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Children's Advocacy Institute
Money Matters – Fiscal Year 2002-03
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- ❖ Assembly Budget Chair Jenny Oropeza (D),
- ❖ Assembly Budget Vice Chair John Campbell (R), and
- ❖ Assembly Member Darrell Steinberg (D).

JANUARY BUDGET 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 (FY). The budget is effective for only one fiscal year, July 1 to June 30.

SENATE AND ASSEMBLY VERSIONS Upon introduction of the January budget, the budget gets translated into two bills – a Senate bill and an Assembly bill – for legislative consideration by the respective houses. The authors of the budget bills are the respective chairs of the Senate and Assembly Budget Committees.

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

MAY REVISE In May, the Governor introduces a revised budget proposal, called the May Revise, which includes more accurate caseload projections and state revenue estimates. This year, the May Revise provided a reality check – the projected budget deficit grew from \$12 billion to \$24 billion from January to May 2002.

CONFERENCE COMMITTEE Once both houses have adopted their respective versions of the state budget, the Conference Committee can begin deliberations and resolve fiscal and policy differences contained in the Senate and Assembly versions of the budget.

This year, the Conference Committee was chaired by Senator Steve Peace (D-El Cajon) and conferees worked off the Assembly version of the budget, AB 425 (Oropeza). Next year, Assembly Member Jenny Oropeza (D-Long Beach) will chair the budget conference and work off the Senate budget bill.

Conferees included:

- ❖ Senate Budget Chair Steve Peace (D),
- ❖ Senate Budget Vice Chair Dick Ackerman (R),
- ❖ Senator Wes Chesbro (D),

After the fiscal and policy differences have been resolved, the Conference Committee adopts a compromise version. Both houses then vote and adopt the compromise version of the budget by the constitutional deadline of June 15.

This year, it was unclear when the conference committee was closed. After an impasse in the Assembly, the Senate went ahead and passed a budget in their house on Saturday June 29, 2002 and proceeded to take a month-long vacation.

In the Senate, the required 27 votes (2/3 vote required) came from all the Democrats and Senator Maurice Johannessen (R-Redding), who called it "the best budget we can possibly put out."

To date, the budget is 43 days late. Although the Senate approved a budget in late June, it became the responsibility of the Assembly to approve a budget similar to the one approved by the Senate. If the Assembly passes a different version than it must return to the Senate for concurrence.

The month of July was filled with behind-the-doors conversations (rather than negotiations) between Assembly budget leaders. However, no progress was reported. The rest of the time was spent "roasting" outgoing members.¹

SIGN, LINE-ITEM VETO OR VETO? 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 1.²

A DIFFERENT YEAR Unlike past conferences, this year was "open" which meant that any "closed" issue (i.e. both houses adopted the same funding and budget language) could be reopened at any time.

Member's Day also took on a completely different meaning. Previously, legislators requested pork and

¹ Roasting is when members are accolades for their work in public service.

² A line-item veto is when the Governor reduces funding or eliminates a specific program from the budget.

other district-specific goodies during Member's Day. This year, the severity of the budget deficit provided legislators an opportunity to present the Conference Committee with additional cuts or proposals for increased revenue during Member's Day (June 7, 2002).

Proposals included:

- ❖ additional spending cuts for health and human service programs,
- ❖ delaying or eliminating current tax credits and expenditures, and
- ❖ an increase in the state income tax for those in the upper income tax bracket.

IMPASSE OVER FOOD, WATER AND SHELTER AND DRIVING A CADILLAC The budget stalemate in Conference Committee was primarily driven by the Republican Caucus, which wants to balance the budget with additional cuts and no new tax increases, including the Vehicle License Fee and the tobacco surcharge.

Debates over cuts led Assembly Member Campbell to remark that the state is only responsible for providing "food, water and shelter" for Californians. He also remarked that Medi-Cal recipients had the equivalent of a Cadillac for health care while others had a Chevy.

EQUALIZATION The Assembly Republicans held out their support of the budget because they wanted a future commitment for equalization funding. Equalization is a funding formula used to direct funds on a more equal basis to school districts. Typically, rural districts receive less funds than urban districts.

The symbol of their commitment to equalization became SB 1832 (Peace) which shifted \$1.7 billion in unspent education funding from FY 2001-02 to FY 2002-03. SB 1832 required a 2/3 vote and the Assembly Republicans refused to cast a vote. Finally, a rule was amended so that SB 1832 required only a majority vote. Even after commitment from the Senate to fund equalization, the Assembly Republicans continued to withhold their support of the budget.

COURT RULING Adding pressure to the stalemate was a ruling by the state court. If the budget is not passed by the Constitutional deadline, the Court contended, then

- ❖ the 250,000 state workers would only be eligible for minimum wage (rather than their current salary), and

- ❖ schools would not receive their funding on time because Prop. 98 is a funding formula not a funding mechanism by which schools get their money.

The Controller, Kathleen Connell, appealed the decision and says she may find a way to pay more than the minimum wage even if the Supreme Court refuses to hear the case and lifts the stay. However, the Supreme Court is not likely to hear the case until early September and therefore, monthly state payroll checks won't be affected until October 1.2

GETTING DOWN TO BUSINESS IN AUGUST On Monday, August 5, the Assembly Democrats gave the Republicans what they were asking. SB 1835 contained a majority of the budget cuts that were proposed by the Assembly Republicans and some that had been proposed by the LAO. Total cuts were estimated at \$3.7 billion. The final vote count was 0 – no one voted for the bill.

On Tuesday, August 6, another tactic was tried. SB 1849 increases the tax on cigarette/tobacco related products from 87 cents to \$3. An increase of 50 cents had been proposed in the May Revise but a 63 cent tax was approved in the Senate. Increasing the tobacco tax to \$3 eliminates the need to increase the Vehicle License Fee (VLF) from .65 percent to 1.5 percent.³ SB 1849 was taken up on the Assembly Floor but defeated with a straight party line vote: 50-20.

Other proposed taxes include:

- ❖ a 5% tax to those that have a satellite TV. (proposed by the cable industry),
- ❖ speeding up collection of withholding on stock options and bonuses,
- ❖ imposing withholding on profits Californians make from real estate sales, and
- ❖ suspension of the existing solar tax.

Assembly Speaker Herb Wesson has repeatedly said the final budget act will contain a significant tobacco tax increase.

IT ONLY GETS WORSE A Budget Letter (BL) 02-20, dated July 31, 2002, from the Department of Finance (DoF) warns state agencies and departments of major restructuring of programs that will be introduced for FY 2003-04. Agencies should expect elimination of

³ The VLF was 2% when Davis came into office.

programs, employee layoffs and more lead time for development and implementation. Further, Budget Change Proposals (BCPs) for new initiatives or program expansions will not be reviewed and will be returned to the requesting department.

BL 02-20 also tells agencies to prepare for a 20% permanent reduction. This is in addition to the 6000 employee vacancies that will be eliminated. Departments and agencies must consider the following:

- ❖ repealing statutorily required programs,
- ❖ eliminating discretionary programs,
- ❖ consolidating programs,
- ❖ restructuring program responsibilities,
- ❖ agency reorganization, and
- ❖ reducing cost costs and service level

The following do NOT count as savings:

- ❖ one time savings,
- ❖ salary savings,
- ❖ fee/revenue increase,
- ❖ fund shifts,
- ❖ eliminating the 6000 vacant positions, and
- ❖ annualized savings not achieved in FY 2003-04

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

General

Revenues and Transfers – total of \$79.2 billion or \$629 million more than May Revise; \$3.9 billion in additional revenues, mainly from taxes:

- ❖ Vehicle License Fee (VLF) rate increase from .65 to 1.5 percent,
- ❖ 2 year suspension of net operating loss deduction,
- ❖ 63 cent tax on cigarette and tobacco products.

Expenditures – total of \$76.9 billion in expenditures, \$430 million more than May Revise

Reserve – total of \$951 million, \$435 million more than May Revise

Early Care and Child Care

Visitations – reduces community care visitations to triennial visits

Kindergarten Readiness Program – delayed to July 2003

COLA – 2% COLA provided to categorical programs in K-14 education and special education

K-12 Education

Total General Fund (GF) Proposition 98 spending:

-Current Year: \$29.5 billion

-Fiscal Year: \$31.7 billion (\$475 million less than May revise)

-per pupil spending is \$7,105, a 1.5% increase from the 2001-02 budget

Mental Health – requires the state to reimburse counties for all specialized mental health services provided to special education students

Equalization – appropriates \$203 million in Prop. 98 funds in the FY 2003-04 for Pre-SB 727 equalization

Healthy Start – funded on a year to year basis

Higher Education

Total GF spending: \$9.5 billion, \$49.5 million above May Revise

Health Care

Restorations included

- ❖ certain optional Medi-Cal services for some adults
- ❖ eligibility for 2 parent working families in Medi-Cal
- ❖ Quarterly Status Reporting (QSR) for Medi-Cal parents
- ❖ county administration funding
- ❖ additional co-payments in Medi-Cal
- ❖ further reduction in Disproportionate Share Hospital (DSH) fees

Healthy Families Parental Expansion – starts October 2002

Trauma Care – same level of funding as current year

Disproportionate Share Hospitals – fee increases from \$29.6 million to \$85 million; funds would be used to offset Medi-Cal expenditures; \$55 million in savings expected

Medi-Cal Provider Rates – reduces rate increase except for services provided to children enrolled in the California Children’s Services Program, services provided by home health agencies, non-emergency medical transportation and family planning services; \$55 million in savings expected

Medi-Cal Administration – requires DHS to notify county social services departments and the Legislature within 60 days if proposing a reduction to Medi-Cal administration

Medi-Cal assets test – eliminated, however this provision is contained in a stand-alone trailer bill

Dental Cleanings – adults eligible for 2 cleanings and one oral exam, children still eligible for 2 cleanings and exams; \$3.9 million in savings expected

Child Health and Disability Prevention Program (CHDP) – creates a pre-enrollment “gateway” process to direct more children to Medi-Cal and Healthy Families; children ineligible for Medi-Cal and Healthy Families will remain eligible for CHDP

Early Periodic Screening Diagnosis and Treatment Program (EPSDT) – requires Department of Mental Health in consultation with county mental health programs to strengthen the managed care principles

Express Lane – deferred to July 2003 for savings of \$12.1 million

Newborn Hearing Screening – makes outreach and community awareness process voluntary rather than mandatory for a \$200,000 savings

Healthy Families – discount offered to family if paid by electronic fund transfer

Social Services

QSRs – reduces reporting requirement from monthly to quarterly for CalWORKs and food stamp recipients

Senior Parent Deeming – counts the income of the minor’s parents in determining eligibility of the minor parent to CalWORKs

CalWORKs Cost of Living Adjustment (COLA) – delayed to June 2003

SSI/SSP – COLA for the aged, blind and disabled delayed to June 2003

Foster Care

Foster Care and Adoptions – deletes the sunset date for children in foster care or adopted to receive Medi-Cal

Foster Parent Training – caps of \$3 million established for the Community Colleges

L.A. passport pilot – extends the sunset date for the county of Los Angeles to develop and education and health passport for foster children

Child Support

County Performance Incentive funds – suspended

Third Party health coverage – suspends the incentive funds to counties that encourage third parties to pay a child’s health care

Other

Dymally-Alatorre Bilingual Services Act – requires departments to identify one staff person to be responsible for strategy plan to bring department in compliance with the Dymally-Alatorre Bilingual Services Act