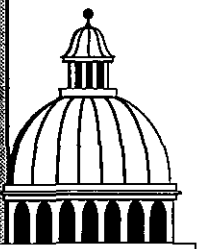


# FOCUS\$ Budget 1994

## Highlighting Major Features of the 1994 California Budget

On July 8, 1994, Governor Wilson signed into law the 1994 Budget Act and other measures that make the law changes necessary to achieve budgeted savings. In this report we highlight the major features of the budget package.

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# Budget Overview

The 1994 Budget Act was signed into law by Governor Wilson on July 8, 1994. The Budget Act plus related trailer legislation authorize total state spending of \$57.5 billion, consisting of \$40.9 billion from the General Fund, \$13.7 billion from special funds, and \$2.9 billion from selected bond funds. This represents an increase of 5.9 percent in total state spending relative to 1993-94. General Fund spending will increase by \$1.6 billion, or 4.2 percent, while special funds spending increases by approximately \$700 million, or 6.1 percent.

The 1994 budget package represents a two-year plan for balancing the state's budget. As shown in Figure 1, the state will end the 1994-95 fiscal year with a deficit in its reserve fund of approximately \$1 billion. As the figure shows, this deficit is expected to be eliminated by the end of the 1995-96 fiscal year, leaving a small reserve of \$23 million. The 1995-96 figures are based upon the administration's estimates of revenues and expenditures for that year, including adjustments to reflect the 1995-96 impacts of actions taken pursuant to the budget agreement.

The administration's estimates of revenues and expenditures for the two-year period shown in Figure 1 are premised upon a number of important assumptions. The budget's estimates of revenues assume that the state's economy will continue its recovery from the recession and show modest but steady growth through 1996. The budget also assumes that the federal government will provide \$3.6 billion over the two-year period in new federal immigration-related assistance. Finally, the assumed rates of growth in 1995-96 for major expenditure programs are relatively modest, from a historical perspective.

An important feature of the 1994 budget agreement is the adoption of a standby "trigger" mechanism that is intended to ensure that the two-year budget plan stays on track (Chapter 135, Statutes of 1994). In essence,

Figure 1

## 1994-95 Budget Package Estimated General Fund Condition' 1994-95 and 1995-96

(In Millions)	1994-95	1995-96
Prior-year balance	-\$1,619	-\$668
Revenues and transfers	41,892	45,442
Total resources available	\$40,273	\$44,776
Expenditures	\$40,941	\$44,399
Fund Balance	-\$668	\$375
Reserve	-\$1,020	\$23
Other obligations	(\$352)	(\$352)

aDetails do not add to totals due to rounding.

the "trigger" mechanism requires automatic spending cuts to be implemented under specified conditions. These automatic spending cuts would be applied "across-the-board" to all General Fund spending programs except those protected by the state Constitution or federal law (primarily K-14 school funding and debt service). The "trigger" mechanism could be activated in either 1994-95 or 1995-96 if the state's cash position deteriorates and is not corrected by legislative action.

Appendix 1 lists other major legislation that was needed to implement the 1994-95 budget plan.

## Actions to Close the Budget Gap

Based upon the May Revision of the Governor's Budget, we estimated that the state faced a 1994-95 budget gap of \$4.6 billion. This gap consisted of a \$2.2 billion carryover deficit from 1993-94 and a \$2.4 billion operating shortfall in 1994-95 between baseline spend-

<b>Figure 2</b>	
<b>Summary of Actions Taken To Close the 1994-95 BUDget Gap</b>	
(In Billions)	
<b>Shifts to other levels of government</b>	<b>\$1.5</b>
Local government	
Revise prior property tax shift	0.3
Slate share of feederal reimbursements to counties	0.3
Subtotal	(0.6)
Federal government:	
Immigrant costs	0.8
Managee care funding	0.1
<b>Cost deferrals and revenue accelerations</b>	<b>\$1.4</b>
1994-95 carryover deficit	1.0
Bond funding for flood control projects	0.1
Defer bonrowing costs	0.2
Extend tax se«Jement authority	0.1
<b>Program reductions</b>	<b>\$1.1</b>
Weifare grant reeuctions	0.1
Various Medi-Cal savings	0.2
Reeuctions to state agencies	0.3
Capture K-12 retirement savings	0.1
Shift speciai fund monies to General Fund programs	0.4
<b>Increased resources</b>	<b>\$0.9</b>
Slate victory In <i>Bare/ays</i> case	0.4
Expand tax compiance activities	0.2

(SB 855 and SB 910 funds) to counties and budget actions increasing county responsibilities contribute to the savings. The other major action in this category is the assumed increase in federal funding for immigrant-related state costs.

- ▲ *Cost Deferrals and Revenue Accelerations-\$1.4 Billion.* The largest item in this category is the \$1 billion "roll-over" of the state's budget deficit from 1994-95 to 1995-96. A shift of costs for short-term borrowing expenses to 1995-96 and accelerated tax settlements account for most of the remainder.
- ▲ *Program Reductions-\$1.1 Billion.* A wide variety of individual actions contribute to the total General Fund savings from program reductions. The largest savings result from reduced AFDC and SSI/SSP grants, and from actions to reduce the cost of providing services in the Medi-Cal program.
- ▲ *Increased Resources-\$600 Mil/ion.* The administration's assumption of \$410 million in increased tax assessments resulting from the state's victory in the Barclay's lawsuit accounts for the bulk of the increased resources. Improved tax collection efforts account for the remainder. ✱

*Prepared by the State and  
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ing and projected revenues. Figure 2 summarizes the actions taken in the budget agreement to address the budget gap. These actions can be summarized as follows:

- ▲ *Shifts to Other Levels of Government-\$1.5 Billion.* These cost shifts address about one-third of the total budget funding gap. A majority of the savings result from budget actions affecting counties, primarily the "correction" of last year's property tax shift from counties to schools. In addition, state actions to share in the proceeds of certain federal disbursements



# Health and Welfare

In this section, we describe the major features of the health and welfare funding in the budget package. The 1994-95 budget for health and welfare programs includes \$14 billion from the General Fund. This represents an increase of \$445 million, or 3.3 percent, over estimated General Fund spending for these programs in 1993-94.

Figure 1 describes the major General Fund reductions enacted in the 1994 Budget Act and related legislation.

## Medi-Cal Program

**Services to Undocumented Persons and Refugees.** The budget assumes receipt of \$407 million in federal funds for the costs of health and social services provided to undocumented persons and refugees. This includes \$296 million to fully offset state costs for emergency health services provided to undocumented immigrants, rather than the 50 percent funding California receives under current law. In addition, it assumes \$111 million in federal funds to provide health and social services funds to refugees during the first 36 months of residence.

**Federal Funds for County Administration and Case Management.** The budget assumes a substantial increase in federal funds to reimburse counties for administrative and case management services provided to Medi-Cal beneficiaries (SB 910 funds). Under this program, the state uses the funds transferred from counties and matching federal revenues to make supplemental payments for these services, based on claims submitted by counties. The amount of county claims is estimated to increase from \$169 million in 1992-93 to a total of about \$1.3 billion for the current and budget years combined. The budget assumes that the state will retain a share of these revenues, for a savings of \$200 million.

**Hospital Payment Reductions.** The California Medical Assistance Commission negotiates reimbursement

**Figure 1**

### Major Reductions in Health and Welfare Programs 1994-95 General Fund

(in Millions)		Change from Prior Law
Program/Issue		
<b>Medi-Cal Program</b>		
Assume federal funds for services to undocumented persons and refugees (Including AFDC and SSI/SSP)		\$407.3
Assume state share of federal case management/county administration funds		200.0
Increase state share of disproportionate share hospital payments		85.0
Reduce drug program costs		62.1
Assume no net increase in hospital inpatient reimbursement rates		45.0
Bar sponsored aliens from eligibility		22.0
Reduce prepaid health plan rates		18.0
<b>AFDC Program</b>		
Reduce grants 2.3 percent		56.3
Fund GAIN with Employment Training Fund		20.0
Bar sponsored aliens from eligibility		18.1
<b>SSI/SSP</b>		
Reduce grants 2.3 percent		39.6
<b>Regional Centers</b>		
Unallocated reduction		20.0

rates for hospital inpatient services provided to Medi-Cal beneficiaries. The budget assumes the commission will negotiate no net increase in reimbursement rates in 1994-95, for a savings of \$45 million. In addition, the budget increases by \$85 million the amount of funds the state will retain of disproportionate share payments (SB 855 funds). These payments are made to hospitals which serve a large number (or "disproportionate share") of indigent patients. This action results in a corresponding reduction in the net proceeds of the disproportionate share program for hospitals operated by counties, special districts, and the University of California.

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**Drug Program Savings.** The budget makes a number of changes to the Medi-Cal prescription drug program. Currently, the Medi-Cal Program negotiates with pharmaceutical manufacturers for rebates on their products. The budget requires all manufacturers to provide a minimum 10 percent rebate for a savings of about \$43 million annually. In addition, the budget limits the number of prescriptions that may be provided to Medi-Cal beneficiaries to six per month (\$13 million savings) and reduces the amount Medi-Cal reimburses pharmaceuticals by 50 cents per prescription (\$6.3 million savings).

**Sponsored Aliens.** The budget assumes passage of federal legislation that will prevent individuals who legally enter this country under sponsorship by a U.S. citizen from receiving Medi-Cal or Aid to Families with Dependent Children (AFDC) benefits for five years. Such legislation would result in annual savings of \$22 million in the Medi-Cal Program and \$18 million in the AFDC Program.

**Managed Care.** The budget reduces reimbursement rates to privately operated health insurance plans that provide "managed care" services to Medi-Cal beneficiaries. Specifically, the budget requires that these prepaid health plans be reimbursed at no more than 97 percent of the amount Medi-Cal would otherwise spend to provide health care to beneficiaries in the traditional "fee-for-service" system, for a state savings of \$18 million in 1994-95. In addition, the budget implements contracting for dental services, beginning in 1995-96, which is anticipated to result in savings of \$80 million annually.

**Optional Benefits and Prenatal Program.** The legislature rejected the Governor's proposals to eliminate (1) certain Medi-Cal optional benefits and (2) the state-only program for providing prenatal benefits to undocumented women.

## Aid to Families with Dependent Children Program

**Governor's Welfare Reform Proposals.** The enacted budget adopted part of the Governor's welfare reform proposals. Specifically, the budget:

- ▲ Reduced the AFDC (Family Group and Unemployed Parent components) maximum grants by 2.3 percent, beginning September 1, 1994, for a General Fund savings of \$56 million. This re-

duces the maximum grant for a family of three persons by \$14 from \$607 per month to \$593. (The Governor proposed a 10 percent reduction, followed by a reduction of 15 percent after six months on aid.)

- ▲ Reduced the \$70 monthly special needs payment for pregnant women on AFDC to \$47, for a General Fund savings of \$3 million in 1994-95. (The Governor proposed elimination of the special need payment and elimination of the state-only program, in which grants are provided to pregnant women without other children during the first six months of pregnancy.)
- ▲ Adopted a version of the Governor's proposed Maximum Family Grant Program, which prohibits increases in the AFDC grant for children conceived while on aid, except in cases of rape, incest, and failure of certain contraceptives, effective January 1, 1995. This provision will not have a fiscal impact until 1995-96.

**Greater Avenues for Independence (GAIN) Program.** The budget includes a one-time transfer of \$20 million from the Employment Training Fund to support the GAIN Program, for a corresponding General Fund savings in 1994-95.

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

**Reduction in Maximum Grants.** The budget reduces the maximum grants for certain SSI/SSP eligibility categories by up to 2.3 percent, beginning September 1, 1994, for a General Fund savings of \$40 million in the budget year. The major effects are a reduction of \$26 per month for aged and disabled couples, \$30 for blind couples, and \$13 for blind individuals.

## Regional Centers

**Unallocated Reduction.** The budget includes an unallocated reduction of \$20 million to the Regional Centers for developmentally disabled persons. This represents a reduction of 2.4 percent in total funding for the centers.

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# Proposition 98 Education

In this section, we describe the major features of the budget package as they relate to the Proposition 98 minimum funding guarantee and K-12 schools. Most of the package's education provisions are contained in Ch 153/94 (AB 2480, Vasconcellos).

## Proposition 98 Provisions

The Proposition 98 portion of the budget package:

- ▲ Provides overall K-12 funding of \$4,199 per pupil in 1994-95. The effective level of spending, however, is \$4,217--the level funded in the 1993 bUdget package--due to a reduction in school district costs related to retirement.
- ▲ Fully funds enrollment growth for K-12 general purposes in 1994-95 and 1995-96, and provides a cost-of-living adjustment (COLA) in 1995-96 if funds are available.
- ▲ Increases funding for the community colleges by \$103 million.

The major elements of the bUdget package are discussed below.

**Proposition 98 Funding.** The budget provides \$24.9 billion (\$14.4 billion General Fund) in Proposition 98 funding for K-14 programs. This exceeds the amount provided in 1993-94--\$24.4 billion (\$13.8 billion General Fund)--by \$520 million. General Fund spending for Proposition 98 programs exceeds the Proposition 98 minimum funding guarantee by \$483 million in 1993-94 and by \$6 million in 1994-95.

Figure 1 summarizes, for 1993-94 and 1994-95, the effect of the budget package on the three major recipients of Proposition 98 funding--schools, community colleges, and other agencies. As the figure shows, on a cash basis, the funding level for K-12 schools is \$4,225 per pupil in

**Figure 1**

**Proposition 98 Programs  
1994 Budget Act and Education Trailer Bill**

(Funding In Millions)		1993-94	1994-95
<b>K-12 programs</b>			
State appropriations		\$12,828	\$13,178
Local taxes		8,415	8,892
Recapture		-190	
Loan		609	
<i>Adjusted cash totals</i>		\$21,661	\$22,070
Average daily attendance	5,127,018		5,256,627 <sup>3</sup>
Amount per ADA		\$4,225	\$4,217 <sup>3</sup>
<b>Community colleges</b>			
State appropriations		\$936	\$1,104
Local taxes		1,293	1,416
Loan		178	
Fees		207	197
<i>Adjusted cash totals</i>		\$2,614	\$2,717
Other agencies		\$75	\$83
<b>Total Proposition 98</b>			
State appropriations		\$13,840	\$14,366
Local taxes		9,708	10,308
Recapture		-190	
Loan		787	
Fees		207	197
<i>Adjusted cash totals</i>		\$24,350	\$24,870
Change from January budget			-\$284
Change from 1993-94			\$520

<sup>a</sup> Effective level after adjusting for retirement savings.

1993-94, slightly more than the \$4,217 level provided in the 1993 budget package. (This resulted from a lower-than-expected number of K-12 students statewide.) The 1994-95 funding level for K-12 schools is \$4,199 per pupil. The 1994-95 budget, however, effectively provides the same" level of

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funding for classroom needs—\$4,217 per pupil. This is because school employers will experience reductions in their retirement costs that offset the funding reduction.

The 1994 Budget Act provides the community colleges \$103 million more than the colleges received during 1993-94. We discuss budgetary actions affecting the community colleges in the higher education section of this report.

*Property Tax Shifts.* Chapter 155, Statutes of 1994 (AB 860, Pringle), requires county auditors to increase the amount of property taxes transferred to the Educational Revenue Augmentation Fund (ERAF) in 1994-95. Technical issues relating to the implementation of property tax shifts in 1992-93 and 1993-94 had resulted in a smaller-than-expected transfer to the ERAF, and consequently required the state to provide additional funds—estimated at \$159 million for 1993-94—in order to achieve the desired level of K-14 spending. The legislation corrects the problem by increasing the transfer for 1994-95 and subsequent years, and requiring counties to return the 1993-94 revenues over a two-year period.

## K-12 Program Impacts

*Apportionments.* The budget provides a total of \$8.3 billion from the General Fund for general-purpose apportionments (revenue limits) to school districts and county offices of education. Adding property tax revenues available to these entities, the budget provides a total of \$16.9 billion in general-purpose funding. This represents a reduction of \$23 per pupil from the amount supported by the 1993 Budget Act. Despite this reduction in overall funding, the budget provides substantially the same level of support for classroom needs. Again, this is because school employers will experience reductions in retirement-related costs. The retirement-related cost reductions—adding up to \$100 million statewide—are due to a 1994-95 reduction in Public Employees' Retirement System (PERS) rates. About three-quarters of the rate reduction is one-time in nature. The education trailer bill includes a provision that restores school funding in 1995-96 to offset any higher costs related to restoring PERS rates to their previous level.

The budget funds enrollment growth and a cost-of-living adjustment (COLA) for K-12 general purposes in 1995-96. Language included in AB 2480 expresses legislative intent that the COLA be reduced, if necessary, to ensure that (1) K-14 spending does not exceed the 1995-96 Proposition 98 guarantee and (2) categorical

program funding is not reduced below the 1994-95 level. Under current budgetary assumptions, the COLA could be up to \$270 million (about 1 percent). The COLA could be significantly greater—and state costs for K-14 education significantly higher—if the state loses the *eTA vs. Gould* lawsuit on appeal.

*Categorical Programs.* The Legislature made a number of relatively minor changes to the categorical program budget for 1994-95. The budget continues the use of a single appropriation (the mega-item) to fund most categorical programs. Funding for special education programs was removed from this item, however, and separately appropriated. With this change, the mega-item contains \$3 billion for 38 individual programs.

The budget provides additional local flexibility over the use of mega-item funds. Specifically, it authorizes schools to redirect up to 10 percent of funds allocated to a specific program to other categorical programs funded under the mega-item provided that no program may be increased by more than 15 percent. The 1993 Budget Act authorized schools to redirect up to 5 percent of funds provided to a specific program, provided that no program may be increased above its 1991-92 funding level. The budget also permits schools or districts to use this flexibility to initiate a Healthy Start or conflict resolution program.

The budget continues categorical program funding levels at about the same level as provided in 1993-94. Only three programs received significant additional funds. The largest increase went to special education programs (\$53.4 million, or 3.3 percent) to provide support for growth in the number of special education pupils. Growth funding also was provided to the Economic Impact Aid program (\$29.9 million, or 10 percent), which funds local services to limited-English-proficient pupils and pupils who need additional instructional time or services to succeed in school. Finally, the budget contains a \$9.1 million (8.8 percent) increase in funding for instructional materials in grades kindergarten through eight.

The only program experiencing a reduction in funding is the state assessment program, renamed the California Comprehensive Testing Program. Although the Legislature included \$27.6 million in the budget for the program, the Governor vetoed these funds. In his veto message, the Governor indicated his intention to provide funding in separate legislation. ✱

*Prepared by the Education Section—(916) 445-8641*

# IV

## Higher Education

In this section, we describe the major features of the 1994 budget package as they relate to higher education. Figure 1 shows the change in funding for each major segment of higher education for 1994-95 from selected fund sources. Fee revenues shown in Figure 1 are after allowance for financial aid for needy students. Figure 2 shows the change in student fee levels for 1994-95.

### The University of California IUC)

The 1994 Budget Act provides \$38.5 million (2.1 percent) more in General Fund support for the UC in 1994-95 compared to 1993-94. As part of its budget plan for the UC, the Legislature approved (1) a general student fee increase of \$345 (10 percent) in 1994-95 and (2) an additional fee increase of \$600 (17 percent) for students enrolled in professional programs (medicine, dentistry, veterinary medicine, law, and business). (The UC Regents had proposed a general fee increase of \$620, or 18 percent, and an additional fee increase of \$2,000 for new students in professional programs.) Including funds available as a result of the fee increases, the UC will experience an increase of \$76.4 million, or 4.3 percent, above the current year.

In its plan, the Legislature provided (1) a 3 percent faculty and staff salary increase beginning on October 1, 1994; (2) merit salary increases for faculty and staff; and (3) \$25 million in new lease-payment revenue bonds for priority-one deferred maintenance projects. The Legislature also (1) redirected \$18 million from teaching hospital revenues to fund critical campus needs (instructional equipment replacement, deferred maintenance, and library books) and (2) reduced the \$21.6 million proposed in the Governor's January budget from the Cigarette and Tobacco Products Research Account for tobacco-related research projects to \$4 million.

We anticipate UC student enrollment to decline slightly in the budget year to match slight declines in the Master Plan eligible student population. The Legislature ex-

**Figure 1**

Higher Education Budget Summary  
Selected Funding Sources  
Change From 1993-94 to 1994-95

(Dollars in Millions)

	Budget Act 1994-95	Change From 1993-94	
		Amount	Percent
University of California			
General Fund	\$1,831.7	\$38.5	2.1% <sup>a</sup>
Student fee offset	37.9	37.9	
Totals	\$1,869.6	\$76.4	4.3%
California State University			
General Fund	\$1,553.2	\$64.9	4.4% <sup>a</sup>
Student fee offset	29.5	29.5	
Totals	\$1,582.7	\$94.4	6.3%
California Community Colleges <sup>b</sup>			
General Fund (Prop. 98)	\$1,104.1	\$168.1	18.0%
General Fund (Non-Prop. 98)	3.0	-38.3	-92.7
Property taxes	1,416.0	123.1	9.5
Loan		-178.0	-100.0
Student fee offset	196.8	2.0	1.0
Totals	\$2,719.9	\$76.9	2.9%
Student Aid Commission (cal Grants)			
General Fund	\$226.2	\$18.6	9.0%

<sup>a</sup> Not a meaningful figure.  
<sup>b</sup> Local assistance only.

pressed intent in the *Supplemental Report of the 1994 Budget Act* for the UC to continue to accept all applicants who are fully eligible under the Master Plan in 1994-95 and 1995-96.

The Legislature also expressed its intent in the supplemental report that the UC (1) increase its budgeted student/faculty ratio from 17.6 to 18.7 by 1995-96, (2) establish four-year degree pledge programs on all



**Figure 2****Higher Education Student Fees  
1994-95**

	1994-95	Change From 1993-94	
		Amount	Percent
University of California			
Undergraduate/graduate	\$3,799	\$345	10%
Graduate professional <sup>a</sup>	4,399	945	27
Medicine/Jaw	4,775	945	25
California State University	1,584	144	10
California Community Colleges <sup>b</sup>	390		

<sup>a</sup> Dentistry, veterinary medicine, and business.  
<sup>b</sup> Excludes SA degree holders, who are charged \$50 per credit unit.

campuses by 1995-96, (3) increase fees for students enrolled in professional programs over the next six years to the average of fees charged by comparable public universities, and (4) achieve specific objectives with respect to enrollment of primary care and family practice medical residents. The supplemental report also expresses the Legislature's intent that salary increases for UC executives in 1994-95 average no more than one-quarter of the total increase granted for faculty and staff, and acknowledges the UC's commitment to the Legislature that the UC will not provide any salary or merit increases to its top 22 executives in 1994-95.

### The California State University (CSU)

The 1994 Budget Act provides \$64.9 million (4.4 percent) more in General Fund support for the CSU in 1994-95 compared to 1993-94. As part of its budget plan for the CSU, the Legislature adopted a student fee increase of \$144 (10 percent) in 1994-95. (The CSU Trustees had proposed a fee increase of \$342, or 24 percent, for the budget year.) Including funds available as a result of the fee increase, the CSU will experience an increase of \$94.4 million, or 6.3 percent, above the current year.

The Legislature's budget plan for CSU also provides for (1) an enrollment increase of 2,500 full-time-equivalent (FTE) students, for a total budgeted enrollment level of 250,000 FTE students, (2) an augmentation of \$9.3 million for CSU's proposed new campus at Fort Ord in Monterey County, (3) funding for quality improvements and essential programs, and (4) \$17 million in new lease-payment revenue bonds for priority one deferred maintenance projects.

The Legislature also expressed its intent in the *Supplemental Report of the 1994 Budget Act* that the CSU (1) establish four-year degree pledge programs on all campuses by 1995-96; (2) provide no salary increases for executives who received an increase in the current year, and limit the salary increases for the remaining executives, as specified; and (3) speed up enrollment growth at Fort Ord to reduce the state's higher enrollment costs at the campus and the state's future need to build facilities at existing campuses. The supplemental report also provides that any compensation increases that create additional full-year ("annualization") costs in 1995-96 shall be funded from existing resources, with no related reduction in enrollments or increases in student fees.

### California Community Colleges

The 1994 budget package increases funding for community colleges local assistance by \$77 million (2.9 percent) compared to the amount actually received in 1993-94. (In 1993-94, the community colleges received \$71.5 million less than the budgeted amount, primarily due to property tax and fee revenue shortfalls.) The 1994-95 budget represents a \$5.4 million, or 0.2 percent, increase compared to the 1993 Budget Act.

As Figure 2 shows, the Legislature maintained community college fees at the current-year level of \$390 per full-time student, or \$13 per credit unit. The Governor had proposed a fee increase of \$7 per credit unit (54 percent). The Legislature approved the administration's proposed reduction of \$15.2 million related to declines in the enrollment of BA degree holders. The Legislature also recognized \$9.1 million in savings due to a reduction in Public Employees' Retirement System (PERS) rates, and used the remaining \$5.4 million in PERS-related savings for augmentations to basic skills and instructional equipment. The Legislature provided \$18.5 million to backfill the 1993-94 property tax shortfall.

The Legislature expressed its intent in the *Supplemental Report of the 1994 Budget Act* that (1) the funding provided in the budget is for a state-funded full-time-equivalent (FTE) student enrollment of 869,590, (2) the state-funded enrollment level shall not be reduced downward to reflect the lack of a cost-of-living adjustment, and (3) the Chancellor's Office shall conduct annual program reviews of categorical programs.\*

*Prepared by the Education Section-(916) 445-8641*



# Judiciary and Criminal Justice

In this section, we describe the major features of the budget package as they relate to judiciary and criminal justice programs (courts, adult and youth corrections, and other justice-related programs). The amounts approved for the Judiciary and Criminal Justice programs are very similar to the amounts proposed by the Governor and represent substantial increases above the prior-year funding levels. Budgets for correctional and law enforcement programs received substantial increases to provide full funding for caseload increases as well as a number of new program initiatives.

The 1994-95 budget for judiciary and criminal justice programs includes \$4.6 billion from the General Fund and \$256 million from state special funds, for a total of \$4.8 billion in state funds. The General Fund amount represents an increase of \$351 million, or about 8.3 percent, above estimated spending for these programs in 1993-94.

Figure 1 and the following text describe the major changes in the 1994 Budget Act.

## Judiciary

The 1994 Budget Act provides \$151 million for support of the judiciary, which includes the California Supreme Court, the Courts of Appeal, Judicial Council, and the Commission on Judicial Performance. This represents an increase of \$11.5 million, or 8.3 percent, above 1993-94 expenditures. The increase is primarily due to increases for computer information systems and court-appointed counsel services.

## Trial Court Funding

In January, the Governor proposed an increase of about 65 percent from the 1993-94 expenditure level for the Trial Court Funding Program as part of his state and county restructuring proposal. Both houses rejected the Governor's restructuring proposal and deleted \$388 mil-

**Figure 1**

Major Funding Changes in Judiciary and Criminal Justice Programs-1994-95 General Fund

(Dollars in Millions)	Change from 1993-94	
	Amount	Percent
Judiciary	\$11.5	8.3%
Trial Court Funding	7.0	1.5
Department of Corrections	245.9	9.0
Department of the Youth Authority	1.8	0.5
Department of Justice	24.3	15.4
Office of Criminal Justice Planning	-5.4	-17.0

lion of the proposed increase. The Governor dropped the proposal in June. As a consequence of these actions, the budget provides \$624 million (\$483 million from the General Fund and \$141 million from special funds) for support of local trial courts in 1994-95, or about \$7.0 million more than the amount provided in the prior year. As a result, the state will pay about 40 percent of statewide trial court expenses in the 1994-95 and the counties will have to pay the balance. This amount of state support is substantially below the intended level of 65 percent that was previously expressed by the Legislature.

## Department of Corrections

The budget provides \$3.08 billion (\$2.97 billion from the General Fund) for support of the Department of Corrections (CDC). This is an increase of about 9 percent above the 1993-94 level and is primarily due to projected increases in inmate and parole populations and general staff salary and price increases. The only significant reduction to the department's budget was an unallocated

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General Fund cut of \$10 million (about 0.3 percent) below the amount proposed by the Governor.

*Inmate and Parole Caseloads.* Although a number of changes were contemplated by the Legislature that would have saved money by reducing the number or length of stay of offenders in prison and on parole, the final budget did not include any of these changes. The budget is based on the administration's projected inmate population of about 138,000 inmates by June 30, 1995, an increase of approximately 11 percent over 1993-94. The parole population is projected to reach about 97,000 parolees by June 30, 1995, an increase of 8.6 percent. The administration's caseload estimates include \$5.6 million for the first-year impacts of the "Three Strikes and You're Out" legislation (Ch 12/94 [AB 971, Jones]), which became law in March 1994. In addition, the budget includes \$10 million for the department to begin various planning efforts to accommodate the substantial future year increase in population resulting from the "Three Strikes" law.

*New Prisons.* The budget includes \$51 million in one-time costs to begin activation of a new prison in Madera County and to fully open a new prison in Fresno County. These facilities are designed to house about 2,000 female inmates and 2,200 male inmates, respectively.

*Federal Funds for Incarceration and Supervision of Undocumented Felons.* The budget assumes that the state will receive \$356 million in federal funds for the incarceration of undocumented immigrant inmates and wards in state prison and the Department of the Youth Authority, as well as the supervision in the community of undocumented immigrant parolees. These funds are treated as revenues to the state and do not directly offset the costs of either the CDC or the Youth Authority.

## Department of the Youth Authority

The budget provides \$364 million (\$360 million from the General Fund) for support of the Department of the Youth Authority. The General Fund amount is an increase of less than 1 percent over 1993-94 expenditures. The budget deleted \$33 million in proposed General Fund support for juvenile detention camps and ranches in approximately 20 counties in anticipation that the counties will receive increased federal funds for probation departments. However, the budget provides \$14 million from the General Fund to Los Angeles County to fund salaries and overtime ex-

penses previously deferred by the county for probation department staff.

## Department of Justice

The budget provides \$234 million (\$182 million from the General Fund) for support of the Department of Justice (DOJ). The General Fund amount is an increase of about 15 percent over 1993-94 expenditures. The budgeted level includes increases in virtually all of the department's program areas. The most significant increases include workload increases in the Criminal Law (\$10.1 million) and Civil Law (\$5.4 million) Sections, as well as \$3.8 million for a new Violence and Weapons Suppression Program.

The 1994-95 budget also includes an increase of \$15 million for domestic violence programs. Specifically, the amount includes \$3.5 million to the DOJ for financial and technical assistance in the prosecution of domestic violence cases, and \$11.5 million to the Department of Health Services to provide grants for domestic violence shelters and services.

Among the budget trailer bills approved by the Legislature was AB 167 (Barbara Friedman), which specified the Legislature's intent to appropriate an additional \$15 million for these programs in 1995-96.

## Office of Criminal Justice Planning

The budget provides a General Fund decrease of \$5.4 million, or 17 percent, below 1993-94 expenditures for the Office of Criminal Justice Planning (OCJP). The reduction is primarily the result of ending one-time augmentations provided for victim assistance programs in 1993-94. Although the Legislature considered abolishing the OCJP and transferring its responsibilities to the DOJ, the Youth Authority, and a new Board of Victim Assistance, the final budget left the office intact. \*

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# General Government

In this section, we describe the major features of the budget as they relate to general government, transportation, resources, and capital outlay programs.

## Transfer of Special Funds

In recent years, amounts have been transferred from special funds to the General Fund to finance certain state activities. Figure 1 shows the major transfers for 1994-95.

## Performance Budgeting Pilot Program

The Governor's January budget added two departments to the administration's performance budgeting pilot program—the Department of Toxic Substances Control and the California Conservation Corps—bringing the total number of participating departments to six. The other departments are General Services, Parks and Recreation, Consumer Affairs, and the Stephen P. Teale Data Center. No funds specifically earmarked for performance budgeting have been included in the budget.

## Judges' Retirement System

The Legislature enacted AB 2385 to raise both the judges' and state contribution rates paid into the Judges' Retirement System (JRS) from 8 percent to 11 percent of judges' salaries, effective January 1, 1995. This would have reduced General Fund costs by a total of \$7 million over 1994-95 and 1995-96. The Governor, however, vetoed the measure.

## Employee Compensation

Under approved memoranda of understanding (MOUs), represented state employees (other than employees of the University of California and the California State University) will receive a 3 percent cost-of-living adjustment (COLA) on January 1, 1995. The Department of Personnel Administration has approved identical increases for non-represented state employees. This COLA will cost an estimated \$133 mil-

**Figure 1**

### Major 1994-95 Special Funds Transfers to the General Fund

(In Millions)	
Molar vehicle fuel tax revenues (State Highway Account)	\$154.3
Sale of vehicle-related information (Motor Vehicle Account)	47.4
Tidelands Oil revenue	37.6
Insurance Fund reserve in excess of \$956,000	26.0
Harbors and Watercraft Revolving Fund	18.2
Federal 8(g) funds	15.7
Satellite Wagering Account funds	2.7
Fair and Exposition Fund reserve	2.6
Forest Resources Improvement Fund reserve	1.4
Energy Resources Programs Account reserve	1.4

lion (\$68 million General Fund) during the last six months of 1994-95. The Budget Act provides \$66 million (\$44 million General Fund) to cover a portion of these COLA costs. As proposed in the Governor's Budget, the Budget Act amount will be distributed to 14 departments to pay the COLA to employees who provide direct public safety or 24-hour care services or who are in major revenue-producing agencies. The amounts needed to pay the COLA to other state employees must be borne by departments and agencies from existing support funds. In effect, this imposes unallocated reductions totaling an estimated \$67 million (\$24 million General Fund).

## Resources

The 1994 budget provides a total of about \$1.2 billion for resources programs, including about \$834 million to support various resource agencies and conservancies, and \$322 million for local assistance and capital outlay.

The budget includes \$30 million to fund various wildlife habitat acquisitions and improvements as required by Proposition 117. It also provides \$9 million, mostly from the California Water Fund, to the City of Los Angeles for a waste water reclamation project to replace water previously diverted from Mono Lake. To provide funds for this project, the budget reduced support for the Department of Water Resources by about \$2.4 million compared to the level proposed in January.

The budget redirects \$5 million in emergency fire protection funds to increase fire-fighter positions in order to enhance initial fire attack capability in the Department of Forestry and Fire Protection. The budget also provides a contingency loan of \$7.6 million from the Oil Spill Response Trust Fund to the Department of Fish and Game to continue work on the Cantara Spill.

## Transportation

The 1994 budget provides about \$1.7 billion for support of the Department of Transportation (Caltrans)-about the same level as in 1993-94. This amount is about \$66 million lower than proposed by the Governor's Budget, and reflects a reduction of \$14 million in administration expenditures, a \$26 million reduction in capital outlay support (project engineering and design) and an unallocated departmental reduction of \$28 million. The budget also provides \$1.8 billion for transportation capital outlay. This amount includes an increase of \$41.5 million for seismic retrofit of highway bridges. Additionally, the budget transfers \$154.3 million in State Highway Account funds to the General Fund in order to pay for rail bond debt service in 1994-95.

For local assistance, the budget provides \$68 million for operating assistance to local transportation authorities through the State Transit Assistance (STA) Program--about \$14 million more than the current-year level. The budget also provides about \$909 million for local assistance programs administered by Caltrans, including \$200 million for State-Local Transportation Partnership Program (SLTPP) and about \$20 million for Transit Capital Improvement (TCI). The budget, however, limits expenditures for the SLTPP to \$189 million in order to free up funds to pay rail bond debt service. Also, the TCI level reflects a \$15.4 million reduction (from the level proposed in the Governor's Budget) in order to free up Motor Vehicle Account funds for transfer to the General Fund. In total, \$14 million of these funds were provided to Los Angeles County to fund salaries and overtime expenses previously deferred by the county for probation department staff.

**Figure 2**

### 1994-95 Capital Outlay Programs'

(In Millions)	
Legislative/Judicial/Executive	\$3.9
State and Consumer Services	107.9
Transportation	29.3
Resources	68.2
Health and Welfare	8.1
Corrections	52.2
Higher Education	504.5
General Government	9.1
<b>Total</b>	<b>\$783.2</b>

**a Excluding highways and the state water project.**

## Capital Outlay

The budget includes almost \$800 million (about 85 percent from bond funds) for capital outlay, as shown in Figure 2. Over \$500 million, or 65 percent, of all capital outlay appropriations is for the three segments of higher education. About \$470 million of the amount for higher education is dependent on voter approval of a general obligation bond for higher education facilities in the upcoming November election. In addition, \$46 million appropriated for the Departments of Corrections, Youth Authority, Forestry and Fire Protection, and the Office of Emergency Services are also dependent on voter approval of bonds in November. The Legislature has not yet acted to place any of these bond measures on the November ballot.

The budget also authorizes \$61 million in lease-payment bonds to exercise a purchase option for the Department of Justice Building in Sacramento, which is currently under construction. The budget shifts \$29 million of the cost for a new museum facility at the California Museum of Science and Industry from general obligation bonds (Earthquake Safety and Public Building Rehabilitation Bond Act of 1990) to lease-payment bonds. The balance of this \$45 million museum project is still funded from the 1990 general obligation bonds. \*

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APPENDIX 1

# 1994-95 Budget-Major Implementing Legislation

Measure	Description	Measure	Description
AB 113 Andal (Ch 145/94)	<ul style="list-style-type: none"> <li>• Recovery of incarceration and medical costs from inmates (Corrections).</li> <li>• Prison medical contracts</li> </ul>	AB 2385 Assembly Ways and Means (vetoed)	<ul style="list-style-type: none"> <li>• Increase in judges' contribution rate.</li> </ul>
AB 167 B. Friedman (Ch 140/94)	<ul style="list-style-type: none"> <li>• Domestic violence shelters; vertical prosecution.</li> </ul>	AB 2388 Assembly Ways and Means (Ch 149/94)	<ul style="list-style-type: none"> <li>• Establishes regulatory fees (guide dogs).</li> </ul>
AB 473 <sup>a</sup> Brulte and Snyder	<ul style="list-style-type: none"> <li>• AFDC maximum family grants.</li> </ul>	AB 2389 Assembly Ways and Means (Ch 144/94)	<ul style="list-style-type: none"> <li>• Suspension of renters' tax credit (1 year).</li> </ul>
AB 816 <sup>a</sup> Isenberg	<ul style="list-style-type: none"> <li>• Prop99 reauthorization.</li> </ul>	AB 2395 Assembly Ways and Means (Ch 152/94)	<ul style="list-style-type: none"> <li>• Fee funding for workers' compensation managed care programs.</li> </ul>
AB 836 Pringle and Goldsmith (Ch 148/94)	<ul style="list-style-type: none"> <li>• AFDC and SSI/SSP grant reductions (2.3 percent).</li> </ul>	AB 2480 Vasconcellos (Ch 153/94)	<ul style="list-style-type: none"> <li>• Education provisions (K-12 and higher education).</li> </ul>
AB 860 Pringle (Ch 155/94)	<ul style="list-style-type: none"> <li>• County property tax adjustments.</li> </ul>	AB 3308 Takasugi (Ch 138/94)	<ul style="list-style-type: none"> <li>• Extend tax settlement authority.</li> </ul>
AB 973 Bornstein (Ch 142/94)	<ul style="list-style-type: none"> <li>• 1993-94 community college property tax backfill.</li> </ul>	SB 141 Alquist (Ch 154/94)	<ul style="list-style-type: none"> <li>• Oil settlement funds.</li> </ul>
AB 2377 Hannigan (Ch 147/94)	<ul style="list-style-type: none"> <li>• Disproportionate share payments and county Medi-Cal administrative claim monies.</li> <li>• Prescription drug savings.</li> </ul>	SB 1230 Senate Budget and Fiscal Review (Ch 135/94)	<ul style="list-style-type: none"> <li>• "Trigger" provisions for 1994-95 and 1995-96.</li> </ul>
AB 2383 Assembly Ways and Means (Ch 151/94)	<ul style="list-style-type: none"> <li>• Authorization of loans to pay non-federal share of Northridge earthquake costs.</li> </ul>	SB 2123 Senate Budget and Fiscal Review (Ch 136/94)	<ul style="list-style-type: none"> <li>• Controller provisions on cash borrowing.</li> </ul>
AB 2384 Assembly Ways and Means (Ch 150/94)	<ul style="list-style-type: none"> <li>• Performance budgeting at Consumer Affairs.</li> </ul>		

<sup>a</sup>At the time this analysis was prepared, the Governor had not taken final action on these measures.

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