

The 2004-05 Budget Bill

LEGISLATIVE ANALYST'S OFFICE

SB 1113, as Amended

July 28, 2004





Major Features

- Addresses a major budget shortfall through program savings, borrowing, local government contributions, and funding shifts.
- Reduces funding for Proposition 98 (through a suspension of the minimum funding guarantee), higher education, corrections, state operations, and social services programs.
- Restores some funding reductions proposed by the administration in the areas of higher education student financial aid and outreach programs, social services, and state employee compensation.
- Assumes a diversion of \$1.3 billion in revenues from local government in 2004-05 and in 2005-06.
- Uses \$11.3 billion of \$15 billion in economic recovery bonds authorized by voters in March 2004. Also includes borrowing related to pension bonds, transportation, and local governments.
- Uses \$1.2 billion in bond proceeds related to newly approved tribal gaming compacts to repay in 2004-05 transportation loans otherwise due in 2005-06.
- Includes new revenues from higher education fees, a two-year suspension of the teachers' tax credit, tax amnesty, and a two-year rule change related to the use tax on out-of-state purchases of certain items such as yachts and airplanes.



General Fund Condition SB 1113 as Amended

(In Millions)

	2003-04	2004-05
Prior-year fund balance	\$4,177	\$3,115
Revenues and transfers	76,582	77,253
Total resources available	\$80,760	\$80,368
Expenditures	\$77,645	\$78,761
Ending fund balance	\$3,115	\$1,607
Encumbrances	\$929	\$929
Reserve	\$2,186	\$678
Proposition 98	—	(\$268)
Non-Proposition 98	—	(\$410)

- 2003-04.** The budget assumes a prior-year fund balance of \$4.2 billion, revenues of \$76.6 billion, expenditures of \$77.6 billion, and a year-end reserve of \$2.2 billion. The prior-year fund balance reflects the accrual of slightly over \$9.2 billion in deficit bond proceeds to 2002-03.
- 2004-05.** The budget assumes 2004-05 revenues of \$77.3 billion, expenditures of \$78.8 billion, and a year-end reserve of \$678 million. About \$268 million of the reserve is designated for Proposition 98 and the remaining \$410 million is designated for non-Proposition 98 purposes.
- Underlying Revenues and Expenditures.** The revenue and expenditure totals for both 2003-04 and 2004-05 are affected by numerous one-time actions. For example, the 2003-04 expenditure totals are increased by \$2 billion due to the transfer of deficit bond proceeds to a special fund, and the 2004-05 expenditure totals are reduced by the use of the special fund to support General Fund programs. Absent these and numerous other one-time actions, underlying revenues and expenditures are increasing moderately between 2003-04 and 2004-05.



Major Actions K-12—Proposition 98

- Overview.** Assumes spending of \$42.1 billion for K-12 Proposition 98 funding in 2004-05. The budget package includes trailer bill language suspending the Proposition 98 minimum guarantee for 2004-05. The spending level is less than the minimum guarantee by \$2.1 billion. On a per pupil basis, funding increases \$120 per pupil—from \$6,887 per pupil in 2003-04 to \$7,007 in 2004-05. In addition, the budget provides \$560 million in one-time funds to meet prior-years Proposition 98 obligations.
- Growth and Cost-of-Living Adjustments (COLAs).** Provides both statutory and discretionary growth and COLA to revenue limits (\$886 million) and most categorical programs (\$366 million). In addition, provides \$136 million for increased unemployment insurance costs.
- Deficit Factor Reduction.** Provides \$270 million in additional revenue limit funding to partially restore the \$350 million general purpose reduction school districts experienced in 2003-04.
- Other Major Augmentations.** Provides additional funding for revenue limit equalization (\$110 million). The budget augments instructional materials by \$188 million and deferred maintenance by \$173 million. Related to the Williams case settlement, provides (1) \$138 million in one-time funds for instructional materials for Academic Performance Index decile 1 and 2 schools, and (2) sets aside \$50 million pending settlement legislation.
- Credit Card Obligations.** Little change to the \$3.4 billion in outstanding obligations on the K-14 education credit card. The budget provides \$270 million for deficit factor reduction and \$60 million for prior-year mandate costs, but adds an estimated \$320 million to the debt by not paying 2004-05 mandated costs.
- Child Care.** Rejects changes proposed by the Governor, resulting in a \$120 million augmentation. Makes permanent the 2003-04 reforms to restrict eligibility and reduce reimbursement rates.



Major Actions Higher Education

- Fee Increases.** Approves \$8 per unit fee increase at California Community Colleges (CCC), thus raising the fee to \$26 per unit. At the University of California (UC) and the California State University (CSU), approves systemwide fee increases of 14 percent for undergraduates and 20 percent to 30 percent for various types of graduate students. These increases are intended to fully backfill General Fund reductions totaling \$366 million at the three segments.
- UC and CSU Allocated Reductions.** Achieves \$244 million in savings by reducing research and academic support, increasing student-faculty ratios, and imposing other allocated reductions.
- Enrollment.** Rejects Governor's proposal to redirect 7,000 eligible freshman applicants from UC and CSU to CCC. Anticipates that UC will accommodate all eligible students with existing funding. For CSU, fully restores Governor's associated reduction of \$21 million, and further augments General Fund support by \$12.2 million to fund an additional 2,155 full-time equivalent students.
- K-14 Outreach.** Maintains UC and CSU's outreach programs at their 2003-04 levels. For UC, provides the full \$29.3 million in General Fund support. For CSU, provides \$7 million in General Fund support and assumes CSU will redirect funding from other programs to add another \$45 million in outreach funding, raising total funding to its 2003-04 level of \$52 million.
- CCC.** Increases Proposition 98 funding by \$443 million (10 percent) from the 2003-04 level. Major augmentations include \$161 million for 3.65 percent enrollment growth, \$106 million for a 2.4 percent COLA, and \$80 million for equalization.
- Cal Grant Programs.** Rejects Governor's proposals to reduce the Cal Grant income ceilings and the number of new competitive grants, thereby restoring \$16.6 million. Reduces the amount of the private university Cal Grant by 14 percent rather than the Governor's proposed 44 percent reduction.



Major Actions Health and Social Services Programs

- Medi-Cal Reform.** Deletes staffing and funding proposed to develop a federal waiver to restructure the Medi-Cal Program to achieve annual state savings of as much as \$400 million in the future. The Legislature determined that any such resources should be provided as part of legislation anticipated in August.

- Population Caps and Block Grants.** Does not include proposals to impose enrollment limits and shift some health and social services program funding into a county block grant and accordingly restored \$66 million.

- Provider Rates.** Does not include a proposed 10 percent cut in the rates paid to certain Medi-Cal and public health program providers. Also, the budget no longer assumes Medi-Cal savings in the budget year from a 5 percent rate reduction enacted last year, but blocked by pending litigation. It also reverses the 5 percent reduction imposed in certain public health programs unaffected by the court case. Reimbursements were increased for certain managed care plans, but reduced for pharmacies and certain hospitals.

- Mental Health Programs.** Restores funding deleted by the administration for three children's mental health programs. Also, the budget rejects two proposals regarding Sexually Violent Predators that would (1) redirect these persons from the state hospital system to counties when being considered for commitments and (2) make hospital commitments indeterminate instead of limited to renewable two-year periods. Some state savings would be achieved by delaying by a month the opening of a new state hospital in Coalinga.

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Major Actions

Health and Social Services Programs *(continued)*

- Developmental Services Programs.*** Rejects a proposal to fund improvements at the Sonoma Developmental Center (DC) so that patients could be shifted there from the Agnews DC, which is scheduled to close. Instead, the budget allows use of these funds for additional community placements of Agnews residents, and ties the release of the funds to the submittal to the Legislature of a closure plan for Agnews. The budget also rejects a proposal to establish statewide standards for the purchase of regional center (RC) services, but implements copayments for certain additional higher-income families of children with developmental disabilities and makes unallocated reductions in RC operations and purchase of services.
- CalWORKs Grants.*** Rejects the 5 percent grant reduction and delays for three months the 2004 cost-of-living adjustment (COLA), resulting in combined General Fund/Temporary Assistance for Needy Families (TANF) block grant fund savings of \$25 million (about \$194 million less than proposed by the Governor).
- CalWORKs Reforms.*** Rejects most of the welfare reform proposal; however, adopts proposed requirement that specifies CalWORKs recipients engage in 20 hours per week of core work activities, and includes vocational education as a core work requirement. These changes result in combined General Fund/TANF savings of \$13.7 million (about \$26 million less than the Governor's reform proposal).
- CalWORKs Employment Services.*** Provides a \$50 million TANF augmentation.
- Child Care Reforms.*** Rejects the child care reform proposal to increase fees, and reduce provider rates, but does require families to seek after school care for their 11 and 12 year olds before receiving subsidized child care.



Major Actions

Health and Social Services Programs *(continued)*

- SSI/SSP Grants.** Retains the federal January 2005 COLA, and delays the state COLA until April 2005, resulting in General Fund savings of \$37 million (about \$113 million less than proposed by the Governor).
- In-Home Supportive Services (IHSS).** Rejects proposal to reduce state participation in provider wages to the minimum wage, resulting in a cost of \$129 million compared to the Governor's May Revision. The budget reflects savings of (1) \$216 million from a waiver to authorize federal financial participation in current state-only IHSS cases and (2) \$12 million from quality assurance reforms.
- Children's Programs.** Replaces \$64 million in TANF federal funds with support from the General Fund for foster care and child welfare services. Rejects a foster care grant reduction for nonrelated legal guardians and a county share of cost for certain child welfare services funding, resulting in a combined cost of \$27 million compared to the May Revision.
- Child Support.** Achieves a net savings of \$165 million from deferring, pursuant to recent federal authorization, the child support automation penalty until 2005-06. In addition, the budget rejects the elimination of the county share of child support collections, resulting in a General Fund cost of \$36 million with corresponding county savings.



Major Actions Judicial and Criminal Justice Programs

- Court Operations.** Reduces the budget for court operations by approximately \$70 million. Borrows \$30 million from the State Court Facilities Construction Fund to offset General Fund spending. Provides increased funding for court security, county charges, and court employee salaries and benefits.

- Adult Corrections.** Reduces spending for adult corrections by more than \$150 million through a reduction in headquarters positions (\$35 million), internal audits of medical contracts and billings (\$35 million), and various parole-related reforms designed to improve parolee success in the community (\$87 million).

- Provides funding for the *Valdivia* settlement agreement (\$57 million), additional relief officers (\$100 million), medical guarding and transportation (\$18 million), and administrative segregation (\$17 million).

- Youth Authority Institution Closures.** Closes the Fred C. Nelles Youth Correctional Facility in Whittier, and the Mount Bullion Youth Conservation Camp in Mariposa for total operation savings of \$28 million.

- Local Public Safety Grants.** Uses General Fund monies (\$134 million) to replace the Temporary Assistance for Needy Families Block Grant for Probation which sunsets in October 2004. Maintains funding for the Citizens' Options for Public Safety (\$100 million) and Juvenile Justice Crime Prevention Act (\$100 million) grant programs.

- Office of the Inspector General.** Restores the Office of the Inspector General (OIG) as an independent agency reporting directly to the Governor, and establishes within the OIG an Office of Independent Review (\$8.2 million).



Major Actions Transportation Programs

- Suspension of Proposition 42.*** Suspends the 2004-05 Proposition 42 transfer to transportation thereby reducing General Fund expenditures by \$1.2 billion. Transportation programs are to be repaid with interest by June 30, 2008.
- General Fund Loan Repayment.*** Repays \$1.397 billion to the Traffic Congestion Relief Fund for past transportation loans to the General Fund. The repayment will provide \$477 million to the State Highway Account, \$453 million for Traffic Congestion Relief Program projects, \$275 million for the Public Transportation Account, and \$192 million for local streets and roads. Funding for the loan repayment includes:

 - \$1.214 billion from anticipated tribal gaming revenues, as detailed in AB 687 (Nuñez).
 - \$183 million including (1) \$43 million from the General Fund and (2) \$140 million from "spillover" revenues resulting from high gasoline prices.
- Caltrans Capital Outlay Support.*** Provides \$1.4 billion for design and engineering of capital outlay projects. The amount includes the support for 10,653 personnel-years in state staff, 699 personnel-year-equivalents of cash overtime, and 1,070 personnel-year-equivalents in contracted services.
- Highway Patrol Vacant Positions.*** Augments the California Highway Patrol's support by \$28 million from the Motor Vehicle Account to allow the department to fill 270 vacant officer positions in 2004-05.
- Department of Motor Vehicles.*** Augments the Department of Motor Vehicles' (DMV) support by \$16 million to fund staff benefits costs and allows DMV to retain approximately 400 temporary positions to reduce wait times at field offices.



Major Actions Resources, Energy, and Environmental Protection Programs



Fee-Related Items

- Increases some resources-related fees, primarily state park fees, that create General Fund savings totaling about \$24 million.
- Provides \$73.4 million from fees for the first year of an electronic waste recycling program.
- Repeals an existing fire protection fee levied on private landowners and provides a backfill of \$50 million from the General Fund (replacing lost fee revenues for 2004-05 in the amount originally anticipated in the Governor's January budget).
- Assumes \$30.5 million in fees (half-year) from a revised smog check program to fund diesel emission reduction incentives.
- Rejects \$10 million in new timber harvest fees proposed by the Governor's January budget, and provides a \$10 million backfill from the General Fund to replace these fee revenues.



Bond Funds. Provides about \$1 billion from bonds for various resources and environmental protection programs.



Energy Agency Organization. Rejects the Governor's proposal to eliminate the California Consumer Power and Conservation Financing Authority; retains existing energy agency structure intact.



Major Actions General Government

- Employee Compensation.** Provides \$405 million in General Fund dollars for 2004-05 salary and benefit costs associated with collective bargaining agreements. The proposal defers 6 percent of a scheduled 11 percent pay increase for correctional officers, reducing General Fund costs by \$63 million in 2004-05. In addition, the budget provides funding for newly authorized pay increases for certain nurses, teachers, and psychiatric technicians.
- Retirement.** Authorizes the issuance of a pension obligation bond to pay \$929 million in 2004-05 state retirement costs. Reduces 2004-05 General Fund retirement costs by \$32 million through a delay in state payments for new employees. If the new employees opt to cash out their contributions after two years (rather than receive retirement service credit), the state would not owe payments.
- Indian Gaming Revenues.** Assumes \$300 million in new General Fund revenues from Indian tribes. The Legislature approved agreements with five tribes, which will provide a portion of these revenues. In addition, the state is authorized to issue over \$1 billion in bonds (with proceeds dedicated to transportation purposes) backed by additional payments from tribes.
- Unallocated Reductions.** Provides the administration with the authority to make \$150 million in General Fund reductions during the fiscal year. State operations appropriations could be reduced by as much as 20 percent, and local assistance appropriations could be reduced by as much as 5 percent. Assumes an additional \$150 million in savings from future efficiencies.
- Sale of Surplus State Property.** Assumes \$75 million in additional General Fund revenue from the sale of surplus real property. A related trailer bill provides language facilitating the disposition of surplus state-owned property and \$2.8 million from the Property Acquisition Law Money Account to fund activities related to the disposal of real property.