



# Major Features of the 1998 California Budget

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**O**n August 21, 1998, the Governor signed the 1998 Budget Act. In this report we highlight the major features of the budget package.

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# BUDGET OVERVIEW

## SUMMARY

On August 21, 1998, the Governor signed the 1998-99 Budget Act, which along with various implementing measures (trailer bills), comprise a budget package that authorizes total state spending of \$72 billion. This total includes \$57.3 billion from the General Fund (a 7.3 percent increase from 1997-98) and \$14.7 billion from special funds (a 1.7 percent increase).

Before signing the budget, the Governor used his line-item veto authority to delete \$1.5 billion in 1998-99 appropriations adopted by the Legislature, including \$1.4 billion in General Fund spending. The Governor indicated that \$250 million of the cuts he made to K-12 education were being set-aside pending legislation involving various school reforms.

**Budget Includes Significant Tax Relief and Spending Increases.** Continued economic expansion and large revenue increases enabled the Governor and the Legislature to provide both significant tax relief and program spending increases in the 1998-99 budget. These include an initial 25 percent reduction in the vehicle license fee (VLF), large increases in education funding, and cost-of-living adjustments (COLAs) and grant restorations for social services programs.

## GENERAL FUND CONDITION

Figure 1 shows the General Fund budget condition for 1997-98 and 1998-99 as reflected in the signed budget. It shows that the state closed 1997-98 with a reserve of nearly \$1.8 billion. In 1998-99, revenues are projected to increase by 4.2 percent, while projected expenditures grow by a higher 7.3 percent (and 7.8 percent if the \$250 million in education funding is restored). The General Fund is projected to end 1998-99 with a reserve of roughly \$1.3 billion.

The 1998-99 expenditure total assumes passage of legislation authorizing \$130 million for

the purchase of the Headwaters Forest. It also assumes \$40 million in expenditures related to an education bond measure which includes a pilot program to reimburse certain local developers for fees paid to school districts. Failure of these measures would result in a higher 1998-99 reserve.

## MAJOR FEATURES OF 1998-99 BUDGET

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

**Figure 1**

**1998-99 Budget Estimated General Fund Condition**

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

	1997-98	1998-99	Percent Change
Prior-year fund balance	\$907	\$2,227	
Revenues and transfers	54,664	56,985	4.2%
<b>Total resources available</b>	<b>\$55,571</b>	<b>\$59,212</b>	
Expenditures	\$53,344	\$57,262	7.3%
Ending fund balance	\$2,227	\$1,950	
Encumbrances	\$445	\$445	
Set-aside for education	—	250	
<b>Reserve</b>	<b>\$1,782</b>	<b>\$1,255</b>	

Detail may not total due to rounding.

**K-12 Education.** The budget provides for a significant increase in per-pupil spending in 1998-99. The budget includes a \$2.5 billion increase in K-12 education funding in 1998-99 relative to the levels appropriated in the *1997-98 Budget Act*. This increase consists of \$1.5 billion for inflation and enrollment increases, and about \$1 billion for new or expanded initiatives. These include a "buy out" of three staff development days for teachers (\$195 million), funds for new textbooks (\$250 million), and funds for library and science laboratory materials (\$159 million). The budget also includes one-time funding for school district block grants, deferred maintenance, and school libraries.

**Higher Education.** The budget includes major funding increases for the University of California (UC), California State University (CSU), and California Community Colleges (CCC). Funding for both the UC and CSU systems includes monies for enrollment growth, faculty and nonfaculty COLAs, deferred maintenance, instructional equipment, computer upgrades, and capital outlay. The budget also includes funding for the CCC's "Partnership for Excellence" and economic development programs.

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

**Social Services.** With regard to the California Work Opportunity and Responsibility to Kids (CalWORKs) program, the budget includes funds for the restoration of a previously enacted 4.9 percent grant reduction. It also provides for a 2.84 percent COLA for grants, as well as significant spending increases for CalWORKs-related services. With regard to the Supplemental

Security Income/State Supplementary Program (SSI/SSP), the budget provides for a 2.84 percent COLA plus an additional 1 percent increase to grant levels in 1998-99. Other provisions include new funds for a foster care initiative, an expansion of the Adult Protective Services program, and funds for state-only SSI/SSP and food stamp benefits for certain legal noncitizens.

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

**Trial Courts.** The budget increases the number of counties in which the state pays *all* trial court costs and reduces the remaining counties' contributions beginning in 1999-00.

**Infrastructure and Transportation.** The budget includes \$50 million for the California Infrastructure Bank (which provides loans and grants for local technology and infrastructure projects). As regards transportation, the budget includes funds for about 2,000 additional personnel-years (PYs) to deliver highway projects, as well as funds to repay the Public Transportation Account (PTA) for a loan it made to the General Fund.

**Resources.** The budget contains a significant increase in resources-related spending, including funds for forestry and habitat acquisition, fire protection, and State Water Project design, construction, and maintenance. Before signing the budget, the Governor vetoed \$132 million from various resource projects.

**Employee Compensation.** The Governor's January budget proposed a 3 percent compensation increase for state employees, subject to the collective bargaining process and tied to civil service reform. The budget passed by the Legislature had augmented the Governor's January proposal to include funding for a



6 percent increase effective July 1998, and an additional 3 percent in January 1999. However, the Governor deleted the additional funds.

## **GOVERNOR'S VETOES**

Before signing the budget, the Governor used his line-item veto authority to eliminate about \$1.5 billion in 1998-99 spending, including nearly \$1.4 billion from the General Fund and \$160 million from special funds.

**Proposition 98 Programs.** Of the General Fund vetoes, \$408 million were in K-12 education, including funds for categorical program growth and various legislative augmentations. (In addition, the Governor vetoed \$88 million in 1997-98 Proposition 98 "settle-up" spending.) The

Governor set aside \$250 million of these funds pending future resolution of school reform legislation.

**Non-Proposition 98 Programs.** The single largest reduction in this broad category involved employee compensation, where the Governor deleted about \$320 million (\$215 million General Fund) from the budget. Other areas of significant reductions included funds for prenatal services to undocumented immigrants, funds for the construction of comprehensive health centers in Los Angeles County, and monies for park acquisition and other resources-related purposes. The Governor also reduced or eliminated various legislative augmentations in the areas of mental health, adult protective services, correctional inmate programs, and higher education facility maintenance.

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## TAX PROVISIONS

The 1998-99 Budget Act includes a number of ongoing tax reductions totaling roughly \$1.4 billion in 1998-99. Beginning in 2000-01, additional tax cuts also are possible. Figure 1 summarizes the major tax-related provisions, which we discuss below.

### VEHICLE LICENSE FEE TAX CUT

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

#### Background

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

#### Permanent Tax Cut

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

#### Possibility of "Triggering" Additional VLF Reductions

The tax package also provides for additional cuts in the VLF beginning in 2000-01 under certain circumstances. If specified revenue forecasts (triggers) are reached, then the total reduction in the VLF could reach as much as 67.5 percent by 2002-03. Figure 2 shows the amounts of these potential reductions, when they could be triggered, and their fiscal impacts.

**Figure 1**

**Tax Relief Provisions**

*1998-99  
(In Millions)*

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

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

**Figure 2**

**Potential Future VLF Tax Cuts**

*(Dollars In Billions)*

Total Percent Reduction In VLF	First Possible Implementation Date	Resulting Calendar Year Fiscal Impact
35.0%	January 1, 2001	\$1.6
46.5	January 1, 2002	2.2
55.0	January 1, 2003	2.7
67.5	January 1, 2003	3.3



In order for any of these additional tax cuts to be made permanent, triggers would have to be reached for two consecutive years. The maximum level of ongoing VLF tax relief that could be achieved would be determined by the forecasted level of General Fund revenues at the time of the 2002-03 budget. The triggers are all based on the Department of Finance's 1998-99 *May Revision* revenue forecast for the 1998-99 through 2002-03 period.

### Effect on Local Governments

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

### Adjustments for Future Tax Relief

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

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

## OTHER TAX PROVISIONS

### Dependent Credit

The 1998-99 *Budget Act* agreement results in both an acceleration and increase in the personal dependent exemption credit allowed under the personal income tax. Under last year's tax relief package (enacted in September 1997), the dependent credit was to increase

from \$68 to \$120 in 1998 and \$222 in 1999. Under *this* year's budget agreement, the credit will *further* increase to \$253 in 1998 and \$227 in 1999. Thereafter, the \$227 credit amount will be indexed annually for inflation. Compared to prior law, the reduction in tax revenues resulting from this provision is estimated to be \$612 million for 1998-99, dropping to roughly \$20 million in subsequent years.

### Renters' Credit

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

### Senior Citizen Tax Relief

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

### Targeted Tax Measures

In addition to the above tax-relief provisions, the budget contains a variety of targeted tax relief measures totaling some \$106 million in 1998-99. Of this total, \$52.4 million would take effect only if Proposition 7

(the California Air Quality Improvement Act) is defeated in the November 1998 election. (Proposition 7 allocates up to \$218 million in tax credits annually over 13 fiscal years, for expenditures designed to improve air quality.) The remaining \$54 million in targeted tax reductions will take effect regardless of the election outcome of Proposition 7.

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

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

The \$52.4 million in tax reductions in 1998-99 that are *dependent* on the defeat of Proposition 7 are shown in the lower part of Figure 3, along with their out-year impacts. The bulk of these reductions would accrue to businesses, through the personal income tax, bank and corporation tax, and sales and use tax. Among the more

important reductions with respect to business activity are the expansion of the research and development credit, the eligibility of software development for the manufacturer's investment credit, and the reduction in the minimum franchise tax for new, small corporations. New sales and use tax exemptions are created for perennial plants, teleproduction equipment, and personal property purchased for space launch activities.

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

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

<sup>b</sup> Includes estate tax reductions, and the expansion and extension of enterprise zones.



# III

## HEALTH AND WELFARE

### HEALTH AND SOCIAL SERVICES

General Fund support for health and social services programs in 1998-99 totals \$15.3 billion, an increase of 4.6 percent over the prior year.

Figure 1 describes the major General Fund changes enacted in the 1998-99 Budget Act and related legislation.

### CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CALWORKS)

**Grant Payments.** The Legislature rejected the Governor’s proposal to make permanent a previously enacted 4.9 percent grant reduction to eliminate the statutory cost-of-living adjustment (COLA). These actions result in costs of \$230 million compared to the Governor’s budget but no cost in relation to prior law. Effective November 1, 1998, the maximum grant for a family of three in high-cost counties will increase by \$46 to a total of \$611 per month, and the corresponding grant in low-cost counties will increase by \$44 to a total of \$582. Budget trailer bill legislation, however, provides that future COLAs will be suspended if revenues are insufficient to “trigger” an additional vehicle license fee (VLF) reduction, beginning in 2000-01 (see the “Tax Provisions” section of this report).

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

(\$373 million) for county “fiscal incentives,” which are payments based on the state’s grant savings in the program.

### SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PROGRAM (SSI/SSP)

**Grant Payments.** The budget provides for the statutory COLA (2.84 percent), as proposed in the

**Figure 1**

**Health and Social Services Programs Major 1998-99 Policy Changes—General Fund**

(In Millions)

Program/Issue	Change from Prior Law
<b>CalWORKs</b>	
Grants	—
Services	\$10.0 <sup>a</sup>
<b>SSI/SSP</b>	
Grants	\$41.5
State-only program for noncitizens	19.4
<b>Food Stamps</b>	
Expand state-only program for noncitizens	\$70.7 <sup>b</sup>
<b>Other Social Service Programs</b>	
Foster Care Initiative	\$96.1
Adult Protective Services	20.0
IHSS personal care services “income eligibles”	-19.9
Developmental services provider rate increases	48.3
Regional center staff	20.8
Department of Aging programs	11.6
<b>Medi-Cal</b>	
Provider rate increases	\$48.6
Disproportionate share hospitals	40.0
Regional Burn and Trauma Center	25.0
<b>Public Health</b>	
Drinking water systems	\$15.2

<sup>a</sup> State match for federal Welfare-to-Work block grant.  
<sup>b</sup> General Fund and federal TANF block grant funds.

Governor's budget, and an additional grant increase of 1 percent at a General Fund cost of \$42 million above both prior law and the amount proposed by the Governor. Effective January 1, 1999, the maximum grant for aged or disabled individuals will increase by \$26 to a total of \$676 per month, and the corresponding grant for couples will increase by \$45 to a total of \$1,201 per month.

**State-Only Program for Certain Noncitizens.**

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

## FOOD STAMPS

**Expanded State-Only Program for Legal Noncitizens.** The budget legislation expands, for a two-year period, the existing state-only Food Stamps program for children and elderly noncitizens to include (1) noncitizens ages 18 through 64 and (2) certain noncitizens who arrived in the United States after August 1966. Eligibility for the program will be dependent on meeting a specified work requirement. The *1998-99 Budget Act* appropriates \$71 million for this expansion (which was partially offset by savings from new federal funds to cover the pre-existing state-only program for children and the elderly).

## FOSTER CARE INITIATIVE

The budget appropriates \$103.7 million from the General Fund (including \$7.6 million for a group home COLA required under prior law) for various increases and reforms in the Foster Care and Child Welfare Services programs. Figure 2 summarizes the fiscal impact of the initiative and the major features are described below.

**Social Worker Caseload Reduction.** The budget provides funding to reduce county social worker

caseloads. The amount provided will reduce social worker caseloads by about 8 percent.

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

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

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

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

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

**Assessment Guidelines.** The initiative replaces the requirement that DSS implement a "level of care" assessment tool with a requirement that DSS issue to county placing agencies "best practice" guidelines for



the assessment of a child and the child’s family. It requires DSS to conduct a pilot project to test the effectiveness of the guidelines.

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

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

## ADULT PROTECTIVE SERVICES

**Program Expansion.** The Governor proposed expanding the Adult Protective Services program by \$20 million. The Legislature augmented the proposal by \$32.7 million, but the Governor vetoed this augmentation.

## IN-HOME SUPPORTIVE SERVICES (IHSS)

**Expansion of Personal Care Services Program.** The budget legislation requires the Department of Health Services to seek federal approval of a Medicaid State Plan amendment to extend coverage of personal care services to Medi-Cal “medically needy” individuals. This action will increase the federal share of costs in the IHSS program and will result in estimated General Fund savings of \$19.9 million in 1998-99.

## DEVELOPMENTAL SERVICES

**Provider Rate Increases.** The budget includes a \$48.3 million General Fund augmentation to increase rates for services provided to people with developmental disabilities. This includes services in community care facilities (13 percent increase) and day and respite care programs (7 percent). In-home respite workers will also receive an average pay increase of about 14 percent.

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

## DEPARTMENT OF AGING

**Expansion of Programs for the Elderly.** The Governor’s budget proposed \$9.1 million to expand

**Figure 2**

### Foster Care Initiative Fiscal Summary

(In Millions)

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

<sup>a</sup> Includes \$7.6 million cost-of-living adjustment required under prior law.

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

several programs administered by the Department of Aging into areas of the state that are currently unserved. The Legislature augmented the proposal by \$12.8 million, but the Governor vetoed \$10.3 million.

## MEDI-CAL PROGRAM

**Provider Rate Increases.** The budget, as passed by the Legislature, included a total of \$57.9 million from the General Fund for various Medi-Cal provider rate increases, including: primary and preventive care for children (20 percent) and adults (10 percent), outpatient hospital services (10 percent), ambulances (50 percent) and medical vans (5 percent), optometrists (25 percent), and in-home nursing services (based on cost survey). The Governor vetoed \$9.3 million by eliminating the increases for optometrists and medical vans, and half the increase for outpatient hospital services. The budget also provides \$74 million for a 6 percent increase in nursing home rates that was required pursuant to an adjustment mechanism in existing law.

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

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

**Los Angeles County Comprehensive Health Centers.** The budget bill, as passed by the Legislature, included a General Fund appropriation of \$40 million to partially fund construction of three comprehensive health clinics

in Los Angeles County. Budget legislation—SB 1573 (Solis)—makes the funding contingent on a commitment by the county to build a replacement hospital for the Los Angeles County-University of Southern California Medical Center with a capacity of at least 750 beds and also makes the hospital replacement project eligible for future state funding. The Governor vetoed both the budget appropriation and SB 1573.

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

## HEALTHY FAMILIES PROGRAM

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

## PUBLIC HEALTH

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

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# IV

## PROPOSITION 98 EDUCATION

In this section, we describe the major features of the budget package, as it relates to the Proposition 98 level of spending and K-12 schools.

### PROPOSITION 98 PROVISIONS

The budget includes \$35 billion in Proposition 98 spending in 1998-99 for K-14 education. This represents an increase of \$2.2 billion, or 6.7 percent from the revised 1997-98 funding level. Figure 1 summarizes for 1997-98 and 1998-99 the effect of the budget package on K-12 schools, community colleges, and other specific agencies.

The Proposition 98 appropriation reflects the fact that the Legislature appropriated more General Fund monies than required to meet the constitutional minimum. Specifically, the Legislature appropriated \$177 million more than the 1997-98 minimum funding level and \$326 million more than the guarantee in 1998-99. (These amounts include \$50 million in each year in accordance with Proposition 227.)

### K-12 PROGRAM IMPACTS

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

- ◆ **1998-99.** Overall K-12 funding of \$5,695 per pupil in 1998-99, which represents an increase of \$241, or 4.4 percent above the 1997-98 revised amount. These figures

exclude amounts that were vetoed by the Governor in connection with school reform legislation (see below). Restoration of these vetoes would increase the 1998-99 per-pupil total to \$5,740.

- ◆ **1997-98.** Provides overall K-12 funding of \$5,454 per pupil for 1997-98, or \$68 more per pupil than anticipated in the *1997-98 Budget Act*.

**1998-99 Baseline Increases.** Compared to the *1997-98 Budget Act*, K-12 Proposition 98 funding increased by \$2.5 billion. The budget allocates \$1.5 bil-

**Figure 1**  
**Proposition 98 Budget Summary**

<i>1997-98 and 1998-99 (Dollars in Billions)</i>			
	<b>1997-98 Budget Act</b>	<b>1997-98 Revised</b>	<b>1998-99 Budget Act</b>
<b>K-12 Proposition 98</b>			
General Fund	\$19.9	\$20.4	\$21.9
Local property taxes	9.0	8.8	9.2
<b>Totals, K-12</b>	<b>\$28.9</b>	<b>\$29.2</b>	<b>\$31.1</b>
<i>Average Daily Attendance (ADA)</i>	<i>5,359,444</i>	<i>5,357,024</i>	<i>5,453,060</i>
<i>Amount per ADA</i>	<i>\$5,386</i>	<i>\$5,454</i>	<i>\$5,695</i>
<b>California Community Colleges</b>			
General Fund	\$1.9	\$1.9	\$2.2
Local property taxes	1.4	1.4	1.4
<b>Totals, Community Colleges</b>	<b>\$3.3</b>	<b>\$3.3</b>	<b>\$3.6</b>
Other agencies	\$0.1	\$0.1	\$0.1
Loan repayment	\$0.2	\$0.2	\$0.3
<b>Proposition 98</b>			
General Fund	\$21.8	\$22.3	\$24.0
Local property taxes	10.4	10.2	10.6
<b>Totals, Proposition 98</b>	<b>\$32.5</b>	<b>\$32.8</b>	<b>\$35.0</b>

lion to provide inflation and growth adjustments. Specifically, the budget includes about \$500 million to accommodate a projected 1.8 percent increase in the student population, \$833 million for a K-12 revenue limit cost-of-living adjustment (3.95 percent), and \$150 million for a K-12 categorical programs cost-of-living adjustment (2.18 percent). These amounts exclude the \$94 million for megaprogram growth and COLA that the Governor vetoed in connection with school reform legislation.

The budget directs the remaining \$1 billion for other purposes, including new programs and existing K-12 categorical programs (see Figure 2). The major discretionary increases in the budget are as follows:

- ◆ **Instructional Materials (\$250 Million).** The new funds are sufficient to purchase a new textbook per student in one core subject area (mathematics, language arts, history/social science, and science) each year. Textbooks purchased with these funds must meet state academic content standards.
- ◆ **Staff Development Days Buyout (\$195 Million).** The budget includes funds to buyout three staff development days for teachers and one day for classified staff. Staff development days can no longer count as part of the 180 day

school year. (Previously schools could include as part of their 180 day instruction year up to eight staff development days.) Schools that have set their 1998-99 calendar with less than 180 days will be allowed to apply for a one-time waiver of the new requirement.

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

**1997-98 and Prior Years "Settle-Up" Funding.**

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

The budget contains approximately \$592 million in settle-up funding for K-12 programs. Figure 3 displays the major allocations of these monies. The budget appropriates most of these funds for one-time activities. Specifically, the budget allocates \$180 million in block grants to local school sites for one-time expenditures. Each school will receive about \$30 per student, with no school receiving less than \$10,000. As Figure 3 illus-

**Figure 2**  
**Major K-12 Education Expenditures**  
**1998-99 Budget Act and**  
**Education Trailer Bills**

(In Millions)

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

**Figure 3**  
**Major K-12 Education Expenditures**  
**Prior-Year Funds and "Settle-Up"**

(In Millions)

Purpose	Amount
School district block grants	\$180.0
Deferred maintenance	100.0
Digital high school	86.0
School science laboratory materials	71.5
Proposition 227—bilingual education	50.0
Math staff development	30.0
Community policing	10.0



trates, the budget also includes one-time augmentations for deferred maintenance (\$100 million) and the digital high school project (\$86 million).

**Governor's Vetoes.** The Governor vetoed \$88 million of settle-up funds and \$408 million in 1998-99 Proposition 98 funds. Of the 1998-99 vetoed funds, the Governor deleted funding for increases to beginning teacher salaries (\$50 million) and reduced funding for school desegregation (\$37.1 million).

While the Governor typically uses his veto authority to delete special appropriations, most of the vetoed

Proposition 98 funds have been “set aside” pending resolution of school reform legislation. Specifically, the Governor vetoed \$250 million for programs related to school reform, but set aside these funds for future legislation that increases school accountability and improves student achievement. Of the \$250 million set aside by the Governor, \$94 million was for K-12 categorical program growth and COLA funding, \$75 million for remedial summer school, \$50 million for low-performing schools, and \$30 million for college preparation.

*Prepared by the Education Section—(916) 445-8641*

# HIGHER EDUCATION

The budget includes significant funding increases for the University of California (UC), California State University (CSU), California Community Colleges (CCC), and the Student Aid Commission. The budget also provides \$55 million from the General Fund to compensate the three public systems for the revenue loss associated with a 5 percent undergraduate fee reduction mandated by Chapter 853, Statutes of 1997 (AB 1318, Ducheny). Figure 1 shows the change in funding for each major segment of higher education for 1998-99 from selected fund sources.

specifically in engineering and computer sciences (\$6 million). The university had already accommodated about 4,600 of this growth, but had not been funded explicitly for it in prior budgets.

- ◆ \$33.5 million to expand student-outreach programs to increase the percentage of high school graduates that attend college.
- ◆ \$20 million in one-time funds to reduce the university's substantial deferred maintenance backlog.

## UNIVERSITY OF CALIFORNIA

The budget provides \$340 million, or 16 percent, more in General Fund support for the

The UC in 1998-99 than in 1997-98. The major augmentations include:

- ◆ \$79 million for (1) merit-based salary increases (\$35.2 million), (2) a 2 percent cost-of-living adjustment (COLA) for faculty and nonfaculty staff (\$31.6 million), and (3) a 2.5 percent parity increase for faculty (\$12.2 million).
- ◆ \$43.6 million for general enrollment growth of 5,200 students (\$37.6 million) and for 800 additional students

Figure 1

### Higher Education Budget Summary Selected Funding Sources Changes From 1997-98 to 1998-99

(Dollars in Millions)

	1998-99 Budget	Change From 1997-98	
		Amount	Percent
<b>University of California</b>			
General Fund	\$2,518.8	\$339.9	15.6%
Student fees	750.2	1.1	0.2
<b>Totals</b>	<b>\$3,269.0</b>	<b>\$341.0</b>	<b>11.6%</b>
<b>California State University</b>			
General Fund	\$2,164.0	\$266.8	14.1%
Student fees	539.4	-7.0	-1.3
<b>Totals</b>	<b>\$2,703.4</b>	<b>\$259.8</b>	<b>10.6%</b>
<b>California Community Colleges</b>			
General Fund (Proposition 98)	\$2,175.2	\$235.0	12.1%
Property taxes	1,441.2	56.6	4.1
Student fees	155.3	-10.2	-6.2
<b>Totals</b>	<b>\$3,771.7</b>	<b>\$281.4</b>	<b>8.1%</b>
<b>Student Aid Commission</b>			
General Fund	\$351.8	\$57.1	19.4%



- ◆ \$50 million in one-time funds to upgrade instructional equipment (\$20 million), computer infrastructure (\$20 million), and library materials (\$10 million).

## CALIFORNIA STATE UNIVERSITY

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

- ◆ \$89 million to provide a 5 percent “pool” for employee compensation increases. How these funds are used (for COLAs, merit increases, and parity adjustments) will be determined through collective bargaining.
- ◆ \$52 million for general enrollment growth. Almost all of this growth occurred before 1998-99, but had not been funded explicitly in prior-year budgets.
- ◆ \$18 million for teacher credential programs, including \$9 million for enrollment growth and \$5 million (one-time) to establish a distance-learning credential program.
- ◆ \$70 million of one-time funds for computer infrastructure and technology (\$25 million), deferred maintenance (\$20 million), instructional equipment (\$15 million), and library materials (\$10 million).

## COMMUNITY COLLEGES

The budget package contains major funding increases for community colleges. This resulted, in part, because the budget exceeds the Proposition 98 minimum funding guarantee for K-14 education by \$326 million. General Fund spending for community colleges totals approximately \$2.2 billion in the budget year. This represents a \$235 million, or 12 percent, increase above the 1997-98 level. Despite expected enrollment growth, student fee revenues are expected to decline by \$10 million, mainly due to the \$1 per credit unit reduction mandated for 1998-99 by Chapter 853, Statutes of 1997 (AB 1318, Ducheny).

**1998-99 Expenditures.** Figure 2 illustrates the major program increases provided with the additional funds in 1998-99. The budget includes \$100 million for a new “partnership for excellence.” These funds will be distributed to districts on a per-student basis to improve the performance of colleges in teaching students. The CCC Board of Governors will develop outcome measures and goals upon which future performance will be assessed. Beginning with the 2001-02 fiscal year, the board will consider whether partnership for excellence funds should be allocated based on district performance.

**Figure 2**

### Major Community College Increases 1998-99 General Fund

(In Millions)

Purpose	Amount
Partnership for excellence	\$100.0
Enrollment growth	90.4
Cost-of-living adjustment	71.4
Telecommunications/technology	10.0

**Settle-Up Expenditures.** The budget includes \$75 million in “settle-up” funding for 1997-98 and prior years for several one-time activities. Trailer bill language authorizes up to \$20 million of this amount to be used to back-fill property tax deficiencies for the 1997-98 fiscal year, if needed. Half of whatever remains would be allocated to districts on a per-student basis for instructional equipment, library materials, and technology infrastructure. The other half would be allocated by the Chancellor’s Office on a project-priority basis for facility maintenance, architectural barrier removal, and abatement of hazardous substances.

## STUDENT AID COMMISSION

The budget appropriates \$352 million from the General Fund for the Student Aid Commission in 1998-99. This is \$57 million, or 19 percent, above expenditures in 1997-98. The growth in the commission’s budget provides for an increase in the number of Cal-Grant awards and an increase in the maximum grant amount.

*Prepared by the Education Section—(916) 445-8641*

## JUDICIARY AND CRIMINAL JUSTICE

The 1998-99 budget for judicial and criminal justice programs totals \$6.3 billion, including \$5.7 billion from the General Fund and \$634 million from state special funds. This is an increase of \$617 million, or 11 percent, over 1997-98 expenditures. The increase is the result of two primary factors: additional costs associated with the state's increased financial responsibility for support of trial courts and increases in spending to accommodate the projected growth in the state's prison and parole populations.

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

### TRIAL COURT FUNDING

Under Chapter 850, Statutes of 1997 (AB 233, Escutia), the state is now primarily responsible for support of trial courts. The budget includes \$1.7 billion for support of the trial courts in 1998-99. The amount includes \$623 million from the General Fund, \$224 million from the fine and penalty revenues, \$244 million from court fees, and \$593 million transferred from counties to the state. The General Fund amount is \$224 million, or almost 60 percent, greater than the current-year amount. A primary reason for the significant increase is that Chapter 850 made substantial reductions in the amount of money counties are required to transfer to the state beginning in 1998-99, thus requiring the state to backfill the reductions from the General Fund.

The Legislature made several modifications to the Governor's Trial Court Funding budget proposal. The Legislature deleted \$50 million (General Fund) proposed to support the Judicial Administration Efficiency and

Modernization Fund, which was established in Chapter 850 to support efforts to promote improved access, efficiency, and effectiveness in the trial courts. The Legislature also deleted \$9.9 million proposed to pay for 40 new trial court judgeships that would have been established in 1998-99. The Legislature provided \$27.8 million (\$12.5 million more than proposed by the Governor) to reduce the required county contributions (maintenance of effort [MOE]), for support of the courts, as allowed under Chapter 850. Finally, the Legislature adopted several augmentations to the Trial Court Funding budget, including \$6 million to increase the rates paid to court interpreters and \$4 million to increase juror compensation pursuant to pending legislation (the Governor vetoed both of these augmentations).

The Legislature also adopted two trailer bills related to Trial Court Funding that were designed to provide additional fiscal relief to counties. Assembly Bill 1590 (Thomson), which the Governor signed, further reduced the county MOE levels for support of trial courts, beginning in 1999-00. The bill does this in two ways: (1) increasing the number of counties for which the state pays all costs from 20 to 37 (thus, all counties with populations below 300,000 would make no contributions) and (2) reduced the MOE for the remaining 21 counties by 10 percent. The effect of these provisions will be to increase the state's costs by \$92 million beginning in 1999-00. In addition, AB 1590 provided further MOE relief to counties for contributions they made in 1997-98. This relief will be provided over five years starting in 1999-00. This provision will cost the state \$49.5 million, or \$9.9 million annually from 1999-00 through 2004-05.

In addition, the Legislature adopted SB 752 (Maddy), which provided the same MOE relief for the 1997-98 contributions but over a three-year period, beginning in 1998-99. It also added one county to the list of counties for which the state will pay all costs. The Governor had not acted on this bill at the time this report was prepared.



If this measure is signed by the Governor, the total costs of the MOE reduction provisions will increase to \$96.5 million and the 1997-98 MOE relief provision will result in annual costs of \$16.5 million from 1998-99 through 2000-01 (the money for 1998-99 is not included in the budget).

## DEPARTMENT OF CORRECTIONS

The budget provides a total of \$3.9 billion (\$3.9 billion from the General Fund and \$43 million from other funds) for support of the California Department of Corrections (CDC). This represents an increase of about \$216 million, or 6 percent, above the 1997-98 level and is primarily due to projected increases in inmate and parole populations.

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

The *1998-99 Budget Act* includes no funds for planning or construction of new prison facilities. In addition, the Governor had requested authority for the CDC to contract for 5,000 community correctional facility beds at publicly or privately built and operated prisons (the beds would not have come on line until 1999-00). However, the final version of the budget deleted the authority to contract for the additional beds.

### Federal Funds for Incarceration and Supervision of Undocumented Felons

The budget as enacted for 1998-99 assumes a total of \$195 million in federal funds to offset the state's costs of supervising undocumented inmates and wards in state prison and the Department of the Youth Authority. In the January budget, the Governor assumed that the state would receive \$286 million in the budget year. In late May, however, the state learned that the state's share of recent

federal appropriations would be significantly less than the Governor had assumed. As a consequence, the estimates were reduced for 1998-99, as well as for the two prior fiscal years for which the state is still expecting funding. The Legislature accepted the Governor's new assumptions which resulted in a \$238 million reduction in the projected 1998-99 General Fund reserve to reflect the anticipated loss over the three years.

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

## DEPARTMENT OF THE YOUTH AUTHORITY

The budget provides \$310 million (\$308 million from the General Fund and \$2.7 million from other funds) for support of the Youth Authority. General Fund support for the Youth Authority would decline by \$24 million, or 7.3 percent, from 1997-98 to 1998-99, which is primarily the result of the declining ward population. There were no major policy changes in this budget.

## BOARD OF CORRECTIONS

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

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## OTHER MAJOR PROVISIONS

### LOCAL GOVERNMENT

The budget includes several items with a direct fiscal impact on local governments, particularly counties.

- ◆ **Increased State Support for Trial Courts.** For 1998-99, the budget reduced county required contributions for trial courts by \$27.8 million (\$12.5 million more than proposed by the Governor). The Legislature also adopted and the Governor signed legislation to further reduce the county share of trial court costs beginning in 1999-00. As a consequence, counties would realize additional savings of about \$100 million annually starting in 1999-00.
- ◆ **Increased Support for County Hospitals.** In an action that primarily benefits counties that operate hospitals, the budget reduced the state “takeout” from the Disproportionate Share Hospital program by \$40 million.
- ◆ **Additional Support for Local Libraries and Criminal Justice Programs.** The budget provides \$39 million (\$20 million more than last year) in support for the public libraries. The budget also provides a net augmentation of about \$8 million for new and expanded local criminal justice and juvenile delinquency grant programs, and \$81.4 million for local governments to construct or expand juvenile detention facilities.
- ◆ **Funding for Flood Control Projects.** The budget contains \$40 million to pay in 1998-99 part of the \$172 million owed by the state to local governments for the state share of costs of local flood control projects. A budget trailer bill appropriates the remaining balance owed—\$132 million—in three \$44 million annual installments from 1999-00 through 2001-02.

In addition to the above actions, the budget provides for a reduction in the vehicle license fee (VLF), a major revenue source for local governments. A budget trailer bill provides that cities and counties will continue to receive the same amount of revenues, with the reduced VLF amounts replaced by General Fund revenues.

### EMPLOYEE COMPENSATION

The Legislature appropriated sufficient funds (\$706 million, all funds) to provide state employees a 6 percent salary increase effective July 1, 1998 and another 3 percent effective January 1, 1999. The availability of these funds was conditioned on the administration and employee bargaining units reaching agreement for salary increases through the collective bargaining process. The Governor reduced this funding to the amount (\$279 million) that he proposed in January. This would provide sufficient funds for a 3 percent salary increase but is subject to collective bargaining.

### RESOURCES

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

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



- ◆ \$20.6 million for acquisitions and implementation of the Natural Community Conservation Planning program in San Diego and Orange Counties.
- ◆ \$40 million to pay in 1998-99 part of the \$172 million owed by the state to local governments for the state share of costs of local flood control projects. A budget trailer bill appropriates the remaining balance owed—\$132 million—in three \$44 million annual installments from 1999-00 through 2001-02.
- ◆ An increase of \$62 million in State Water Project design, construction, and operations and maintenance expenditures.
- ◆ \$64 million from Proposition 204 bond funds for water supply and Bay-Delta restoration projects.
- ◆ \$10 million for feasibility studies for an offstream reservoir storage facility.
- ◆ \$25 million to the Air Resources Board (ARB) for a new grant program designed to reduce emissions into the air, mainly from heavy-duty diesel engines.
- ◆ A transfer of \$25 million from the Underground Storage Tank Cleanup Fund (which reimburses underground fuel tank owners for costs to clean up leaking tanks) to the Trade and Commerce Agency for loans to small businesses for tank upgrades to meet new federal standards.
- ◆ \$57 million from Proposition 204 bond funds for local water quality projects.
- ◆ \$10 million for the Department of Toxic Substances Control to clean up illegal drug labs.

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

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

## ENVIRONMENTAL PROTECTION

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

The Governor vetoed legislative augmentations totaling \$7.8 million, including \$5.8 million for nonpoint source pollution and water recycling research. Additionally, the Governor deleted budget bill language adopted by the Legislature which tied the \$25 million for the ARB grant program to AB 1368 (Villaraigosa) and SB 1857 (Brulte). The Governor vetoed AB1368 which provided that the grant program would become inoperative if the air quality tax credit initiative (Proposition 7) is approved by the voters this November.

## TRANSPORTATION

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

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

projects, \$100 million is for transit operating assistance, and \$200 million is for the State and Local Partnership program.

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

## HOUSING

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

## YEAR 2000 COMPUTER PROJECTS

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

## ARTS COUNCIL

The Legislature approved a major increase in state support for the California Arts Council. Specifically, the Legislature provided a total of \$61.5 million, which included \$60.1 million from the General Fund, an amount that was almost four times greater than both

the 1997-98 expenditures and the Governor's proposed 1998-99 budget. The amount included a \$20 million General Fund augmentation for the Arts Council's existing competitive grant programs. In addition, it included a General Fund augmentation of \$27.6 million for grants to 29 specified museums and arts-related organizations. The Governor reduced the total augmentation to \$30.2 million, which includes a \$6 million augmentation for existing competitive grant programs and \$24.2 million for grants to 21 specified museums and organizations.

## SMOG CHECK PROGRAM

The Legislature fully funded the Smog Check II Program and made significant changes to the program through trailer bill legislation (AB 2789, Thomson). The major features of the legislation included: (1) vehicles designated as a "gross polluter" could be tested and repaired at one location; (2) implementation of a low-income motorist assistance program; (3) permitting automobile dealerships to perform the appropriate smog check for the area in which the dealership is located; and (4) an increased population threshold for cities subject to the "enhanced" smog check program. The Governor vetoed AB 2789 with its program changes.

## CAPITAL OUTLAY

The budget includes \$1.2 billion for capital outlay as shown in Figure 1 (see page 22). About 70 percent of this total is from bonds (\$870 million), with about \$580 million from proposed higher education bonds that have not yet been placed on the November 1998 ballot. Other funding includes \$230 million from the General Fund, \$70 million from various special funds, and \$34 million from federal funds. Future appropriations of \$474 million will be needed to complete the capital outlay projects funded in the budget.

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

- ◆ Emergency Services—\$25 million for a new headquarters and state operations center near Sacramento.



**Figure 1**

**1998-99 Capital Outlay Programs**

*(In Millions)*

	<b>Budget Amount</b>	<b>Future Cost</b>
Legislative/Executive/Judicial	\$30.5	\$25.1
State and Consumer Services	112.2	21.5
Transportation	15.8	6.5
Resources	169.5	63.9
Health and Welfare	167.5	27.9
Corrections	45.9	176.2
Higher Education	637.5	145.8
General Government	25.1	7.2
<b>Totals</b>	<b>\$1,204.0</b>	<b>\$474.1</b>

- ◆ Department of Justice—\$1.6 million to prepare construction documents for replacement of three crime laboratories.
- ◆ California Science Center—\$30 million for a new parking structure.
- ◆ Department of General Services—\$72 million for earthquake safety improvements to 19 state buildings.
- ◆ Wildlife Conservation Board and state conservancies—\$78 million for land acquisition.
- ◆ Department of Health Services—\$108 million to construct a public health laboratory and office complex in Richmond.
- ◆ Department of Mental Health—\$38.4 million for facilities to house sexually violent predators. This includes \$33 million to construct a 250-bed addition to the Atascadero State Hospital and \$5.4 million for programming and site selection for a new 1,500-bed facility.
- ◆ University of California—\$190 million for 26 projects at eight campuses plus \$21 million for a new building as part of a second campus for medical research in San Francisco.
- ◆ California State University—\$210 million for 22 major projects at 14 campuses and \$11 million for initial renovation of the former Camarillo State Hospital into an off-campus center.
- ◆ Community Colleges—\$216 million for 43 projects at 32 districts (35 campuses and off-campus centers) including funding to construct two new off-campus centers at Folsom and Madera.

*Prepared by the following sections:*

*Business, Labor, and Capital Outlay—(916) 322-8402*

*Transportation and Resources—(916) 445-5921*

*State and Local Finance—(916) 445-6442*

*Criminal Justice  
and State Administration—(916) 445-4660*

1998-99 Budget: Trailer Legislation		
— Enacted —		
Bill	Author	Subject
AB 858	Davis	Education: National Board Certification: merit grants.
AB 862	Ducheny	Education: school libraries.
AB 1331	Alquist	Education: Mathematics staff development.
AB 1428	Ortiz	Education: After school programs.
AB 1590	Thomson, M. Thompson	Trial Court Funding: County MOE.
AB 1734	Mazzoni	Education: Instructional strategies.
AB 1756	Havice	Education: School community policing.
AB 2041	Bustamante, Schiff, Villaraigosa, Pacheco	Education: Instructional materials.
AB 2261	Aguiar, Migden	Criminal Justice: Challenge grants.
AB 2284	Torlakson, Aroner	Education: After school programs.
AB 2442	Mazzoni	Education: Tuition reimbursement for mathematics teachers.
AB 2594	Wright	Criminal Justice: Repeat offender program for juveniles.
AB 2779	Aroner, Ducheny, Villaraigosa	Social Services: Various (welfare grant restoration and COLAs, SSI/SSP and food stamps for noncitizens, and child support automation).
AB 2780	Gallegos, Ducheny, Villaraigosa	Health: Various (Medi-Cal, public health, mental health, and developmental services).
AB 2784	Strom-Martin, Keeley	Resources: Various (flood control, hazardous waste, parks and recreation).
AB 2793	Migden, Villaraigosa, M. Thompson	Criminal Justice: Local juvenile detention facilities.
AB 2797	Cardoza	Tax Relief: Various (VLF, renters' credit, dependent credit, strike fighter, senior and disabled property and renters' tax assistance, medical insurance for self-employed, federal conformity).
AB 2798	Machado	Tax Relief: Various (minimum franchise tax, space launch, manufacturer investment credit, employer child care, R&D conformity, estate tax conformity, enterprise zones, perennial plants).
SB 12	OConnell, Peace, Davis	Education: Class size reduction.
SB 27	Maddy, Burton	Tax Relief: Horse racing license fees.
SB 295	Rainey, Lockyer	Criminal Justice: Internal Affairs investigations.
SB 933	Thompson	Social Services: Foster care and child welfare services.
SB 1193	Peace, Schiff	Education: Staff development.
SB 1564	Schiff	Education: Various K-12 and higher education provisions; CalWORKs child care.
SB 1584	Committee on Budget and Fiscal Review	Local Government: VLF allocations to recently incorporated cities.
SB 1589	Committee on Budget and Fiscal Review	General Government: Various (performance budgeting, Department of Corporations fees, Department of General Services).
SB 1628	Maddy	Health: Fresno Regional Burn and Trauma Center.
SB 1756	Lockyer	Education: After school programs.
SB 2064	OConnell	Education: Cal Grant Program.

— Continued



1998-99 Budget: Trailer Legislation		
Bill	Author	Subject
SB 752	Maddy, Lockyer	Trial Court Funding: Additional changes to county MOE.
SB 1574	Committee on Budget and Fiscal Review	Resources: Levee fences.
SB 1587	Alpert, Bach	Social Services: Drug courts.
SB 1602	Peace	Public Utilities Commission: Natural gas deregulation.
— Vetoed —		
Bill	Author	Subject
AB 1368	Villaraigosa, Brulte	Resources: Diesel emissions reductions.
AB 2778	Villaraigosa	Health: Healthy Families Program.
AB 2781	Honda	Social Services: IHSS public authorities.
AB 2789	Thomson	Smog Check Program.
SB 34	Vasconcellos, Solis	Health: Prenatal services for undocumented immigrants.
SB 1565	Burton	Education: Property tax allocations.
SB 1573	Solis	Health: Los Angeles comprehensive health clinics.
SB 1575	Committee on Budget and Fiscal Review	Resources, Transportation, and Education: Park facilities, local transportation and education assistance.
SB 1577	Sher	Resources: Cal-EPA sunset review.
SB 1603	Committee on Budget and Fiscal Review	Criminal Justice: Corrections parole.
SB 1605	Committee on Budget and Fiscal Review	Criminal Justice: Female parole program.
SB 1657	Peace	Criminal Justice: Female juvenile offenders.

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