

The 2003-04 Senate Budget Bill SB 53 (Chesbro)

LEGISLATIVE ANALYST'S OFFICE

As Adopted by the
Budget and Fiscal Review Committee

June 2, 2003





2003-04 General Fund Condition

(In Millions)

	Governor's Budget (May Revision)	Senate Version	Difference
Prior-year fund balance	\$1,410	\$1,443	\$33
Revenues and transfers	70,934	72,408	1,474
Total resources available	\$72,344	\$73,851	\$1,507
Expenditures	70,433	72,290	1,857
Ending fund balance	\$1,911	\$1,561	-\$350
Encumbrances	1,402	1,402	—
Reserve	\$509	\$159	-\$350



Reserve. The Senate version results in a 2003-04 year-end reserve of \$159 million, which is \$350 million less than the \$509 million in the May Revision. Like the May Revision, it assumes a \$10.7 billion deficit financing bond to eliminate the 2002-03 deficit.



Revenues. The Senate version assumes total revenues and transfers of \$72.4 billion, which is \$1.5 billion more than the May Revision. The Senate version assumes the LAO revenue forecast (\$587 million higher than the administration in the current and budget years). It also includes a \$938 million loan from the Transportation Investment Fund.



Expenditures. The Senate's General Fund expenditure total is \$72.3 billion, which is \$1.9 billion higher than the May Revision. A significant part of this net increase reflects restoration of the Governor's proposed major reductions in health and social services programs.



Major Features



Deficit Financing Bond

- Assumes proceeds from sale of \$10.7 billion bond to eliminate 2002-03 deficit.



K-12 Education—Proposition 98

- Provides the same 2003-04 Proposition 98 funding level as the May Revision— \$41.2 billion.
- Adopts \$1.6 billion in funding increases to pay for pupil attendance growth, increased PERS costs, and net funding deferrals. Adopts \$2.0 billion in targeted program reductions including revenue limits (general purpose funds), instructional materials, and deferred maintenance.



Higher Education

- Makes additional unallocated reductions in General Fund support for the University of California (UC) and the California State University (CSU), offset in part by restoration of some proposed reductions (such as for outreach).
- Funds proposed enrollment growth of four percent for UC and CSU.
- Restores \$200 million in California Community Colleges funding by “shifting” it to the 2004-05 fiscal year in order to reduce the level of Proposition 98 appropriations in 2003-04, and authorizes a fee increase to \$18 per unit (as proposed by the Governor).



Health and Social Services

- Adopts the Governor’s revised realignment plan that results in General Fund savings of \$1.7 billion, pending enactment of legislation. The revised plan (1) increases the county



Major Features

(continued)

share of costs in several programs (primarily CalWORKs, Child Welfare Services, Foster Care, and Mental Health) and (2) provides the counties with commensurate revenues from higher tobacco taxes and the creation of a new 10.3 percent personal income tax bracket.

- Increases spending on social services by about 5 percent compared to the May Revision for 2003-04, primarily due the restoration of the statutory COLAs for CalWORKs and SSI/SSP.
- Provides a net increase of about \$800 million (General Fund) for health programs above the funding level proposed in the May Revision, due primarily to the rejection of major budget reduction proposals affecting eligibility, services, and rates paid to providers. (This increase does not take into account offsets to spending discussed below due to federal funds.)
- Assumes the receipt of \$250 million in federal funds due to recent congressional tax-cut legislation to increase the federal cost-sharing ratio for the Medi-Cal Program.



Judicial and Criminal Justice Programs

- Offsets General Fund court operations costs by more than \$118 million by adopting new and increased court fees. Also, restores \$40 million of the Governor's \$134 million reduction to the courts.
- Reduces spending for corrections by about \$130 million below the Governor's proposal by adopting policy reforms aimed at lowering the recidivism rate, and the inmate population.



Transportation

- Rejects Governor's proposal to transfer only \$207 million from the General Fund to the Transportation Investment Fund (TIF) under Proposition 42 and to retain \$938 million in the General Fund. Instead, transfers the full amount of



Major Features

(continued)

\$1,145 million to TIF and loans \$938 million back to the General Fund, to be repaid by June 30, 2009.



Resources and Environmental Protection

- Accepts the Governor's fee proposals for air quality, pesticide, and water quality regulatory programs, and adopts additional air and pesticide fee revenue increases. In addition, adopts several new fees to create General Fund savings, in the areas of state firefighting, timber harvest fees, and water rights.



State Administration

- Assumes Governor's proposed General Fund savings of \$470 million in reduced state employee compensation costs.



Local Government

- Assumes no vehicle license fee (VLF) backfill for realignment or general local government purposes. Assumes VLF "trigger" is pulled, with local government impact dependent on when VLF rate returns to 2 percent level.
- Limits Governor's proposal to transfer \$250 million from redevelopment agencies to ERAF to the budget year only.
- Defers funding—or suspends the requirement for local governments to implement—most local government mandates. Did not approve Governor's proposal related to Open Meetings Act.
- Accepts Governor's May Revision proposal to continue to fund local property tax subventions for open space protection at a budgeted cost of \$40.1 million.
- Accepts Governor's proposal to eliminate \$38 million for local government booking fees.



Major Senate Actions K-12 Education—Proposition 98

General Fund (In Millions)

	May Revision	Senate	Difference
Child care	\$1,239	\$1,239	—
Adult education	568	578	\$9
Revenue limit:			
Growth	504	504	—
Increased PERS ^a costs	459	459	—
Cost-of-living adjustment	—	—	—
Base reduction	-350	-350	—
Public Schools Accountability Act	356	348	-8
Regional Occupation Centers/Programs	354	370	16
Supplemental grants	162	172	10
Peer Assistance Review	62	23	-39
Early Mental Health	—	10	10
Advancement Via Individual Determination	—	4	4
Local Arts Education Grant Program	—	6	6
Basic aid district categorical offset	-20	-10	10
^a Public Employees' Retirement System.			

- ☒ The Senate version spends \$27.6 billion from the General Fund for Proposition 98 K-12 programs, the same as the May Revision.
- ☒ The Senate version provides \$6,884 in Proposition 98 per pupil. This is \$199 or 2.8 percent below the *2002-03 Budget Act*.
- ☒ The Senate approved the Governor's proposals to continue the principal apportionment deferral approved in SB 18x (Chesbro), and provide no equalization funding.
- ☒ The Senate approved trailer bill language to relax required reserve and local maintenance funding requirements.



Major Senate Actions Higher Education

(In Millions)

			2003-04 Senate	
	2002-03 Enacted	2003-04 May Revision	Amount	Change From 2002-03
General Fund				
University of California (UC)	\$3,223.9	\$3,040.2	\$2,959.2	-8.2%
California State University (CSU)	2,680.3	2,576.9	2,509.5	-6.4
California Community Colleges (CCC) ^a	2,755.3	2,246.1	2,454.6	-10.9
General Fund, Student Fees^b, and Local Property Taxes				
UC	\$3,732.0	\$3,795.2	\$3,714.2	-0.5%
CSU	3,234.3	3,301.5	3,234.2	—
CCC ^a	4,937.7	4,633.7	4,832.2	-2.1

^a Includes \$200 million payment to be deferred to July 2004.

^b Does not include student fee revenue diverted to financial aid.

- ☒ The Senate adopted unallocated reductions to UC and CSU beyond those proposed by the Governor. It is assumed that a substantial portion of the reductions will be backfilled by student fee increases of about 25 percent. The Senate adopted the Governor's proposal to raise CCC student fees from \$11 to \$18 per unit.
- ☒ The Senate funds 4 percent enrollment growth at UC and CSU, which is less than the 7 percent proposed by the Governor. The Senate version reflects a 1 percent reduction in enrollment at CCC, which is about one-third the reduction proposed in the May Revision.
- ☒ Senate funding for CCC's 2003-04 programmatic costs includes \$200 million that is appropriated in 2004-05. This funding "shift" permits a lower 2003-04 Proposition 98 appropriation.



Major Senate Actions Social Services Programs

General Fund (In Millions)

Program/Department/Issue	Difference From May Revision
SSI/SSP	
Retained June 2003 state statutory COLA	\$292.3
Retained January 2004 state statutory COLA	104.2
In-Home Supportive Services	
Replaced TANF/Title XX funds with General Fund	\$54.1
CalWORKs	
Retained June and October 2003 statutory COLAs	\$217.8 ^a
Augmented employment services	35.0 ^a
Eliminated Statewide Fingerprint Imaging System	-10.4 ^a
Foster Care/Child Welfare Services	
Deleted funding for start-up of Program Improvement Plan	-\$28.0 ^a
Department of Child Support Services	
Net savings from child support collection reform package	-\$52.9
Department of Rehabilitation	
Partially restored proposed 5 percent reduction to the supported employment program	\$1.5
Department of Aging	
Reduced stay well program and state administration	-\$0.8
Restored Brown Bag Program funding	0.9
Restored Senior Nutrition Program	2.9
Total	\$616.6^a

^a Includes federal Temporary Assistance for Needy Families (TANF) block grant funds.



Compared to the May Revision for 2003-04, the Senate increased General Fund spending on social services by about 5 percent.



Compared to 2002-03, the Senate increased General Fund spending on social services by about 7.6 percent, excluding the impact of realignment.



Major Senate Actions Health Programs

The budget adopted by the Senate provides a net increase of about \$800 million General Fund for health programs above the funding level proposed in the May Revision spending plan. The Senate budget plan also assumes the receipt of \$250 million in federal funds to offset Medi-Cal Program costs due to recent congressional tax-cut legislation. In addition to these funding adjustments, the key Senate changes are summarized below.

General Fund (In Millions)

	Change From May Revision
Medi-Cal	
Rejected 15 percent provider rate reduction for physicians, nursing homes, and managed care	\$607.3
Rejected elimination of some optional benefits for adults	209.7
Rejected rollback of aged and disabled eligibility expansion	49.9
Rejected reinstatement of quarterly status reporting for parents	38.9
Replaced proposed moratorium on adult day health centers with plan to manage their growth to achieve savings in 2004-05	9.9
Assumed savings on durable medical equipment but sent implementation bill to conference	No net change
Assumed additional savings from semi-annual status reporting for parents	-42.5
Assumed additional savings from dental services cost containment	-27.4
Assumes additional savings from resolving rebate disputes with drug companies	-20.0
Assumed savings from county eligibility work standards but modified implementing legislation	-5.7
Public Health	
Rejected 15 percent provider rate reduction for California Children's Services, Genetically Handicapped Persons Program, and Child Health and Disability Prevention program	\$7.3
Restored Cancer Research Program with an augmentation and assumption of private donations	6.3
Rejected AIDS Drugs Assistance Program copayments, shifted funds for therapeutic monitoring to services, and assumed greater federal drug rebates	1.4
Department of Mental Health	
Rejected 10 percent cut to counties for mental health managed care	\$23.0
Partly restored funding for Early Mental Health Initiative	10.0
Department of Developmental Services	
Rejected implementation of statewide purchasing standards for Regional Centers	\$50.0
Rejected copayments for families of Regional Center consumers age 3 to 17	14.7
Impose freeze on selected vendor rates and an unallocated cut in purchase of services	-28.9
Assume recertification of South Central Los Angeles Regional Center for waiver program	-13.3
Department of Alcohol and Drug Programs	
Expanded and redirected drug court program funding to achieve greater state prison savings	\$2.3



Major Senate Actions Judicial and Criminal Justice Programs

General Fund (In Millions)

Issue	Governor	Senate	Difference
Trial Court Funding			
Reduced operations costs	-\$116.0	-\$85.0	\$31.0
Rejected electronic reporting	-36.0	36.0	36.0
Rejected court security flexibility	-22.0	22.0	22.0
Increased existing/created new fee revenue for General Fund offset	-66.2	-116.1	-49.9
Department of Corrections			
Reduced inmate academic and vocational programs	-\$35.0	-\$35.0	—
Adopted closure of Northern California Women's Facility	-10.2	-10.2	—
Identified inmate health care efficiency savings	-13.0	-13.0	—
Delayed opening of Delano II Prison	-8.8	-8.8	—
Delayed 500 substance abuse beds	-5.4	-5.4	—
Adopted population adjustment	59.0	59.0	—
Enacted parole reforms	—	-58.3	-\$58.3
Adopted Drug Treatment Furlough Program	—	-20.1	-20.1
Expanded felony drug courts	—	-17.4	-17.4
Adopted medical parole for incapacitated inmates	—	-5.0	-5.0
Youth Authority			
Adopted closure of Karl Holton Correctional Facility	-\$3.0	-\$3.0	—
Adopted closure of Ventura Correctional Facility	—	-0.6	-\$0.6
Increased county sliding fee for inflation	-6.0	-6.2	-0.2
Board of Prison Terms			
Enacted workload adjustment	-\$3.5	-\$3.5	—
Office of Criminal Justice Planning			
Reduced vertical prosecution programs	\$16.3	-\$8.2	-\$8.2
Eliminated War on Methamphetamine program	15.0	-15.0	-15.0
Crime Prevention Act			
Approved juvenile justice grants	\$116.3	\$116.3	—
Funded Citizens' Option for Public Safety program	116.3	116.3	—

- ☒ Reduced General Fund spending for court operations by \$85 million and increased fees (\$116 million) to offset General Fund costs.
- ☒ Reduced prison costs by over \$100 million through the adoption of policy reforms aimed at reducing the inmate population.
- ☒ Reduced funding for vertical prosecution programs (\$8.2 million) and eliminated funding for War on Methamphetamine program (\$15 million).



Major Senate Actions Resources

Various Funds (In Millions)

Issue	Governor	Senate	Difference
CALFED Bay-Delta Program	\$499.6	\$499.6	—
Selected Proposition 40 appropriations:			
• Historic and cultural endowment—State Library	128.4	128.4	—
• State park acquisition	35.0	35.0	—
Selected Proposition 50 appropriations:			
• Wildlife Conservation Board—capital outlay	352.0	352.0	—
• Integrated regional water management grants (Department of Water Resources)	51.7	51.7	—
• Desalination	15.0	15.0	—
• Colorado River/Salton Sea restoration	32.5	32.5	—
• Habitat Conservation Fund	22.2	22.2	—
• Water security	15.1 ^a	15.1 ^a	—
Increase state park fees to offset General Fund reduction	20.0	20.0	—
Off-highway vehicle capital outlay projects	30.6	52.6	\$22.0
Conservation Corps program reduction	-11.6	-6.5	5.1
Increase fishing and hunting fees	4.0	4.2	0.2
Suspension of Natural Heritage Preservation tax credit	-8.7	-8.7	—
Loans from beverage recycling funds to General Fund	154.0	154.0	—
Transfer from Colorado River Management Account to General Fund	—	38.8	38.8

^a Includes \$10.3 million for the Department of Health Services.

- ☒ The Senate provided a total of \$573.1 million from Proposition 40 bond funds for various resources and environmental protection programs—slightly less than the Governor’s proposal. This largely reflects the Senate’s action to delete all funding for the Secretary for Resources.
- ☒ The Senate provided a total of about \$1.13 billion from Proposition 50 bond funds for various resources and environmental protection programs—a small increase from the Governor’s proposal.
- ☒ The Senate adopted various trailer bills to partially cover through fees the state’s costs of the dam safety program (\$4.7 million General Fund savings—Governor’s proposal), timber harvest review (\$10 million General Fund savings), and firefighting costs on private lands (\$50 million General Fund savings). The Senate also approved trailer bill language to increase existing fees for the State Mining and Reclamation Act and establish a timber product fee to pay for various forestry-related programs.



Major Senate Actions Environmental Protection

Various Funds (In Millions)

Issue	Governor	Senate	Difference
General Fund Expenditures Replaced by Fee Revenues			
• Department of Pesticide Regulation	-\$13.8	-\$13.8	—
• Air Resources Board—stationary source program	-10.0	-14.4	-\$4.4
• Water Resources Control Board—core regulatory program	-13.6	-13.6	—
• Water Resources Control Board—water rights program	—	-3.6	-3.6
Department of Pesticide Regulation program augmentations	—	3.0	3.0
County Agriculture Commissioner pesticide program increase	—	8.0	8.0
Loans from various Integrated Waste Management Accounts	17.0	17.0	—

- ☒ The Senate adopted additional changes to the fee structure in the Department of Pesticide Regulation beyond the Governor's proposal to shift \$10.5 million from the General Fund to fees (mainly the mill assessment on the sale of pesticides). These changes include (1) an increased fee assessment on "restricted" materials, with additional revenues going to County Agriculture Commissioners; (2) an increase in fees to fully fund the pesticide registration program; and (3) a new allocation of fees to a farmworker outreach, education, and training program.
- ☒ The Senate adopted the Governor's proposal to shift \$10 million from the General Fund to fees in the Air Resources Board's stationary source program. The Senate went further by shifting an additional \$4.4 million from the General Fund to fees in the program.
- ☒ The Senate adopted trailer bill language to increase the fees on applications for new water rights and establish an ongoing fee on water rights holders under the board's jurisdiction. The combined savings to the General Fund is \$3.6 million in the budget year.
- ☒ The Senate adopted trailer bill language to reduce costs associated with Integrated Waste Management Board members and staff, consolidate programs, and provide budgetary savings.



Major Senate Actions Transportation

(In Millions)

Issue	Senate	Change From May Revision
Transportation Investment Fund (TIF) loan to General Fund	\$938.4	—
Transportation design and engineering	1,235.9	—
State Transit Assistance	100.4	—
Motor Vehicle Account fee increase	163.0	—

- ☒ **TIF Loan.** The Senate rejected the Governor's proposal to (1) transfer only \$207 million from the General Fund to the Transportation Investment Fund (TIF) under Proposition 42 and (2) retain \$938 million in the General Fund. Instead, the Senate transferred the full amount—estimated at \$1,145 million—to the TIF and then loaned \$938 million back to the General Fund, to be repaid by June 30, 2009. The Senate action would leave \$207 million available in the TIF to fund certain projects in the Traffic Congestion Relief Program (TCRP) in the budget year. Additionally, the Senate approved the Governor's proposal to deposit into the General Fund \$87 million in "spillover" revenue that otherwise would accrue to the Public Transportation Account.
- ☒ **Transportation Design and Engineering.** The Senate approved the Governor's proposal to provide \$1,236 million for the design and engineering of transportation projects. Of this amount, \$49.5 million is for work on TCRP projects.
- ☒ **State Transit Assistance.** The Senate approved a May Revision proposal to cap funding for State Transit Assistance to local transit operators at \$100.4 million.
- ☒ **MVA Fees.** The Senate approved proposals to increase several fees under the Department of Motor Vehicles for a total Motor Vehicle Account (MVA) revenue increase of \$163 million in 2003-04 and \$333 million annually thereafter.
- ☒ **CHP.** The Senate approved the Governor's proposal to shift \$63.4 million in funding for the California Highway Patrol's (CHP's) protective services and homeland security activities from the MVA to a new Public Safety Surcharge Fund. The Senate, however, denied the Governor's proposal to shift, from the MVA to the State Emergency Telephone Number Account, \$41 million in CHP expenditures on activities in response to 911 calls. Instead, the Senate funded these costs from the Public Safety Surcharge Fund.



Major Senate Actions State Administration

Various Funds (In Millions)

Issue	Governor	Senate	Difference
State employee compensation	-\$470.0	-\$470.0	—
Increased user funding for workers' compensation	-107.0	-107.0	—
Renegotiation of state contracts	-50.0	-50.0	—
Workers' compensation reforms (state savings)	-30.0	-30.0	—
Fair Employment and Housing	12.6	15.7	3.1
Film California First program	8.2	6.0	-2.2
Arts Council	6.5	11.6	5.1
Emergency housing assistance grants	4.0	5.3	1.3
Tourism Commission	2.5	5.0	2.5
Cesar Chavez Day of Learning grants	—	2.0	2.0

- ☒ The Senate assumed the Governor's proposed General Fund savings of \$470 million General Fund from reduced employee compensation costs, \$30 million from workers' compensation reforms, and \$50 million from renegotiation of state contracts.
- ☒ The Senate restored General Fund support for Arts Council (\$5.1 million), Housing and Community Development (\$3.7 million), and Fair Employment and Housing (\$3.1 million).
- ☒ The Senate approved a shift to full user funding for the administration of workers' compensation (\$107 million).
- ☒ The Senate adopted energy-related trailer bill language to (1) enact power plant siting fees and (2) create a special fund for the deposit of electricity settlement funds. The Senate also transferred the responsibilities and funding of the Electricity Oversight Board to a new office in the Governor's office.



General Fund Spending Trends

(Dollars in Millions)

	Current Dollars		Constant Dollars	
	Amount	Percent Change	Amount	Percent Change
1993-94	\$38,958	—	\$38,958	—
1994-95	41,961	7.7%	40,730	4.5%
1995-96	45,393	8.2	43,010	5.6
1996-97	49,088	8.1	45,415	5.6
1997-98	52,874	7.7	47,867	5.4
1998-99	57,827	9.4	51,333	7.2
1999-00	66,494	15.0	56,816	10.7
2000-01	78,053	17.4	64,133	12.9
2001-02	76,752	-1.7	62,324	-2.8
2002-03				
Governor's budget (May Revision)	\$78,056	1.7%	\$62,221	-0.2%
Senate version	\$78,113	1.8%	\$62,267	-0.1%
2003-04				
Governor's budget (May Revision)	\$70,433	-9.8%	\$55,059	-11.5%
Senate version	\$72,290	-7.5%	\$56,511	-9.2%



In the Senate version of the budget, General Fund spending in the current year is \$78.1 billion, which is a 1.8 percent increase from 2001-02. In constant-dollar terms, spending declines slightly in the current year.



General Fund spending in the budget year is \$72.3 billion as proposed by the Senate version of the budget. This spending level is a 7.5 percent reduction from 2002-03, and a 9.2 percent decrease in constant-dollar terms.



The budget-year amount reflects program savings, elimination of the VLF backfill, issuance of pension obligation bonds, realignment of certain programs to local governments, accounting changes, and the use of federal funds.



General Fund spending grew moderately during the mid-1990s, and grew rapidly at the end of the decade. Budget-year expenditures are proposed at a level below 2000-01 expenditures.