

California's Fiscal Outlook— The Implications for Developmental Services

LEGISLATIVE ANALYST'S OFFICE

Presented To:
Assembly Budget Subcommittee No. 1 on
Health and Human Services





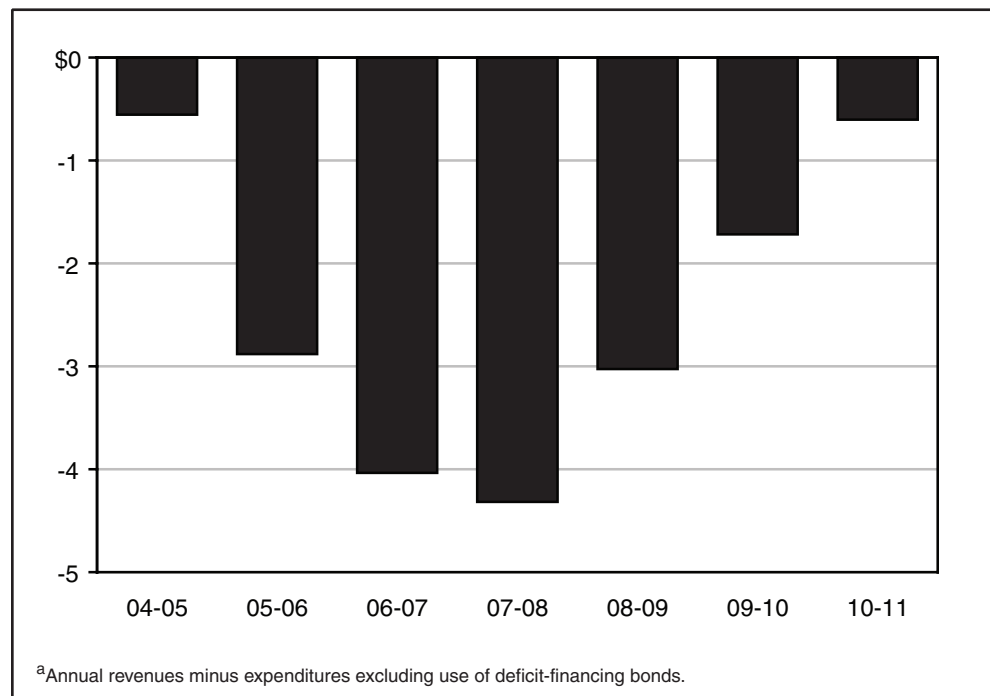
Overall Budgetary Forecast Has Improved . . .

- ***Eleventh Annual Projection.*** Today the Legislative Analyst's Office (LAO) has provided to the Legislature our *California's Fiscal Outlook*, the eleventh in a series of annual projections of the state's fiscal situation. It is important to note that our fiscal projections primarily reflect current-law spending requirements and tax provisions. They are not predictions of future policy decisions by the Legislature, nor are they our recommendations as to what spending and revenue levels should be.
- ***Budget Outlook Has Improved.*** The budget outlook for 2006-07 and beyond has improved considerably over the past year due to both a major increase in revenues and a significant amount of savings adopted in the 2005-06 spending plan.
- ***Reserve in Current Year.*** We now estimate the current year will end with a reserve of about \$5.2 billion, up by nearly \$4 billion from the estimate on which the *2005-06 Budget Act* was based.
- ***Budget Year Is Balanced.*** This large carryover reserve will be more than sufficient to keep the state's budget in balance in 2006-07 without any new program reductions or added revenues. This will be the case even though current-year projected expenditures are projected to exceed revenues by \$4 billion during that year.



... But State Still Faces Major Fiscal Challenges

Operating Shortfalls to Persist, but Narrow^a



- **Operating Deficits in Future Years.** While the improved outlook for the state is clearly very good news, the state still faces major challenges in achieving an ongoing balance between revenues and expenditures and getting its fiscal house in order. Even assuming continued steady economic growth, we project that multibillion-dollar operating deficits will persist throughout most of the forecast period, as seen above in the figure. Eliminating these shortfalls will require significant actions by the Legislature.
- **Projection Sensitive to Economic Downturn.** Beyond this, an economic downturn or even a sharp slowdown sometime in the next several years would add an additional several billions of dollars to the projected shortfalls. While this is not what we are forecasting, it could always occur.



. . . But State Still Faces Major Fiscal Challenges

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- ***Additional Actions Needed.*** For these reasons, it will be important for the Legislature to continue to take actions to minimize operating shortfalls, match any new or increased program funding with offsetting savings, avoid using the remaining deficit financing bonds in 2006-07, and build up budgetary reserves. We discuss these issues in more detail in our report.



General Fund Projection For Developmental Services

Figure 1
Projected General Fund Spending for Major Programs

(Dollars in Millions)

	Estimated		Forecast					Average Annual Growth From 2005-06
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	
Education programs								
K-14—Proposition 98	\$33,971	\$36,213	\$38,216	\$39,627	\$42,056	\$44,898	\$47,797	5.7%
CSU	2,419	2,553	2,659	2,765	2,877	2,989	3,097	3.9
UC	2,583	2,700	2,803	2,905	3,013	3,119	3,214	3.5
Health and Social Services								
Medi-Cal	11,533	12,956	14,078	14,977	15,633	16,351	17,206	5.8
CalWORKs	2,095	1,985	2,621	2,461	2,587	2,719	2,852	7.5
SSI/SSP	3,417	3,564	3,685	3,930	4,207	4,489	4,796	6.1
IHSS	1,174	1,232	1,337	1,448	1,565	1,688	1,817	8.1
Developmental Services	2,122	2,273	2,476	2,669	2,921	3,195	3,513	9.1
Other major programs	4,356	4,727	4,878	5,035	5,082	5,473	5,700	3.8
Corrections and Rehabilitation^a								
Rehabilitation ^a	6,467	6,991	7,355	7,622	7,876	8,129	8,382	3.7
VLF-related payments	—	1,187	—	—	—	—	—	—
Proposition 42-related payments	—	1,316	1,385	2,765	2,464	1,639	1,675	4.9
Debt service on bonds	3,565	3,926	4,331	4,846	5,295	5,713	6,061	9.1
Other programs/costs	7,810	8,537	9,286	9,868	10,307	10,713	11,269	5.7
Totals	\$81,512	\$90,161	\$95,111	\$100,917	\$105,883	\$111,114	\$117,380	5.4%
(percentage change)	6.8%	10.6%	5.5%	6.1%	4.9%	4.9%	5.6%	—

^a Includes employee compensation costs.

- **Current Year.** As seen in the above figure, we estimate that General Fund spending for developmental services for 2005-06 will total \$2.3 billion, about the same amount of funding that was provided in the *2005-06 Budget Act*. Of that total, about \$1.9 billion will be spent by regional centers (RCs) for community-based services and about \$369 million (not including Proposition 98 funds) will be spent for operation of the developmental centers (DCs).



General Fund Projection For Developmental Services

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- ***Budget Year and Beyond.*** We project that General Fund spending for developmental services will grow by about 9 percent in 2006-07. That is a General Fund spending increase of more than \$200 million above the 2005-06 level. Between now and the end of the forecast period, we estimate that General Fund spending for developmental services will grow by \$1.2 billion and reach a total of \$3.5 billion by 2010-11.
- ***Employee Compensation Costs.*** Our projection for the Department of Developmental Services (DDS) budget modestly understates the true growth because anticipated increases in employee compensation costs for DDS headquarters and DCs are accounted for separately in our forecast under our projection methodology.



Key Factors in the LAO Forecast

- **Projection Growth Rate.** The LAO forecast assumes average annual increases in General Fund spending for developmental services over our five-year projection period of 9.1 percent. That is a faster rate of growth than for some other major budgets, as you can see in the preceding figure. It is also a faster rate of growth than the average annual increase of 6 percent we foresee for General Fund revenues during the same period.
- **DCs.** Expenditures for DC operations are projected to be fairly flat over the projection period, with some cost increases offset by an ongoing decline in the DC population and significant savings from the closure of Agnews DC beginning in 2007-08.
- **Community Services.** The main “cost-driver” in our DDS budget forecast is community services. Specifically, our forecast assumes that RC caseloads will grow at an average annual rate of 4 percent, and that costs will grow at an annual average rate of 7.3 percent.
- **RC Caseload Trend.** The RC caseload is growing significantly faster than the rate of caseload growth seen in most health and social services programs. (Medi-Cal caseload, for example, is expected to grow about 1.7 percent in 2005-06.) However, RC caseload is not growing quite as fast as it had been. In some recent years, it had been as much as 5.6 percent. Instead of a net increase of about 9,500 consumers per year, net caseload growth is closer now to about 7,800 annually. The total RC caseload is expected to exceed 205,000 in the current year.
- **RC Cost Trend.** The average cost per consumer continues to grow significantly. Our assumption of average annual growth of 7.3 percent in General Fund costs and utilization of community services assumes a somewhat slower rate of growth than has generally been seen in recent years, but is in keeping with the historical trend we have seen.

Subject
Brian

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Workload on letter to Mike Reynolds
Tue 10:10