



## Temporary Fixes Hurt – Tough Decisions Next Year

**BUDGET SIGNED** Sixty-one days after the constitutional deadline, the Legislature passed the budget on Saturday, August 31 at midnight.<sup>1</sup> Five days later, the Governor yielded his blue-pencil power and signed the budget Thursday, September 5. The longest impasse in the state's history was driven by the details of how to close the \$23.6 billion deficit – Democrats wanted to avoid cuts in services whereas Republicans wanted to avoid taxes or "revenue enhancements."

The following timeline highlights the major activities that occurred during the budget battle:

DATE	
January	\$12 billion deficit announced
May	\$24 billion deficit announced
June	-Assembly Republican John Campbell says the state's responsibility is to provide "bread, water and shelter" – everything else is a want. He also compared Medi-Cal to a Cadillac while other insured persons received the equivalent of a Chevy for health care.  -Equalization stalls passage of the budget (\$700 million for FY 2003-04 finally approved.)
June 29	-Kathleen Connell, the Controller says she will fight the Court ruling that in the absence of a budget schools do not receive their funding and state workers get paid minimum wage. Senate passes budget
July	DOF warns agencies to prepare for a 20% reduction; no additional funds will be approved for existing programs and caseload growth. <sup>2</sup>
August 5	SB 1835 includes all the cuts proposed by the Assembly Republicans and receives no votes
August 6	SB 1849 increases the cigarette tax from 87 cents to a total of \$3 and fails passage
August 31	-Assembly and Senate pass budget and related trailer bills

With the blessing of the Assembly Republican Caucus, four Republicans voted for the budget to give it the required two-thirds vote. They are Assembly Members Briggs (R-

Clovis), Dickerson (R-Redding), Kelley (R-Idyllwild) and Richman (R-Northridge).

Although both sides claimed a victory, the Legislature left the tough choices to the Governor. This is evident by the inability of the Democrats to hold substantive conversations about revenue enhancements and AB 593, encouraging the Governor to make further cuts on top of the cuts proposed in the legislative budget sent to his desk.<sup>3</sup> The fixes are temporary and it is expected that next year will also be a difficult year with more heart wrenching cuts in services than the ones we sustained this year.

The following summary highlights the key points of the budget bill, AB 425, and the related trailer bills.

- ❖ Passage of AB 425, the Budget Bill and related trailer bills – as approved by the Senate on June 29 with no additional programmatic reductions
- ❖ Administrative cuts (AB 593)
  - Language says the Governor MAY veto up to \$750 million in state operations
  - 5% administrative cuts to departments and agencies
  - 1000 positions eliminated on top of the agreed upon 7000 vacancies
  - Golden handshake – early retirement by crediting state workers with 2 years of work
- ❖ Structural Changes
  - Passage of a constitutional amendment earmarking 3% of the state's GF revenues for infrastructure beginning in 2006-07<sup>4</sup>
  - Capping 2003-04 expenditures at 2003-04 revenue levels
  - Development of a commission to study the structural budget problems<sup>5</sup>

<sup>1</sup> Technically the budget was approved Sunday morning – September 1 – at 12:35 a.m.

<sup>2</sup> Budget Letters 02-20 and 02-21.

<sup>3</sup> The language in AB 593 is unnecessary since the Governor already has the power to reduce or veto program spending.

<sup>4</sup> ACA 11 (Richman)

<sup>5</sup> HR 96 (Wesson)

- ❖ Revenue Enhancements
  - Prop. 98 deferral of \$681 million from 2002-03 into 2003-04

Net Operating Loss (NOL) suspension for 2 years then businesses can deduct 100% of their NOL (rather than the current 60%)

The budget sent to the Governor included \$2.4 billion in taxes while the budget passed by the Senate had \$3.9 billion. The following taxes were not included in the final budget:

- ❖ Vehicle License Fee increase from .65% to 1.5%,
- ❖ cigarette tax increase from 87¢ to a total of \$3, and
- ❖ the upper income tax bracket for individuals earning over \$130,000 a year or families with an income over \$260,000 a year.<sup>6</sup>

**SIGNING THE BUDGET** Analysts suggest the signed budget will create a \$10 billion deficit in the current year and will not stem the tide of continued deficits. A \$50 billion deficit is predicted over the next five years. The following table describes how the Governor “closed” the \$23.6 billion gap.

Table One – Closing the \$23.6 Billion Gap

	Amount in Millions	% of Solution
Program Reductions	7,458	31.5
Tobacco Settlement Fund	4,500	19.0
Loans	2,028	8.6
Education Deferrals for 1 month	1,728	7.3
Fund Shifts	1,328	5.6
NOL – 2 years	1,200	5.1
Debt restructuring	1,083	4.6
Fed tax compliance	1,081	4.6
Fund transfers	904	3.8
Other accelerations and transfers	681	2.9
Stock options/bonuses withholding	400	1.7
Teacher tax credit 1 year suspension	170	0.7
	23,642	100%

Details on the reduction of departmental administrative budgets totaling \$750 million were not immediately available however the changes will be reflected in the January 2003 budget. The Governor also committed to reducing 7000 positions above the 6,600 positions that have already been eliminated since the Governor took office.

The Governor’s vetoes represent about one third of the original cuts that he originally proposed in the May Revise. Health and human services programs – the majority of discretionary spending – emerged the biggest victims. The total amount of cuts to all health and human services programs (including direct cuts to county operations)

represents 80% of the \$220 million in General Fund (GF) vetoes made by the Governor. The following table shows the major cuts in health and human services programs.

Table Two – Cuts to County Administration

Program	Amount Vetoed		Positions Cut
	State/Fed	GF	
Medi-Cal	58m	29m	615
Food Stamps	16.5m	6.8m	235
Child Welfare	49.5m	28m	500
Adoptions	5.2m	3m	42

The following is a summary of the budget as it relates to children’s services.

#### K-12 Education

Prop. 98 – funded at \$41.6 billion; total K-12 spending per pupil rises from \$6,610 in 2001-02 to \$7,067 in 2002-03, a 6.9% increase

Prop. 98 set aside – \$143.3 million for increased spending in existing programs

COLAs – 2% cost of living adjustment for apportionments and categorical programs

No Child Left Behind – \$738 million total including:  
 -Reading First Program – additional teacher training, instructional materials; \$132 million  
 -Teacher Recruitment and Development – \$109 million or a 50% increase  
 -English Language Learners – \$74 million from the Title I Migrant and the Title III Immigrant programs

Healthy Start – only \$2 million of the \$19 million legislative budget was kept, the May Revise proposed to eliminate the program

LatchKey Program – the January budget proposed to eliminate the program, the May Revise kept the program as does the final budget

Instructional Materials Grant Program – \$400 million to provide standards-aligned instructional materials for K-12 students; replaces the existing Instructional Materials K-8, Instructional Materials 9-12 and the K-4 Classroom Library programs

21<sup>st</sup> Century Community Learning Centers – eliminates 2 staff for implementation of new program

<sup>6</sup> SB 1255 (Burton)

Higher Ed

Governor's Scholars Program – deletes legislative intent to delay payments to 9<sup>th</sup> and 10<sup>th</sup> graders

Fees – no increase for the eight year in a row for resident undergraduate and graduate students at the California Community Colleges (CCCs), the California State University (CSU) and the University of California (UC)

Health Care

CHDP Gateway – accepts the May Revise proposal to streamline CHDP children to Medi-Cal and Healthy Families; pre-enrolled children will be immediately eligible for up to 2 months for CHDP health assessments and for comprehensive care through Medi-Cal or Healthy Families

Childhood Lead Poisoning Prevention Program – \$22 million kept to implement a restructures program

Medi-Cal county administration – \$29 million GF reduction results in 6% cut (total \$58 million cut) and reduces statewide staffing by 615 workers

Provider rates – reduced to pre-August 2000 level except for California Children's Services, non-emergency medical transportation, home health nurses, shift nursing and family planning

Express Lane – rejects the Legislative proposal to begin enrolling uninsured children participating in the free or reduced school lunch program or Food Stamps program

EPSDT – reinstates May Revise proposal for a 10% county share of cost for new caseload growth

Bridge from Medi-Cal to Healthy Families – remains at one month, two month legislative proposal denied; children moving from Healthy Families to Medi-Cal have a two month bridge

Healthy Families parental expansion – denied legislative proposal to begin covering parents in October 2002; over 300,000 parents would have been eligible

System of Care for Children – sustains \$20 million of the \$33.8 million and requires the Department of Mental Health to restructure the program to increase accountability and cost savings

Quarterly Status Report (QSR) – QSRs for Medi-Cal adult recipients not reinstated

Social Services

Food Stamp county administration – reduction of \$6.8 million results in 4% cut (total \$16.5 million cut) which reduces statewide staffing by 235 workers

Child Welfare Services county administration – reduced by \$28 million GF (\$49.5 million total cut) which reduces statewide staffing by 500 workers

Adoptions – \$3 million GF reduction (\$5.2 million total cut) leads to 6% cut which reduces statewide staffing by 42 workers

Foster Care – the May Revise had proposed \$21.9 million total cut (\$7.4 million GF) but the Legislature rejected the proposal and the Governor concurred

CalWORKs adult education – reduced the legislative increase by \$23 million and kept \$9.9 million to provide remedial education and job training to CalWORKs participants

CalWORKs education through the CCC – reduced the \$9 million increase by the Legislature and kept \$40 million, the May Revise had originally proposed to delete all funding

COLA – 3.7% COLA for CalWORKs and SSI/SSP to be reinstated July 2003 with a 1.8% federal COLA pass-through for SSI in January 2003

QSR – CalWORKs and Food Stamp reporting changes monthly to quarterly

Housing

Farmworker Housing – \$3 million reduction citing his support of \$2.1 billion housing bond in the November 2002 ballot

Index	
AB	Assembly Bill
CCC	California Community College
CHDP	Child Health and Disability Prevention
CSU	California State University
DOF	Department of Finance
GF	General Fund
SB	Senate Bill
UC	University of California