

# The 2003-04 Budget Bill

LEGISLATIVE ANALYST'S OFFICE

AB 1765, as amended July 27, 2003

July 28, 2003  
(Revised)





## Basic Features

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- Addresses an enormous budget shortfall through a combination of program savings, borrowing, new revenues, funding shifts, and deferrals.
- Program savings achieved through reductions in education, suspensions of social services cost-of-living adjustments, selected Medi-Cal provider rate reductions, and employee compensation savings. Some reductions in higher education, trial courts, and resources would be offset by higher fees.
- Assumes proceeds from the sale of a \$10.7 billion bond to eliminate the 2002-03 deficit. Repayment of the bond is from existing resources, and is accomplished through a multistage shift of sales and property tax revenues (see below). Other borrowing includes issuance of pension obligation bonds and tobacco securitization bonds.
- Relies on \$2.2 billion in new federal funds to cover state costs in 2002-03 and 2003-04 combined.
- Relies on new revenues from the triggered vehicle license fee rate increase, renegotiated tribal gaming compacts, and a second tobacco securitization bond sale. Does not include May Revision revenue proposals relating to new realignment taxes, the suspension of the teachers' tax credit for an additional year, or the extension of the manufacturers' investment tax credit.



## General Fund Condition AB 1765 as Amended July 26, 2003

*(In Millions)*

	2002-03	2003-04
Prior-year fund balance	-\$1,984	\$1,402
Revenues and transfers	70,852	72,820
Deficit Financing Bond	10,671	—
Total resources available	\$79,539	\$74,222
Expenditures	\$78,137	\$70,825
Ending fund balance	\$1,402	\$3,397
Encumbrances	\$1,402	\$1,402
<b>Reserve</b>	—	<b>\$1,995</b>

- 2003-04.** The measure assumes 2003-04 revenues of \$72.8 billion, expenditures of \$70.8 billion, and a year-end reserve of \$2 billion. The budget assumes that a deficit-financing bond is issued to eliminate the \$10.7 billion 2002-03 year-end deficit.
  
- 2004-05.** Based on our estimate of out-year impacts of the budget package on revenues and expenditures, the 2004-05 fiscal year would end with a shortfall of \$7.9 billion, absent further corrective actions.



## Major Actions K-12—Proposition 98

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- Overview.** Assumes spending of \$41.3 billion for Proposition 98 in 2003-04. This level is \$288 million less than the level provided in the *2002-03 Budget Act*. On a per pupil basis, funding falls from \$7,067 per pupil in the *2002-03 Budget Act* to \$6,887 per pupil in Assembly Bill 1765—a decline of \$180 per pupil.
- Major Changes.** Adopts \$1.6 billion in funding increases to pay for revenue limit attendance growth (general purpose funds), increased Public Employees' Retirement System costs, and additional funding deferrals. Adopts \$2 billion in targeted program reductions including revenue limits, instructional materials, deferred maintenance, summer school, child care, state mandates, school intervention programs, and other reductions.
- COLA and Growth.** Does not provide a COLA for either revenue limit or categorical programs, and does not provide attendance growth for any of the categorical programs except special education.
- Deferrals.** Continues to defer \$1.2 billion of K-12 appropriations by funding school districts for programs operated in 2003-04 in July 2004 instead of June 2004.
- Reserves.** Allows school districts to access reserves for economic uncertainty, categorical reserves, and maintenance funding to backfill the \$350 million reduction in revenue limit funding.
- Child Care.** Reforms the state's subsidized child care system by restricting eligibility, reducing reimbursement rates, and spending additional federal funds, in order to achieve \$349 million in General Fund savings compared to current practice.



## Major Actions Higher Education

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- Funding Levels.** Reduces funding (taking into account General Fund support and fee revenues) for the University of California (UC) and the California State University (CSU) by 1.7 percent from the current-year level.
- Unallocated Reductions.** Makes unallocated General Fund reductions totaling \$497 million to UC (\$293 million) and CSU (\$204 million). All but \$121 million of this amount would be backfilled by increased student fees of about 30 percent.
- Enrollment Growth.** Funds enrollment growth of about 7 percent at UC and CSU at a cost of \$268 million. Intent language would call for no enrollment growth or cost-of-living increases in 2004-05.
- K-12 Outreach.** Reduces funding for UC and CSU's K-12 outreach programs by \$37.7 million (51 percent) and \$12.6 million (19 percent), respectively.
- California Community Colleges (CCC).** Leaves total CCC funding basically unchanged from the 2002-03 level. The total level of funding includes additional revenue raised by increasing student fees from \$11 per unit to \$18 per unit, as well as \$200 million of programmatic costs that will be incurred in 2003-04 but appropriated in 2004-05.
- Institutional Financial Aid.** Increases funding for UC and CSU's institutional financial aid programs by \$214 million (71 percent).



## Major Actions Local Government

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- Sales and Property Tax.*** Temporarily redirects a share (one-half cent) of the local sales tax to the state to pay deficit retirement bonds. Fully offsets local government revenue losses by redirecting a commensurate amount of property taxes from the Educational Revenue Augmentation Fund (ERAF).
- Vehicle License Fee (VLF).*** Eliminates the VLF backfill. As a result, cities and counties will experience VLF revenue reductions totaling about \$825 million, assuming the rate remains at the current level for the first three months of 2003-04. The budget package requires the state to reimburse local governments for this revenue loss by no later than August 2006.
- Redevelopment Agencies.*** Requires a one-time transfer to ERAF of \$250 million of redevelopment agency funds. Local entities may make these payments on behalf of redevelopment agencies.
- Local Government Mandates.*** Defers funding—or suspends the requirement for local governments to implement—most local government mandates.
- County Share of Penalty.*** Allocates 25 percent of the federal child support automation penalty to counties, resulting in General Fund revenue of approximately \$52 million.
- Williamson Act.*** Provides full funding for the local property tax subvention for open space protection (\$40.1 million).
- Local Subventions.*** Eliminates the \$38 million continuous appropriation for local government booking fees as well as county authority to charge cities fees for booking people into county jail.



## Major Actions Health Programs

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- Medi-Cal Eligibility and Optional Services.** Rejects the Governor's proposals for major reductions in Medi-Cal Program eligibility and optional services for beneficiaries. For example, proposals to scale back the past expansion of coverage for adults in working poor families and for the aged and disabled are not adopted. Dental and hearing aid benefits were reduced through cost-containment actions but not eliminated.
- Medi-Cal Provider Rates.** Adopts a 5 percent rate reduction primarily for physicians, pharmacies, and managed care plans effective January 1, 2004, for General Fund savings of about \$115 million in 2003-04. In effect, the measure modifies an administration proposal for a 15 percent reduction.
- Medi-Cal Eligibility Redetermination.** Adopts an administration proposal to achieve \$194 million in caseload savings in the program by ensuring that county eligibility workers conduct eligibility redeterminations in a more timely manner. Also, enacts a semiannual reporting process to verify Medi-Cal eligibility of adult beneficiaries in lieu of an administration proposal to reestablish quarterly status reporting for beneficiaries.
- Medi-Cal Antifraud Efforts.** Scales back from 315 positions to 161.5 positions an administration proposal to increase departmental staffing for expanded antifraud efforts, thereby focusing on activities with the highest initial savings.
- Medi-Cal Accounting.** Achieves one-time savings in various Medi-Cal-related programs of \$930 million by shifting the budgeting for benefits from an accrual to a cash basis.
- Regional Center Services.** Rejects an administration proposal to save \$50 million in 2003-04 by establishing statewide standards. Adopts some substitute actions to reduce the cost of community services and requires a plan to develop copayments for some families of children with developmental disabilities in 2004-05.



## Major Actions Social Services Programs

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- SSI/SSP COLAs.** Retains June 2003 cost-of-living adjustment (COLA) for Supplemental Security Income/State Supplementary Program (SSI/SSP) grants. Suspends the January 2004 SSI/SSP COLA for a savings of \$104 million in 2003-04 and \$213 million in 2004-05.
- CalWORKs COLAs.** Retains the June 2003 COLA for California Work Opportunity and Responsibility to Kids (CalWORKs) grants. Under current law, the October 2003 CalWORKs COLA is provided contingent upon the vehicle license fee relief being continued. Because this fee relief has been eliminated, there is no October 2003 COLA.
- Child Support.** Adopts various reforms which would increase child support collections and federal incentive payments, resulting in net savings of \$42 million.
- Employment Training Funds.** Transfers a total of \$56 million in Employment Training Funds to offset General Fund employment services costs in CalWORKs.
- Rehabilitation Programs.** Reduces provider rates and suspends provider rate increases for the Work Activity and Supported Employment Programs operated by the Department of Rehabilitation, for a General Fund savings of \$14 million.



## Major Actions Judicial and Criminal Justice Programs

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- Court Fees and Operations.*** Offsets General Fund spending for court operations by more than \$150 million by adopting new and increased court fees. Also, reduces the budget for court operations by approximately \$95 million. In addition, establishes a court security task force to implement policy reforms aimed at improving efficiencies and reducing costs in trial court security services (\$11 million).
- Corrections' Reductions.*** Makes several reductions in Corrections' spending totalling approximately \$110 million.
- Institution Closures.*** Closes a women's prison and a youth correctional facility, both in Stockton, for total savings of approximately \$13 million. Also, requires Youth Authority to close the male portion of the Ventura facility by March 2004.
- Office of Criminal Justice Planning (OCJP) Elimination.*** Phases-out the OCJP by providing half-year funding, with second half-year funding and programs assigned to other state departments.
- Local Public Safety Grants.*** Eliminates spending for High Technology Grants (\$18.5 million) and Rural County Law Enforcement Grants (\$18.5 million), as well as reduces funding for the Citizens' Options for Public Safety and Juvenile Justice Crime Prevention Act Grants (\$32.6 million).



## Major Actions Transportation Programs

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- Proposition 42 Transfer.** Transfers \$289 million from the General Fund to the Transportation Investment Fund (TIF). The remainder of the Proposition 42 transfer (\$856 million) is retained in the General Fund, to be transferred with interest for transportation by June 30, 2009. Of the \$289 million transfer to TIF:

  - \$189 million would be available for projects in the Traffic Congestion Relief Program.
  - \$100 million would be used to partially repay outstanding loans from the State Highway Account (SHA) to the Traffic Congestion Relief Fund (TCRF).
- General Fund Loan Repayment to TCRF.** Defers \$500 million loan repayment from the General Fund to the TCRF that is scheduled for 2003-04.
- Truck Weight Fees.** Assumes increases in certain truck weight fees in order to attain "revenue neutrality" as provided by Chapter 861, Statutes of 2000 (SB 2084, Polanco). The increase would generate about \$80 million to the SHA in 2003-04 and \$160 million annually thereafter.
- Motor Vehicle Account Fees.** Assumes increases in various fees to the Motor Vehicle Account (MVA) to address an account shortfall. The increase would generate about \$163 million in 2004-05, and \$333 million annually thereafter. Fees to be increased include vehicle registration fees, driver license fees, identification cards fees, and various transaction fees.
- Public Safety Surcharge.** Rejects public safety surcharge on intrastate telephone calls which would have generated \$100 million for support of the California Highway Patrol.



## Major Actions Resources, Energy, and Environmental Protection Programs

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- Fees.** Assumes a number of resource-related fee increases that create General Fund savings totaling about \$120 million.
  
- Bond Funds.** Provides about \$1.7 billion of Proposition 40 and Proposition 50 bond funds for various resources and environmental protection programs.
  - **Bond Funds Offset General Fund Expenditures.** Bond fund expenditures include about \$57 million that is shifted from the General Fund to Proposition 50 bond funds in the CALFED Bay-Delta program and to support the Habitat Conservation Fund.
  - **Selected Bond Fund Appropriations.** Major bond fund appropriations include \$128.4 million from Proposition 40 for historical and cultural endowment grants and \$352 million from Proposition 50 for land acquisitions by the Wildlife Conservation Board.
  
- Loans and Transfers.** Provides about \$430 million in loans and transfers to the General Fund from various resources special funds. Major loans include \$182 million from beverage recycling funds; \$150 million from the Teleconnect Fund; \$23.7 million from various integrated waste management accounts; and \$20 million from the Public Interest Research, Development and Demonstration Fund. Major transfers include \$38.8 million from the Colorado River Management Account.



## Major Actions General Government

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- Employee Compensation.** Assumes \$1.1 billion (\$585 million General Fund) of reductions in state employee compensation costs—equivalent to about a 10 percent decrease in employee salaries.
- Workers' Compensation.** Assumes \$50 million (\$30 million General Fund) in savings from the enactment of workers' compensation reform legislation. Shifts most General Fund costs for administering the workers' compensation system to user funding, for a savings of \$78 million.
- State Contracting.** Assumes \$100 million (\$50 million General Fund) in savings from reduced state contract costs. The budget and related legislation give the Department of General Services new powers to achieve these savings.
- Housing.** Provides \$40 million in savings by switching the funding source for housing projects from the General Fund to Proposition 46 housing bond funds. This action would not affect bond allocations until at least 2006-07.
- Technology, Trade, and Commerce.** Eliminates the Technology, Trade, and Commerce Agency and transfers a few programs to other offices.
- Agency Secretaries.** Reduces General Fund support for a number of agency secretaries by \$3.9 million.
- Arts Council.** Reduces General Fund support for the Arts Council to \$1 million.