On September 2, 1992, Governor Wilson signed into law the 1992 Budget Act and related legislation. The $57.4 billion budget package ended a period of more than two months during which the state government operated without a budget. In addition to the Budget Act itself, the budget package includes 23 other measures that make the law changes necessary to achieve budgeted savings. This implementing legislation makes a wide variety of significant changes that affect most of the state’s major programs as well as state assistance to schools and local governments. This report is part of a series that highlights the impacts of the budget package.

In this report, we describe the major features of the budget package as they relate to local government funding. From a fiscal perspective, the primary feature affecting local government is the $1.3 billion reduction in property tax funding for 1992-93 contained in SB 844 and SB 617. The final budget package also affects state Trial Court Funding Program levels, cigarette tax subventions, funding for mandated local programs, and county responsibilities in a number of program areas. This report describes the changes and how they are to be implemented.

Property Tax Shifts

The local government funding reductions are primarily accomplished by reducing local governments’ share of the local property tax revenues and simultaneously increasing the share that is allocated to local school districts. The increased school district property tax revenues then reduce the amount of funds that the state is required to provide to the school districts.

Table 1 shows how the funding reductions are distributed by type of local government. As the table shows, county governments are slated to experience the largest funding reductions, followed by special districts. Cities and redevelopment agencies will both lose $200 million in 1992-93. With the exception of redevelopment agencies, the funding reductions are ongoing and will increase over time. The details of how the shifts are implemented vary by type of government, as described below.

City Governments. Senate Bill 844 requires county auditors to reduce the property tax allocations of city governments by 9 percent for 1992-93. A special allowance is made for certain disaster-impacted cities, which will reduce the amount of their reduction by up to $15 million in the aggregate. The Department of Finance is required to calculate the amount of this special allowance for each affected city.

County Governments. Senate Bill 844 requires a specific dollar reduction in property tax allocations for each county. A special allowance for disaster-impacted counties of up to $5 million in the aggregate is also provided.

<table>
<thead>
<tr>
<th>Funding Reductions By Type of Local Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in millions)</td>
</tr>
<tr>
<td>Type of Government</td>
</tr>
<tr>
<td>Cities</td>
</tr>
<tr>
<td>Counties</td>
</tr>
<tr>
<td>Special districts</td>
</tr>
<tr>
<td>Redevelopment agencies</td>
</tr>
</tbody>
</table>
Special Districts. Individual special districts are subject to a reduction of 35 percent of their property tax allocations, beginning in 1992-93. The amount of the reduction may not exceed 10 percent of the amount of total revenue the district received in the 1989-90 fiscal year. Multicounty districts, local hospital districts, and districts governed by a city council are exempt from these reductions. The 35 percent reduction figure may be increased to 40 percent if the Director of Finance determines that the aggregate amount of statewide property tax reduction for special districts actually being achieved is less than $375 million.

Redevelopment Agencies. Each redevelopment agency in the state will be assigned a reduction amount for 1992-93 by the Director of Finance. The amount for each agency will be equal to its percentage share of property tax revenues allocated to redevelopment agencies statewide, multiplied by $205 million. A lower amount may be provided if certain findings are made. In such cases, the agency must borrow funds from the city or county that activated it to make up the difference. The redevelopment agency may use any funds available to it in order to meet its reduction requirement, but the use of Low- and Moderate-Income Housing funds is limited.

Educational Revenue Augmentation Fund. All of the monies taken from the local agencies discussed above are to be deposited in a new Educational Revenue Augmentation Fund (ERAF) for allocation to school districts. These monies may not be allocated to any school district if such an allocation would not result in a corresponding reduction in the amount of state school apportionment funding.

Trial Court Funding
As passed by the Legislature, the budget increased state funding for this program to 55 percent of trial court expenses, financed by increased fees and redirected trial court revenues. However, the Governor vetoed $206 million in funding for this expansion and has indicated his intent to veto the related legislation (AB 1344, Isenberg). As a result, the approved funding level for this program represents a cut of $240 million relative to the funding level anticipated in last year’s legislation, and $135 million relative to the amount received in 1991-92. A number of technical issues, such as how the remaining funds are to be allocated between the counties, will need to be resolved when the Legislature reconvenes.

Cigarette Tax Revenues
Prior to the 1991-92 fiscal year, cities and counties were allocated 30 percent of the proceeds of the state’s cigarette tax (excluding Proposition 99 surtax revenues). In 1991-92 all of the counties’ share and one-half of the cities’ share was transferred to the state’s General Fund as part of the 1991 budget package. This year’s budget agreement permanently reallocates the remaining city share of approximately $25 million to the state’s General Fund.

Mandated Program Funding
The budget agreement anticipates savings of approximately $30 million from actions taken to make certain state-mandated local programs “optional” for the 1992-93 fiscal year. In effect, local agencies may choose to continue compliance with these mandates, but no state cost reimbursement will be provided.

Changes in Program Responsibilities
Legislation enacted as part of the budget agreement (AB 1012, No Author) makes significant revisions in county program and funding responsibilities in the area of health and welfare and in the transportation area.

Health and Welfare. The legislation relaxes existing requirements on (1) counties’ abilities to restrict the provision of General Assistance Program benefits to indigent persons, (2) county maintenance-of-effort responsibilities associated with eligibility for state indigent health care funds, and (3) county reporting responsibilities.

Transportation. Cities and counties are entitled to receive a portion of the revenues from the state-imposed tax on motor vehicle fuels. A portion of this entitlement is available only to the extent that individual cities and counties maintain their spending for street and highway purposes at a level no less than the average of their 1987-88 through 1989-90 spending levels. The budget agreement suspends this requirement for the 1992-93 through 1994-95 fiscal years.

Summary
Local agencies will experience major funding reductions for 1992-93. It is likely that these funding reductions will result in service reductions as well as tax and fee increases locally.
Health and Welfare Funding

On September 2, 1992, Governor Wilson signed into law the 1992 Budget Act and related legislation. The $57.4 billion budget package ended a period of more than two months during which the state government operated without a budget. In addition to the Budget Act itself, the budget package includes 22 other measures that make the law changes necessary to achieve budgeted savings. This report is part of a series that highlights the impacts of the budget package.

In this report, we describe the major features of the health and welfare funding in the budget package. The 1992-93 budget for health and welfare programs includes $12.8 billion from the General Fund and $3 billion from state special funds, for a total of $15.8 billion in state funds. The General Fund amount represents a reduction of $967 million, or 7 percent, below estimated spending for these programs in 1991-92.

Table 1 describes the major funding reductions enacted in the 1992 Budget Act and related legislation.

### Aid to Families with Dependent Children (AFDC) Program

**Reduction in Maximum Grants.** The AFDC maximum grants are reduced by 4.5 percent from their levels in 1991-92. In addition, the Department of Social Services (DSS) is directed to seek federal waivers in order to reduce AFDC grants by an additional 1.3 percent, for a total reduction of 5.8 percent. The department also is directed to seek a federal waiver to establish differential grants, with the percentage reductions varying (from 4.5 percent to 7.5 percent) according to rental costs in four regions of the state. The net 5.8 percent reduction would reduce the maximum monthly grant for a three-person family from $663 to $625.

**Residency Requirement.** Any applicant who has resided in California for less than one year would receive a grant that is based on the lesser of the grant from his or her previous state or the California grant.

### Supplemental Security Income/State Supplementary Program (SSI/SSP)

**Reduction in Maximum Grants.** The SSI/SSP maximum grants are reduced by 5.8 percent. If federal approval is obtained, these grant reductions will be implemented on a differential basis, with the percentage reductions varying (from 4.5 percent to 7.5 percent) according to rental costs in four regions of the state. A 5.8 percent reduction would reduce the maximum monthly grant for an aged or disabled individual from $645 to $608.

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**Table 1**

<table>
<thead>
<tr>
<th>Program/Issue</th>
<th>Amount</th>
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<tbody>
<tr>
<td><strong>AFDC</strong></td>
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<tr>
<td>5.8 percent reduction in grants</td>
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<td>Residency requirement</td>
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<tr>
<td><strong>SSI/SSP</strong></td>
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<tr>
<td>5.8 percent reduction in grants</td>
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<tr>
<td><strong>IHSS</strong></td>
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<td>Service level reduction</td>
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<td><strong>Regional Centers</strong></td>
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<td>Unallocated reduction</td>
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<td><strong>Medi-Cal</strong></td>
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<td>Managed care expansion</td>
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<tr>
<td>Various drug program changes</td>
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<tr>
<td>Limit eligibility for nonresidents/undocumented persons</td>
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<td>SB 855 revenue sharing/hospital rate adjustments</td>
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<td><strong>Proposition 99</strong></td>
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<td>Redirection to prenatal services</td>
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<td><strong>CMSP</strong></td>
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<tr>
<td>Cap on state funding</td>
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</table>

Legislative Analyst’s Office

September 9, 1992
Pharmaceutical Savings. The budget implements four major changes to the Medi-Cal drug program in order to reduce the cost of providing prescriptions to beneficiaries. The budget requires pharmaceutical manufacturers to provide the state a 10 percent discount in order for their drugs to be prescribed without special authorization. In addition, the budget (1) limits new Medi-Cal beneficiaries to 10 prescriptions per month, unless approved by a special authorization, (2) shifts accounting for the drug program from a “cash” to an “accrual” basis, and (3) authorizes the department to limit the number of individual drugs for each illness.

Limits on Eligibility for Nonresidents and Undocumented Persons. The budget requires a prospective Medi-Cal beneficiary to demonstrate that he or she is a resident of California by providing a social security number and driver’s license or other documentation of residency. The budget also restricts eligibility for undocumented persons to emergency room and pregnancy-related services only.

Reductions in Hospital Rates and the County Share of Federal Revenues. The budget contains two provisions related to over $700 million in supplemental federal revenues that counties began receiving in 1991-92 through the Medi-Cal Program (“SB 855 revenues”). These revenues offset the cost of care provided by hospitals with a large number of indigent patients. Under the budget provisions, the state will (1) increase by $28 million its share of the supplemental federal revenues that it retains for administrative activities, thereby reducing the amount provided to county hospitals, and (2) reduce reimbursement rates for these hospitals (for a state savings of $25 million) in recognition of the $700 million of federal funds.

Public Health Programs

Proposition 99 Funds Redirected. The budget redirects $56.8 million from the Cigarette and Tobacco Products Surtax Fund to pay for prenatal services to undocumented persons, thereby freeing up a like amount of General Fund monies. The redirected funds come from several activities, including $15 million from the Major Risk Medical Insurance Board’s Access for Infants and Mothers Program.

County Medical Services Program (CMSP) Reductions. The budget limits the state’s responsibility for funding unmet CMSP expenditures in 1992-93 to the 1991-92 level. Any unmet CMSP costs above this cap will be the responsibility of the counties participating in the program.
On September 2, 1992 Governor Wilson signed into law the 1992 Budget Act and related legislation. The $57.4 billion budget package ended a period of more than two months during which the state government operated without a budget. In addition to the Budget Act itself, the budget package includes 22 other measures that make the law changes necessary to achieve budgeted savings. This report is part of a series that highlights the impacts of the budget package.

In this report we describe the major features of the budget package as they relate to judiciary and criminal justice programs (trial courts, adult and youth corrections, and other justice-related programs). The 1992-93 budget for judiciary and criminal justice programs includes $3.6 billion from the General Fund and $377 million from state special funds, for a total of $4 billion in state funds. The General Fund amount represents a reduction of $242 million, or 6.2 percent, below estimated spending for these programs in 1991-92.

Table 1 and the following text describe the major funding reductions enacted in the 1992 Budget Act.

**Judiciary**

The 1992 Budget Act provides $142 million for support of the judiciary, which includes the California Supreme Court, the Courts of Appeal, Judicial Council, and the Commission on Judicial Performance. This represents a reduction of $2 million, or 1.4 percent, below 1991-92 expenditures. The largest reductions were made to the Judicial Council (4 percent reduction below 1991-92) and Supreme Court (2.6 percent reduction below 1991-92).

At this time, it is not possible to determine what impact the reductions will have on the operations of the judicial branch. This is because the reductions were unallocated, not being tied to specific functions or programs. In addition, the Budget Act contains language which permits the Judicial Council to allocate judiciary funds among the Supreme Court, Courts of Appeal, Judicial Council, and Commission on Judicial Performance, as the council sees fit.

Table 1

<table>
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<th>Department</th>
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<td>Judiciary</td>
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<td>Department of Corrections</td>
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<td>Board of Prison Terms</td>
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<td>Department of Justice</td>
<td>17.6</td>
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<tr>
<td>Office of Criminal Justice Planning</td>
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</tr>
</tbody>
</table>

**Trial Court Funding**

As passed by the Legislature, the budget provided $818 million for support of the local trial courts in 1992-93. As a result, the state would pay about 55 percent of statewide trial court expenses, which is consistent with prior expressions of legislative intent. The increased state support for trial courts was to be financed primarily by higher court filing and reporter fees, and the transfer of those fees from local governments to the state, which was included in budget-related legislation (AB 1344, Isenberg). However, the Governor vetoed $206 million in funding for this program and indicated his intent to veto
Should this increase continue, the department may require a substantial deficiency allocation later in the year.

**Delayed Openings of New Prisons.** The budget includes a one-time savings of $62.5 million from delaying until 1993-94 the opening of two new prisons at Delano and Lancaster (both of which were scheduled for October 1992). This will result in increasing prison overcrowding from 169 percent to 175 percent of design capacity. However, SB 97 appropriates $54 million to open the two institutions by December 1992.

**Prison Construction.** The budget reverted bond funds previously provided by the Legislature for construction of the downtown Los Angeles reception center project, and redirected the funds to complete the new prison in Madera County. The Governor, however, vetoed both the reversion of funding for the Los Angeles project and the appropriation for completion of the Madera project. SB 97 authorizes $587 million for construction of new prisons in Monterey, Lassen, and Madera Counties, from funds derived from lease-purchase financing methods.

**Parole Services.** The budget includes a reduction of $32 million for supervision of parolees, or about 10 percent from the January budget. As a result, parole agents will have more parolees on their caseloads with less supervision time per parolee. The budget also includes a net reduction of $3 million to reflect (1) transfer of all parole revocation authority for most inmates from the Board of Prison Terms to the Department of Corrections and (2) elimination and modification of some remaining functions of the board. Related law changes are made in SB 97.

**Summary**

Trial court programs received significant unallocated reductions while judiciary and correctional programs received smaller funding reductions—relative to their overall appropriation. The final budget package did not include changes designed to reduce the number of offenders being incarcerated in prison or supervised on parole. However, it did include several changes designed to improve efficiency and save the state and local governments money in the long run through consolidation, modification, or elimination of certain criminal justice and judicial programs.

AB 1344 as well. The Governor also vetoed related Budget Act language which would have permitted the state to reduce trial court funding payments to counties, should the fee transfers fall below anticipated levels.

As a result of the Governor’s veto, state support for trial courts will drop to $613 million, or $135 million less than the 1991-92 level. This state funding level will support about 38 percent of trial court expenses statewide. This reduction will create additional funding pressures on counties, which provide the balance of financial support for trial courts. A veto of AB 1344 will create other technical and financial problems for the state and local governments as well. This is because AB 1344 contains the formula for distributing the remaining trial court funding block grants to counties and, without a statutory formula, the Controller will be unable to distribute approximately $430 million to counties. In addition, AB 1344 contains a number of reforms designed to reduce expenditures for local courts and criminal justice systems.

**Adult Corrections**

The budget provides $2.43 billion ($2.35 billion from the General Fund) for support of the Department of Corrections, or about 1.5 percent less than the 1991-92 level. A number of related appropriations and law changes are contained in SB 97 (Torres), which is awaiting action by the Governor.

**Inmate and Parole Caseloads.** Although a number of changes were contemplated by the Governor and Legislature that would have saved money by reducing the number or length of stay of offenders in prison and on parole, the final budget package did not include these changes. The budget is based on the Administration’s projected inmate population of 107,000 inmates by June 30, 1993. This represents an increase of approximately 5 percent in 1992-93, which is substantially lower than the average increase of 13 percent in the last five years. The department attributes this dramatic slowing of the inmate population to a substantial reduction in the rate of new admissions, and a sharp reduction in the rate at which the department returns parolees to prison for parole violations.

However, the department has recently seen an unanticipated increase in inmate admissions to prison. At the time this analysis was prepared, the actual population was about 3,200 inmates higher than the budget projection.
On September 2, 1992 Governor Wilson signed into law the 1992 Budget Act. The $57.4 billion package ended a period of more than two months during which the state government operated without a budget. In addition to the Budget Act itself, the budget package includes over 20 other measures that make the law changes necessary to achieve budgeted savings. This report is part of a series that highlights the impacts of the budget package. In this report we describe the major features of the budget package as they relate to the general operating expenditures of state government.

Transfer of Special Funds

Each fiscal year there are amounts transferred from special funds to the General Fund to finance certain state activities. For 1992-93, however, there were several additional transfers in recognition of the need to address the General Fund revenue shortfall. The largest of these transfers are identified in Table 1.

In addition to the amounts shown in Table 1, the 1992-93 Budget transfers $25 million as a loan from the Agriculture Fund to the General Fund. It also loans an estimated $96 million in State Highway Account and Transportation Planning and Development Account money (for highways and mass transportation purposes) to the General Fund to pay rail bond debt service expenses in 1992-93. These loans are to be repaid with interest. The loan from the State Highway Account is to be repaid within two years. There is no specific repayment schedule for the other loans.

Unallocated Reductions

The 1992 Budget Act contains various unallocated reductions that are applied in two ways. In some cases specific unallocated amounts are made to a particular department. These reductions are discussed, where appropriate, in other reports in this series. The 1992 Budget Act also includes unallocated reductions that are to be applied across-the-board to other departments. These across-the-board unallocated reductions total about $109 million ($65 million General Fund and $43 million special funds). (The amounts reduced from special funds are transferred to the General Fund to help address the General Fund shortfall for 1992-93.) A brief description of these unallocated reductions follows.

General Fund Unallocated Reductions. Except for specified exclusions, Control Section 3.90 requires the Director of Finance to reduce General Fund appropriations in the 1992 Budget Act by up to $65 million. This reduction represents an average of approximately 15 percent of the appropriations for the affected depart-
ments. The Administration has the flexibility to determine which departments will be subject to these reductions and how much of a reduction each department will receive. Thus, the impact of this unallocated reduction on these state programs cannot be determined at this time.

Special Fund Unallocated Reductions. Control Section 14.50 requires the Director of Finance to reduce special fund appropriations, with specific exclusions, by not less than 10 percent. This will reduce expenditures by at least $43 million. The effect of these reductions cannot be determined at this time.

Elimination of Boards/Commissions

The 1992 Budget Act eliminates funding for 47 advisory boards and commissions and restricts funding for most remaining advisory boards and commissions to one-half year. Funding for any advisory board or commission in 1993-94 is subject to the Department of Finance evaluating the need to continue the particular advisory function.

Employee Compensation

Memorandums of Understanding. The Administration asked for and obtained legislative approval of Memorandums of Understanding (MOUs) for 19 state employee bargaining units. These memoranda are effective for the next three years (through 1994-95). MOUs for two other bargaining units (Unit 3–Institutional Education and Unit 14–Printing Trades) were not submitted to the Legislature. The major fiscal aspects of the MOUs that are reflected in the 1992 Budget Act include:

- **Personal Leave Program.** In general, this is an 18-month program that consists of a mandatory one-day-per-month reduction in pay (approximately 4.67 percent) with no reduction in work time. However, in order to compensate employees for the pay reduction, they will earn one day of credit per month. At the end of the 18-month period, employees will be eligible to receive for this credit either cash payment or time off (similar to earned vacation leave). This program results in a savings of about $145 million ($120 million General Fund and $25 million special funds) in 1992-93. In future years, employees will receive cash or time off for the earned credits at their then current salary. Thus, the state’s future cost will exceed the current savings.

The MOUs also contain a requirement that employees receive a 5 percent pay increase at the end of the 18-month leave program (January 1994) and a 3 percent to 5 percent pay increase in January 1995. The future cost of these pay increases is about $200 million in 1993-94, $500 million in 1994-95, and $600 million in 1995-96.

- **Health Benefits.** The state’s contribution for the cost of premiums for health benefits are held constant to the 1991-92 level for the next three years (through 1994-95). As a result, the maximum monthly state contribution is $174 for an eligible employee, $323 for an employee and one dependent, and $410 for an employee and two or more dependents. The annual cost of the state’s contribution will be about $718 million, and employees will pay about $52 million (employees’ costs range from $0 to $180 per month depending on the insurance carrier and the number of dependents). Under the MOUs, state employees will pay for increases in insurance premiums through 1994-95.

Nonrepresented Employee Salaries. In 1991-92, the Administration reduced the salaries for nonrepresented state employees by 5 percent. The Administration, however, revised this action by placing these employees on the personal leave program until January 1993 (effectively 18 months on reduced salary and comparable leave credit). Effective January 1993, the salaries for these employees will be reinstated. These actions result in a cost of about $31 million ($17 million General Fund and $14 million special funds) in 1992-93.

State Contribution to PERS. The state’s contribution to PERS was affected by two factors. One factor was PERS’ higher estimate of return on investments. The other factor was the passage of SB 1107 (no author) that shifted the state’s semiannual payments to January 1 and July 1 of each year. The net effect of these factors was a General Fund savings of about $330 million in 1992-93.
On September 2, 1992, Governor Wilson signed into law the 1992 Budget Act. The $57.4 billion budget package ended a period of more than two months during which the state government operated without a budget. In addition to the Budget Act itself, the budget package includes more than 20 other measures that make the law changes necessary to achieve budgeted savings. This report is part of a series that highlights the impacts of the budget package.

In this report, we describe the major features of the budget package as they relate to higher education budgets. Table 1 shows the change in funding for each segment of higher education for 1992-93 from the General Fund, student fee revenue, and other selected fund sources. Table 2 (page 2) shows student fee levels for each segment for 1991-92 and 1992-93.

The following highlights each individual segment of higher education.

The University of California

The 1992 Budget Act provides $224 million (11 percent) less in General Fund support for the University of California (UC) in 1992-93 compared to 1991-92. The UC Regents have already adopted a 24 percent fee increase for 1992-93, which will generate $60 million. If the UC adopts other fee increases proposed by the Legislature, we estimate another $12 million could be generated, for a total of $72 million in additional fee revenue in 1992-93. This additional fee revenue will partially offset the loss in General Fund support. If the UC Regents adopt fee increases higher than those shown in Table 2, such action would generate additional revenue and reduce the decline in support.

The 1992 Budget Act does not allocate the $152 million funding reduction among UC programs. This decision is left up to the UC Regents and administration. The UC has already informed the Legislature that it plans to implement an early retirement program for its faculty and staff.

We do not anticipate a loss in UC enrollment in 1992-93 due to actions currently being considered by the UC. It is likely, however, that enrollment reductions will be proposed for the 1993-94 academic year in response to the General Fund reductions made in the 1992 Budget Act.
The 1992 Budget Act provides $123 million (7.5 percent) less in General Fund support for the California State University (CSU) in 1992-93 in comparison to 1991-92. We estimate that the CSU will receive an additional $55 million in fee revenue in 1992-93. The net decline in CSU support from both the General Fund and student fees is $69 million (3.4 percent).

The fee revenue shown in Table 1 is approximately $34 million less than that projected in June because enrollment is now projected to be significantly below the June projection. The enrollment reduction is probably a result of (1) considerable adverse publicity during the summer on the overall state budget and the CSU budget in particular, (2) the proposed fee increase of 40 percent, and (3) an additional reduction of $30 million below the amount anticipated in June. In June the Legislature envisioned using funds within the CSU budget to restore course sections deleted in 1991-92. Given the final budget actions, restoration of these courses is beyond the capability of the CSU. On a positive note, to date it appears that those students who did enroll are not finding it as difficult as last year to find suitable courses.

The 1992 Budget Act does not allocate the $69 million funding reduction among CSU programs. The decision on how to implement the reduction is left up to the CSU Trustees and administration. The CSU intends to implement an early retirement program for its faculty.

California Community Colleges

The 1992 Budget Act and related legislation provide an increase in funding for the community colleges of $66 million (2.5 percent) in 1992-93 compared to 1991-92. This total includes a loan of $241 million, to be repaid in equal installments in 1993-94 and 1994-95 from the amounts to be appropriated to the community colleges in those years pursuant to Proposition 98.

The fee revenue increase of $49 million shown in Table 1 consists of: (1) an increase of $27 million due to increasing the regular fee from $6 per credit unit to $10 per credit unit in January 1993, (2) $6 million resulting from removing the 10-unit cap on the fee charge (previously students only had to pay for the first 10 units of credit per semester), and (3) $16 million generated by a fee of $50 per credit unit for students attending community colleges who already have BA degrees.

The community colleges should be able to accommodate an enrollment increase of 2.5 percent in 1992-93, the same increase as that provided for in overall funding.

Other Higher Education

Hastings College of the Law. The budget provides $1 million (5.6 percent) less in overall support for Hastings in 1992-93 compared to 1991-92. Fees at Hastings are set at the same level as that charged to law students at UC. Thus, if the UC Regents adopt a fee increase higher than that shown in Table 2, Hastings would receive additional fee revenue and the overall funding loss would be less than 5.6 percent.

California Maritime Academy (CMA). The 1992 Budget Act provides $800,000 (11 percent) less in General Fund support for the CMA in 1992-93 in comparison to 1991-92. Table 2 shows that student fees at the Maritime Academy will increase by 40 percent ($391) in 1992-93. Fee revenue, however, shown in Table 1 increases by 63 percent. The fee revenues increase by a greater percent than the fees due to an enrollment increase of 70 students (16 percent) this fall.

Student Aid Commission. Table 1 shows a decline of $25 million (15 percent) in funding for Cal Grants. Given the fee increases approved for the UC and CSU, the actual underfunding in Cal Grants is $44 million. At this time, we do not know the effect of this shortfall. The UC and CSU may choose to backfill for this shortfall. Due to the budget reductions at the UC and CSU, however, the segments may have difficulty bridging this gap.
On September 2, 1992, Governor Wilson signed into law the 1992 Budget Act. The $57.4 billion budget package ended a period of more than two months during which the state government operated without a budget. In addition to the Budget Act itself, the budget package includes more than 20 other measures that make the law changes necessary to achieve budgeted savings. This report is part of a series that highlights the impacts of the budget package.

In this report, we describe the major features of the budget package as they relate to the Proposition 98 minimum funding guarantee and K-12 schools.

**Proposition 98 Provisions**

The Proposition 98 portion of the budget package contains the following major elements:

- A downward revision of the minimum funding guarantee for 1992-93.
- Loans to schools and community colleges.
- A $1.3 billion shift of property taxes from cities, counties, redevelopment agencies, and special districts to school and community college districts.

These elements carry out the Legislature’s objective of maintaining per-pupil funding for Proposition 98 programs at the prior-year level while minimizing General Fund obligations in 1992-93 and subsequent years.

**Recapture and Downward Revision of Guarantee.** In 1991-92 the Legislature appropriated $18.5 billion from the General Fund for Proposition 98 programs. This amount was based on the minimum funding guarantee, as that guarantee was estimated at the start of the fiscal year. At the close of the 1991-92 fiscal year, the Department of Finance recalculated the guarantee to be $17.4 billion, based on revised estimates of General Fund revenues and average daily attendance (ADA). Thus, the

<table>
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</tbody>
</table>
| State appropriations | $16,707 | $15,277*
| Local taxes | 5,262 | 6,812
| Shift | -1,233 | -1,083
| IDDA/EPDA offset | 250 | 40
| 1992-93 loan | — | 732
| **Adjusted cash totals** | **$20,986** | **$21,778** |
| ADA (Proposition 98) | 5,014,286 | 5,205,700 |
| Community Colleges (funding in millions) | | |
| State appropriations | $1,694 | $1,264
| Local taxes | 844 | 1,090
| Shift | -1,233 | -1,083
| Fees | 83 | 132
| 1992-93 loan | — | 241
| **Adjusted cash totals** | **$2,671** | **$2,737** |
| Full-time equivalent students | 862,873 | 884,200*
| Other Agencies (funding in millions) | $76 | $74 |
| Total Proposition 98 (funding in millions) | | |
| State appropriations | $18,476 | $16,614
| Local taxes | 6,106 | 7,902
| Shift | -1,233 | -1,083
| IDDA/EPDA offset | 300 | 50
| Fees | 83 | 132
| 1992-93 loan | — | 973
| **Adjusted cash totals** | **$23,732** | **$24,588** |
| Change from January budget | -895 | -856 |
| Change from 1991-92 | | |
| Amount per ADA | $4,185 | $4,183 |
| Amount per college student | $3,095 | $3,095 |

* includes $512 million vetoed by the Governor and restored by the Legislature in SB 929 and SB 1779.

* Community college figures assume fee increase from $6 per unit to $10, elimination of cap, and $50 per unit charges for students with BAs (all half-year).

* Funded students, assuming same dollar per student as available in 1991-92.
amount appropriated for Proposition 98 programs in 1991-92 exceeded the revised calculation of the guarantee by $1.1 billion. As part of the budget solution for 1992-93, the Legislature enacted an education trailer bill (SB 766) that “recaptured” these funds by characterizing the overappropriation as a loan to the schools in 1991-92, to be repaid from the amount appropriated to schools in 1992-93. This approach enabled the state to obtain a General Fund savings of $1.1 billion in the 1991-92 fiscal year and also lowered the minimum funding guarantee for 1992-93 by $835 million. Therefore, the state realized General Fund savings of $1.9 billion from the combined effect of the recapture and downward revision of the 1992-93 guarantee.

**Loans to Schools and Community Colleges.** In addition to the loan for 1991-92 (discussed above), SB 766 authorizes loans for 1992-93 of $732 million to K-12 schools and $241 million to community colleges. These loans are to be repaid in equal installments in 1993-94 and 1994-95 from the amounts to be appropriated in those fiscal years pursuant to Proposition 98. The schools would not be required to make repayments if, in doing so, per-pupil funding would drop below the level for 1992-93. Under those circumstances, repayment would be deferred until it becomes possible to make the repayment and still maintain per-pupil funding levels year-to-year.

**Property Tax Shift.** In SB 844 and SB 617, the Legislature reduced local governments’ share of the local property tax and simultaneously increased the share that is allocated to school and community college districts by an estimated $1.3 billion. Under statutory provisions implementing Proposition 98, and SB 766, this action reduces the General Fund portion of the minimum funding guarantee, thereby saving the state General Fund $1.3 billion. The state saved an additional $100 million from the Vehicle License Fund $1.9 billion from the combined effect of the recapture and property tax provisions. The “poison-pill” provision suspends the minimum funding guarantee for 1992-93 if any appellate court determines that either of these provisions is “unconstitutional, unenforceable, or otherwise invalid.”

**Proposition 98 Funding.** Table 1 summarizes, for 1991-92 and 1992-93, the effect of the budget package on the three major recipients of Proposition 98 funding—schools, community colleges, and other agencies. As indicated in Table 1, on a cash basis, the enacted budget provides Proposition 98 programs $895 million less than proposed by the Governor in January. Compared to 1991-92, however, the enacted budget increases Proposition 98 funding by $856 million. The additional funds enable per-pupil funding levels in K-12 schools to be maintained essentially at 1991-92 levels and permit the community colleges to fund 2.5 percent growth in full-time equivalent students (FTES) at 1991-92 per-FTES funding levels.

In signing the Budget Act, the Governor vetoed $519 million from Proposition 98 funding for K-12 schools. Subsequently, the Legislature passed SB 929 and SB 1779 to restore $512 million of these funds. We have assumed, for purposes of Table 1, that the restored funds will be available to schools during 1992-93, although at the time this report was prepared the Governor had not acted on the bills.

**K-12 Program Impacts**

**Apportionments.** The budget provides a total of $9.3 billion for general-purpose apportionments (revenue limits) to school districts and county offices of education. Adding property taxes and loans available to these entities, the budget provides $16.7 billion in general-purpose funding. This represents an increase of $972 million (6.2 percent) from 1991-92.

The education trailer bill provides that a school district governing board may lay off certificated employees (teachers) upon 30 days notice, within 5 to 30 days following enactment of the 1992 Budget Act, if the board determines that the district’s total revenue limits per ADA have not increased by at least 2 percent. The Budget Act includes language that would make it possible for virtually any school district to make that determination.

**Categorical Programs.** Departing from traditional practice, the Budget Act groups almost all categorical program spending in one “mega-item” ($4.5 billion in Item 6110-230-001). The budget package reduces categorical spending, essentially across the board, by 2.1 percent from 1991-92. The mega-item includes a provision permitting school districts to redirect up to 5 percent of funds allocated to specific programs to other categorical programs funded under the mega-item.

This report was prepared by the Education section of the Legislative Analyst’s Office (445-8641). Permission is granted to photocopy this document as desired. For information contact the Legislative Analyst’s Office, State of California, 925 L Street, Suite 650, Sacramento, CA 95814.