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GOVERNOR'S PROPOSED BUDGET

BACKGROUND A number of factors have influenced the \$12.5 billion deficit facing California for Fiscal Year (FY) 2002-03. These include the rise and fall of the stock market and the steep decline in income tax revenues due to capital gains and stock options, which accounted for about 25% of General Fund (GF) revenues in 2000-01.

Although recovery is expected mid-year, in November 2001 Governor Davis took measures to begin dealing with the budget deficit. He “froze” about \$2.2 billion in GF expenditures by directing departments and agencies to administer a hiring freeze and cut operating expenses.¹ In a November 14, 2001 document, Davis additionally directed them to suspend specific allocations of current year expenditures. The Legislature will likely have to approve the reductions specified in the November document during a special legislative session.²

What will the state's budget deficit mean for children? Although California is facing the largest decline in revenues since World War II, it is important to remember that the economic downturn is temporary and cyclical. Bailing out energy companies and other unwise budgetary decisions taken by the state should not mean the budget is balanced on the backs of children.

THE PROCESS The Governor is required to release a budget proposal before January 10 of each year. The January budget, a reflection of the Administration's priorities, is the blueprint for state spending for the following fiscal year and is effective for only one fiscal year, July 1 to June 30.

Upon introduction of the January budget, the budget is translated into two bills – a Senate Bill (S.B.) and an Assembly Bill (A.B.) – for legislative consideration by the respective houses.

In March, the legislative budget committees from both houses review and revise the Budget Bill to reflect their fiscal priorities. Policy proposals included in the Governor's January budget may experience a funding increase, decrease or a change in policy direction.

In May, the Governor introduces a revised budget proposal (the May Revise) which includes more accurate caseload projections and state revenue estimates.

Once both houses have adopted their respective budget versions, the Budget Conference Committee can begin deliberations. In late May, the Conference Committee typically resolves the fiscal and policy differences contained in the Senate and Assembly Budget Bills and adopts a compromise version. Both houses then vote and adopt the compromise version of the budget by the constitutional deadline of June 15.

After receiving the compromise budget from the Legislature, the Governor has 15 days to sign, line-item veto or veto the budget before the start of the fiscal year, July 1. A line-item veto is when the Governor reduces funding or eliminates a specific program from the budget.

The \$3 billion deficit estimated for the end of FY 2001-02³ and the \$12.5 billion shortfall for FY 2002-03 – given current caseloads and other considerations – makes the FY 2002-03 budget a challenge.

To balance the budget, Davis has proposed:

- ◆ \$5.2 billion in expenditure reductions,
- ◆ \$586 million in funding shifts, and
- ◆ \$5.6 billion in loans, accelerations and transfers.

In addition, Davis is also sponsoring legislation to authorize and fund an Economic Stimulus Package that accelerates the construction of higher education facilities and creates 13,000 new jobs.

The most significant reductions are in K-12 education (\$487 million), Higher Education (\$451 million), Health Care (\$407 million) and Human Services (\$742 million). Table One represents total GF expenditures for FY 2002-03.

¹ Executive Order D-49-01.

² The summary of the Governor's proposed reductions for FY 2001-02 are outlined in the Children's Advocacy Institute's document titled “November Reality Check.”

³ The budget had assumed FY 2001-02 would end with a \$2.6 billion reserve.

Table One – General Fund Expenditures (in Billions)

Agency	Amount	% of total GF Expenditures
K-12	31.3	39.7
Health and Human Services	22.4	28.4
Higher Education	10.0	12.7
Youth and Adult Correctional	5.3	6.7
Tax Relief	4.4	5.6
Courts	1.6	2.1
Resources	1.0	1.3
State and Consumer Services	0.5	0.6
Business, Transportation and Housing	0.4	0.5
Environmental Protection	0.2	0.3
Other	1.7	2.1

The following summary of the proposed FY 2002-03 budget outlines specific programs and services related to children.

EARLY CARE AND EDUCATION

\$3.2 billion total proposed to serve 736,000 children in child care

CalWORKs Stage One Child Care – \$472 million for an average monthly caseload of 83,000

CalWORKs Stage Two Child Care – \$592 million for an average monthly caseload of 121,000

Child Care Cost of Living Adjustment (COLA) – \$26.1 million for a 2.15% COLA

Alternative Payment Program – \$626 million for an average monthly caseload of 110,000 which reflects an increase of \$425 million in appropriated funds and 76,000 in average monthly enrollment

Child Care System Reform – Consistent with the Administration's review of the child care system, Davis proposes major reforms in the child care system. About 20,000 children that are currently served would lose subsidies. The reform includes:

- ◆ Eligibility Changes
 - ◆ Income eligibility is reduced from the current 75% of the state median income (SMI) to 66% SMI for Bay Area counties, 63% SMI for other high cost counties, and 60% for those in other areas.
 - ◆ Elimination of services for 13 year old children
- ◆ Reimbursement Limit Changes
 - ◆ Reduction in reimbursement limits from the 93rd percentile of the regional market to the 75th percentile of the regional market
- ◆ Family Fee Changes

- ◆ A three-step graduated approach that applies to all families (with limited exceptions)
- ◆ Family fee collections shifted to providers
- ◆ Waiting List Priority Changes – shift from lowest income-first approach to families working full time with children under the age of 5 that are in the lowest income tier

These reforms are expected to result in savings of \$400 million in the five primary child care programs and will be reinvested in additional child care spaces.

License Exempt Providers – \$9.8 million in one-time federal funds to provide outreach, training and incentives to exempt providers to increase the quality of non-licensed care

Prop. 10/California Children and Families

Commission – \$634.5 million expected to be generated in 2002-03 through its \$0.50 surcharge on tobacco products

Child Development Advisory Committee (CDPAC) – eliminates CDPAC, which assists the Department of Education (CDE) plan for child development programs and reviews the effectiveness of child care and development programs

K-12 EDUCATION

\$1.2 billion increase for a total of \$53.9 billion (all sources)

Statutory Growth and COLAs – fully funded

Proposition 98 – funded at \$46 billion and will increase per pupil spending by 1.8% from \$6,922 to \$7,058

Afterschool Care – \$75 million increase expected to serve an additional 79,000 school-age children for a total of \$162.8 million. This includes the \$29.7 million that was suspended in the current year.

Latch-Key Program – phased out and the \$30 million is redirected to the Before and After School Learning and Safe Neighborhoods Program

Immediate Intervention/Underperforming Schools -- \$29.6 million increase for a total of \$210.8 million to fully fund implementation grants

High Priorities School Grant – \$197 million for low performing schools delayed until July 1, 2003

Math and Reading Professional Development – \$30 million increase for a total of \$110 million to ensure that math and reading teachers receive standards-aligned training

Teaching as a Priority Block Grant – \$118.7 million to recruit and retain credentialed teachers in low performing schools

Teacher Recruitment Incentive – \$9.4 million for six regional centers to recruit persons into teaching

National Board Certified Teachers – \$10 million to provide \$10,000 bonuses to nationally accredited teachers

Governor's Performance Awards – \$157 million to schools that meet their Academic Performance Index (API) growth targets

Certified Staff Performance Incentives – \$50 million to provide bonuses to certified staff at low performing schools achieving significant, sustained increases in their API scores

Instructional Materials Block Grant – \$250 million for the purchase of standards-aligned instructional textbooks in core curriculum areas. This block grant replaces the existing Instructional Materials K-8/9-12, School Libraries Materials and K-4 Classroom Library programs.

Special Education – \$112.3 million in increased federal funds will be used as part of the statutory offset to the General Fund

Bonds – \$10 billion in bonds placed before the voters in 2002, 2004 and 2006 for K-12 and higher education building needs.

HIGHER EDUCATION

No Fee Increases for the California Community Colleges (CCC), California State University (CSU) and the University of California (UC)

Cal Grant – \$694.3 million for all Cal Grants to guarantee that all colleges students meeting specified academic and income eligibility criteria receive financial assistance

Year-Round Instruction – \$76.3 million to selected CSU and UC campuses for the full cost of summer enrollment and equalizes student summer fees with fees charged during the regular academic session

HEALTH CARE

Medi-Cal Co-Payments – proposed ranging from \$1 to \$3 and \$5 for emergency room services

Healthy Families (HFP) – the parental expansion is delayed until July 1, 2003 and expected to save \$54.3 million in 2001-02 and \$160.5 million in 2002-03. \$795 million allocated to reach an expected enrollment of 640,000 by June 2002.

Media/Outreach – for Medi-Cal and HFP was reduced by \$20.7 million due to the parental expansion delay but the \$6 million for schools-based outreach to children is retained

Express Lane – two 2001 bills signed into law further expand access to health care. AB 59 (Cedillo) will automatically enroll children participating in the school lunch program and under the age of 6 into Medi-Cal. SB 493 (Sher) requires counties to send Medi-Cal and HFP information to food stamp recipients during the annual redetermination.⁴

Access for Infants and Mothers (AIM) – \$79.6 million to provide health insurance to pregnant women with a family income between 200 and 300% FPL

Child Health and Disability Prevention – \$69.5 million reduction and shifts eligible children to Medi-Cal and HFP. CHDP provides health assessments for early detection and prevention of disease and disabilities to children with a family income under 200% of the federal poverty level (FPL).

Expanded Access to Primary Care – allots \$27.5 million of which \$17.5 million is expected to serve children that were enrolled in CHDP and are not Medi-Cal or HFP-eligible. CHDP was reduced by \$69.5 million and eligible children were moved into Medi-Cal and HFP.

California Children's Services /Genetically Handicapped Persons Program – \$111.2 million due to an expected 5.4% caseload increase

Child Nutrition -- \$4 million to fund pilot projects to assist schools in providing more nutritious meals

⁴ AB 59 is expected to enroll 21,200 children in 2002-03 and 35,000 in 2003-04. SB 493 is expected to enroll an additional 14,900 parents and children in 2002-03.

Trauma Centers – restores the \$30 million that was suspended for the current year

Childhood Lead Poisoning Prevention – increase of \$7.2 million and a programmatic restructuring plan is proposed

Community Challenge Grants – \$20 million in federal funds to reduce teen and out-of-wedlock pregnancies

Youth Anti-Tobacco Efforts – \$20 million for a new initiative to reduce smoking among youth

Tobacco Settlement Fund Bond – issue a \$2.4 billion bond backed by Tobacco Settlement Fund revenues which advances a portion of future payments

HUMAN SERVICES

CalWORKs – \$7.4 billion to provide time-limited assistance to children and families to meet basic needs (food, shelter, and clothing). Caseloads are expected to increase by 3.9% due to the economic downturn to 532,000 cases and 1,461,000 persons in 2002-03. Reductions in the CalWORKs budget include:

- ◆ \$36 million for the adult education and Regional Occupational Collaborative program (CDE),
- ◆ \$58.4 million for job placement services and other educational-related work experiences (CCC),
- ◆ \$52.5 million for the Female Offender Treatment and Employment program (Dept. of Corrections).

Supplemental Security Income (SSI)/State Supplementary Program (SSP) – a 7.3% increase for a total of \$3 billion GF. SSI/SSP provides a monthly cash benefit to eligible aged, blind and disabled persons who meet the income/resource requirements.

Cash Assistance Program for Immigrants (CAPI) – \$113.4 million to permanently include legal immigrants entering the country after August 22, 1996

California Food Assistance Program (CFAP) – \$72.5 million for legal immigrants that are ineligible to participate in the federal food stamp program because of their date of entry (they arrived in the country after August 22, 1996)

Food Stamp Employment and Training – \$46.9 million to provide job search, workfare, education and job training to non-CalWORKs food stamp recipients

FOSTER CARE

Child Welfare Services (CWS) – \$120.8 million for additional CWS workers for emergency response, family reunification/maintenance and permanent placement

Extended Independent Living Program – \$15.2 million to teach foster youth living skills, such as cooking and balancing a checkbook

Supportive Transitional Emancipation – \$13.9 million

Supplemental Clothing Allowance – \$6.5 million

Health Services – \$5.3 million to fund public health nurses that treat foster children

Emancipated Foster Youth Stipends – \$3.6 million for foster youth that emancipate from the system and are in an educational or work training program

Kinship/Foster Care Emergency Funds – \$1 million

Transitional Housing Placement – \$5.2 million for emancipated foster youth that need transitional housing

CHILD SUPPORT

Child Support Automation – California has been lobbying the federal government to reduce and/or eliminate penalties associated with the delay in implementing a single, state-wide automated system. In 2001-02, California paid \$157.5 million in federal penalties. If lobbying efforts are successful this will result in annual savings of about \$160 million, the maximum amount allowed under federal law.

HOUSING

Multi-Family Housing – reduction of \$45.1 million in 2001-02 and \$29.8 million in on-going funds in 2002-03.⁵

Farmworker Housing – \$3.6 million reduction

Emergency Housing Assistance – \$2 million reduction

Self-Help Housing – eliminates the program with a \$2.1 million reduction

⁵ The Governor expects voters to approve a housing bond in November 2002.