



Major Features of the 1997 California Budget

On August 18, 1997 the Governor signed the 1997 Budget Act. In this report we highlight the major features of the budget package.

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Budget Overview

Summary

The *1997-98 Budget Act* signed by the Governor on August 18, 1997, together with related implementing legislation (“trailer bills”), comprise a budget package that authorizes total state spending of \$67.2 billion. This total spending includes \$52.8 billion from the General Fund (an 8 percent increase from 1996-97) and \$14.4 billion from special funds (a 6.1 percent increase). As indicated in Figure 1, the General Fund budget includes a year-end reserve of \$112 million.

Before signing the budget, the Governor used his line-item veto authority to delete \$314 million in appropriations adopted by the Legislature. The Governor indicated that about \$203 million of these cuts were temporary, in that they could be restored later upon enactment of legislation which meets his requirements involving a mandatory educational testing program for all California pupils in grades 2 through 11. The expenditure totals in Figure 1 assume restoration of these \$203 million of temporary cuts. If not restored, these funds would nevertheless be set aside for Proposition 98 purposes.

The *1997-98 Budget Act* includes significant increases in education spending and a major reform to the state’s welfare program. In other areas, the budget includes relatively few new initiatives and fairly limited changes to program funding. This is due mainly to the decision to repay a substantial deferred obligation to the Public Employees’ Retirement System (PERS) in 1997-98.

The PERS Repayment—\$1.2 Billion. In late May, the California Supreme Court refused to hear an appeal of lower court rulings which had declared unconstitutional the General Fund’s deferral of state contributions to the retirement fund in the early 1990s. As a result, the state was ordered to repay \$1.2 billion in principal, plus interest.

Figure 1

1997-98 Estimated General Fund Condition

(Dollars in Millions)

	1996-97	1997-98 ^a	Percent Change
Prior-year balance	\$564	\$859	
Revenues and transfers	49,205	52,531	6.8%
Total resources available	\$49,769	\$53,390	
Expenditures	\$48,910	\$51,599	5.5%
PERS repayment	—	1,280	
Total expenditures	\$48,910	\$52,827	8.0%
Ending fund balance	\$859	\$563	
Other obligations	\$451	\$451	
Reserve	\$408	\$112	

^a Of the \$203 million in funds vetoed and set aside by the Governor, \$197 million was from the General Fund. The expenditure numbers for 1997-98 include these General Fund set-asides.

Following the Supreme Court’s PERS decision, it became clear that it would be difficult to fund various legislative and executive augmentations and make the PERS repayment unless it could be spread over several years. After several weeks of negotiations failed to produce agreements, the Governor directed that the full \$1.2 billion principal amount be immediately transferred to PERS.

The PERS repayment removed virtually all of the discretionary funds that had been available in the non-Proposition 98 portion of the budget and effectively required the Budget Conference Committee to eliminate most of the spending augmentations considered in the budget. As a result, the non-Proposition 98 portion of the budget is relatively tight, containing limited augmentations.

Major Features of 1997-98 Budget

Taxes. The budget includes no changes to state tax law. The Legislature rejected the 10 percent phased reduction to corporate tax rates included in the Governor's original budget proposal, as well his July proposal for a phased 10 percent reduction in personal income tax rates.

K-12 Education. Healthy revenue growth, coupled with other factors affecting Proposition 98 spending, led to major increases in K-14 education funding in both 1996-97 and 1997-98. The budget uses these gains to expand the class size reduction program to a fourth grade and significantly increases local revenue limit funding.

Higher Education. The budget includes significant funding increases for the University of California, California State University, and California Community Colleges, with no student fee increases.

Welfare Reform. The budget funds a major welfare reform program—CalWORKs (California Work Opportunity and Responsibility to Kids Program). It includes time limits on aid for adults, participation requirements for adults, expanded child care and job training services, and various county fiscal incentives.

Other Health and Welfare Provisions. The budget rejects the Governor's proposal to make permanent the 4.9 percent Supplemental Security Income/State Supplementary Program (SSI/SSP) statewide grant reduction, and instead restores the grant on November 1, 1997. The budget extends the previously enacted 4.9 percent Aid to Families with Dependent Children (AFDC) grant reduction through October 1998, and suspends both AFDC and SSI/SSP cost-of-living adjustments for an additional year.

Regarding Medi-Cal, the budget funds prenatal services for illegal immigrants until October 1, 1997. The Governor vetoed budget language to continue the program.

Corrections. The budget essentially funds inmate caseload, contains no money for new prisons and provides few new initiatives. In addition, the budget assumes \$94 million more in federal funds than the amount included in the Governor's budget to offset the state's costs of supervising undocumented felons.

Local Government. The budget continues the Citizen's Option for Public Safety program (\$100 million). It also reduces the state's "take-out" from the disproportionate share hospital payments, thereby increasing county resources by \$75 million. Following the PERS repayment, the Legislature eliminated the shift of property taxes from the state back to local governments (proposed at \$100 million by the Governor and at \$280 million by the Assembly). It also eliminated \$50 million that had been proposed by the Governor to capitalize the infrastructure bank.

Other Programs. The budget extends the suspension of the renters' tax credit for one additional year (the Governor had proposed permanent elimination of the credit). The budget contains no general employee salary increase.

Governor's Vetoes

Before signing the budget, the Governor used his line item veto authority to eliminate \$314 million from the spending plan, including \$298 million from the General Fund and \$16 million from special and federal funds.

Veto Set Asides. About \$203 million of the vetoes are funds which have been "set aside" by the Governor for restoration upon enactment of legislation which satisfies his requirements for a mandatory testing program in K-12 education. Of the set-asides, about \$197 million is Proposition 98 General Fund monies, with the remainder for non-Proposition 98 General Fund, special funds and federal funds.

Other Vetoes. The majority of the remaining vetoes are in health and welfare and community colleges.

- ▲ The Governor vetoed \$68 million from health and welfare. This included \$30 million in legislative augmentations for indigent health care programs, \$5 million for citizenship services to legal immigrants, \$17 million in SSI/SSP state-only benefits for aged legal noncitizens who are not covered by federal law, and \$8 million in SSI/SSP state-only benefits for certain children.
- ▲ About \$23 million is from community colleges, including \$9 million for apportionments and \$5 million for economic development. ✱

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Health and Welfare

Health and Welfare

General Fund support for health and welfare programs in 1997-98 totals \$14.9 billion, an increase of slightly less than one percent over the prior year.

Figure 1 describes the major General Fund changes enacted in the *1997-98 Budget Act* and related legislation.

Figure 1	
Health and Welfare Programs Major 1997-98 Policy Changes—General Fund	
(In Millions)	
Program/Issue	Change From Prior Law
Medi-Cal	
Prenatal services for illegal immigrants	-\$63.7 ^a
Medicare/Medi-Cal crossover payment limit	-94.0
Disproportionate share hospitals	75.0
Public Health	
Primary care programs	\$5.0
AFDC/TANF	
Welfare reform (CalWORKs ^b and related programs)	\$217.1 ^c
SSI/SSP	
Continue suspension of cost-of-living adjustment for one year	-\$27.4
Reject continuation of statewide 4.9 percent grant reduction	— ^d
State-only program for aged legal noncitizens	— ^d
Food Stamps	
State-only program for legal noncitizens— children and elderly	\$36.0

^a Budget includes about \$21 million which would fund the program for the first three months of the fiscal year. Existing state law authorizes the program, but federal welfare reform legislation of 1996 requires a new state law to continue the program. The Governor vetoed budget language to continue the program.

^b California Work Opportunity and Responsibility to Kids program.

^c Includes \$111 million in Proposition 98 funds.

^d The Governor vetoed \$17 million provided by the Legislature.

Medi-Cal Program

Reduced State “Takeout” From Disproportionate Share Hospital Payments. The budget includes a \$75 million General Fund augmentation in the Medi-Cal Program to backfill for a reduction in the state “takeout” from disproportionate share hospital (DSH) contributions made by public hospitals operated by counties, the University of California, and local hospital districts. The budget action reduces the state “takeout”, which is used to offset a portion of the General Fund cost of the Medi-Cal Program, from \$229.8 million to \$154.8 million in 1997-98.

The budget, as passed by the Legislature, also expressed intent to reduce the state “takeout” by an additional \$25 million in 1998-99. This language was subsequently vetoed by the Governor.

The budget action primarily benefits counties that operate county hospitals, which provide most of the DSH transfers. Absent the budget action, these counties would have to increase their DSH contributions by about \$50 million to offset the loss of contributions from Fresno and several smaller counties that recently closed their county hospitals. The remaining benefit of about \$25 million will enable counties to reduce their contributions or to receive more DSH funds.

Medicare/Medi-Cal “Crossover” Payment Limits. The recently enacted federal budget legislation allows California to reinstate crossover payment limits, for an estimated General Fund savings of \$94 million in 1997-98, assuming implementation by September 1, 1997. These payment limits apply to dual beneficiaries—persons who qualify for benefits under both the Medi-Cal Program and the federal Medicare Program.

Currently, allowable Medicare charges for a service often exceed Medi-Cal rates. Under the crossover limits, however, Medi-Cal will only pay deductibles and copayments for Medicare covered services to the extent necessary to

meet the Medi-Cal payment rate, and Medicare providers must accept the Medi-Cal rates as payment in full. The federal courts overturned California's existing crossover limits in 1996. The federal budget legislation enables the state to reinstate the limits.

Continuation of Prenatal Care for Illegal Immigrant Women. The budget bill, as passed by the Legislature, authorized the continuation of prenatal benefits for illegal immigrants and provided \$23 million to partially fund those costs in 1997-98. The Governor vetoed the language authorizing the program and reduced the funding by \$1.7 million. Consequently, this leaves \$21 million for the program which he indicated would terminate October 1, 1997.

Public Health

Primary Care Expansion. The budget, as passed by the Legislature, allocated \$30 million from the General Fund to expand primary care services in three programs: the Early Access to Primary Care program (\$7 million), the Rural Health Clinics grant program (\$6.5 million), and the California Healthcare for Indigents Program (\$16.5 million). In the budget deliberations, funds for these expansions were redirected from a reduction in the budget for Medi-Cal prenatal care services for illegal immigrants. Subsequently, the Governor vetoed these funds. The budget includes a \$3 million General Fund augmentation for the Seasonal Agricultural and Migrant Worker Clinics grant program, and a \$2 million General Fund augmentation for the Rural Health Clinics grant program.

Aid to Families with Dependent Children/ Temporary Assistance for Needy Families Program

Welfare Reform. Assembly Bill 1542 (Ducheny, Ashburn, Thompson, and Maddy) creates the California Work Opportunity and Responsibility to Kids

(CalWORKs) program and creates and modifies other related programs. This act, in conjunction with budget legislation, results in a state cost of \$217 million in 1997-98, compared to prior law. This includes \$111 million from the Proposition 98 allocation for schools and community colleges. (We note that because of declining caseloads, the budget appropriation for the Aid to Families with Dependent Children/CalWORKs Program is less than estimated expenditures for 1996-97.) Figure 2 (page 6) provides detail on this fiscal impact and Figure 3 (page 7) describes the major features of AB 1542.

Supplemental Security Income/State Supplementary Program

Grant Payments. Pursuant to current law, the budget rejected the Governor's proposal to make permanent the 4.9 percent statewide grant reduction enacted in 1995. The budget legislation, however, extends the suspension of the statutory cost-of-living adjustment for one year, resulting in General Fund savings of \$27 million.

Elderly Noncitizens. Federal welfare reform, as amended by the Balanced Budget Act of 1997, makes elderly legal noncitizens, who were in the United States prior to August 22, 1996 but not yet receiving aid, ineligible for the Supplemental Security Income/State Supplementary Program. The budget, as passed by the Legislature, provided state-only funded benefits for such legal noncitizens, resulting in a General Fund cost of \$17 million in 1997-98. Subsequently, the Governor vetoed these funds.

Food Stamps Program

State-Only Program for Children and Elderly Noncitizens. Federal welfare reform makes legal noncitizens (with certain exceptions) ineligible for food stamps benefits. The budget legislation provides state-only funded food stamp benefits for noncitizens under the age of 18 or over the age of 64. This temporary program commences on September 1, 1997 and sunsets on July 1, 2000. ✱

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Figure 2**CalWORKs^a (Assembly Bill 1542) and Related Programs
Fiscal Summary—State Funds**

(In Millions)	Change from Prior Law	
	Non-Proposition 98	Proposition 98
DEPARTMENT OF SOCIAL SERVICES (DSS)		
Eligibility		
Conform resource limits to Food Stamps	\$8.8	—
Eliminate “look back” requirement for two-parent families	1.0	—
Modify treatment of lump sum income and recovery of overpayments	1.9	—
Services		
Welfare-to-Work services (GAIN)	\$222.6	—
Mental health and substance abuse	23.5	—
Child care	106.4	—
Child care capacity building	8.0	—
Child care capacity building (to Department of Education)	8.0	—
Microenterprise projects	— ^b	—
Job identification program	6.7	—
County Administration		
Retraining and retooling	\$40.6	—
County fiscal incentives (county savings)	19.3	—
Other	6.0	—
Subtotals—DSS costs	\$452.8	—
Grants and County Administration		
Continue 4.9 percent grant reduction	-\$135.2	—
Suspend cost-of-living adjustment	-71.0	—
Eliminate Beno case grant reduction exemptions	-35.0	—
\$225 and 50 percent earned income disregard	-82.2	—
Eliminate child care disregard	-20.4	—
Exits due to employment	-3.2	—
Increased earnings	-8.1	—
Failure to participate (sanctions)	-9.7	—
GAIN conciliation (county administration)	-9.9	—
Paternity establishment	-4.0	—
Subtotals—DSS savings	-\$378.7	—
Net Impact—DSS	\$74.1	—
COMMUNITY COLLEGES		
Work-study and child care	—	\$49.5
Job placement/coordination/curriculum development	—	15.5
Job development	—	5.0 ^c
DEPARTMENT OF EDUCATION		
Adult education	—	\$25.0
Child care	—	16.0
EMPLOYMENT DEVELOPMENT DEPARTMENT		
Employment Training Panel Program	\$20.0	—
TRADE AND COMMERCE AGENCY		
Job creation	\$5.0	—
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT		
Child care loan funds	\$7.0	—
Totals (all departments)	\$106.1	\$111.0
Total (all state funds)		\$217.1

^a California Work Opportunity and Responsibility to Kids program.

^b The Governor vetoed \$2.5 million provided by the Legislature.

^c The Legislature appropriated \$10 million. The Governor reduced this amount to \$5 million.

Figure 3

CalWORKs^a (Assembly Bill 1542) Major Features

▲ Eligibility

“Look Back” Provision. Eliminates the requirement that two-parent families applying for assistance have a prior connection to the labor force.

Resource Limits. Conforms resource limits to the amounts permitted under federal law for the Food Stamps program. (This increases the asset limit for automobiles, as applied to applicants, from \$1,500 to \$4,650.)

Diversion Program. Permits counties to provide eligible applicant families with up to three months of aid payments in the form of a lump sum, for purposes of providing temporary assistance so that the family does not enter the program.

▲ Grants

Maximum Grants. Continues 4.9 percent statewide grant reduction and suspension of the statutory cost-of-living adjustment through October 31, 1998.

Beno Exemptions. Eliminates Beno court case grant reduction exemptions (applicable to certain recipients not able to work).

Income Disregards. Replaces the existing “fill the gap” and “\$30 and one-third disregard” with a \$225 plus 50 percent earned income disregard, whereby the first \$225 of earnings plus 50 percent of each additional dollar of earnings are disregarded in determining the family’s grant.

▲ Services

Welfare-to-Work Activities. Specifies the following sequence of services: job search; assessment; welfare-to-work activities (education and training); and community service employment.

Child Care. Creates a new delivery system administered by county welfare departments and the state Department of Education.

Employment Retention. Authorizes up to one year of case management and other job retention services for persons leaving aid due to employment.

▲ Participation Requirements

Weekly Hours. Adults in single-parent families must participate in work or approved education or training activities for 20 hours per week effective January 1, 1998, 26 hours effective July 1, 1998, and 32 hours effective July 1, 1999 and thereafter.

An adult recipient in a two-parent family must participate for 35 hours per week.

Exemptions. Disabled, elderly, specified caretaker relatives, caretaker of disabled person, teen parent in school, parent with child six months or under (with county discretion to change to 3-12 months). Temporary deferral for “good cause.”

Sanctions. The sanction for failure to participate in work activities or community service is removal of the adult portion of the grant.

▲ Time Limits

Welfare-to-Work Services. New applicants are limited to 18 months of job training/education services. Existing recipients are limited to 24 months. Counties may extend the 18 month limit by six months if the extension is likely to lead to nonsubsidized employment or if no jobs are available. Able-bodied adults must commence community service employment (work for grant) at the end of these time limits, if the county certifies that a nonsubsidized job is not available.

Five-Year Time Limit/Safety Net. After five cumulative years on aid, the amount of the grant is reduced by the portion for the adult. The child’s portion of the grant would be continued, but counties have the option of providing this aid in the form of cash or vouchers. Certain recipients are exempt, including specified caretaker relatives and disabled persons.

▲ County Administration

County Training. Provides funding for county training and “retooling.”

County Fiscal Incentives. Provides 100 percent of certain grant savings to the counties. Specifically, allocates 75 percent of the state’s grant savings resulting from (1) program exits due to employment lasting six months, (2) increased earnings and (3) diversion of applicants from the program. The remaining 25 percent of grant savings shall be allocated to counties that have not achieved savings but have performed in a manner “worthy of recognition.” Counties must use these savings in the CalWORKs^a program unless expenditure of these funds is not needed to meet the federal TANF^b maintenance-of-effort requirement.

Fraud Savings. Reallocates 25 percent of the state’s savings from fraud detection activities to the counties.

^a California Work Opportunity and Responsibility to Kids program.

^b Temporary Assistance for Needy Families.



Proposition 98 Education

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

K-12 Proposition 98 Provisions

The K-12 portion of the Proposition 98 budget package includes:

- ▲ **Prior-Year—1996-97.** Provides overall K-12 funding of \$4,904 per pupil for 1996-97, or \$130 more per pupil than anticipated in the *1996-97 Budget Act*.

- ▲ **Budget Year—1997-98.** Overall K-12 funding of \$5,108 per pupil in 1997-98, which represents an increase of \$335, or 7 percent, above the *1996-97 Budget Act*. These figures exclude amounts that were vetoed by the Governor in connection with the unresolved state assessment program issues (see below). Restoration of these vetoes would increase the 1997-98 per-pupil total to \$5,144.

Figure 1 summarizes for 1996-97 and 1997-98 the effect of the budget package on K-12 schools, community colleges, and other specified agencies. Proposition 98 funding for K-12 schools totals \$28.7 million in 1997-98.

Figure 1			
K-12 Education Budget Summary			
1996-97 and 1997-98			
(Dollars in Billions)			
	1996-97 Budget Act	1996-97 Revised	1997-98 Budget Act
K-12 Proposition 98			
General Fund	\$17.2	\$18.1	\$19.7
Local property taxes	8.6	8.7	9.0
Totals, K-12	\$25.9	\$26.8	\$28.7
<i>Average Daily</i>			
Attendance (ADA)	5,418,707	5,473,882	5,611,327
Amount per ADA	\$4,773	\$4,904	\$5,108
California Community Colleges			
General Fund	\$1.6	\$1.7	\$1.9
Local property taxes	1.4	1.4	1.4
Totals, Comm. Colleges	\$3.0	\$3.1	\$3.3
Other agencies	\$0.1	\$0.1	\$0.1
Loan repayment	\$0.2	\$0.2	\$0.2
Proposition 98			
General Fund	\$19.1	\$20.1	\$22.1 ^a
Local property taxes	10.0	10.1	10.4
Totals, Proposition 98	\$29.1	\$30.2^a	\$32.5^a

^a Totals include amounts vetoed by the Governor (\$14.9 million of 1996-97 funds and \$201 million in 1997-98 funds).

K-12 Program Impacts

1996-97 and Prior Years Settle-Up Funding. Proposition 98 minimum funding levels are determined by one of four specified formulas, each using a set of specified factors. Because the factors change during the year, the minimum funding guarantee under Proposition 98 also changes. Any additional amount needed to satisfy the guarantee is referred to as Proposition 98 “settle-up” funding.

The budget contains approximately \$1.4 billion in settle-up funds. Figure 2 displays the major allocations of these monies. Pursuant to Chapter 203, Statutes of 1996 (AB 3497, Richter) the budget provides \$522 million for revenue limit equalization and deficit reduction, with half the funds going to each purpose. The remaining funds are allocated for a variety of one-time purposes. For example, \$159 million of the funds are allocated for facilities for class size reduction. These funds will pay for facilities requested for the 1996-97 school year that were not previously funded. The budget also provides one-time funds for deferred maintenance, educational technology (digital high school), and creation of new child care facilities.

1997-98 Baseline Increases. Compared to the *1996-97 Budget Act*, K-12 Proposition 98 funding increased by \$3 billion in 1997-98. Figure 3 displays the major K-12

Figure 2**K-12 Education
Major Actions Regarding Prior-Year Funds****(In Millions)**

Purpose	Amount
Revenue limit—equalization and deficit reduction	\$522.0
Facilities for class size reduction	159.0
Mandates	158.6
Deferred maintenance	100.0
Special education deficiency	59.0
Digital high school	50.0
Child care facilities	25.0
Adult education—welfare reform	25.0

Proposition 98 appropriations for 1997-98. The budget allocates \$1.4 billion to provide inflation and growth adjustments. Specifically, the budget includes about \$722 million to accommodate a projected 2.5 percent increase in the student population and \$707 million for a cost-of-living adjustment (2.65 percent) for K-12 programs. As Figure 3 also indicates, \$143 million in categorical program growth and inflation adjustments were vetoed pending the resolution of the assessment issues.

The budget directs the remaining \$1.6 billion for other purposes, including new programs and existing K-12 categorical programs. The major discretionary increases approved in the budget are as follows:

- ▲ **Class Size Reduction.** The budget dedicates about \$718 million for expansion of the class size reduction program, bringing total funding for the program to \$1.5 billion. The new funds are sufficient to increase per-pupil funding in the program from \$650 to \$800, and expand the program from three to four grades.
- ▲ **Equalization And Deficit Reduction.** The budget continues the equalization and deficit reduction funds provided for the 1996-97 year in the base budget for 1997-98. Because these funds cannot be released until the accounting for the 1996-97 fiscal year is complete, districts will receive both the \$522 million provided for 1996-97 and the continuation amount of \$555 million in the 1997-98 budget year.
- ▲ **Other 1997-98 Initiatives.** As Figure 3 illustrates, the budget contains a number of other program increases. The budget includes an additional

\$76.7 million for special education reform, providing that a reform bill is enacted during the 1997-98 session. The budget also includes funds for other programs, including child care, educational technology, staff development, and assessment.

Governor's Vetoes. As noted in Figure 1, the Governor vetoed \$14.9 million of "settle-up" funds and \$201 million

Figure 3**K-12 Education Major Actions
Regarding 1997-98 Funds****(In Millions)**

Purpose	Amount
COLAs	\$707.0 ^a
Growth in student attendance	722.0 ^a
Expand class size reduction	717.6
Equalization and deficit reduction	555.2
Special education reform	76.7
Child development expansion	64.0
Digital high school	50.0
Buyout of one staff development day	50.0

^a The budget act reflects vetoes totaling \$143 million in categorical program growth and COLAs pending the resolution of assessment issues.

in 1997-98 Proposition 98 funds. While the Governor typically uses his veto authority to delete specific appropriations, most of the vetoed Proposition 98 funds have been "set aside" pending the resolution of K-12 assessment issues. These issues revolve around the Governor's proposal to eliminate the existing voluntary student assessment program and create a new mandatory program.

In his veto messages, the Governor identifies the vetoed funds that are included in the set-aside. The Governor includes \$10.2 million of the \$14.9 million vetoed settle-up funds and \$186 million of the \$201 million vetoed 1997-98 Proposition 98 funds in his set-aside. The \$10.2 million in settle-up funds were appropriated for 14 new programs, many affecting only one school district. Of the \$186 million in 1997-98 funds set aside by the Governor, \$143 million were for K-12 categorical program growth and COLA funding and \$30 million for the mandatory testing program. An additional \$2.5 million in K-12 augmentations were set-aside (as well as \$4 million in federal Goals 2000 funds). The Governor also set aside \$10.6 million in community college Proposition 98 funds.*

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IV

Higher Education

Figure 1 shows the change in funding for each major segment of higher education for 1997-98 from selected fund sources.

Figure 1
Higher Education Budget Summary
Selected Funding Sources
Change from 1996-97 to 1997-98

(Dollars in Millions)

	1997-98 Budget	Change From 1996-97 ^a	
		Amount	Percent
University of California			
General Fund	\$2,181.6	\$121.2	5.9%
Student fees	629.8	11.8 ^b	1.9
Totals	\$2,811.4	\$133.0	5.0%
California State University			
General Fund	\$1,888.6	\$108.2	6.1%
Student fees	609.4	5.7 ^b	0.9
Totals	\$2,498.0	\$113.9	4.8%
California Community Colleges^c			
General Fund (Proposition 98)	\$1,887.5	\$286.8	17.9%
Property taxes	1,402.5	39.6 ^b	2.9
Student fees	176.4	5.1	3.0
Totals	\$3,466.4	\$331.5	10.6%
Student Aid Commission			
General Fund	\$295.3	\$30.5	11.5%

^a Does not include one-time funds.
^b Increase due to more students and/or an increase in certain professional program fees.
^c Local assistance only.

University of California

The 1997-98 Budget Act, as signed by the Governor, provides \$121 million (5.9 percent) more in General Fund support for the University of California (UC) in 1997-98 compared to 1996-97. The budget assumes no general

increase in undergraduate and graduate student fees, although growth in the number of UC students and the fourth year of a four-year planned increase in graduate professional program fees (including law, medicine, dentistry, and veterinary medicine) will generate an expected \$10.8 million in revenues for the UC in 1997-98.

The Legislature approved a budget plan for the UC that includes:

- ▲ \$82 million in employee compensation to provide a 2 percent cost-of-living increase for all employees (effective October 1, 1997), an additional 3 percent "parity" salary increase for faculty, and merit salary increases for eligible faculty and staff. An additional increase of \$15 million will cover the annualized costs of salary increases from the prior year.
- ▲ \$11.8 million to offset the impact of inflation on goods and services.
- ▲ \$10.5 million to increase student enrollment by 1,500 (1 percent).

The California State University

The 1997-98 Budget Act, as signed by the Governor, provides \$108 million (6.1 percent) more in General Fund support for the California State University (CSU) in 1997-98 than in 1996-97. As with the UC, the budget assumes no general increase in student fees.

The Legislature approved a budget plan for the CSU that includes:

- ▲ \$68 million to provide a 4 percent pool of funds for employee compensation increases. How these funds are used (for cost-of-living adjustments, merit increases, and parity adjustments) will be determined through collective bargaining.

- ▲ \$14.4 million to increase enrollment by 2,500 students (1 percent).

Community Colleges

Because of the major increases in Proposition 98 funding in 1996-97 and 1997-98, the 1997 budget package contains major funding increases for community colleges. Specifically, General Fund spending for community colleges totals almost \$1.9 billion in the budget year. This represents a \$287 million, or 18 percent, increase above the funding level included in the *1996-97 Budget Act*. (The 1996-97 total implicit in Figure 1 does not include \$106 million of one-time funds made available to the colleges due to the recent upward revision of the Proposition 98 guarantee for that fiscal year.) The budget does not contain any increase in student fee levels. Fee revenues, however, will increase due to enrollment growth.

1997-98 Expenditures. Figure 2 illustrates the major program increases provided with the additional funds in 1997-98. The budget includes \$89 million for colleges to increase enrollment by a statewide average of 3 percent. The budget also provides \$65 million for various services for students on welfare, expands the economic development program (by \$15 million), and starts a job development program (\$5 million).

Figure 2

Major Community College Increases 1997-98 General Fund

(In Millions)

Purpose	Amount
Enrollment growth	\$89.2
COLA	91.0
Welfare reform	65.0
Instructional equipment	25.0
Economic and job development	20.0
Lease-purchase payments	20.9

Settle-Up Expenditures. The budget includes \$130 million in settle-up funding for 1996-97 and prior years for several one-time activities. Of this amount, the budget allocates \$98 million for district block grants, which will be allocated on a per-student basis. The budget also provides \$20 million for deferred maintenance and \$10 million for child care facilities.

Vetoed. The Governor vetoed \$24 million of 1997-98 appropriations for the community colleges. In his veto message, the Governor expressed his willingness to restore \$10.6 million of this amount—\$8.6 million for equalization and \$2 million for office hours for part-time faculty—upon enactment of legislation meeting his criteria for statewide testing of pupils in grades 2 through 11. The remaining vetoes included a \$5 million reduction for faculty and staff development and a \$5 million reduction in a new job development program.

Student Aid Commission

The budget appropriates \$295 million from the General Fund for the Student Aid Commission in 1997-98, which is an increase of \$31 million, or 11.5 percent. Of this amount, \$26 million represents augmentations to the Cal-Grant program, which provides financial aid grants to higher education students in California. These augmentations include funds to increase the number of grants by 3,916 students and to increase the maximum grant amount for students attending private colleges and universities from \$7,164 to \$8,184.*

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



Judiciary and Criminal Justice

The 1997-98 budget for judicial and criminal justice programs totals \$5.4 billion, including \$4.7 billion from the General Fund and \$663 million from state special funds. This is an increase of \$308 million, or 6.1 percent, over 1996-97 expenditures. This increase is due to a number of factors, including increases in spending to accommodate the projected growth in the state's prison and parole populations, declining federal support (and thus increased state costs) to pay the costs of incarcerating undocumented felons in state prison, and increases in state support of the trial courts financed primarily by increases in court filing fees.

The amount is about \$266 million below the Governor's proposed budget. The principal reasons for the change are legislative actions to use additional federal funds to pay the costs of incarcerating undocumented felons, downward revisions of estimates of the prison inmate population, and the Legislature's rejection of some policy initiatives and augmentations proposed by the Governor.

Trial Court Funding

The budget act includes \$1.6 billion for support of the trial courts in 1997-98. Of this amount, \$890 million would be from funds transmitted by counties to the state which would, in turn, be allocated to the courts. This transaction would be part of a larger change in the way trial courts are supported.

In January, the Governor proposed a major consolidation of funding responsibility for the trial courts at the state level. Under the proposal, the largest counties would pay for a capped portion of the costs of the courts (roughly equivalent to the amount they paid in 1994-95) and the state would provide all additional funding. Also, the state would pay for all costs of the 20 smallest counties. The Governor also proposed increases in trial court civil filing fees of \$88 million to help finance the state's additional costs.

In enacting the *1997-98 Budget Act*, the Legislature modified the Governor's plan substantially. Among the changes, the Legislature capped the contributions for all counties and, beginning in 1998-99, provided that the state will pay all costs for the 20 smallest counties. In addition, the Legislature provided that beginning in 1998-99, the state would take over a larger share of costs for the trial courts than proposed by the Governor. The budget also assumes enactment of the Governor's proposal to increase civil filing fees. The changes to accomplish the Legislature's actions are included in AB 233 (*Escutia*), which is still under consideration.

The Governor also proposed a number of policy initiatives related to the trial courts, including several state-wide jury system improvements (\$14 million), enhancements for trial court security systems (\$8 million), and 40 new judgeships to be established in the last quarter of 1997-98 (\$4 million). These proposals were rejected by the Legislature.

Department of Corrections

The budget provides a total of \$3.7 billion (\$3.6 billion from the General Fund and \$43.4 million from other funds) for support of the California Department of Corrections (CDC). This represents an increase of about 4.1 percent above the 1996-97 level and is primarily due to projected increases in inmate and parole populations.

The budget reflects a total General Fund reduction of about \$90.1 million below the Governor's budget request for the CDC support budget. The most significant changes were a \$31 million unallocated reduction to departmental programs, a \$20.7 million reduction to reflect recent caseload trends, and a \$16.2 million shift of bond payments from the General Fund to bond funds no longer needed for prison construction.

The *1997-98 Budget Act* includes no funds for planning or construction of new prison facilities. However, the bill

sent to the Governor did include \$2.5 million to expand drug treatment for inmates and other provisions intended to help slow future growth in the prison population.

Federal Funds for Incarceration and Supervision of Undocumented Felons

The budget assumes a total of \$346 million in federal funds to offset the state's costs of supervising undocumented inmates and wards in state prison and the Department of the Youth Authority in 1997-98. This amount is \$94 million more than the amount assumed in the Governor's budget. The increase results from two factors. First, the Legislature chose to shift \$54 million in federal prison construction grant funds to offset incarceration costs of undocumented felons, as permitted under federal law. Second, the budget assumes that the state will receive \$40 million more in federal funds in 1997-98 than the Governor assumed, consistent with amounts contained in the federal appropriations bill before the U.S. House of Representatives.

Department of the Youth Authority

The budget provides \$330 million (\$323 million from the General Fund and \$6.6 million from other funds) for support of the Youth Authority. The most significant change to the Youth Authority's budget from the prior year was the shift of \$32.7 million in state support for county probation camps and ranches from the General Fund to federal Temporary Assistance for Needy Families (TANF) funds.

Other Programs

Assistance for Police, Sheriff, and Prosecution. The budget act continues for a second year a program that provides \$100 million to local police, sheriff, and prosecution programs (sometimes referred to as the Citizen's

Option for Public Safety, or COPS, program). A budget trailer bill—AB 1584 (Prenter)—modifies local government reporting requirements for the program and specifies legislative intent that the program be funded again in 1998-99 and 1999-00.

In addition, the budget provides \$54.6 million in federal prison construction funds to the Board of Corrections for allocation to local governments to construct, expand, or modify local adult and juvenile detention facilities. The Governor had proposed \$14.9 million for this purpose in his January budget. The *1997-98 Budget Act* provides that at least \$20 million of the amount appropriated be used to build new or modify existing juvenile detention facilities in counties with populations of 200,000 or less.

Initiatives and Augmentations. The Governor proposed a number of program initiatives, including a \$20 million program for "at-risk" juveniles and a \$15 million Community Law Enforcement And Recovery (CLEAR) Demonstration Project, that were not included in the enacted budget. Similarly, the Legislature considered a number of initiatives and augmentations, such as expansion of the Juvenile Crime Enforcement and Accountability Challenge Grant Program. Almost all of these initiatives and augmentations were ultimately rejected as well.

Restitution Fund Loan. The budget includes a loan of \$26 million of surplus funds from the Restitution Fund, which supports the Board of Control's Victims of Crime Program, to the General Fund. The budget act provides that the funds be repaid to the Restitution Fund by June 30, 1999.*

Prepared by the Criminal Justice Section—(916) 445-4660

VI

Other Major Provisions

Local Government

The budget does not include any significant new fiscal relief for local governments. Proposals for Educational Revenue Augmentation Fund relief included in the May Revision and augmented in the Assembly were removed from the final version of the budget. Funding for the Citizen's Option for Public Safety program was continued for a second year with the intent to guarantee future funding for at least two additional years.

State Employee Compensation

The budget provides no funding for increased compensation for state employees. Both houses had provided \$500 million (\$250 million General Fund) for a 5 percent increase in 1997-98, but these funds were deleted later as one of several actions to balance the budget.

Tax Relief

The Renters' Tax Credit provides a refundable tax credit of \$60 to single renters and \$120 to married couples and heads of households. The credit was suspended in 1993, 1994, 1995, and 1996. The credit was scheduled to be reinstated this year but was suspended for an additional year, saving \$520 million.

Resources and Environmental Protection

The 1997 budget provides a total of about \$1.2 billion for resources programs. Significant features include:

- ▲ \$346 million for fire protection by the California Department of Forestry and Fire Protection, including the continued support of fire hand crews at conservation camps operated in conjunction with the Department of Corrections, and a total of about \$20 million for emergency firefighting purposes.

- ▲ \$75 million from Proposition 204 bond funds for water supply and Bay-Delta restoration projects.
- ▲ \$24 million from Proposition 204 funds for local flood control projects and delta levee improvements.
- ▲ \$10 million for coastal programs including improving coastal access and acquiring coastal lands, and \$3 million for restoration of salmon and steel-head trout.
- ▲ \$9 million to acquire land to implement the Natural Community Conservation Planning program.

The 1997 budget provides \$804 million for environmental protection programs, including about \$680 million for state environmental protection agencies and \$124 million for local assistance. Significant features include:

- ▲ \$212 million in estimated reimbursements to tank owners for clean up of leaking underground tanks—an increase of \$90 million.
- ▲ \$57 million from Proposition 204 bond funds for local water quality projects.
- ▲ \$8 million for the Department of Toxic Substances Control to clean up illegal drug labs.

Motor Vehicle Account

The budget provides \$179 million in new revenues, transfers, and expenditure reductions in order to close a projected \$129 million funding shortfall in the Motor Vehicle Account (MVA) and to provide for a \$50 million reserve. The MVA is projected to receive \$40 million in new revenue from a \$1 increase in the vehicle registration fee and increases to other fees. The account will also receive \$97 million in transfers from other funds—\$67 mil-

lion from the State Highway Account and \$30 million from the Transportation Planning and Development account. Finally, the Department of Motor Vehicles and the California Highway Patrol will reduce their expenditures from the MVA by a total of \$42 million by deferring capital outlay projects, shifting some expenses to other sources, and making unspecified administrative reductions.

Transportation

The 1997 budget provides about \$1.8 billion for support of the Department of Transportation (Caltrans). Not included in this amount is an estimated \$119 million from the Seismic Retrofit Bond Act of 1996 (Proposition 192) for departmental support costs related to seismic retrofit of highway bridges and toll bridges. Caltrans' 1997 support budget reflects the Legislature's decision to substitute state staff for 619 personnel-year equivalents of planned consulting engineer contracts, in response to a California Supreme Court decision.

The budget also provides \$1.9 billion for transportation capital outlay projects. This amount includes \$157 million to restore damage caused by heavy storms in December 1996 and January 1997.

The budget provides \$1.3 billion for a variety of local assistance programs, primarily a pass-through of federal funds for highway and transit purposes and state funds for the State-Local Transportation Partnership Program. This amount also includes \$32 million in federal funds to repair storm damage on local streets and roads. Local assistance to transit authorities includes \$85 million for operating assistance (through the State Transit Assistance program) and \$64 million for capital acquisition (through the Transit Capital Improvement program).

Capital Outlay

The budget includes \$754 million for capital outlay as shown in Figure 1. About 85 percent of this total is from bonds (\$639 million), with other funding from the General Fund (\$40 million), various special funds (\$48 million), and federal funds (\$26 million). Future appropriations of \$695 million will be needed to complete capital outlay projects funded in the budget. Almost two-thirds of total capital outlay funding is for the three segments of higher education. The budget includes no funding to design and construct new state prisons.

Some of the major projects and programs funded in 1997-98 include:

- ▲ Department of Justice—\$20 million for replacement of two crime laboratories.
- ▲ Department of General Services—\$79 million for seismic safety retrofits of 28 state buildings.
- ▲ Department of Health Services—\$3.9 million to prepare construction documents for a \$108 million public health laboratory and office complex in Richmond.
- ▲ Department of Mental Health—\$3.2 million to prepare construction documents for a \$33 million addition to the Atascadero State Hospital.
- ▲ University of California—\$172 million for 32 projects at nine campuses.
- ▲ California State University—\$138 million for 35 major projects at 18 campuses, including \$1 million to study the feasibility of converting the former Camarillo State Hospital into a new campus.
- ▲ Community Colleges—\$158 million for 98 projects at 49 districts (65 campuses and off-campus centers), including initial funding for two new off-campus centers.✻

Figure 1

1997-98 Capital Outlay Programs

(In Millions)	Budget Amount	Future Cost
Legislative/Executive/Judicial	\$19.8	—
State and Consumer Services	79.2	\$13.3
Transportation	3.5	3.0
Resources	90.3	5.4
Health and Welfare	18.8	146.4
Corrections	51.8	32.7
Higher Education	490.4	494.2
General Government	0.6	—
Totals	\$754.4	\$695.0

*Prepared by the following sections:
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APPENDIX 1

1997-98 Budget: Trailer Legislation

— Enacted —

Bill	Author	Subject
AB 64 ^a	Baca	Education: Technology grants to high schools.
AB 751	Escutia	Education: Class size reduction.
AB 1086	Mazzoni	Education: Second year of GOALS 2000 program.
AB 1153 ^a	Escutia	Social Services: Various (SSI/SSP COLA, IHSS eligibility, foster care group home rates).
AB 1576	Bustamante	Social Services: Food stamps for legal immigrants.
AB 1578	Migden	Education: Various (K-12, Community Colleges). Proposition 98 "settle-up" appropriations.
AB 1579	Strom-Martin	Education: Staff Development Buyout, longer school year.
AB 1582	Bowen	Resources: Various (Department of Parks and Recreation, California Conservation Corps, Harbors and Watercraft, Stanford Mansion Governor's Residence).
AB 1584	Prenter	COPS Program
AB 1586	Wright, R.	General Government: Various (Departments of General Services, Consumer Affairs, Veterans Memorial, Health Plan Fees, California Science Center).
AB 1589	Pringle	Local Government: Library and Fire ERAF.
AB 1591	House	Motor Vehicles: Vehicle registration and title transfer fees.
AB 1592	Leonard	Renters' Tax Credit: Suspension in 1997.
AB 1593	Machado	Water Resources: American River Flood Protection.
SB 271	Thompson	Resources: Tidelands Oil Revenues; Coastal Salmon, Steelhead, and Trout Restoration.
SB 391	Solis	Health: Public health, Medi-Cal, disproportionate share hospital, mental health, Proposition 99, and developmental disabilities.
SB 804	O'Connell	Education: Expansion of class size reduction.
SB 959 ^a	Kopp	Emergency Services: Reorganization of claims processing.
SB 1095 ^a	Lockyer	Education: Special services to high-risk students.
SB 1320	Sher	Environmental Protection: Peer Review at CalEPA boards and departments.

— Vetoed —

Bill	Author	Subject
AB 783	Brown	Alcohol and Beverage Control Training Fund.
SB 386	Peace	Corrections: Various (audits, internal affairs, deportation notification).

^aAt the time this analysis was prepared, the Governor had not taken final action on this measure.