

California Spending Plan 1999-00



The Budget Act and Related Legislation

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Elizabeth G. Hill, Legislative Analyst

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Chapter 1

The 1999-00 Budget Act and Related Legislation

INTRODUCTION AND OVERVIEW

On June 28, 1999, Governor Davis signed the *1999-00 Budget Act*. Together with related implementing legislation (trailer bills), the budget authorizes total state spending of \$79.8 billion. As indicated in Figure 1, this total includes \$63.7 billion from the General Fund and \$16.1 billion from special funds.

Figure 1

The 1999-00 Budget Total State Expenditures

(Dollars in Millions)

Fund Type	Actual 1997-98	Estimated 1998-99	Enacted 1999-00	Change from 1998-99	
				Amount	Percent
General Fund	\$52,874	\$58,579	\$63,733	\$5,154	8.8%
Special funds	14,202	14,948	16,082	1,134	7.6
Budget totals	\$67,076	\$73,527	\$79,815	\$6,288	8.6%
Selected bond funds	\$1,452	\$4,893	\$1,532	-\$3,361	-68.7%
Totals	\$68,528	\$78,420	\$81,347	\$2,927	3.7%

Detail may not total due to rounding.

The General Fund Condition

Figure 2 (see page 2) summarizes the General Fund budget condition for 1998-99 and 1999-00. It shows that 1998-99 is estimated to have ended with a reserve of \$1.9 billion. The administration forecasts that 1999-00 revenues will reach \$63 billion (an 8.7 percent increase from 1998-99), while expenditures are projected to be \$63.7 billion (an 8.8 percent increase from 1998-99).

In addition to program expenditures, the 1999-00 budget includes a \$300 million set-aside for employee compensation increases and potential litigation. After accounting for this set-aside and the cost of other obligations, the 1999-00 fiscal year is projected to close with a year-end reserve of \$881 million.

Figure 2

**The 1999-00 Budget
Estimated General Fund Condition**

*1998-99 and 1999-00
(Dollars in Millions)*

	1998-99	1999-00	Percent Change
Prior-year fund balance	\$3,064	\$2,412	
Revenues and transfers	57,927	\$62,981	8.7%
Total resources available	\$60,991	\$65,393	
Expenditures	\$58,579	\$63,733	8.8%
Ending fund balance	\$2,412	\$1,661	
Other obligations	\$480	\$480	
Set-asides	—	300	
Reserve	\$1,932	\$881	

Detail may not total due to rounding.

Spending in the Budget Year

The new budget reflects significant spending increases in a variety of program areas, as shown in Figure 3. The largest dollar increases are in K-12 education, higher education, health, and the “all other” category.

The majority of the increase in K-12 education is for enrollments, cost-of-living adjustments, “deficit reduction,” and several new initiatives. Also contributing to the increase is a reduction in contributions to the teachers retirement fund in 1998-99, which lowered expenditures on a one-time basis during the year. The growth in higher education reflects significant funding increases for all three of its segments.

The increase in health-related spending reflects a variety of changes. Among the more significant policy-driven increases were those that expanded eligibility for the Medi-Cal and Healthy Families Programs, increased funding for nursing home staffing, and increased provider rates. Growth in health spending would have been higher were it not for the assumed increases in the federal funding for Medi-Cal.

Figure 3

**General Fund Spending by Major Program Area
The 1999-00 Budget**

*1997-98 Through 1999-00
(Dollars in Millions)*

	Actual 1997-98	Estimated 1998-99	Enacted 1999-00	Change from 1998-99	
				Amount	Percent
K-12 Education	\$22,080	\$23,772	\$26,418	\$2,646	11.1%
Higher Education	6,625	7,438	8,012	574	7.7
CCC	2,108	2,269	2,471	202	8.9
UC	2,180	2,519	2,704	184	7.3
CSU	1,872	2,143	2,253	110	5.1
Other	464	507	584	78	15.4
Health	8,464	9,616	10,020	403	4.2
Social Services	6,175	6,719	6,902	183	2.7
Corrections	4,139	4,557	4,739	182	4.0
Trial Court Funding	399	699	921	222	31.7
All Other	4,993	5,778	6,722	944	16.3
Totals	\$52,874	\$58,579	\$63,733	\$5,154	8.8%

The increase in the “all other” category reflects numerous one-time appropriations for such purposes as the infrastructure bank, grants to local governments, transportation, and resources projects. This category also includes the subventions to local governments to backfill their loss of vehicle license fee (VLF) revenues, caused by the VLF reduction.

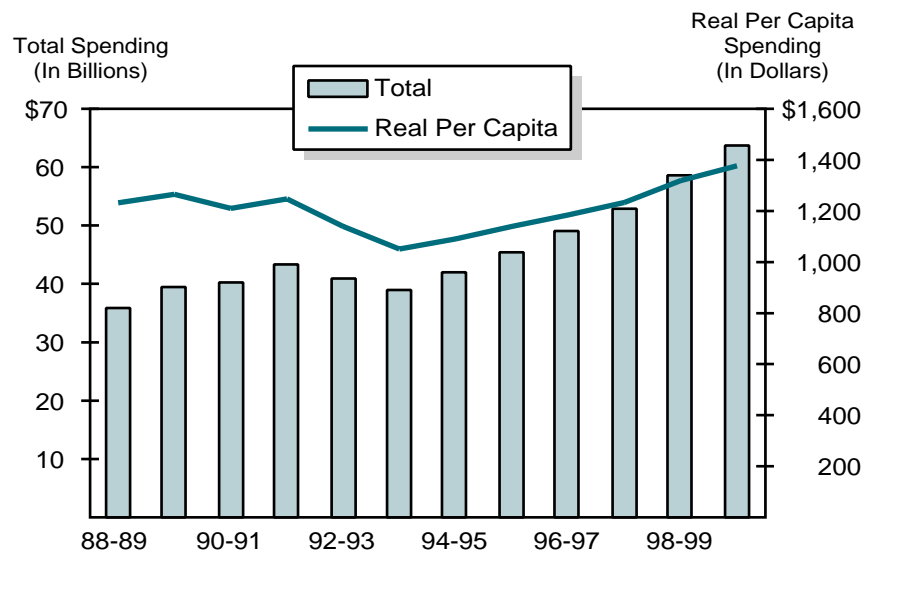
The Budget in Perspective

Spending Trends Over Past Decade. Figure 4 (see page 4) shows total General Fund expenditures from 1988-89 through 1999-00, both in current dollars and as adjusted for population and inflation (that is, in real per capita terms). The figure clearly shows the impact of the state’s major recession on expenditures in the early 1990s. During this period, the Governor and Legislature adopted spending cuts, funding shifts to local governments, spending deferrals, and tax increases in order to bridge major funding shortfalls that persisted during that period. The figure also shows that spending has rebounded in line with the economic expansion in the second half of the decade. As a result of recent increases, the level of budget-year real per capita spending is roughly 14 percent above its level at the start of the decade.

Figure 4

General Fund Expenditures

1988-89 Through 1999-00



THE BUDGET'S EVOLUTION

In this section, we discuss the development of the 1999-00 budget, beginning with the introduction of the Governor's initial proposal in January and continuing through the budget's enactment in late June.

Governor's January Proposal

As the 1999-00 budget proposal was being prepared by the administration in late 1998, there were significant concerns over the impact of the Asian economic crisis on the U.S. and California economic outlooks. As a result, the administration's initial budget proposal was based on a conservative economic forecast, which assumed that revenue growth in the budget year would not be adequate to maintain the ongoing costs of all of the commitments made in the 1998-99 budget. As a result, the January proposal was for a tight spending plan which, while funding caseloads and inflationary adjustments in many programs, included some spending deferrals, cutbacks, and a reliance on increased federal funds to maintain budgetary balance.

Most of the policy initiatives contained in the January budget were in the area of K-12 education, where the Governor proposed that \$444 million—largely from within the Proposition 98 minimum funding guarantee—be

used for initiatives aimed at improving reading skills, improving teacher quality, and increasing school accountability.

The May Revision

Major Improvement in the Fiscal Outlook. For the fourth year in a row, the budget picture improved substantially between the January budget proposal and the May Revision proposal. In the months following January, fears over the impact of Asia's economic problems subsided, and revised historical data indicated that California's economy was performing much stronger than had been previously thought. In addition, April final payments on 1998 personal income tax returns substantially exceeded the January budget estimate, indicating that the trend in personal income tax liabilities was higher than anticipated in January. In response to these factors, the administration raised its revenue forecast by \$1.6 billion for 1998-99 and \$2.7 billion in 1999-00, for a two-year increase of \$4.3 billion.

New Proposals. The Governor proposed to allocate the new revenues in three principal areas. About \$1 billion was proposed for increased K-12 education spending to cover increases in estimated average-daily-attendance, as well as various initiatives for new textbooks, school safety, teacher bonuses, and deferred maintenance of school facilities. Approximately \$1 billion was proposed for one-time infrastructure expenditures, including funds for a new prison, capitalizing the State Infrastructure and Economic Development Bank, transportation, and deferred maintenance for parks. Another \$1 billion was proposed for other programs to cover increased costs in Medical and corrections, and to restore or augment spending for trial courts, local flood relief, and higher education.

The remaining \$1.3 billion of the added revenues were allocated to set-asides, an increase in the reserve, and targeted tax relief. With regard to the set-asides, the May Revision included: approximately \$300 million for employee compensation and litigation; \$110 million for the Healthy Families Program, managed care rate increases, nursing home reform, and In-Home Supportive Services (IHSS) provider rate increases. In addition, \$248 million was set aside for additional VLF rate reductions that, under terms of the 1998 legislation, would be triggered if revenues exceed specified amounts in 2000-01.

With regard to the reserve, the administration raised the proposed 1999-00 year-end reserve from \$415 million in the January budget to \$985 million in the May Revision.

The May Revision included two tax proposals. One involved eliminating the first two minimum tax payments for newly incorporated small businesses. The other was to make permanent the 50 percent capital gains exclusion for small business stock held for more than five years. The estimated revenue effect of these proposals was a \$28 million reduction in the budget year, expanding to about \$60 million in 2000-01.

Legislative Versions of the Budget

The Assembly and Senate approved many of the proposals contained in the Governor's January budget and the May Revision. These included his initiatives regarding school accountability and teacher retention in K-12 education, his increases in higher education, and his proposed targeted tax reductions.

However, the legislative versions of the budget also contained a number of differences from the administration's proposal—and also differed significantly from one another. For example, both houses rejected the Governor's proposed spending of \$355 million for prison construction, although the Assembly included \$23.5 million for the initial planning and design of a prison. The Senate version augmented the May Revision by \$250 million to cover local property tax relief. The Assembly provided \$310 million (or \$200 million more than set-aside by the Governor) for health care reform in the Medi-Cal and Healthy Families Programs, pending future implementing legislation. In contrast, the Senate provided \$60 million to expand program eligibility. Both houses augmented the May Revision for higher education and social services programs, in some cases by differing amounts. The Assembly plan included the Governor's set-aside for employee compensation and litigation, but the Senate version did not.

The Assembly and Senate versions of the budget were sent to the Legislative Budget Conference Committee for reconciliation in early June. Following two weeks of negotiations—both between the two houses, and between the Governor and Legislature—the Conference Committee passed a compromise budget which was approved by both houses and sent to the Governor on June 16.

Relative to the May Revision, the compromise plan that emerged from Conference Committee included funding for expanded health care eligibility (although substantially less than was included in the Assembly version). It also included additional funding for higher education, social services, and local government fiscal relief. The compromise plan authorized lease-payment bonds to fund construction of one prison (similar to the Assembly version). It did not include the Governor's set-aside for employee compen-

sation and litigation. As a result, any spending for these purposes would come out of the reserve.

Governor's Vetoes

Before signing the budget, the Governor used his line-item veto authority to eliminate about \$581 million in spending, including \$320 million from the General Fund. About two-thirds of the General Fund reductions were in health and social services programs, where the Governor scaled back augmentations the Legislature had made to Medi-Cal and the Healthy Families Programs. He reduced state funding for IHSS provider wage and benefit increases. The Governor also deleted legislative augmentations made in a variety of other program areas, including higher education, resources, and general government.

Some of the General Fund monies vetoed from the budget were redirected by the Governor to reestablish the \$300 million set-aside he had proposed in the May Revision for employee compensation and litigation.

MAJOR FEATURES OF THE 1999-00 BUDGET

As noted above, the 1999-00 budget contains funding for expanded commitments in a variety of programs, including education, health and social services, local government fiscal relief, infrastructure, and resources. The budget also includes a one-time 10 percent reduction in the VLF, and several other targeted tax relief provisions.

Tax Relief. The budget includes the Governor's proposals for eliminating the first two minimum tax payments for newly incorporated businesses, and the permanent extension of the 50 percent capital gains exclusion for small business stock held for more than five years. In addition, the Legislature passed a one-time 10 percent reduction in the VLF rate for calendar year 2000 and three targeted tax reduction measures. These are (1) an increase in the standard research and development tax credit from 11 percent to 12 percent, (2) an increase in the income tax deduction for health costs incurred by the self employed, and (3) a 25 percent reduction in license fees paid in 1998 by truckers doing business inside and outside of California.

Health and Social Services. The budget contains a limited expansion of eligibility among low-income families for the Medi-Cal and Healthy Families Programs. It includes funds for various provider rate increases, and it increases spending for adult protective services, foster care, and nursing home reform. In the IHSS Program, the budget provides funding for a state share of the cost of increased wages that are negotiated between public authori-

ties and IHSS providers. Finally, the budget repeals the regional 4.9 percent reduction for the Supplemental Security Income/State Supplementary Program that would have taken effect in 2002.

Education. In K-12 education, the budget provides for significant funding increases in 1999-00. The budget includes many of the Governor's proposals in such areas as deferred maintenance, school safety, and teacher performance bonuses. However, the budget generally provides more funds subject to local spending discretion than the May Revision.

In higher education, the budget includes the Governor's proposed funding increases for new enrollments and fee reductions. It also includes additional funds for faculty salaries, deferred maintenance, and the Community College's Partnership For Excellence Program.

Local Government. The budget includes the Governor's proposal for \$425 million to further capitalize the infrastructure bank. In addition, it includes: \$150 million for one-time general purpose local relief, \$50 million to cities to offset booking fee payments made to counties, and a \$18 million augmentation for public libraries.

Youth and Adult Corrections. The May Revision had proposed \$355 million for the construction of one prison and the design of another. The adopted budget instead appropriates \$24 million for acquisition and planning costs, and authorizes \$311.5 million in lease payment bonds, for construction of a prison in Delano. The budget also includes \$30 million for one-time grants to local law enforcement agencies for equipment purchases.

Resources. The budget provides significant new funds for resources programs. Included are funds for local flood control subvention arrearages, deferred maintenance for state parks, habitat acquisition, and river parkways. It reschedules into future years \$100 million in expenditures proposed in the May Revision for the purchase of Grizzley Creek and Owl Creek forest lands.

Transportation. The budget provides \$37.5 million for intercity rail, the Altamont Express commuter train, and ferries. This is \$38 million less than proposed in the May Revision.

Employee Compensation. The budget reflects the fiscal impact of the bargaining agreements reached in 1998-99. It also includes a set-aside of \$300 million for future collective bargaining agreements as well as potential litigation. For illustration purposes, this amount is equivalent to a full-year employee compensation increase of roughly 6 percent.

THE BUDGET TRAILER BILLS

In addition to the *1999-00 Budget Act*, the 1999-00 budget package includes several related measures enacted to implement and carry out the budget's provisions. Figure 5 lists these budget trailer bills.

Figure 5

1999-00 Budget-Related Legislation

— Chaptered —			
Bill Number	Chapter Number	Author	Subject
AB 10	64	Correa	Tax Relief: Minimum franchise tax for new corporations.
AB 1102	65	Jackson	Resources: Various Environmental Protection Agency enforcement activities, Permit Assistance Centers.
AB 1103	66	Lempert	Resources: Various (parks, boating, toxics, Air Resources Board).
AB 1104	92	Migden	Resources: State Water Resources Control Board enforcement.
AB 1105	67	Jackson	General Government: (Smog check, performance budgeting, various other).
AB 1107	146	Cedillo	Health: Various (Medi-Cal, Healthy Families, disproportionate share hospitals, public health, Proposition 99, mental health, developmental disabilities).
AB 1111	147	Aroner	Social Services: Various (CalWORKs, SSI/SSP, CAPI, Food Stamps, Foster Care, child welfare, child support, employment development, drug courts).
AB 1113	51	Florez	Education: School safety.
AB 1114	52	Steinberg	Education: Pay for performance.
AB 1115	78	Strom-Martin	Education: Omnibus bill.
AB 1116	71	Ducheny	Education: English language acquisition.
AB 1117	53	Calderon	Education: Beginning teacher salaries.
AB 1118	72	Reyes	Higher Education: Fee reductions.
AB 1120	69	Havice	Tax Relief: Capital gains on small business stock.
AB 1121	74	Nakano	Tax Relief: VLF one-year 10 percent reduction.
AB 1289	117	Baugh	Tax Relief: Health insurance premiums for the self-employed.
AB 1535	54	Florez	Corrections: New prison.
AB 1660	85	Shelley	General Government: SHA transfer to General Fund, Census, Holocaust Claims Program.
AB 1661	84	Torlakson	Local Government: Infrastructure bank and local relief.

Continued

— Chaptered —			
Bill Number	Chapter Number	Author	Subject
AB 1662	79	Leonard	Local Government: Booking fees.
AB 1682	90	Honda	Social Services: IHSS.
SB 434	162	Johnston	Education: Charter Schools.
SB 688	76	Burton	Tax Relief: VLF reduction for commercial truckers.
SB 705	77	Sher	Tax Relief: Research and development tax credit.
SB 708	148	Committee on Budget and Fiscal Review	Health/Social Services: Asset waiver; long-term care for undocumented persons; Medi-Cal fraud unit; sponsor deeming.
SB 709	93	Committee on Budget and Fiscal Review	Resources: Water Resources Control Board enforcement.
SB 710	91	Burton	Social Services: Revises provisions of AB 1682 to provide a limited state share of the cost of negotiated IHSS wage increases, for one year only.
SB 711	86	Burton	General Government: Revises provisions of AB 1660 by eliminating the California Complete Count Committee and instead requesting the Governor to appoint a task force concerning the census.
— Vetoed —			
Bill Number		Author	Subject
AB 907		Alquist	Education: County Offices of Education equalization.
AB 1112		Wright	Corrections: Parole programs.

Chapter 2

Tax Relief Provisions

The 1999-00 *Budget Act* includes several tax relief provisions, as summarized in Figure 1 and discussed below. It is estimated that these provisions will have a General Fund impact of approximately \$300 million in 1999-00. The adopted measures include a reduction in the vehicle license fee (VLF) (in addition to those approved last year), an increase in the deduction of health insurance premiums for self-employed individuals, and three tax-relief provisions targeted to business activity in the state.

Figure 1

Tax-Relief Measures Accompanying the 1999-00 Budget Act

- A 10 percent vehicle license fee (VLF) reduction in calendar year 2000.
- Increased health-care deductions for the self-employed.
- Partial capital gains exclusions for small business stock made permanent.
- Elimination of minimum corporate franchise tax on new corporations for first two years.
- Increased credit rate for qualified research and development expenditures.

VEHICLE LICENSE FEE TAX CUT

The adopted budget includes a one-time reduction in the VLF of 10 percent for calendar year 2000. This reduction is independent of the potential future reductions in the VLF approved in 1998 (discussed below).

Background

The VLF is an annual fee on the ownership of a registered vehicle in California, levied in place of taxing vehicles as personal property. The revenues are distributed to cities and counties. As part of last year's budget, the VLF was permanently cut by 25 percent, with the potential of additional reductions in future years if specific revenue levels (or "triggers") are reached. The first such trigger would result in a cumulative 35 percent reduction beginning in 2001. The maximum reduction possible under the agreement would lower the VLF by a cumulative 67.5 percent, beginning in 2003. In order for any of these additional reductions to become permanent, the corresponding revenue triggers need to be reached in two consecutive years.

Under last year's agreement, cities and counties continue to receive the same amount of revenues as under prior law, with the reduced VLF amounts replaced by General Fund spending. The General Fund currently spends about \$1 billion annually to backfill revenues to local governments associated with the initial 25 percent VLF reduction.

One-Time Additional Reduction

The adopted budget provides for an additional 10 percent VLF reduction—for a cumulative reduction of 35 percent—in calendar year 2000 only. The estimated cost of this reduction is almost \$500 million, spread across the 1999-00 and 2000-01 fiscal years.

This one-time reduction is independent of the previously enacted trigger provisions.

Thus, for the 35 percent reduction to continue beyond calendar year 2000, General Fund revenues would still need to reach the levels specified in last year's budget agreement. Specifically, if the first 35 percent trigger is reached in 2000-01, the new 10 percent reduction would continue in calendar year 2001, again as a temporary measure. Not until calendar year 2002 could the new 10 percent (and thus the cumulative 35 percent) reduction become permanent if the corresponding trigger is reached.

In addition, the budget agreement calls for the initial 25 percent VLF reduction (effective January 1, 1999) to apply to VLF paid in 1998 by commercial trucks doing business both inside and outside of California. This reduction will essentially act as a credit against amounts payable in the 1999 calendar year, and have an estimated one-time General Fund fiscal cost for 1999-00 of \$12.5 million.

OTHER TAX REDUCTION PROVISIONS

Health Insurance Deductions for the Self-Employed

The budget agreement puts California in conformity with federal law regarding the personal income tax deduction allowed for the cost of health insurance premiums paid by the self-employed. Currently, California allows a deduction equal to 40 percent of the cost of health insurance premiums for self-employed individuals and their families. A similar federal program currently allows a 60 percent deduction for 1999 through 2001, a 70 percent deduction for 2002, and a 100 percent deduction beginning in 2003 and thereafter. The budget raises California's deductibility percentages to equal those of the federal program. The estimated revenue reductions are \$21 million in 1999-00, rising to \$83 million in 2003-04 and annually thereafter.

Capital Gains on Small Business Stock

The budget removes the sunset provision for the partial income tax exclusion of capital gains on small business stock. Under current personal income tax law, individual and business taxpayers can exclude 50 percent of the capital gains on certain small business stock, provided the stock is held for five years or longer and was purchased prior to January 1, 1999. To qualify under the program, the stock must be issued by a corporation (1) with less than \$50 million in assets, (2) active in certain trade or business activities, and (3) with 80 percent or more of its dollar payroll attributable to California. By eliminating the January 1, 1999 sunset date, the partial capital gains exclusion is now permanent.

This change would first affect revenues in 2003-04 (a \$3 million reduction), increasing to \$44 million in 2005-06.

Minimum Corporate Franchise Tax

Current law requires that corporations in California pay a minimum corporate franchise tax of \$800 annually. Corporations with gross receipts of under \$1 million, however, pay reduced amounts for the first two years of operation (\$300 for the first year and \$500 for the second year). The new budget eliminates the minimum corporate franchise tax for all new corporations for the first two years of operation, beginning January 1, 2000. This is expected to result in reduced revenues of \$28 million in 1999-00 and approximately \$60 million annually thereafter.

Research and Development Tax Credit

The budget provides for an increase in the income tax credit for qualified research and development expenditures. Under current law, a credit equal-

ing 11 percent of increased research and development expenditures above a base amount is available to individuals and businesses. These expenditures must be technological in nature, relate to the development or production of a new or improved product, and be carried out in California. This provision permanently increases the standard tax credit to 12 percent of qualified expenditures, resulting in estimated revenue reductions of \$5 million in 1999-00, rising to \$9 million in 2002-03 and annually thereafter.

Chapter 3

Expenditure Highlights

PROPOSITION 98 EDUCATION

The budget includes almost \$38 billion in Proposition 98 spending in 1999-00 for K-14 education. This represents an increase of \$2.3 billion, or 6.5 percent over the revised 1998-99 funding level. Figure 1 (see page 16) summarizes for 1998-99 and 1999-00 the effect of the budget package on K-12 schools, community colleges, and other specified agencies.

The Legislature appropriated more General Fund monies than required to meet the Proposition 98 constitutional minimum. This is the second year in a row that the Legislature has made such a decision. Specifically, the Legislature appropriated \$286 million more than the 1998-99 minimum funding level and \$109 million more than what would have been required to satisfy the guarantee in 1999-00.

K-12 Program Impacts

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

- ❖ **1998-99.** Provides overall K-12 funding of \$5,751 per pupil for 1998-99, or \$16 more per pupil than anticipated in the *1998-99 Budget Act*.
- ❖ **1999-00.** Overall K-12 funding of \$6,025 per pupil in 1999-00, which represents an increase of \$274, or 4.8 percent, above the 1998-99 revised amount.

Figure 2 (see page 17) displays K-12 per-pupil funding amounts from 1992-93 through 1999-00. After adjusting for the effects of inflation and changes in attendance accounting, per-pupil funding has increased \$1,086, or 22 percent, over the period.

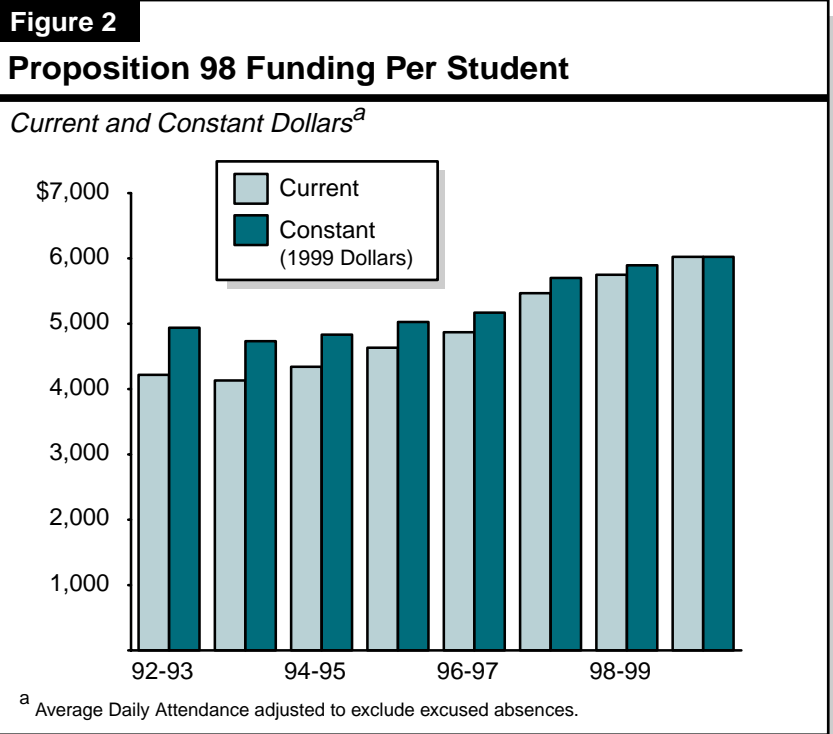
Figure 1			
Proposition 98 Budget Summary			
<i>1998-99 and 1999-00 (Dollars in Billions)</i>			
	1998-99		1999-00
	Budget Act ^a	Revised	Budget Act
K-12 Proposition 98			
General Fund	\$22.1	\$22.3	\$23.7
Local property taxes	9.2	9.3	9.9
Totals, K-12	\$31.3	\$31.6	\$33.6
<i>Average Daily Attendance (ADA)</i>	5,453,060	5,497,849	5,578,766
<i>Amount per ADA</i>	\$5,735	\$5,751	\$6,025
California Community Colleges			
General Fund	\$2.2	\$2.1	\$2.3
Local property taxes	1.4	1.5	1.6
Totals, Community Colleges	\$3.6	\$3.6	\$3.9
Other			
Other agencies	\$0.1	\$0.1	\$0.1
Loan repayment	0.3	0.3	0.3
Proposition 98 Summary			
General Fund	\$24.6	\$24.8	\$26.5
Local property taxes	10.6	10.8	11.4
Totals, Proposition 98	\$35.2	\$35.6	\$37.9

^a Includes related legislation.

1999-00 Increases. Compared to the 1998-99 Budget Act, K-12 Proposition 98 funding increased by \$2.3 billion. The budget allocates \$1 billion for inflation and growth adjustments. Specifically, the budget includes \$561 million to accommodate a projected 1.5 percent increase in student population, and \$446 million for a 1.41 percent cost-of-living adjustment (applicable to most program funding).

The budget directs the remaining \$1.4 billion for other purposes, including \$366 million for special session bills (see box, page 18) and funding for other new programs and existing categorical programs. Some of the major increases noted in Figure 3 are as follows:

- ❖ **Revenue Limit "Deficit Reduction" (\$455 Million).** This action provides a significant amount of general purpose funding to local school districts. The Governor proposed \$200 million for this purpose. The



Legislature added another \$255 million.

❖ **Deferred Maintenance (\$144 Million).** The 1998-99 Budget Act added \$115 million to match local expenditures for deferred maintenance of school facilities.

The Governor's original budget proposal for 1999-00 did not include this funding, but his May Revision restored the funds and added \$29 million, for a General Fund total of \$144 million.

Figure 3
Major 1999-00 K-12 Spending Increases^a
(In Millions)

Purpose	Amount
Revenue limit "deficit reduction"	\$455
Deferred maintenance	144
School safety block grant (ongoing)	71
Teacher performance bonuses	50
Beginning teacher salary increase	50
High school class size reduction	28
Charter school funding model	20

^a Budget bill and education trailer bills.

❖ **Teacher Bonuses and Beginning Teacher Salary Increases (\$100 Million).** The budget includes \$50 million for one-time "performance

awards” for certificated staff at schools with below-average test scores, according to criteria to be developed by the State Board of Education. These awards would be subject to local collective bargaining. The budget also includes \$50 million to raise beginning teacher salaries.

- ❖ ***School Safety Block Grants (\$100 million)***. The budget includes \$71 million in ongoing funding and \$29 million in one-time funding for grades 8 to 12 for school safety block grants. These funds are distributed on an average-daily-attendance (ADA) basis to school districts to use towards school safety—including hiring school counselors, infrastructure, and partnerships with local law enforcement agencies.

SPECIAL SESSION LEGISLATION

In April, the Governor signed into law four special session bills related to K-12 education. These bills introduced new programs related to school accountability, reading, teacher quality, and a high school exit exam. The budget includes \$379 million from the General Fund for these new initiatives (\$366 million Proposition 98), as summarized below.

- ***Public School Accountability Act of 1999 (\$160 Million)***. Chapter 3, Statutes of 1999 (SB 1x, Alpert), establishes a state-wide program designed to hold each school accountable for making gains in student achievement every year. Under the program all schools will be ranked and expected to show improvement by meeting annual growth targets in an “academic performance index,” to be developed by the State Board of Education (SBE). Schools that meet their growth targets will be eligible for monetary and nonmonetary awards. Schools that do not meet, or do not make significant progress toward, their growth targets may be subject to inclusion in the Intermediate Intervention/Underperforming Schools (IIUS) program established by this bill. The IIUS program provides funds to 430 below-average schools to plan comprehensive school reform programs and hire external evaluators. Schools in the IIUS program that do not make adequate progress towards SBE goals face state intervention and other sanctions.
 - ***High School Exit Exam (\$2 Million Federal Funds)***. Chapter 1, Statutes of 1999 (SB 2x, O’Connell), requires all high school
- (continued next page box)*

Current-Year Funds

The budget provides \$158 million for unanticipated attendance growth in 1998-99 (45,000 ADA). The budget also includes \$210 million for various other K-12 purposes that will be counted towards Proposition 98 minimum funding requirements for 1998-99 or prior years. Figure 4 (see page 20) lists the most significant of these allocations.

Governor's Vetoes

The Governor vetoed \$12.7 million in prior-year (one-time) funding and \$103.7 million in 1999-00 Proposition 98 funds for K-12 programs in the budget and trailer bills. Of the 1999-00 vetoed funds, the Governor deleted

Special Session Legislation *(continued)*

students to pass a high school exit exam as condition of receiving a high school diploma, commencing with the 2003-04 school year. The bill requires the Superintendent of Public Instruction to develop the exam by October 2000, with the objective of having the test fully available for the 2001-02 school year.

- **California Peer Assistance and Review Program for Teachers Assembly (\$125 Million).** Chapter 4, Statutes of 1999 (AB 1x, Villaraigosa), replaces the current mentor-teacher program with this new program beginning in July 2001. Exemplary teachers will assist teachers who need to develop their subject matter knowledge, teaching strategies, or both. School districts and county offices that accept state funds for this program agree to negotiate the program's development and implementation with the exclusive representative of the school district's certificated employees, if one exists.
- **Elementary School Intensive Reading and Teacher Training (\$94 Million, Including \$81 Million Proposition 98).** Chapter 2, Statutes of 1999 (AB 2x, Mazonni), creates several new programs to improve student reading skills and teacher preparation. These programs include grants to school districts for intensive reading instruction to students in kindergarten and grades 1 through 4. It also creates several new teacher-training programs focused on (1) training existing teachers to teach reading and (2) increasing the quality of teachers through new teacher-training programs.

increases for high school block grants (\$29 million) and parent involvement grants (\$11.8 million). In addition, the Governor deleted \$50 million for Stage III child care for former California Work Opportunity and Responsibility to Kids (CalWORKs) recipients. He set these funds aside for restoration upon enactment of legislation that would (1) schedule the funds for Stage II child care, and (2) "grandfather" into continuous care any families served with these funds in 1998-99 who exhaust transitional benefits in the budget year.

Figure 4

Major K-12 Expenditures From One-Time Funds

(In Millions)

Purpose	Amount
ADA ^a growth (revenue limits and special education)	\$158
Instructional materials increase	134
Digital high school	44
Special education COLA ^b	41
School safety block grant (one-time)	29
Prior-year desegregation claims	26

^a Average daily attendance.
^b Cost-of-living adjustment.

HIGHER EDUCATION

The budget includes significant funding increases for the University of California (UC), California State University (CSU), California Community Colleges (CCC), and the Student Aid Commission. It provides sufficient funds to accommodate enrollment growth. The budget also provides \$64 million from the General Fund to compensate the three public systems for the revenue loss associated with reducing UC and CSU resident-student fees by 5 percent and community college fees from \$12 to \$11 per unit. Figure 5 shows the change in funding for each major segment of higher education for 1999-00 from the General Fund and local property tax revenue.

University of California

The budget provides \$178 million, or 7.1 percent, more in General Fund support for UC in 1999-00 than in 1998-99. The major augmentations include:

- ❖ \$94 million for a 4 percent base increase.
- ❖ \$43 million for enrollment growth of 3.8 percent.
- ❖ \$26.5 million to reduce resident-student fees by 5 percent.
- ❖ \$25 million for deferred maintenance, new technology, and libraries.

Figure 5			
Higher Education Budget Summary General Fund and Local Property Tax Revenue			
<i>(Dollars in Millions)</i>			
	1999-00 Budget	Change From 1998-99	
		Amount	Percent
University of California	\$2,697	\$178	7.1%
California State University	\$2,253	\$125	5.9%
California Community Colleges			
General Fund (Proposition 98)	\$2,305	\$161	7.5%
Property taxes	1,568	89	6.0
Totals, Community Colleges	\$3,873	\$250	6.5%
Student Aid Commission	\$388	\$45	13.0%

California State University

The budget provides \$125 million, or 5.9 percent, more in General Fund support for CSU in 1999-00 than in 1998-99. Major augmentations include:

- ❖ \$73.4 million to provide a 4 percent increase in the employee compensation pool. How these funds are used (for COLAs, merit increases, and parity adjustments) will be determined through collective bargaining.
- ❖ \$53 million for 3 percent general enrollment growth.
- ❖ \$24.2 million for a 5 percent reduction in student fees.
- ❖ \$19.5 million for an additional 2 percent compensation increase for faculty.
- ❖ \$14 million for K-12 student outreach programs.
- ❖ \$10 million for information technology.

California Community Colleges

The budget package contains major funding increases for community colleges. General Fund spending for community colleges totals approximately \$2.3 billion in the budget year. This represents a \$161 million, or 7.5 percent, increase above the 1998-99 level. Despite expected enrollment growth,

student fee revenues are expected to decline by \$13 million, mainly due to the \$1 per-credit-unit reduction approved in the budget.

1999-00 Expenditures. Figure 6 illustrates the major program increases funded in 1999-00. The budget includes \$116 million to fund enrollment growth of 3.5 percent and \$48.4 million for COLAs of 1.4 percent.

The Partnership for Excellence Program was established last year with an initial appropriation of \$100 million in the 1998-99 Budget Act. This year's budget act increases this program by \$45 million or 45 percent. As was the case last year, the entire \$145 million in

Figure 6	
Community Colleges Major Increases 1999-00	
<i>General Fund (In Millions)</i>	
Purpose	Amount
Enrollment growth	\$116.3
Cost-of-living adjustment	48.4
Partnership for Excellence	45.0
Reading development partnerships	10.0

Partnership for Excellence funds will be distributed to districts on a per-student basis to improve the performance of colleges in teaching students. The CCC Board of Governors is fine-tuning the outcome measures and goals upon which future performance will be assessed. Beginning with the 2001-02 fiscal year, the board will consider whether Partnership for Excellence funds should be allocated based on district performance.

Governor Vetoed Legislation to Add \$22.5 Million. The Governor vetoed \$22.5 million from the amount approved by the Legislature for the community colleges in the 1999-00 Budget Act. The vetoes included \$10.6 million for full-time faculty and \$9.8 million for several student-services programs.

Student Aid Commission

The budget appropriates \$388 million from the General Fund for the Student Aid Commission in 1999-00. This is \$45 million, or 13 percent, above expenditures in 1998-99. The growth in the commission's budget provides for 10,518 additional new Cal Grant awards and an increase in the maximum annual grant amount from \$9,036 to \$9,422.

HEALTH AND SOCIAL SERVICES

In this section, we describe the major features of the health and social services funding in the state spending plan. General Fund support for health and social services programs in 1999-00 totals \$16.9 billion, an increase of 3.6 percent over the prior year. This growth in expenditures is the result of various program changes, including expanded health insurance coverage, and workload-related activities. Figure 7 shows the changes in expenditures in the major welfare grant programs and the Medi-Cal Program.

Figure 7				
Medi-Cal and Major Welfare Grant Programs General Fund				
<i>1998-99 and 1999-00 (Dollars in Millions)</i>				
Program	1998-99	1999-00	Change	
			Amount	Percent
CalWORKs	\$2,024.5	\$1,981.0	-\$43.5	-2.1%
Foster Care	410.4	409.1	-1.3	-0.3
SSI/SSP	2,244.1	2,472.8	228.7	10.2
Medi-Cal	7,432.0	7,586.7	153.4	2.1

Figure 8 (see page 24) describes the major General Fund changes (from prior law) enacted in the *1999-00 Budget Act* and related legislation. The major health trailer bill was Chapter 146, Statutes of 1999 (AB 1107, Cedillo) and the major social services trailer bill was Chapter 147, Statutes of 1999 (AB 1111, Aroner).

Medi-Cal Program

The California Medical Assistance (Medi-Cal) Program provides health care services to welfare recipients and to other qualified low-income persons (primarily families with children and the aged, blind, or disabled). The Department of Health Services (DHS) administers the program.

The budget appropriates \$7.1 billion from the General Fund for Medi-Cal benefits in 1999-00, an increase of 1.6 percent over estimated General Fund spending in 1998-99. This is due primarily to cost increases for health care services and certain program changes, partially offset by savings from cost shifts to federal funds. Without these cost shifts, the growth in General Fund spending would be about 6.7 percent.

Figure 8	
Health and Social Services Programs Major 1999-00 Policy Changes—General Fund	
<i>(In Millions)</i>	
Program/Issue	Change From Prior Law
Medi-Cal	
Expanded eligibility for parents	\$41.0
Nursing home reform	36.0
Provider rate increases	31.2
Disproportionate share hospitals	30.0
Institutions for mental diseases	12.5
Family planning—federal funds shift	-146.7
Increase federal match	-210.0
Healthy Families	
Expanded eligibility for children	\$10.4
Public Health	
County Medical Services Program	-\$20.2
HIV/AIDS programs	13.4 ^a
Expanded Access to Primary Care	7.9 ^a
Breast cancer treatment	5.0
Mental Health	
Local incentive grants	\$10.0
CalWORKs	
Grants—cost-of-living adjustment	— ^b
Food Stamps	
California Food Assistance program	\$6.5
SSI/SSP	
Grants—cost-of-living adjustment	— ^b
Cash Assistance Program for Immigrants	—
Other Social Services Programs	
IHSS Public Authorities	\$33.6
Foster Care rate increases	7.3 ^b
Adult Protective Services	— ^b
Community Care Facilities—3 percent rate increase and SSI/SSP pass-through	10.1

^a General Fund increase over current year.
^b Figure excludes increases provided pursuant to current law.

The budget also appropriates a total of \$450 million from the General Fund in 1999-00 for eligibility administration by the counties and claims payments by the state's fiscal intermediary, which is an increase of 10.8 percent over estimated 1998-99 spending. The DHS budget also includes \$12.3 billion of

federal Medicaid funds in 1999-00. This includes (1) funds that match state Medi-Cal funds in the DHS budget, (2) supplemental disproportionate share hospital (DSH) payments, and (3) funds that match state and local funds in other related programs that qualify for Medicaid funding.

Expanded Eligibility for Parents. Effective March 1, 2000, budget legislation expands eligibility to parents in low-income families with incomes up to 100 percent of the federal poverty level (plus applicable income deductions). Currently, the income limit for parents applying for Medi-Cal is about 86 percent of the poverty level, although children in families with incomes up to 200 percent of the poverty level are eligible for coverage under either the Medi-Cal or Healthy Families Programs.

This expansion also makes working parents in two-parent families eligible for Medi-Cal if they meet the income requirement. At present, only single parents or unemployed parents (defined as working less than 100 hours per month) qualify to apply for Medi-Cal. The department estimates that these changes will increase Medi-Cal enrollment by 249,000 additional parents, when implemented.

The budget bill passed by the Legislature included a General Fund augmentation of \$67.7 million for additional Medi-Cal benefit costs for expanded parental eligibility in 1999-00. However, the budget bill envisioned a somewhat broader eligibility expansion than that authorized in the implementing legislation ultimately passed by the Legislature and agreed to by the administration. The Governor reduced the budget augmentation by \$26.7 million, to \$41 million, in order to make the appropriation consistent with the DHS cost estimate for the enacted expansion.

Nursing Home Reform. The budget includes \$36 million from the General Fund to augment Medi-Cal payments to nursing homes in order to fund the following staffing improvements: (1) a 5 percent pay increase for direct-care staff and (2) an increase in the staffing ratio to a minimum of 3.2 nursing hours per patient, effective January 1, 2000.

Provider Rate Increases. The budget as passed by the Legislature included \$39.5 million from the General Fund for various Medi-Cal provider rate increases. The Governor reduced this amount to \$31.2 million from the General Fund. The approved increases include the following services: general anesthesia, surgery, and radiology services (\$11.8 million for a 9.5 percent increase); obstetric anesthesia services (\$1.2 million for a 20 percent increase); adult in-home nursing services (\$8.2 million to equalize with rates for children); optometrists (\$1.4 million for a 22 percent increase); ambulances

(\$2 million for a 25 percent increase); pediatric specialty care for conditions qualifying for the California Children's Services Program (\$0.7 million for a 5 percent increase); multiple surgical procedures (\$2.4 million to provide a flat 50 percent discount instead of steeper discounts for each added procedure); and cardiac catheterization procedures (\$3.4 million to correct an error in the rates).

Reduced State "Takeout" From DSH Payments. The budget includes a General Fund augmentation of \$30 million in the Medi-Cal Program to backfill for an equivalent reduction in the state takeout from DSH transfers made by public hospitals operated by counties, the University of California, and local hospital districts. The state takeout is used to offset a portion of the General Fund cost of the Medi-Cal Program. The remainder of the transfers, along with matching federal funds, is returned as DSH payments to qualifying public and private hospitals. Budget legislation reduces by \$30 million (to \$84.8 million) the amount of public hospital transfers to the state, and reallocates DSH payments so that public and private DSH hospitals will share equally in this benefit.

Patients in Institutions for Mental Diseases (IMDs). The budget includes \$12.5 million from the General Fund to pay for ancillary outpatient services for Medi-Cal patients in IMDs. These costs have been disallowed by the federal government and no longer qualify for regular Medi-Cal coverage. Budget legislation makes these services available on a state-only basis for 1999-00. Absent this change, these costs would have been shifted to counties.

Family Planning Program—Funding Shift and Expansion. The budget anticipates federal approval of a waiver providing 90 percent federal funding for the current state-only family planning program (serving women above the normal Medi-Cal income limits). This shift results in General Fund savings of \$146.7 million in 1999-00. The budget also augments funding for the program by a total of \$46.9 million (\$4.7 million General Fund) to expand family planning and reproductive health services to males; serve persons of reproductive age who are not at risk of pregnancy; and provide vaccinations for measles, mumps, and rubella.

Assumed Increase in Federal Matching Rate. The budget assumes \$210 million of General Fund savings that depend on action by the federal government to increase the federal matching rate for California's Medi-Cal Program. The increase in the matching rate would correct an underestimation of the state's population in the federal Medicaid funding formula.

Long-Term Care for Undocumented Immigrants. The budget includes \$17.4 million from the General Fund for the ongoing Medi-Cal cost of long-term care for undocumented immigrants (which is funded entirely by the state). Budget legislation reauthorizes this program in order to comply with federal law prohibiting certain state and local benefits for undocumented immigrants in the absence of new state law. The budget legislation also limits new users of this benefit to those that can be served within the funding appropriated in the annual budget, and limits future growth in the program's funding to "the amount necessary to serve 110 percent of the 1999-00 estimated eligible population."

Healthy Families Program

The Healthy Families Program implements the federal Children's Health Insurance Program, enacted in 1997. Funding generally is on a 2-to-1 federal/state matching basis. Families pay a relatively low monthly premium and can choose from a selection of managed care plans for their children. Coverage is similar to that offered to state employees and includes dental and vision benefits. The program began enrolling children in July 1998.

Program Expansion. The 1999-00 General Fund budget for the Healthy Families Program totals \$76.2 million. The budget includes \$10.4 million from the General Fund to expand eligibility for children's health coverage under the Healthy Families Program. The expansions (1) increase the family income limit from 200 percent to 250 percent of the poverty level, (2) allow use of the same income deductions used in computing family income for the Medi-Cal Program, and (3) establish a one-year, state-only program to cover children who are legal immigrants who do not qualify for federal funding because they entered the U.S. after August 22, 1996. (Pending federal legislation would eliminate this restriction.) When fully implemented, these expansions are expected to increase the program's caseload by almost 170,000 children.

Public Health

The DHS administers a broad range of public health programs. Among these are (1) programs that complement and support the activities of local health agencies controlling environmental hazards, preventing and controlling disease, and providing health services to populations with special needs; and (2) state-operated programs, such as those that license health facilities and certain types of technical personnel.

State Funds Suspended for County Medical Services Program. The budget legislation suspends, for one year, the statutory General Fund appropria-

tion of \$20.2 million for the County Medical Services Program, which provides health care for low-income adults in small counties.

HIV/AIDS Programs. The budget includes a \$13.4 million General Fund increase for various HIV/AIDS programs, including education and outreach, prevention, treatment and care services, and evaluation and surveillance activities.

Primary Care Clinics. As enacted by the Legislature, the budget bill appropriated \$22.1 million from the General Fund for the Expanded Access to Primary Care program, which was an increase of \$18 million over current-year expenditures. The Governor, however, vetoed \$10.1 million of this increase.

New Program for Breast Cancer Treatment. Budget legislation established a one-year program to provide breast cancer treatment services to persons with incomes at or below 200 percent of the poverty level. The budget appropriates \$5 million from the General Fund to be matched with non-General Fund sources.

Breast Cancer Screening. As enacted by the Legislature, the budget included a General Fund appropriation of \$14.9 million (in lieu of Proposition 99 funds proposed by the Governor) for the Breast Cancer Early Detection Program. The Governor vetoed the General Fund appropriation and, in his veto message, stated that he would approve legislation to appropriate this amount from a different fund source, specifically the Cigarette and Tobacco Products Surtax Fund (Proposition 99).

Department of Mental Health

The Department of Mental Health directs and coordinates statewide efforts for the treatment of mental disabilities. The department's primary responsibilities are to (1) administer the Bronzan-McCorquodale and Lanterman-Petris-Short Acts, which provide for the delivery of mental health services through a state-county partnership and for involuntary treatment of the mentally disabled; (2) operate four state hospitals and the Acute Psychiatric Program at the California Medical Facility at Vacaville; and (3) administer community programs directed at specific populations.

Local Incentive Grants. The budget includes \$10 million from the General Fund, on a one-time basis, to provide grants to counties for training and integrated services to severely mentally ill adults at risk of homelessness or incarceration.

California Work Opportunity and Responsibility to Kids (CalWORKs)

In response to federal welfare reform legislation, the Legislature created the CalWORKs program in 1997. This program, which replaced the Aid to Families with Dependent Children program, provides cash grants and welfare-to-work services to families with children whose incomes are not adequate to meet their basic needs. The budget plan provides \$1.9 billion from the General Fund for the CalWORKs program in 1999-00, which is a decrease of 2.1 percent from 1998-99.

CalWORKs Budget Reflects Current Law. The budget includes \$102.6 million (federal Temporary Assistance for Needy Families [TANF] block grant funds) to provide a 2.36 percent cost-of-living adjustment (COLA) pursuant to prior and current law. Effective July 1, 1999, the maximum grant for a family of three in high-cost counties will increase by \$15 to a total of \$626 per month, and the corresponding grant in low-cost counties will increase by \$14 to a total of \$596 (see Figure 9). For CalWORKs employment services, the budget provides \$1.2 billion (General Fund and federal TANF funds), an increase of about \$500 million over estimated prior year expenditures. This increase is attributable to the “ramp-up” of the new CalWORKs program. We note that the budget for 1999-00 includes \$655 million in funds that will be carried over from unexpended balances in 1998-99 and therefore represent a one-time source of funding.

Figure 9

CalWORKs and SSI/SSP Maximum Monthly Grants

1998-99 and 1999-00

	1998-99	1999-00	Change	
			Amount	Percent
CalWORKs^a				
Low-cost counties	\$582	\$596	\$14	2.4%
High-cost counties	611	626	15	2.5
SSI/SSP				
Individuals	\$676	\$692 ^b	\$16	2.4%
Couples	1,201	1,229 ^b	28	2.3

^a Family of three.

^b Effective January 1, 2000.

Food Stamps Program

The Food Stamps program provides food stamps to low-income persons. The cost of the food stamps coupons (over \$2 billion) is borne entirely by the federal government, with the exception of the state-only program for noncitizens that is discussed below.

Continuation and Expansion of State-Only Program for Legal Noncitizens.

With respect to noncitizens, current federal law generally limits food stamps benefits to legal noncitizens who immigrated to the U.S. prior to August 1996 and are under age 18 or over age 64. Created in 1997, and subsequently expanded in 1998, the California Food Assistance Program (CFAP) provides state-only food stamps benefits to (1) pre-August 1996 immigrants who are ineligible for federal benefits and (2) a very limited number of federally ineligible post-August 1996 immigrants whose sponsors are dead, disabled, or abusive. Under prior law, CFAP was to sunset on June 30, 2000. The budget legislation (1) expands eligibility, for one year only, to immigrants who arrived after August 1996 and (2) extends the sunset indefinitely by tying continuation of the state program to the continuation of certain federal benefits for noncitizens (which currently has no sunset). The one-year program expansion results in General Funds costs of \$6.5 million in 1999-00. The out-year costs for continuing the program are approximately \$55 million annually, beginning in 2000-01.

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

The SSI/SSP is a state and federally funded program that provides grants to low-income aged, blind, and disabled persons. The budget appropriates \$2.5 billion from the General Fund for the program in 1999-00, which is an increase of 10.2 percent over 1997-98. This spending increase is largely attributable to higher grants effective January 2000 and caseload growth.

Grant Payments. Pursuant to prior and current law, the budget provides for the statutory COLA (2.36 percent) for SSI/SSP grants, at a General Fund cost of \$33 million in 1999-00. Effective January 1, 2000 the maximum grant for aged and disabled individuals will increase by \$16 to a total of \$692 per month, and the grant for couples will increase by \$28 to \$1,229 per month (see Figure 9).

In addition, the budget legislation repeals a statutory provision that would have required a 4.9 percent grant reduction in low-cost counties in the future (estimated to occur in 2002-03, depending on certain technical factors). Eliminating this 4.9 percent regional grant reduction will result in annual

General Fund costs (in the form of lost savings) of over \$100 million, beginning in 2002-03.

Continuation and Expansion of State-Only Program for Immigrants. With respect to noncitizens, current federal law generally limits SSI benefits to noncitizens who were (1) on aid prior to August 1996 or (2) in the U.S. prior to August 1996 and who subsequently become disabled. In 1998, the Legislature created the Cash Assistance Program for Immigrants (CAPI) to provide state-only SSI/SSP benefits to (1) federally ineligible aged, but not disabled, noncitizens who immigrated prior to August 1996 and (2) a very limited number of federally ineligible post-August 1996 immigrants whose sponsors are dead, disabled, or abusive.

Under prior law, the CAPI program was to sunset on June 30, 2000. The budget legislation (1) expands eligibility, for one year only, to immigrants who arrived after August 1996 and (2) extends the sunset indefinitely by tying continuation of the state program to the continuation of certain federal benefits for noncitizens (which currently has no sunset).

The program expansion has no budget-year cost because of a deeming provision which attributes the sponsor's income to the immigrant. The out-year costs for continuing the program are approximately \$25 million annually, beginning in 2000-01.

In-Home Supportive Services (IHSS)

The IHSS program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without such assistance.

Public Authorities. Under prior law, counties that established Public Authorities to negotiate IHSS provider wage increases had to pay 100 percent of the cost of any increases above the minimum wage. The budget includes \$33.6 million from the General Fund for a state share of the costs of provider wage increases in 1999-00 that are negotiated by Public Authorities. Specifically, budget-related legislation provides that, for 1999-00, the state shall pay for 80 percent of the nonfederal costs of such wage increases, up to a maximum increase of 50 cents per hour above the minimum wage.

Foster Care

The Foster Care program provides grants to pay for the care of children placed in foster family homes or group homes.

Rate Increases. The budget includes \$6.4 million from the General Fund for the regular statutory 2.36 percent COLA for Foster Family Homes and Group Homes. The budget also includes \$7.3 million from the General Fund to provide: (1) a 2.36 percent COLA for Foster Family Agencies, (2) a full COLA for six counties that were previously scheduled to receive partial COLAs, and (3) an additional 2.36 percent increase for all foster care providers, effective January 1, 2000.

Adult Protective Services (APS)

The APS program provides assistance to the elderly and functionally disabled adults who are victims of abuse, neglect, or exploitation.

Program Expansion. The budget as passed by the Legislature included \$65.3 million from the General Fund for the APS program. The Governor, however, vetoed \$20 million. The resulting \$45.3 million is an increase of \$25.3 million (127 percent) over 1998-99. This appropriation funds the provisions of Chapter 946, Statutes of 1998 (SB 2199, Lockyer), which broadened the scope of the APS program.

Department of Developmental Services

The Department of Developmental Services contracts with 21 nonprofit regional centers to coordinate educational, vocational, and residential services for developmentally disabled clients. The department also operates five state developmental centers that house developmentally disabled clients who require residential care.

Community Care Facility (CCF) Rate Increases. The budget appropriates \$10.1 million from the General Fund (including the state share of Medicaid reimbursements) for a 3 percent rate increase for CCFs that serve developmentally disabled clients, effective July 1999, and the "pass-through" of SSI/SSP COLAs for these clients. The budget also includes \$14.3 million from the General Fund (including the state share of reimbursements) for a 9.8 percent rate increase, effective January 2000, which will be used for salary increases for direct care staff who pass competency tests or complete a training course, pursuant to a program initiated in 1998-99.

JUDICIARY AND CRIMINAL JUSTICE

The 1999-00 budget for judicial and criminal justice programs totals \$6.9 billion, including \$6.3 billion from the General Fund and \$636 million from various special funds. This is an increase of \$458 million, or 7.1 percent, over 1998-99 expenditures. The increase is the result of four primary factors: (1) additional costs associated with the state's increased financial responsibility

for support of trial courts, (2) increases in spending to accommodate projected caseload growth, (3) increases in spending for new and expanded treatment programs for prison inmates and parolees, and (4) increased funding for programs to assist local law enforcement agencies. Figure 10 shows the final budget for major judiciary and criminal justice programs.

Figure 10				
Major Judiciary and Criminal Justice Programs Budget Summary				
<i>(Dollars in Millions)</i>				
	1998-99	1999-00	Change	
			Amount	Percent
Department of Corrections	\$3,973.4	\$4,115.8	\$142.4	3.6%
General Fund	3,973.4	4,115.8	142.4	3.6
Department of the Youth Authority	\$319.7	\$321.9	\$2.2	0.7%
General Fund	314.7	320.8	6.1	1.9
Bond funds	5.0	1.1	-3.9	-78.4
Offset for undocumented felons (federal funds)	\$183.9	\$272.7	\$88.8	48.3%
Board of Corrections	\$52.4	\$115.4	\$63.0	120.3%
General Fund	33.1	98.1	65.0	196.4
Special and bond funds	19.3	17.3	-2.0	-10.4
Office of Criminal Justice Planning	\$62.3	\$97.0	\$34.8	55.9%
General Fund	44.5	79.3	34.8	78.2
Special funds	17.8	17.7	—	—
Trial Court Funding	\$1,638.4	\$1,805.2	\$166.8	10.2%
General Fund	699.2	921.1	221.9	31.7
County contributions	555.2	457.7	-97.5	-17.6
Fines and penalties	224.0	223.5	-0.6	-0.3
Court-related fees and other	159.9	202.9	43.0	26.9
Judiciary	\$215.0	\$252.2	\$37.2	17.3%
General Fund	213.2	250.9	37.7	17.7
Special funds	1.8	1.3	-0.5	-28.8

The 1999-00 spending amount is about \$8.9 million, or less than 1 percent, above the Governor's proposed budget. Although the net amount is close to the spending level proposed by the Governor, the Legislature made a number of changes to the Governor's budget, including new policy initiatives and augmentations and modifications to individual spending proposals.

Trial Court Funding

The budget includes \$1.8 billion for support of trial courts. This amount includes \$921 million from the General Fund, \$223 million from fine and penalty revenues, \$203 million from court fee revenues, and \$458 million transferred from counties to the state. The General Fund amount is \$222 million, or 32 percent, greater than the current-year amount. This increase is due in large part to legislation adopted in 1997 and 1998 whereby the state has substantially increased financial responsibility for operation of the trial courts and the county costs have been capped and reduced. Accordingly, the budget includes a reduction in county contributions and a corresponding increase in General Fund costs of \$97.5 million.

The budget also includes a number of other substantial General Fund augmentations, all of which were proposed by the Governor in either the January budget or the May Revision. These include \$41.3 million for salary increases for trial court employees that were negotiated previously between the counties and court employees, \$19.2 million for various services (such as information technology) that were previously provided to the courts by counties, and \$19.1 million to correct computer problems in the trial courts associated with the year 2000 change. The budget package also includes \$2.1 million and provisions in a Chapter 67, Statutes of 1999 (AB 1105, Jackson) to establish new programs to assist courts with complex litigation and to establish alternative dispute resolution pilot projects.

The budget also includes \$5.5 million to establish 20 new trial court judgeships (\$2.5 million) and 12 new appellate court justices (\$3 million), beginning in the last quarter of 1999-00. Full-year costs of the new judgeships and justices will be about \$22 million. Legislation to create the new judgeships and justices had not been enacted at the time this report was prepared.

The Legislature augmented the Governor's proposed Trial Court Funding budget by \$7 million to increase the rates paid to trial court interpreters; however, the Governor reduced the augmentation to \$2.5 million.

Department of Corrections

The budget provides a total of \$4.1 billion from the General Fund for support of the California Department of Corrections (CDC). This represents an increase of \$142 million, or 3.6 percent, above the 1998-99 level. This is the smallest rate of increase in the CDC budget in recent years, resulting primarily from somewhat slower projected increases in the prison inmate and parole populations than in recent years.

The budget provides full funding for the projected inmate and parole caseloads. The budget assumes that the inmate population will reach about 167,300 inmates at the end of the budget year, an increase of about 3.4 percent from 1998-99. The projected budget-year population is about 3,600 inmates fewer than was initially assumed in the Governor's January budget. The parole population is projected to reach about 118,100 parolees at the end of the budget year, an increase of 3.4 percent.

The Legislature made several modifications to the Governor's proposed expenditures for CDC. One of the largest related to the Governor's proposed augmentation of \$77 million to address various "structural" deficiencies in CDC's base budget, including providing more money for merit salary increases and restoring previous unallocated budget reductions. The Legislature reduced the proposal to \$40.7 million, for a General Fund savings of \$36.3 million.

Accommodating Prison Population Growth. In the May Revision, the Governor requested \$355 million from the General Fund to fully fund planning and construction of a new maximum security prison at Delano in Kern County and for planning for a second prison in San Diego. The Legislature initially rejected the Governor's proposal and instead augmented the budget by \$38.7 million to fully implement and expand prison inmate and parole treatment programs designed to reduce recidivism and thus reduce growth in the inmate population. A trailer bill, AB 1112 (Wright), made statutory changes necessary to implement two of the new programs. The Governor subsequently vetoed AB 1112, however.

The Legislature subsequently enacted Chapter 54, Statutes of 1999 (AB 1535, Florez), which authorized the new Delano prison. The bill appropriated \$24 million from the General Fund for acquisition and planning costs, and authorized \$311.5 million in lease-payment bonds for construction. The bill also appropriated \$15.5 million from the General Fund to CDC to hire more parole agents to reduce the ratio of parolees to agents. In addition, the measure gave the administration the authority to redirect certain funds contained in the budget act to a broader array of treatment programs.

Federal Funds for Incarceration and Supervision of Undocumented Felons

The budget assumes that the state will receive a total of \$273 million in federal funds to offset the state's costs of supervising undocumented felons and wards in state prison and the Department of the Youth Authority. This is an increase of \$89 million, or 48 percent, above the administration's esti-

mate of federal funds for 1998-99. These federal funds are counted as offsets to state expenditures and are not shown in the budgets of the CDC and the Youth Authority, or in the budget bill.

At the time this report was prepared, the amount of federal funding likely to be available to California was highly uncertain and the estimated increase appeared to be in jeopardy. This is because a U.S. Senate committee in early June substantially *reduced* the proposed nationwide funding for this program below the prior-year level.

Department of the Youth Authority

The budget provides \$322 million (almost all from the General Fund) for support of the Youth Authority. The department's budget reflects an increase of less than 1 percent over the 1998-99 level. The budget assumes that the Youth Authority's institution population will be 7,355 wards at the end of the budget year, a drop of 275 wards, or 3.6 percent below the 1998-99 level. The parole population is expected to drop by about 2 percent, reaching 5,125 parolees at the end of the budget year. There were no major policy changes in this budget.

Assistance to Local Law Enforcement

The budget includes a substantial amount—including a number of augmentations—to assist local law enforcement agencies.

Citizens' Option for Public Safety (COPS) Program. In recent years, the Legislature has provided \$100 million annually for the COPS program, including \$75 million for local police departments and sheriffs for front-line law enforcement, \$12.5 million for sheriffs for jail services, and \$12.5 million for district attorneys. These funds are distributed on a per capita basis. In January, the Governor proposed to modify the program so that the entire \$100 million could only be used by front-line law enforcement agencies to hire more officers. The Legislature rejected the Governor's proposal and continued the existing program.

Law Enforcement Equipment. In the May Revision, the Governor proposed \$61 million from the General Fund for the Office of Criminal Justice Planning to establish a new California Local Law Enforcement Equipment Program in which money would be distributed to local law enforcement agencies on a one-time basis for purchase of equipment. The Legislature reduced the Governor's proposal to \$30 million.

Local Detention Facilities. The budget includes \$75 million in federal funds in the Board of Corrections' budget for distribution to counties for construction of juvenile detention facilities (\$70 million) and adult jails (\$5 million).

Mental Illness Grant Program. The Legislature appropriated \$37.7 million from the General Fund in the Board of Corrections' budget to continue the Mentally Ill Offender Crime Reduction Grant Program, which was established in 1998-99. The Governor, however, reduced the amount for the program to \$27 million. The money will be distributed to specified counties to develop programs to prevent mentally ill offenders in jails from reoffending and returning to jail after they are released.

TRANSPORTATION

The 1999 budget provides about \$2.3 billion for support of the Department of Transportation (Caltrans) mostly from special funds. This is an increase of approximately 5 percent above the 1998-99 estimated level. The major support expenditures are as follows:

- ❖ \$770 million for design and development of highway projects.
- ❖ 746 million for highway maintenance.
- ❖ 234 million for administration.
- ❖ 94 million to develop the State Transportation Improvement Program (STIP) and other highway capital improvement programs.
- ❖ 76 million for transportation planning, including an increase of \$27 million to expand various long-range planning studies.
- ❖ 66 million to provide intercity rail service.
- ❖ 31 million for staff support to assist local agencies, including an increase of 117 personnel-years to provide technical assistance and training to local agencies to assist them with project delivery and help to ensure timely expenditures of federal funds.

The budget also provides \$2.5 billion, mainly from special funds and federal funds, for transportation capital outlay projects. In addition, the budget provides \$2 billion in state and federal funds for local assistance. These funds are allocated to local transportation agencies for projects off the state highway system, including rehabilitation of local streets and roads and transit capital improvements.

In addition, the budget provides \$37.5 million from the General Fund for transit rolling stock. Specifically, this amount includes:

- ❖ \$17 million for the purchase of trains for the state intercity rail program.
- ❖ \$14 million for the purchase of trains for the Altamont Commuter Express.
- ❖ 6 million for the acquisition of ferries for the San Francisco Bay.

Budget legislation was also passed to reenact transfers, totaling \$161 million, from the Motor Vehicle Account and State Highway Account to the General Fund. These transfers, originally made between 1993 and 1995 in annual budget acts, were found to violate the single-subject rule of the State Constitution and thus required separate legislation.

The Governor vetoed about \$2 million in General Fund local assistance for various transportation-related projects, including \$1 million for the City of Livermore for construction of a three-story 805-space parking structure to serve the Altamont Commuter Express rail system. The remaining funds were for various projects, ranging from a park-and-ride facility to a street sweeper purchase.

RESOURCES

The 1999 budget, as adopted by the Legislature, provided a total of \$2.2 billion for resources programs, of which \$1.1 billion is from the General Fund, \$98 million is from bond funds, and \$92 million is from federal funds. The remaining \$918 million are special funds. This total amount is a decrease of about \$61 million (2.6 percent) below estimated current-year expenditures. Significant features include:

- ❖ \$380 million for the Department of Forestry and Fire Protection, including \$19.2 million for urban forestry, forest improvement programs, the state nurseries, and fuel load reduction; \$18.7 million for six new firefighting airtankers; and \$20 million for emergency firefighting purposes.
- ❖ \$157 million for the Department of Parks and Recreation for deferred maintenance work.

- ❖ \$141.5 million for habitat acquisition, restoration, and enhancement, of which \$86.8 million is unscheduled and \$54.7 million is for specified projects.
- ❖ \$49 million from Proposition 204 bond funds for water supply and Bay-Delta restoration projects.
- ❖ \$46 million to pay local governments for part of the state share of costs of local flood control projects owed as of June 1999.
- ❖ \$12 million for the nonfederal share of costs of port dredging projects.
- ❖ \$10 million for integrated water storage investigations.
- ❖ \$8 million for restoration of salmon and steelhead trout habitats.
- ❖ \$8 million for CALFED program administration.
- ❖ \$7.6 million for the enforcement of timber harvesting plans and the Headwaters agreement. The funds are distributed across the Departments of Forestry and Fire Protection, Fish and Game, and Conservation, and the State Water Resources Control Board (SWRCB).
- ❖ \$5 million for acquisitions and implementation of the Natural Community Conservation Planning program in San Diego and Orange Counties.

The Legislature also disencumbered \$100 million that had been appropriated for the anticipated purchase of two properties in connection with the Headwaters agreement. Of that money, \$20 million had been encumbered for 1998-99 and \$80 million for 1999-00. Instead, the Legislature specified that the purchase of the two properties will be paid in installments between 2000-01 and 2004-05—consistent with the Headwaters agreement—and re-appropriated the money for encumbrance in those years. These actions returned \$100 million to the General Fund for 1999-00.

The Governor vetoed \$57.5 million from various resources programs including:

- ❖ \$12 million for port dredging projects and \$6.5 million to assist local governments in beach erosion control.

- ❖ \$9.7 million for river parkway and habitat improvement and acquisition.
- ❖ \$9.2 million for capital improvements to the state park system and \$8.3 million for local park projects.
- ❖ \$4.3 million for local flood control and levee projects.
- ❖ \$2 million for the state to update the inventory of groundwater basins.
- ❖ \$1.6 million for the California Conservation Corps (CCC) to work on the Bay Area Ridge Trail project and \$1.5 million for CCC and certified local community conservation corps to carry out a fire fuel load reduction program.
- ❖ \$1 million for Department of Fish and Game wardens and scientific staff.

ENVIRONMENTAL PROTECTION

The 1999 budget, as adopted by the Legislature, provides about \$960 million for environmental protection programs, including about \$742 million for various environmental protection agencies and \$218 million for local assistance. This amount is an increase of about \$61 million, or 7 percent, over estimated 1998-99 expenditures. Significant features include:

- ❖ An increase of about \$22 million for various enforcement activities, including \$7.6 million to local air districts for compliance and enforcement activities; \$5.1 million to the SWRCB for waste discharger and stormwater inspections and for timber harvest plan review and enforcement; \$5 million to the California Integrated Waste Management Board to increase enforcement against the illegal stockpiling of waste tires and for other activities to reduce tire stockpiles; \$2.5 million to the Department of Toxic Substances Control (DTSC) for hazardous waste management enforcement, including inspections of oil refineries; and \$2 million to the Secretary for Environmental Protection to coordinate and assist with enforcement activities of Cal-EPA boards and departments.
- ❖ An increase from \$1.8 million to \$5.8 million (more than a 200 percent increase) for ambient water quality monitoring, including \$2 million to establish a groundwater quality monitoring program for the

first time in several years. Additionally, the budget also provides an increase of \$3 million to reduce a backlog in the timely update and renewal of waste discharge permits.

- ❖ \$20 million to the Air Resources Board for an incentive program to reduce emissions from heavy-duty diesel engines.
- ❖ \$51 million from Proposition 204 bond funds for local water quality projects.
- ❖ \$9.9 million for the SWRCB to develop “total maximum daily loads” (TMDLs) of pollutants in impaired water bodies.
- ❖ \$7.5 million to identify sources of MTBE-contaminated waters, clean up MTBE contamination, and assess the risks of alternatives to MTBE-based fuels.
- ❖ \$4.2 million for environmental monitoring and risk assessment activities focused on children’s health.

In addition, the Legislature approved a number of trailer bills, including:

- ❖ A trailer bill that specifies the enforcement authority of the Secretary for Environmental Protection; establishes an ombudsman function at Cal-EPA; provides for pilot projects to evaluate the use of environmental management systems; and codifies the permit assistance center program that was established administratively by Cal-EPA in 1992.
- ❖ A trailer bill that requires the SWRCB to address identified problems with permitting, enforcement, and water quality monitoring; requires pollution prevention planning by waste dischargers under specified circumstances; and establishes minimum mandatory penalties for serious and chronic water quality violations. The Legislature tied funding for one-third of the SWRCB’s budget bill appropriations (about \$120 million) to the adoption of this trailer bill.

The Governor vetoed or reduced legislative augmentations totaling \$22.5 million, including:

- ❖ \$11.2 million for various enforcement activities (\$7.6 million for local air districts, \$2.1 million for hazardous waste management, and \$1.5 million for the Secretary for Environmental Protection).

- ❖ \$3 million (of the \$4 million augmentation) for ambient water quality monitoring.
- ❖ \$8.3 million for a number of other environmental programs, including \$3.8 million for various risk assessment and standard-setting activities.

Additionally, the Governor sustained, on a one-time basis, augmentations totaling \$6.5 million from the General Fund for the SWRCB to reduce permit backlogs and increase inspections. However, the Governor stated that, based on the “polluter pays principle,” fees are a more appropriate funding source for these regulatory activities in the future.

LOCAL GOVERNMENT

The budget includes several items with a direct fiscal impact on local governments.

- ❖ **One-Time Relief.** The budget provides \$150 million in one-time general purpose relief to counties, cities, and special districts. Half of this relief will be distributed to local governments in a manner that reflects their contributions to the Educational Revenue Augmentation Fund, or “ERAF.” The remaining \$75 million will be allocated to cities and counties in relation to city population and the number of people living in county unincorporated areas. Given these formulas, we estimate that counties will receive about \$74 million, cities will receive about \$70 million, and special districts will receive about \$6 million. Figure 11 shows the estimated relief to these local governments under the two components.

- ❖ **Permanent Relief Contingent Upon Constitutional Change.** Trailer legislation, Chapter 84, Statutes of 1999 (AB 1661, Torlakson), passed by the Legislature and signed by the Governor au-

Figure 11			
Estimated Distribution of One-Time Relief to Local Governments			
<i>(In Millions)</i>			
Local Government	Population Formula	ERAF^a Formula	Total
Counties	\$16	\$58	\$74
Cities	59	11	70
Special districts	—	6	6
Totals	\$75	\$75	\$150

^a Educational Revenue Augmentation Fund.

thorizes significant prospective relief to local governments. Specifically, if a constitutional amendment to reform local government finance is approved by the state's voters by November 2000, AB 1661 (1) places a "cap" on ERAF growth and (2) directs the state to pay the schools' proportionate share of local property tax administrative costs. These actions would provide a growing source of local government relief, particularly to counties, totaling more than \$1 billion within five years.

- ❖ **Relief From Booking Fees.** Trailer legislation Chapter 79, Statutes of 1999 (AB 1662, Leonard) provides a continuous appropriation to offset city booking fees. Specifically, in 1999-00, the measure provides up to \$50 million to reimburse cities for booking fees paid in 1997-98. The Governor vetoed provisions of the legislation that governed the allocation of reimbursements in future years. Consequently, there is some uncertainty as to the allocation of future booking fee reimbursements.
- ❖ **Support for Local Libraries.** The budget provides an \$18 million augmentation (for a total of \$59 million) for support of public libraries.

In addition to the above actions, the budget provides funding for various criminal justice and health and social services programs which benefit local government, such as the \$100 million for the Citizens' Option for Public Safety program.

CAPITAL OUTLAY

The 1999-00 Budget Act and related legislation includes \$1.5 billion for capital outlay (after Governor vetoes and excluding highways and transits), as shown in Figure 12 (see page 44). As the figure indicates, the budget relies heavily on debt financing for capital outlay. Over 75 percent of the total is from bonds, with 56 percent from general obligation bonds (mostly in higher education) and 44 percent from lease-payment bonds. The majority of General Fund spending is in two areas—resources and corrections.

In signing the budget bill, the Governor vetoed a total of \$24 million. Of this amount, \$21 million was from the General Fund including \$18 million from the resources area and \$3 million for a Governor's residence. The remaining \$3 million was an appropriation from general obligation bonds for design of a University of California research facility in San Francisco.

Figure 12

**1999-00 Capital Outlay Programs
Appropriations by Department and Fund Type**

(In Thousands)

Department	Bonds	General	Special	Federal	Total
Emergency Services	\$6,720	—	—	—	\$6,720
Justice	39,969	\$2,048	—	—	42,017
California Science Center	—	538	—	—	538
Franchise Tax Board	—	963	—	—	963
General Services (seismic retrofit)	1,870 ^a	—	—	—	1,870
General Services (other)	—	226	\$275	—	501
Transportation	—	—	2,674	—	2,674
Highway Patrol	11,214	—	10,640	—	21,854
Motor Vehicles	—	—	7,209	—	7,209
Tahoe Conservancy	39	12,416	4,443	—	16,898
Conservation Corps	—	—	349	—	349
Forestry and Fire Protection	4,394	17,022	—	—	21,416
Fish and Game	—	—	710	\$250	960
Wildlife Conservation Board	—	50,390	2,205	—	52,595
Boating and Waterways	—	—	7,828	—	7,828
Coastal Conservancy	—	67,160	6,773	2,000	75,933
Parks and Recreation	1,288 ^a	21,251	13,652	600	36,701
Santa Monica Mountains Conservancy	—	15,000	—	—	15,000
Coachella Valley Mountains Conservancy	—	—	100	—	100
Water Resources	3,270 ^a	22,225	—	—	25,495
Health Services	—	484	—	—	484
Developmental Services	—	8,288	—	—	8,288
Mental Health (seismic retrofit)	5,103 ^a	—	—	—	5,103
Mental Health (other)	23,809	10,950	—	—	34,759
Employment Development Corrections ^b	—	—	99	2,724	2,823
Corrections ^b	411,916	46,789	—	—	458,705
Youth Authority	8,577	18,127	—	—	26,704
Education	—	1,060	—	—	1,060
University of California	215,325 ^a	—	—	—	215,325
California State University	260,673 ^a	—	—	—	260,673
Community Colleges	172,473 ^a	—	—	—	172,473
Food and Agriculture	—	1,185	—	—	1,185
Military	—	7,443	—	36	7,479
Veterans' Home of California	—	1,001	—	—	1,001
Unallocated	—	1,000	—	—	1,000
Totals	\$1,166,640	\$305,566	\$56,867	\$5,610	\$1,534,683

^a General obligation bonds—all other bond proposals are lease-payment bonds.

^b Includes \$311 million in lease-payment bonds and \$24 million from the General Fund, provided under Chapter 54, Statutes of 1999 (AB 1535, Florez) for a new prison at Delano, Kern County.

Some of the major projects and programs funded in 1999-00 include:

- ❖ *Department of Justice*—\$42 million for design and construction to replace six crime laboratories.
- ❖ *Wildlife Conservation Board and state conservancies*—\$144 million primarily for land acquisition.
- ❖ *Department of Forestry and Fire Protection*—\$17 million for renovation and replacement of existing facilities.
- ❖ *Department of Corrections*—\$336 million for a new 2,248 cell maximum security prison and 408 bed support facility at Delano, Kern County.
- ❖ *University of California*—\$215 million for 22 projects at 9 campuses.
- ❖ *California State University*—\$261 million for 25 projects at 17 campuses.
- ❖ *California Community Colleges*—\$172 million for 105 projects at 57 districts (66 campuses and off-campus centers).

OTHER MAJOR PROVISIONS

Infrastructure Bank

The budget includes \$425 million from the General Fund for the Infrastructure Bank. This augments the \$50 million appropriated for the bank in the *1998-99 Budget Act*, bringing the total available funds to \$475 million.

Trailer bill legislation was enacted—Chapter 84 (AB 1661, Torlakson)—that (1) makes the funds available only for local government sponsored projects; (2) requires that all projects be consistent with the criteria, priorities, and guidelines established by the bank for the selection of projects; and (3) stipulates that no single loan can exceed 10 percent of the total appropriation (\$47.5 million), except by the unanimous consent of the bank board and with 30-day written notice from the Director of Finance to the Chair and Vice Chair of the Joint Legislative Budget Committee. Assembly Bill 1661 also requires the bank to submit quarterly reports to the Governor and the Legislature during 1999-00 and 2000-01.

Smog Check Program

The budget provides \$155.8 million from special funds for the continued operation of the Smog Check Program within the Department of Consumer Affairs. As part of the budget process, legislation was enacted—Chapter 67, Statutes of 1999 (AB 1105, Jackson)—raising the eligibility threshold for state-funded repair assistance to all vehicle owners with incomes at or below 185 percent of the federal poverty level (rather than the prior limit of 175 percent). Chapter 67 also authorizes, but does not require, the department to make the following changes:

- ❖ Provide state-funded repair assistance to owners of vehicles who are required to take the vehicle to a test only facility, regardless of the owner's income.
- ❖ Raise the amount the state will pay under both the repair assistance and vehicle retirement programs, if additional payments (above the current \$450 limit) are cost effective.
- ❖ Exempt at least 15 percent of the lowest smog-producing vehicles from the biennial smog check inspection.
- ❖ Exempt an additional two model years of newer vehicles (currently smog check inspections are not required for vehicles four years old and newer).

Employee Compensation

The Legislature did not make a specific appropriation for additional employee compensation that may result from collective bargaining agreements between the administration and employee bargaining units. Instead, any needed funds for this purpose will be provided from the reserve. (In taking final action on the budget, the Governor specifically set aside \$300 million for employee compensation and litigation.)

Memoranda of understanding (MOUs) for all bargaining units expired on June 30, 1999. When this report was written, the administration and the bargaining units were continuing their discussions on terms of new MOUs. Any new provisions resulting in expenditure of state funds will require legislative approval.

Year 2000 Computer Projects

The 1998-99 *Budget Act* included \$20 million in a special budget item to fund efforts by state departments to modify computers to accommodate the year

2000 (Y2K) remediation efforts. As of mid-June, all of those funds had been expended and the special item had received augmentations from the state General Fund reserve of about \$41.7 million. In the May Revision for the budget year, the Governor requested \$64.3 million (including \$44.3 million from the General Fund, \$10 million from special funds, and \$10 million from nongovernmental cost funds) in the special budget item for distribution to state departments for additional Y2K efforts. Of the General Fund amount, \$14.3 million was designated for support of the Department of Information Technology (DOIT) Y2K project management office.

The final budget bill reduced the General Fund by \$30.8 million, leaving a total of \$13.5 million, all of which would be used to support the DOIT project management office. The *1999-00 Budget Act* includes a provision that allows the administration to take monies from the state's reserve to supplement the Y2K item as needed.

The budget also includes \$17.5 million in the DOIT budget to establish a new center to test the state's mainframe computer systems for their Y2K readiness.

Arts Council

The *1999-00 Budget Bill* included \$63.6 million for the California Arts Council (\$62.8 million from the General Fund). This is more than double the amount requested by the Governor and is the result of legislative augmentations totaling \$35.3 million for grants to 40 specified museums and cultural institutions. The Governor, however, reduced or eliminated \$9.2 million in appropriations for 10 museums and cultural institutions, leaving the Arts Council with a total budget of \$54.4 million for 1999-00, including \$26.2 million for museum funding.

Department of Food and Agriculture

The budget increases General Fund support for pest exclusion activities at both the state and local level. Specifically, it provides:

- ❖ An additional \$4.0 million for county level pest exclusion and eradication efforts; and
- ❖ 8.8 million for eradication of the red imported fire ant, including the establishment of two additional pest inspection border stations and additional staff for three existing stations.

Housing

The budget sent to the Governor included a total of \$27.5 million in augmentations for housing programs: \$10.5 million requested by the Governor in the May Revision and an additional \$17 million in legislative augmentations. The Governor vetoed almost \$10 million from legislative augmentations, leaving nearly \$18 million in new spending on housing. These dollars will be used to fund the Governor's Housing Task Force, a new welfare-to-work housing program, farmworker housing, and affordable housing acquisition and rehabilitation.