

1998-99 Budget Summary

January 13, 1998

ECONOMIC OVERVIEW/REVENUES

The proposed budget is based on a moderate economic forecast. The budget estimates that General Fund revenues will be \$360 million higher than the forecast included in the August budget. Budget year forecasts are \$2.49 billion higher than those for the current year. The increase in revenues understates the amount of new dollars available for services since last year's budget included a \$1.2 billion one-time payment to the PERS system.

Of the new revenues, approximately two-thirds goes to education programs subject to the Proposition 98 guarantee, the remaining third goes to non-education programs. Spending initiatives adopted at the close of the 1997 legislative year will consume a considerable share of the new money. Previously committed items include \$350 million for trial court funding, \$64 million for the Healthy Families child health expansion and related programs, \$593 million in tax reductions, and \$142.5 million for state employee pay increases (General Fund).

The budget includes one substantial tax *increase*: a proposal to permanently eliminate the renters tax credit, increasing state revenues by \$530 million. The only tax cut proposed in the budget repeals a license fee on out-of-state horse racing revenues and transfers the funds to the horse racing industry for a \$3 million General Fund loss.

The budget includes a bare \$296 million reserve at the close of 1998-99, equal to 0.5 percent of General Fund expenditures. Between the current (1997-98) and budget (1998-99) years, the Governor's proposed budget actually spends \$165 million more than the state is projected to collect in revenues.

K-12 EDUCATION

Under the Governor's budget, school funding would total \$39.6 billion in 1998-99. This includes funds from all sources - state, federal, and local. Proposition 98 expenditures per pupil are \$5,636 - up 4% from last year. Per pupil expenditures from all sources are \$6,749. However the budget calculates per pupil spending using a different approach than that used in prior years -- the Budget proposes to eliminate excused absences from the pupil count used to make spending calculations. Approximately \$169 of the \$222 increase in per pupil Proposition 98 spending is attributable to the new calculation method, not new money.

Major policy initiatives in the budget include a total of \$1.547 billion class size reduction, increasing per pupil funding for the program to \$818; \$10 million for competitive grants for school districts to provide remedial reading instruction for pupils in grades 3-6 who do not read at grade level; and \$30.4 for a standard achievement test for grades 2-11. The development of statewide standards and the administration of a statewide matrix test is allocated \$31.2 million. The budget also proposes to expand the State Preschool Program to include 18,800 more children at a cost of \$25 million for half the budget year. The budget proposes to create a

voucher or "opportunity scholarship" program to pay private school tuition for 15,000 pupils in poor performing schools. Other proposals include \$136 million in competitive matching grants to continue the Digital High School Initiative for technology installations and \$180 million in school site block grants. In addition, the budget proposes that the cost-of-living adjustment (COLA) be calculated using the most recent available economic data instead of unrevised, year-old data. To meet the facilities needs of school districts, the budget proposes an \$8 billion multi-year General Obligation Bond for school construction. The school construction program also seeks to reduce the 2/3 vote needed for approval of local school bonds.

HEALTH AND WELFARE

CalWORKs caseloads are projected to decrease from 754,100 to 699,000 from 1997-98 to 1998-99, with the total number of recipients projected to decrease from 2,217,600 to 2,017,000. The budget extends the 4.9 percent grant reduction and the cost-of-living increase suspension for CalWORKs recipients. Continuation of the grant reduction is forecast to produce \$162 million in General Fund savings. The budget allocates \$891.2 million in state funds for CalWORKs child care and \$1.8 billion in combined state and federal funds. The budget also provides for meeting the one-third state match required to draw down the state's federal welfare-to-work grant. California must spend \$95 million in General Fund revenues to receive \$190 million in federal grant money for 1997-98 and \$86.5 million for \$173 million in grant money for 1998-99. CalWORKs expenditures are budgeted at the bare minimum needed to meet the federal maintenance of effort requirement. Savings from reduced caseloads and continuation of the grant reductions are allocated to increased child care funding.

1998-99 Medi-Cal caseloads are predicted to be 7.6 percent lower than 1996-97 levels, resulting in relatively flat state Medi-Cal expenditures. The budget includes \$27 million in General Fund expenditures to expand Medi-Cal to cover uninsured children not eligible for Healthy Families and \$34.1 million in state funds for the Healthy Families program. The Governor predicts that 200,000 children will enroll in Healthy Families in 1998-99. The budget includes funds for an Early Childhood Development Initiative to expand infant-toddler child care and provide newborn hearing screening.

In addition, the budget proposes to expand the AIDS Drug Assistance Program to provide HIV/AIDS drugs to individuals who cannot afford them and increase funds for ovarian and prostate cancer research.

LOCAL GOVERNMENT

No new local government initiatives are proposed. The Budget funds, as discussed above, the trial court restructuring proposal adopted by the Legislature in September. Other budget proposals include continuation of the COPS program (\$100 million), continuing to use federal TANF dollars for county juvenile justice programs (\$167 million), and an allocation of \$33 million for county juvenile camps and ranches.

GENERAL GOVERNMENT

The budget includes \$142.5 million in General Fund (\$279 million in total funds) for state employee pay increases. These figures assume that state employees receive, on average, a 3 percent increase effective July 1, 1998. The budget also includes a \$310 million allocation to cover interest due on the PERS lawsuit settlement. Costs for the State Teachers Retirement System (STRS) increase by an estimated \$115 million due to an increase in the number of teachers -- a result of the class size reduction initiative implemented over the past two years.

HIGHER EDUCATION

The 1998-99 Community College budget of \$4.8 billion reflects an increase of 5.7 percent over last year's budget and includes over \$40 million in one time increase due to the increase in the Proposition 98 guarantee for 1996-97 and 1997-98. The total spending increases by \$256.5 million. Spending increases include a 2.22 percent COLA and funding for a 3 percent increase in system-wide enrollments. The budget implements the \$1 per unit student fee decrease adopted by the legislature in September.

The budget funds the final year of the Higher Education Compact that began in 1995-96. This plan was designed to provide fiscal stability and predictability to higher education finance. The budget funds the 5 percent fee reduction adopted by the Legislature in September.

The budget provides a General Fund increase for the University of California of \$175 million, including \$22.5 million to offset a 5 percent reduction in student fees and \$39.5 million allocated to avoid a 10 percent increase in student fees. \$5 million is included for development and planning of the tenth UC campus in Merced.

The budget increases General Fund spending for the California State University system by \$162.9 million dollars, including \$19.4 million to offset a 5 percent reduction in student fees and \$31.4 million allocated to avoid a 10 percent increase in student fees. Under the Compact, \$73.1 million is allocated to meet the fourth-year commitment with \$39.6 million allocated for enrollment growth. The budget allocates \$5 million to enhance teacher training and preparation programs. 96 percent of this money supports adding 600 students to teacher credential programs and improve the mathematical skills of California's teachers.

CAPITAL OUTLAY

The budget contains ambitious proposals for capital outlay projects. The Governor proposes to submit \$7 billion in bond measures to the voters in 1998. Proposed bonds would fund K-12 school construction, higher education, correctional facilities, water projects, infrastructure bank, resources projects, and other projects.

The larger policy question regarding the proposed investments is can the state afford, and will voters approve, \$7 billion in additional debt? The debt ratio for 1997-98 is 3.7 percent; this would rise to 4.2 percent if no other bonds are authorized. However, if all proposed bonds in the budget are implemented, this debt ratio would rise to 5.9 percent in 2000-01.

PUBLIC SAFETY

Budget initiatives address the pressure from increasing inmate populations. The Governor proposes a Community Correctional Facility (CCF) Program, which would contract out 5,000 beds as part of a longer-term project; 15,000 beds would be contracted out beginning in June 1999. The number of incarcerated prisoners is projected to increase from 161,912 in June 1998 to 171,610 in June 1999. According to Department of Corrections reports, current capacity is 155,000 beds, with a projected maximum limit capacity of 178,000 beds. The 1998-99 proposed budget allocates \$40.7 million for major and minor capital outlay projects.

Youth Authority institution population is slated to be 8,400 by June 1998. Total population is expected to decrease to 8,315 due to the imposition of a sliding-scale fee charged to counties for housing less serious offenders turned over to the Youth Authority.

Department of Justice proposed increases include \$4.2 million for a Gambling Control Board, including \$3.7 million for a new Gambling Control Division. Other increases include \$13.9 million increase for support of multi-state lawsuit against the tobacco industry, a \$1.8 million increase for the Sexual Predator Assessment Team (SPAT) to establish a team in northern California counties. This team is in addition to three others in Los Angeles, Fresno, and San Francisco.

TRADE AND COMMERCE/BUSINESS, TRANSPORTATION, AND HOUSING

Budgeted Trade and Commerce General Fund expenditures increase 90.9 percent over 1997-98 levels, the largest General Fund increase of all departments. The increase is primarily due to proposed capitalization of the California Infrastructure and Economic Development Bank. The Bank is designed to help local governments develop infrastructure and improvements designed to create jobs and investment. Funding for the Bank includes \$50 million in proposed cash and a \$200 million bond measure.

Business, Transportation, and Housing General Fund expenditures will increase 36.5 percent over 1997-98 funding levels. Policy initiatives include: support for retrofitting of Bay Area bridges, \$1.2 million to DMV for screening citizenship of all new commercial and occupational driver's license applicants, \$4.9 million for migrant worker housing rehabilitation, \$3.5 million for child care and development facilities direct loan program, and \$3.5 million for child care and development facilities loan guarantee program.

CAL EPA/RESOURCES

Budgeted Cal EPA General Fund expenditures increase 9.9 percent over 1997-98 levels. General Fund Resources spending is budgeted to increase by 3.4 percent. Major environmental initiatives include general obligation bonds for the Ocean and Coastal Initiative, Tahoe Initiative, Watershed Initiative, Natural Community Conservation Planning Program, and a \$1.3 billion bond to meet water supply, water quality, and flood control needs.