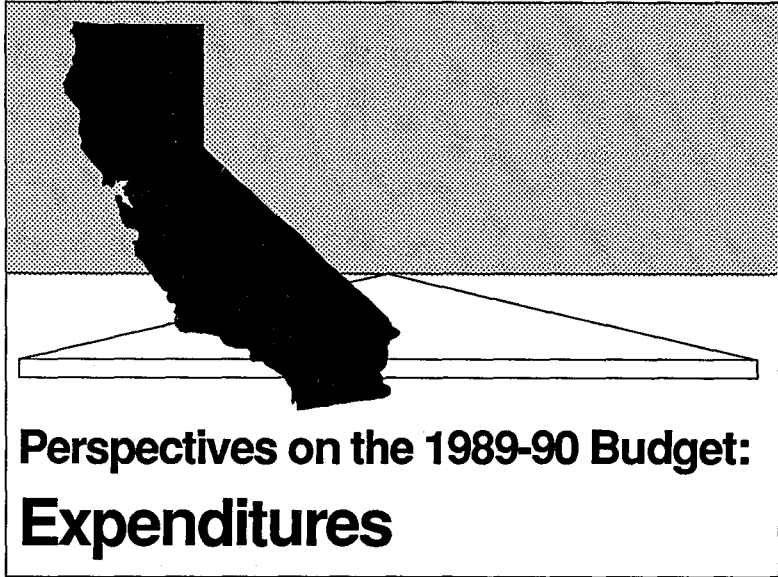


2

**Perspectives on the
1989-90 Budget:
Expenditures**

Part 2



This part provides an overview of the spending plan proposed in the Governor's Budget. It discusses the level of proposed expenditures and the factors which determine this level, the major components of the budget, the priorities reflected in the budget, and the major program changes proposed in the budget. It also identifies some potential state expenditures that are not funded in the budget, and describes the administration's plans for the implementation of two major initiatives approved by the voters in November. The major findings of this section include:

- General Fund expenditure growth for the budget year is restrained to 5.8 percent by the proposed allocation of \$870 million—almost 30 percent of the projected General Fund revenue growth—to the Special Fund for Economic Uncertainties.
- The General Fund cost of maintaining current levels of service, including the restoration of the reserve to the 3-percent level, would amount to \$4.5 billion in 1989-90. Because General Fund revenues are expected to total \$2.9 billion, this leaves a \$1.6 billion funding gap.
- Of the net \$2.1 billion expenditure growth provided in the budget, \$1.3 billion is for workload growth, \$900 million is for cost-of-living adjustments (including salary increases), and \$600 million is provided for all other expenditure increases—primarily the second-year costs of implementing the trial court funding program and Proposition 98. These costs are partially offset by baseline reductions totaling \$700 million.

- **Special fund expenditure growth of 13.9 percent in the current year and 7.4 percent in the budget year is distorted by two special factors. First, the expenditure of Proposition 99 tax revenues increases the current- and budget-year spending totals. Second, the anticipated expenditure of \$1.6 billion in bond funds approved for school facilities is shown in the budget as a special fund expenditure in the current and budget years.**

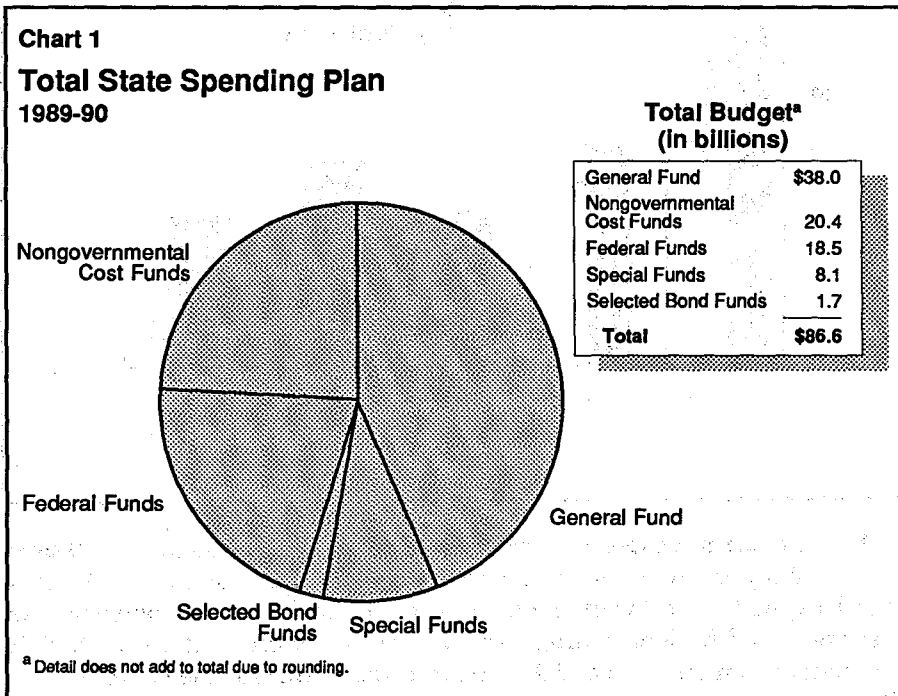
Expenditures in 1989-90

TOTAL STATE SPENDING PLAN

The Governor's Budget for 1989-90 proposes total expenditures of \$87 billion. This amount represents a 5.2 percent increase over last year's total spending plan and includes:

- \$38 billion in expenditures from the *General Fund*, which represents an increase of 5.8 percent over 1988-89;
- \$8 billion in expenditures from *special funds*, which represents an increase of 7.4 percent over 1988-89;
- \$18 billion in expenditures from *federal funds*, which represents an increase of 3 percent over 1988-89;
- \$20 billion from various *nongovernmental cost funds*, which includes funds established for retirement, working capital, public services enterprise, and other purposes; and
- \$2 billion in expenditures from *selected bond funds*.

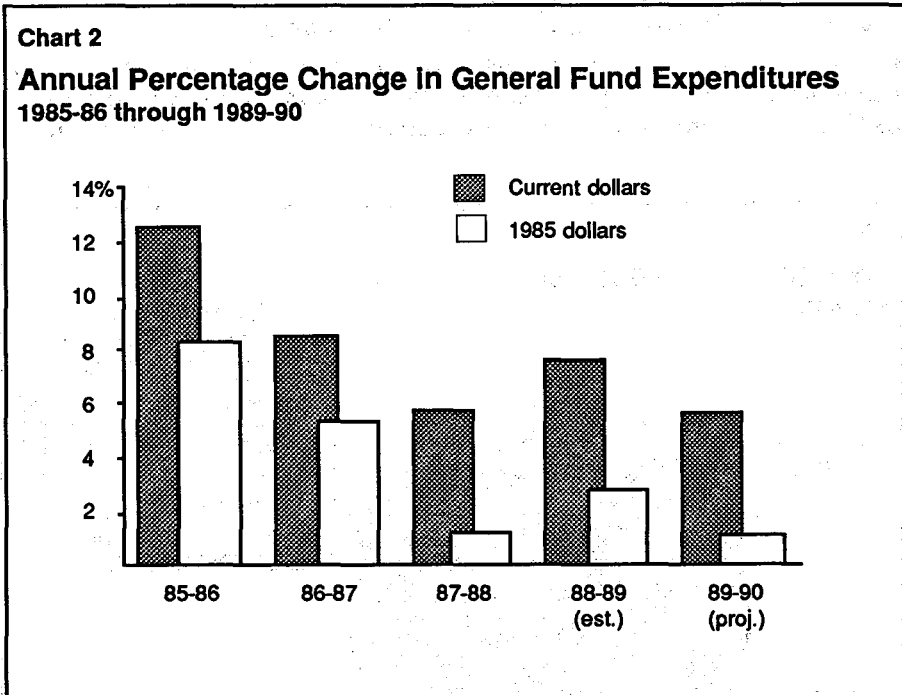
Chart 1 shows the relative distribution of the \$87 billion in total expenditures by funding source. As shown, General Fund expenditures of \$38 billion amount to almost half (44 percent) of total state expenditures.



General Fund Expenditures

The state's General Fund receives the bulk of the state's tax revenues, and is the most sensitive to changes in economic conditions. The budget projects that the state's economy will continue to grow at a moderate pace, so that the level of expected revenues would permit significant growth in the state's expenditures. The proposed increase in General Fund expenditures of 5.8 percent, however, reflects certain other constraints on state spending, as discussed below.

Chart 2 shows the growth trend in recent General Fund expenditures on an annual percentage basis, both in terms of "current dollars" (amounts as they appear in the budget) and "real dollars" (current dollars adjusted for the effect of inflation since 1985). Comparing growth rates in terms of real dollars allows expenditure growth rates in different years to be compared on a common basis.



As the chart indicates, the proposed General Fund budget for 1989-90 will be 5.8 percent greater in current dollars than estimated General Fund expenditures for 1988-89. In terms of real dollars, however, the General Fund budget is proposed to increase by only 1.2 percent. This compares to an increase of 2.9 percent in real terms for the current year. This lower rate of growth for expenditures in 1989-90 in part reflects a

slower rate of revenue growth in the budget year—8.3 percent compared to 10.4 percent for the current year. It also reflects the administration's proposal to rebuild the state's reserve—the Special Fund for Economic Uncertainties—which was depleted during 1987-88. This proposal consumes 30 percent of the growth in state revenues expected for 1989-90, and results in a lower level of funds available for expenditure growth in state programs.

General Fund Expenditures by Function and Category

Chart 3 shows the major components of the General Fund budget, by function and by category. As usual, more than half (53 percent) of the General Fund expenditures proposed in the budget are for educational programs and about one-third for health and welfare programs (31 percent). The remaining expenditures are proposed in the areas of youth and adult corrections (6.1 percent), tax relief (2.3 percent), resources (1.8 percent), and all other (6.1 percent).

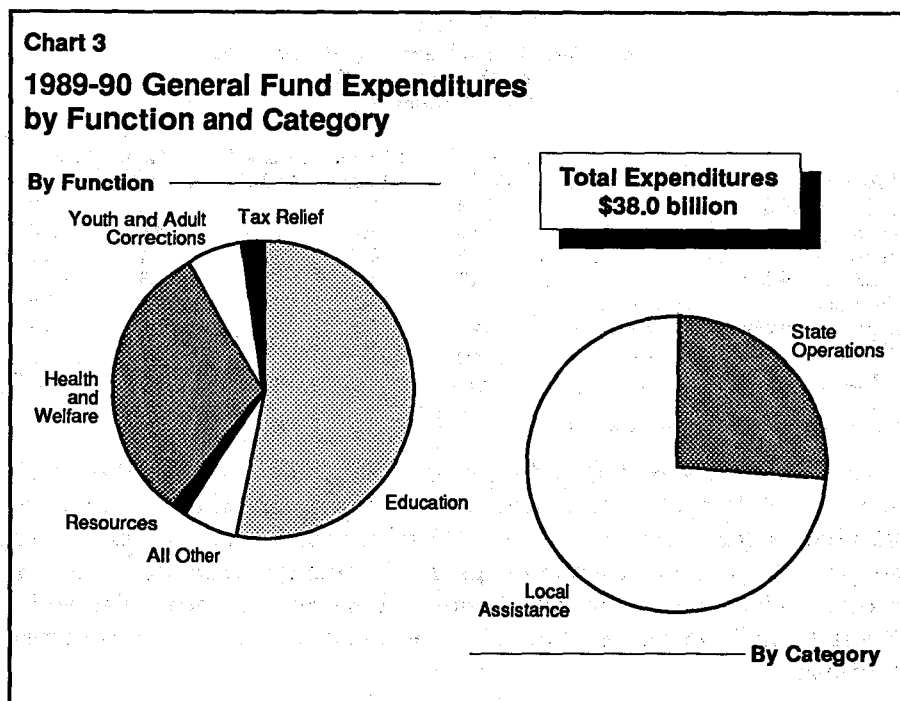


Chart 3 also shows the distribution of General Fund expenditures between state operations—26 percent, and local assistance—74 percent. In addition, a very small amount (\$195,000) is proposed for capital outlay projects. The budget proposes General Fund expenditures for state operations of \$9.8 billion in 1989-90, which is \$0.8 billion, or 8.9 percent,

greater than the level provided for this category in 1988-89. General Fund expenditures for local assistance are proposed at \$28.2 billion in 1989-90, which is \$1.2 billion, or 4.5 percent, greater than estimated 1988-89 expenditures. The slower rate of growth for local assistance expenditures reflects the administration's proposals to reduce funding for a variety of health and welfare programs.

Special Fund Expenditures

The budget proposes special fund expenditures of \$8.1 billion in 1989-90, which is an increase of \$558 million, or 7.4 percent, over the current-year level. Special funds are used to allocate tax revenues (such as gas and cigarette tax monies) for *dedicated* purposes. In this way, they differ from General Fund revenues, which can be spent by the Legislature for *any* purpose. Table 1 shows the major components of the special fund budget, and Chart 4 shows the relative distribution of these funds by function and category.

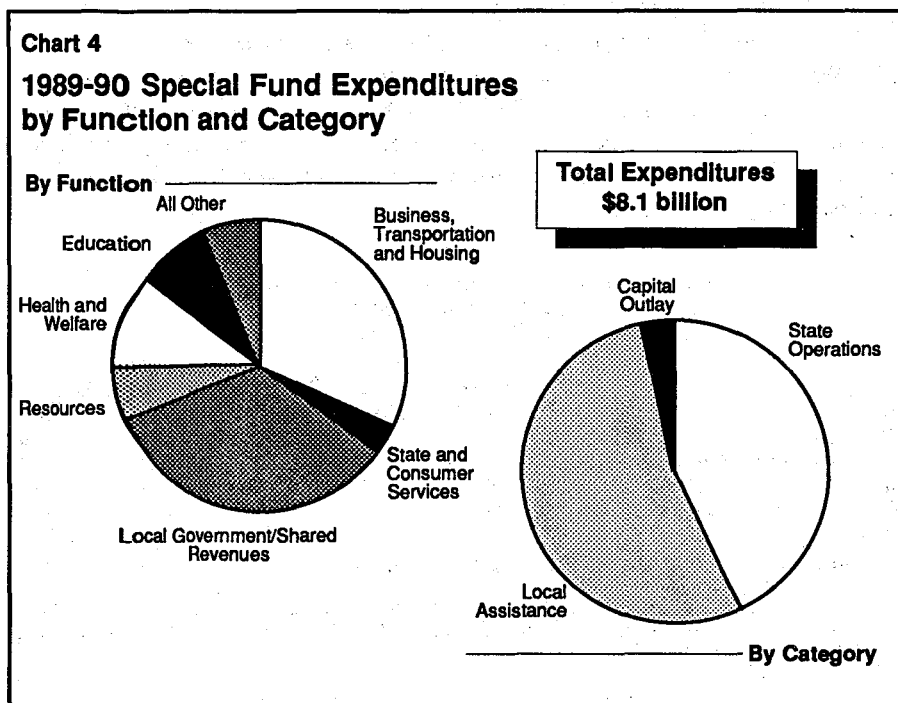
Table 1
Special Fund Expenditures by Function^a
1987-88 through 1989-90
(dollars in millions)

Function	Actual 1987-88	Estimated 1988-89	Proposed 1989-90	Change From 1988-89	
				Amount	Percent
State and consumer services.....	\$228	\$260	\$261	\$2	0.8%
Business, transportation and housing.....	2,160	2,293	2,581	288	12.5
Resources.....	415	517	503	-14	-2.7
Health and welfare.....	157	404	812	408	101.0
Education.....	782	1,075	692	-383	-35.6
Local government/shared revenues.....	2,463	2,623	2,766	143	5.4
All other.....	408	363	476	114	31.3
Totals.....	\$6,614	\$7,535	\$8,093	\$558	7.4%

^a Detail may not add to totals due to rounding.

Local Government/Shared Revenues. The largest item in the state's special fund budget is the Shared Revenues program, which accounts for \$2.8 billion (or 34 percent) of the \$8.1 billion total. The revenues which support this program are derived primarily from taxes and fees levied on motor vehicles and motor vehicle fuels. These revenues are collected by the state and apportioned to local governments on the basis of statutory formulas.

The largest single source of shared revenues is the motor vehicle license fee (VLF), which accounts for almost \$2.1 billion, or approximately 75 percent, of the \$2.8 billion in shared revenues. The VLF is imposed annually on motor vehicles on the basis of market value and is apportioned to cities and counties for general purposes according to population.



Business, Transportation and Housing. The second largest component of the 1989-90 special fund budget is for business, transportation and housing programs, which account for 32 percent of the total. The Governor's Budget proposes expenditures in this area of \$2.6 billion. This is an increase of \$288 million, or 13 percent, above the current-year level. Of the total increase for business, transportation and housing programs, \$213 million is to fund additional staff and projects in the Department of Transportation.

The bulk of these special funds comes from: (1) a nine-cent-per-gallon tax on gasoline and diesel fuel and (2) various user fees, primarily truck weight fees, motor vehicle registration fees, and driver's license fees. Most of these funds go to support the Department of Transportation, the California Highway Patrol and the Department of Motor Vehicles.

Health and Welfare. In 1988-89, health and welfare programs made up only 5 percent of special fund expenditures. In 1989-90, however, special fund expenditures on health and welfare programs have more than doubled, primarily as a result of the passage of the Tobacco Tax and Health Protection Act of 1988 (Proposition 99). The Governor's Budget proposes total expenditures in this area of \$812 million, more than two-thirds of which is from Proposition 99 revenues.

Selected Bond Fund Expenditures

The budget proposes selected bond fund expenditures of \$1.7 billion in 1989-90, which is an increase of \$40 million, or 2.5 percent, from the current-year spending identified in the budget. Table 2 shows the proposed 1989-90 selected bond fund expenditures by function, and Chart 5 illustrates the relative distribution of these expenditures by function and category.

Table 2
Selected Bond Fund Expenditures by Function^a
1987-88 through 1989-90
(dollars in millions)

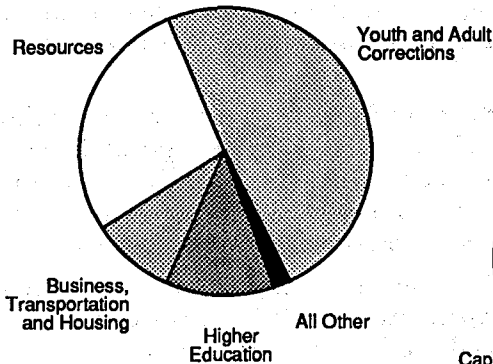
Function	Actual 1987-88	Estimated 1988-89	Proposed 1989-90	Change From 1988-89	
				Amount	Percent
Higher education.....	\$217	\$516	\$211	-\$306	-59.2%
Business, transportation and housing.....	—	1	151	150	— ^b
Resources.....	231	448	454	6	1.2
Youth and adult corrections.....	369	638	810	172	26.9
All other.....	1	7	26	18	253.7
Totals.....	\$817	\$1,611	\$1,651	\$40	2.5%

^a Detail may not add to totals due to rounding. Does not include proceeds from the School Facilities Bond Acts of 1988. These expenditures are treated as special fund expenditures from the State School Building Lease-Purchase Fund.

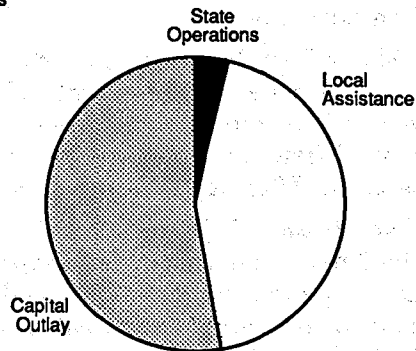
^b Not a meaningful figure.

Chart 5
1989-90 Selected Bond Fund Expenditures
by Function and Category

By Function



Total Expenditures
\$1.7 billion



By Category

As has consistently been the case in recent years, the budget overstates the amount of bond fund expenditures which are likely to occur in the current and budget years. Given the delays which have been experienced by the state in bringing various bond-funded projects to the construction phase, it is not likely that this level of expenditure can be realized. For example, the level of bond fund expenditures proposed for youth and adult corrections programs is overstated in both the current and budget years. Specifically, the budget proposes to spend more than \$120 million in the current year and \$221 million in the budget year for two prisons in Los Angeles County. The Department of Corrections, however, does not anticipate completing the preliminary planning for these prisons until May 1989. Once preliminary planning is completed, the department must still complete working drawings before construction bids can be solicited, meaning that construction is not likely to start until well into the budget year. In total, we estimate that the budget overstates likely expenditures for these two prisons by a total of \$170 million in the current and budget years.

In addition to being overstated, the budget-year total is not a good indication of the actual level of capital outlay activity which will occur in 1989-90. This is because, from an accounting perspective, certain "project commitments" are counted as bond fund expenditures even though the projects will not actually commence in the budget year (please see the K-12 Education section, below).

The vast majority of bond fund expenditures are proposed to be spent in the following five program areas:

K-12 Education. The budget proposes expenditures of \$1 billion in the current year and \$600 million in the budget year from the State School Building Lease-Purchase Fund (where the proceeds of both 1988 school facilities bond acts will be deposited). Thus, the budget proposes to spend *all* of the school facilities bond funds authorized in 1988. The expenditures reflected in the budget, however, reflect only a *commitment* to provide funding for the school districts when they are ready to begin construction, rather than the actual transfer of funds to school districts.

Higher Education. The Governor's Budget reflects 1989-90 selected bond fund expenditures for higher education totaling \$211 million, of which \$176 million is for capital outlay. The proposed bond fund expenditures for capital outlay would spend all of the 1988 Higher Education General Obligation bond issue except for about \$45 million set aside by the Department of Finance for augmentations and interest payments on loans from the Pooled Money Investment Account. The budget also proposes expenditures of \$306 million in "revenue" bonds for higher education.

Business, Transportation and Housing. The budget proposes selected bond fund expenditures totaling \$151 million in 1989-90 for housing programs. Of the total proposed, \$76 million is from the Earthquake Safety and Housing Rehabilitation Bond Act and \$75 million is from the Housing and Homeless Bond Act. The budget indicates that none of these bonds will be sold before 1990-91. Instead, the proposed expenditures are intended to be funded by loans from the Pooled Money Investment Account (PMIA).

Resources. The Governor's Budget reflects selected bond fund expenditures for resources programs totaling \$454 million, or 28 percent of total bond fund expenditures in 1989-90. This amount reflects expenditures of \$157 million from the California Wildlife, Coastal and Park Land Conservation Bond Act. In addition, \$143 million would be used to provide assistance to local agencies to improve the quality and efficiency of local drinking water systems. Another \$95 million would be used to provide grants and loans to local agencies to construct waste water treatment plants and to improve agricultural drainage systems.

Youth and Adult Corrections. The budget proposes selected bond fund expenditures totaling \$810 million for 1989-90 for youth and adult correctional programs. Of this amount, \$221 million would provide assistance to local governments for construction of adult correctional facilities, and \$10 million would provide assistance to local governments for construction of juvenile facilities. But, as discussed earlier, because the budget makes overly optimistic assumptions about the speed at which construction of correctional facilities will take place, the total amount proposed in the budget year is not likely to be spent.

Table 3 shows proposed expenditures for the current and budget years from bond issues approved at the June and November 1988 elections. (An additional discussion of the proposed expenditure of bond funds for capital outlay purposes is included in the capital outlay section of the *Analysis*.)

Federal Funds Expenditures

The budget proposes \$18.5 billion in federal funds expenditures in 1989-90, which is about one-fifth of total state spending. This level of federal funds expenditures is \$545 million, or 3 percent, higher than the current-year level. Table 4 shows federal funds expenditures by program for the past, current and budget years.

The largest dollar increase, \$584 million, is shown for health and welfare programs. Of this amount, more than 40 percent (\$242 million) is due to increased federal funding for the Medi-Cal program. Another \$138 million (approximately 24 percent) is the result of estimated increases in State Legalization Impact Assistance Grant (SLIAG) funds for public health services to immigrants.

Table 3
Proposed Expenditures from 1988 Bond Issues^a
1988-89 and 1989-90
(dollars in thousands)

Program	Amount Authorized	Expenditures	
		Estimated 1988-89	Proposed 1989-90
Earthquake Safety and Housing Rehabilitation	\$150,000	\$561	\$75,945
School Facilities ^b	1,600,000	1,000,000	600,000
Higher Education Facilities	600,000	344,197	210,153
New Prison Construction	817,000	294,369	478,671
County Correctional Facilities	500,000	—	416
California Safe Drinking Water	75,000	—	10,954
Water Conservation	60,000	—	15,942
Clean Water and Water Reclamation	65,000	—	—
Housing and Homeless	300,000	—	75,000
Library Construction and Renovation	75,000	49	156
Wildlife, Coastal and Park Land Conservation	76,000	84,704	156,574
Totals	\$5,018,000	\$1,723,880	\$1,623,811

^a Excludes self-liquidating bond acts.

^b The budget treats expenditures from these bond acts as special fund expenditures from the State School Building Lease-Purchase Fund.

Table 4 also shows that the amount of federal funding provided for higher education in the state is expected to increase by \$176 million in 1989-90. Two items account for this increase: (1) \$129 million for Department of Energy laboratories at the University of California and (2) \$47 million for federal research contracts at the University of California.

Table 4
Federal Funds Changes, by Program
1987-88 through 1989-90
(dollars in millions)

Program	Actual 1987-88	Estimated 1988-89	Proposed 1989-90	Change from 1988-89	
				Amount	Percent
Legislative/judicial/executive	\$43	\$57	\$57	\$1	1.3%
State and consumer services	16	19	19	1	3.5
Business, transportation and housing	1,207	2,083	1,829	-254	-12.2
Resources	117	304	284	-20	-6.7
Health and welfare	8,846	10,325	10,910	584	5.7
Youth and adult corrections	1	1	1	—	—
K-12 education	1,261	1,465	1,524	59	4.0
Higher education	2,916	3,114	3,290	176	5.7
All other	544	573	571	-2	-0.3
Totals ^a	\$14,950	\$17,941	\$18,486	\$545	3.0%

^a Detail may not add to totals due to rounding.

Finally, business, transportation and housing programs are projected to receive \$254 million, or 12 percent, *less* in federal funds in 1989-90 than in the current year. Most of the change occurs in the Department of Transportation's capital outlay program. The overall expenditure totals shown in the budget, moreover, overstate the likely level of federal

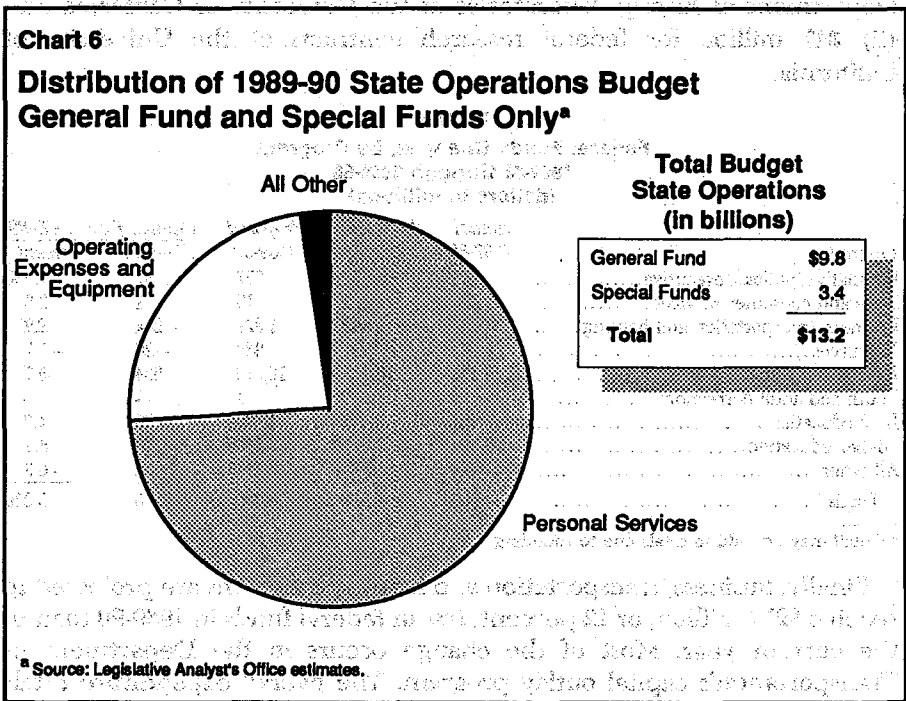
receipts because they do not reflect the administration's decision to defer \$600 million in capital outlay projects that had previously been scheduled to commence over the next 18 months.

HOW IS THE MONEY SPENT?

The Governor's Budget proposes state expenditures of \$46.1 billion from the General Fund and special funds. These are the funds over which the Legislature exercises the most control in the budget. State expenditures have traditionally been categorized as spending for "state operations," "local assistance," and "capital outlay." This section takes a closer look at the proposed allocation of these funds.

State Operations

State operations refer to expenditures made to support state departments, boards, and commissions in their day-to-day operations. Chart 6 shows that General Fund and special fund expenditures for state operations are largely distributed between personal services and operating expenses and equipment (OE&E). As the chart indicates, more than seven out of every 10 dollars spent in this category (74 percent) are used to pay for personal services, which include salaries, wages, and staff benefits.



The California State University and the University of California have the largest personal services budgets in the state, amounting to approximately \$1.7 billion each (almost all General Fund). The Department of Corrections, the next largest budget in terms of personal services costs, has a General Fund personal services budget of nearly \$1.2 billion.

Special fund expenditures for personal services amount to approximately \$2.2 billion. Of this amount, over half is spent for personal services for the Department of Transportation, the Department of Motor Vehicles and the California Highway Patrol.

The bulk of the remaining General Fund and special fund expenditures for state operations is made for OE&E. This category includes all costs needed to support state employees—rent on facilities, phones, desks, etc.—as well as the costs of services contracted with the private sector. The “All Other” category shown in Chart 6 reflects special items of expense, such as one-time lease payments.

The State's Work Force. Table 5 shows trends in the total state employee work force (all funds) for 1987-88 through 1989-90. As the table indicates, the Governor's Budget would increase the state's work force by 6,810 personnel-years (pys), or 2.7 percent, in 1989-90. This compares to a 4.5 percent increase between 1987-88 and 1988-89.

Table 5
The State's Work Force, by Function (All Funds)
1987-88 through 1989-90
(in personnel-years)

Function	Actual	Estimated	Proposed	Change from 1988-89	
	1987-88	1988-89	1989-90	Amount	Percent
Legislative/judicial/executive.....	11,201	12,273	12,493	220	1.8%
State and consumer services.....	12,061	12,916	13,270	354	2.7
Business, transportation and housing.....	33,728	35,761	36,927	1,166	3.3
Resources.....	14,415	15,176	15,310	135	0.9
Health and welfare.....	37,419	39,161	39,750	589	1.5
Youth and adult corrections.....	25,357	28,401	30,725	2,324	8.2
Education.....	92,838	93,285	94,677	1,392	1.5
General government.....	10,742	11,569	12,199	630	5.4
Totals ^a	237,761	248,541	255,351	6,810	2.7%

^a Detail may not add to totals due to rounding.

The following items account for most of the budget-year increase in pys:

- **Youth and Adult Corrections** programs are proposed to increase by 2,324 pys, 2,314 of which are budgeted for the Department of Corrections. The growth is primarily due to significant increases in the adult inmate population and the opening of new facilities to accommodate them.
- **Business, Transportation, and Housing** programs are proposed to increase by 1,166 pys. Of this amount, 408 pys are proposed for the

Department of Transportation, primarily for congestion relief and ridesharing projects and for increased maintenance activities. In addition, the budget requests increases for the Department of Motor Vehicles (348 pys) and for the California Highway Patrol (350 pys).

- **Education** programs are proposed to increase by 1,392 pys. Of this amount, 1,262 pys are for the University of California and the California State University to accommodate increased enrollment.

Local Assistance

Local assistance, as the term is used in the budget, encompasses a wide variety of programs. As the name implies, these funds are generally provided to help carry out programs administered locally or for the support of local activities. Some of these programs, however, do not provide assistance to local government agencies; rather, they provide assistance to individuals. Such payments may be made directly to individuals, as in the case of the Renters' Tax Relief program, or through an intermediary, such as the federal or county government. Among the programs which make payments through intermediaries are the Supplemental Security Income/State Supplementary Program (SSI/SSP), which is administered by the federal government, and the Aid to Families with Dependent Children (AFDC) program, which is administered by county governments.

Aid to Individuals. Table 6 identifies 11 local assistance programs which our analysis indicates are appropriately categorized as "Aid to Individuals." Overall, the Governor's Budget proposes a General Fund increase of \$340 million, or 3.9 percent, for these programs in the budget year. Virtually all (98 percent) of the growth takes place in the three largest programs: Medi-Cal, AFDC and SSI/SSP.

Aid to Local Governments. Table 7 displays the major local assistance programs which our analysis indicates provide "Aid to Local Governments." Overall, the Governor's Budget proposes an increase in funding for these programs of approximately \$974 million, or 4.3 percent, above current-year levels. This compares with an increase of \$2.1 billion, or 10 percent, in the current year. The changes in individual program areas are discussed in more detail later in this part.

Table 6
Major Local Assistance Programs^a
Providing Aid to Individuals
1987-88 through 1989-90
(dollars in millions)

<i>General Fund</i>	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Change from 1988-89</i>	
	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>	<i>Amount</i>	<i>Percent</i>
Medi-Cal ^b	\$2,702	\$3,056	\$3,155	\$99	3.2%
AFDC ^c	2,148	2,338	2,506	168	7.2
SSI/SSP	1,836	1,990	2,055	65	3.3
Renters' Tax Relief	472	481	490	9	1.9
Developmental services	450	475	464	-11	-2.2
Homeowners' Property Tax Relief	344	351	358	7	2.0
Senior Citizens' Renters' Tax Relief	21	18	19	1	5.9
Subventions for Open Space	14	15	15	—	—
Senior Citizens' Property Tax Deferral....	7	8	8	—	—
Senior Citizens' Property Tax Relief	5	4	4	—	—
Subtotals, General Fund	(\$8,000)	(\$8,733)	(\$9,073)	(\$340)	(3.9%)
<i>Special Funds</i>					
Developmental Services	\$4	\$5	\$3	-\$2	-34.0%
Totals	\$8,003	\$8,739	\$9,077	\$338	3.9%

^a Detail may not add to totals due to rounding.

^b Excludes county administration.

^c Grant payments only.

Table 7
Major Local Assistance Programs
Providing Aid to Local Governments
1987-88 through 1989-90
(dollars in millions)

<i>General Fund</i>	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Change from 1988-89</i>	
	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>	<i>Amount</i>	<i>Percent</i>
Public health services	\$1,080	\$1,133	\$731	-\$402	-35.5%
California Children's Services	61	65	68	3	4.6
Department of Rehabilitation	69	78	75	-2	-3.0
Mental health programs	553	583	586	4	0.7
Alcohol and drug programs	72	73	73	—	—
Social services—programs	488	791	803	12	1.5
Social services—county administration	141	167	180	12	7.5
County justice subvention	67	67	—	-67	-100.0
K-12 education	12,430	13,288	14,179	891	6.7
Community colleges	1,300	1,392	1,493	101	7.2
Local government financing	148	74	58	-16	-21.6
State mandates	109	148	203	54	36.7
Trial court funding	—	182	433	250	137.4
All other	408	255	281	26	10.2
Subtotals, General Fund	(\$16,927)	(\$18,296)	(\$19,162)	(\$867)	(4.7%)
<i>Special Funds</i>					
K-12 education	\$753	\$1,056	\$630	-\$425	-40.3%
Public health services	—	200	514	314	156.9
Shared revenues	2,463	2,623	2,766	143	5.4
All other	337	373	449	77	20.5
Subtotals, special funds	(\$3,553)	(\$4,251)	(\$4,359)	(\$108)	(2.5%)
Totals ^a	\$20,480	\$22,547	\$23,521	\$974	4.3%

^a Detail may not add to totals due to rounding.

HOW ARE SPENDING LEVELS DETERMINED?

The state's spending plan reflects a multitude of decisions made in the preparation of the proposed budget. In general, most of the proposed spending reflects the "baseline" cost of maintaining existing state programs. Thus, most of the decisions made in the course of the normal budget process are focused on how *additional* resources will be allocated. This year's budget, however, also reflects a number of decisions to reduce "baseline" expenditures. These decisions were made because the level of additional resources for 1989-90 will be insufficient to meet expected resource requirements.

In distributing these additional resources to individual programs, the Legislature and the Governor must consider a variety of factors. These factors include statutory requirements which necessitate higher expenditures, as well as policy decisions to maintain, expand or cut back existing levels of state services. In the case of programs supported by special funds (whose revenues are usually dedicated to singular purposes), spending decisions are governed largely by the level of resources available, and the budget process focuses on how to set priorities for each individual program's additional spending needs. For programs supported by the General Fund, however, spending decisions are also influenced by competing demands from different program areas. The Governor's Budget reflects the administration's view as to how these competing demands should be accommodated.

In preparing the budget this year the Governor and the Legislature face particularly tough choices. We estimate that maintaining current service levels, meeting existing statutory requirements for certain programs, and restoring the state's reserve to the 3-percent of expenditures level would require more than \$4.5 billion in additional resources for 1989-90. Table 8 summarizes these budget-year funding requirements.

Table 8
General Fund Current-Service Level Funding Requirements
1989-90
(dollars in millions)

<i>Program</i>	<i>Amount</i>
COLAs:	
Statutory.....	\$951
Discretionary.....	717 ^a
Workload increases.....	1,263
Special Fund for Economic Uncertainties.....	1,100
Proposition 98.....	289
Trial Court Funding.....	218
Other, net.....	11
Total.....	<u>\$4,549</u>

^a Includes funding for salary increases which have already been agreed to by the administration.

As revenue growth for the budget year is estimated to be only \$2.9 billion, the state is left with a \$1.6 billion funding gap. This section discusses the major factors which typically influence *General Fund* spending decisions and identifies some of the choices the Governor has made about how to address the \$1.6 billion funding gap facing the state.

Cost-of-Living Adjustments (COLAs)

Each year, the Governor's Budget typically includes funds for various cost-of-living adjustments, commonly referred to as COLAs. These adjustments attempt to compensate for the effects of inflation on the purchasing power of the previous year's funding level.

Discretionary and Statutory COLAs. Existing law authorizes *automatic* COLAs for nearly 30 different programs, most of them in the health, education and welfare areas. These adjustments generally are referred to as statutory COLAs. Many other programs traditionally have received COLAs on a *discretionary* basis through the budget process.

In 1989-90, statutory COLAs range from 3.2 percent to 8.0 percent. As in previous years, the statutory COLAs having the largest costs are those for K-12 apportionments (\$428 million), SSI/SSP grants (\$138 million) and AFDC grants (\$105 million). The 1989-90 General Fund cost of fully funding *statutory* COLAs is \$951 million, with discretionary COLAs adding another \$717 million.

Governor's Budget Proposal. The budget proposes a total of \$913 million from the General Fund for COLAs in 1989-90, including \$668 million for statutory COLAs and \$245 million for discretionary COLAs, which primarily reflects funding for increased employee compensation. The total COLA amount is equal to 44 percent of the total proposed increase in budget-year General Fund expenditures. The specific increases proposed by the Governor are shown in Table 9.

Table 9: Specific increases proposed by the Governor. The table contains multiple columns with numerical values and program names, but the text is too faint to transcribe accurately. It appears to be a detailed breakdown of the COLA funding.

Table 9
General Fund Cost-of-Living Increases
1988-89 and 1989-90
(dollars in thousands)

Department/Program	1988-89		1989-90			
	Budgeted Percent Increase	1% Dollar Increase	1% Percent Increase	Statutory Dollar Increase	Budget Percent Increase	Budget Dollar Increase
HEALTH AND WELFARE						
Aging.....	—	\$323	—	—	—	—
Alcohol and drug programs.....	—	731	—	—	—	—
Medi-Cal:						
Noncontract hospitals.....	7.1%	504	8.0%	\$4,033	8.0%	\$4,033
Long-term care—skilled nursing facilities.....	6.7 ^a	4,935	— ^b	—	—	—
Long-term care—intermediate care facilities.....	1.9 ^a	586	— ^b	—	—	—
Long-term care—state hospitals..	4.5	1,795	— ^b	—	—	—
Obstetrical physicians.....	36.9 ^c	226	—	—	—	—
Children's services.....	10.0	71	—	—	—	—
Home health.....	10.0	28	—	—	—	—
Portable X-ray.....	50.0	3	—	—	—	—
Capitation contracts—inpatient ^d	7.1	164	8.0	1,314	8.0	1,314
Capitation contracts—noninpa- tient.....	3.3	1,013	— ^e	— ^e	—	—
Dental.....	—	539	—	—	—	—
Other providers.....	—	4,700	—	—	—	—
Beneficiary spin-off.....	4.7	2,365	4.8	9,500	—	—
Drug ingredients.....	6.7	1,433	6.0	8,599	6.0	8,599
Health Services:						
County health services (AB 8) ..	5.1	4,500	4.6	20,600	—	—
Medically indigent services.....	—	1,537	—	—	—	—
Public health.....	—	1,597	—	—	—	—
Emergency medical services.....	—	29	—	—	—	—
Developmental Services:						
Regional centers—residential care.....	10.0	2,692	—	—	—	—
Regional centers—personal ser- vices.....	6.0 ^f	1,203	—	—	4.0 ^g	2,406
Regional centers—other.....	—	2,496	—	—	—	—
Mental Health:						
Local programs.....	—	5,614	—	—	—	—
Institutions for mental disease...	3.8	712	—	—	—	—
Social Services:						
SSI/SSP.....	4.7	28,722	4.8	137,557	—	—
AFDC—FG & U.....	4.7	21,885	4.8	104,831	—	—
AFDC—foster care.....	—	5,260	—	—	—	—
IHSS provider.....	14.2 ^h	4,903	—	—	—	—
Deaf access.....	—	34	—	—	—	—
Maternity care.....	—	22	—	—	—	—
Child abuse prevention.....	—	202	—	—	—	—
Adoptions.....	—	184	—	—	—	—
Community care licensing.....	—	100	—	—	—	—
Department of Rehabilitation.....	—	752	—	—	—	—
YOUTH AUTHORITY						
County justice system subvention..	—	673	—	—	—	—
Delinquency prevention.....	—	23	—	—	—	—

Table 9—Continued
General Fund Cost-of-Living Increases
1988-89 and 1989-90
(dollars in thousands)

Department/Program	1988-89	1989-90				
	Budgeted Percent Increase	1% Dollar Increase	Statutory Percent Increase	Dollar Increase	Budget Percent Increase	Dollar Increase
K-12 EDUCATION						
Apportionments:						
District revenue limits	4.1%	\$129,376	3.2%	\$412,847	3.2%	\$412,847
Necessary small schools	4.1	708	3.2	2,273	3.2	2,273
Meals for needy pupils	4.1	336	6.0	2,018	6.0	2,018
Summer school	4.1	965	3.2	3,099	3.2	3,099
Apprentice programs	—	69	—	—	—	—
Transportation	—	2,933	—	—	—	—
County offices of education	4.1	2,462	3.2	7,903	3.2	7,903
Regional occupation centers/pro- grams	—	2,205	—	—	3.1	6,916
Court-ordered desegregation	4.1	2,702	3.2	8,672	3.2	8,672
Voluntary desegregation	4.1	522	3.2	1,677	3.2	1,677
Child nutrition	4.1	421	5.3	2,208	5.3	2,208
American Indian education centers	—	9	—	—	—	—
Native American Indian education	—	4	—	—	—	—
Child development, local education agency	4.1	1,984	—	—	3.0	5,938
Child development, private pro- vider	4.1	1,317	—	—	—	—
Special education	4.1	18,982	3.2	60,932	3.2	50,882 ¹
Mentor teacher	—	647	—	—	—	—
Other staff development	—	63	—	—	—	—
Gifted and Talented Education	4.1	234	—	—	6.0	1,406
Instructional materials (K-8)	3.6	836	4.3	3,594	4.3	3,594
Instructional materials (9-12)	—	217	—	—	—	—
Demonstration programs in read- ing and math	—	44	—	—	—	—
Economic Impact Aid	—	1,970	—	—	—	—
Dropout programs	—	84	—	—	—	—
Adult education	4.1	2,597	6.0	15,579	6.0	15,579
Adults in correctional facilities	4.1	24	6.0	144	6.0	144
School Improvement Program (K-6)	4.1	2,140	3.2	6,870	3.2	6,870
School Improvement Program (7-12)	—	325	—	—	—	—
Miller-Unruh Reading Program	—	199	—	—	—	—
High school pupil counseling	—	72	—	—	—	—
Specialized secondary schools	—	21	—	—	—	—
Opportunity programs and classes	—	10	—	—	—	—
Foster youth services	—	8	—	—	—	—
HIGHER EDUCATION						
Community Colleges:						
Apportionments	4.7	20,058	4.9	97,885	4.9	97,885
Community college categoricals	4.7	835	—	—	4.9	4,075
Student Aid Commission:						
Financial Aid Awards	6.5	1,411	—	—	—	—

Table 9—Continued
General Fund Cost-of-Living Increases
1988-89 and 1989-90
(dollars in thousands)

Department/Program	1988-89		1989-90		1989-90	
	Budgeted Percent Increase	1% Dollar Increase	Statutory Percent Increase	Statutory Dollar Increase	Budget Percent Increase	Budget Dollar Increase
ALL OTHERS						
Trial Court Funding Program:						
Block grant	—	\$3,555	6.0%	\$21,331	6.0%	\$21,331
Trial court judge salaries	6.0% ^j	1,010	4.0 ^g	2,021	4.0 ^g	2,021
State contribution to STRS	5.0	2,540	6.0	15,239	6.0	15,239
STRS purchasing power protection	6.8	—	—	—	—	— ^k
Library local assistance	—	77	—	—	2.4	184
Employee compensation: ^l						
Civil service and related	6.0 ^j	35,582	—	—	4.0	123,230
University of California						
Faculty	3.0 ^j	9,176	—	—	4.7	27,946
Staff	6.0 ^j	7,135	—	—	4.0	22,721
California State University						
Faculty	4.8 ^j	9,198	—	—	4.8	29,612
Staff	6.0 ^j	6,184	—	—	4.0	20,742
Totals		\$373,803		\$950,726		\$913,364

^a These increases were provided in August 1988.

^b Long-term care COLAs will not be determined until July 1989.

^c Effective March 1988, 16 percent for OB physicians, 10.45 percent for OB clinics, \$150 for comprehensive perinatal providers. An additional 18 percent for OB physicians was effective January 1989.

^d Including Redwood in current year. Excludes Redwood in budget year. Excludes dental in both years.

^e COLA will not be determined until time of May revision.

^f Six percent for salaries and 1 percent for benefits effective June 1989.

^g Effective January 1, 1990.

^h Most IHSS providers received a 14.2 percent increase in their hourly rate or reimbursement effective July 1, 1988 as a result of the increase in the minimum wage to \$4.25 per hour. Prior to the increase in the minimum wage, individuals who provided IHSS were paid \$3.72 per hour.

ⁱ Budget amount reflects a \$10.1 million reduction to the COLA, to eliminate one-time funding proposed for a special education deficiency in 1988-89.

^j Effective June 1, 1989.

^k The budget proposes to fund purchasing power protection COLAs from the State Teachers' Retirement Fund in 1989-90.

^l Effective January 1, 1990. Dollar amounts include both the 4 percent across-the-board cost-of-living adjustment, health benefits, and, where applicable, a 1 percent equity adjustment.

This year's budget does not contain funding for a total of \$272 million in statutory COLAs. This reflects proposals to suspend for one year the following statutory COLAs: (1) Medi-Cal beneficiary (\$9 million); (2) County Health Services—AB 8 (\$21 million); (3) SSI/SSP (\$138 million); and (4) AFDC (\$105 million). The budget also states that if the Legislature does not concur with the suspension of these COLAs, then other state support for health and welfare programs will have to be reduced or eliminated.

The budget, as in the past three years, does not provide funding for the statutory COLA for Medi-Cal long-term care facilities. The amount of funding required for the long-term care program will not be known until the new reimbursement rates for these facilities are adopted. Although

the Governor's Budget has traditionally not included any funds for this purpose, the required funding is normally requested at the time of the May revision of expenditures. Although the administration proposes waiving statutory COLAs in many other programs, it is likely that the long-term care statutory COLAs will be funded due to requirements in federal law.

Workload

Increased workload for state programs is another major factor contributing to the increase in spending from the current to the budget year. The major workload increases reflected in the budget are: (a) enrollment growth at educational institutions; (b) caseload growth for health and welfare programs; and (c) population growth at youth and adult correctional facilities. We estimate that these and other workload increases projected for the budget year account for nearly \$1.3 billion in proposed General Fund expenditures.

Other Requirements

A third major factor contributing to the increase in spending from the current to the budget year are statutory requirements other than COLAs. For example, the budget provides over \$600 million from the General Fund to meet new state requirements for the full-year implementation of the Trial Court Funding programs, the implementation of Proposition 98, and for a variety of other new statutory obligations.

WHAT PRIORITIES ARE REFLECTED IN THE GOVERNOR'S BUDGET?

As noted earlier, the cost of maintaining current service levels, meeting statutory requirements for funding for certain programs, and restoring the state's reserve exceeds the \$2.9 billion increase in revenues available in the budget year. This section provides additional detail on how the budget proposes to allocate the available resources among different state programs in the budget year.

Summary of Major Program Changes

For 1989-90, the budget proposes a net increase of General Fund expenditures of \$2.1 billion, or 5.8 percent, above the level of expenditures estimated for the current year. Table 10 shows the primary factors that account for the proposed change in expenditures.

Table 10
Estimated General Fund Program Changes^a
1987-88 through 1989-90
(dollars in millions)

	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Change from 1988-89</i>	
	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>	<i>Amount</i>	<i>Percent</i>
Health and Welfare:					
Medi-Cal ^b	\$2,783	\$3,150	\$3,254	\$104	3.3%
Public health ^b	1,141	1,198	799	-399	-33.3
SSI/SSP ^b	1,836	1,990	2,056	66	3.3
AFDC grants ^b	2,148	2,338	2,506	168	7.2
Social services programs ^b	488	791	803	12	1.5
Mental health	897	936	962	26	2.8
Developmental services	472	495	551	56	11.4
Other, health and welfare	609	682	692	9	1.4
Subtotals, health and welfare	(\$10,373)	(\$11,579)	(\$11,622)	(\$42)	(0.4%)
Education:					
K-12	\$12,018	\$12,836	\$13,830	\$994	7.7%
State teachers' retirement	506	547	449	-97	-17.8
University of California	1,889	1,975	2,053	79	4.0
California State University	1,715	1,824	1,981	157	8.6
California community colleges	1,310	1,407	1,521	114	8.1
Other, higher education	139	156	156	-1	-0.4
Subtotals, education	(\$17,577)	(\$18,745)	(\$19,991)	(\$1,246)	(6.6%)
Other:					
Youth and adult corrections	\$1,720	\$1,945	\$2,105	\$160	8.2%
Resources	461	498	483	-14	-2.9
Tax relief	863	876	893	18	2.0
Bond interest and redemption	512	524	610	86	16.3
Interest on PMIA loans	78	44	16	-28	-63.6
All other	1,436	1,712	2,290	578	33.8
Subtotals, other	(\$5,071)	(\$5,598)	(\$6,397)	(\$799)	(14.3%)
Totals	\$33,021	\$35,922	\$38,010	\$2,088	5.8%

^a Based on amounts shown in Governor's Budget. Detail may not add to totals due to rounding.

^b Local assistance only.

As was the case in the current year, the largest dollar increase is proposed for K-12 education—\$994 million. The major General Fund changes are discussed below:

Medi-Cal local assistance expenditures are up by \$104 million, or 3.3 percent. This increase is primarily due to increases in caseload and in the cost of providing services. This level of increase is predicated on achieving savings from the following proposals: (1) reducing Medi-Cal "crossover" claim costs by limiting reimbursement rates for a variety of procedures (\$23 million); (2) reducing Medi-Cal drug costs (\$40 million); (3) deferring the June 1990 checkwrite until 1990-91 (\$40 million); and (4) suspending the statutory Medi-Cal beneficiary COLA (\$9.5 million).

Public Health local assistance is budgeted at \$799 million, a decrease of \$399 million, or 33 percent. This decrease is largely the result of three proposals: (1) a \$359 million reduction in the Medically Indigent Services Program (MISP); (2) the elimination of the Family Planning program

(\$36 million); and (3) the suspension of the statutory COLA for County Health Services—AB 8 (\$21 million). The budget proposes to offset the reductions in the MISP by appropriating \$331 million from Proposition 99 revenues for a new California Health Care for Indigents program and by increasing allocations by \$108 million from State Legalization Impact Assistance Grant (SLIAG) funds for services to legalized aliens in the budget year.

SSI/SSP is expected to increase by \$66 million, or 3.3 percent. The major changes in SSI/SSP funding are: (1) an increase of \$89 million for an estimated 4.5 percent caseload increase; (2) an increase of \$55 million for the full-year cost of the 4.7 percent COLA provided effective January 1, 1989; and (3) an offset of \$78 million as a result of the 4.8 percent federal COLA effective January 1, 1990. In addition, the budget proposes to suspend the state's statutory COLA on the total SSI/SSP grant, for a cost-avoidance of \$138 million.

AFDC grant costs are budgeted to increase by \$168 million, or 7.2 percent, above current-year expenditures. This increase is primarily due to: (1) an increase of \$73 million in the AFDC-Family Group and Unemployed Parent (AFDC-FG&U) programs, primarily due to an anticipated 3.7 percent caseload increase; and (2) an increase of \$94 million in the AFDC-Foster Care program, due to a 12 percent increase in caseload and an 11 percent increase in the average rate paid to group homes. The budget also proposes a one-year suspension of the state's statutory COLA for AFDC-FG&U recipients, for a cost-avoidance of \$105 million.

Social Services Programs expenditures are budgeted to increase by \$12 million, or 1.5 percent, above current-year expenditures. This growth is primarily due to: (1) an increase of \$41 million in the Child Welfare Services (CWS) program due to caseload increases; (2) an increase of \$15 million in CWS costs due to COLAs that counties granted to their welfare department employees during 1988-89; (3) an increase in the In-Home Support Services (IHSS) program of \$57 million, primarily due to an 11 percent caseload increase and a 4 percent increase in the average hours of service per case; (4) an increase of \$4 million for the adoption of IHSS administration programs; (5) a reduction of \$64 million in the IHSS program due to a proposal to place limitations on both the average hours of service that counties award to IHSS clients and the hourly rate at which the state reimburses counties to pay for the services; and (6) a reduction of \$41 million in the Greater Avenues for Independence (GAIN) program.

K-12 Education expenditures are expected to increase by \$994 million, or 7.7 percent, above the estimated current-year level. The primary factors accounting for this increase include: (1) \$532 million for cost-of-living adjustments (generally 3.21 percent), most of which are required by statute; (2) \$407 million for costs related to increased enrollments, including \$15 million for growth in special education programs; (3) \$110 million for reducing class sizes in grades 1-3 and 9-12; (4) a \$48 million increase in reimbursements for mandated local programs; and (5) a \$181 million increase in the size of a reserve for funding deficiencies and other priorities in compliance with Proposition 98 (\$220 million total reserve in 1989-90). These increases are partially offset by state apportionment reductions of \$249 million due to increased local property tax revenues.

Higher Education expenditures are expected to increase by \$350 million, or 6.7 percent, over the estimated 1988-89 level. The primary factors accounting for this increase are: (1) \$72 million for undergraduate enrollment growth at the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC); (2) \$77 million for faculty and staff salary increases; and (3) \$146 million for baseline budget adjustments, which include annualization of salary increases granted in 1988-89. The budgets for UC and CSU each include approximately \$500,000 for new campus planning to accommodate growth in enrollment. No new funding is provided to implement Chapter 973, Statutes of 1988 (AB 1725, Vasconcellos), the community college reform measure. The budget also proposes no current-year funding increase for the community colleges related to the implementation of Proposition 98.

Youth and Adult Corrections expenditures are proposed to increase by \$160 million, or 8.2 percent, in the budget year. This net increase will fund 2,314 additional personnel-years for the Department of Corrections, primarily to accommodate growth in the prison population. The budget is based on an 8 percent growth rate in the inmate population between June 30, 1989 and June 30, 1990 and a 15 percent growth rate in the parole population over the same period. The increase in youth and adult correctional spending is partially offset by a General Fund reduction of \$67 million from the Department of the Youth Authority's County Justice System Subvention Program in the budget year. The budget proposes to finance that portion of the program which is related to a state-mandated local program (Chapter 1071, Statutes of 1976) with a \$37 million appropriation from the Restitution Fund, and proposes to eliminate the remainder of the block grant program.

All Other expenditures increase by \$578 million. Nearly 40 percent of this growth is due to a \$230 million increase to provide full-year funding

for the Trial Court Funding Program. Also, \$120 million is provided to fund the January 1990 4 percent state employee salary increase which was agreed to last year as part of a three-year contract.

Expenditures Not Recognized in the Budget

In preparing the Governor's Budget, the Department of Finance must estimate the impact of program caseload growth, court decisions, and other factors on expenditure levels in the current and budget years. While most of these factors have been accounted for, our analysis indicates that the Governor's Budget has potentially underestimated General Fund expenditures in several areas for both the current and budget years.

Department of Developmental Services (DDS)—Regional Centers. The current-year budget assumes receipt of \$27.2 million in federal Medi-Cal funds for case management at DDS regional centers, but it is unlikely that the state will receive the required federal approval and funds in the current year. This may result in additional General Fund expenditures of \$27.2 million to cover the shortfall in 1988-89. In addition, DDS regional centers are experiencing increased costs for purchasing services for clients. These increased costs could result in increased General Fund expenditures of \$7.9 million in the current year.

Emergency Firefighting. Based on the state's experience over the last 12 years, we would expect General Fund expenditures for emergency firefighting by the Department of Forestry and Fire Protection to total \$24 million more than the budget provides for 1989-90. Any additional expenditures, up to \$10 million, could be paid for directly from the Special Fund for Economic Uncertainties under control language in the Budget Bill.

Flood Control Projects. We estimate that the state's 1989-90 share of cost for federal flood control projects in California will total approximately \$10.5 million. The budget does not include funds to pay these costs (usually paid for from the Special Account for Capital Outlay—SAFCO). The state could incur penalties of \$800,000 for withholding these payments, and the penalties would have to be paid by the General Fund.

Medi-Cal. As in the last three years, the budget fails to provide for increases in Medi-Cal reimbursements for long-term care facilities and for the cost of Medi-Cal abortions. In the current year, the statutorily required increase for long-term care facilities resulted in a net increase of \$24 million. This amount, however, includes increases in costs due to increasing the minimum wage from \$3.35 to \$4.25 on July 1, 1988. While the budget-year requirement is not yet known, it is likely to be less than the current-year cost. The 1989-90 costs for abortions would be similar to the current-year cost of \$15 million.

Cost of External Borrowing. The budget estimates that the interest rate the state will pay on external borrowing will be 5.8 percent in the budget year. We estimate, however, that this rate is at least one percentage point too low. On this basis, the budget underestimates likely expenditures by \$31 million.

Implementation of Initiatives

The Governor's Budget also makes several proposals for implementing Propositions 98 and 99, which were approved at the November 1988 election.

Proposition 98. The primary purpose of Proposition 98—the Classroom Instructional Improvement and Accountability Act—is to increase state funding for K-12 schools and community colleges. The mechanism for achieving this increase is the establishment of a minimum funding level requirement for K-12 schools and community colleges.

The Governor's Budget proposes to spend \$116 million in the current year to implement the provisions of Proposition 98. Of the total, \$77 million has been proposed to fund estimated current-year K-12 funding deficiencies and \$39 million has been proposed for a K-12 Proposition 98 reserve. The reserve would be distributed to school districts at the end of the current year. The Governor's Budget proposes no Proposition 98 funds for community colleges in the current year.

For 1989-90, the budget proposes to spend approximately \$400 million to meet the minimum funding level: (1) \$230 million for an education reserve (\$220 million for K-12 school and \$10 million for community colleges); (2) \$110 million for class size reduction in grades 1-3 and 9-12; (3) \$30 million for year-round school incentive payments; (4) \$17 million for drug education; and (5) \$15 million for funding discretionary growth in special education programs. The budget also proposes that the education reserve be used first to fund any K-14 deficiencies that occur during the budget year. Any funds remaining in the reserve at the end of the budget year would then be distributed to schools.

Proposition 99. The Governor's Budget also makes several proposals for implementing the Tobacco Tax and Health Protection Act of 1988 (Proposition 99). Proposition 99 imposes an additional excise tax of 25 cents per pack of cigarettes (prior to the passage of Proposition 99, the excise tax on a pack of cigarettes was 10 cents). In addition, it imposes a new excise tax on other types of tobacco products. The initiative specifies that the additional revenues should be spent for the following purposes: health education, hospital and physician services for the medically indigent, tobacco-related disease research, and public resources.

The budget contains the following proposals to spend Proposition 99 revenues:

- **California Health Care for Indigents Program (CHIP).** The budget proposes \$200 million in the current year and \$331 million in the budget year for a new program to fund county medical care programs for the indigent. At the same time, however, the budget proposes to reduce the major existing General Fund-supported program serving the medically indigent (the Medically Indigent Services Program) by \$359 million in the budget year.
- **Mental Health Capital Outlay.** The budget proposes \$18 million as part of a multi-year program to renovate the state's mental hospitals. Previously these projects had been funded from the Special Account for Capital Outlay (SAFCO).
- **Health Education.** The budget proposes \$176 million for a new health education program funded through the Department of Health Services. The budget contains no specific proposals regarding the scope of this program.
- **Public Resources.** The budget proposes a total of \$44 million for public resources programs. These funds would be used to: augment and enhance some existing programs; implement new programs (such as a new waterfowl habitat program); fund workload and cost increases in existing programs; fund capital outlay projects (including beach erosion mitigation and wildlife habitat acquisition); and fund some one-time program increases (for example, to purchase additional helicopters for fire protection).
- **Other.** The budget proposes an additional \$109 million to fund other projects authorized under Proposition 99. For example, the budget includes \$44 million for research (to be directed by the University of California) and \$33 million for augmentations or new programs (including drug and alcohol treatment programs for pregnant women, outpatient mental health services for prisoners and an augmentation for county mental health programs).

THE STATE'S APPROPRIATIONS LIMIT

In addition to the factors which help determine state spending mentioned above, the appropriations limit imposed by Article XIII B of the state's Constitution may also play a part in determining total spending levels. This would be the case whenever state revenues exceed the amount which can be appropriated, as occurred in 1986-87. As Table 11 shows, the Governor's Budget indicates that the state will be \$134 million below its limit in 1988-89 and \$128 million below in 1989-90.

Table 11
State Appropriations Limit and
Appropriations Subject to Limitation
Governor's Budget Estimates
1988-89 and 1989-90
(dollars in millions)

	<i>Appropriations Limit</i>	<i>Appropriations Subject to the Limit</i>	<i>Amount Under the Limit</i>
1988-89	\$27,079	\$26,945	\$134
1989-90	29,184	29,056	128

Current Year. The estimate of the appropriations limit included in the 1988 Budget Act, \$26,940 million, has been adjusted in reaching the current estimate of \$27,079 million. One adjustment reflects an increased level of limit transfers to school districts, which were made to prevent districts from exceeding their appropriations limits in the current year. A second adjustment reflects the adoption of the Trial Court Funding Program, which shifts a portion of the responsibility for funding local courts from counties to the state. The budget estimates that appropriations subject to the limit will be \$26,935 million in the current year. Due to an error in addition, however, the department's figure should actually be \$26,945 million, leaving the state \$134 million below its limit for 1988-89.

Budget Year. The 1989-90 appropriations limit estimate, which corresponds to that presented in the Governor's Budget, reflects a \$215 million transfer of financial responsibility from the counties to the state for the full-year impact of the Trial Court Funding program. The limit calculation also reflects a 4.6 percent cost-of-living adjustment, based on growth in California per capita personal income, and a 2.3 percent population adjustment. On this basis, the Department of Finance estimates that the state will be \$128 million below its limit in 1989-90, given the estimates of revenues contained in the budget.

The estimates presented in Table 11 are subject to revision over the next 18 months. These revisions could occur for several reasons. For example, if state revenues were to decline from the budget estimates, the state would be further below its limit than estimated. On the other hand, a stronger-than-expected economy could quickly push the state over its limit.