



Updated June 30, 2003

THE 2003-04 BUDGET GAP: WHERE ARE WE AFTER THE MAY REVISION AND THE BUDGET CONFERENCE COMMITTEE?

The Governor's May Revision to the 2003-04 Proposed Budget, released on May 14, outlines a plan for closing a \$38.2 billion budget gap, \$3.6 billion larger than projected in January. The widening gap stems from cancellation of \$2.0 billion of planned bond sales that would be repaid from the state's share of tobacco settlement proceeds, increased caseload costs (\$1.5 billion), and a higher Proposition 98 minimum spending level (\$0.7 billion). The Governor's May Revision scales back the proposed realignment of state services to counties, assumes that the Vehicle License Fee (VLF) will increase, and proposes to borrow \$10.7 billion, to be repaid through a temporary half-cent sales tax increase. Senate and Assembly Republicans have proposed financing the deficit over multiple years. For more information on the May Revision, visit the California Budget Project web site at www.cbp.org.

Prior to the May Revision, the Legislature took major actions to close the gap by approximately \$7.0 billion. Subsequently, the Assembly and Senate crafted their own budget plans and appointed a Budget Conference Committee in early June to resolve the differences. The conference committee recessed indefinitely on June 10, leaving several major issues unresolved. On June 24 and 25, the Senate failed to pass a budget and a bill authorizing a temporary half-cent sales tax increase to repay bonds to finance the 2002-03 deficit. No Republican Senators voted for the measures, which needed at least two Republican votes to attain the required two-thirds majority. On June 27, three days before the end of the 2002-03 fiscal year, the Assembly also failed to garner the required two-thirds majority to pass a 2003-04 budget bill.

Legislative actions to date are summarized below. Appendix 1 compares the Governor's January and May proposals with those outlined by the Senate and Assembly Republican Caucuses and the budget plan that failed passage in the Senate on June 24 and 25. (Details of the June 27 Assembly plan were not available as this report was updated.)

LEGISLATIVE ACTIONS BEFORE THE MAY REVISION

2002-03 Mid-Year Reductions

The Governor signed a mid-year package of spending reductions, contained in SB 18X and SB 19X, on March 18. The package reduced Proposition 98 (K-14) spending in 2002-03 by \$2.2 billion, primarily by deferring the June 2003 \$1.1 billion apportionment payments to public schools to July 2003. The Legislature also reduced the 2002-03 California Community Colleges budget by \$141.2 million. In addition, the Legislature reduced the California State University budget in 2002-03 by \$59.6 million and the budget for University of California by \$60.9 million. The plan also includes a \$100.0 million loan from the Traffic Congestion Relief Fund to the General Fund and makes various other adjustments. The

K-14 education actions reduced spending to near the minimum allowed by the Proposition 98 guarantee and consequently lowered the 2003-04 required spending level.

The package originally included SB 11X, which suspended cost-of-living adjustments (COLAs) for CalWORKs and Supplemental Security Income/State Supplementary Payment (SSI/SSP) recipients. However, this bill was held in the Senate and was not part of the final package.

April Package

The Governor signed another set of bills on May 5 that reduced the deficit by an estimated \$3.6 billion. About half the savings (\$1.85 billion) from the so-called "April package" result from using proceeds from a pension obligation bond sale to make the state's contributions to employees' retirement funds. The plan also includes a number of health and education reductions.

Adult Medi-Cal enrollees will now be required to file forms twice a year verifying their continued eligibility. In January, the Governor proposed requiring enrollees to file quarterly reports. The plan also includes cost savings for Medi-Cal dental services, such as requiring additional documentation before approving payment for claims. The plan also includes \$194.0 million in savings from implementing stricter accountability standards regarding county determination of Medi-Cal eligibility. The savings would result from removing enrollees from Medi-Cal more quickly when they no longer meet eligibility requirements.

Education actions include \$327.6 million in K-12 reductions. This action consists of a \$161.9 million reduction in the current year to reduce spending to the minimum Proposition 98 guarantee level, thereby producing \$165.7 million in budget year savings. The current year reduction includes deferring \$48.7 million in staff development payments from 2002-03 to 2003-04. The 2003-04 savings result because lower funding in 2002-03 decreases the 2003-04 Proposition 98 guarantee level.

LEGISLATIVE ACTIONS AFTER THE MAY REVISION

In late May, the Assembly and Senate Budget Committees crafted budget plans in response to the May Revision. The Assembly plan, AB 100, proposed General Fund spending of \$72.0 billion, \$1.5 billion higher than the May Revision. The Senate plan, SB 53, proposed General Fund spending of \$72.3 billion, \$1.9 billion higher than the May Revision. Both plans rejected the major Medi-Cal reductions proposed in the May Revision. The Assembly approved, but the Senate rejected, the May Revision proposals to suspend cost-of-living adjustments (COLAs) for CalWORKs and SSI/SSP grants. Both budget plans assumed tax increases and the issuance of \$10.7 billion in debt as proposed in the May Revision.

The Legislature appointed a six-member Budget Conference Committee in early June to resolve differences between the budget plans. The conference committee reached agreement on several Proposition 98 K-12 items, Proposition 50 expenditures, and dozens of other items. However, the conference committee recessed indefinitely on June 10 leaving several major issues unresolved, including CalWORKs and SSI/SSP COLAs and proposals affecting transportation spending, the University of California, the California State University, the California Community Colleges, and the Department of Corrections. As modified by conference committee actions, the conference budget bill (SB 53) assumes 2003-04 General Fund revenues and transfers of \$72.4 billion and proposes General Fund spending of \$72.1 billion, \$1.7 billion higher than the May Revision.

VEHICLE LICENSE FEE

The Legislature has not increased taxes to help close the budget gap. However, the Department of Finance pulled the so-called Vehicle License Fee (VLF) “trigger” on June 20 to return the VLF rate to the 1998 level. The increase will affect vehicle owners whose registration expires after September 20. The trigger was included in the original 1998 measure that reduced the VLF rate and provides for an automatic increase in the rate if the state has insufficient funds to continue payments to local governments to replace lost VLF revenues.

The Governor’s January Budget discontinued \$2.9 billion in VLF backfill payments that cities and counties receive as general purpose revenues, but continued \$1.0 billion in payments to counties to support programs transferred as part of the 1991 “realignment,” which shifted program responsibilities to counties and to Orange County to fulfill debt obligations. Pulling the trigger restores VLF revenues to cities and counties and allows the state to discontinue VLF backfill payments from the General Fund. Eliminating the backfill payments will result in \$1.0 billion in General Fund savings attributable to the realignment backfill provided in the Governor’s January Budget.

Appendix 1: Comparison of Key 2003-04 Budget Proposals

	Governor's January Budget	Senate Republican Proposal (February 2003)	Assembly Republican Proposal (April 2003)	Governor's May Revision	AB 1769 (Considered in Senate on June 24 and 25, 2003)
Solutions to Bridge the Deficit	Proposes \$13.7 billion in program reductions, \$8.3 billion in ongoing new tax revenues, \$5.1 billion in shifts to local government, and \$7.5 billion in loans, transfers, and other fund shifts.	Accepts Governor's January proposals, except as noted below.	Accepts Governor's January proposals, except as noted below.	Restores \$1.2 billion in program reductions, reduces new taxes to \$3.6 billion in 2003-04, assumes \$4.0 billion increase in the Vehicle License Fee (VLF), and rolls over \$10.7 billion of the deficit to be repaid by one-half cent sales tax.	Not Available.
New Taxes	Includes \$8.3 billion in ongoing new taxes to support realignment: <ul style="list-style-type: none"> • A \$1.10 per pack tobacco tax; • 10% and 11% personal income tax rates on high-income earners; and • A one cent sales tax increase. 	Includes no new taxes.	Includes no new taxes.	Includes \$3.6 billion in new taxes in 2003-04 and assumes an automatic increase in the VLF. Of the \$3.6 billion, \$1.8 billion will be permanent and will support realignment: <ul style="list-style-type: none"> • 10.3% personal income tax rate for high-income earners; and • A per pack tobacco tax increase of \$0.23 in 2003-04 and \$0.40 in 2004-05. A temporary one-half cent sales tax will be used to repay \$10.7 billion in deficit retirement debt.	Assumes Governor's May Revision proposals relating to the sales tax and the VLF; rejects the tobacco tax and personal income tax increase proposals.
"Rollover" Provision	None.	Carries over \$3.0 billion deficit from 2003-04 to 2004-05.	Refinances \$10.0 billion of deficit by dedicating one-half cent of <i>existing</i> sales tax over five years.	Issues \$10.7 billion in debt to be repaid with a temporary one-half cent sales tax increase.	Assumes Governor's May Revision proposal.
Across-the-Board Reductions	None.	Includes a \$5.1 billion across-the-board reduction in 2003-04. While described as a 7.0 % reduction, if Proposition 98 is funded at the minimum level, this translates into an 18.6 percent reduction to remaining programs. ¹	Includes a \$940 million, 10% across-the-board cut in state operations, except higher education and debt service in 2003-04; \$12.6 billion overall reduction in spending in 2004-05 to freeze spending at 2003-04 levels. If Proposition 98 is funded at the minimum level, this translates into a 33.3 percent reduction to remaining programs. ¹	None.	None.

	Governor's January Budget	Senate Republican Proposal	Assembly Republican Proposal	Governor's May Revision	AB 1769 (Considered in Senate on June 24 and 25, 2003)
Spending Freeze	None.	Multi-year freeze beginning in 2004-05.	Freeze in at least 2004-05.	None.	None.
Proposition 98	Overfunds the Proposition 98 spending guarantee in 2003-04 by \$104 million.	Would require suspension of the Proposition 98 guarantee in 2003-04 if across-the-board reduction applies to K-14 education.	Reduces 2002-03 Proposition 98 funding by \$206 million; fully funds the Proposition 98 guarantee in 2003-04.	Funds Proposition 98 spending at \$700 million higher than was proposed in January to reflect an increase in the estimated guarantee level.	Funds programs under Proposition 98 at the May Revision level of \$41.2 billion (\$30.1 billion General Fund). Reduces deferred maintenance funding by \$129 million and funding for Instructional Materials by \$75 million as proposed in the May Revision.
Proposition 42	Suspends an approximately \$1 billion General Fund transfer in 2003-04 to the Transportation Congestion Relief Program.	Defers, but does not suspend, the transfer.	Defers, but does not suspend, the transfer.	Transfers \$207 million General Fund to the Transportation Congestion Relief Program, but defers the remaining \$938 million transfer.	Partially suspends the Proposition 42 transfer to the Transportation Congestion Relief Program (\$943 million).
Indian Gaming Revenues	Includes \$1.5 billion in revenues from Indian gaming activity.	Rejects new gaming revenues.	Rejects new gaming revenues.	Includes \$680 million in revenues from gaming activity.	Assumes Governor's May Revision proposal.
Risk Factors	\$8.2 billion realignment proposal; \$1.5 billion in gaming revenues; actual revenues for 2002-03 are below estimates.	Feasibility of a \$5.1 billion across-the-board reduction in 2003-04.	Viability of a \$10.0 billion bond without new revenues; \$390 million in assumed additional federal funds; feasibility of a \$12.6 billion reduction in 2004-05.	Ability to secure Republican votes for tax increases; \$680 million in gaming revenues.	Ability to secure Republican votes for tax increases.
Comments		\$5.1 billion reduction in 2003-04 would require an 18.6 percent reduction for many programs if Proposition 98 is funded at minimum.	\$12.6 billion reduction in 2004-05 would require a 33.3 percent reduction for many programs if Proposition 98 is funded at minimum; proposal makes over \$1 billion in reductions to Corrections.	Leaves a structural deficit of \$7.9 billion in 2004-05; assumes \$2.0 billion in tobacco settlement bonds authorized for sale in 2002-03 will not be sold due to poor market conditions.	Assumes sale of \$1.3 billion in tobacco settlement bonds.
Actions to Date	No plan has been adopted in its entirety. However, General Fund savings of approximately \$6.7 billion achieved from program reductions, funding shifts, and other actions taken in March and May 2003.	No plan has been adopted in its entirety. However, General Fund savings of approximately \$6.7 billion achieved from program reductions, funding shifts, and other actions taken in March and May 2003.	No plan has been adopted in its entirety. However, General Fund savings of approximately \$6.7 billion achieved from program reductions, funding shifts, and other actions taken in March and May 2003.	No plan has been adopted in its entirety. However, General Fund savings of approximately \$6.7 billion achieved from program reductions, funding shifts, and other actions taken in March and May 2003.	Failed to garner the necessary votes on both June 24 and June 25; reconsideration was granted.

	Governor's January Budget	Senate Republican Proposal	Assembly Republican Proposal	Governor's May Revision	AB 1769 (Considered in Senate on June 24 and 25, 2003)
Selected Governor's January Reductions and Savings NOT Included in Subsequent Plans	N/A	Increases program obligations by \$4.7 billion in 2003-04, as compared to the Governor's January Budget.	Increases program obligations by \$7.4 billion in 2003-04 and by \$10.7 billion in 2004-05, as compared to the Governor's January Budget.		Includes total "solutions" of \$14.5 billion in 2003-04 and \$2.5 billion in 2004-05 (including cuts, borrowing, fund shifts, etc.).
Realignment	Realigns \$8.3 billion in health, human services, and child care programs to counties.	Rejects proposal.	Rejects proposal.	Realigns \$1.7 billion in human services programs to counties; defers realignment of other programs until 2004-05; makes reductions to certain programs proposed for realignment in January.	Assumes Governor's May Revision proposal.
Health	Makes deep reductions to Medi-Cal.	Accepts Governor's proposals.	Rejects Medi-Cal proposals to reduce provider payments by 15%, rolls back coverage for 293,000 adults in the 1931(b) category, and eliminates dental coverage for adults.	Rescinds Medi-Cal proposal to roll back coverage for 293,000 adults in the 1931(b) category. Maintains other major reductions.	Rejects the major Medi-Cal reductions proposed in the May Revision, including a 15 percent provider rate reduction and elimination of certain benefits. However, the Senate plan eliminates the second year of Transitional Medi-Cal for General Fund savings of \$2.0 million.
Human Services	Suspends cost-of-living adjustments (COLAs) and makes reductions in CalWORKs and Supplemental Security Income/State Supplementary Payment (SSI/SSP) cash grants.	Accepts Governor's proposals.	Accepts Governor's proposals.	Rescinds January proposal to reduce CalWORKs and SSI/SSP cash grants, but continues proposal to suspend COLAs for both programs.	Rejects May Revision proposals to suspend the CalWORKs and SSI/SSP COLAs.
Higher Education	Increases community college fees from \$11 to \$24 per unit; makes deep reductions to CSU and UC.	Rejects proposal to increase community college fees.	Accepts Governor's proposals. See next page.	Reduces community college fee increase to \$18 per unit; restores \$305 million in community college funding.	Increases community college student fees to \$18 per unit and shifts \$38 million from the Partnership for Excellence Fund to financial aid administration.
Local Government	Eliminates VLF backfill, through which the state reimburses local governments for losses from VLF reductions; shifts \$250 million in local redevelopment funds to schools; shifts \$500 million in Low and Moderate Income Housing Funds to General Fund.	Rejects elimination of VLF backfill; rejects shift of redevelopment funds.	Rejects elimination of VLF backfill; rejects shift of redevelopment funds.	Assumes increase of the VLF through statutory trigger by July 2003, eliminating the need for the VLF backfill; maintains \$250 million shift of redevelopment funds to schools; abandons \$500 million shift in Low and Moderate Income Housing Funds to General Fund.	Includes a one-time shift of \$250 million in redevelopment funds to schools in 2003-04.

¹ This calculation excludes programs in which the state cannot reduce spending because they are required by the state constitution or are necessary to fulfill federal spending requirements. These programs include state contributions to state employees' retirement plans; debt service; health and dental benefits for state retirees; court and federal mandates; Temporary Assistance for Needy Families (TANF) maintenance-of-effort spending; the federal minimum spending on State Supplementary Payment recipients; special education expenditures required to meet federal requirements; and reimbursement to local governments for property taxes lost as a result of the homeowners' exemption. Expenditures for 2004-05 are assumed to be the same as those for 2003-04.