.9
Totals, General Fund Revenues and Transfers	**$38,548**	**$46,290**	**$7,742**	**20.1%**
Special Funds Revenues and Transfers	$8,880	$12,103	$3,223	36.3%
Total General Fund and Special Funds Revenues and Transfers	**$47,428**	**$58,394**	**$10,966**	**23.1%**

[a] Source: Department of FInance, final budget estimate, July 1991. Detail may not add to totals due to rounding.

While the projected growth in 1991-92 General Fund revenues is *well above* average from a recent historical perspective, this is entirely due to the revenue measures enacted along with the 1991 Budget Act. In the absence of these measures, revenue growth would have been well below average.

Special funds revenue growth has been somewhat more stable than for the General Fund in recent years, averaging approximately 10 percent annually. The 36 percent growth rate projected for 1991-92 is well above the historical average, but again this reflects the effect of revenue measures enacted along with the 1991 Budget Act. In the absence of these measures, special funds revenue growth would be slightly above the average.

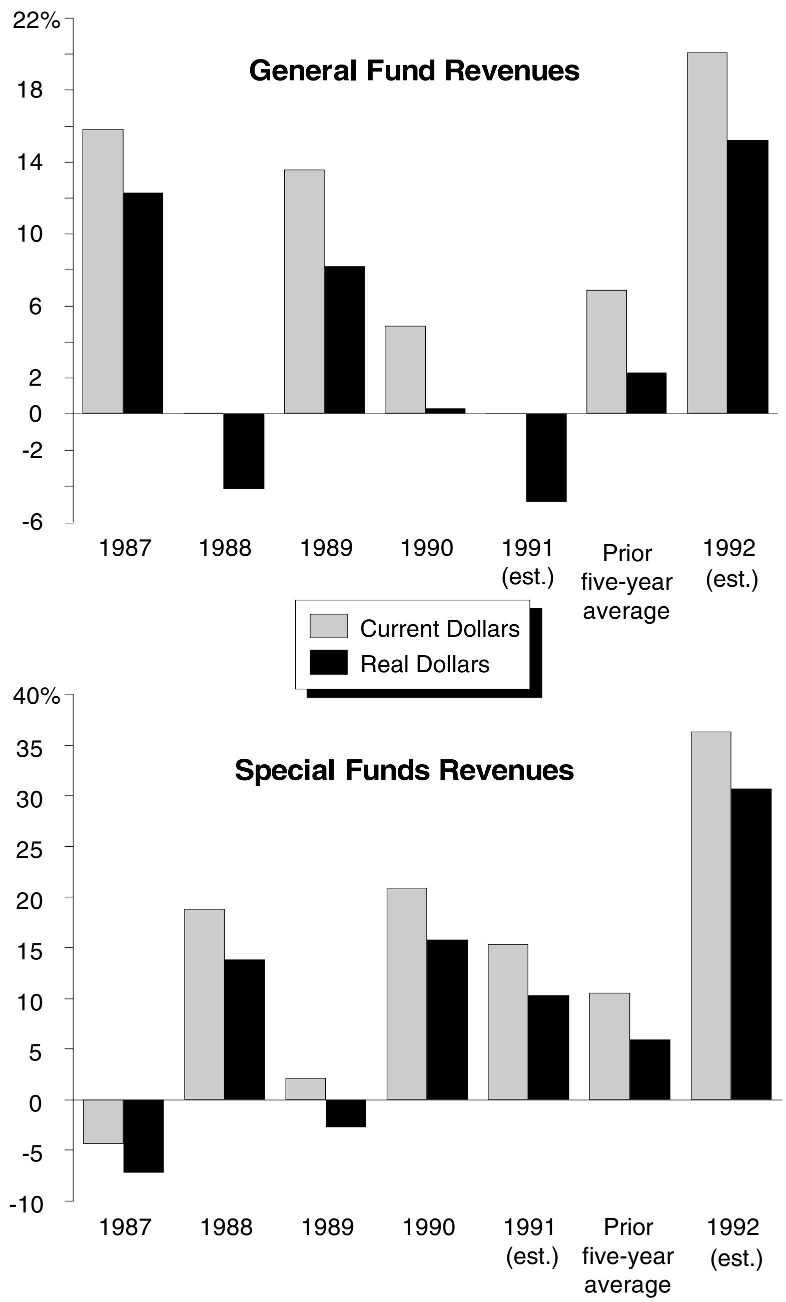
Large Downward General Fund Revenue Revisions Have Occurred

In Spring 1991, the General Fund revenue projections for both 1990-91 and 1991-92 underwent substantial downward revisions compared to the projections in the Governor's Budget as introduced in January 1991. Figure 10 (see page 47) shows that the projected growth rate for General Fund revenues fell from 4.4 percent to -0.5 percent for 1990-91, which had the effect of reducing projected 1990-91 revenues by almost $1.9 billion. Simi-

Figure 9

Annual Percentage Change in State Revenues

1986-87 through 1991-92[a]



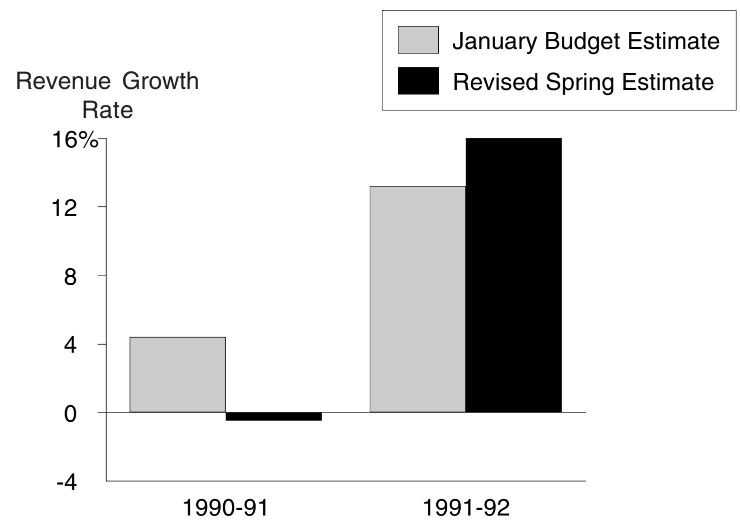
[a] Data are for fiscal years ending in years specified.

larly, 1991-92 General Fund revenues were reduced by nearly $1.1 billion, resulting in a total net downward revision of almost $3 billion for the two years combined (see below). The increase in the projected revenue growth rate for 1991-92 shown in Figure 10 largely reflects the downward revisions for 1990-91.

Figure 10

Spring Revisions to Estimated General Fund Revenues

1990-91 and 1991-92



Composition of Spring 1991 Revenue Revisions

(in millions)

Source	1990-91	1991-92	Two-Year Total
Personal income taxes	-$770	-$1,404	-$2,174
Sales and use taxes	-410	-310	-100
Bank and corporation taxes	-830	-655	-1,485
All other sources	115	669	784
Net reductions	**-$1,895**	**-$1,080**	**-$2,975**

Source: Department of Finance.

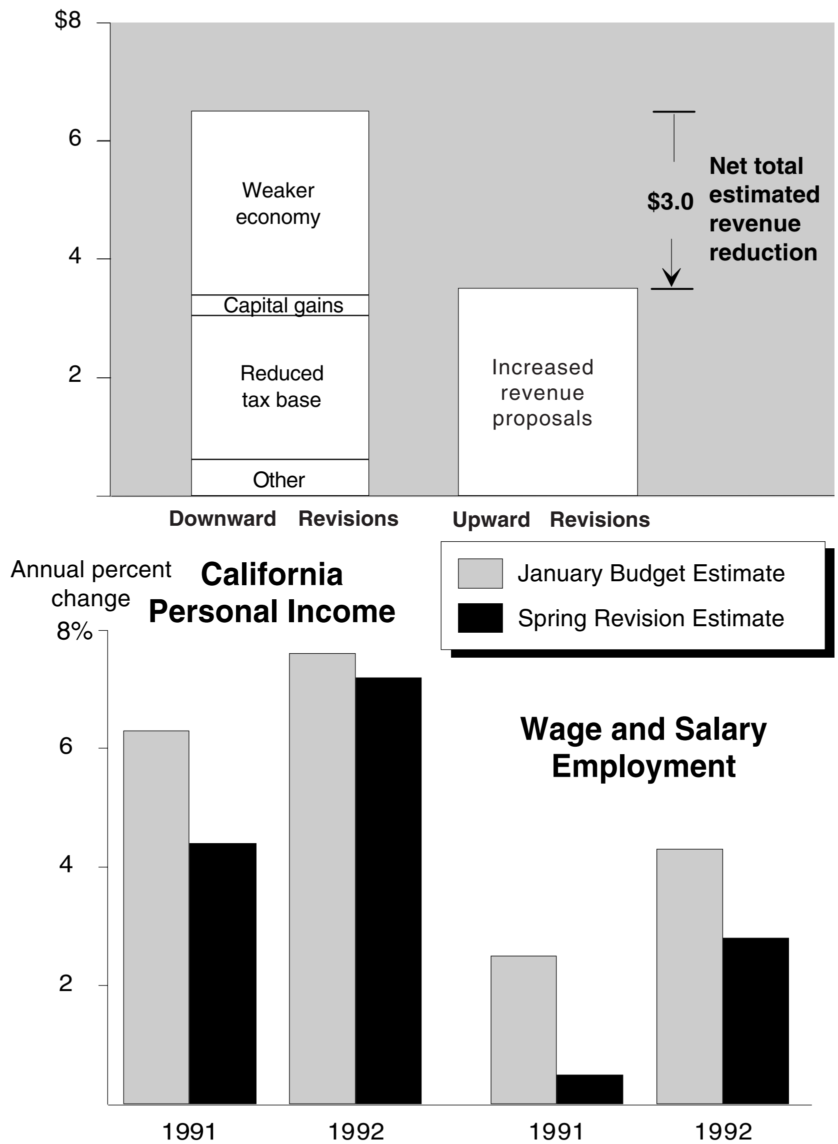
What Caused the Revisions?

Figure 11 shows that the increase in the level of new revenues proposed

Figure 11

Reasons for the Spring Revenue Revisions

1990-91 and 1991-92
(in billions)



by the administration offsets a large downward revision of over $6.5 billion in projected revenues for the two years combined. The two single largest causes for the revisions were downward adjustments to the forecast for economic *growth*, and a large downward revision to the estimated tax revenue *base.* Specifically, the Department of Finance adjusted personal income and sales tax revenues downward by $3.1 billion because of the state's expected overall weaker economic performance. As shown in Figure 11, the department made significant downward adjustments in key economic variables such as personal income and employment because of the recession. The department revised its estimates of the personal income, corporation and insurance tax *bases* downward by a total of $2.4 billion. In other words, the department determined that the amount of revenue that would be produced by the current tax base would be less than it had previously anticipated.

Steps Were Taken to Increase Revenues

Table 16 (next page) summarizes the history of revisions to the revenues estimates for 1991-92. It shows that the changes in the Governor's revenue proposals announced at the May Revision did not fully offset the reductions in the department's revenue estimates. As a result, there was a $1.1 billion decline in the level of revenues proposed for 1991-92 by the administration. The May Revision acknowledged that the Legislature and the administration would have to adopt solutions in addition to those proposed by the Governor at that time, if the projected $14.3 billion budget funding gap was to be resolved. Table 16 indicates that the Legislature and the Governor agreed to raise an additional $1.6 billion in General Fund revenues toward this goal.

Table 17 shows the estimated fiscal impact of all the new tax revenue provisions adopted in conjunction with the 1991 Budget Act. As these figures show, the total revenue expected to be generated by these provisions declines significantly over time. The largest of these new tax provisions include:

Sales Taxes

- *3/4 cent state rate increase,* of which 1/2 cent is temporary and scheduled to expire after 12, 18, or 24 months based on the condition of the Special Fund for Economic Uncertainty (SFEU). Specifically, the Director of Finance may direct the tax to be discontinued on July 1, 1992 or on January 1, 1993, if at either of those points in time the Director estimates that the SFEU will have a balance of more than $1.5 billion on June 30, 1993. This determina-

Table 16

The 1991 Budget Act
History of Revisions to 1991-92 General Fund Revenue and Transfer Estimates

(in millions)

	Projected Revenues and Transfers	
	Change	**Total**
Governor's Budget as submitted (January)		$45,771
Spring revision changes[a]:		
Weaker overall economic performance	-$2,474	
Revisions to revenue base	-1,235	
Revisions to projected capital gains	-170	
Other factors	-701	
Revenue proposals	3,500	
Subtotals	**(-$1,080)**	**$44,691**
Revenue legislation:		
Income tax rate increase	$1,212	
Net operating loss suspension	560	
Other changes[b]	-173	
Subtotals	**($1,599)**	**$46,290**
Total Changes	**$519**	**46,290**

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

[b] Includes effect of budget actions on minor revenues and transfers and changes in other revenue proposals.

tion of the SFEU fund balance must be made without considering any revenues to be produced by the temporary tax. The temporary tax will be discontinued in June 30, 1993 regardless of the balance in the SFEU.

- *Expansion of the sales tax base* to include candy and snack foods, newspapers and periodicals, jet fuel, bunker fuel, and bottled water.

Income and Corporation Taxes

- *Establishment of new personal income tax brackets* equal to 10 percent for taxpayers with taxable incomes exceeding $100,000 (single)/ $200,000 (joint), and 11 percent for taxpayers with taxable incomes exceeding $200,000 (single)/ $400,000 (joint). These new rates are scheduled to sunset in five years.

Table 17

Estimated Impact of 1991-92 General Fund Tax Increases

1991-92 through 1995-96
(in millions)

Tax	1991-92	1992-93	1993-94	1994-95
Accruals	$1,535	$78	$82	$86
Alcoholic Beverage Taxes				
Beer & Wine	$135	$130	$130	$130
Spirits	66	59	59	59
	$201	$189	$189	$189
Sales Tax				
3/4% Rate[a]	$2,132	$837	$864	$925
Candy	96	107	113	127
Snack Food	96	107	113	127
Bottled Water	30	33	35	39
Common Carrier	105	117	124	139
Newspapers, etc.	80	88	94	106
Interest Rate Reduction	2	0	0	0
	$2,559	$1,289	$1,343	$1,433
Income Tax				
Delay Health Credit	$40	$136	$31	$31
Net Operating Loss	90	44	-45	-66
R&D Credit	0	0	-3	-3
Federal Conformity	316	292	322	356
Industrial Contractors	0	0	0	0
Supplemental Wages	80	4	5	5
Estates & Trusts	35	4	4	4
Mortgage Interest	0	0	0	0
New Tax Bracket	1,212	956	1,042	1,155
	$1,773	$1,436	$1,356	$1,615
Franchise Tax				
Delay Health Credit	$60	$203	$48	$47
Net Operating Loss	470	413	-164	-594
R&D Credit	0	0	-64	-67
Federal Conformity	22	20	16	9
	$552	$636	-$164	$605
Total General Fund	**$6,620**	**$3,628**	**$2,806**	**$2,585**

Source: Department of Finance.

Note: Items include accruals.

[a] Assumes 1/2% rate inoperative on 7/1/92 and includes base interactions. Extending the tax to June 30, 1993 would generate an additional $1.57 billion on an accrued basis, including base interactions.

- *Conformity with federal legislation,* which includes limitations on itemized deductions and personal exemption credits for high-income taxpayers.
- *Suspension of Net Operating Loss (NOL) provisions* for the 1991 and 1992 tax years and extension of the NOL sunset date to January 1, 1997. This provision increases state revenues in 1991-92 and 1992-93 because it prohibits corporations from deducting operating losses in computing their tax liabilities. It generates revenue losses in subsequent years due to the extension of the former sunset date governing the allowance of these deductions.
- *One-year delay of the implementation of the health care tax credit* for small businesses with 25 or fewer employees until January 1, 1993. These credits had been scheduled to become operative on January 1, 1992 pursuant to Ch 797/89 (SB 1207, Keene).
- *Modification of estimated payments and withholding requirements for supplemental wages and estates and trusts.* These provisions essentially accelerate the collection of revenues owed to the state under existing law.

Alcohol Taxes

- *Increases in the alcohol tax* equating to about 9 cents per six pack of beer, about 4 cents per bottle of wine, and from $1.30 to $2.60 per gallon of distilled spirits. These are the levels originally proposed in Proposition 126 (which was defeated in the November 1990 general election).

Accrual Accounting

- *Changes to the state's accounting practices* which allow the state to count revenues as received by the state when they are *earned* instead of when the state *receives* the actual cash.

New Special Fund Revenues for State-Local Government "Realignment" Programs

The abnormally large 36 percent increase in 1991-92 special fund revenues reflects two major tax increases which will be used to fund the program "realignment" legislation discussed earlier in this report. These include a 1/2 cent state sales tax rate increase, and increases in state vehicle license fees. These revenues are to be deposited in a newly created fund for realignment (the "Local Revenue Fund"), and allocated to counties according to the amount of state assistance they formerly received to operate the affected programs. Table 18 shows the revenue effects of these changes. As the table shows, the revenue gains from these provisions are expected to increase by 7 percent to 8 percent annually in the future.

Table 18

Estimated Impact of 1991-92 Special Fund Tax Increases

1991-92 through 1994-95
(in millions)[a]

Tax	1991-92	1992-93	1993-94	1994-95
Sales Tax				
1/2% Rate[b]	$1,422	$1,605	$1,728	$1,849
Vehicle License Fees	781	850	910	974
Totals, Special Funds	**$2,203**	**$2,455**	**$2,638**	**$2,823**

[a] Source: Department of Finance. Items include accruals.
[b] Includes base interactions.