

The 2005-06 Budget Bill

LEGISLATIVE ANALYST'S OFFICE

Senate Bill 77

Committee on Budget and Fiscal Review





Major Features

- Funds Proposition 98 at level proposed in the May Revision, increasing per pupil funding by \$384 in 2005-06.
- Funds Proposition 42 transfer to transportation.
- Expands Medi-Cal managed care to additional counties, but generally rejects administration's proposals to require enrollment of aged and disabled beneficiaries.
- Suspends state cost-of-living adjustments (COLAs) for California Work Opportunity and Responsibility to Kids (CalWORKs) and Supplemental Security Income/State Supplementary Program (SSI/SSP) for 2005-06 and 2006-07. Restores proposed reductions related to pass-through of federal COLAs for SSI/SSP recipients, state support for In-Home Supportive Services provider wages, and CalWORKs grants.
- Rejects administration's proposals relating to (1) a shift of state teachers' retirement costs from the General Fund to school districts, and (2) state employee compensation savings.
- Assumes additional revenues relative to administration from local property taxes and refinancing of tobacco bonds. Rejects administration proposal to pre-pay one-half of the vehicle license fee gap loan due in 2006-07.



General Fund Condition SB 77 as Amended

(In Millions)

	2004-05	2005-06
Prior-year fund balance	\$6,948	\$6,793
Revenues and transfers ^a	79,545	84,385
Deficit Financing Bond	2,012	—
Total resources available	\$88,506	\$91,178
Expenditures ^b	\$81,712	\$89,243
Ending fund balance	\$6,793	\$1,936
Encumbrances	\$642	\$642
Reserve	\$6,152	\$1,294

Detail may not total due to rounding.
^a Department of Finance estimates.
^b Assumes Legislative Analyst's Office's estimates of property tax revenue in 2005-06.

- 2004-05.** The budget assumes a prior-year balance of \$6.9 billion, revenues of \$79.5 billion, expenditures of \$81.7 billion, and a year-end reserve of \$6.2 billion. Most of the operating shortfall (revenues minus expenditures) is covered by the proceeds of last year's sale of \$2 billion in deficit-financing bonds.
- 2005-06.** The budget assumes 2005-06 revenues of \$84.4 billion and expenditures of \$89.2 billion. The resulting operating shortfall of \$4.9 billion draws the current-year reserve down to \$1.3 billion by the close of the budget year.



Major Actions K-12—Proposition 98

- Overview.** Assumes spending of \$44.6 billion for K-12 Proposition 98 funding in 2005-06, and maintains the same total spending level as the Governor's May Revision. (Based on the administration's revenue estimates, total Proposition 98 funding is roughly \$500 million above the minimum K-14 Proposition 98 guarantee.) On a per-pupil basis, K-12 Proposition 98 funding increases \$384—from \$7,021 in 2004-05 to \$7,405 in 2005-06. In addition, the budget provides approximately \$375 million to K-12 in one-time funds.
- Growth and Cost-of-Living Adjustments (COLAs).** Provides both statutory and discretionary growth and COLAs to district revenue limits (\$1.4 billion) and other programs (\$640 million). This reflects a COLA rate of 4.23 percent.
- Deficit Factor Reduction.** Provides \$400 million in additional revenue limit funding to partially restore a general purpose reduction and foregone COLAs that schools experienced in prior years, which created a "deficit factor" obligation.
- Payment of Prior-Year Mandate Claims.** Provides \$242 million in one-time funds to reimburse districts for a portion of the costs incurred for state mandates in previous years.
- Special Education.** Maintains the \$79 million augmentation to special education as proposed in the May Revision, including: \$47.9 million for one-time per-pupil grants, \$18.2 million to increase support for the new Out-of-Home Care funding formula, and \$12.8 million in funding increases for ongoing special education per-pupil grants.



Major Actions K-12—Proposition 98

(continued)

- Child Care Reforms.*** Rejects the child care reform proposals to create a tiered reimbursement system and shift CalWORKs Stage 3 child care to the Alternate Payment Program, but does adopt the proposal to create a centralized eligibility list for each county.

- Implementing Legislation.*** Earmarks funds to be allocated pursuant to policy and trailer bills to address budget issues for the following programs—special education, supplemental instruction, charter school block grant, professional development, federal before and after school programs, High Priority Schools (new cohort), and School Business Officer Training.



Major Actions Higher Education

- Total Higher Education Funding.** Provides \$10.2 billion in General Fund support for higher education, which is about \$52 million higher than the Governor's proposal in the May Revision. (Much of the increase is to maintain outreach programs at the current-year level.) Compared to 2004-05, General Fund spending on higher education spending would increase by about \$871 million, or 9.3 percent.
- Student Fees.** Assumes an additional \$190 million in new revenue from student fee increases at the University of California (UC) and the California State University (CSU), including 8 percent for undergraduates and 10 percent for graduate students. These increases are in addition to the General Fund augmentations described above. Student fees at the California Community Colleges (CCC) remain unchanged at \$26 per unit.
- Cost-of-Living Adjustments.** Provides \$358 million for base budget increases for inflationary costs of 3 percent at UC and CSU, and 4.23 percent at CCC.
- Enrollment Increases.** Funds enrollment growth of (1) 2.5 percent at UC and CSU, at a total cost of about \$89 million and (2) 3 percent at CCC, at a cost of \$142 million.
- Nursing.** Appropriates \$14 million for additional nursing students at CCC and \$4 million for additional entry-level nursing masters students at CSU. Related augmentations (totaling \$6.3 million, all funds) are provided to the Office of Statewide Health Planning and Development for registered nurse training programs and promotion of a new nurse loan forgiveness program; and to the Employment Development Department for three rural clinical training "simulators" and a new health care training program.



Major Actions Higher Education

(continued)

- CCC.** Reduces Governor's proposed equalization augmentation from \$40 million to \$20 million. Adds \$10 million for increasing the funding rate for noncredit instruction, and \$10 million for paying CCC mandates from prior years. Provides \$33 million in one-time funding to backfill a projected shortfall of property tax revenue in 2004-05.



Major Actions Health

- Medi-Cal Redesign—Expansion of Managed Care.** Expands Medi-Cal managed care to additional counties, but generally rejects a proposal to mandate the enrollment of aged and disabled beneficiaries in managed care. The exception would be aged and disabled beneficiaries who enroll in county organized health systems, consistent with the current practice. A proposal for long-term care integration programs in three counties is to be considered outside of the budget process in policy legislation.
- Medi-Cal Redesign—Other Proposals.** Rejects some other components of a plan to redesign the Medi-Cal Program, including a proposal to require certain Medi-Cal beneficiaries to pay monthly premiums to participate in the program. Adopts a modified limit on dental services provided to adults that will result in lower savings than initially proposed but that would also affect fewer Medi-Cal beneficiaries.
- Restructuring Hospital Finances.** Makes no changes in the structure of state support for public and private hospitals, but assumes that a new federal hospital waiver will be approved in the budget year. (Negotiations between the state and federal authorities over such proposed changes had not yet been resolved.) In a related matter, continues payments to certain Los Angeles County health clinics at an enhanced reimbursement rate.
- Medicare Part D Drug Benefit.** Reduces Medi-Cal spending to reflect the shift of prescription drug coverage for certain aged and disabled beneficiaries to the new federal Medicare Part D drug benefit that takes effect in January 2006. Also recognizes increased state costs resulting from the change, including so-called “clawback” payments that will be owed to the federal government under the new federal law. Calls for preparing state plans for emergency drug coverage and other actions to assist Medi-Cal beneficiaries who encounter problems in their transition to Medicare Part D drug coverage.



Major Actions Health

(continued)

- Prenatal Care Services.*** Achieves about \$290 million in state savings in 2004-05 and 2005-06 (combined) by taking advantage of available federal funds for support of prenatal care services provided under the Medi-Cal and Access for Infants and Mothers programs.
- New Public Health Programs.*** Rejects a proposal to create a new state-run program to obtain discounts on drugs for low- and moderate-income Californians. Approves a scaled-down proposal for new programs to prevent obesity and commissions a strategic plan that assesses the effectiveness of existing anti-obesity efforts. Provides new assistance to local agencies to address outbreaks of the West Nile Virus. Also, augments existing state programs for AIDS prevention and education, treatment for prostate cancer, and assistance to trauma care centers.
- Proposition 99 Changes.*** Achieves General Fund savings by shifting Proposition 99 funds to cover the cost of certain Medi-Cal hospital rate increases. Augments Proposition 99 funding for state programs for tobacco education, indigent care, rural health demonstration projects, assistance to physicians with their student loans, asthma prevention, and breast cancer screening.
- Mental Health Services.*** Rejects proposals to suspend or repeal two state mandates on counties to provide mental health care for children who require special education services. Authorizes staffing and funding for the Department of Mental Health and five other state agencies to expand mental health programs in keeping with Proposition 63, approved last year by the voters.
- Services for the Developmentally Disabled.*** Moves ahead with state plans to close the Agnews Developmental Center and place its clients in community programs. Expands the self-directed community services program which gives regional center clients more control over the services and supports that are purchased for them.



Major Actions Social Services

- SSI/SSP Grants.** Retains the federal January 2006 cost-of-living adjustment (COLA), but suspends the state COLA in January 2006 and January 2007. These actions result in General Fund savings of \$131 million in 2005-06 (about \$97 million less than the Governor's May Revision).
- In-Home Supportive Services.** Rejects proposal to reduce state participation in provider wages to the minimum wage, resulting in a cost of \$206 million compared to the Governor's May Revision.
- CalWORKs Grants.** Rejects the proposed 6.5 percent grant reduction and suspends the COLA for two years, rather than the Governor's proposal to eliminate the statutory COLA requirement. This results in combined General Fund/Temporary Assistance for Needy Families (TANF) block grant fund savings of \$135 million (about \$165 million less than proposed by the Governor) in 2005 06.
- CalWORKs and Food Stamps Administration.** Allows counties to retain up to \$50 million in unexpended county block grant funds from 2004-05 for expenditure in 2005-06 and provides an additional \$10 million for Food Stamps administration. These funds were provided to account for lower than anticipated savings from the previously enacted change from monthly to quarterly reporting.
- Child Care.** Rejects the child care proposals to create a tiered reimbursement system and shift CalWORKs Stage 3 child care to the Alternate Payment Program, but does adopt the proposal to create a centralized eligibility list for each county.



Major Actions Social Services

(continued)

- Statewide Fingerprint Imaging System.*** Adopts trailer bill legislation to exclude Food Stamps-only cases from the requirement to be fingerprinted as a condition of eligibility. CalWORKs and General Assistance cases would continue to be fingerprinted.

- Child Welfare Services.*** Provides an additional \$3.5 million for further implementation of county self-improvement plans adopted pursuant to Chapter 678, Statutes of 2001 (AB 636, Steinberg).

- Naturalization Assistance.*** Provides \$2.5 million to the Department of Community Services and Development for contracts with community based organizations to provide naturalization assistance.



Major Actions Judiciary and Criminal Justice Programs

- Youth Corrections.** Provides funding (\$9 million General Fund and \$15 million Proposition 98) to implement remedial plans relating to the *Farrell v Allen* lawsuit. This consists of funds to increase teacher to student ratios in institution schools (\$17 million), meet certain requirements of the Americans with Disabilities Act (\$3 million), implement a sex offender treatment program (\$2.5 million), and improve suicide watch services (\$1 million).

- Adult Corrections.** Includes funding to fully activate a new prison in Delano (\$91 million), fill vacant positions (\$35 million), expand the Basic Correctional Officer Academy (\$29 million), and improve inmate medical and dental services (\$40 million). The budget also provides \$7.5 million to implement new inmate and parole programs and restores \$51 million of the \$95 million reduction to programs included in the Governor's January budget.

- Court Operations.** Provides for growth in trial court operations funding based on the annual change in the state appropriations limit (\$130 million), increased salary and benefits as well as court security costs (\$93 million), and partial restoration of one-time reductions (\$53 million). Repays a 2003-04 loan from the State Court Facilities Construction Fund (\$73 million).

- Local Public Safety Grants.** Uses General Fund monies (\$201 million) to replace the Temporary Assistance for Needy Families Block Grant for probation. Maintains funding for the Citizens' Options for Public Safety (\$100 million) and Juvenile Justice Crime Prevention Act (\$100 million) grant programs. Restores funding for the Small/Rural County Sheriff Grant program (\$18.5 million).



Major Actions Transportation

- No Suspension of Proposition 42.*** Transfers \$1.3 billion in General Fund revenues to transportation purposes. The transfer will provide \$678 million for Traffic Congestion Relief Program projects, \$254 million for State Transportation Improvement Program projects, \$254 million for local street and road improvements, and \$127 million for the Public Transportation Account.

- Tribal Gaming Bond to Repay \$1 Billion in Transportation Loans.*** Assumes that bonds backed by tribal gaming revenues will generate \$1 billion in 2005-06. This amount will be used to partially repay the Traffic Congestion Relief Fund (TCRF) for past transportation loans to the General Fund. Leaves \$222 million loaned from TCRF and \$2.1 billion in previous Proposition 42 suspensions to be repaid in future years.

- No "Spillover" Transfer to Mass Transportation.*** Retains in the General Fund \$380 million in spillover revenue resulting from high gasoline prices. This amount would otherwise be transferred to mass transportation purposes.

- Caltrans Capital Outlay Support.*** Provides \$1.6 billion for design and engineering of capital outlay projects. This amount includes support costs associated with 11,200 personnel-years of state staff, 710 personnel-year-equivalents of cash overtime, and 1,568 personnel-year-equivalents of contracted services.



Major Actions Resources, Energy, and Environmental Protection Programs

- CALFED Bay-Delta Program.*** Provides \$146 million of state funds for the CALFED Bay-Delta Program—a reduction of \$126 million (46 percent) from the Governor’s proposal.
- Flood-Related Lawsuit Settlement.*** Approves \$103 million from the General Fund for the first year of payments related to the \$464 million *Paterno* lawsuit settlement. Of the settlement amount, \$428 million is being financed over ten years.
- Flood Management.*** Approves increases in the Department of Water Resources totaling about \$46 million, mostly state funds, for various flood management activities, including levee maintenance and system evaluation, floodplain management, emergency response, and capital outlay and local flood control projects.
- Fire Protection.*** Approves increases of \$14 million for fire protection equipment and \$9 million to support year-round California Department of Forestry and Fire Protection staffing in Southern California.
- Bond Funds.*** Provides about \$1 billion from bonds for various resources and environmental protection programs.



Major Actions General Government

- Employee Compensation.** Rejects Governor's proposal regarding collective bargaining concessions from state employee unions. The Governor's budget assumes \$408 million in 2005-06 General Fund savings from this proposal. Consistent with the May Revision, the budget fully funds existing collective bargaining agreements with new costs in 2005-06.

- Teachers' Retirement.** Rejects Governor's proposal to shift \$469 million in teacher retirement costs from the General Fund to school districts.

- Vehicle License Fee (VLF) Loan Prepayment.** Rejects the administration's proposal to prepay one-half of the \$1.2 billion VLF gap loan from local governments due in 2006-07. Agrees instead to a smaller prepayment of \$25 million and earmarks the payment for local agencies experiencing fiscal hardship, including those related to booking fee payments.

- Mental Health Services for Students Mandates.** Provides \$120 million (General Fund), or \$30 million over the May Revision, to pay costs associated with two mandates: Services to Handicapped Students (the "AB 3632" program) and Seriously and Emotionally Disturbed Students.

- All Other Non-Education Mandates.** Provides \$119 million (General Fund), or \$59 million over the May Revision, for all other non-education mandates. Rejects the administration's proposal to suspend elections-related mandates and requests a review of the peace officers bill of rights mandate. Assumes a 25 percent reduction in 2005-06 mandate costs attributable to increased auditing efforts.