



July 1, 2002

**Revised**

# Budget Package 2002-03

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LEGISLATIVE ANALYST'S OFFICE





## The Bottom Line 2002-03 General Fund Condition

(In Millions)

	Governor's Budget (May Revision)	Budget Package	Difference
Prior-year fund balance	-\$123	\$113	\$236
Revenues and transfers	78,603	79,232	629
Total resources available	\$78,480	\$79,345	\$865
Expenditures	76,491	76,921	430
Ending fund balance	\$1,989	\$2,424	\$435
Encumbrances	1,473	1,473	—
<b>Reserve</b>	<b>\$516</b>	<b>\$951</b>	<b>\$435</b>

- Revenues and Transfers.** The budget package reflects total revenues and transfers (including loans) of \$79.2 billion, or \$629 million more than the May Revision. The increase is largely due to higher loans and transfers from special funds. The budget package includes \$3.9 billion in additional revenues, primarily from taxes. This is about \$400 million less than proposed by the administration in the May Revision and in June.
- Expenditures.** The budget package includes \$76.9 billion in expenditures, which is \$430 million more than the May Revision. This net increase is primarily due to spending restorations in the areas of health and social services.
- Reserve.** As a result of the above factors, the budget package includes a reserve of \$951 million, which is \$435 million more than the May Revision.



## Major Features

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### Revenues

- Increased revenues of \$3.9 billion from tax rate increases, tax expenditure changes, and administrative-related actions.
- Key tax provisions include an increase in Vehicle License Fee rate from 0.65 percent to 1.5 percent, two-year suspension of net operating loss deductions, and increased taxes on cigarettes of 63 cents per pack (for a total tax of \$1.50 per pack).



### Loans and Transfers to General Fund

- Includes \$2.6 billion in loans and transfers. This is \$0.5 billion more than the May Revision.



### Proposition 98

- Total General Fund Proposition 98 spending (K-14) of \$29.5 billion in the current year and \$31.7 billion in 2002-03 (\$475 million less than the May Revision for 2002-03). This reduction from the May Revision results from a \$475 million deferral of specific categorical programs from 2002-03 to 2003-04.
- Proposition 98 K-12 per-pupil spending of \$7,105—up 1.5 percent from the *2001-02 Budget Act* as signed by the Governor.



### Higher Education

- Total General Fund spending of \$9.5 billion, including \$2.8 billion of Proposition 98 funding for the California Community Colleges (CCC).
- Total General Fund spending is \$49.5 million above the May Revision total, primarily due to higher funding for outreach programs at the University of California and matriculation services at CCC.



## Major Features

*(Continued)*



### Health and Social Services

- Rejects various May Revision reductions in the Medi-Cal Program. Restorations include certain optional Medi-Cal services for some adults, eligibility for some two-parent working families, quarterly status reporting for parents, county administration funding, additional copayments for some services, and a proposed further reduction in hospital funding.
- Expands the Healthy Families Program to include parents starting October 2002 and continues trauma care funding at the level provided in the current fiscal year.
- Provides a net increase above the May Revision of approximately \$231.1 million to various social services programs.



### Judicial and Criminal Justice

- Adopts the Governor's proposal to reduce adult and youth parole services by approximately \$21 million, and reduces the Department of Corrections May Revision budget by \$43.5 million, including \$35.4 million for contract medical services and \$8.1 million to reflect lower caseload estimates.
- Provides \$2.8 million for the continuation of five community correctional facilities proposed to be closed by the Governor.
- Provides funds (\$111.3 million) to continue the Citizens' Option for Public Safety and Juvenile Justice programs at their current-year funding level of \$116.3 million each, and provides \$18.5 million for the High Technology Grants program, a reduction of \$16.9 million.



## Major Features

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*(Continued)*

### Transportation

- Adopts the Governor's proposal for transportation loans to aid the General Fund in the budget year, including \$474 million from the State Highway Account (SHA) to the Traffic Congestion Relief Fund (TCRF) and over \$1 billion from the TCRF to the General Fund. Increases current-year SHA loan to the General Fund from \$50 million to \$173 million.



## Revenue-Related Provisions

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### 2002-03 General Fund (In Millions)

Provision	Revenue Gain
Vehicle license fee offset <sup>a</sup>	\$1,276
Net operating loss suspension	1,200
Cigarette tax increase	650
Bank bad debts	285
Teacher tax credit suspension <sup>b</sup>	170
Waiver of penalties and interest	145
Tax credit auditing	60
Settlement programs	57
Cigarette tax enforcement	39
Collections and protest	15
<b>Total</b>	<b>\$3,897</b>
<sup>a</sup> For budgetary purposes, treated as a reduced expenditure.	
<sup>b</sup> Based on one-year suspension and no accrual of credit.	



## Loans and Transfers

### 2002-03 General Fund (In Millions)

<b>Selected Loans</b>	<b>May Revision</b>	<b>Budget Package</b>	<b>Difference</b>
Traffic Congestion Relief Account	\$1,045	\$1,045	—
Beverage Container Recycling Fund	218	218	—
Renewable Resource Trust Fund	150	150	—
Vehicle Inspection and Repair Fund	70	100	\$30
Public School Planning, Design and Construction Review Revolving Fund	—	35	35
Occupancy Compliance Monitoring Account	30	35	5
Tax Credit Allocation Fee Account	25	27	2
Pollution Control Financing Authority Fund	25	25	—
Housing Rehabilitation Loan Fund	—	20	20
Agricultural Fund	—	15	15
<b>Selected Transfers</b>			
High-Cost Fund B	—	\$251	\$251
Trial Court Improvement Fund	\$28	28	—
High-Cost Fund A	—	27	27
Colorado River Management Account	22	22	—
State Parks and Recreation Fund	20	20	—
<b>Other Loans and Transfers</b>	<b>\$445</b>	<b>\$547</b>	<b>\$102</b>
<b>Totals, Loans and Transfers</b>	<b>\$2,078</b>	<b>\$2,565</b>	<b>\$487</b>



## Major Actions K-12 Education—Proposition 98

### General Fund (In Millions)

	Governor	Budget Package	Difference
Cost-of-living adjustments (various programs)	\$763	\$789	\$26
Enrollment growth (various programs)	731	731	—
Deferral of various categorical spending into 2003-04	—	-475	-475
Instructional materials	400	400	—
High Priority Grants for Low-Performing Schools (HPG-LPS)	197	217	20
Mandates (various programs)	146	126	-20
Site-based Governor's Performance Awards	144	144	—
9 <sup>th</sup> Grade Class Size Reduction	135	110	-25
Library Materials (one-time)	80	24	-56
Digital High Schools	61	—	-61
Revenue limit equalization	—	42	42
Restore cuts to independent study	—	38	38
Reduce PERS offset to revenue limits	—	36	36
Restore cut to adult education—CalWORKs pupils	—	23	23
Restore cut to Healthy Start	—	19	19

- The budget package spends \$28.8 billion from the General Fund for Proposition 98 K-12 programs.
- The budget package provides \$7,105 in Proposition 98 funding per pupil. This is \$103, or 1.5 percent, above the *2001-02 Budget Act* as signed by the Governor. This is \$420, or 6.3 percent, above actual spending in 2000-01.
- Our analysis assumes enactment of SB 1830 (Peace) by June 30, 2002. Senate Bill 1830 includes the Governor's proposal to (1) defer \$1.1 billion of current-year expenditures to the budget year and (2) replace \$503 million of current-year General Fund with funds from the Proposition 98 Reversion Account. These actions would help meet a higher Proposition 98 guarantee in 2002-03 and create General Fund savings.



## Major Actions Higher Education

### General Fund (In Millions)

	Governor	Budget Package	Difference
University of California (UC)	\$3,204.7	\$3,225.3	\$20.6
California State University (CSU)	2,685.4	2,680.5	-4.9
California Community Colleges (CCC)	2,854.4	2,879.9	25.5
Hastings College of the Law	15.4	15.4	—
California Postsecondary Education Commission	0.5	2.1	1.6
California Student Aid Commission	654.9	661.6	6.7
<b>Totals</b>	<b>\$9,415.3</b>	<b>\$9,464.8</b>	<b>\$49.5</b>

- The budget package provides a total of \$9.5 billion from the General Fund for higher education in 2002-03. This is \$140 million above the revised current year amount.
- The budget package provides funding for 4.3 percent enrollment growth at UC, 5 percent at CSU, and 3 percent at CCC. It also provides funding for a cost-of-living adjustment of 2 percent at CCC and 1.5 percent at UC and CSU.
- The budget package assumes no increases in resident undergraduate fees for the eighth consecutive year.
- The budget package is \$49.5 million above the May Revision amount. This is due primarily to higher spending in UC's K-12 outreach programs (\$20.6 million), CCC's matriculation services (\$14.8 million), and CCC's CalWORKs program (\$9 million).



## Major Actions Social Services Programs

### General Fund (In Millions)

Program or Department/Issue	Difference From May Revision
<b>Supplemental Security Income/State Supplementary Program (SSI/SSP)</b>	
“Pass Along” January 2003 federal COLA	\$53.7
Provide one-month COLA in June 2003	22.3
Conforming COLA actions for state only immigrant programs	0.6
<b>CalWORKs</b>	
Provide one-month COLA in June 2003	\$12.5 <sup>a</sup>
Reduce TANF reserve	-30.0 <sup>a</sup>
Technical conforming costs related to certain restorations	8.9 <sup>a</sup>
<b>County Administration</b>	
Partially restore 14.8 percent reduction in CalWORKs	\$20.9 <sup>a</sup>
Restore 20 percent reduction in Food Stamps	39.5 <sup>b</sup>
Restore 20 percent reduction in Foster Care	7.5
Restore 20 percent reduction in In-Home Supportive Services	15.7
<b>Children’s Programs</b>	
Restore Child Welfare Services reductions	\$28.0
Restore Adoptions reductions	9.1
<b>Department of Child Support Services</b>	
Eliminate county share of federal automation penalty	\$45.0 <sup>c</sup>
<b>Employment Development Department</b>	
Use Workforce Investment Act Funds for Faith-Based Initiative	-\$4.0
<b>Department of Rehabilitation</b>	
Restore reimbursement for lunch-time supervision in Habilitation	\$1.4
<b>Total</b>	<b>\$231.1<sup>a</sup></b>
<sup>a</sup> Combined General Fund and TANF federal funds.	
<sup>b</sup> Includes technical conforming Food Stamps administrative costs.	
<sup>c</sup> Reflected as reduction in General Fund revenues.	



## Major Actions Health Programs

### General Fund (In Millions)

	Change From Governor's Budget
<b>Medi-Cal</b>	
Rejected elimination of some optional benefits for some adults	\$263.0
Rejected reinstatement of quarterly status reporting for parents	155.4
Rejected proposal to rescind Section 1931(b) expansion for poor families	92.1
Rejected 20 percent reduction in county administration	87.9
Rejected further reduction in Disproportionate Share Hospital program	31.0
Rejected imposition of additional copayments for certain services	30.6
Restored May Revision provider rate reductions	55.0
Implemented express lane eligibility for children in school lunch programs	6.0
Established transitional Medi-Cal coverage for parents shifting to the Healthy Families Program	7.7
Rejected reduction of children's dental services to one cleaning and one exam annually	4.0
Assumed additional savings from antifraud activities	-100.0
Adjusted Medi-Cal caseload to reflect recent trends	-46.3
Delayed Medi-Cal and Healthy Families Program application tracking	-4.0
Limited adult dental services to one cleaning and one exam annually	-3.9
<b>Managed Risk Medical Insurance Board</b>	
Provided funding to expand Healthy Families Program coverage to parents in October 2002	\$52.4
<b>Emergency Medical Services Authority</b>	
Continued trauma care system funding at about the same level as provided in the current year	\$25.0
<b>Department of Mental Health</b>	
Partly restored funding for adult and children's systems of care and homeless mentally ill	\$45.8
Rejected proposal to shift 10 percent share of growth in EPSDT costs to counties	5.4
<b>Department of Developmental Services</b>	
Rejected implementation of statewide purchasing standards for Regional Centers but made an equal unallocated cut of \$52 million in their purchases of services budget	No net change
<b>Department of Alcohol and Drug Programs (DADP)</b>	
Shifted correctional programs to DADP to comply with federal grant maintenance of effort rules	\$8.9
Restored cuts in drug court, perinatal, and other services by using federal funds and by restructuring drug courts to generate offsetting General Fund savings on prison costs	4.9
<b>Health Insurance Portability and Accountability Act</b>	
Rejected some funding proposals while maintaining resources to continue compliance efforts	-\$3.9



## Major Actions Judicial and Criminal Justice Provisions

### General Fund (In Millions)

Department/Program	Governor	Budget Package	Difference
<b>Department of Corrections</b>			
Contract Medical Services	\$115.5	\$80.1	-\$35.4
Caseload Adjustment	—	-8.1	-8.1
Inmate Medical Services (Plata)	21.9	21.9	—
Civil Addict Program	-10.0	-10.0	—
Parole Reduction	-16.0	-16.0	—
Community Correctional Facilities Deactivation	-2.8	2.8	5.6
Correctional Reentry Center Beds Elimination	-1.4	-1.4	—
Delano II	1.8	1.8	—
Foreign Prisoner Transfer Program	—	-0.1	-0.1
<b>Youth Authority</b>			
<i>Stevens v. Harper</i> legal defense	\$3.5	\$1.7	-\$1.8
Mental Health Reorganization	1.0	1.0	—
Parole Services Reduction	-5.0	-5.0	—
Population Adjustment <sup>a</sup>	—	2.6	2.6
County Sliding Fee Inflation Adjustment	-7.6	7.6	15.2
<b>Board of Prison Terms</b>			
Reduce board budget	—	-\$15.2	-\$15.2
Foreign Prisoner Transfer	—	0.1	0.1
<b>Youthful Offender Parole Board</b>			
Reduce board budget	—	-\$1.6	-\$1.6
<b>Office of Criminal Justice Planning</b>			
Grant Programs Reduction	-\$19.4	-\$8.2	\$11.2
DNA Cold Hit Program—Reversion	-6.0	-17.2	-11.2
<b>Crime Prevention Act</b>			
Juvenile Justice Grants	—	\$116.3	\$116.3
COPS	\$121.3	116.3	-5.0
<b>Juvenile Justice</b>			
Turning Point Academy	\$2.9	—	-\$2.9
<b>Local Law Enforcement</b>			
War on Methamphetamine	-\$5.0	—	\$5.0
High Technology Grants	-16.9	-\$16.9	—
Details may not total due to rounding.			
<sup>a</sup> Proposition 98 funding.			



## Major Actions Resources and Environmental Protection

### Various Funds (In Millions)

Issue	Governor	Budget Package	Difference
CALFED Bay-Delta program	\$520.3	\$470.6 <sup>a</sup>	-\$49.7
Selected Proposition 40 appropriations:			
• Conservancies: acquisition and development	215.5	228.5	13.0
• Clean beaches, watershed protection, and water quality	164.0	8.0	-156.0
• Historical and cultural resources (not including specified local parks)	107.0	—	-107.0
• Local parks	72.8	172.9	100.1
• State park acquisition, development, and deferred maintenance	65.5	65.5	—
• River parkways	63.7	56.2	-7.5
• Agricultural land preservation	9.8	—	-9.8
• Diesel emission reduction incentives	9.6	25.0	15.4
Emergency fire suppression	—	75.0	75.0
Increased reimbursements from local agencies for state firefighting costs	20.0	— <sup>b</sup>	— <sup>b</sup>
Conservation Corps program reduction	-12.5	-12.5	—
Farmland Conservancy Program (Proposition 12)	5.0	11.7	6.7
Americans With Disabilities Act improvements at state parks	9.0	9.0	—
Drought Panel recommendations	8.4	7.7	-0.7
System for Water Information Management project	4.3	—	-4.3
Department of Fish and Game—one-time shift from General Fund to Fish and Game Preservation Fund	—	-6.0	-6.0
Natural Heritage Preservation Tax Credit—General Fund revenue impact	2.8	— <sup>c</sup>	-2.8
Fish and Game California Environmental Quality Act review	0.8	2.9	2.1
Sudden Oak Death remediation	—	2.0	2.0
Subventions to local air districts (Motor Vehicle Account)	10.1	15.1	5.0
Replace General Fund with fees in water quality regulatory program	-15.0	-15.0	—
Office of Environmental Health Hazard Assessment—General Fund reductions	-2.9	-2.2	0.7
Air Resources Board—stationary source program General Fund reductions	-7.7	-7.7	—
Loan from Beverage Container Recycling Fund	218.0	218.0	—
Loan from Pollution Control Financing Authority Fund	25.0	25.0	—
Loan from Hazardous Waste Control Account	15.0	15.0	—
Transfer from Colorado River Management Account	22.0	22.0	—
Transfer from State Parks and Recreation Fund	19.8	19.8	—
<p><sup>a</sup> Reflects denial of \$101.1 million from Proposition 40 proposed for CALFED. The budget package replaces \$51.1 million of this funding with a like amount from the November 2002 water bond.</p> <p><sup>b</sup> Augmented the department's General Fund budget by \$20 million for day-to-day firefighting costs.</p> <p><sup>c</sup> The budget package suspends the tax credit for the budget year.</p>			



## Major Actions Transportation

### Various Funds (In Millions)

Issue	Governor	Budget Package	Difference
Traffic Congestion Relief Fund (TCRF) loan to General Fund	\$1,045.0	\$1,045.0	—
State Highway Account (SHA) loan to TCRF	474.0	474.0	—
Current-year SHA loan to General Fund	50.0	173.0	\$123.0
Transportation design and engineering	1,269.4	1,240.0	-29.4
State Transit Assistance	98.0	103.1	5.1
California Highway Patrol antiterrorism	93.4	93.4	—
Department of Motor Vehicles fee increases (revenues)	76.0	76.0	—

- The budget package reflects approved budget-year loans of just over \$1 billion from the Traffic Congestion Relief Fund (TCRF) to the General Fund, and \$474 million from the State Highway Account (SHA) to TCRF. The TCRF loan must be repaid by June 30, 2006, and the SHA loan must be repaid by June 30, 2007. The package also increases the current-year loan from the SHA to the General Fund from \$50 million to \$173 million. This loan must be repaid by June 30, 2005.
- The budget package reduced by \$29.4 million the support for the design and engineering of transportation projects to more accurately reflect projected workload. In addition, the budget package specified that the budget-year reduction in engineering workload be split between state staff and contracted services, instead of all from state staff as proposed in the May Revision.
- The budget package increased State Transit Assistance to local transit operators by \$5.1 million, to \$103.1 million. The augmentation is funded by reducing the planned \$100 million budget-year Public Transportation Account loan to the TCRF by the same amount.
- The budget package approved the Governor's proposal for \$93.4 million from the Motor Vehicle Account (MVA) and 236.5 personnel-years for California Highway Patrol antiterrorism activities.
- The budget package approved proposals to increase several fees and penalties under the Department of Motor Vehicles for a total MVA revenue increase of \$76 million in 2002-03 and \$98 million annually thereafter.



## Major Actions Local Governments

### General Fund (In Millions)

	Savings	
	Governor's Proposal	Budget Package
<b>Education</b>		
Shift property taxes to schools via the Educational Revenue Augmentation Fund	\$120	\$75
Reduce funding for the Public Library Foundation program	12	10
<b>Health and Social Services</b>		
Increase disproportionate share hospital administrative fee	\$31	—
County share of costs for Early and Periodic Screening, Diagnosis and Treatment program	35	— <sup>a</sup>
Require counties to pay share of federal child support automation penalty	45	—
Reduce state funds for administration of a variety of health and social services programs	258	\$51
<b>Criminal Justice</b>		
Reduce high-technology law enforcement grants	\$17	\$17
Eliminate juvenile justice grant program	116	—
Increase Youth Authority sliding scale fees for inflation	8	—
Eliminate booking fee reimbursements	38	—
<b>Other</b>		
Defer reimbursements for a variety of mandated programs	\$168 <sup>b</sup>	\$172
Eliminate Williamson Act subventions for open space preservation	39	—
<sup>a</sup> Rejected cost increase to counties, but adopted alternative savings approach. <sup>b</sup> In addition to the budget reduction, the May Revision did not provide \$600 million to pay mandate deficiencies and new mandates to cities and counties.		