

The 2002-03 Senate Budget Bill SB 1261 (Peace)

LEGISLATIVE ANALYST'S OFFICE

As Adopted by the
Budget and Fiscal Review Committee
May 28, 2002





2002-03 General Fund Condition

(In Millions)

	Governor's Budget (May Revision)	Senate Version	Difference
Prior-year fund balance	-\$123	-\$690 ^a	-\$567
Revenues and transfers	78,603	78,660	57
Total resources available	\$78,480	\$77,970	-\$510
Expenditures	\$76,491	\$77,476	\$985
Ending fund balance	\$1,989	\$1,494 ^b	-\$495
Encumbrances	\$1,473	\$1,473	—
Reserve	\$516	\$21^b	-\$495

^a Includes minus \$600 million adjustment related to bank and corporation tax refunds attributable to prior year.
^b Includes \$1 billion from adoption of Control Section 32.5.

- Reserve.** The Senate version results in a 2002-03 year-end reserve of \$21 million, which is \$495 million less than the \$516 million reserve in the May Revision. The Senate version includes \$1 billion from the adoption of Control Section 32.5.
- Revenues.** The Senate version assumes total revenues and transfers of \$78.7 billion, which is \$57 million higher than the May Revision. The Senate version assumes the administration's revenue forecast, including its tax proposals, but incorporates additional funds from transfers.
- Expenditures.** The Senate's General Fund expenditure total is \$77.5 billion, which is \$985 million higher than the May Revision. The net increase mainly reflects the restoration of the May Revision's proposed reductions in health and social services programs.



Major Features



K-12 Education—Proposition 98

- Maintains the same level of 2002-03 General Fund Proposition 98 spending as the May Revision—\$29.3 billion.
- Adopts the Governor's May Revision proposals to defer \$1.1 billion of current-year General Fund expenditures to the budget year, and replace another \$503 million of current-year General Fund spending with funds from the Proposition 98 Reversion Account.



Higher Education

- Increases higher education spending by \$20.3 million above the May Revision amount. This includes restoring additional funds to the California Community Colleges California Work Opportunity and Responsibility to Kids (CalWORKs) program and restoring General Fund support for the California Postsecondary Education Commission.
- Adopts May Revision proposal to provide an additional \$24.9 million for enrollment growth, which provides 4.3 percent growth at the University of California (UC) and 4.8 percent growth at the California State University (CSU).



Health and Social Services

- Increases health services spending by about \$700 million compared to the May Revision, primarily by restoring various May Revision reductions in the Medi-Cal Program and the Department of Mental Health.
- Medi-Cal Program restorations include funding for certain optional Medi-Cal benefits for some adults, benefits to some two-parent working families, and county administration funding.



Major Features

(Continued)

- Increases social services spending by about \$281 million compared to the May Revision, by rejecting the Governor's proposal to (1) suspend the federal cost-of-living adjustment (COLA) for the Supplemental Security Income/State Supplementary Program (SSI/SSP), (2) reduce county administration funding for various social services programs, and (3) reduce funding for child welfare services.



Judicial and Criminal Justice Programs

- Restores one-half of the funding for juvenile justice grant programs that the May Revision eliminated, by redirecting funding from the Citizens' Option for Public Safety program. As a result, both programs are funded equally at \$60.6 million each.
- Reduces Department of Corrections funding for contract medical services by \$35.5 million.



Revenue Provisions

- Accepts Governor's May Revision proposal to securitize \$4.5 billion in tobacco settlement revenues.
- Adopts almost all of the \$3.8 billion in tax increases and revenue accelerations proposed in the May Revision. These include a one-year increase in the vehicle license fee (VLF), a two-year suspension of net operating loss deductions, and an increase in the cigarette tax of 50 cents per pack.



Major Revenue-Related Proposals 2002-03

General Fund (In Millions)

Revenue Increases	Fiscal Impact
Cigarette tax increase	\$475
Net operating loss deduction deferral	1,200
Treatment of bad debts by banks	255
Withholding on certain real estate transactions	225
Compliance measures and revenue accelerations ^a	357
Subtotal	\$2,512
Expenditure Reduction	
Vehicle license fee offset ^b	\$1,276
Total	\$3,788
^a Includes \$80 million from the Governor's January proposals. ^b Includes trailer coach fees for the General Fund.	

The Senate budget bill has incorporated all the administration's revenue proposals except lowering the threshold for certain taxpayer compliance activities.

Revenue-related increases incorporated in the budget plan are:

- Increased VLF rate from 0.65 percent to 1.5 percent for 2003, generating \$1.3 billion in General Fund savings in 2002-03.
- Deferral of deductions of net operating losses (NOLs) by businesses (with the carryforward period extended an additional two years), increasing revenues by \$1.2 billion.
- Increased taxes on cigarettes of 50 cents per pack (for a total of \$1.37 per pack), generating an estimated \$475 million.
- Various revenue accelerations, additional withholding, and tax compliance measures, generating a revenue increase of \$582 million.
- Federal conformity regarding treatment of bad debts by large banks, increasing revenues by \$255 million.



Major Senate Actions K-12 Education—Proposition 98

General Fund (In Millions)

	Governor	Senate	Difference
Cost-of-living adjustments (various programs)	\$763	\$763	—
Enrollment growth (various programs)	731	731	—
Instructional materials	400	400	—
High Priority Grants for Low-Performing Schools (HPG-LPS)	197	197	—
Site-based Governor's Performance Awards	144	67	-\$77
Library materials (one-time)	80	40	-40
Revenue limit equalization	—	42	42
Restore cuts to independent study	—	38	38
Reduce PERS offset to revenue limits	—	36	36
Restore cut to adult education—CalWORKs pupils	—	23	23
Restore cut to planning grants (HPG-LPS)	—	20	20
Restore cut to Healthy Start	—	19	19
Additional current- and prior-year reductions	—	-124	-124

- The Senate version spends \$29.3 billion from the General Fund for Proposition 98 K-12 programs, the same as the May Revision.
- The Senate version provides \$7,186 in Proposition 98 per pupil. This is \$184, or 2.6 percent, above the *2001-02 Budget Act* as signed by the Governor. This is \$501, or 7.5 percent, above actual spending in 2000-01.
- The Senate approved the Governor's proposals to (1) defer \$1.1 billion of current-year expenditures to the budget year and (2) replace \$503 million of current-year General Fund with funds from the Proposition 98 Reversion Account. These actions help meet a higher Proposition 98 guarantee in 2002-03 and create General Fund savings.



Major Senate Actions Higher Education

General Fund (In Millions)

	January Proposal	Change to January Budget		
		May Revision	Senate	Difference
University of California (UC)	\$3,367.1	-\$162.4	-\$161.1	\$1.3
California State University (CSU)	2,735.6	-50.2	-50.2	—
California Community Colleges (CCC)	2,739.4	115.0	124.0	9.0
Student Aid Commission	733.7	-78.9	-71.6	7.2
Hastings College of the Law	15.4	—	—	—
Scholarshare Investment Board	129.3	-8.0	-8.0	—
California Postsecondary Education Commission (CPEC)	3.3	-2.8	—	2.8
Totals	\$9,723.8	-\$187.3	-\$167.0	\$20.3

Totals may not add due to rounding.

- The Senate proposes a total of \$9.6 billion from the General Fund for higher education in 2002-03. This is \$20.3 million above the amount proposed in the May Revision.
- The Senate adopted the May Revision proposal to provide an additional \$24.9 million for enrollment growth at UC and CSU above levels provided for in the January budget. With this action, the budget funds 4.3 percent growth at UC and 4.8 percent at CSU.
- The Senate rejected the May Revision proposal to eliminate most of CPEC's General Fund appropriation and position authority.
- For CCC's CalWORKs program, the Senate action restores \$29 million of the \$50 million reduction proposed in January. By contrast, the May Revision had proposed a \$20 million restoration.



Major Senate Actions Social Services Programs

General Fund (In Millions)

Program/Department/Issue	Difference From May Revision
Supplemental Security Income/State Supplementary Program	
“Pass along” January 2003 federal COLA	\$53.7
Provide one-month COLA in June 2003	22.3
Conforming COLA actions for state-only immigrant programs	0.6
CalWORKs	
Provide one-month COLA in June 2003	\$12.5 ^a
Net technical conforming savings related to certain restorations	-16.9 ^a
Eliminate TANF funds for Intensive Services Program	-3.6 ^a
County Administration	
Restore 14.8 percent reduction in CalWORKs	\$103.9 ^a
Restore 20 percent reduction in Food Stamps	47.9 ^b
Restore 20 percent reduction in In-Home Supportive Services	15.7
Restore 20 percent reduction in Foster Care	7.5
Children’s Programs	
Restore Child Welfare Services’ reductions	\$28.0
Restore Adoptions’ reductions	9.1
Adult Protective Services (APS)	
Partially restore reduction to APS	\$4.5
Employment Development Department	
Delete Faith-Based Initiative	-\$4.0
Total	\$281.2^a

^a Combined General Fund and TANF federal funds.
^b Includes technical conforming Food Stamps administrative costs.



Compared to the May Revision, the Senate provided a net increase of approximately \$281 million to various social services programs. These restorations represent an increase of approximately 3.1 percent to a base of about \$8.5 billion.



Major Senate Actions Health Programs

The budget adopted by the Senate provides a net increase of around \$689 million General Fund for health programs above the funding level proposed in the Governor's May Revision spending plan. The key Senate changes are summarized below.

General Fund (In Millions)

Medi-Cal	Change from Governor's Budget
Rejected elimination of some optional benefits for some adults.	\$263.0
Rejected reinstatement of quarterly status reporting for parents.	155.4
Rejected proposal to rescind Section 1931(b) expansion for poor families.	92.1
Rejected 20 percent reduction in county administration.	87.9
Rejected proposal to increase copayment amounts for some services.	30.6
Adjusted Medi-Cal caseload to reflect recent trends.	-23.3
Assumed additional savings from earlier expansion of medical case management.	-4.5
Net savings from elimination of the asset test.	-4.3
Assumed more savings from contracting for durable equipment and lab services.	-3.3
Rejected adult day health care pilot project.	-2.4
Approved increase in state fee for hospitals but eliminated entire fee in two years.	No net change
Approved rollback of provider rates but reinstated prior rates in two years.	No net change
Assumed drug procurement savings, but modified and limited to two years supplemental rebates from AIDS and cancer drug manufacturers.	No net change
Adopted rollback in drug dispensing fee but reinstated higher rates in three years.	No net change
Public Health	
Rejected shift of DHS administrative costs to County Medical Services Program.	\$5.0
Department of Mental Health	
Rejected delaying paying county mandates for mental health services for students.	\$59.9
Rejected elimination of funding for children's system of care community services.	33.5
Rejected proposal to shift 10 percent share of growth in EPSDT costs to counties.	5.4
Department of Developmental Services	
Adopted reduction in Regional Center purchase of services through an unallocated cut, but rejected proposed statewide purchasing standards.	No net change
Department of Alcohol and Drug Programs	
Restore Drug Court Partnership Act program and refocus program on felons.	\$8.0 ^a
Restore most of a proposed \$7.5 million reduction in local drug or alcohol programs.	6.0 ^a
Health Insurance Portability and Accountability Act	
Rejected some funding proposals while maintaining resources to continue compliance efforts.	-\$3.9
^a Restorations funded through (1) \$10 million in asset forfeiture proceeds and (2) \$6.5 million in prison budget savings due to change in drug court program.	



Major Senate Actions Judicial and Criminal Justice Provisions

General Fund (In Millions)

Issue	Governor	Senate	Difference
Department of Corrections			
Contract Medical Services	\$115.5	\$80.0	-\$35.5
Workers' Compensations Shortfall	42.1	42.1	—
Work Credits for Fire Camps	-16.7	-16.7	—
Community Correctional Facilities Deactivation	-2.8	2.8	5.6
Delano II Termination	1.8	—	-1.8
Youth Authority			
<i>Stevens v. Harper</i> legal defense	3.5	—	-\$3.5
Board of Prison Terms			
Reduce board budget	\$30.4	\$15.2	-\$15.2
Crime Prevention Act			
Juvenile Justice Grants	—	\$60.6	\$60.6
COPS	\$121.3	60.6	-60.6
Juvenile Justice			
Turning Point Academy	\$2.6	—	-\$2.6
Local Law Enforcement			
War on Methamphetamine	-\$5.0	-\$5.0	—
High Technology Grants	-16.9	-16.9	—
Details may not total due to rounding.			

- Reduced contract medical for the California Department of Corrections by \$35.5 million.
- Redirected legal defense funding for Youth Authority (\$3.5 million) from the class action lawsuit, *Stevens v. Harper*, toward restoring partial funding of proposed parole reductions.
- Eliminated half-year of funding (\$15.2 million) for the Board of Prison Terms.
- Funded the Citizens' Option for Public Safety (COPS) and Juvenile Justice grants programs at the same level (\$60.6 million each).



Major Senate Actions Resources

Various Funds (In Millions)

Issue	Governor	Senate	Difference
CALFED Bay-Delta program	\$519.5	\$415.3	-\$104.2
Selected Proposition 40 appropriations:			
• Conservancies: acquisition and development	215.5	218.5	3.0
• Clean beaches, watershed protection, and water quality	164.0	8.0	-156.0
• Historical and cultural resources (not including specified local parks)	107.0	—	-107.0
• Local parks	72.8	172.9	100.1
• State park acquisition, development, and deferred maintenance	65.5	45.5	-20.0
• River parkways	63.7	—	-63.7
• Agricultural land preservation	9.8	—	-9.8
Increased reimbursements from local agencies for state firefighting costs	20.0	20.0	—
Conservation Corps program reduction	-12.5	-12.5	—
Americans With Disabilities Act improvements at state parks	9.0	9.0	—
Fish and Game California Environmental Quality Act review	0.8	2.9	2.1
Sudden Oak Death remediation	—	2.0	2.0
Loan from Beverage Container Recycling Fund	218.0	218.0	—

- The Senate reduced the Governor's proposal for the CALFED Bay-Delta program by \$104.2 million, mainly by eliminating all expenditures proposed from Proposition 40 (\$101.1 million).
- The Senate provided a total of \$533.5 million from Proposition 40 funds for various resources and environmental protection departments—a net reduction of \$271 million from the Governor's proposal of \$804.5 million. The Senate provided \$172.9 million for local *urban* parks, while the Governor proposed no funding from Proposition 40 for this purpose.
- The Senate adopted trailer bill language to impose a fee on timber operators to partially cover state costs to review and enforce timber harvest plans. This would save the General Fund \$5.8 million in the budget year.



Major Senate Actions Environmental Protection

Various Funds (In Millions)

Issue	Governor	Senate	Difference
Subventions to local air districts	\$10.1	\$15.1	\$5.0
Diesel emission reduction incentives (Proposition 40)	9.6	25.0	15.4
Solid waste conversion technologies	1.5	—	-1.5
Office of Environmental Health Hazard Assessment—General Fund reductions	-2.9	-1.6	1.3
Air Resources Board—stationary source program General Fund reductions	-7.4	-7.4	—
Loan from Pollution Control Financing Authority Fund	25.0	25.0	—
Loan from Hazardous Waste Control Account	15.0	15.0	—

- The Senate adopted trailer bill language to remove the current cap on statewide fee collection in the Air Resources Board's stationary source program.

- The Senate adopted trailer bill language to revise the fee structure of the State Water Resources Control Board's core regulatory program, including an increase in the cap on fees from \$10,000 to \$35,000. This would save the General Fund \$16.3 million in the budget year.



Major Senate Actions Transportation

Various Funds (In Millions)

Issue	Governor	Senate	Difference
Traffic Congestion Relief Fund (TCRF) loan to General Fund	\$1,045.0	\$1,045.0	—
State Highway Account loan to TCRF	474.0	474.0	—
Transportation design and engineering	1,269.4	1,240.0	-\$29.4
State Transit Assistance	98.0	98.0	—
California Highway Patrol antiterrorism	93.4	93.4	—
Department of Motor Vehicles fee increases (revenues)	76.0	76.0	—

- The Senate approved the Governor's proposed transportation loans to aid the General Fund. These loans included just over \$1 billion from the Traffic Congestion Relief Fund (TCRF) to the General Fund, and \$474 million from the State Highway Account (SHA) to TCRF. The TCRF loan must be repaid by June 30, 2006, and the SHA loan must be repaid by June 30, 2007.
- The Senate reduced by \$29.4 million the support for the design and engineering of transportation projects to more accurately reflect projected workload. In addition, the Senate specified that the budget-year reduction in engineering workload be split between state staff and contracted services, instead of all from state staff as proposed by the Governor's budget.
- The Senate approved a May Revision proposal to reduce State Transit Assistance to local transit operators by \$17.3 million, to \$98 million.
- The Senate approved the Governor's proposal for \$93.4 million for California Highway Patrol antiterrorism activities. However, instead of funding the activities all from the Motor Vehicle Account (MVA) to be reimbursed by federal funds when they are available, the Senate provided \$85.3 million from MVA for one year only, to be reimbursed by federal funds; and \$8.1 million for two helicopters from federal funds.
- The Senate approved proposals to increase several fees and penalties under the Department of Motor Vehicles for a total MVA revenue increase of \$76 million in 2002-03 and \$98 million annually thereafter.



Major Senate Actions Local Governments

General Fund (In Millions)

	Savings	
	May Revision Proposal	Senate Action
Education		
Shift property taxes from multicounty special districts and redevelopment agencies to schools via the Educational Revenue Augmentation Fund.	\$120	\$120
Reduce funding for the Public Library Foundation program.	12	—
Health and Social Services		
Increase disproportionate share hospital administrative fee.	\$31	\$31
Reduce costs for Early and Periodic Screening, Diagnosis and Treatment program.	35	— ^a
Require counties to pay share of federal child support automation penalty.	45	45
Reduce state funds for administration of a variety of health and social services programs.	258	—
Criminal Justice		
Reduce high-technology law enforcement grants.	\$17	\$17
Eliminate juvenile justice grant program.	116	116 ^b
Increase Youth Authority sliding scale fees for inflation.	8	—
Eliminate booking fee reimbursements.	38	38
Other		
Defer reimbursements for a variety of mandated programs.	\$168 ^c	\$108
Eliminate Williamson Act subventions for open space preservation.	39	38
^a Rejected cost increase to counties, but adopted alternative savings approach. ^b Savings split evenly between juvenile justice and COPS programs. ^c In addition to the budget reduction, the May Revision did not provide \$600 million to pay mandate deficiencies and new mandates to cities, counties, and special districts.		



General Fund Spending Trends

(Dollars in Millions)

	Current Dollars		Constant Dollars	
	Amount	Percent Change	Amount	Percent Change
1992-93	\$40,948	—	\$40,948	—
1993-94	38,958	-4.9%	38,026	-7.1%
1994-95	41,961	7.7	39,757	4.6
1995-96	45,393	8.2	41,982	5.6
1996-97	49,088	8.1	44,328	5.6
1997-98	52,874	7.7	46,718	5.4
1998-99	57,822	9.4	50,122	7.3
1999-00	66,494	15.0	55,331	10.4
2000-01	78,053	17.4	62,751	13.4
2001-02				
Governor's budget (May Revision)	\$76,884	-1.5%	\$60,644	-3.4%
Senate version	\$76,850	-1.5%	\$60,617	-3.4%
2002-03				
Governor's budget (May Revision)	\$76,491	-0.5%	\$58,991	-2.7%
Senate version	\$77,476	0.8%	\$59,750	-1.4%

- In the Senate version of the budget, General Fund spending in the current year is \$76.9 billion, which is a 1.5 percent decrease from 2000-01. In constant-dollar terms, the decrease is larger at 3.4 percent after adjustment for inflation.
- General Fund spending in the budget year is \$77.5 billion as proposed by the Senate version of the budget. This spending level is a 0.8 percent increase from 2001-02, but a 1.4 percent reduction in expenditures in constant-dollar terms.
- General Fund spending fell during the early 1990s' recessionary period, grew modestly during the mid-1990s, and grew rapidly at the end of the decade. For the second year in a row, budget-year expenditures are proposed at a level below 2000-01 expenditures.