



2001-02 Budget Conference Committee

Overview by
Legislative Analyst's Office



Comparison of Senate and Assembly Versions of the Budget General Fund 2001-02

(In Millions)

	Senate Version	Assembly Version	Difference
Prior-year fund balance	\$7,222	\$7,205	-\$17
Revenues and transfers	76,079	75,777	-302
Total resources available	\$83,301	\$82,982	-\$320
Expenditures	\$80,061	\$80,399	\$338
Ending fund balance	\$3240	\$2,583	-\$658
Encumbrances	\$701	\$701	—
Set-aside for legal contingencies	100	100	—
Reserve	\$2,439	\$1,781	-\$658

- Prior-Year Fund Balance.** The Senate version shows a slightly higher prior-year fund balance. The small net difference reflects several offsetting factors. For example, the Senate version includes the effects of current-year spending reversions and prior-year reductions to Proposition 98 funding, while the Assembly version reflects the LAO’s higher current-year revenue estimates.
- Revenues and Transfers.** The Senate version includes 2001-02 revenues and transfers that are \$302 million higher than the Assembly version. This net budget-year difference primarily reflects the Senate’s transfer of about \$750 million in special fund balances to the General Fund, partially offset by the Assembly’s adoption of LAO’s higher revenues.
- Expenditures.** The Assembly budget includes \$338 million more in expenditures than the Senate, largely relating to health, social services, and education. The net difference also includes a wide variety of other factors. For example, the Senate includes \$300 million savings from vacancies, but also incorporates \$260 million in added funding for extension of the current-year increase in the senior citizens’ tax credit.
- Operating Balance.** In both the Assembly and Senate versions—as well as in the May Revision—expenditures exceed revenues by roughly \$4 billion, resulting in a drawing down of the reserve. This imbalance has significant implications for 2002-03 (see page 4).
- Reserve.** Both houses include reserves which are significantly larger than the May Revision proposal. The Senate’s reserve is about \$650 million higher than the Assembly. In addition, both versions include a \$100 million set-aside for legal contingencies.



Key Features of the Senate and Assembly Budgets

Revenues and Transfers

- The Assembly version is based on the LAO's revenue forecast, which is \$276 million higher in the current year and \$373 million higher in the budget year.
- The Senate version includes about \$750 million related to transfers of balances from special funds.
- Neither version reflects the federal tax reduction measure that was recently agreed to in Congress, which would result in the phase out of California's estate tax. The measure would reduce California revenues by over \$100 million in 2001-02, over \$400 million in 2002-03, over \$750 million in 2003-04, and over \$1.1 billion in 2004-05.

Tax Relief

- Both houses adopted the Governor's proposed increase in the Manufacturers' Investment Tax Credit and extension of the capital gains exclusion for small business stock gains. Also, the Senate version makes permanent the current-year's increases in the senior citizens' tax credit.

Education

- The Senate and Assembly fund K-14 Proposition 98 at a similar aggregate level. The houses, however, differed significantly in many program allocations. For example, the Senate added general purpose money for school districts by altering the "Public Employees' Retirement System reduction" amount while the Assembly provided equalization funding.
- With regard to the Governor's proposal on longer school year for middle grades, the Senate set aside \$65 million pending enactment of legislation whereas the Assembly rejected the proposal.
- There were numerous differences between the houses on one-time Proposition 98 spending. Key differences involve (1) the amounts appropriated for prior-year "settle-up" obligations and (2) the allocation of these one-time monies among programs—particularly energy-related spending.



Key Features of the Senate and Assembly Budgets

Continued

Transportation

- Both houses essentially adopted the May Revision proposal related to Transportation Congestion Relief funding, including \$1.3 billion in the budget year and \$1.2 billion in 2002-03. Due to slight differences, however, this is a conference item.

Health and Social Services

- The Assembly version includes \$213 million in higher funding in the health budget for various program expansions including trauma care and mental health.
- Both houses (1) eliminated sunsets for cash and food benefits for recent immigrants, (2) rejected the Governor's reduction of Child Welfare Services, (3) fully funded Stage 3 child care, and (4) rejected the Governor's proposal to establish a Tobacco Settlement Fund. The Assembly also added funding for various new foster care and child welfare initiatives.

Other

- The Senate version includes expenditure savings from reversions (\$200 million) and elimination of vacancies (\$300 million), as well as added revenues from one-time transfers of balances in special funds (\$750 million).



The 2002-03 Situation

- It is important to keep in mind the longer-term implications of decisions made in next year's budget.
- The May Revision and the two legislative versions of the budget all have a large operating deficit in 2001-02. That is, ongoing expenditure programs exceed ongoing revenues—by roughly \$4 billion.
- Even if revenues were to rebound in the following year by 8 percent, 2002-03 expenditures would still exceed revenues by over \$4 billion. While part of this shortfall could be covered by the projected carry-in reserve from 2001-02, substantial additional cuts would be required to balance the 2002-03 budget.
- Federal actions phasing out California's estate tax revenues will exacerbate the state's budget shortfalls in the out years.



Conference Considerations

- Augmentations approved by both houses.
- Legislation funded in the budget bill.
- Capital outlay.
 - Fire and life safety/nonfire and life safety.
 - Pay as you go/lease payment/defer projects.
- Reductions.
 - Specific versus unallocated.
 - One time versus ongoing.
- Size of reserve.
 - Trade offs between budget year and budget year plus one.
 - Minimize claims against reserve.