



OPTIONS FOR BALANCING THE 1995-96 BUDGET

State Faces Significant Budget Gap

Over the last four years, the state has faced substantial budget gaps as a result of the recession's impact on revenues and the effect of rapidly growing caseloads in some program areas. The proposed 1995-96 budget is no different in this regard. It marks the fifth year in a row of a budget gap, where the amount of spending needed to fund existing programs is projected to exceed anticipated revenues. We estimate this gap to be about \$2 billion in the budget year, as discussed in Part One of this volume. This gap remains even after taking into account the fact that the state's economy is improving and the state's expenditures are moderating.

The Governor's Budget proposes to eliminate the gap by (1) program reductions (primarily welfare grant reductions) and other savings totaling \$1.4 billion and (2) shifting costs of \$0.9 billion to the federal and local governments.

Recognizing that the Legislature will want to establish its own priorities in balancing the budget, we provide here a list of potential budget actions that could be used to close this gap and result in a balanced budget for 1995-96. This list is in addition to specific recommendations for reductions we make in our companion volume, the *Analysis of the 1995-96 Budget Bill*.

Budget-Balancing Approach

Achieving a balanced budget in 1995-96 will require difficult and painful decisions. In part, this is because the budget gap is equivalent to about five percent of General Fund spending in the current year. Closing such a gap is not a matter of simply tightening the belt by snipping away inefficiency or reducing administrative overhead, as helpful as such reductions may be. After four consecutive years of major budget shortfalls, the “easy” solutions already have been taken, and new savings have to be found to replace budget solutions that were one-time in nature.

Our approach was to identify the major program areas of the budget from which any budget-balancing reductions would have to be made. Within these major areas, we provide a broad range of options from which the Legislature can choose. In compiling this range of options, we have used the following criteria:

- **Target the Reductions.** We have identified specific reductions instead of across-the-board cuts because unallocated reductions would further erode service levels and program effectiveness regardless of their priority. By making specific choices, the Legislature can provide adequate funding to its highest-priority programs.
- **Examine All State Spending.** All major program areas—including education and corrections—are identified for potential reductions. We also have included several actions on the list that would increase state revenues by reducing or eliminating certain “tax expenditures.”
- **Identify Actions That Benefit The General Fund.** The actions we have identified result in General Fund savings in order to address the budget gap. We also have identified various ways to achieve savings in special fund programs when they benefit the General Fund.
- **Focus on Permanent, Not One-Time Solutions.** Because the state will likely face tight budgets in the next few years, our emphasis is on budget solutions that will be ongoing.
- **Achieve Real, Not “Paper” Savings.** Effective budget solutions must generate real savings. “Paper” savings using accounting changes, loans, or other “gimmicks” would contribute to a continuation of the state’s budget problems.

In the following pages, we describe each potential action and identify its fiscal effect relative to the 1995-96 Governor’s Budget, as introduced. It is important to note that program reductions in one budget area can

create cost pressures in other state programs or for local governments.

Looking for Longer-Term Reform

Our list of potential budget balancing actions primarily includes options that generate savings starting in 1995-96. As such, it does not include many other actions that we believe the Legislature and Governor should consider in order to save money in the future or to make governmental operations more efficient and effective. For instance, we believe one of the most important matters to address is reforming the relationship between the state and local governments. During the last two years, we have outlined a number of options for rationalizing state-local governmental operations, all revolving around our *Making Government Make Sense* model (please see *The 1993-94 Budget: Perspectives and Issues*, page 111). The Governor's Budget for 1995-96 contains a state-county realignment proposal which we review and comment on in Part Five of this volume.

In addition, there are many ways that the Legislature could restructure existing state programs. For instance, in recent years we have offered recommendations on:

- A retirement program for new teachers, thereby eliminating future state costs.
- The state's K-12 school categorical programs in order to increase local control and improve service delivery.
- Alternative methods of providing housing assistance in order to reduce administrative costs and ensure the provision of more affordable housing.

We have also made recommendations in prior years to consolidate state programs. For example, we have recommended the consolidation of the Franchise Tax Board and the Board of Equalization, and state financial regulatory agencies. Typically, such consolidations do not save money right away, but they do generate savings in the future and can improve the delivery of services to taxpayers.

These are just some examples of other actions that the Legislature and Governor could take to save money and make government run better. In developing an overall response to the state's fiscal problem, actions should be taken that have a positive impact on the state's fiscal balance sheet in both the near and longer term.

Figure 1		
Options for Balancing the 1995-96 Budget		
(Dollars in Millions)		
Proposal	Savings	Comments
K-12		
Department of Education		
Proposition 98—suspend the minimum funding guarantee in 1994-95 but hold harmless the 1995-96 guarantee. <ul style="list-style-type: none"> • K-12 • Community Colleges 	\$200 (153) (47)	For K-12, this option would not eliminate any funding already appropriated in 1994-95 or drop them below the per-pupil funding level envisioned in the 1994 Budget Act. For community colleges, it represents a loss in funding from the 1994-95 level. However, the Chancellor's Office has allocated funds on the assumption that these monies are <i>not</i> available in 1994-95.
Proposition 98—suspend the guarantee in 1994-95 and allow the lower 1994-95 spending level to affect the 1995-96 funding guarantee. <ul style="list-style-type: none"> • K-12 • Community Colleges 	409 (341) (68)	This option would eliminate the \$200 million as in the first option and reduce 1995-96 funding by a similar amount. No suspension of Proposition 98 in 1995-96 is needed. Savings in 1995-96 would probably be achieved by reducing K-12 and community college cost-of-living adjustments (COLAs).
Proposition 98—suspend the minimum funding guarantee in 1994-95 and 1995-96. <ul style="list-style-type: none"> • K-12 • Community Colleges 	696 (597) (99)	This option would eliminate the \$200 million in 1994-95 funding and the proposed COLA in 1995-96.

Continued

Program Proposal	Savings	Comments
Higher Education		
University of California		
Graduate student fee increase (additional \$300 above <i>Analysis</i> recommendation).	\$5	The cost of graduate programs and earning potential of graduate students is higher than for undergraduate programs and students. Revenues are net after a 33 percent set-aside for financial aid.
Fee increase for current professional students (additional \$1,000) and new professional students in medicine, dentistry, and veterinary medicine (additional \$1,000). Amounts are above <i>Analysis</i> recommendations.	4	The cost of professional programs and earning potential of professional students is higher than for other graduate degree programs. Revenues are net after a 33 percent set-aside for financial aid.
Eliminate increase for general purpose expenditures.	37	Governor's Budget provides sufficient funds for a 2 percent increase. System would have to live with current-year funding level.
Redirect funds from teaching hospitals.	10	Redirects a portion of clinical teaching support funds to meet critical needs on the campuses.
Reduce state-funded research budget by an additional 5 percent above <i>Analysis</i> recommendation. (Reduction applies to state General Fund support for unrestricted research.)	9	Research activity can be reduced by (1) setting priorities among research efforts and (2) relying to a greater degree on systemwide competition for research grants. This change can be made without affecting the instructional mission of the university.
California State University		
Graduate student fee increase (additional \$90 above <i>Analysis</i> recommendation).	3	The cost of graduate programs and earnings potential of graduate students is higher than for undergraduate programs and students. Revenues are net after a 33 percent set-aside for financial aid.
Eliminate increase for general purpose expenditures.	31	Governor's Budget provides sufficient funds for a 2 percent increase. System would have to live with current-year funding level.

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Proposal	Savings	Comments
Judiciary and Criminal Justice		
Department of Corrections		
Offenders with limited time to serve would not go to prison, but would:		
<i>Remain in county custody or be released:</i>		The state incurs significant costs to house short-term inmates. These offenders barely make it through a state prison reception center before being released. Under this option, counties could choose to keep the offenders in custody or release them.
<ul style="list-style-type: none"> ● One year or less to serve. \$135 ● Nine months to serve. 70 ● Six months to serve. 16 		
<i>or</i>		
<i>Go directly to state parole:</i>		Under this option, the offenders would begin immediate supervision in the community on parole.
<ul style="list-style-type: none"> ● One year or less to serve. 111 ● Nine months to serve. 55 ● Six months to serve. 12 		
Eliminate state prison sentences and parole for 10 specified nonviolent offenses. Impact for selected crimes:	103	Prioritizes state prisons and parole supervision for offenders who pose the most risk to public safety—those with convictions for violent offenses. Felons would remain in county custody.
<ul style="list-style-type: none"> ● Petty theft (value of property under \$400) with prior felony conviction. 11 ● Driving under the influence. 12 ● Perjury, bookmaking, bribery, other property crimes. 1 ● Drug possession. 29 ● Drug possession for sale. 24 ● Marijuana offenses. 4 ● Forgery, fraud. 2 ● Receiving stolen property. 5 ● Vehicle theft. 8 ● Grand theft (value of property over \$400) 5 		

Proposal	Savings	Comments
Upon release from prison, parole supervision provided only for felons convicted of:		Prioritizes services to adult parolees who pose the greatest risk to public safety.
• Violent offenses.	117	
• Violent or drug sale offenses.	93	
• Violent or drug sale offenses, or prior violent or serious offense.	65	

Continued

Proposal	Savings	Comments
Provide more extensive work credits for some inmates:		
<ul style="list-style-type: none"> Two days credit for each day an inmate works in a fire camp. 	\$13	Inmates who work in fire camps would be rewarded for the service they provide to the state.
<ul style="list-style-type: none"> One day off for each day eligible inmates in reception centers work in prison jobs. 	15	Reception center inmates would receive the same full work credits now given other eligible inmates.
Reduce inmate sentences by one month.	35	Releasing inmates one month earlier would not substantially change the overall level of punishment received by felons.
Department of the Youth Authority		
Do not accept less serious offenders from counties.	15	Prioritizes Youth Authority for most severe offenders.
Increase the charge to counties for accepting less serious offenders, using a sliding scale.	44	Currently, counties pay just \$25 per month for each commitment, which has not changed since 1961. Requiring counties to pay 40 percent to 100 percent of costs based on the seriousness of the offense, would provide an incentive to counties to develop local alternatives to state placement, for less serious offenders.
Limit access to institutional programming for CDC inmates who are housed in the Youth Authority (known as "M cases") age 18 and over.	4	Reinforces primary mission of the Youth Authority—providing rehabilitative services to <i>juvenile</i> offenders.
Transfer all wards and inmates age 21 and older to the CDC regardless of court of commitment.	12	Same as above.
Transfer to the CDC responsibility for parolees age 18 and over.	12	Provides same level of parole services as adult parolees in the CDC.
Youthful Offender Parole Board		
Eliminate the YOPB, and rely on Youth Authority for ward parole determinations.	3	Currently, the YOPB relies on Youth Authority staff recommendations over 85 percent of the time for parole determinations.
Eliminate YOPB intake and annual hearings.	2	Prioritize board's activities to most important hearings (Parole and parole revocation)

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Proposal	Savings	Comments
Trial Court Funding Program		
Eliminate state funding for court-appointed counsel for juveniles for certain civil actions.	\$38	Funds provided by state under Court Appointed Counsel function provide attorney services to juveniles for certain civil actions, such as child custody and visitation disputes. Because these actions are civil and not criminal, the state does not have legal obligation to provide the service.
Eliminate funding for Assigned Judges Program.	12	This option would result in the Trial Court Funding (TCF) Program absorbing the costs of the Assigned Judges Program. The services provided by the program are part of trial court operations and, therefore, could be financed by the TCF Program.
Department of Justice		
Eliminate the Bureau of Narcotic Enforcement.	24	Bureau duplicates local law enforcement function.
Eliminate the Violent Weapon Suppression Program.	4	Same as above.
Require local agencies to reimburse the Department of Justice for forensic laboratory services.	11	Criminalistic laboratory work provided to local law enforcement primarily benefits local governments.
Commission on Peace Officer Standards and Training		
Eliminate local assistance training programs for law enforcement.	26	Costs for training and equipment for local law enforcement primarily benefits local agencies and should be funded by local governments.
Board of Corrections		
Eliminate local assistance training programs for law enforcement.	11	See Commission on Peace Officer Standards and Training above.

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Proposal	Savings	Comments
Health and Social Services		
Medi-Cal		
Contract out Medi-Cal drug program to pharmacy benefit management company.	\$46	Outside company could negotiate lower rates with pharmacists and drug companies in exchange for higher volume.
Require a supplemental rebate of up to 10 percent from drug manufacturers.	40	Proposal assumes that state can take further advantage of its buying power, given the size of Medi-Cal program. A reduction of this magnitude could cause some companies to withdraw their drugs from the Medi-Cal formulary.
Eliminate statutory COLA for prescription drug ingredient costs.	11	Consistent with practice of not providing COLAs to other providers. Would force pharmacists to absorb drug price increases and may reduce number of participating pharmacists.
Require \$50 copayment for nonemergency hospitalizations.	Up to 10	Requires beneficiaries to share in cost of care; would not reduce services because some of the copayments would be absorbed by hospitals since not all beneficiaries will agree to make the copayment.
Reimburse hospital inpatient services on "per-discharge" rather than per diem basis	10 - 20	Reduces incentive for hospitals to keep Medi-Cal patients longer than necessary. Savings would result from fewer inpatient days, since disproportionate-share hospitals would face a lessened incentive to keep Medi-Cal patients longer. Proposal would <i>not</i> reduce disproportionate-share payments in aggregate.
Eliminate budgeted rate increase for contract hospitals.	22	Excess hospital bed capacity in California suggests that the state could negotiate a rate freeze with contract hospitals through 1995-96.
Establish a budget for hospital inpatient services at 7 percent below current spending level.	111	Given excess hospital bed capacity, the state could take advantage of a "buyer's market" for hospital services. A reduction of this magnitude could cause some hospitals to refuse to contract with the state and seek cost-based reimbursement instead.

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Proposal	Savings	Comments
Include newly enrolled SSI/SSP-linked beneficiaries in managed care expansion, and reduce payments for all managed care contractors to 97 percent of the fee-for-service equivalent.	\$20 - 30	Consistent with current policy for existing pre-paid health plan contractors. Managed care is designed to give local providers, including counties, an incentive to provide care more efficiently. Beginning in 1996-97, savings would increase to between \$50 million and \$100 million.
Require integration of IHSS and Medi-Cal long-term care, with county share of cost.	15	Giving counties a share of costs provides an incentive for them to divert patients from institutionalized care to IHSS when appropriate.
Eliminate "asset waiver" for services for pregnant women.	8	Eliminating the asset waiver would target available state funding to individuals with least resources. Low-income persons with excess assets will still be served by counties.
Suspend Medi-Cal county administration COLA.	5	Consistent with budget's policy of requiring state departments to absorb salary COLAs.
Public Health Programs		
Reduce eligibility for California Children's Services Program to 200 percent of the federal poverty level.	3	Targets services to the most needy. Reduction would affect about 5 percent of caseload. (It would target services for a family of four to those families with incomes of \$30,000 or less, instead of \$40,000 or less.)
Eliminate General Fund support for the County Medical Services Program (CMSP) on a one-time basis.	20	1995-96 year-end fund balances are estimated to be \$54 million. Consequently, those reserves can be used to fund program expenditures without reducing service levels.
Delete proposed augmentations:		These are new initiatives or program enhancements which lack sufficient budget detail.
REACH	56	
Teen Pregnancy	12	
Managed Risk Medical Insurance Board		
Reject proposed expansion of AIM eligibility from 250 to 300 percent of poverty level.	14	Better targets services to those who are less able to pay them.

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Proposal	Savings	Comments
Department of Aging		
Eliminate General Fund nutrition overmatch for congregate and home-delivered meals to the elderly.	\$7	Additional donations could offset a portion of the reduction.
Department of Developmental Services		
Charge fees for all services purchased by regional centers.	49	Fees provide an incentive for more efficient utilization of services. Fees would average \$20 per month for Medi-Cal eligible clients and \$46 per month for non-Medi-Cal clients. Average monthly fee would be \$27. Total fee revenues would amount to 6.8 percent of expenditures.
Department of Mental Health		
Delete proposed augmentation to Children's System of Care program.	2	This program provides funds to counties for support of interagency projects designed to reduce costs for other publicly supported programs, including AFDC-FC. Because counties have to pay a share of the costs of AFDC-FC, sufficient incentives exist for counties to use their own funds for such projects.
AFDC		
Limit AFDC-U grants—delete adult portion of grant after 6 months.	102	AFDC-U recipients, by definition, are two-parent families who have had an attachment to the labor force and would therefore be likely to focus on finding employment during their spell on aid. Depending on income level, affected families would be eligible to receive food stamps and Medi-Cal.
County Administration of Welfare		
Delete proposed COLA	9	Consistent with budget's policy requiring state departments to absorb salary.

Continued

Proposal	Savings	Comments
IHSS		
Include IHSS "income eligibles" in Personal Care Services Program caseload.	\$19	Maximizes federal funds by obtaining 50 percent federal funding under the Personal Care Services Program for "income eligible" IHSS cases. These cases are primarily persons who pay a share of cost for IHSS services.
Substitute IHSS individual provider mode for the contract mode in providing services.	14	IHSS contract caseload could be served by individual providers at a lower cost.
Community Care Licensing		
Increase licensing fees for family day care homes and child day care centers.	3	Fees are relatively low compared to operating revenues. Increase annual fees for small day care homes from \$25 to \$50 and large homes from \$50 to \$100. Increase center fees from \$100-\$1,000 to \$200-\$2,000, depending on size of program. Increased fee revenues would be used to offset General Fund spending for program.

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Proposal	Savings	Comments
General Government		
Board of Control		
Rescind state payment of county costs of special elections.	\$2	Elections are county responsibilities.
Eliminate General Fund support to Victims of Crime Program—allow board to pay claims proportionately based on total available federal and special fund revenues.	31	Program was designed to be supported by special funds and federal funds. This option prioritizes funding to ensure that some funds are paid on all claims.
Institute restitution fines for those who complete certain diversion programs and use revenues in lieu of General Fund.	20	Currently, those who complete diversion programs are not required to pay restitution. This option requires offenders who are sent to diversion programs to pay restitution.
California Arts Council		
Limit state support to programs that leverage most private contributions.	9	Reduces state involvement to what is essentially a private function.
California Coastal Commission		
Increase permit application fees.	1	Fees have not kept pace with inflation. In 1977-78, fee revenues covered about 22 percent of coastal development regulatory programs. By 1991-92, fee revenues only accounted for 5 percent. Estimated savings assume raising fees to replace General Fund support.
Department of Food and Agriculture		
Share program funding for Medfly control and eradication with industry on a 50-50 basis.	9	Agricultural industry benefits from control and eradication efforts. (Federal government would continue to match the state-industry total.)
Share support of the various detection, control, and eradication programs (other than Medfly) with industry on a 50-50 basis.	14	Agricultural industry benefits from control and eradication efforts. (Federal government would continue to match the state-industry total.)

Continued

Proposal	Savings	Comments
Reduce General Fund support of animal pest and disease prevention and inspection efforts by 50 percent.	\$8	Proposal would require industry to share in prevention and inspection costs to a greater degree.
Eliminate all General Fund support of the market news and marketing export programs.	2	Programs to enhance the marketability of private-sector goods should be the responsibility of the private sector rather than the general taxpayer.
Department of Forestry and Fire Protection		
Impose fees on property owners who benefit from fire protection services.	29	Property owners in State Responsibility Areas directly benefit from fire prevention and suppression activities provided by the state and should share in the costs of providing the services. A fee covering 10 percent of costs would generate about \$29 million.
Provide service on a reimbursement basis for the department's nonfire emergency response activities.	Several million dollars	The department responds to about 180,000 nonfire emergency incidents per year. Obtaining full reimbursement from local governments or individuals would generate an unknown amount, but potentially millions of dollars annually.
Department of Parks and Recreation		
Sell/transfer beaches in Los Angeles County to private entities or local governments.	—	Los Angeles County is currently evaluating a proposal by the department to transfer ownership of eight state beaches to the county. The estimated net annual cost of operating the beaches is about \$5 million. Savings would accrue to the state in future years from not being responsible for management of these beaches.
PERS		
Conform retirement and health benefits for CSU employees and retirees to those given other state employees, on prospective basis. Requires legislation.	1	Eventual annual savings of \$30 million or more (GF), as newly hired CSU employees replace existing employees.

Continued

Proposal	Savings	Comments
Department of Pesticide Regulation		
Establish mill tax assessments at level which will eliminate General Fund support of the DPR's regulatory activities.	\$12	Individuals who use or degrade a public resource should pay for the costs imposed by their use of the resources.
STRS		
End state subsidies of retirement benefits for teachers hired after 6/30/95. Requires legislation.	3	Retirement costs should be fully supported by school districts. Eventual annual savings exceeding <i>\$450 million</i> , as newly hired teachers replace existing teachers.
Tax Relief		
Senior Citizens' Property Tax Assistance.	2	Property tax relief not needed after Proposition 13.
Senior Citizens' Renters' Tax Assistance.	14	Property tax relief not needed after Proposition 13.
Repeal Renters' Tax Credit.	—	Property tax-related relief not needed after Proposition 13. Produces major expenditure savings in future years (about \$500 million annually).
Trade and Commerce		
Eliminate the following:	2	
<ul style="list-style-type: none"> • Office of California Mexico Affairs. 		This program's functions could be absorbed by the Mexico trade office and export development program.
<ul style="list-style-type: none"> • Business Marketing Fund. 		There are not measurable benefits to the state from the use of this fund.
<ul style="list-style-type: none"> • General Fund financing of Welcome Centers. 		The authorizing legislation for this program specifies that the program would be self-supported by fees charged to the Welcome Centers.
<ul style="list-style-type: none"> • Office of Foreign Investment. 		This program's functions could be absorbed by the agency's foreign trade offices and export development program.
Eliminate General Fund financing of Tourism Program.	7	This program, if needed, can be supported through fees assessed by the tourism industry.

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Proposal	Savings	Comments
San Francisco Bay Conservation and Development Commission		
Increase permit application fees.	\$2	Fees recover only a small percentage of the BCDC's permitting costs. Estimate of savings assumes raising fees to a sufficient level to replace proposed 1995-96 level of General Fund support.
State Water Resources Control Board		
Set fees to fully fund waste discharge permit program.	19	Require private individuals who use or degrade a public resource to pay for the costs imposed by their use of the resources. Fully funding the discharge permit program without General Fund support would require eliminating current \$10,000 fee cap.
Establish annual permit fees for the diversion and storage of water sufficient to eliminate General Fund support.	7	Require private individuals who use or degrade a public resource to pay for the costs imposed by their use of the resources. Fully funding the discharge permit program without General Fund support would require eliminating current \$10,000 fee cap.

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Proposal	Savings	Comments
Tax Expenditures		
Repeal use tax exemption for printed advertising materials.	\$61	Enacted due to perceived competitive disadvantage for in-state printers; court decisions now allow application to printing by out-of-state printers.
Eliminate exclusion of capital gains at death.	530	The basis of an asset transferred to a relative at death is "stepped-up" to its market value. This option would require the use of the decedent's basis in the property.
Limit exclusion of unemployment insurance benefits.	98	Conformity to federal rules on taxation of unemployment insurance benefits.
Cap on mortgage interest deduction (\$50,000 in annual interest)	65	Restricts deduction when home value is far in excess of the average.