

The 2002-03 Assembly Budget Bill AB 1777 (Oropeza)

LEGISLATIVE ANALYST'S OFFICE

As Adopted by the
Budget Committee
May 30, 2002





2002-03 General Fund Condition

(In Millions)

	Governor's Budget (May Revision)	Assembly Version	Difference
Prior-year fund balance	-\$123	-\$120	\$3
Revenues and transfers	78,603	78,665	62
Total resources available	\$78,480	\$78,544	\$64
Expenditures	\$76,491	\$77,264	\$773
Ending fund balance	\$1,989	\$2,181 ^a	\$192
Encumbrances	\$1,473	\$1,473	—
Reserve	\$516	\$708^a	\$192

^a Includes \$900 million from adoption of Control Section 32.5.

- Reserve.** The Assembly version results in a 2002-03 year-end reserve of \$708 million, which is \$192 million more than the \$516 million reserve in the May Revision. The Assembly version includes \$900 million from the adoption of Control Section 32.5.
- Revenues.** The Assembly version assumes total revenues and transfers of \$78.7 billion, which is \$62 million higher than the May Revision. The Assembly version assumes the administration's revenue forecast, but incorporates additional funds from transfers.
- Expenditures.** The Assembly's General Fund expenditure total is \$77.3 billion, which is \$773 million higher than the May Revision. This net increase mainly reflects the restoration of many of the May Revision's reductions made 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

- Reduces higher education spending by a net \$106.7 million below the May Revision amount. The budget includes additional funds for the California Community Colleges CalWORKs program and restoring a portion of General Fund support for the California Postsecondary Education Commission.
- Eliminates funding for two merit scholarship programs on a one-time basis in 2002-03, for General Fund savings (non-Proposition 98) of \$120 million relative to the May Revision.
- Adopts May Revision proposal to provide an additional \$24.9 million for enrollment growth, which provides for 4.3 percent enrollment growth at UC and 4.8 percent enrollment growth at CSU.



Health and Social Services

- Increases health services spending by about \$800 million compared to the May Revision, primarily by rejecting various May Revision reductions in the Medi-Cal program. Restorations include certain optional Medi-Cal services for some adults, eligibility for some two-parent working families, and county administration funding.



Major Features

(Continued)

- Expands the Healthy Families program to include parents and continues trauma care funding in the budget year.
- Increases social services spending by about \$101 million compared to the May Revision, by rejecting the Governor's proposal to (1) reduce county administration funding for various social services programs and (2) reduce funding for child welfare services.



Judicial and Criminal Justice Programs

- Restores funding for the Juvenile Justice grant program that the May Revision eliminated. As a result, the Citizens' Option for Public Safety (COPS) program and the juvenile justice grant program are funded at roughly \$116 million each.
- Reduces funding for high technology grants by an additional \$18.5 million.



Revenue Provisions

- Accepts Governor's May Revision proposal to securitize \$4.5 billion in tobacco settlement revenues.
- Adopts all of the \$3.8 billion in tax increases and revenue accelerations proposed in the May Revision. These include a one-time increase in the vehicle license fee, 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	361
Subtotal	\$2,516
Expenditure Reduction	
Vehicle license fee offset ^b	\$1,276
Total	\$3,792

^a Includes \$80 million from the Governor's January proposals related to additional audit and collection activities.
^b Includes trailer coach fees for the General Fund.

- The Assembly budget bill has incorporated all the administration's revenue proposals.
- 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 debt reserves by large banks, increasing revenues by \$255 million.



Major Assembly Actions K-12 Education—Proposition 98

General Fund (In Millions)

	Governor	Assembly	Difference
Cost-of-living adjustments (various programs)	\$763	\$788	\$25
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	75	-5
Revenue limit equalization	—	42	42
Restore cuts to independent study	—	38	38
Reduce PERS offset to revenue limits	—	36	36
Restore cut to planning grants (HPG-LPS)	—	20	20
Restore cut to Healthy Start	—	19	19
Restore cut to adult education—CalWORKs pupils	—	13	13
Additional current- and prior-year reductions	—	-116	-116

- The Assembly version spends \$29.3 billion from the General Fund for Proposition 98 K-12 programs, the same as the May Revision.
- The Assembly version provides \$7,186 in Proposition 98 funding 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 Assembly 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 Assembly Actions Higher Education

General Fund (In Millions)

	January Proposal	Change to January Budget		
		May Revision	Assembly	Difference
University of California (UC)	\$3,367.1	-\$162.4	-\$170.6	-\$8.2
California State University (CSU)	2,735.6	-50.2	-58.0	-7.7
California Community Colleges (CCC)	2,739.4	115.0	133.7	18.7
Student Aid Commission	733.7	-78.9	-69.6	9.3
Hastings College of the Law	15.4	—	—	—
Scholarshare Investment Board	129.3	-8.0	-128.0	-120.0
California Postsecondary Education Commission (CPEC)	3.3	-2.8	-1.5	1.3
Totals	\$9,723.8	-\$187.3	-\$294.0	-\$106.7

- The Assembly proposes a total of \$9.4 billion from the General Fund for higher education in 2002-03. This is \$98.7 million below the amount proposed in the May Revision.
- The Assembly 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 Assembly rejected the May Revision proposal to eliminate most of CPEC's General Fund appropriation and position authority. Instead, the Assembly restored about half the appropriation and positions.
- For CCC's CalWORKs program, the Assembly action restores \$29 million of the \$50 million reduction proposed in January. By contrast, the May Revision had proposed a \$20 million restoration.
- The Assembly eliminated funding for two merit scholarship programs on a one-time basis in 2002-03, for General Fund savings (non-Proposition 98) of \$120 million relative to the May Revision.



Major Assembly Actions Social Services Programs

General Fund (In Millions)

Program/Department/Issue	Difference From May Revision
CalWORKs	
Eliminate Statewide Fingerprint Imaging System	-\$10.7 ^a
Eliminate fraud incentive payments to counties	-6.9 ^a
Eliminate TANF funds for Intensive Services Program	-3.6 ^a
Eliminate Youth Development Services Project	-1.5 ^a
Technical conforming net costs related to certain restorations	11.8 ^a
County Administration	
Partially restore 14.8 percent reduction in CalWORKs	\$12.0 ^a
Restore 20 percent reduction in Food Stamps	38.4 ^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)	
Restore 10 percent reduction to APS	\$5.6
Employment Development Department	
Use Workforce Investment Act Funds for Faith-Based Initiative	-\$4.0
Total	\$101.4^a

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

Compared to the May Revision, the Assembly provided a net increase of approximately \$101 million to various social services programs. These restorations represent an increase of approximately 1.2 percent to a base of about \$8.5 billion.

For 2002-03, the Assembly accepted the Governor's proposals to (1) suspend the CalWORKs and SSI/SSP COLAs and (2) not "pass through" the federal SSI COLA. However, the Assembly adopted budget trailer bill language requiring that CalWORKs and SSI/SSP COLAs in 2003-04 reflect reinstatement of the suspended 2002-03 COLAs and the SSI federal "pass-through."



Major Assembly Actions Health Programs

The budget adopted by the Assembly provides a net increase of almost \$800 million General Fund for health programs above the funding level proposed in the Governor's May Revision spending plan. The key Assembly changes are summarized below.

General Fund (In Millions)

	Change from Governor's Budget
Medi-Cal	
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 further reduction in Disproportionate Share Hospital program.	31.0
Approved part of proposed rollback in provider rates and exempted some services.	14.5
Established transitional Medi-Cal coverage for parents shifting to the Healthy Families Program.	7.5
Rejected reduction of children's dental services to one cleaning and one exam annually.	4.0
Adjusted Medi-Cal caseload to reflect recent trends.	-46.6
Delayed Medi-Cal and Healthy Families Program application tracking.	-8.0
Net savings from elimination of the asset test.	-4.3
Scaled back adult day health care pilot project from ten sites to one site.	-1.9
Assumed drug procurement savings but modified implementing legislation.	No net change
Assumed savings from contracting for durable equipment and lab services but did not adopt implementing legislation.	No net change
Managed Risk Medical Insurance Board	
Provided full-year funding to expand Healthy Families Program coverage to parents.	\$72.0
Public Health	
Offset General Fund costs for children's health programs with Proposition 10 funds.	-\$30.0
Emergency Medical Services Authority	
Continued trauma care system funding at same level as provided in the current year.	\$24.8
Department of Mental Health	
Rejected reductions in adult and children's systems of care and programs for homeless mentally ill.	\$52.6
Rejected proposal to shift 10 percent share of growth in EPSDT costs to counties.	5.4
Department of Developmental Services	
Rejected reduction in Regional Center purchase of services and implementation of statewide purchasing standards.	\$52.0
Department of Alcohol and Drug Programs	
Restored cuts in drug court, perinatal, and other services using federal funds.	No net change



Major Assembly Actions Judicial and Criminal Justice Provisions

General Fund (In Millions)

Issue	Governor	Assembly	Difference
Department of Corrections			
Contract Medical Services	\$115.5	\$115.5	—
Workers' Compensation Shortfall	42.1	42.1	—
Work Credits for Fire Camps	-16.7	-16.7	—
Caseload reduction	—	-8.1	-8.1
Northern California Women's Facility Closure	—	-4.5	-\$4.5
Community Correctional Facility Deactivation	-2.8	-2.8	—
Youth Authority			
<i>Stevens v. Harper</i> legal defense	\$3.5	\$3.5	—
County Sliding Fee Inflation Adjustment	-7.6	7.6	\$15.2
Board of Corrections			
Mentally Ill Offender Program	-\$17.3	-\$17.3	—
Challenge Grant II Program	-12.3	-12.3	—
Crime Prevention Act			
Juvenile Justice Grants	—	\$116.3	\$116.3
COPS	\$121.3	116.3	-5.0
Local Law Enforcement			
War on Methamphetamine	-\$5.0	-\$7.5	-\$2.5
High Technology Grants	-16.9	-35.4	-18.5

- Took action to close the Northern California Women's Facility for General Fund savings of approximately \$4.5 million because of the significant drop in the female inmate population.
- Rejected the Governor's proposal to adjust for inflation the sliding fee counties pay to commit certain wards to the Youth Authority at a cost of \$7.6 million.
- Rejected the Governor's proposal to de-link the Citizens' Option for Public Safety (COPS) and Juvenile Justice grant programs and augmented by \$111 million to restore these programs to current-year level of roughly \$116 million each.



Major Assembly Actions Resources

Various Funds (In Millions)

Issue	Governor	Assembly	Difference
CALFED Bay-Delta program	\$519.5	\$464.1	-\$55.4
Selected Proposition 40 appropriations:			
• Conservancies: acquisition and development	215.5	228.5	13.0
• Clean beaches, watershed protection, and water quality	164.0	8.0	-156.0 ^a
• Historical and cultural resources (not including specified local parks)	107.0	—	-107.0 ^a
• Local parks	72.8	172.9	100.1
• State park acquisition, development, and deferred maintenance	65.5	65.5	—
• River parkways	63.7	48.7	-15.0
• Agricultural land preservation	9.8	—	-9.8 ^a
Increased reimbursements from local agencies for state firefighting costs	20.0	—	-20.0
Conservation Corps program reduction	-12.5	-12.5	—
Farmland Conservancy Program	5.0	11.7	6.7
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
Replace General Fund with fees for timber harvest plan review	—	-1.6	-1.6
Loan from Beverage Container Recycling Fund	218.0	218.0	—

^a Reduced funds to be appropriated in separate legislation.

- The Assembly reduced the Governor's proposal for the CALFED Bay-Delta program by \$55.4 million. While the Assembly eliminated all expenditures proposed from Proposition 40 for CALFED (\$101.1 million), it did provide \$51.1 million assuming passage of the water bond on the November 2002 ballot for this purpose.
- The Assembly provided a total of \$612.2 million from Proposition 40 funds for various resources and environmental protection activities—a net reduction of \$192.3 million from the Governor's proposal of \$804.5 million. The Assembly provided \$172.9 million for local *urban* parks, while the Governor proposed no funding from Proposition 40 for this purpose.
- The Assembly 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 \$1.6 million in the budget year.



Major Assembly Actions Environmental Protection

Various Funds (In Millions)

Issue	Governor	Assembly	Difference
Subventions to local air districts	\$10.1	\$15.1	\$5.0
Diesel emission reduction incentives (Proposition 40)	9.6	25.0	15.4
Replace General Fund with fees in Water Quality Regulatory program	-15.0	-31.3	-16.3
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	-7.7	-7.7	—
Loan from Pollution Control Financing Authority Fund	25.0	25.0	—
Loan from Hazardous Waste Control Account	15.0	15.0	—

- The Assembly adopted trailer bill language to remove the current cap on statewide fee collection in the Air Resources Board's stationary source program and to limit fee adjustments to changes in the Consumer Price Index.

- The Assembly 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 an additional \$16.3 million in the budget year.



Major Assembly Actions Transportation

Various Funds (In Millions)

Issue	Governor	Assembly	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	1,220.8	-\$48.6
State Transit Assistance	98.0	103.1	5.1
California Highway Patrol antiterrorism	93.4	93.4	—
Department of Motor Vehicles fee increases (revenues)	76.0	76.0	—

- The Assembly 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 by June 30, 2007. The Assembly also adopted trailer bill language to require that the SHA loan be repaid with interest.
- The Assembly reduced by \$48.6 million the support for the design and engineering of transportation projects to more accurately reflect projected workload. In addition, the Assembly specified that the budget-year reduction in engineering workload come from contracted services instead of from state staff as proposed by the Governor's budget.
- The Assembly approved funding of \$103.1 million for the State Transit Assistance (STA) program from the Public Transportation Account (PTA)—\$5.1 million more than proposed by the May Revision. The augmentation of \$5.1 million is funded by reducing the planned \$100 million budget-year PTA loan to TCRF by the same amount.
- The Assembly approved \$93.4 million for California Highway Patrol antiterrorism activities from the Motor Vehicle Account (MVA), to be repaid with any federal funds received. The Assembly also adopted budget bill language limiting \$32.5 million to be available only for tactical alerts.
- The Assembly adopted the Governor's proposal to increase various fees charged by the Department of Motor Vehicles, for a total MVA revenue increase of \$76 million in 2002-03 and \$98 million annually thereafter.



Major Assembly Actions Local Governments

General Fund (In Millions)

	Savings	
	May Revision Proposal	Assembly 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	6
Health and Social Services		
Increase disproportionate share hospital administrative fee.	\$31	—
County share of 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	60
Criminal Justice		
Reduce high-technology law enforcement grants.	\$17	\$35
Eliminate juvenile justice grant program.	116	—
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 ^b	\$168
Eliminate Williamson Act subventions for open space preservation.	39	39
^a Rejected cost increase to counties, but adopted alternative savings approach. ^b In addition to the budget reduction, the May Revision did not provide \$600 million to pay mandate deficiencies and new mandates to cities and counties.		



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%
Assembly version	\$76,881	-1.5%	\$60,641	-3.4%
2002-03				
Governor's budget (May Revision)	\$76,491	-0.5%	\$58,991	-2.7%
Assembly version	\$77,264	0.5%	\$59,586	-1.7%

- In the Assembly 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 \$77.3 billion as proposed by the Assembly version of the budget. This spending level is a 0.5 percent increase from 2001-02, but a 1.7 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.