STATE SPENDING PLAN FOR 1992-93

The 1992 Budget Act and Related Legislation

LAO
50 years of service

Elizabeth G. Hill
Legislative Analyst

November 1992

Chapter 1

The 1992-93 Budget Package

The 1992-93 budget situation presented the Legislature and the Governor with a second consecutive year of massive budget funding gaps due to the ongoing economic problems in California and the nation. Last year, the Legislature resolved a 1991-92 budget funding gap of $14.3 billion through the enactment of $7.2 billion of tax increases, $3.4 billion of spending reductions, and $3.7 billion in other actions. At that time, both the Legislature and the administration anticipated that their actions would balance the state's spending needs with its expected revenues not only in 1991-92, but for 1992-93 as well. That expectation, however, assumed that California's econ-omy would resume its growth in mid-1991. Instead, the recession continued to drag down state revenues while simultaneously boosting spending needs for various programs.

THE BUDGET PICTURE IN JANUARY 1992

Following the release of the *1992-93 Governor's Budget* in January 1992, we projected that the state faced a 1992-93 General Fund budget funding gap of $6 billion (please see *The 1992-93 Budget: Perspectives and Issues*, Part I). As shown in Figure 1, this funding gap represented the amount of savings, increased revenues, or other resources needed to offset:

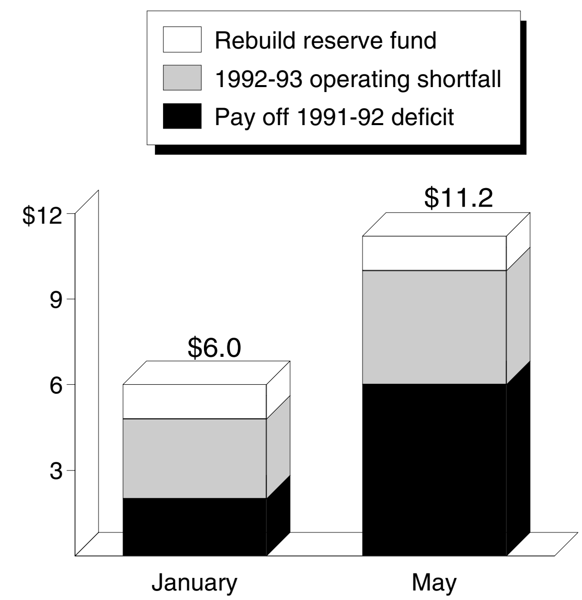
- A projected 1991-92 year-end *deficit* of **$2.8 billion** (versus the $1.2 billion reserve that had been budgeted).

- A projected 1992-93 operating shortfall of **$2 billion**, which was the difference between our estimate of 1992-93 "baseline" spending[1] and available revenues under existing law.

Figure 1

Growth of the 1992-93 Budget Funding Gap

(in billions)



- Funding needed to rebuild the state's reserve fund to **$1.2 billion**.

[1] The baseline spending projection generally estimated the amount of funding needed to maintain existing programs and service levels in 1992-93. Program costs in 1991-92 were adjusted for one-time costs and savings and increased to reflect growth in anticipated demand (caseload or population, for example) and to keep pace with inflation. However, the baseline budget departs from this methodology for a number of major programs for which constitutional or statutory funding criteria and established legislative policy dictate an alternative approach.

The Governor's Budget proposed a variety of program reductions, funding shifts, and other actions to resolve $4.9 billion of the 1992-93 funding gap. The remaining $1.1 billion was reflected in a reduced reserve fund of only $105 million.

GROWTH OF THE 1992-93 BUDGET FUNDING GAP

Figure 1 shows that the estimated budget funding gap grew from $6 billion at the time of the Governor's January budget proposal to $11.2 billion by the time of the administration's May revision of its spending and revenue estimates. Essentially all of the $5.2 billion increase in the size of the gap was caused by downward revisions of the administration's estimates of 1991-92 and 1992-93 revenues.

Thus, by May 1992, the Legislature and the administration faced a budget funding gap equivalent to almost one-fourth of the state's General Fund baseline budget. Although the 1992-93 funding gap was somewhat smaller than that in 1991-92, the following factors made it even harder to resolve:

- Given the significant tax increases enacted to close the 1991-92 funding gap and the ongoing recession, there was general agreement between the Governor and the legislative leadership that tax increases would not be used to close the 1992-93 funding gap.

- Uncertainty over the timing and strength of economic recovery made it difficult to gauge the extent to which the use of one-time solutions could be justified, because they depend on a future rebound in revenues.

- Spending reductions in 1992-93 would come on top of $3.4 billion in spending reductions that were used to close the 1991-92 budget funding gap.

The reduced revenue estimates, together with various expenditure adjustments recognized in the May revision, moved the estimated June 30, 1993 reserve balance from a positive $105 million in January to a $5.7 billion deficit as of May. The administration did not propose a resolution of the deficit at that time; instead, a budget solution was achieved through a series of negotiations during the summer.

SUMMARY OF ACTIONS TAKEN TO CLOSE THE GAP

Figure 2 identifies the major actions taken to close the state's $11.2 billion budget funding gap, together with the administration's estimates of the fiscal effect of these actions. Together, the solutions totaled about $10 billion. The remaining $1.2 billion was absorbed by providing only a negligible amount ($31 million) for the state's reserve fund.

Reductions

Program funding reductions played the greatest role in closing the 1992-93 budget gap. Reductions to General Fund programs totaled $4.4 billion, as shown in Figure 2. The largest dollar reductions were in K-14 (kindergarten through community college) public education, health and welfare programs, and higher education. The K-14 education reduction will be partially offset by a loan of $973 million that the state will provide to schools and community colleges in 1992-93. Budget actions also used $706 million from special funds to support General Fund programs. Many of these actions will result in immediate spending reductions in special fund programs. Other actions reduced special fund reserves, so their effects will occur primarily in future years.

Figure 2

Summary of Actions Taken to Close the 1992-93 Budget Gap[a]

(in millions)	
Funding reductions	
General Fund programs	
K-14 education—Proposition 98	$1,934
Higher education	723
Health and welfare	818
Employee compensation—no COLAs	184
Unallocated reduction	65
Other	681
Subtotal	**$4,405**
Special fund programs	
Funding shifted to General Fund programs	$706
Subtotal	**$706**
Cost deferrals and revenue accelerations	
Defer sales tax refund for *Aerospace* decision	$580
Accelerate collections	475
Defer retirement contribution	217
Loans from special funds	150
Accounting changes	132
Restructure bond payment	135
Employee compensation—personal leave program	120
Other	73
Subtotal	**$1,881**
Cost shifts to other levels of government	
Reduced local government resources	
Property tax shift to education	$1,300
Other	416
Increased federal funding	571
Subtotal	**$2,287**
Increased resources	
Revenue and transfer increases	$486
Fees	158
Subtotal	**$644**
Other actions	**110**
Total budget actions	**$10,033**
Reserve fund not restored	**1,169**
Total	**$11,202**

[a] Based on Department of Finance estimates. Detail may not add to totals due to rounding.

Shifts to Other Levels of Government

A total of $2.3 billion of budget solutions was achieved by shifting General Fund costs to local governments and to the federal government. The most significant action involved a reallocation of local property tax revenue from local governments to school districts and community college districts in order to achieve state savings of $1.3 billion. (An additional $100 million property tax shift was offset by increasing vehicle license fees allocated to local governments.) The budget also includes some General Fund savings resulting from increased federal funding. The largest component of increased federal funding is an anticipated $351 million of State Legalization Impact Assistance Grant (SLIAG) funds to offset a portion of the General Fund cost of providing health and welfare benefits to immigrants.

Cost Deferrals and Revenue Accelerations

These actions move up revenues into 1992-93 from future years or push spending into future years and account for $1.9 billion of budget solutions. The largest single action is the deferral of the $580 million tax refund that the state owes to federal contractors pursuant to the *Aerospace* court decision concerning the application of sales and use taxes to federal contractors. The state plans to negotiate a ten-year payment schedule with the federal government, which is the ultimate beneficiary of the refund.

Increased Resources

In contrast with last year, increased resources played only a small role in closing the 1992-93 budget funding gap, contributing $644 million. Only one action affected the level of state taxes. This was a delay in the implementation of the small business health care tax credit, for a savings of $110 million.

Chapter 4 of this report more fully discusses the major elements of the budget solution. Figure 3 lists the major legislation that was enacted to carry out the budget agreement.

Figure 3

1992-93 Budget
Major Implementing Legislation

Measure	Description
Ch 617/92 (SB 1779, Roberti)	• Proposition 98: restores $488 million of vetoed funds for basic aid.
Ch 697/92 (SB 617)	• Shifts local government property taxes to schools. • Shifts various minor local revenues to state. • Delays small business health care tax credit. • Increases estimated tax payments.
Ch 700/92 (SB 844)	• Shifts local government property taxes to schools. • Shifts redevelopment funding to schools. • Sale of Agnews State Hospital property.
Ch 703/92 (SB 766)	• Proposition 98: recaptures 1991-92 funding and provides 1992-93 loan. • Increases community college fees.
Ch 705/92 (SB 1972)	• Increases California State University and University of California fees.
Ch 707/92 (SB 1107)	• Defers Public Employees' Retirement System retirement contribution.
Ch 719/92 (AB 1012)	• Local government: relaxes various health and welfare mandates and spending requirements for streets and highways.
Ch 722/92 (SB 485)	• Welfare: reduces AFDC and SSI/SSP grants, limits grants for new residents. • Medi-Cal: expands managed care, limits drug costs, establishes residency requirements.
Ch 854/92 (SB 929, Hart)	• Proposition 98: restores $13 million of vetoed funds for school restructuring program.

General Fund Condition at Time of Budget Passage

In passing the 1992 Budget Act and companion legislation, the Legislature and Governor approved a budget package that was projected to leave the state in the "black" by the end of 1992-93 (see Figure 4). Since that time, the state's fiscal picture has worsened significantly. In the next chapter, we present our outlook for the current and budget years.

Figure 4

Estimated General Fund Condition At Enactment of 1992 Budget Package[a]

(in millions)	1991-92	1992-93
Starting balance July 1	-$1,236	-$2,191
Revenues and transfers	42,064	43,421
Total resources available	$40,828	$41,230
Expenditures	$43,019	$40,792
Ending balance June 30	-$2191	$438
Reserve[b]	**-$2,633**	**$31**
Other obligations	$442	$407

[a] Source: Department of Finance.
[b] Special Fund for Economic Uncertainties.

Chapter 2

Current Outlook for 1992-93 and 1993-94

In this chapter, we provide our assessment of the General Fund outlook for the current and budget years. In order to do this, we:

- Project forward 1992-93 spending and revenues to 1993-94.

- Make various adjustments to these 1992-93 and 1993-94 estimates based on developments to date, including those needed to account for the stagnant economy.

- Identify potential risks associated with the 1992 budget actions.

PROJECTING 1992-93 SPENDING AND REVENUES TO 1993-94

Expenditure Projections

Our spending projection starts with the Department of Finance's 1992-93 spending estimates for the enacted budget. We then project spending growth in 1993-94 for the five largest programs, which together account for more than 80 percent of General Fund spending, taking into account the impacts of the

1992 budget actions. These programs and the basic assumptions that we used are as follows:

- ***Proposition 98 (K-14 Education).*** We use the same funding criteria as were followed in the 1992-93 budget. Our baseline projection for K-12 education assumes a 3.9 percent growth in enrollment and the same funding per student (ADA) as in the current year.[1] Our baseline projection for community colleges provides for the required loan repayment, 2 percent enrollment growth, and the same funding per student as in the current year.

- ***Welfare.*** We project spending for the two major assistance programs, AFDC (family group) and SSI/SSP, assuming caseload growth of 6 percent and 5.5 percent, respectively.

- ***Medi-Cal.*** We assume a caseload growth of 8 percent.

- ***Higher Education.*** Projections for the University of California and the California State University provide for enrollment growth of 2 percent and 4 percent, respectively.

- ***Corrections.*** We use the Department of Corrections' budget forecasts of inmate population on which the 1992-93 budget was based.

- ***Employee Compensation.*** Our projection includes the effects of ending the personal leave program

[1] Given these assumptions, Ch 703/92 (SB 766) requires postponement of the repayment to the state of the K-12 portion of the 1992-93 Proposition 98 loan in order to avoid reducing per-student funding below the current amount. Our baseline Proposition 98 funding projection is $41 million greater than the minimum Proposition 98 funding guarantee (please see our discussion of Proposition 98 funding in Chapter 4).

and providing a 5 percent salary increase in January 1994, as required by memorandums of understanding with employee bargaining units. It also includes resumption of the state's contributions to the Public Employees' Retirement System (PERS).

For the remaining General Fund spending programs, we assume an overall spending increase of 3 percent to cover inflation and population/caseload growth and then factor in the 1993-94 impacts of the 1992 budget actions on those programs.

Revenue Projections

Our baseline revenue projection starts with the Department of Finance's May revision revenue estimate for 1993-94 (the most recent available), which assumes that moderate economic growth resumes by the end of 1992. We then modify that estimate to include the impacts of the 1992 budget actions that affect revenues (see Figure 1). Our revenue estimate also includes the impact of the expiration of the temporary half-cent sales tax and the resumption of business deductions for net operating losses. (See Appendix I for a list of major temporary provisions which will "trigger off" in 1993-94 and years thereafter.)

Reduced 1993-94 Impacts of 1992 Budget Actions

As noted above, our projections account for the impact of the

Figure 1

Comparison of Savings From 1992 Budget Actions 1992-93 Versus 1993-94

(in millions)

	1992-93[a]	1993-94[b]	Difference
Program reductions			
General Fund programs	$4,405	$3,467	$937
Special fund savings shifted to General Fund	706	—	706
Cost deferrals and revenue accelerations	1,881	-444	2,325
Cost shifts to other levels of government	2,287	2,094	193
Increased resources	644	429	215
Other actions	110	110	—
Totals	**$10,033**	**$5,657**	**$4,377**

[a] Based on Department of Finance estimates.
[b] Legislative Analyst's estimates.

1992 budget actions on 1993-94 spending and revenue levels. It is important to note that the budget-year impacts are considerably less than in the current year. As shown in Figure 1 (next page), the effects of the budget actions in 1992-93 total just over $10 billion (the remaining $1.2 billion of the funding gap represents the unfunded reserve). In 1993-94, however, we estimate that the effect of the budget actions will drop to less than $5.7 billion, so that the amount of nonrecurring budget solutions is about $4.4 billion.

BUDGET ADJUSTMENTS

Stagnant Economy

Slow or stagnant economic growth will have by far the greatest impact on the budget this year and in 1993-94. Based on the performance to date of certain key economic indicators, the economic forecast for California on which the budget is based is overly optimistic. For example, 1992 employment levels are down by over 120,000 jobs from the budget forecast. We estimate that continued stagnation of the state's economy could result in revenue shortfalls of $2 billion in 1992-93 and $3 billion in 1993-94, relative to the May revision revenue estimates of the Department of Finance.

Other Budget Adjustments

Figure 2 lists budget adjustments that we have identified. As shown in the figure, we have identified budget adjustments for specific cost increases and revenue losses totaling $759 million in

Figure 2

General Fund Budget Adjustments
1992-93 and 1993-94

(in millions)	1992-93	1993-94
Cost increases		
1992 legislation not counted in budget totals	$59	$53
Deficiency notifications		
Corrections inmate population (preliminary estimate)	49	—
Other	18	—
Mental Health—local mandate claims for Ch 1747/84	—	40
Corrections—additional inmate population growth	—	105
Shortfall in federal SLIAG funds	181	—
Medi-Cal—likely increased dental costs (*Clark v. Coye*)	100	150
Medi-Cal—likely additional caseload growth	43	—
Proposition 98—backfill for slow property tax growth	68	—
Subtotals	**$517**	**$348**
Revenue losses		
Approval of Proposition 163 (snack tax repeal)	$210	$330
1992 legislation not counted in budget totals	1	81
Competitive Technology Fund—shortfall in budgeted transfer	6	—
Veto of auditors reduces Insurance Gross Premiums Tax	25	25
Subtotals	**$242**	**$436**
Totals	**$759**	**$784**

the current year and $784 million in 1993-94—or $1.5 billion over the two years. These adjustments reflect actions or decisions that *already have occurred*, such as enactment of legislation, election results, or deficiency notifications. While the precise amounts shown are estimates and subject to change, these adjustments are appropriate to recognize in the budget totals at this time. The largest adjustment is the revenue loss due to the approval of Proposition 163 in the November General Election. Proposition 163 exempts candy, snack foods, and bottled water from sales and use taxes. These items had been included in the tax base for over a year, as a result of an action taken in the 1991-92 budget package.

Figure 3

**Potential General Fund Deficits
1992-93 and 1993-94**

(in millions)

	1992-93	1993-94
Starting balance—July 1	-$2,191	-$2,321
Revenues and transfers	43,421	43,467
Adjustments		
Stagnant economy	-2,000	-3,000
Other	-242	-436
Total resources	**$38,988**	**$37,710**
Budgeted expenditures	$40,792	$44,481
Adjustments	517	348
Total expenditures	**$41,309**	**$44,829**
Potential ending balance—June 30	-$2,321	-$7,119
Reserve[a]	**-$2,728**	**-$7,526**
Other obligations	$407	$407

[a] Special Fund for Economic Uncertainties.

PROJECTIONS OF THE 1992-93 AND 1993-94 DEFICITS

Figure 3 summarizes our outlook for the General Fund for the current and budget years. The figure indicates that the state will end the 1993-94 fiscal year with a deficit of at least $7.5 billion, absent corrective action. This deficit estimate takes into account the probable reductions in revenues due to the state's stagnant

Figure 4

General Fund Budget Risks
1992-93 and 1993-94

(in millions)

Cost increases	**1992-93**	**1993-94**
Medi-Cal—potential shortfall in budgeted savings		
Managed care	$77	$110
Limit noncontract hospital days	5	5
Cost recoveries from third parties	3	10
Limit benefits to nonresidents and undocumented persons	15	20
Developmental Services—waiver to expand community-based programs	21	—
Potential additional shortfalls in federal SLIAG funding	85	351
Potential shortfall in special district property tax shift to schools	200	200
Subtotals	**$406**	**$696**
Specific revenue shortfalls		
Sale of Agnews Hospital land uncertain	$37	—
Unclaimed property sales, optimistic budget estimate	10	—
FTB tax case settlements—potential shortfall	100	—
Control Section 14.50—potential shortfall in special fund savings	20	—
Aerospace sales tax refund if no agreement to defer	—	$522
Subtotals	**$167**	**$522**
Total adjustments	**$573**	**$1,218**

economy. Other potential budget risks could worsen the outlook even further, as discussed in the next section.

POTENTIAL RISKS

The fiscal estimates discussed above are based on adjustments that have been specifically identified to date. There are, however, other risks that are less certain but still pose a threat of $1.8 billion to the state's bottom line. Figure 4 identifies these risks, which are all related to actions taken on the 1992 budget.

Chapter 3

State Expenditures

Figure 1 shows the total amount of state expenditures budgeted for 1992-93 and compares it to total state spending in the previous two years.

Figure 1

The 1992 Budget Act
Total State Expenditures

(in millions)

Fund	Actual 1990-91	Estimate 1991-92	Enacted 1992-93	Change From 1991-92 Amount	Change From 1991-92 Percent
General Fund	$41,935	$43,019	$40,792	-$2,227	-5.2%
Special funds	8,563	11,652	12,633	981	8.4
Selected bond funds	2,619	2,304	3,985	1,681	73.0
Total state expenditures	**$53,117**	**$56,975**	**$57,410**	**$435**	**0.8%**

Total budgeted state expenditures for 1992-93 amount to $57.4 billion. This amount includes spending from the General Fund, special funds, and selected bond funds. Total spending in 1992-93 increases slightly compared with total spending in 1991-92—a difference of $435 million, or 0.8 percent. General Fund spending falls by 5.2 percent, but this General Fund decrease is more than offset by spending increases from special funds (8.4 percent) and especially from bond funds (73 percent).

State Expenditures

Most of the state's expenditures are from the General Fund. In 1992-93, General Fund expenditures will amount to $40.8 billion, or 71 percent of total state expenditures. Included in the General Fund spending amount is $1.1 billion that was allocated to schools in 1991-92 in excess of Proposition 98 requirements. Through the "recapture" mechanism in Ch 703/92 (SB 766), these funds are treated as a loan from the state's 1992-93 Proposition 98 funding guarantee and counted in 1992-93 spending. However, 1992-93 General Fund spending does not include new loans totaling $973 million to schools and community colleges that will count against their future state funding.

Summary of Action on the Budget Bill

Figure 2 shows the changes made by the Legislature to the 1992-93 levels of expenditures proposed by the Governor, and the Governor's subsequent veto actions and adjustments. (Some actions, such as the Proposition 98 "recapture" also affected 1991-92 spending totals.)

Figure 2

1992 Budget Act and Implementing Legislation
Summary of Actions Taken on State Expenditures

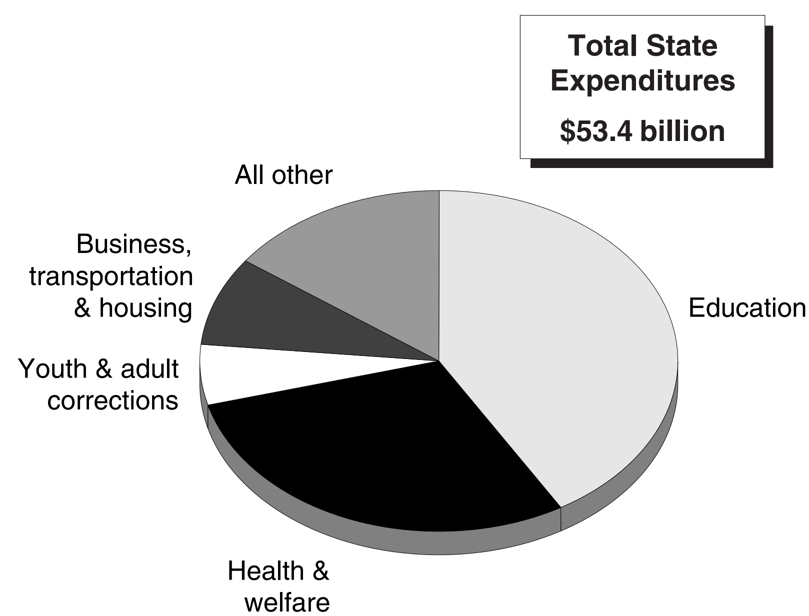
(in millions)	General Fund	Special Funds	Selected Bond Funds	Totals
Governor's Budget as submitted	$43,817	$12,464	$3,923	$60,204
Changes proposed by the administration	-64	-46	104	-6
Governor's Budget as revised (May)	**$43,753**	**$12,418**	**$4,027**	**$60,198**
Other changes adopted by Legislature	-2,833	343	67	-2,423
Budget as passed by the Legislature	**$40,920**	**$12,761**	**$4,094**	**$57,774**
Governor's vetoes	-733	-127	-109.2	-969
Governor's adjustments	605	—	—	605
Total spending plan	**$40,792**	**$12,633**	**$3,985**	**$57,410**

State Expenditures

The administration's May revision proposal did not attempt to balance the budget. As shown in the table, spending was almost unchanged from the initial January budget proposal. This was despite a $5.4 billion two-year downward revision in estimated General Fund revenues. Instead, budget reductions and other actions were the subject of extended negotiations between the Legislature and the administration, and the final budget resulted from proposals initiated both by the Legislature and by the administration.

Figure 3

1992 Budget Act
Total State Expenditures by Program



The adjustments included in the administration's final budget totals primarily reflect the restoration of $501 million in education funding by Ch 617/92 (SB 1779, Roberti) and Ch 854/92 (SB 929, Hart). The Governor had vetoed these funds in the Budget Bill.

MAJOR STATE EXPENDITURES BY PROGRAM AREA

Total budgeted state expenditures (from the General Fund and state special funds) total $53.4 billion for 1992-93. Figure 3 shows how this total spending is divided among the major program areas. As the figure shows, spending in the education area amounts to 42 percent of total state spending. Health and welfare programs account for the second largest percentage (30 percent), followed by business, transportation, and housing programs (8 percent) and youth and adult corrections (6 percent).

HISTORICAL PERSPECTIVE ON GENERAL FUND AND SPECIAL FUND SPENDING

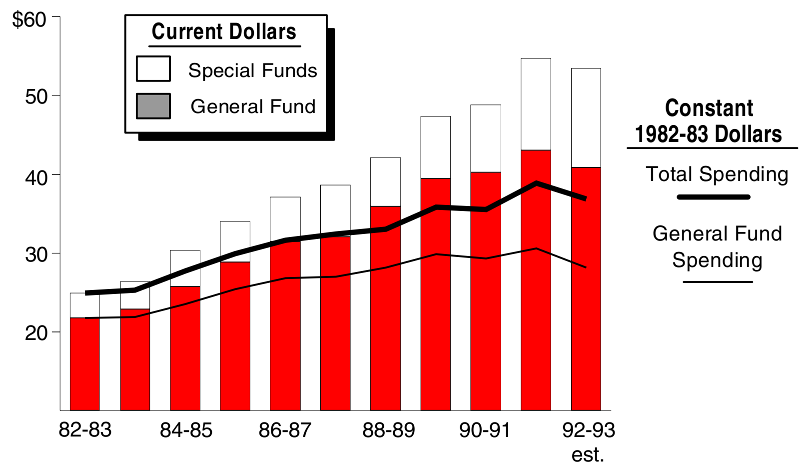
To put this year's budget in perspective, Figure 4 compares state spending trends since 1982-83. The figure shows state expenditures from the General Fund and special funds in both "current dollars" (amounts as they appear in the budget) and "constant dollars" (current dollars adjusted for the effects of inflation). The inflation adjustment relies upon the Gross National Product (GNP) implicit price deflator for state and local government purchases of goods and services. The GNP deflator is a good general measure of price increases for the types of goods and services that state and local governments buy, and it allows comparisons of the "purchasing power" of state spending over time.

As shown in Figure 4, 1992-93 is the only year during the period in which total spending in current dollars declines. The decline is due entirely to the reduction of $2.2 billion in budgeted General Fund spending, which is partially offset by an increase of $1 billion from special funds. The figure also illustrates that spending from special funds has been growing much more rapidly than General Fund spending. In 1982-83, spending from special funds was nearly 15 percent of General Fund expendi-

Figure 4

**State Spending[a]
Current and Constant Dollars
1982-83 through 1992-93**

(in billions)



[a] Excludes bond funds and federal funds.

tures, but this figure will grow to 31 percent in 1992-93, based on the enacted budget. Among the causes for the rapid growth of spending from special funds are the following:

- Revenues from certain tax increases in 1991-92 were placed in a special fund and dedicated to local assistance under the state/local realignment of health and welfare programs.

- Proposition 111 increased gasoline tax revenue for transportation programs.

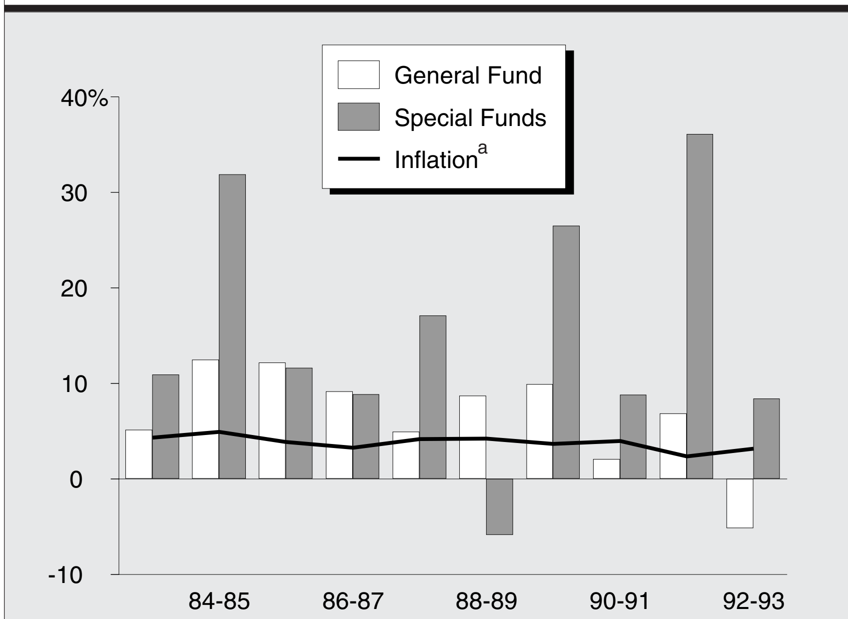
- Proposition 99 added a cigarette and tobacco surtax dedicated primarily to health programs.

- A variety of fee-supported environmental and recycling programs were established in recent years.

After adjusting for the effects of inflation, total spending from the General Fund and special funds in constant dollars will decline by 7.3 percent in 1992-93 compared with 1991-92. General Fund spending in constant dollars declines by 8.1 percent, while spending from special funds increases by 5.1 percent. Over the entire period 1982-83 through 1992-93, total spending in constant dollars will have grown at an annual rate of 4 percent. However, constant-dollar spending from special funds will have grown more than three times as rapidly as spending from the General Fund (annual growth rates of 10.6 percent versus 2.6 percent). Figure 5 illustrates the annual percentage change in spending from the General Fund and from special funds during the period since 1983-84.

Figure 5

Annual Percentage Change in General Fund And Special Fund Spending 1983-84 through 1992-93



[a] As measured by the GNP deflator for state and local government purchases.

Chapter 4

Major Features of the 1992 Budget Plan

This chapter provides a description of the major features of the 1992 budget plan. It includes individual discussions of the budget actions within each of the major program areas, as well as discussions of the budget actions that affect local governments and special fund programs.

PROPOSITION 98

Background

Proposition 98 provides K-12 schools and community colleges with a guaranteed minimum level of state funding in 1988-89 and thereafter. In *normal* or *high* revenue-growth years, this guarantee is based on the greater of:

- ***Test 1—Percent of General Fund Revenues.*** This is defined as the 1986-87 percentage of General Fund tax revenues provided for K-14 education.

- ***Test 2—Maintenance of Prior-Year Service Levels.*** This is defined as the amount necessary to maintain the prior-year level of total funding for K-14 education from state and local tax sources, adjusted for growth in enrollment and per capita personal income.

In *low* revenue-growth years (in which General Fund revenue growth per capita is more than 0.5 percentage point below growth in per capita personal income), the Proposition 98 guarantee is based on:

- ***Test 3—Adjustment Based on Available Revenues.*** This is defined as the prior-year total level of funding for K-14 education from state and local tax sources, adjusted for enrollment growth and for growth in General Fund tax revenues, *plus* 0.5 percent of the prior-year level. If the Test 3 formula is used, however, the state's funding obligation for subsequent years increases so as to eventually restore the funding level to what it would otherwise have been. This part of the Proposition 98 formula is known as the "maintenance factor" requirement.

Proposition 98 Budget Package

The budget package is designed to reduce General Fund spending while carrying out the Legislature's objective of maintaining per-pupil funding for Proposition 98 programs at the 1991-92 level. The budget package achieves this result through the following major elements:

Recapture and Downward Revision of the Guarantee. In 1991-92 the Legislature appropriated $18.4 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). After allowing for some technical adjustments to the guarantee, the 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 (Ch 703/92—SB 766), which "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. Thus, on a "cash" basis, the schools actually had use of the monies in 1991-92, but those funds are not counted as expenditures in that year. This approach enabled the state to obtain a General Fund savings of $1.1 billion in 1991-92.

Moreover, by lowering the amount counted as 1991-92 Proposition 98 appropriations, the "recapture" of 1991-92 funds reduced the base on which the 1992-93 Proposition 98 guarantee was calculated. Consequently, the 1992-93 guarantee was revised downward 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.

Property Tax Shift. In Ch 697/92 (SB 617) and Ch 700/92 (SB 844), the Legislature reduced local governments' share of local property tax revenues and redevelopment funds by an estimated $1.4 billion ($100 million was offset by increased vehicle license fee revenues) and shifted these funds to school and community college districts. Under statutory provisions implementing Proposition 98, and Chapter 703, this action reduces the General Fund portion of the minimum funding guarantee, thereby saving the state General Fund $1.4 billion.

We discuss these shifts in more detail in the local government section of this report.

"Poison Pill." Chapter 703 includes a "poison-pill" provision in order to hold the state harmless, from a fiscal standpoint, in the event of a successful legal challenge to savings achieved by the recapture mechanism and property tax shifts. 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."

Loans to Schools and Community Colleges. In addition to the "recapture" loan for 1991-92 (discussed above), Chapter 703 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 as offsets against state funds appropriated to the schools and community colleges in those fiscal years pursuant to Proposition 98. Again, on a "cash" basis, schools and community colleges will have use of these loan funds in 1992-93, but these monies will be treated as expenditures in the year in which they are repaid.

The schools would not be required to make these loan repayments, however, if as a result of doing so, per-pupil funding would drop below the 1992-93 level. Under those circumstances, repayment would be deferred until it becomes possible to make the repayment and still maintain per-pupil funding levels from year to year.

Community College Fees. Chapter 703 also contains provisions that raise community college fee revenues by $49 million in 1992-93. These provisions, discussed in more detail in the higher education portion of this report, increased the regular fee from $6 per credit to $10 per credit, removed a ten-credit cap on the amount of fees charged per student, and imposed a fee of $50 per credit for community college students who already have BA degrees.

Governor's Vetoes. In signing the Budget Act, the Governor vetoed $519 million from Proposition 98 funding for K-12 schools. All but $18.5 million of the Governor's Budget Act vetoes were restored by Ch 854/92 (SB 929, Hart) and Ch 617/92 (SB 1779, Roberti). These restored amounts are included in the budget totals.

Summary of Proposition 98 Funding

Figure 1 compares the final amounts budgeted from the General Fund for Proposition 98 with the amounts proposed in the January Governor's Budget. It shows that the "recapture"/downward revision and the property tax shifts were primarily responsible for a two-year General Fund savings of $3.3 billion.

Figure 1

**Proposition 98 Guarantee—
General Fund Changes
January 1992 Versus Final Budget**

(in millions)

	1991-92	1992-93
January 1992[a]	**$18,420**	**$18,867**
Revenue reduction/"recapture"		
1991-92 "recapture"	-$1,083	—
1992-93 downward revision	—	-$835
Subtotals	**-$1,083**	**-$835**
Revenue shifts		
Local governments	—	-$1,300
Vehicle license fund	—	-100
Subtotals	**—**	**-$1,400**
Vetoes	—	-$18
Technical changes	$56	-$11
Total changes	**-$1,027**	**-$2,264**
Final budget	**$17,393**	**$16,603**

[a] General Fund Proposition 98 guarantee as calculated in the Governor's Budget, excluding the Governor's recapture proposal ($183 million in 1991-92) and the Governor's enterprise special district proposal ($347 million in 1992-93).

Figure 2

Proposition 98 Programs
1992 Budget Act and Ch 703/92 (SB 766)

(funding in millions)

	1991-92	1992-93
K-12 Programs		
State appropriations	$15,624	$15,266
Local taxes	5,262	6,812
1990-91 loan repayment	-1,233	—
1991-92 loan	1,083	—
1991-92 loan repayment	—	-1,083
IDDA/EPDA offset[a]	250	40
1992-93 loan	—	732
Adjusted cash totals	**$20,986**	**$21,767**
ADA (Proposition 98)	5,014,286	5,205,700
Community Colleges		
State appropriations	$1,694	$1,264
Local taxes	844	1,090
IDDA/EPDA offset[a]	50	10
Fees	83	132
1992-93 loan	—	241
Adjusted cash totals	**$2,671**	**$2,737**
Full-time equivalent students	862,873	884,200[b]
Other Agencies	**$76**	**$74**
Total Proposition 98		
State appropriations	$17,393	$16,603
Local taxes	6,106	7,902
1990-91 loan repayment	-1,233	—
1991-92 loan	1,083	—
1991-92 loan repayment	—	-1,083
IDDA/EPDA offset[a]	300	50
Fees	83	132
1992-93 loan	—	973
Adjusted cash totals	**$23,732**	**$24,578**
Change from January budget		**-$905**
Change from 1991-92		**$846**
Amount per ADA	**$4,185**	**$4,181**
Amount per college student	**$3,095**	**$3,095**

[a] One-time funds available from two PERS accounts to pay employer PERS contributions for 1991-92 and part of 1992-93.

[b] Funded students, assuming same dollars per student as available in 1991-92.

Figure 2 provides another perspective on Proposition 98 funding. It shows *total* state and local Proposition 98 funding—not just state General Fund appropriations , as well as resources available on a "cash" basis. This is a more meaningful indication of the resources available to schools in a given year. Figure 2 shows that the $3.3 billion in General Fund reductions were more than offset by loans from future years, increased community college fees, and increases in property tax support. This enabled the community colleges and K-12 schools to fund enrollment growth in 1992-93 at 1991-92 levels of per-pupil spending.

Figure 2 also summarizes the effect of the budget package on the three major recipients of Proposition 98 funding—schools, community colleges, and other education agencies:

- ***K-12 Programs.*** The budget provides an increase of $781 million, or 3.7 percent, over 1991-92 funding levels. This increase is primarily the net result of (1) a $1.5 billion reduction in state appropriations, (2) a $732 million state loan from future years, and (3) a $1.5 billion increase in local property tax revenues. The budget enables the schools to maintain per-pupil funding at the 1991-92 level.

- ***Community Colleges.*** The budget provides an increase of $66 million, or 2.5 percent, over 1991-92 funding levels. This increase is primarily the net result of (1) a $430 million reduction in state appropriations, (2) a $241 million loan from future-year appropriations, (3) a $246 million increase in local property tax revenues, and (4) a $49 million increase in student fee revenues. The budget enables the community colleges to fund 2.5 percent growth in full-time equivalent students (FTES) at the 1991-92 per-FTES level.

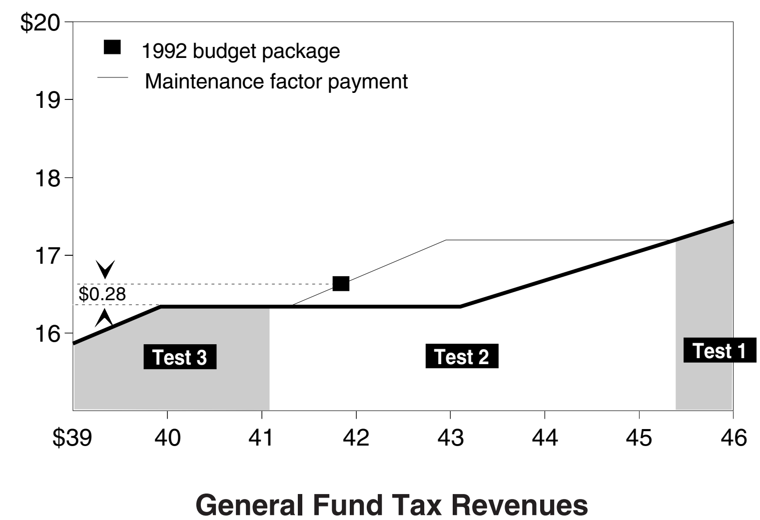
Revenue Sensitivity of the 1992-93 Guarantee

Figure 3 shows the level of the State Proposition 98 guarantee for different revenue levels in 1992-93. The figure shows that the guarantee is funded at the Test 2 level (maintenance of prior-year service level—$16.3 billion) plus a $281 million maintenance factor payment, for a total of $16.6 billion. The figure shows the sensitivity of the guarantee level to changes in General Fund tax revenues. For relatively small changes in revenue (a decline of 1.3 percent to an increase of 2.6 percent), the guarantee would rise or fall by 50 cents for every dollar of revenue gained or lost. The reduction in the guarantee would be limited to $281 million, until revenues dropped by $1.9 billion (4.5 percent). This is due to a requirement that growth in per-pupil funding for Proposition 98 programs under Test 3 be no less than growth in per capita General Fund expenditures for other state programs.

Figure 3

Proposition 98 Funding Guarantee 1992-93[a]

(in billions)



[a] Based on Department of Finance estimates of General Fund revenues and local property taxes that were prepared at the time the 1992-93 budget was enacted.

Proposition 98 Outlook for 1993-94

Based on Department of Finance (DOF) May revision estimates of property tax and General Fund revenue, the Proposition 98 guarantee for 1993-94 would fall $41 million short of our baseline funding level estimate. This estimate includes an amount sufficient to (1) fund K-12 enrollment growth at the 1991-92 level of spending per ADA, (2) fund community colleges for 1993-94 adult population growth of 2.2 percent at the 1991-92 level of spending per full-time-equivalent student (FTES), (3) make the required community college loan repayment, and (4) make a $100 million augmentation pursuant to Ch 703/92. As noted in Chapter 2, however, General Fund revenues in 1993-94 are likely to be considerably less than projected by the DOF. For example, we have identified a potential 1993-94 revenue reduction of $3 billion. Should such a revenue reduction occur, the 1993-94 Proposition 98 minimum guarantee would be about $1.7 billion short of the amount needed to fund K-12 and community college enrollment growth at the 1991-92 level of spending per ADA and FTES. Under neither revenue scenario would K-12 schools be required to make a loan repayment of $366 million in 1993-94.

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 loan funds 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 enabled school district governing boards to lay off certificated employees (teachers) upon 30 days notice, within 5 to 30 days following enactment of the 1992 Budget Act, if the board determined that the district's total revenue limits per

ADA had not increased by at least 2 percent. The Budget Act included language that made it possible for virtually any school district to make that determination, although—according to the State Department of Education—few districts did so.

Categorical Programs

Departing from traditional practice, the Budget Act groups almost all categorical programs in one "mega-item" ($4.5 billion in Item 6110-230-001). The budget package reduces categorical spending, essentially across the board, by 2.2 percent from 1991-92. For a few programs, however, the Budget Act mitigates or offsets these reductions by providing supplemental funding in other items. Total state funding for special education (an estimated $1.4 billion in the "mega-item," plus $93 million in Item 6110-161-001), for example, will exceed 1991-92 state funding by 0.5 percent. In the program areas of child nutrition, adult education, and vocational education, 1992-93 increases in federal support partially offset "mega-item" reductions in state funding, or result in a net increase when compared to 1991-92 funding from all sources.

Supplemental Grant Program

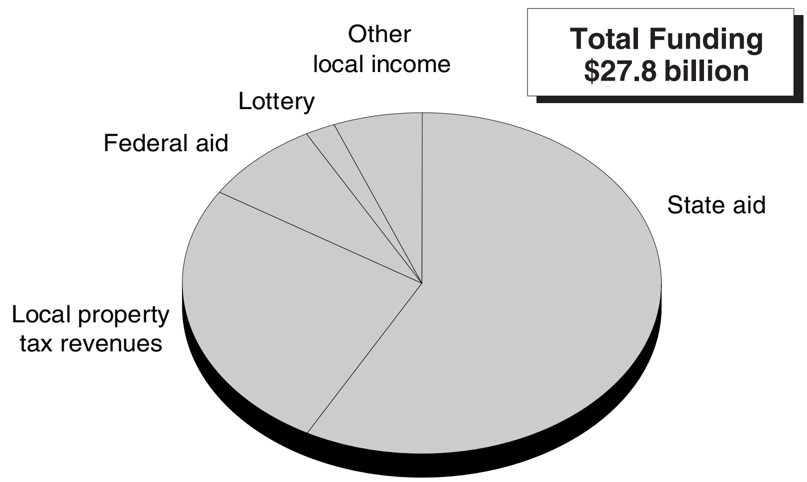
Chapter 703 eliminates the supplemental grant program after 1992-93. Under this program, school districts receiving below-average amounts of per-pupil funding from general-purpose school apportionments and 27 specified categorical aid programs are provided supplemental grant funds, not to exceed $100 per pupil. Chapter 703 requires each school district that receives supplemental grants to roll 1992-93 funding for the grants into either its base revenue limit or into one or more of the categorical programs for which it receives funding under the supplemental grant program. The State Department of Education estimates that school districts will receive funding of $181.3 million (from the "mega-item") for supplemental grants in 1992-93.

K-12 Funding From All Sources

In 1992-93, funding available for expenditure on K-12 education from all sources—including both Proposition 98 and non-Proposi-

Figure 4

The 1992 Budget Act
Sources of K-12 Education Funding[a]



[a] Excludes funding for library programs and the proceeds of state general obligation bond issues for school facilities aid. Includes, however, General Fund payments for debt service on these bonds.

Figure 5

K-12 Education Funding Per ADA
Current and Constant Dollars
1983-84 through 1992-93[a]

(in thousands)

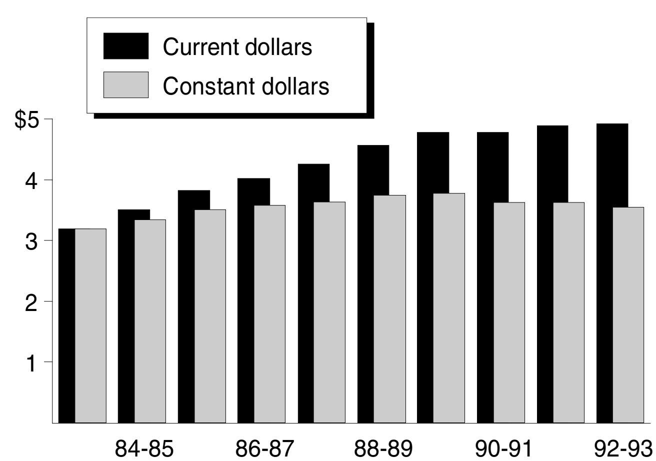


Figure 6

**K-12 Education Funding
By Funding Source and Per ADA
Current and Constant Dollars
1983-84 through 1992-93**

	Funding (in millions)						ADA (in thousands)	Current Dollars Per ADA	Constant Dollars Per ADA
	State Aid	Local Property Tax Levies	Lottery	Federal Aid	Other Local Income	Total			
1983-84	$8,724	$2,976	—	$1,017	$859	$13,575	4,261	$3,186	$3,186
1984-85	9,940	3,298	—	1,095	918	15,251	4,353	3,504	3,339
1985-86	10,805	3,596	$556	1,126	1,003	17,085	4,470	3,822	3,508
1986-87	12,174	3,804	411	1,167	979	18,535	4,612	4,019	3,572
1987-88	12,486	4,108	590	1,345	1,592	20,121	4,723	4,260	3,635
1988-89	13,568	4,466	911	1,517	1,767	22,229	4,872	4,563	3,737
1989-90	15,013	4,797	781	1,634	1,943	24,168	5,060	4,777	3,773
1990-91	15,770	5,252	602	1,770	1,770	25,163	5,272	4,773	3,626
1991-92 (estimated)	16,427	5,643	485	2,267	1,770	26,592	5,439	4,889	3,628
1992-93 (budgeted)	16,232	7,117	485	2,201	1,770	27,805	5,644	4,927	3,545
Cumulative change									
Amount	$7,508	$4,142	$485	$1,185	$911	$14,230	1,412	$1,741	$359
Percent	86.1%	139.2%	—[a]	116.5%	106.1%	104.8%	33.4%	54.6%	11.3%

[a] Not a meaningful figure.

tion 98 funding—will total $27.8 billion (see Figure 4). This amount represents an increase of $1.2 billion, or 4.6 percent, over what was available in 1991-92. Of the $27.8 billion in total funding, $21 billion (76 percent) represents state and local funding guaranteed by Proposition 98.

Figure 4 shows that funding from state and local sources (including non-Proposition 98 funding) is $25.1 billion (90 percent of total funding). Other major funding sources are:

- Federal aid—$2.2 billion (8 percent of total funding).

Figure 7

Higher Education Budget Summary
Selected Funding Sources
1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Budget Act 1992-93	Change From 1991-92 Amount	Change From 1991-92 Percent
University of California					
General Fund	$2,135.7	$2,105.6	$1,881.1	-$224.4	-10.7%
Student fees	249.6	343.3	415.3	72.0	21.0
Totals	**$2,385.4**	**$2,448.8**	**$2,296.4**	**-$152.4**	**-6.2%**
California State University					
General Fund	$1,653.4	$1,640.2	$1,516.9	-$123.3	-7.5%
Student fees	362.8	408.5	463.0	54.5	13.3
Totals	**$2,016.2**	**$2,048.7**	**$1,979.9**	**-$68.8**	**-3.4%**
California Community Colleges (local assistance)					
General Fund	$1,721.8	$1,693.6	$1,264.0	-$429.6	-25.4%
Loan	—	—	241.0	241.0	—[a]
Property taxes	791.0	844.4	1,090.0	245.6	29.1
IDDA/EPDA offset	—	50.0	10.0	-40.0	-80.0
Student fees	72.3	82.6	132.0	49.4	59.8
Totals	**$2,585.1**	**$2,670.5**	**$2,737.0**	**$66.4**	**2.5%**
Hastings College of the Law					
General Fund	$13.5	$13.6	$12.0	-$1.6	-11.6%
Student fees	3.6	4.3	4.9	0.6	13.3
Totals	**$17.1**	**$17.9**	**$16.9**	**-$1.0**	**-5.6%**
California Maritime Academy					
General Fund	$6.8	$7.1	$6.3	-$0.8	-10.8%
Student fees	0.3	0.4	0.7	0.3	62.8
Totals	**$7.1**	**$7.5**	**$7.0**	**-$0.5**	**-6.7%**
Student Aid Commission (Cal Grants)					
General Fund	**$157.0**	**$169.9**	**$145.1**	**-$24.8**	**-14.6%**

[a] Not a meaningful figure.

- Lottery revenues—$485 million (2 percent of total funding).

Figure 8

**Higher Education Student Fees
1990-91 through 1992-93**

	1990-91	1991-92	1992-93	Change From 1991-92 Amount	Change From 1991-92 Percent
University of California					
Undergraduate/graduate	$1,624	$2,274	$2,824[a]	$550	24.2%
Medicine/law	2,000	2,650	3,200[a]	550	20.8
California State University	$780	$936	$1,308	$372	39.7%
California Community Colleges					
10 units of credit	$100	$120	$200	$80	66.7%
15 units of credit	100	120	300	180	150.0
Hastings College of the Law	$2,000	$2,650	$3,200[a]	$550	20.8%
California Maritime Academy	$928	$978	$1,369	$391	40.0%

[a] UC and Hastings' fees could increase beyond the level shown dependent on action by the UC Regents and Hastings Directors.

Figure 5 and Figure 6 show total K-12 funding per unit of average daily attendance (ADA)—in both current and "constant" (inflation-adjusted) dollars—for the years 1983-84 through 1992-93. They show that per-ADA funding in inflation-adjusted dollars has increased by 11 percent during the ten-year period, despite reductions of 3.9 percent in 1990-91 and 2.5 percent in 1992-93.

HIGHER EDUCATION FUNDING

Figure 7 shows funding for each segment of higher education for the period 1990-91 through 1992-93 from the General Fund, student fee revenue, and other selected fund sources. It shows that the community colleges fared better than all other higher education segments in 1992-93. The combination of state General Fund, student fees, and local property tax support results in an overall funding increase of 2.5 percent for the community colleges. In contrast, funding support for the University of California and the California State University declined by 6.2 percent and 3.4 percent, respectively. Figure 8 shows student fee levels for each segment for the same three-year period. Below we highlight the significant actions in the segments of higher education.

The University of California (UC)

The 1992 Budget Act provides $224 million (11 percent) less in General Fund support for the UC in 1992-93 compared to 1991-92. The UC Regents have already adopted a 24 percent student 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 new fee revenue will partially offset the loss in General Fund support, so that the net reduction would be $152 million.

The 1992 Budget Act does not allocate the net $152 million funding reduction among UC programs. This decision is left up to the UC Regents and administration. To achieve a portion of the required savings, the UC has already implemented an early retirement program for its faculty and staff in 1992-93.

On September 18, the Regents reviewed additional options to accommodate the General Fund reduction. Among the options the Regents are considering is a proposal to borrow up to $70 million from private sources to fund 1992-93 costs. Repayment of this loan would be made in 1993-94 and subsequent years "from further reductions in work force and/or fee increases." To accommodate funding reductions over the long term, the Regents are also considering reducing enrollment by 12,000 to 16,000 students over a three-to five-year period beginning in 1993-94.

In 1992-93, UC enrollment is approximately 154,000 students, the same level as 1991-92. The UC indicates that it may be possible to implement a substantial reduction in enrollment in future years while still complying with guidelines contained in the Master Plan for Higher Education. This is because under current eligibility policies, 19 percent of public high school graduates are eligible for freshman admission. This compares to a Master Plan guideline of 12.5 percent. Thus, the UC could tighten its eligibility policies while still admitting the top 12.5 percent of public high school graduates.

The California State University (CSU)

The 1992 Budget Act provides $123 million (7.5 percent) less in General Fund support for the 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) in 1992-93.

The CSU fee revenue shown in Figure 7 is approximately $34 million less than that estimated in June because enrollment is now projected to be significantly below the June projection. (In fact, fall enrollment is projected to be about 260,000—12,000 students below last year's level.) The causes of the enrollment reduction probably include (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, however, restoration of these courses is not feasible. On a positive note, to date it appears that those students who *did* enroll are not finding it as hard 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. To achieve a portion of these savings, the CSU has implemented an early retirement program for its faculty based on legislation enacted this past session (Ch 450/92—AB 1522, Campbell). We have no other information at this time on how the CSU plans to allocate its General Fund reduction among its programs.

California Community Colleges

The 1992 budget package, in combination with other sources of tax funds, provides a net increase in funds to the community colleges of $66 million (2.5 percent) in 1992-93 in comparison to 1991-92. Included in this total is a loan of $241 million for the community colleges authorized in Ch 703/92 (SB 766). This loan will be repaid in future years by offsetting the repayment amounts against the amounts to be appropriated to the community colleges under Proposition 98.

The major increases for the community colleges include (1) $38.9 million for enrollment growth of 1.7 percent, (2) $8.9 million to fund "overcap enrollment"—students served in prior years but not previously funded by the state, (3) $8.8 million for growth in certain programs for disadvantaged students, (4) $6.7 million for "program improvements" related to instructional quality, and (5) $5 million for basic skills instruction, such as remedial English and math.

Fee revenues will increase by an estimated $49 million in 1992-93. The increase consists of (1) $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 ten-unit cap on the fee charge (previously students only had to pay for the first ten units of credit per semester), and (3) $16 million due to a fee of $50 per credit unit for students attending community colleges who already have BA degrees.

The community colleges should be in a position to accommodate an enrollment increase of between 1.7 percent—the funded growth in apportionments—and 2.5 percent—the increase in overall funding for the community colleges. We do not have any estimate at this time of actual enrollment for the fall.

Hastings College of the Law

The 1992 Budget Act provides $1 million (5.6 percent) less in General Fund support for Hastings in 1992-93 in comparison to 1991-92. Fees at Hastings are set at the same level as that charged to law students at the UC. Hastings reports a decrease of 25 students this fall, resulting in an overall enrollment of 1,235.

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. Figure 8 shows that student fees at the CMA will increase by 40 percent ($391) in 1992-93. Fee revenue shown in Figure 7, however, increases by 63 percent. The fee revenues increase by a greater percent than the fees due to an unanticipated increase in enrollment. CMA fall enrollment was 500 students, which is 16 percent (70 students) above that projected in the 1992 Budget Act.

Student Aid Commission (SAC)

Figure 7 shows a decline of $24.8 million (15 percent) in funding for Cal Grants compared to 1991-92. Given the fee increases approved for the UC and CSU, the actual underfunding in Cal Grants is $44 million (31 percent). To adjust to available funds, the SAC made across-the-board reductions to all Cal Grant awards, without regard to the different fee increases at these segments. The UC and CSU may choose to backfill for all or some of the shortfall from their own funds. Due to the budget reductions at the UC and CSU, however, the segments may have difficulty bridging this gap.

HEALTH AND WELFARE

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

Figure 9

**Major Funding Reductions
In Health and Welfare Programs
1992 Budget Act and Related Legislation
General Fund**

(in millions)

Program/Issue	**Amount**
AFDC	
5.8 percent reduction in grants	$122.0
Residency requirement	8.5
Foster Care Program reductions	30.0
SSI/SSP	
5.8 percent reduction in grants	250.4
Food stamps in lieu of cash	8.4
IHSS	
Service level reduction or shift to federal funds	45.5
Regional Centers	
Unallocated reduction	50.0
Medi-Cal	
Managed care expansion	76.5
Various drug program changes	56.5
Limit eligibility for nonresidents/ undocumented persons	35.5
SB 855 revenue sharing/ hospital rate adjustments	52.9
Long-term care rate adjustment	27.7
Proposition 99	
Redirection to prenatal services	56.8
County Medical Services Program	
Cap on state funding/hospital rates	17.9
Other Public Health	
Reduce state licensing	3.6
Office of Family Planning/federal funds offset	6.0
California Children's Services Program	5.3

7 percent, below estimated spending for these programs in 1991-92. The 1991-92 amount, however, includes a one-time cost of $977 million due to an accounting change in the Medi-Cal Program. Thus, if we adjust for this factor, budgeted spending would show virtually no change in 1992-93. This occurs because costs resulting from significant increases in caseloads were offset by savings achieved by program reductions and other program changes. (However, as we noted in Chapter 2 there are a number of adjustments and risks that are likely to increase health and welfare costs in 1992-93 above the budgeted amounts.)

Figure 9 and the following text describe the major funding reductions enacted in the 1992 Budget Act and related legislation.

Grant reductions in the Aid to Families with Dependent Children Program and Supplemental Security Income/State Supplementary Program account for more than one-third of the total reductions in the health and welfare area. In addition, savings in the Medi-Cal Program account for about one-third of the total.

Aid to Families with Dependent Children (AFDC) Program

The AFDC Family Group (FG) and Unemployed Parent (U) Programs provide cash grants to low-income families and children. The AFDC Foster Care Program provides grants to pay for the care of children placed in foster care family homes or group homes.

Reduction in Maximum Grants. The AFDC (FG & U) maximum grants are reduced by 4.5 percent from their levels in 1991-92. This is the maximum amount that grants can be reduced without federal approval. Chapter 722, Statutes of 1992 (SB 485), directed the Department of Social Services (DSS) to seek federal waivers in order to reduce AFDC grants by an additional 1.3 percent, for a total reduction of 5.8 percent. In addition, the department is directed to seek a federal waiver to implement this reduction through 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 largest reductions generally would occur in the rural counties. The net 5.8 percent reduction would decrease the maximum monthly grant for a three-person family from $663 to $625. These provisions sunset on June 30, 1996.

Residency Requirements. 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.

Foster Care. The Budget Act includes the following reductions in the AFDC-Foster Care Program:

- ***Freezes Foster Care Rates at the 1991-92 Level.*** Chapter 722 (1) suspends for one year the final step of a three-year rate increase for group homes, (2) prohibits group homes from making program changes (types of children served, capacity, and rate increases) that would result in General Fund costs, (3) suspends cost-of-living increases for group home providers until 1996-97 (subject to the availability of funds, beginning in 1994-95), and (4) suspends for one year a 5 percent specialized care increment for foster parents who care for children with special needs. These changes will result in estimated General Fund savings of $26 million in 1992-93.

- ***Elimination of State Reimbursement of Group Homes Organized on a "For-Profit" Basis.*** Chapter 722 requires all group homes to organize on a nonprofit basis as a condition of state reimbursement. This will result in estimated General Fund savings of $4 million in 1992-93.

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

The SSI/SSP provides grants to low-income aged, blind, and disabled persons.

Reduction in Maximum Grants. Chapter 722 reduces SSI/SSP maximum grants 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. This provision sunsets June 30, 1996.

Food Stamps in Lieu of Cash. Under current law, SSI/SSP recipients receive $10 as part of their monthly SSP grant in lieu of food stamps. Chapter 722 directs the DSS to request federal approval to eliminate, for certain SSI/SSP recipients, the $10 from their grants (thereby saving state funds) and instead provide them with an equivalent amount of food stamps (thus resulting in increased federal costs).

General Assistance (GA) Program

Reduction in County Costs. Legislation was enacted making several changes in state law to help counties control the costs of their GA programs.

- ***GA Payment Standard.*** Prior law permited counties to base their GA cash grants on a "payment standard" equal to 62 percent of the 1991 federal Poverty Income Guideline, adjusted for subsequent annual AFDC grant changes. Chapter 722 allows counties to include the value of in-kind aid (for example, housing vouchers) in meeting the payment standard, thereby reducing the amount of the cash grant. Further, counties are permitted to abrogate existing court settlements or negotiated agreements that require the GA grant amounts to be higher than the payment standard. Finally, Chapter 722 authorizes counties to reduce the GA standard by up to 4.5 percent, depending on rental costs in four regions of the state.

- ***Other GA Program Changes.*** Chapter 719, Statutes of 1992 (AB 1012), allows counties to (1) establish a 15-day ineligibility period to determine residency, (2) reduce GA grants by up to 25 percent when recipients are sharing housing with nonrelatives, and (3) discontinue aid for up to 180 days for any able-bodied recipient who fails or refuses, without good cause, to participate in job training or accept a job offer. These provisions sunset on December 31, 1994.

In-Home Supportive Services (IHSS)

The IHSS Program provides assistance to eligible aged, blind, and disabled persons so that they may remain safely in their own homes.

IHSS Service Level Reduction. The Budget Act eliminates funding for projected IHSS caseload increases, resulting in underfunding of the program by $70 million ($45.5 million General Fund). As a result, the average IHSS recipient will experience a reduction in services of approximately 9 hours per month (66 hours of service instead of 75 hours) beginning October 1, 1992. If a recipient is at serious risk of out-of-home placement due to the reduction or cannot summon emergency assistance, he or she may apply for a supplement to restore all or part of the reduced hours.

IHSS Personal Care. Chapter 939, Statutes of 1992 (AB 1773, Moore) authorizes Medi-Cal "personal care" services for eligible IHSS recipients in lieu of medically oriented services provided under the IHSS Program. The budget includes anticipated federal reimbursements of $82.3 million for this purpose. The IHSS Program reductions (described above) would be restored to the extent that personal care services do not result in additional costs to the state and the anticipated federal funds are received in 1992-93.

Regional Centers for the Developmentally Disabled

The regional centers are nonprofit agencies that arrange for services to the developmentally disabled.

Unallocated Reduction. The budget includes various reductions to the regional centers. Of these, the largest is an unallocated reduction of $50 million. This reduction will affect the operations component (which includes case management) and the purchase of services component of the regional centers' budget. The remaining reductions result from changes designed to achieve savings through funding shifts (receipt of additional federal funds) and administrative efficiencies.

Medi-Cal Program

The Budget Act and related legislation make several reductions and policy changes in the Medi-Cal Program that are estimated to total more than $350 million in General Fund savings in 1992-93. The Legislature, however, rejected the administration's proposal to eliminate optional (nonfederally required) Medi-Cal benefits, such as podiatry, hospice care, and acupuncture.

Expanded "Managed Care" Programs. If the estimated savings are realized, the largest reduction in the Medi-Cal Program will come from accelerated implementation of "managed care" programs. In these programs, Medi-Cal providers are paid a fixed amount per person to provide medical care to a group of persons, regardless of the amount of care provided to any given individual. This contrasts with the usual Medi-Cal "fee-for-service" system, where Medi-Cal pays providers for individual services they provide. In addition, the managed care programs generally assign Medi-Cal beneficiaries to a primary care physician or case manager to coordinate the beneficiary's care and to authorize in advance more expensive medical procedures, such as surgery.

The administration estimates that expanding managed care programs will result in savings of $76.5 million in 1992-93 and substantially higher savings in subsequent years. The degree of savings that is actually achieved in 1992-93, however, will depend on the number of Medi-Cal beneficiaries the department is able to add (generally on a voluntary basis) to managed care programs during the year.

Pharmaceutical Savings. Chapter 722 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, Chapter 722 (1) limits new Medi-Cal beneficiaries to ten prescriptions per month, unless a larger number is approved by a special authorization; (2) shifts accounting for the drug program from a cash to an accrual basis in order to achieve drug manufacturer rebates for 1992-93, thereby generating a one-time savings; and (3) authorizes the department to limit the number of individual drugs available in each therapeutic category.

Limits on Eligibility for Nonresidents and Undocumented Persons. Chapter 722 also requires prospective Medi-Cal beneficiaries to demonstrate that they are residents of California by providing a social security number and driver's license or other documentation of residency in order to qualify for Medi-Cal benefits. In addition, Chapter 722 restricts eligibility for undocumented persons (provided they can demonstrate residency) 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 nearly $1 billion in supplemental federal revenues that counties will receive in 1992-93 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 ("disproportionate-share hospitals"), which are often not paid for the services they provide. 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 $1 billion of federal funds that counties receive.

Long-Term Care Rate Adjustments. The budget reduces long-term care Medi-Cal reimbursement rates, for a General Fund savings of $27.7 million in 1992-93. A significant portion of the savings will be achieved by providing lower rate increases to nursing facilities whose actual costs are below the reimbursement rate for their peer group.

Public Health Programs

Proposition 99 Funds Redirected. Various health and education programs receive funds pursuant to Proposition 99, the Tobacco Tax and Health Protection Act of 1988. 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 (1) funds withheld from Los Angeles County for 1988-89 for the California Healthcare for Indigents Program (CHIP)—$29 million, (2) the Major Risk Medical Insurance Board's Access for Infants and Mothers (AIM) Program—$15 million, (3) recoveries from the CHIP and Rural Health Services Program—$12 million, and (4) the State Department of Education administrative funds—$500,000. The redirection from the AIM Program will mean that approximately 1,800 fewer women (about 13 percent) will be enrolled in the program in 1992-93.

County Medical Services Program (CMSP) Reductions. Under the CMSP, smaller counties provide care to indigent persons not eligible for the state Medi-Cal Program. The realignment legislation enacted in 1991-92 transferred responsibility for the CMSP from the state to the counties, but provided that the state would fund program costs that exceed the growth in state revenues dedicated for realignment and placed in the Local Revenue Fund.

The budget and related legislation make three changes to the CMSP. First, Chapter 722 limits the state's responsibility for funding CMSP expenditures in 1992-93 to the 1991-92 level. This "cap" results in General Fund savings of $16.4 million in 1992-93. Any unmet CMSP costs above the cap will be the responsibility of the counties participating in the program. Second, Ch 782/92 (AB 584) gives CMSP counties flexibility in the use of approximately $9 million in Proposition 99 funds. This flexibility will enable counties to expend funds for increased CMSP caseloads or for service expansion (adult dental, out-of-county care, and undocumented services). Third, Chapter 722 requires the California Medical Assistance Commission to negotiate hospital payment rates for CMSP hospitals that are compa-

Figure 10

Funding Reductions By Type of Local Government

(in millions)

Type of Government	**Property Tax Shift**	**Cigarette Tax/ Trial Court Funding**
Cities[a]	$200	$25
Counties[a]	525	135
Special districts	375	—
Redevelopment agencies	200	—
Totals	**$1,300**	**$160**

[a] Does not include property tax shifts offset by increased VLF allocations.

rable to rates paid under Medi-Cal. This will result in General Fund savings of $1.5 million.

Duplicative State Licensure is Eliminated. The budget eliminates state licensure inspections for nursing facilities and other provider categories that are subject to the federal certification process, for a General Fund savings of $3.6 million in 1992-93. State licensure surveys will continue for health facilities not subject to federal certification.

Office of Family Planning (OFP). The budget (1) augments the OFP by $6 million for provider rate increases and (2) deletes $6 million in General Fund monies that were intended to offset the potential loss of federal funds, resulting from the adoption and implementation of federal regulations on abortion counseling.

California Children's Services (CCS) Program Fund Shifts. The budget reduces the CCS Program by $5.3 million from the General Fund. This reduction will be offset by increased family enrollment fees ($2.8 million) and by billing Medi-Cal for CCS therapy services ($2.5 million).

LOCAL GOVERNMENT FUNDING

The budget agreement contains a major reduction in local government funding for 1992-93, as required by Ch 700/92 (SB 844). The budget agreement also affects cigarette tax subventions, funding for mandated local programs, and county responsibilities in a number of program areas. This section describes the changes and the details of 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 and simultaneously increasing the share that is allocated to local school districts. The increased school district property tax revenues then reduce the amount of required state school funding so that the state General Fund actually realizes its savings from the local government funding reductions as a savings in the cost of school apportionments. (Please see the section on education funding for a more detailed discussion of this mechanism.)

Figure 10 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. Chapter 700 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 may reduce the amount of their loss 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. A specific dollar reduction in property tax revenues is required for each county. A special allowance for disaster-impacted counties of up to $5 million in the aggregate is also provided.

Special Districts. Individual special districts are subject to a reduction of 35 percent of their property tax revenues, 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. Multi-county 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 is less than $375 million.

Redevelopment Agencies. Each redevelopment agency in the state must contribute an amount for 1992-93 determined by the Director of Finance. The amount for each agency will be equal to its proportionate share of property tax revenues allocated to redevelopment agencies statewide, multiplied by $205 million. The redevelopment agency may use any funds available to it in order to meet its contribution requirement, other than low- and moderate-income housing set-aside funds. An agency may not provide less than its determined amount. If it finds that it has insufficient funds available or the funds are needed to cover an existing indebtedness, then the agency must borrow funds from the city or county that activated it to make up the difference.

City/County Vehicle License Fee Shift. Cities and counties are required to shift an additional $100 million of property taxes to schools on a one-time basis in 1992-93. Specifically, cities must shift an amount of their property taxes equal to $1.92 per city resident, and counties must shift $1.65 per resident. These losses are expected to be offset by increased allocations of vehicle license fee revenues associated with other budget actions, so we do not include this amount as a funding reduction.

Educational Revenue Augmentation Fund. The $1.4 billion taken from the local agencies discussed above is to be deposited in a new Educational Revenue Augmentation Fund 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.

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 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 annually 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 discontinue compliance with these mandates or to continue their compliance, but no state cost reimbursement will be provided.

Changes in Program Responsibilities

Legislation enacted as part of the budget agreement in Ch 719/92 (AB 1012) 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 that affect county (1) provision of General Assistance Program benefits to indigent persons, (2) maintenance-of-effort responsibilities associated with eligibility for state indigent health care funds, and (3) 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.

Additional information concerning the Trial Court Funding Program reductions and changes in county health and welfare program responsibilities may be found in the sections of this chapter that address those programs.

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 Ch 695/92 (SB 97, Torres).

Inmate and Parole Caseloads

The final budget did not include any changes that would save money by reducing the number or length of stay of offenders in prison or on parole. 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 annual increase of 13 percent in the last five years. (The administration attributed the slower rate of caseload growth to reductions in the rate of new admissions and parole violations.)

However, the department has recently experienced an unanticipated increase in inmate admissions to prison. In fact, by October the actual population already exceeded 108,000 inmates, or 1,000 inmates more than was anticipated for the end of the current year. The department expects this growth to continue, which would result in a substantial General Fund deficiency later in the year.

Delayed Openings of New Prisons

The Budget Act included a one-time savings of $62.5 million from delaying until 1993-94 the opening of two new prisons at Delano and Lancaster (both were scheduled to open in October 1992). Chapter 695, however, restored $54 million to open both institutions by December 1992. The Governor, subsequently, vetoed $31.5 million of the $54 million appropriation. This action will permit the department to open the Lancaster prison by February 1993, but delay opening of the Delano prison to 1993-94. The effect of these reductions will be to increase prison overcrowding.

Parole Services

The budget includes a reduction of $32 million for supervision of parolees, a reduction of 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 were made in Chapter 695.

TRIAL COURT FUNDING

As passed by the Legislature, the budget provided $818 million for support of local trial courts in 1992-93 (judges' salaries and retirement contributions and block grants for trial court funding). As a result of this legislative proposal, the state would pay about 55 percent of statewide trial court expenses, which is consistent with prior expressions of legislative intent. This amount was an increase of about $70 million above the amount proposed by the Governor in January (he proposed to hold support for trial courts at the same level as 1991-92).

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 required by budget-related legislation (AB 1344, Isenberg). However, the Governor vetoed $206 million in Budget Act funding for the program and indicated at that time his intent to veto AB 1344 as well. The Governor also vetoed related Budget Act language that would have permitted the state to reduce trial court funding payments to counties should the fee transfers fall below anticipated levels.

However, the Governor eventually signed AB 1344 (Ch 696/92), indicating that he did so because the measure contained provisions to allocate the remaining block grant funds in the

Budget Act, and because it contained a number of reforms designed to promote efficiency and reduce expenditures for local courts and criminal justice systems. He also indicated that his veto of the $206 million in the Budget Act was necessary because AB 1344 placed the fee transfers into a new Trial Court Trust Fund, rather than the General Fund, and thus the veto was necessary to assure a balanced budget.

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. The 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. The estimated $206 million in revenues will remain in the Trial Court Trust Fund until the Legislature and Governor take action. In the message that accompanied his signature of AB 1344, the Governor did not indicate whether he will support transfer of the money to the General Fund for eventual allocation to local trial courts or for any other purpose.

GENERAL GOVERNMENT

State Employee Compensation

The 1992 budget plan includes two major provisions that affect state spending for employee compensation. These include Memorandums of Understanding with various state employee bargaining units and salaries for nonrepresented employees.

Memorandums of Understanding. The administration asked for and obtained legislative approval of Memorandums of Understanding (MOUs) for 20 of the 21 bargaining units involving state employees. These memoranda are effective for the next three years. An MOU for bargaining unit 14 (Printing Trades) was not submitted to the Legislature. The major fiscal aspects of the MOUs that are reflected in the 1992 Budget Act are:

- ***Personal Leave Program.*** 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 time worked. Employees will earn one day of credit per month. At the end of the 18-month period (generally January 1994) employees will be eligible to receive either cash payment or time off (similar to earned vacation leave). This results in a reduction of about $155 million ($120 million General Fund) in the state's employee compensation costs for 1992-93. In future years, the state will have to pay off this deferred cost when state employees receive either cash or time off for the earned credits.

  The MOUs also contain a requirement that employees receive a 5 percent pay increase at the end of the 18-month leave program (generally January 1994) and an additional 3 percent to 5 percent (depending on inflation) pay increase in January 1995. The pay raise in January 1994 will increase the state's cost for employee compensation in 1993-94 by about $135 million ($74 million General Fund) over 1992-93 costs.

- ***Health Benefits.*** The state's maximum contribution for the cost of an employee's health benefit premium is held at the 1991-92 level. The state's contribution will remain at this level for the next three years unless premiums increase by more than 30 percent above 1991-92 costs. Thus, up to the 30 percent premium increase, the maximum monthly state contribution will remain $174 for an eligible employee, $323 for an employee and one dependent, and $410 for an employee and two or more dependents. Based on this level of state contribution, the state will pay about $718 million ($395 million General Fund) in 1992-93 and employees will pay about $52 million (employees costs range from nothing to $180 per month, depending on the health plan chosen and the number of dependents). Providing a state contribution at the 1991-92 level rather than the 1992-93 level represents a savings of about $12 million in state costs ($7 million General Fund) for 1992-93. Future savings in the state's contribution for health benefits are dependent on the actual increases in health benefit premiums. For example, a 10 percent increase in 1993-94 (above the actual premium cost in 1992-93) represents about $85 million. These higher costs (up to a 30 percent increase) over the three-year term of the MOUs would be paid by the employee rather than the state.

Nonrepresented Employee Salaries. In the 1991-92 fiscal year, the administration reduced salaries for nonrepresented state employees (for the most part, managerial and supervisorial employees) by 5 percent. Effective July 1, 1992, the administration revised this action by retroactively placing these employees on the 18-month personal leave program. Thus, these employees receive a day of credit for each month they received a pay reduction and their salary will be reinstated after an 18-month period. For most nonrepresented employees their salary will be reinstated between January and April 1993. These actions result in a cost of about $32 million ($17 million General Fund) in 1992-93 and a future obligation of up to $93 million ($51 million General Fund) due to the retroactive time earned.

Public Employees' Retirement System (PERS)

The current estimate of the state's contribution to the PERS in 1992-93 is about $915 million. This estimate is somewhat overstated, however, because it is based on data that do not take into account either the state employee personal leave program or the increasing number of vacant positions.

No General Fund Payment to the PERS in 1992-93. The General Fund portion of the estimated $915 million state contribution to the PERS would be about $433 million. Two actions by the Legislature, however, result in no General Fund payments to the PERS in 1992-93. First, under the provisions of Ch 83/91 (AB 702, Frizzelle), funds within the Investment Dividend Disbursement Account (IDDA) and the Extraordinary Performance Dividend Account (EPDA) within the PERS are used to offset the General Fund contributions to the PERS (beginning in 1991-92). There should be sufficient funds remaining in the IDDA and the EPDA to provide one-half the General Fund contribution requirement for 1992-93. Second, Ch 707/92 (SB 1107), changed the schedule for the state's General Fund quarterly contribution payments to two semiannual payments for each fiscal year due in arrears on January 1 and July 1. Consequently, the state's second payment for 1992-93 is deferred until fiscal year 1993-94, for a one-time budget savings of $217 million.

The amount of the state's contributions to the PERS in 1993-94 will depend on many variables, including the number of positions filled and the pay levels of those positions. Nevertheless, the state should anticipate the need to make contributions of at least $900 million, of which about $425 million would be from the General Fund.

Special Funds

As pointed out earlier in Chapter 1 of this report, special funds provided a significant amount of General Fund savings needed to resolve the 1992-93 budget funding gap. Figure 2 in Chapter 1 showed that budget actions used $706 million from special funds to achieve General Fund savings. This was done either by (1) using special funds to support activities that have been supported by the General Fund in the past or (2) transferring money out of special funds into the General Fund. In many cases, these actions will result in immediate reductions to special fund programs in 1992-93. In other cases, such as the transfer of special fund reserves to the General Fund, the effect on programs supported by special funds may be spread out over several years in the future.

While the budget includes many actions that use special fund money to assist in resolving the 1992-93 General Fund budget gap, generally the Legislature did not eliminate these programs or their ongoing funding mechanisms. Consequently, the General Fund savings or revenues that result from these actions are one-time in nature.

The budget solution also includes loans totaling $150 million from special funds to the General Fund. Altogether then, special funds contributed a total of $856 million in savings, transfers, and loans towards resolution of the 1992-93 General Fund budget funding gap. Some of the specific actions that were adopted are discussed below.

Transfer of Antitrust Settlement Proceeds—$120 Million. Budget-related legislation transferred to the General Fund the state's share of the proceeds of a negotiated settlement of longstanding antitrust litigation with several oil companies. This transfer, which was counted in 1991-92, resulted in a reduction in funds available for state capital outlay costs.

VLF "Roundabout"—$100 Million. The budget and Ch 699/92 (SB 617) shifted $100 million in the Motor Vehicle License Fee Account of the Transportation Tax Fund from support of the Department of Motor Vehicles (DMV) to cities and counties in order to shift an equal amount of local property tax revenue to schools. The property tax shift to schools results in a $100 million savings in state education aid required by Proposition 98. Other transportation funds were used to backfill all but $34 million of the reduction to the DMV. This action also affected the California Highway Patrol, which received a $33 million unallocated reduction because of the limited amount of transportation funds available.

Figure 11

1992-93 Capital Outlay Program (Excluding Highways and the State Water Project)

(in millions)

Project Area	Revised Governor's Budget	1992 Budget Act
Legislative/Judicial/Executive	—	—
State and Consumer Services	$8.7	$6.9
Transportation	26.8	22.8
Resources	92.8	81.4
Health and Welfare	20.9	18.7
Youth and Adult Correctional	33.9	26.4
Higher Education	420.2	409.6[a]
General Government	24.5	23.2
Totals	**$627.8**	**$589.0**

[a] Does not include $17.5 million for community college projects that were financed with lease-payment bonds in the 1991 Budget Act and refinanced with general obligation bonds in the 1992 Budget Act.

Transportation Revenues From Document Sales and Property Rentals—$97 Million. The budget transfers $67 million to the General Fund from the Motor Vehicle Account. This is the estimated amount of revenue received by the DMV from the sale of documents and records. The budget also transfers $30 million to the General Fund from property rental receipts in the State Highway Account.

Medi-Cal Use of Proposition 99 Funds—$57 Million. The budget provides $57 million from Proposition 99 funds (Cigarette and Tobacco Products Surtax) to support Medi-Cal costs for perinatal programs. This action replaces General Fund Medi-Cal support and reduces funds for other Proposition 99 programs.

General Control Sections—$137 Million. The budget includes several general "control sections" that shift money from a variety of special funds to the General Fund as follows:

- ***Section 3.70.*** Shifts special fund savings from the employee personal leave program (5 percent salary savings in 1992-93) to the General Fund for an estimated gain of $35 million.

- ***Section 14.00.*** Transfers to the General Fund an estimated $4.3 million of excess fee revenues from various boards and commissions within the Department of Consumer Affairs.

- ***Section 14.50.*** Requires various special fund departments and programs to operate more efficiently and transfers $43 million of savings to the General Fund.

- ***Section 14.75.*** Transfers $55 million to the General Fund from interest earnings of special funds.

Marinas, Off-Highway Vehicle Parks, and Fairs—$78 Million. The budget includes a variety of actions that generate General Fund savings or revenues by using funding that has otherwise been dedicated to special recreational programs and fairs. These actions include both transferring money directly from special funds to the General Fund and diverting revenue from these special programs to replace or augment General Fund support for regular park programs. These actions will reduce funds for support of (1) marina grants and loans, (2) off-highway vehicle parks, and (3) local fairs.

Special Fund Loans—$150 Million. The budget provides the following special fund loans to the General Fund in 1992-93:

- ***Debt Service on Rail Bonds.*** The budget provides a loan of $96 million to the General Fund to cover the cost of 1992-93 interest and principal payments on state general obligation bonds issued to finance rail transportation projects. The State Highway Account and the Transportation Planning and Development Account provide the funds for the loan.

- ***Agriculture Fund.*** The budget provides the General Fund with a loan of $25 million from the reserve in the Agriculture Fund.

- ***Employment Training Fund.*** The budget finances $29 million of the costs of the Greater Avenues for Independence (GAIN) Program (which provides training to welfare recipients) with a loan from the Employment Training Fund (which supports employer-sponsored job training programs).

Boards and Commissions

The 1992-93 budget eliminates funding for 47 advisory boards and commissions. Additionally, the budget restricts the funding for all remaining advisory bodies, with specified exceptions, to one-half year support through December 31, 1992. Proposals in the Governor's Budget for 1993-94 for support of these advisory bodies must be accompanied by specific evaluations by the Department of Finance.

CAPITAL OUTLAY

Program Expenditures

The 1992-93 budget includes $589 million, primarily from bond funds, for the state's capital outlay program (excluding transportation and the State Water Project). As shown in Figure 11, this amount is $39 million less than that included in the Governor's Budget, as revised. Major legislative changes included the following:

- Reductions of $12 million and $8 million, respectively, for various capital outlay projects proposed for the California Community Colleges and the Department of Parks and Recreation.

- A reduction of $7 million in the amount proposed to install lethal electrified fencing at state prisons. The Budget Act provides funding for design and installation of an electrified fence at one prison and design funding for only 17 prisons.

- A redirection of $114.7 million previously appropriated for a prison (reception center) in downtown Los Angeles in order to fund construction of a women's prison in Madera. The Governor vetoed this redirection.

The Budget Act also includes $21.8 million in funding from general obligation bonds that were expected to be on the November ballot but were not approved for the ballot. This amount includes $11.6 million for the Department of Corrections, $3.6 million for the California Youth Authority, and $6.6 million for the California Department of Forestry.

In addition, Ch 695/92 (SB 97, Torres), enacted subsequent to the 1992 Budget Act, authorizes $587 million in lease-purchase financing for three new state prisons with a total design capacity of 6,400 beds. This bill also removed the prior authorization to construct a reception center in downtown Los Angeles, reverted available funding ($114.7 million) for the center, and authorized the Department of General Services to sell or lease the land the state purchased for the center.

Chapter 700 (SB 844) authorizes the Department of General Services to sell or lease a 100-acre parcel of vacant land adjacent to Agnews State Hospital, Santa Clara County. The 1992 budget plan anticipates $37 million of revenue to the General Fund from the sale of this property. However, the time required to evaluate options for use of the property and proceed with a sale/lease makes it highly unlikely that the state will receive any revenue from this source in 1992-93.

Bond Debt Service

Debt Service Costs. The budget includes appropriations totaling about $490 million from general obligation bond funds for higher education, prisons, and parks. In addition, Chapter 695 authorized $587 million in lease-purchase financing for new prisons. Assuming that these bonds are sold over the next two fiscal years, state debt service costs will increase by $13 million in 1992-93 and $50 million in 1993-94. Thereafter, debt service costs for these bonds will average about $100 million annually until the bonds are paid off.

Debt Service Accounting. As part of the 1992 budget package, the state changed from an accrual to a cash basis in accounting for interest payments on bonds. (Semiannual interest costs will now be accounted for in the fiscal year that the payments are made rather than as the liability for the interest accumulates.) This action reduced state General Fund costs by $72 million in 1991-92 and $32 million in 1992-93. These are one-time accounting adjustments only and do not change the state's debt service payments.

Debt Refinancing. The 1992 budget package also achieved reductions in General Fund expenditures in 1992-93 by borrowing in order to defer General Fund payments on some general obligation bonds. Under this plan, the state will borrow $135 million to make the principal payments on these bonds in 1992-93 and then repay the loan—including $7 million in interest—over the following two fiscal years.

Tidelands Oil Revenue

In January 1992, the Governor's Budget proposed allocating the estimated $66 million in revenues to (1) support the State Lands Commission ($10 million), (2) the California Housing Trust Fund ($3 million), and (3) the Special Account for Capital Outlay (SAFCO—$53 million). In May, the Governor's Budget was revised to reflect a $12 million reduction in anticipated revenue. This revision called for a proposed decrease in allocations to the California Housing Trust Fund and to the SAFCO of

$1 million and $11 million, respectively. Legislative actions on the Governor's revised proposal resulted in a transfer of nearly $3 million to the General Fund.

The Governor vetoed $3 million in SAFCO funding for the Department of General Services hazardous substances abatement programs to conform with his May budget proposal. The Governor also vetoed a legislative augmentation of $700,000 for support of the State Lands Commission. These actions result in a $3.7 million unappropriated balance in the SAFCO.

Appendix 1

Temporary Fiscal Relief Provisions in Recent Legislation

During the past two budget cycles, the state has adopted various temporary provisions to reduce costs or increase revenues in order to balance the budget. Listed below are some of the major provisions, grouped by the year in which they "trigger off."

	State Fiscal Impact (in millions)	
Trigger Year	**Cost**	**Revenue Loss**
1993-94		
Redevelopment funding shift to schools	$200	—
Temporary ½ cent sales tax rate increase	—	$1,500
Suspension of net operating loss deductions	—	300
Delayed implementation of health care tax credit	—	110
Vehicle license fee "roundabout"		
1995-96		
Suspension of AFDC cost-of-living adjustments	(100s)	—
Temporary 10 percent and 11 percent income-tax brackets	—	1,000[a]
1996-97		
Suspension of SSI/SSP cost-of-living adjustments	(100s)	—
AFDC and SSI/SSP 5.8 percent grant reductions	575	—

[a] Full-year amount. Loss would be smaller in 1995-96.