

# **Terminating the Deficit: Does the Governor's Proposed 2004-05 Budget Restore California's Fiscal Health While Protecting Public Services?**

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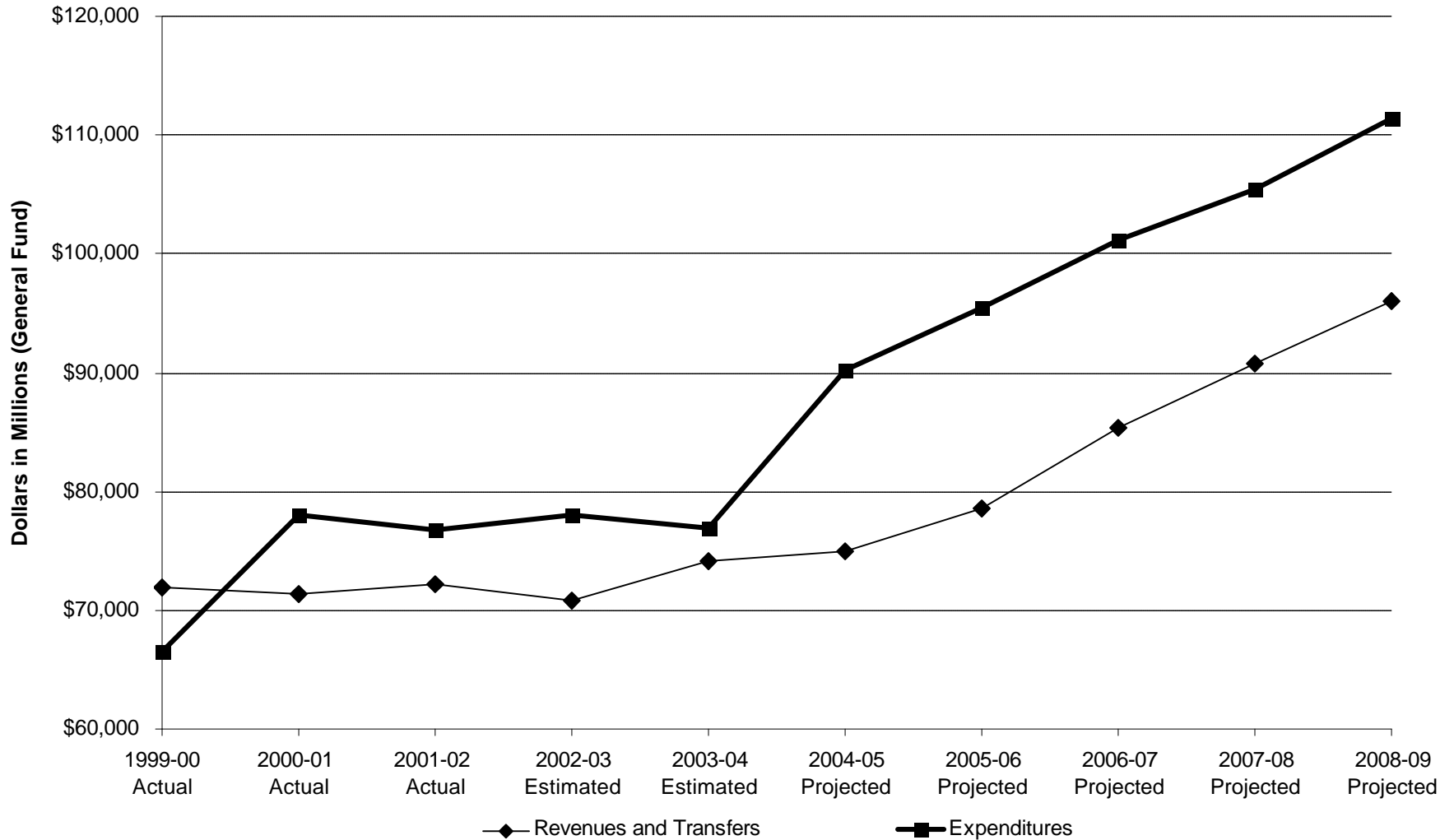
# The Bottom Line

## The Governor's Proposed Budget:

- ▶ Contains \$16.2 billion in “solutions” to the state’s ongoing budget gap in the current and upcoming budget years. The state faces a shortfall of approximately \$15 billion; the Governor’s plan would leave the state with a \$635 million reserve, if fully enacted. The shortfall consists of the \$10.2 billion gap based on the 2003-04 budget as enacted, plus the \$4.2 billion cost of reimbursing counties and cities for lost Vehicle License Fee (VLF) revenues in 2004-05, which increases modestly in the future, attributable to the Governor’s decision to reverse the VLF increase.
- ▶ Addresses a gap that is largely a **structural gap**, a gap that will remain even after the economy has fully recovered. A structural gap can only be closed by permanently increasing revenues, permanently reducing spending, or some combination of the two.
- ▶ Relies on borrowing, spending reductions, cost shifts to local governments, and transfers and other revenues, but no new taxes to bridge the budget gap. Slightly more than one-third (37 percent) of the \$14.4 billion in proposed 2004-05 “solutions” are one-time and just under two-thirds (63 percent - \$9 billion) are ongoing.
- ▶ Spends \$2.7 billion more than it brings in in 2004-05. Budget documents portray the budget as balanced; however, it is balanced by accounting for the use of \$3.0 billion of Economic Recovery Bond proceeds in a manner that doesn’t reconcile with the description of how the bond funds will be spent.
- ▶ Would leave the state facing a shortfall of approximately \$6 billion in 2005-06 if all of the Governor’s proposals are enacted, because of its reliance on one-time solutions.
- ▶ Would cost the state nearly \$1.4 billion in lost federal funds in the Medi-Cal, Healthy Families, and Food Stamp programs alone.

## The State Faces Operating Deficits for the Foreseeable Future

Based on the Legislative Analyst Office's November Forecast

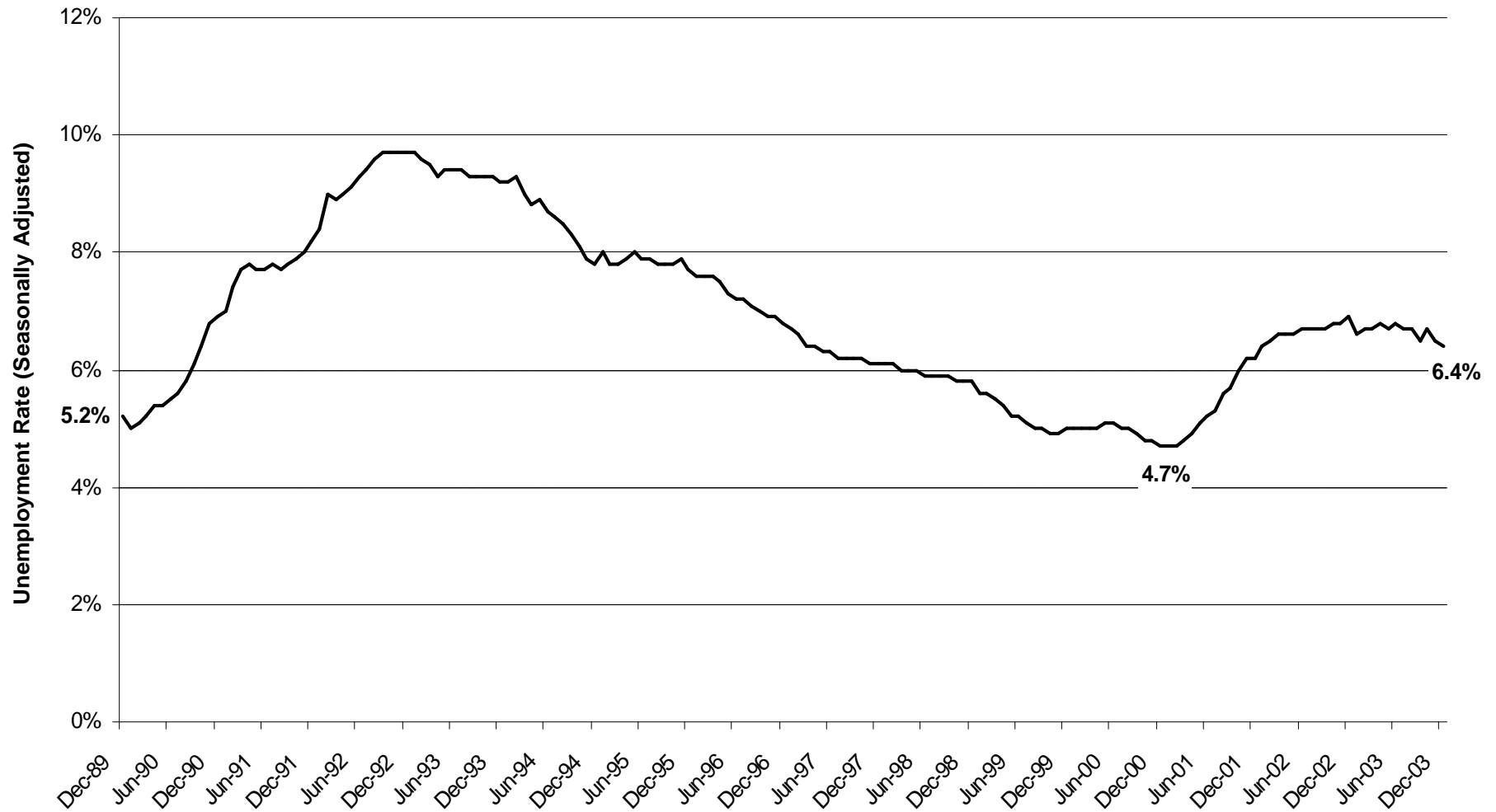


Note: Does not reflect Governor's budget proposals.

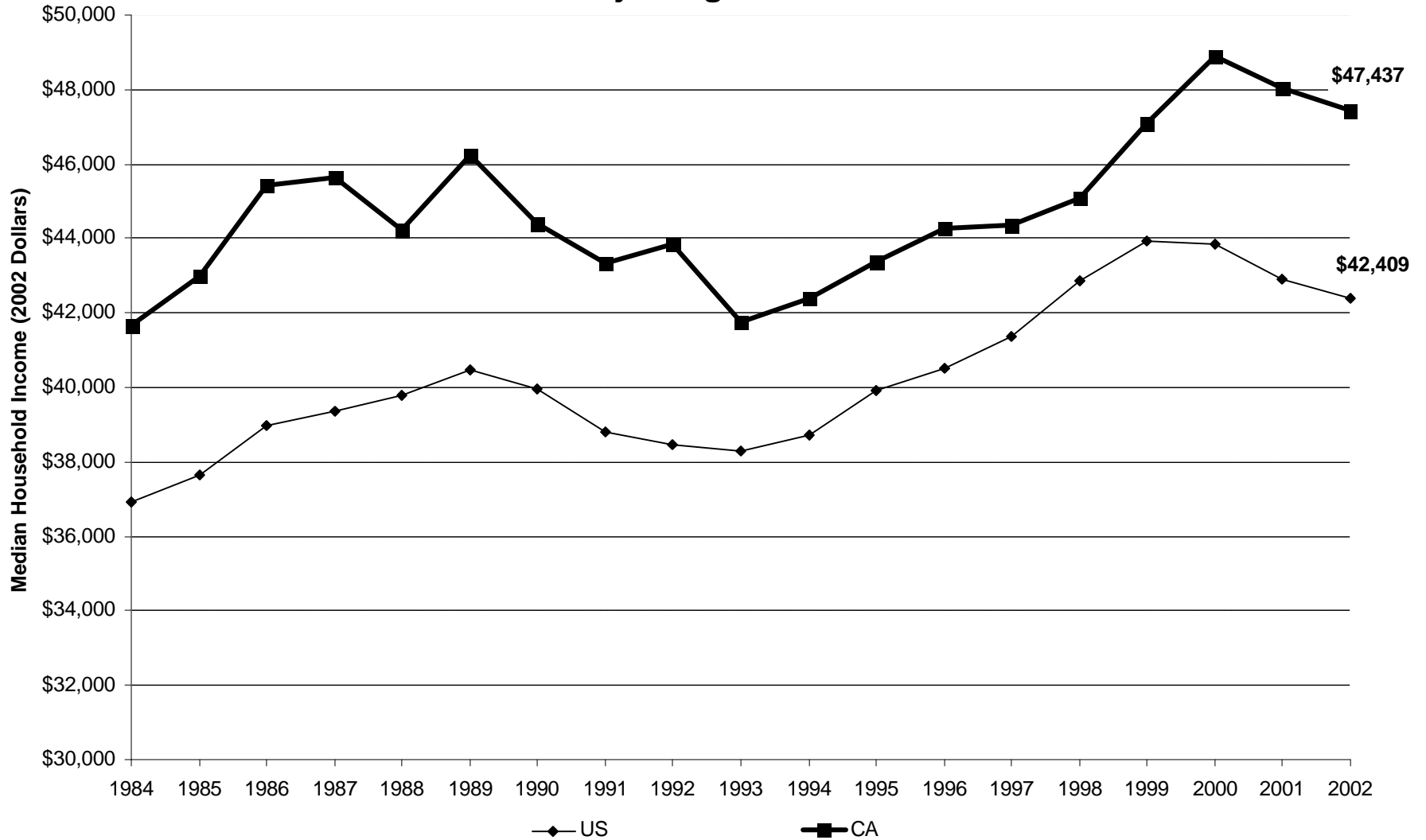
## The Economy Shows Signs of Recovery, but Key Indicators Remain Weak

- ▶ The economy has begun to show signs of recovery. Yet, to date, the recovery has largely been a jobless one, with unemployment remaining stubbornly high.
- ▶ The income of the typical – median – California household declined in 2002 after adjusting for inflation.
- ▶ In 2002, California's poverty rate increased, while the income of the state's typical household declined after adjusting for inflation.
- ▶ The average pay of industries that are losing jobs is higher than that of industries that are adding jobs.
- ▶ At the same time, it is important to note that California's economy largely reflects trends in the broader national and world economies and that, in some key respects, California has outperformed the nation as a whole:
  - California's recent job loss has been lower than that of the nation in percentage terms.
  - Recent California wage gains have surpassed those of the nation as a whole.

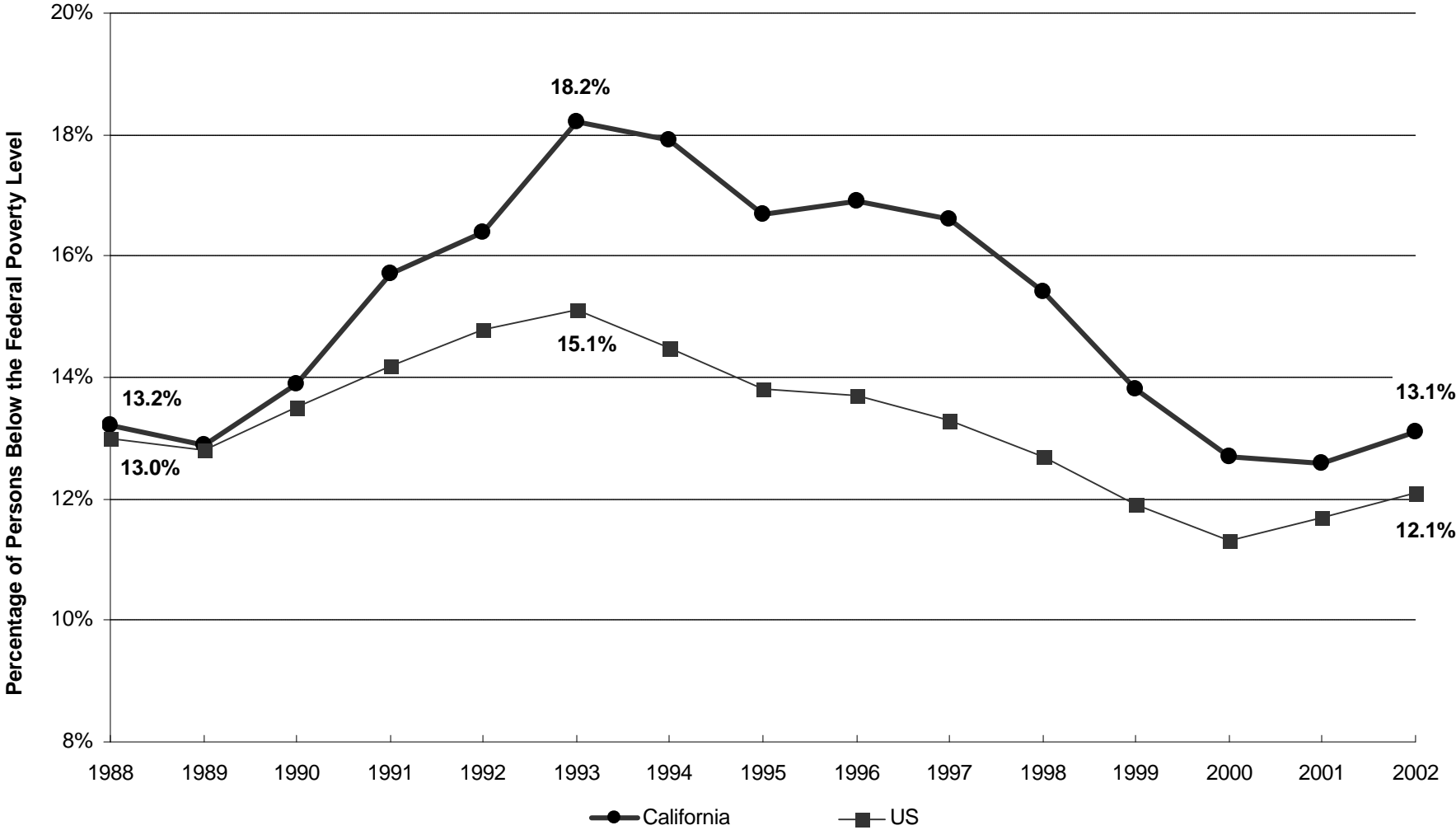
## California's Unemployment Rate Remains Well Above Pre-Recession Lows, but Below the Peak of the Early 1990s



## Median California Household Income Has Fallen Since 2000 After Adjusting for Inflation

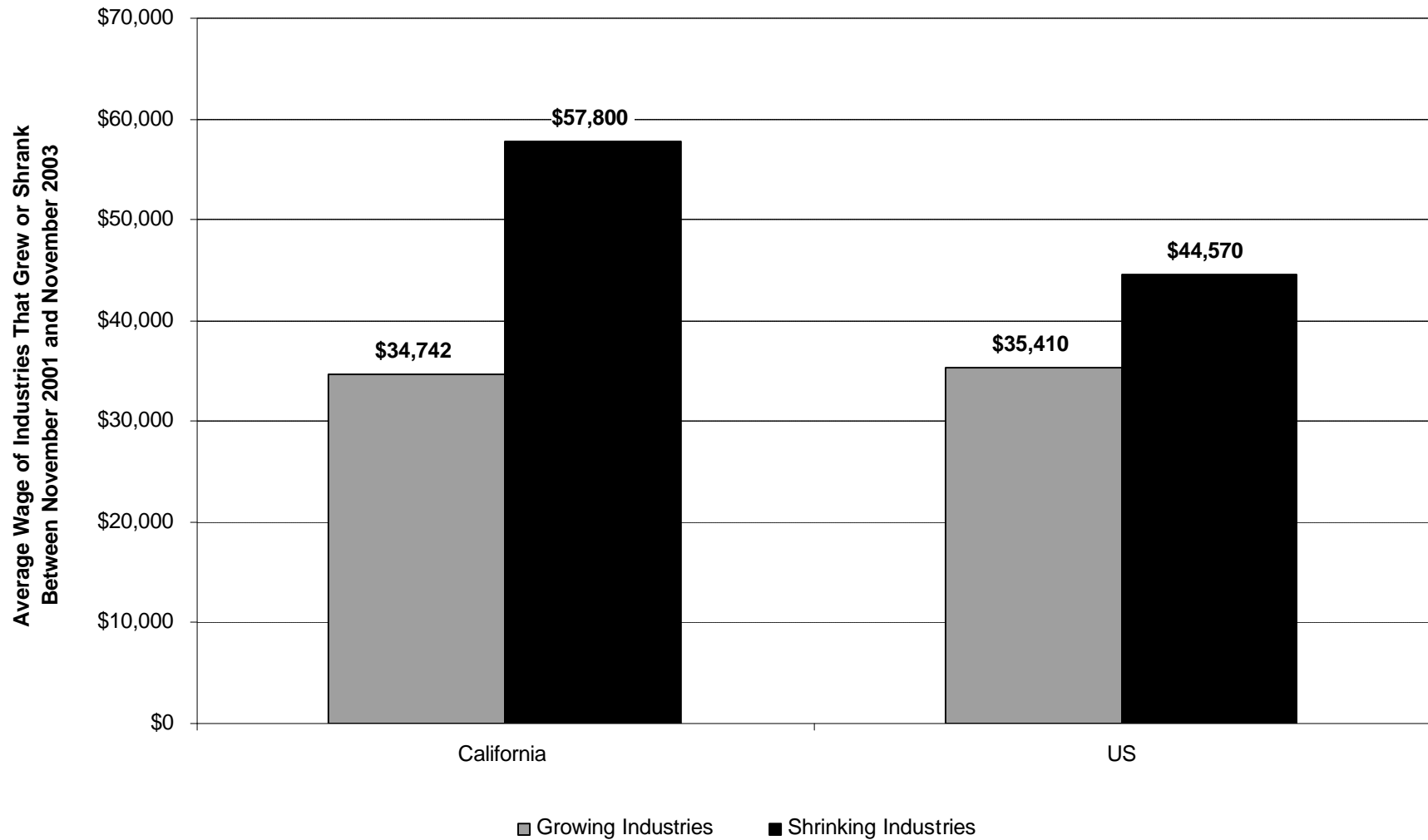


# California's Poverty Rate Remains Higher Than That of the Nation



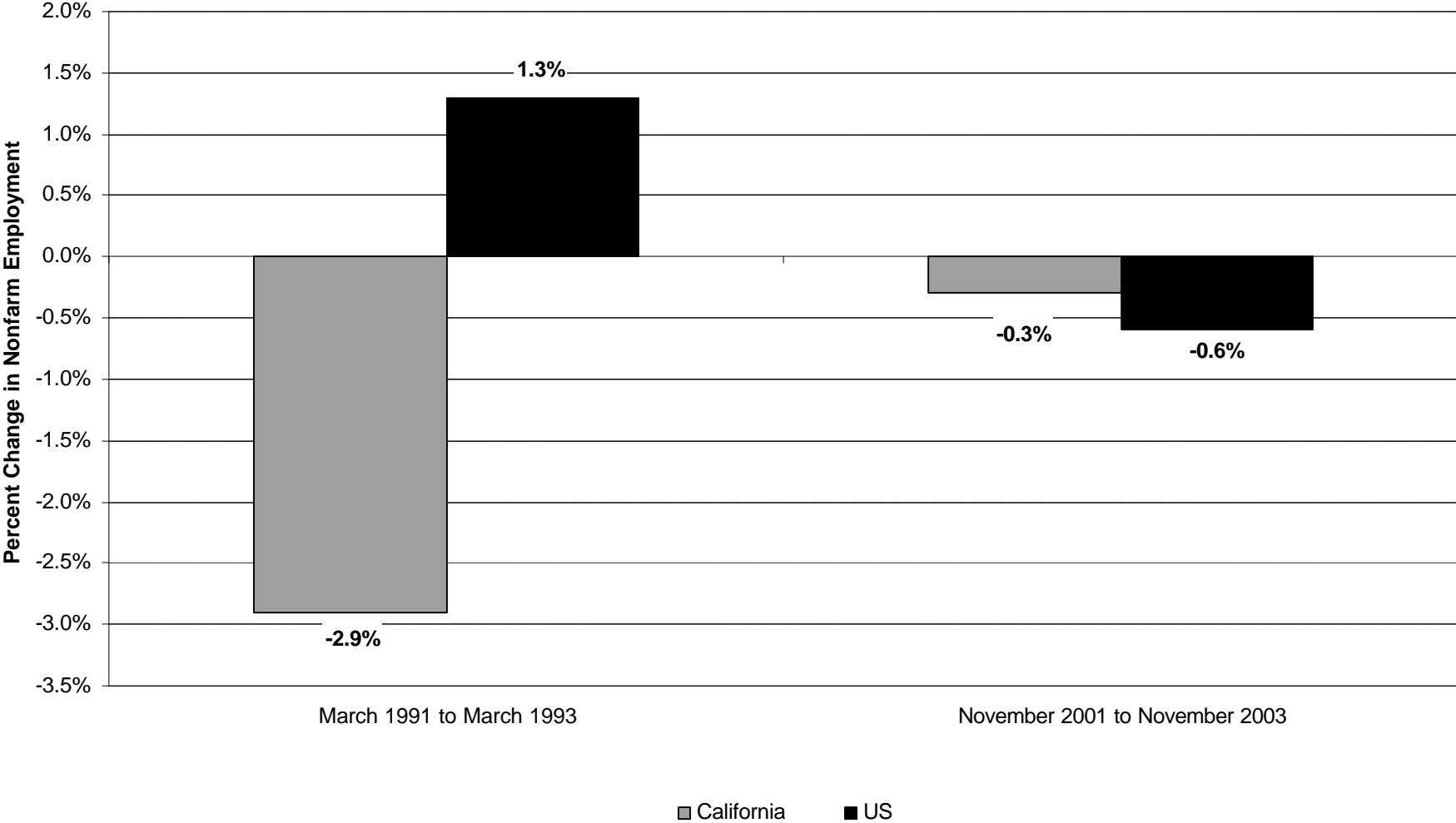
Source: US Census Bureau

## Average Wage of Shrinking Industries Exceeds That of Growing Industries in Both California and US Since End of Recession



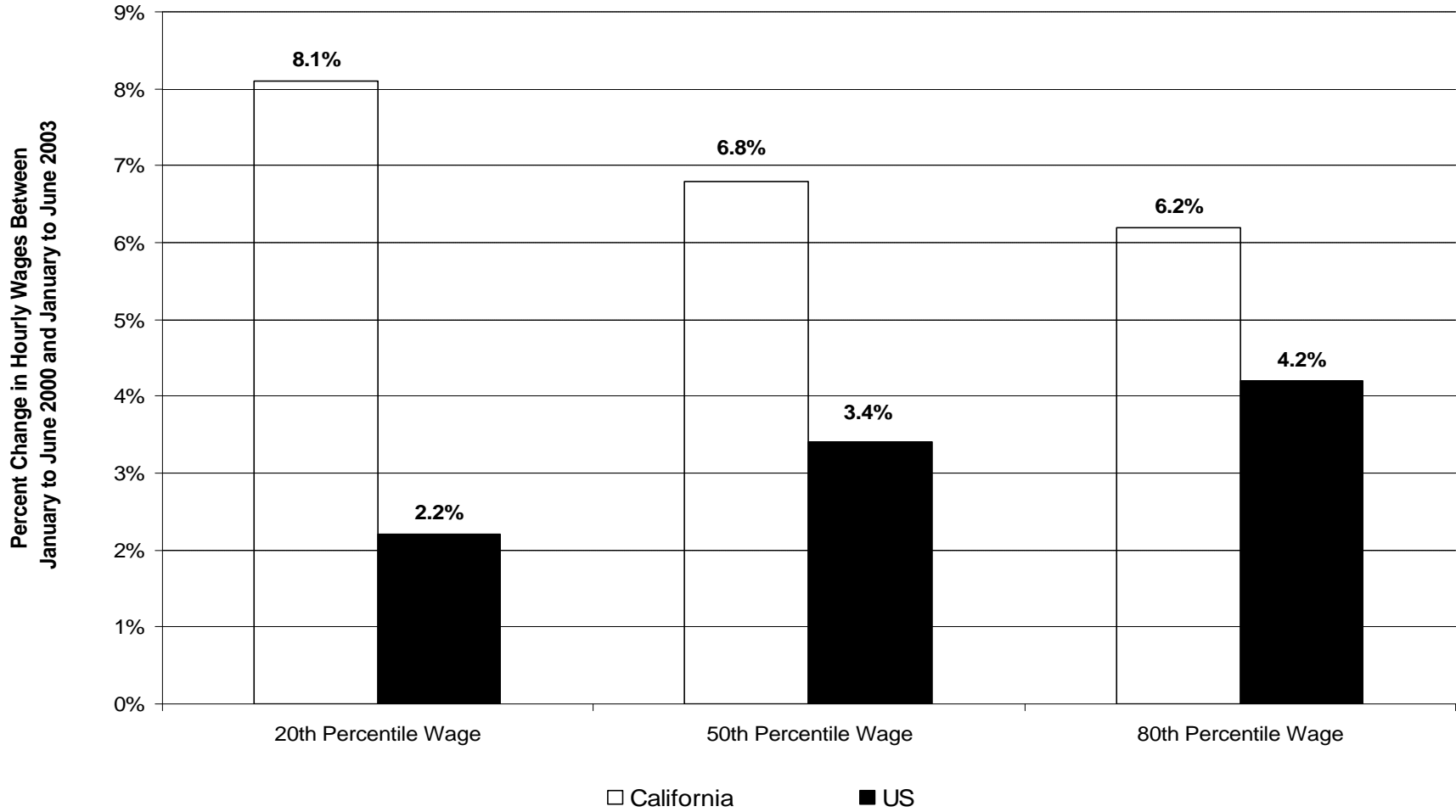


# California's Recent Job Performance Surpasses That of the Nation and the State's Performance in the Early 1990s



Source: US Bureau of Labor Statistics

## California's Wage Gains Exceeded Those of the US Between First Half of 2000 and First Half of 2003

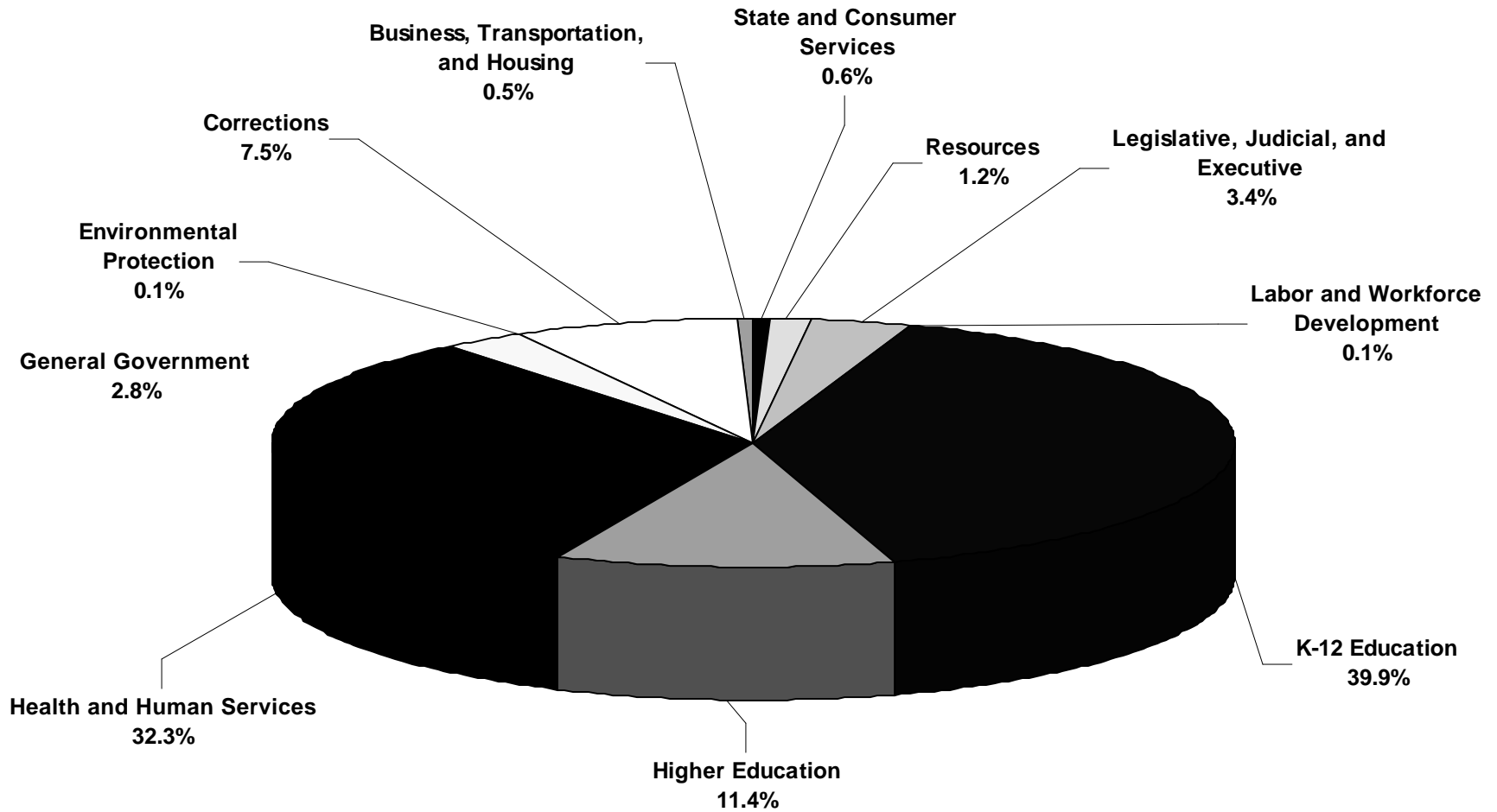


## The Basics: Spending, Revenues Up Modestly

### The Governor's Proposed Budget:

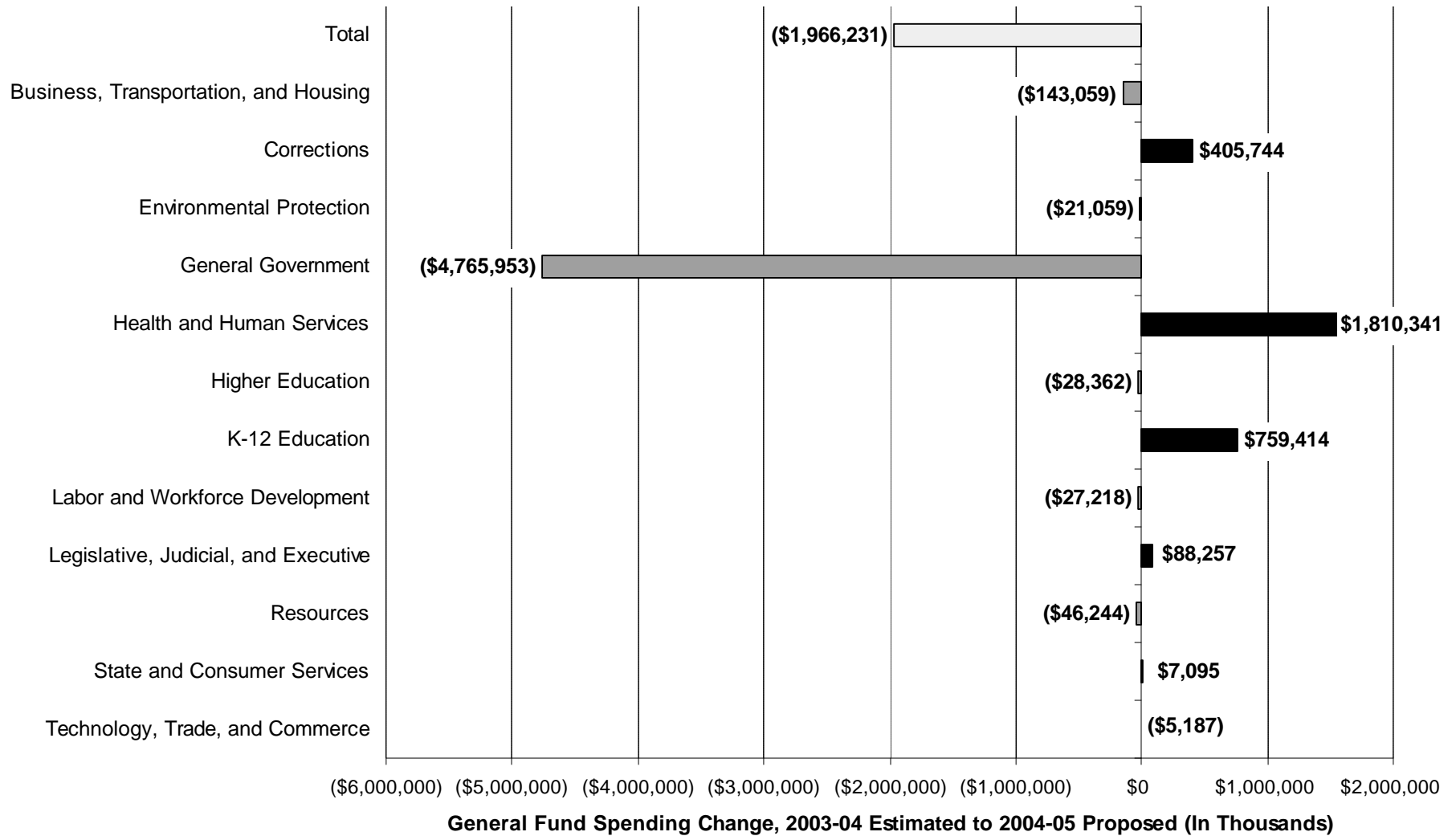
- ▶ Spends \$76.1 billion in 2004-05, up from \$75.0 billion in 2003-04. Significant increases are budgeted for Health and Human Services and K – 12 Education. Significant reductions are budgeted in Business, Transportation, and Housing; Labor and Workforce Development; and the Technology, Trade, and Commerce Agency, which was eliminated as part of the 2003-04 budget agreement.
- ▶ Anticipates revenues of \$76.4 billion in 2004-05, up from \$74.6 billion (excluding bond proceeds) in 2003-04.
- ▶ Shifts, for accounting purposes, \$3.0 billion of 2004-05 spending to 2003-04. This makes it difficult to reconcile the state's balance sheet to program spending. Absent this accounting shift, proposed spending would exceed anticipated revenues by \$2.7 billion in 2004-05.
- ▶ Assumes that the voters will approve up to \$15 billion of "Economic Recovery" bonds on the March 2004 ballot.

## Education Accounts for Largest Share of 2004-05 Spending General Fund Spending by Agency

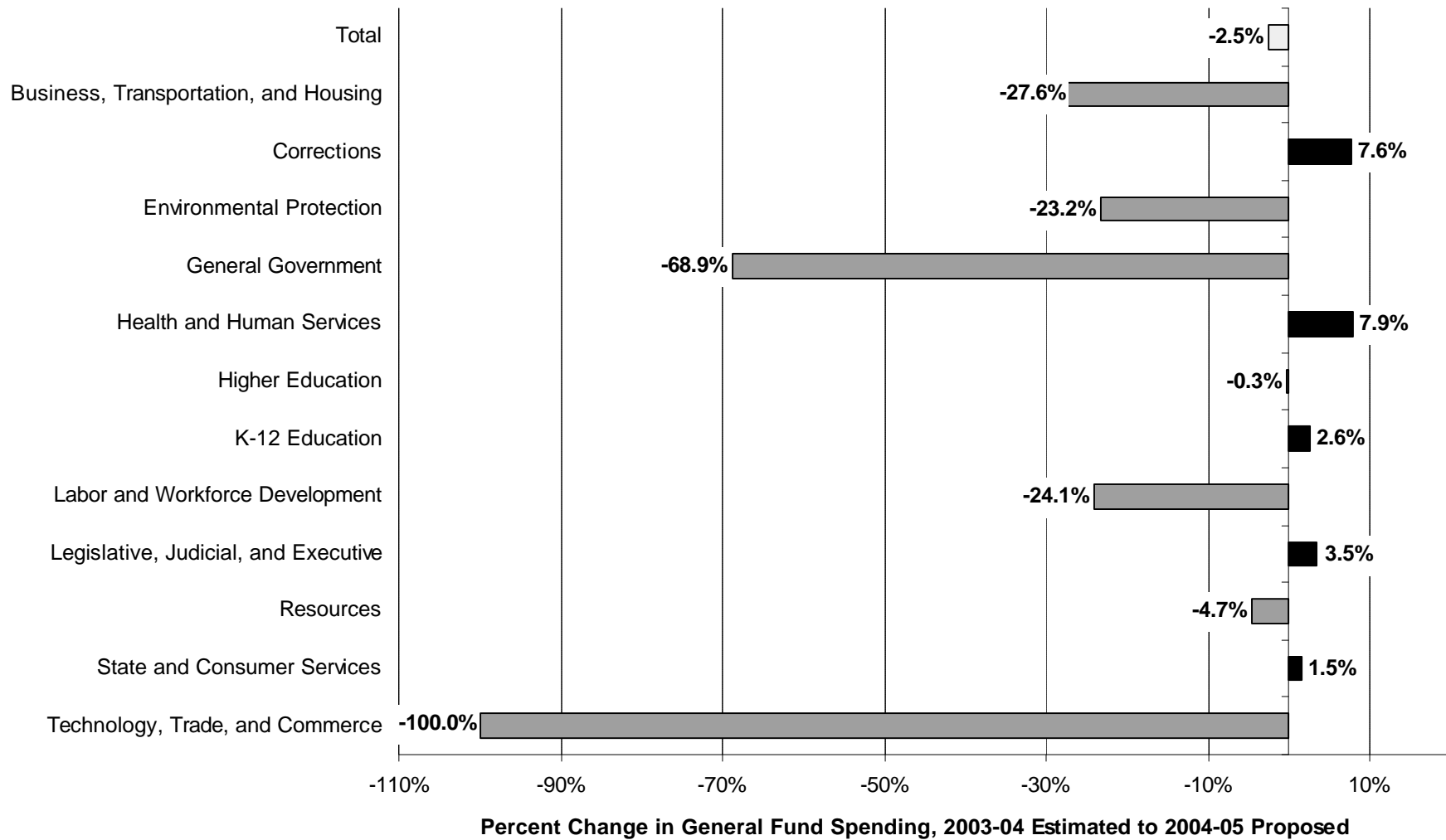


Proposed 2004-05 General Fund Expenditures = \$76.1 Billion

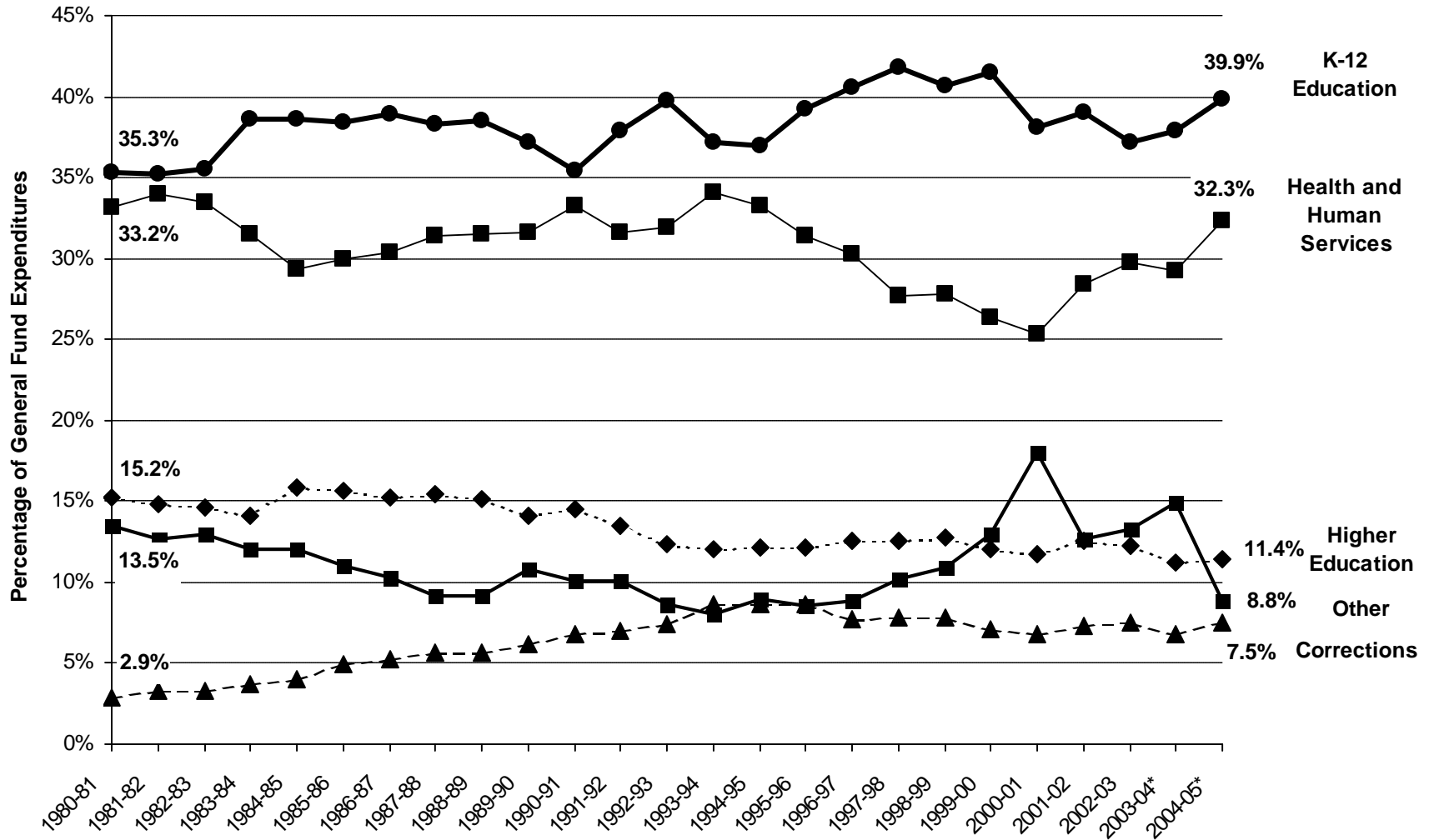
## Many Areas of Spending Down



## Spending Down in Many Areas of the Budget



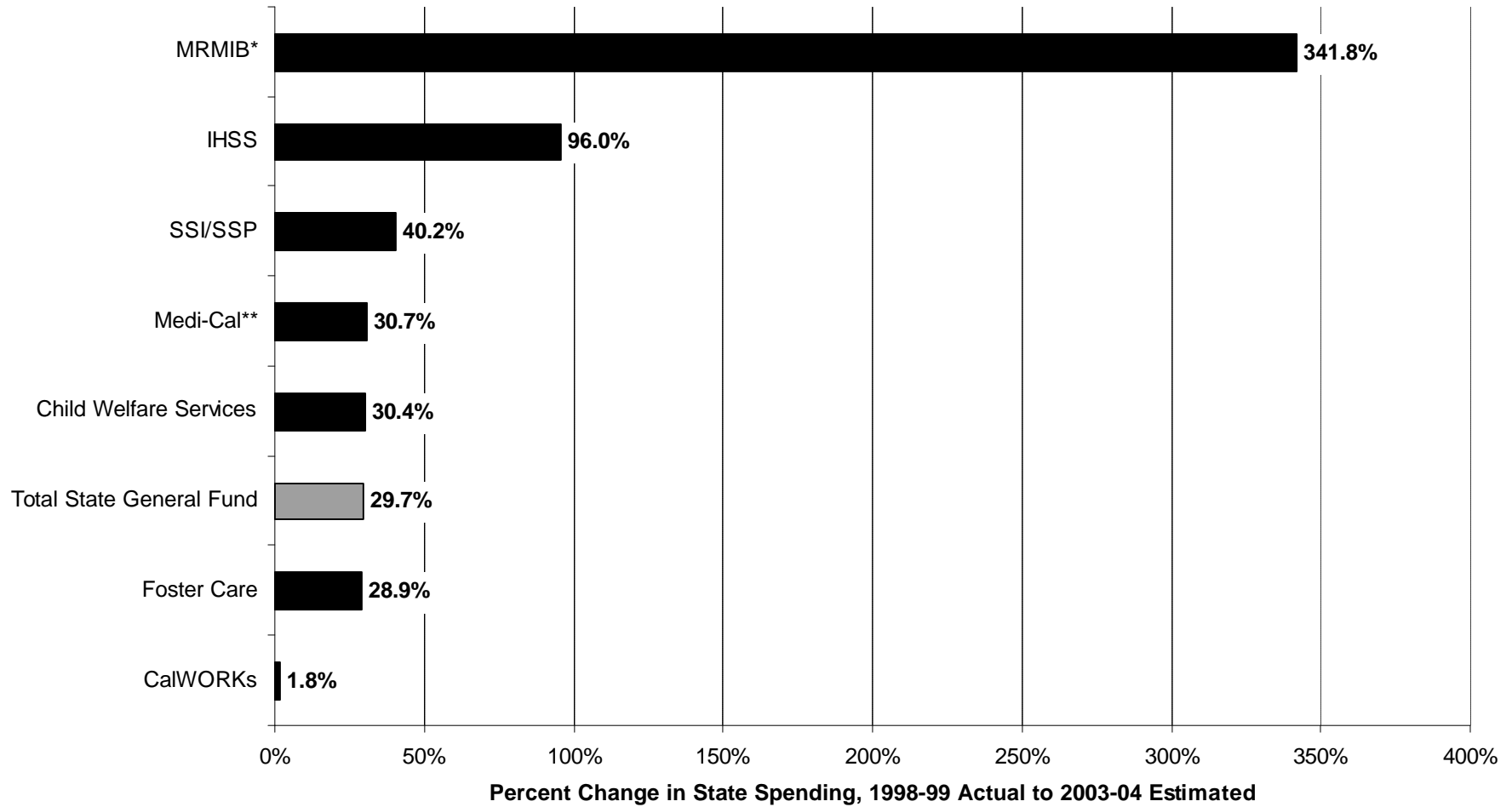
# K-12 Education Continues to Receive Largest Share of State General Fund Spending



\*2003-04 estimated and 2004-05 proposed.

Note: "Other" includes Legislative, Judicial, and Executive; State and Consumer Services; Business, Transportation, and Housing; Technology, Trade, and Commerce; Resources; Environmental Protection; Labor and Workforce Development; and General Government.

## How Has Health and Human Services Spending Grown?

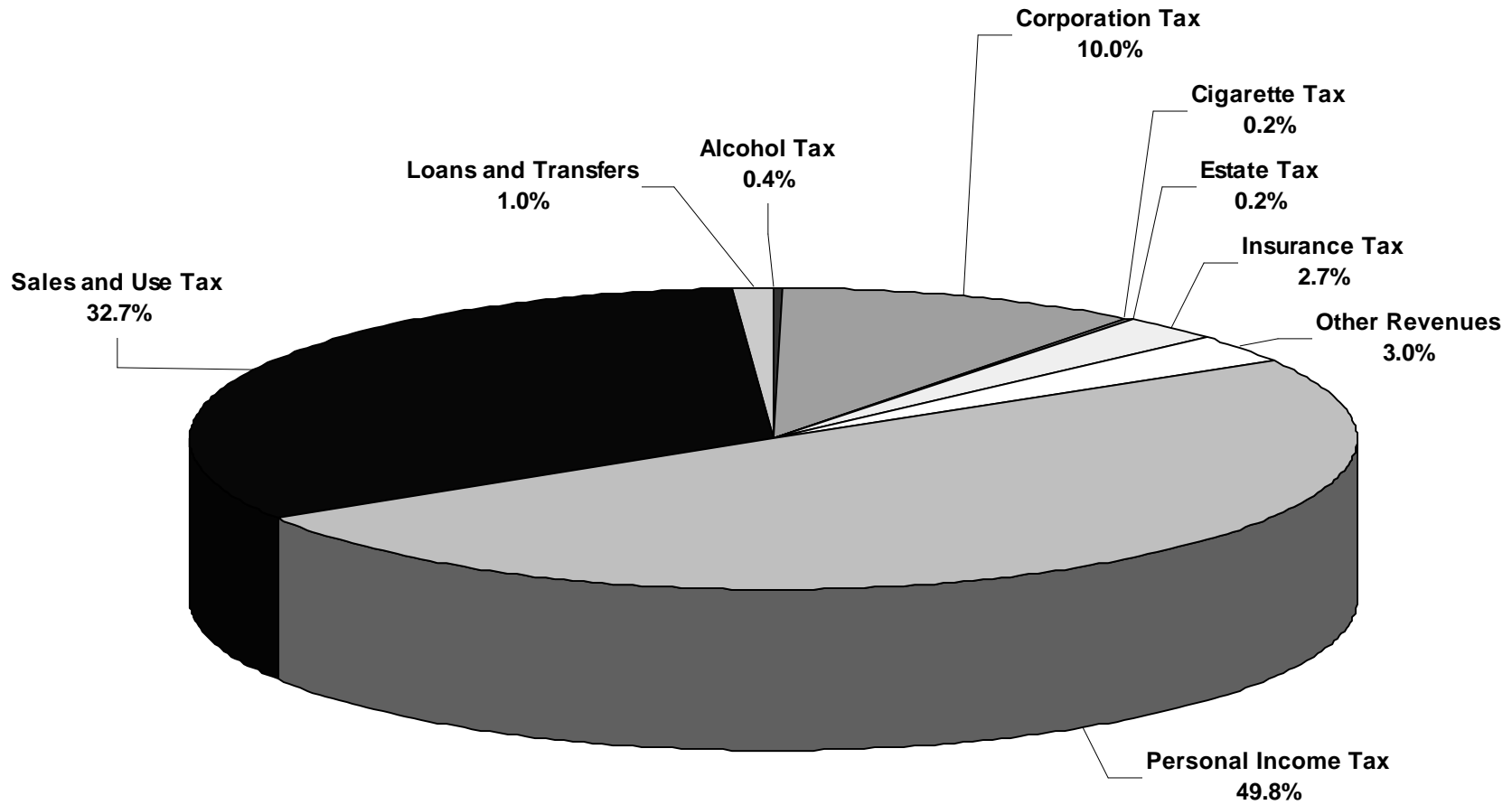


\*Managed Risk Medical Insurance Board, which administers the Healthy Families Program and other programs.

\*\*For 2003-04, General Fund spending level for Medi-Cal reflects \$566.1 million in one-time federal funds (enhanced Federal Medical Assistance Percentage, or FMAP).



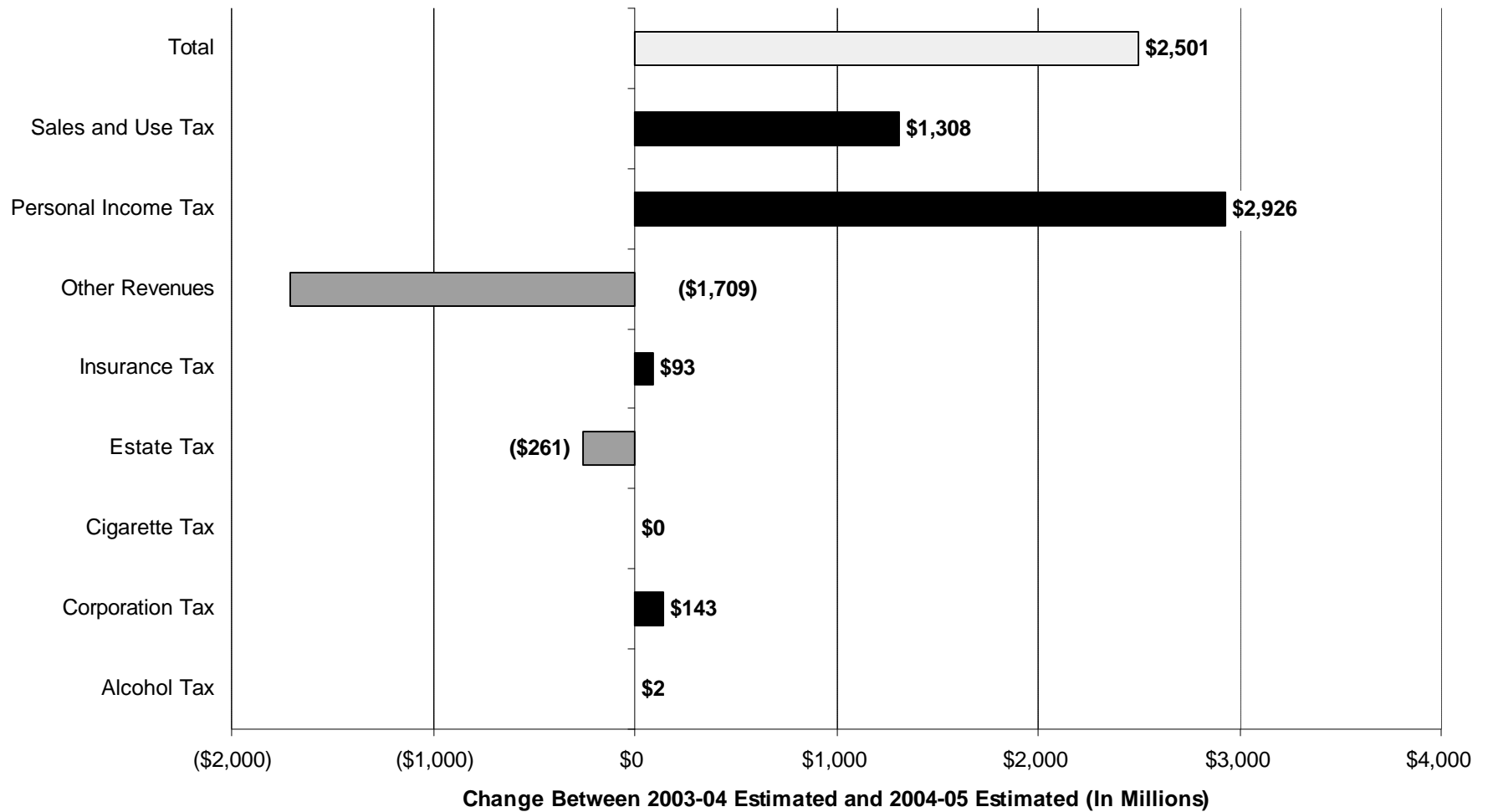
## Personal Income Tax Provides Half of 2004-05 General Fund Revenues



Projected 2004-05 General Fund Revenues = \$76.4 Billion

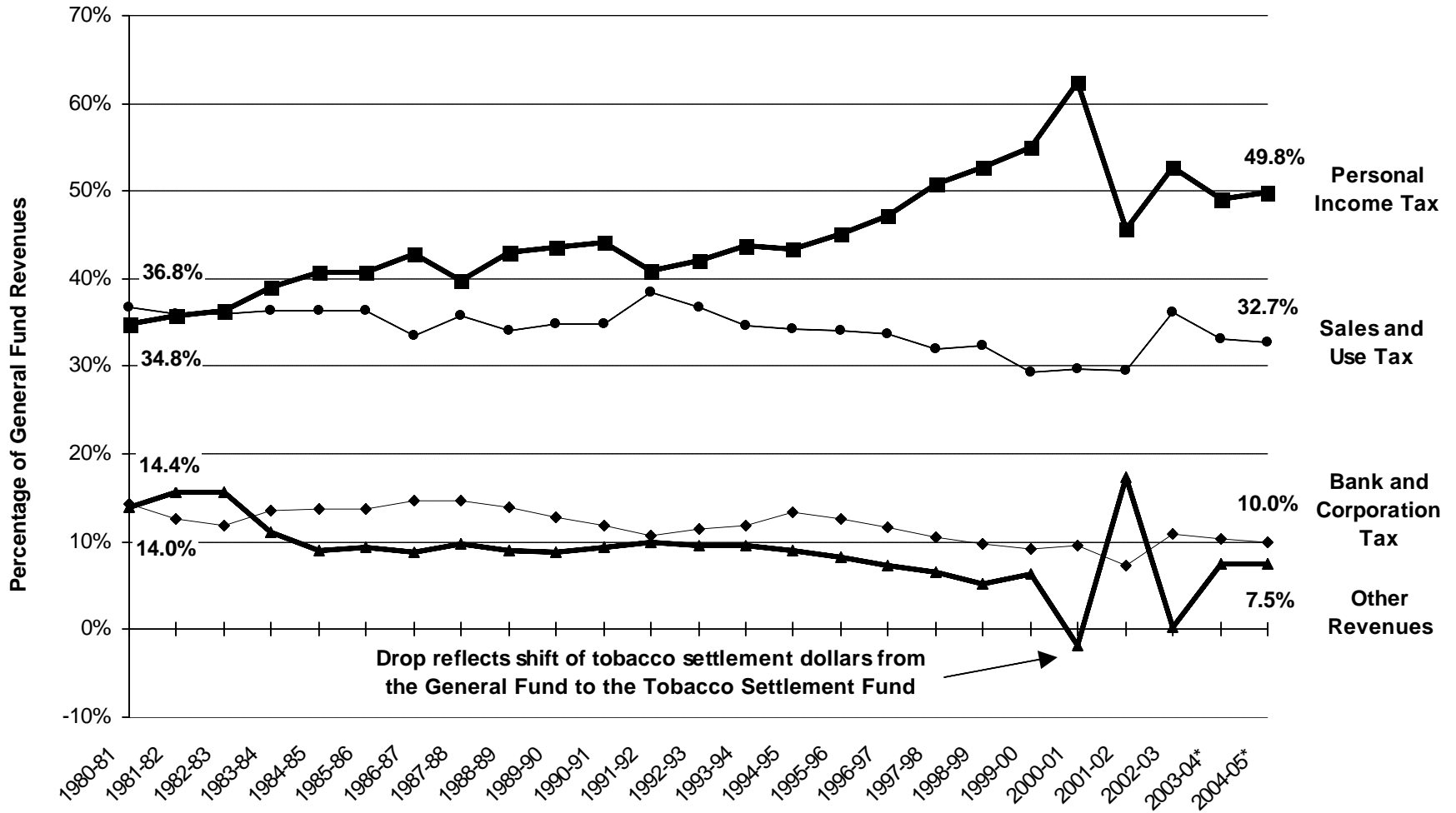
Note: "Other Revenues" includes Horse Racing License Fees, Trailer Coach License Fees, and Minor Revenues.

## Revenues Are Expected to Increase Modestly



Note: 2003-04 excludes Economic Recovery Bond proceeds.

# Personal Income Tax Provides the Largest Share of State General Fund Revenues



\*2003-04 and 2004-05 estimated. Excludes Economic Recovery Bond proceeds.

Note: "Other Revenues" includes Alcoholic Beverage Tax, Cigarette Tax, Horse Racing License Fees, Estate Tax, Insurance Tax, Trailer Coach License Fees, Minor Revenues, and Transfers and Loans.

## Bonds and the Budget

- ▶ The Governor's Proposed Budget assumes voters will approve Propositions 57 and 58 on the March ballot.
- ▶ The Budget assumes that the state will issue bonds yielding \$12.3 billion in net proceeds; \$9.2 billion of the bond proceeds will be used to pay off the budget deficit accumulated as of June 30, 2003. The remaining \$3.0 billion would be used to pay the state's share of employee retirement costs in 2003-04 (\$1.9 billion), repay \$188 million in loans from special funds to the General Fund, cover the \$325 million 2004-05 cost of the expansion in Net Operating Loss deductions, make \$100 million in state debt service payments, pay \$209 million in state employee compensation costs, and add \$300 million to the state's reserve.
- ▶ If the voters reject Proposition 57 and/or 58, the Administration plans to move ahead with the \$10.7 billion in bonds authorized as part of the 2003-04 budget agreement, which do not require voter approval. These bonds have been challenged as unconstitutional.
- ▶ If Propositions 57 and 58 are not approved, the budget gap would be approximately \$11 billion wider.

## The Governor's Audit Makes Four Key Findings

1. If government had simply spent at the same rate that California's economy has grown, the State's budget would be balanced today.
2. If state government had not spent the extraordinary tax revenues from the one-time surge in capital gains and stock options on ongoing programs, the State budget would not be in the crisis it is in today.
3. If, over the past five years, the previous Administration and the Legislature had not created or expanded programs that the State could not afford – expenditures in the Budget would be lower than they are today.
4. Over the past five years, State bureaucracy has grown and agencies have been allowed to consistently spend above and beyond their budgeted levels.

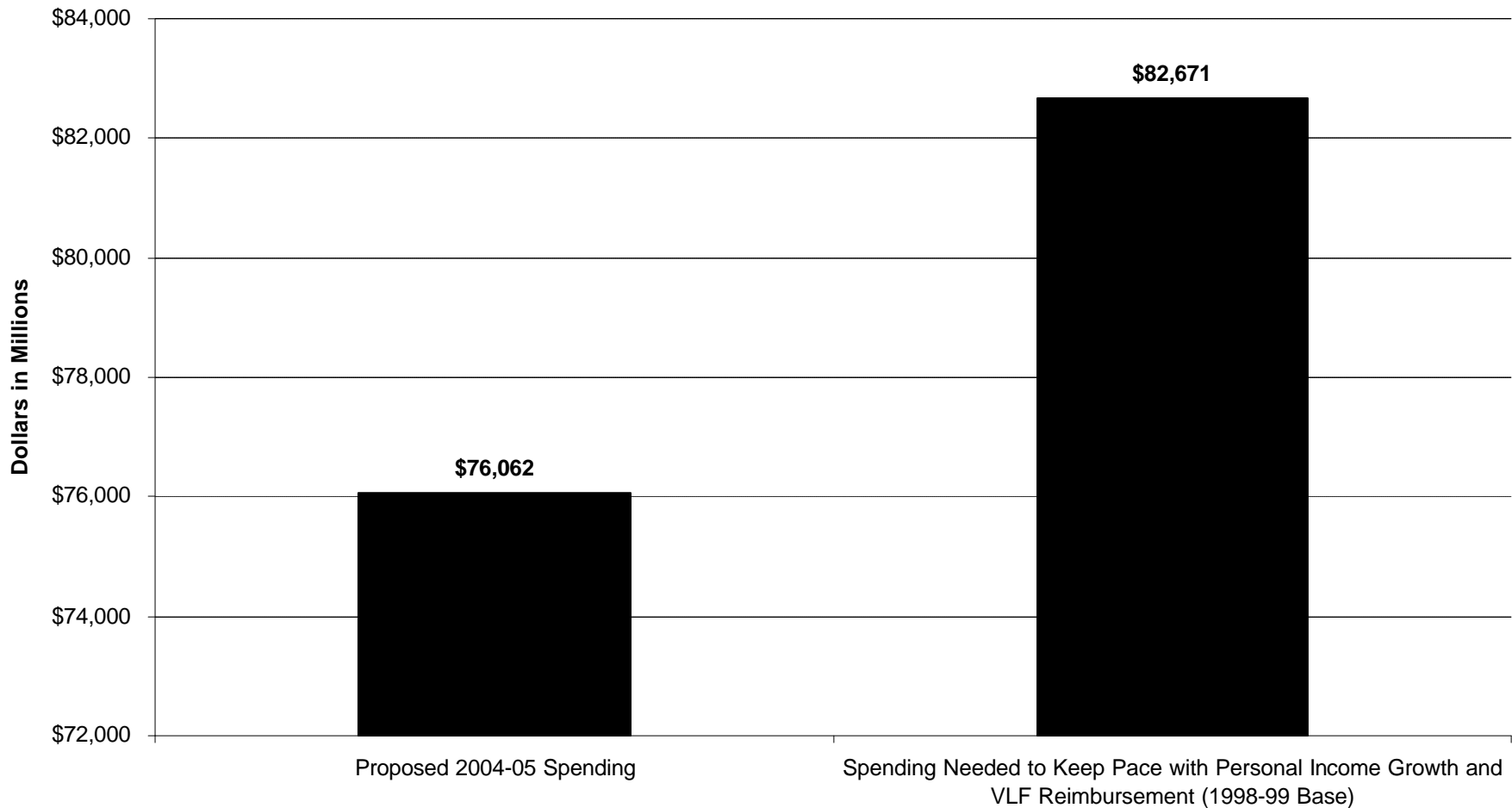
## The Facts #1

**Finding:** If government had simply spent at the same rate that California's economy has grown, the State's budget would be balanced today.

**Fact:** State spending has not kept pace with the growth in personal income – a measure that takes into account population, as well as taxpayers' ability to pay. If it had, 2004-05 spending would be \$2.5 billion higher. If spending had kept pace with the growth in personal income and the rising cost of reimbursing counties and cities for lost Vehicle License Fee revenues, the state would be spending \$6.6 billion more in 2004-05.

Proposed 2004-05 spending is \$2.0 billion less than the state actually spent in 2000-01, despite the fact that population has increased by 2.4 million and the cost of living has increased by 10.2 percent.

## Proposed 2004-05 Spending Is \$6.6 Billion Below the Amount Needed to Support 1998-99 Expenditures Adjusted for Personal Income Growth and the Cost of the VLF Reimbursement



## The Facts #2

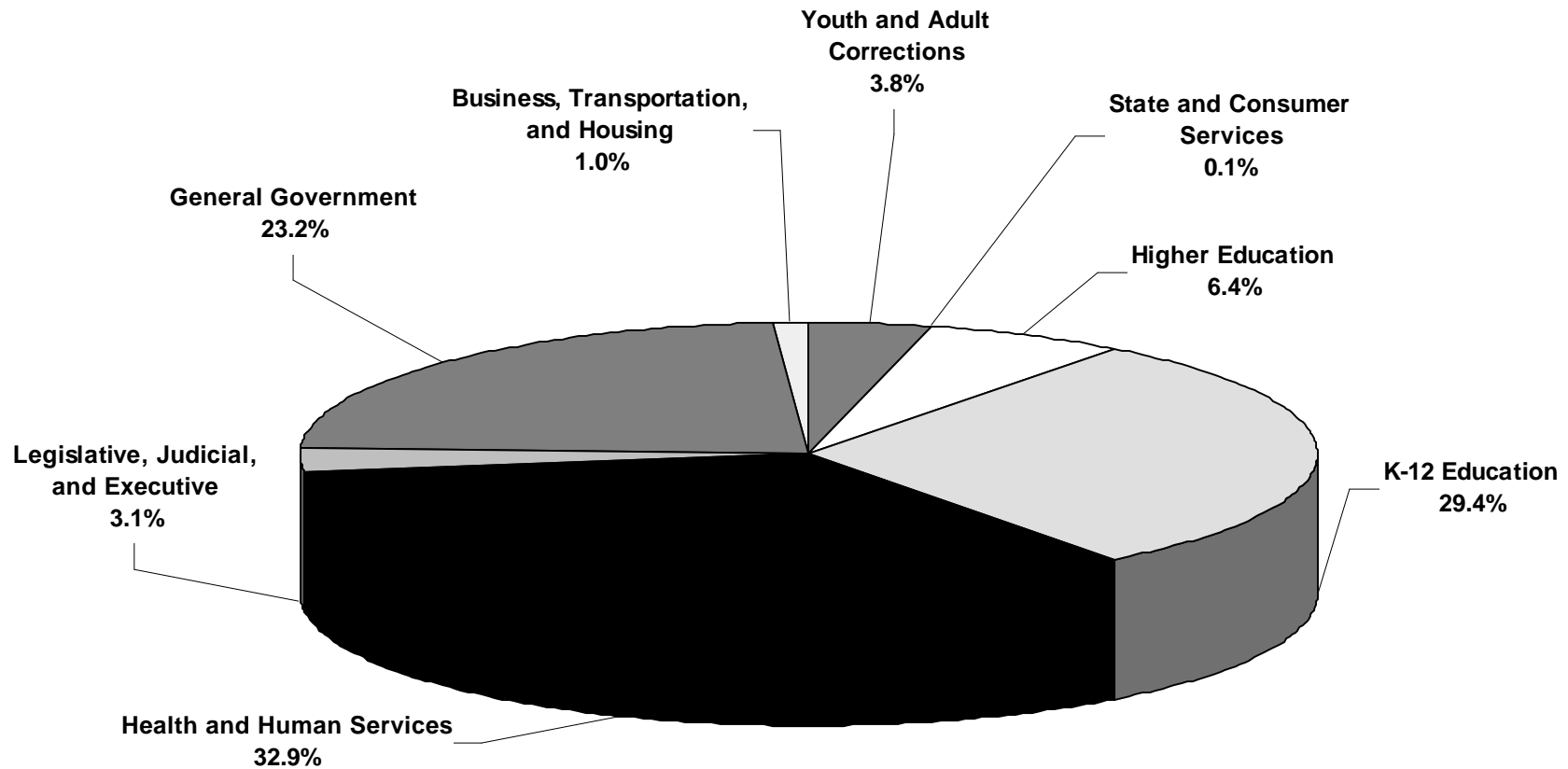
**Finding:** If state government had not spent the extraordinary tax revenues from the one-time surge in capital gains and stock options on ongoing programs, the State budget would not be in the crisis it is in today.

**Fact:** The growth in revenues attributable to capital gains and stock options was nearly equal to the cost of supporting normal population/caseload increases and cost-of-living adjustments in state programs. The Legislative Analyst estimates that 56 percent (approximately \$11 billion) of the \$19.9 billion increase in spending between 1998-99 and 2002-03 was attributable to population/caseload and inflation. This is approximately equal to the drop in tax revenues attributable to capital gains and stock options between the peak of the boom in 2000-01 and 2003-04.



## Where Has the Money Gone?

Percentage of General Fund Increase, 1998-99 to 2003-04\*

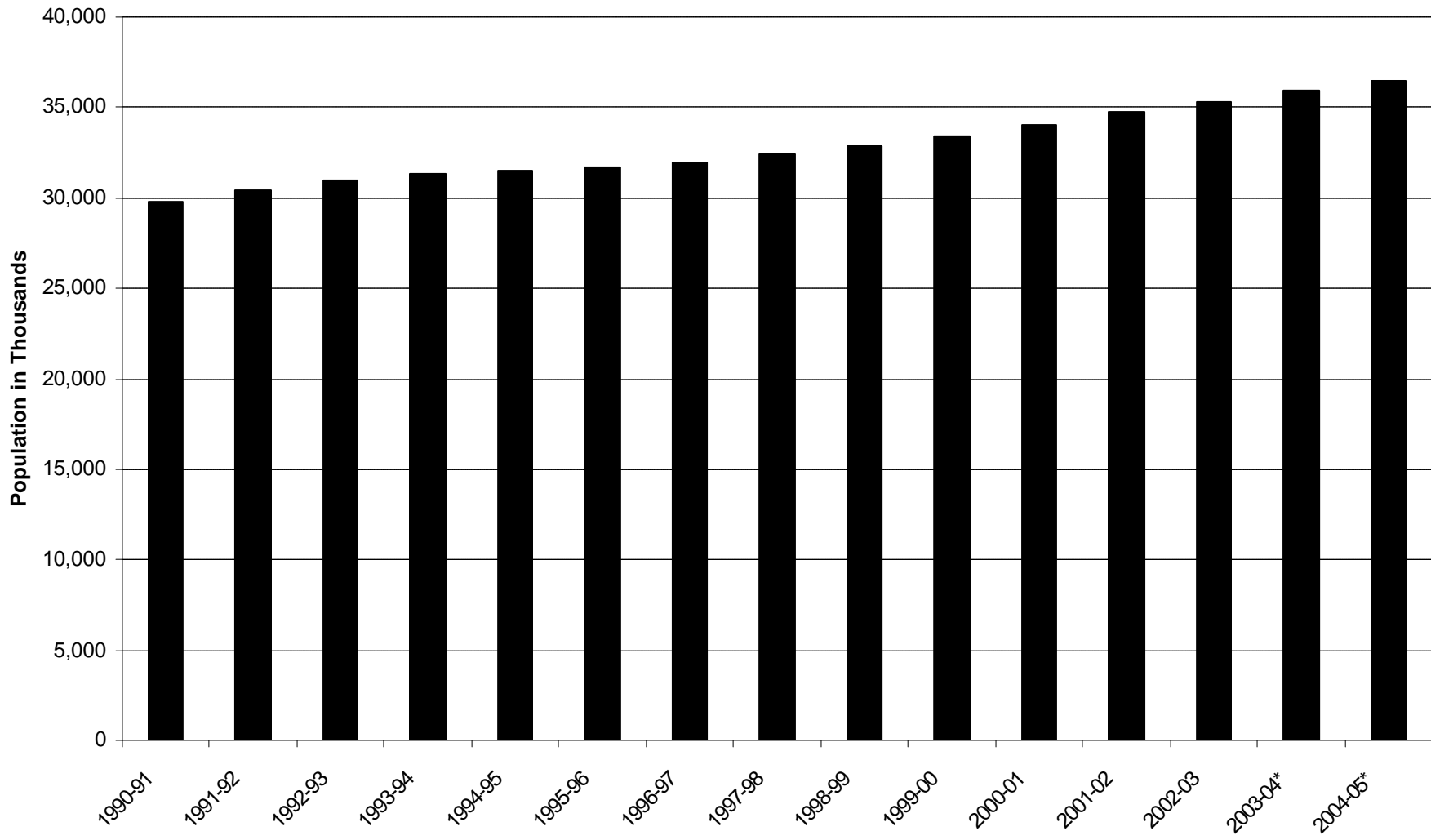


**General Fund Increase = \$20.5 Billion**

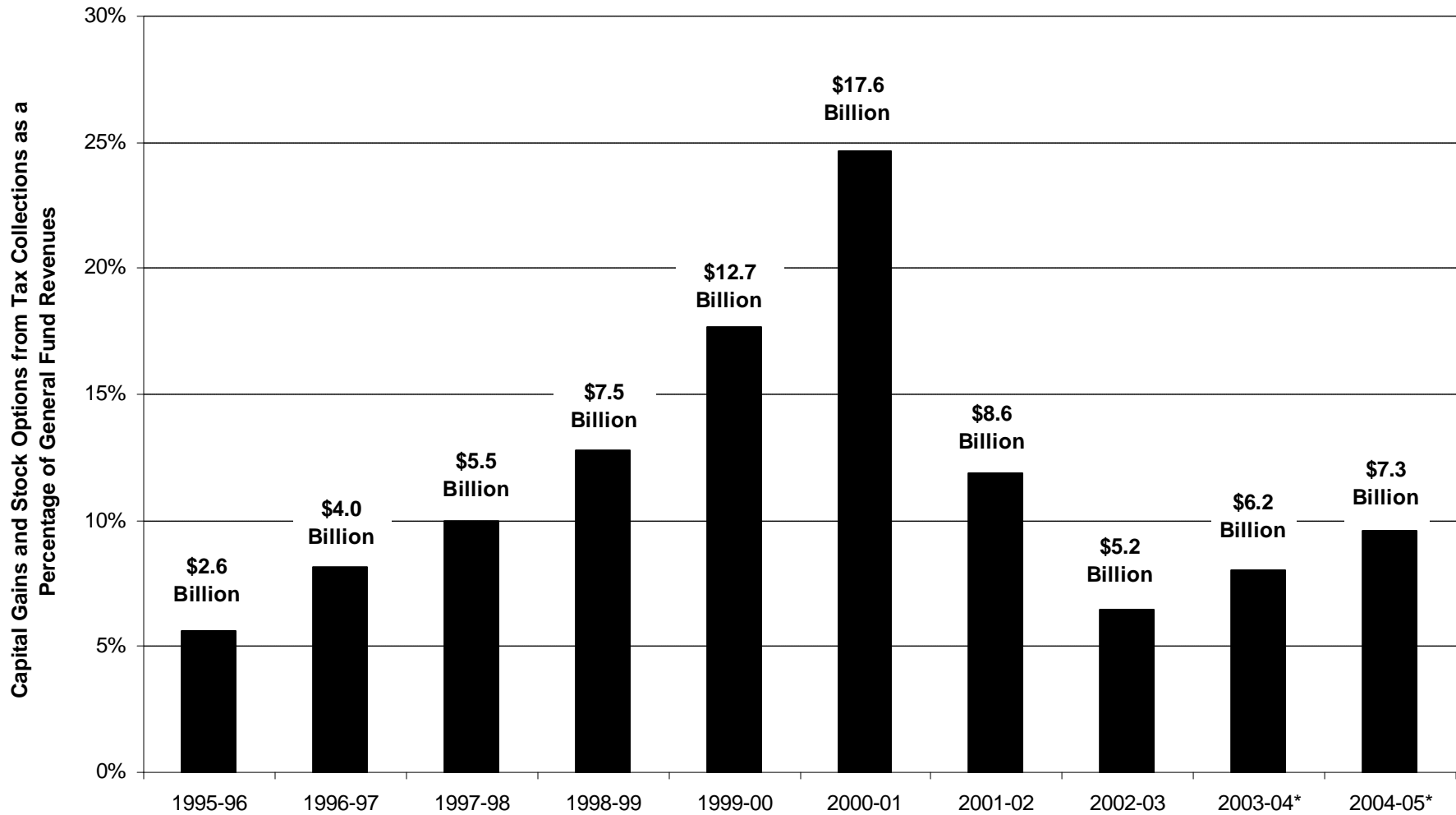
\* 2003-04 estimated.

Note: General Government includes the state's reimbursement of local governments for the Vehicle License Fee (VLF) reduction and other tax relief. Labor and Workforce Development Agency spending for 2003-04 is included under Health and Human Services and General Government.

## California's Population Continues to Rise



## Budget Gap Largely Due to Drop in Revenues from Stock Options and Capital Gains



\* 2003-04 estimated and 2004-05 projected.

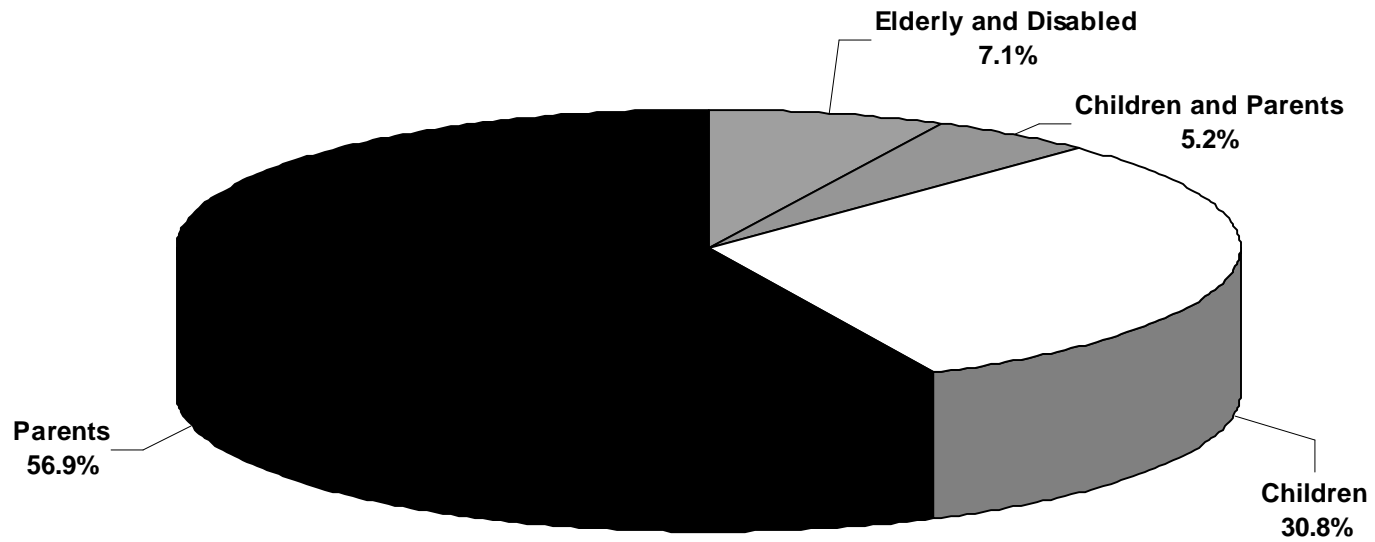
## The Facts #3

**Finding:** If, over the past five years, the previous Administration and the Legislature had not created or expanded programs that the State could not afford – expenditures in the Budget would be lower than they are today.

**Fact:** The focus on spending growth ignores the fact that the state has enacted large tax cuts in recent years. New and expanded tax cuts contribute to the state's fiscal problems. Since 1998-99, the State has enacted \$5.6 billion in tax relief. Since 1991, the state has enacted tax cuts that will cost nearly \$9 billion in 2003-04. The recent federal tax cuts have also affected state tax collections. The federal phase out of the estate tax – a revenue shared by states and the federal government – will cost the state more than \$1 billion in 2004-05.

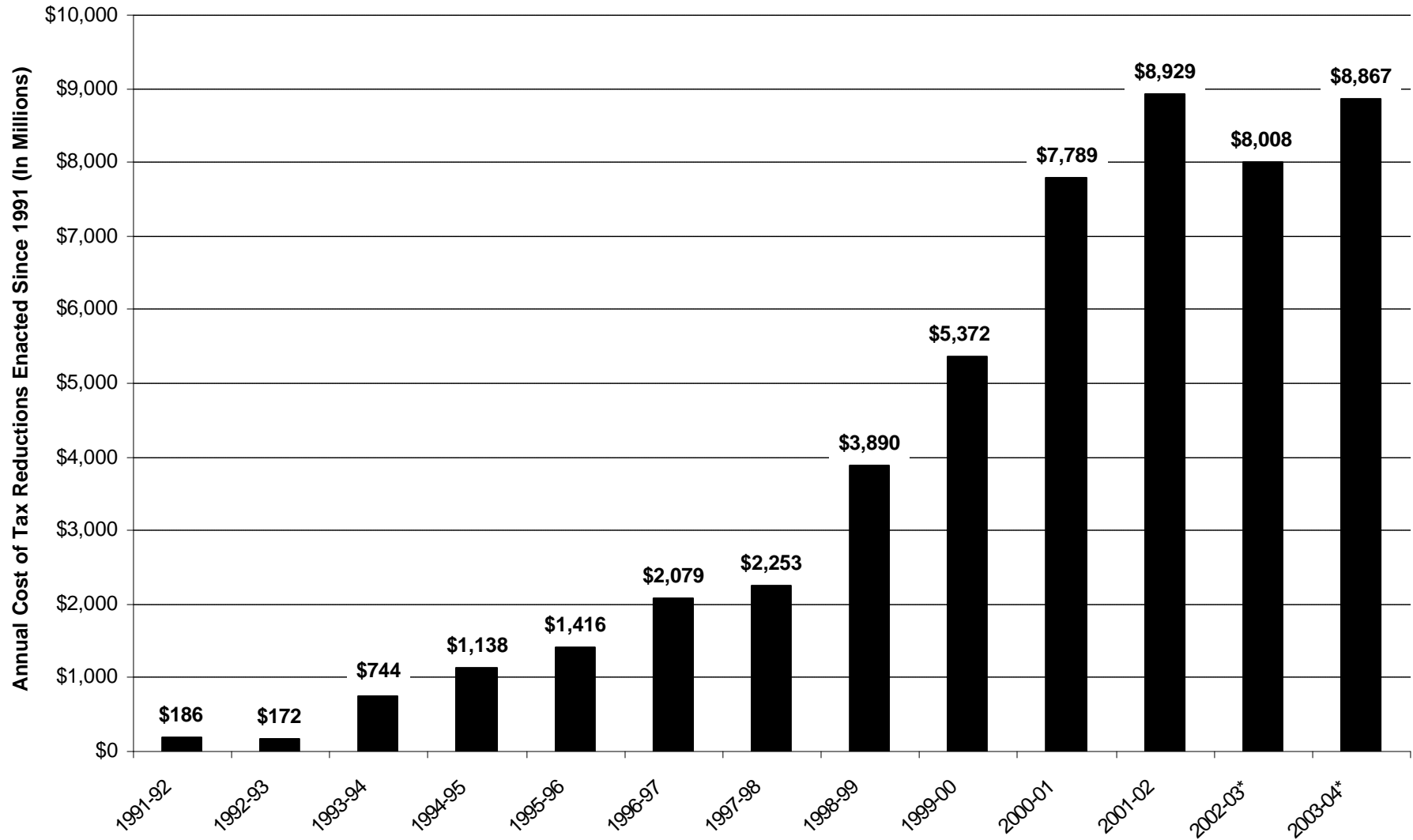
# California Has Expanded Health Coverage for Low-Income Children, Families, and the Elderly and Disabled

## Increase in Medi-Cal Caseload Due to Recent Enrollment and Eligibility Changes



2003-04 Caseload Attributable to Recent Medi-Cal Changes = 1.5 Million

## Tax Cuts Enacted Since 1991-92 Will Cost \$8.9 Billion in 2003-04



\*2002-03 and 2003-04 estimated.

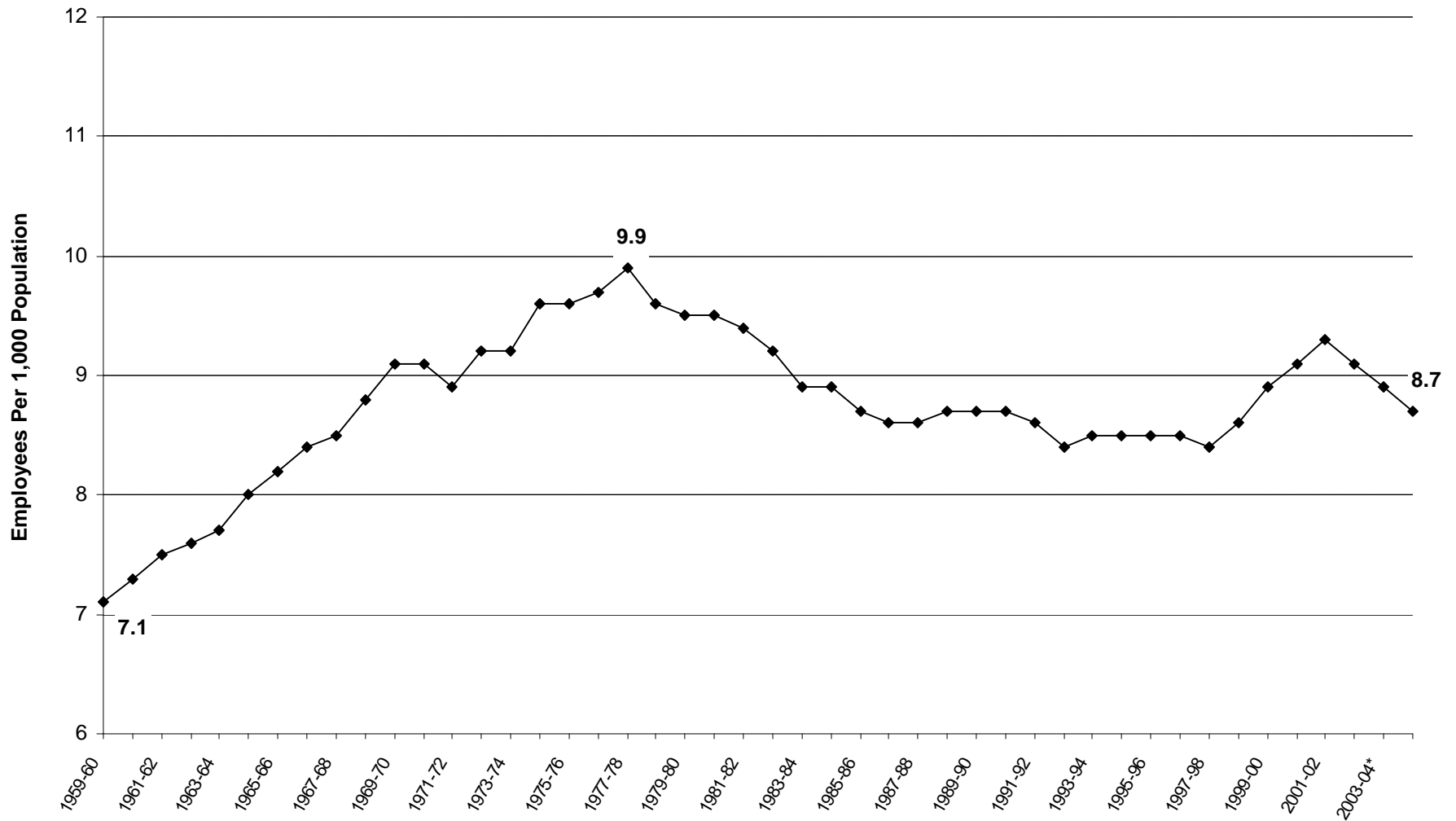
## The Facts #4

**Finding:** Over the past five years, State bureaucracy has grown and agencies have been allowed to consistently spend above and beyond their budgeted levels.

**Fact:** The ratio of state employees to state residents has remained relatively constant since the mid-1970s. This figure peaked in 1977-78, increased between 1997-98 and 2001-02, and has since declined. In 2001, when state employment per 10,000 residents was higher than it is now, California ranked 49th among the 50 states with respect to this measure.

Spending that exceeds budgeted amounts accounts for a very small share of total spending. Historically, the largest deficiencies have occurred in the Medi-Cal program, which under federal law must enroll anyone meeting eligibility standards, and Corrections.

## Number of State Employees Per Capita Relatively Constant Since the Mid-1970s



\*2003-04 estimated, 2004-05 proposed.



## California's Per Capita Bureaucracy Ranks Low as Compared to Other States

### Full-Time Equivalent (FTE) Government Employees Per 10,000 Population

	CA Rank <sup>a</sup>	CA	US
<b><u>State Government</u></b>			
1994	50	104	150
1995	50	107	151
1997	50	104	149
1998	50	103	147
1999	50	106	148
2000	49	105	145
2001	49	108	147
<b><u>State and Local Government</u></b>			
1994	49	461	534
1995	49	469	536
1997	49	474	531
1998	49	474	536
1999	48	486	541
2000	46	495	535
2001	44	503	540

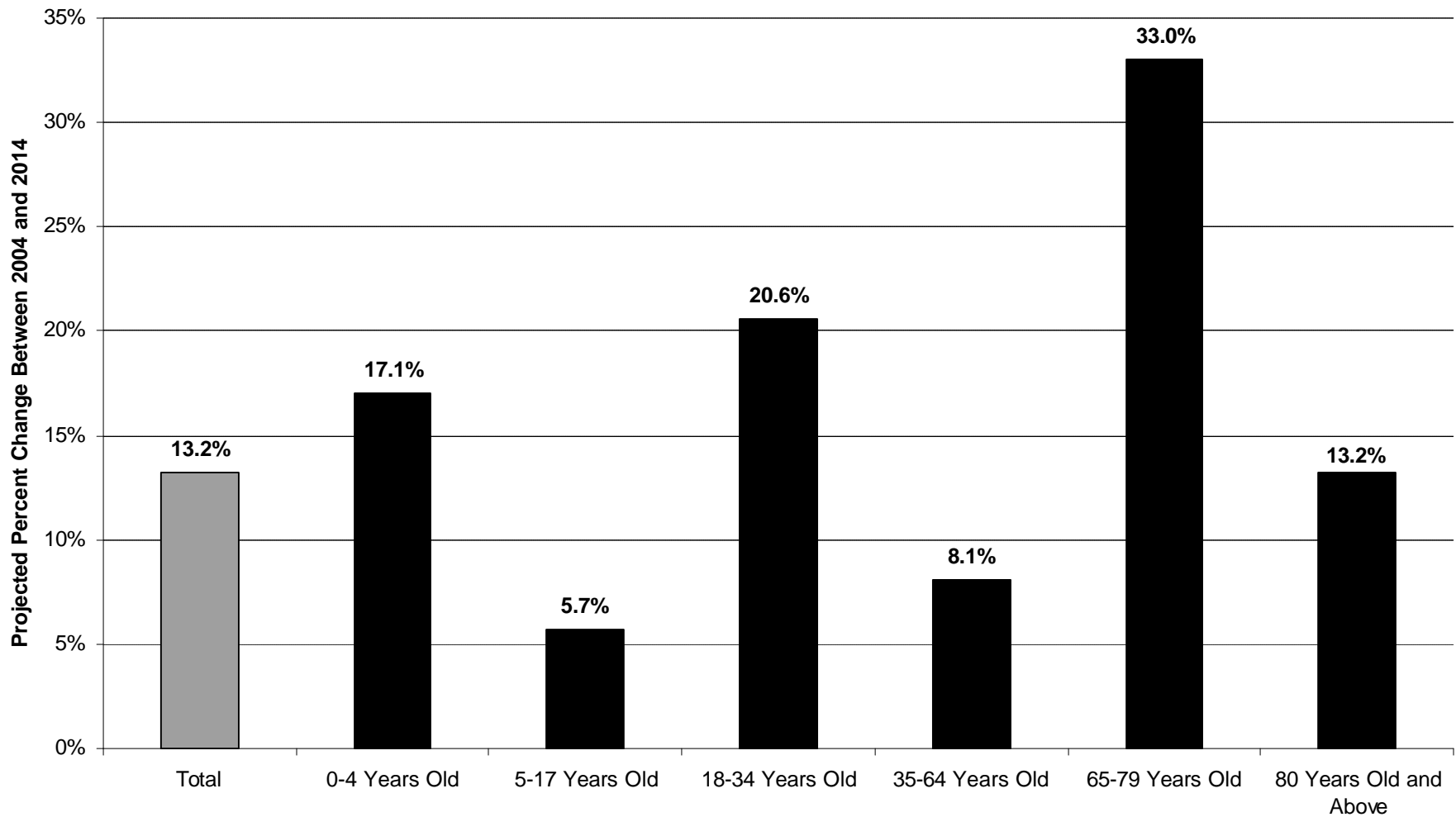
<sup>a</sup>All rankings exclude the District of Columbia.

# The Roots of the Budget Gap

The roots of the budget gap lay in:

- ▶ The sharp drop in state personal income tax collections, specifically taxes attributable to stock options and capital gains. In 2000-01, the state collected \$17.6 billion in taxes attributable to stock options and capital gains; in 2003-04, the state collected an estimated \$6.2 billion in taxes from the same sources – an \$11.4 billion drop.
  - The drop in state revenues was compounded by the fact that the state enacted substantial tax cuts during the 1990s. Since 1998-99, the state has enacted tax cuts that reduce state revenues by approximately \$5.6 billion per year. Federal law changes will reduce the state's share of estate tax revenues by an additional \$1 billion in 2004-05. Since 1991, the state has enacted tax cuts that reduce annual revenue collections by \$8.9 billion. Despite sizeable shortfalls, recent budget agreements haven't included tax increases due to the difficulty of achieving the required two-thirds vote of the Legislature for measures that increase tax revenues.
- ▶ Demographic factors, which also contribute to pressures on the budget. California's population has increased by 3.6 million since 1998-99. Population growth is particularly significant among the elderly and college-age youth, two age groups that place demands on the state for services.
- ▶ The economic downturn, which depressed revenue collections while increasing demands for services.

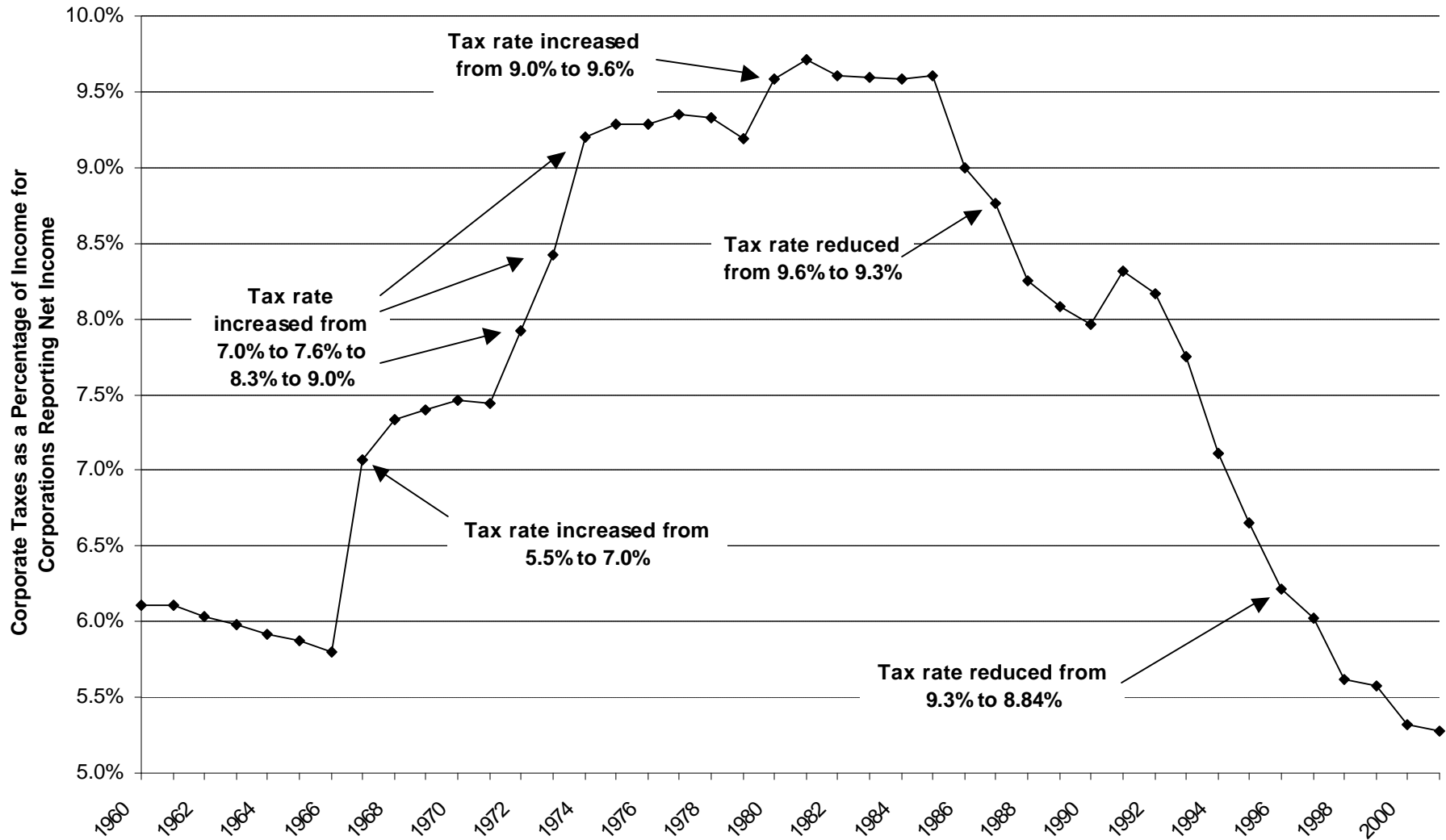
## California's Aging and College-Age Populations Will Increase Demands on the Budget



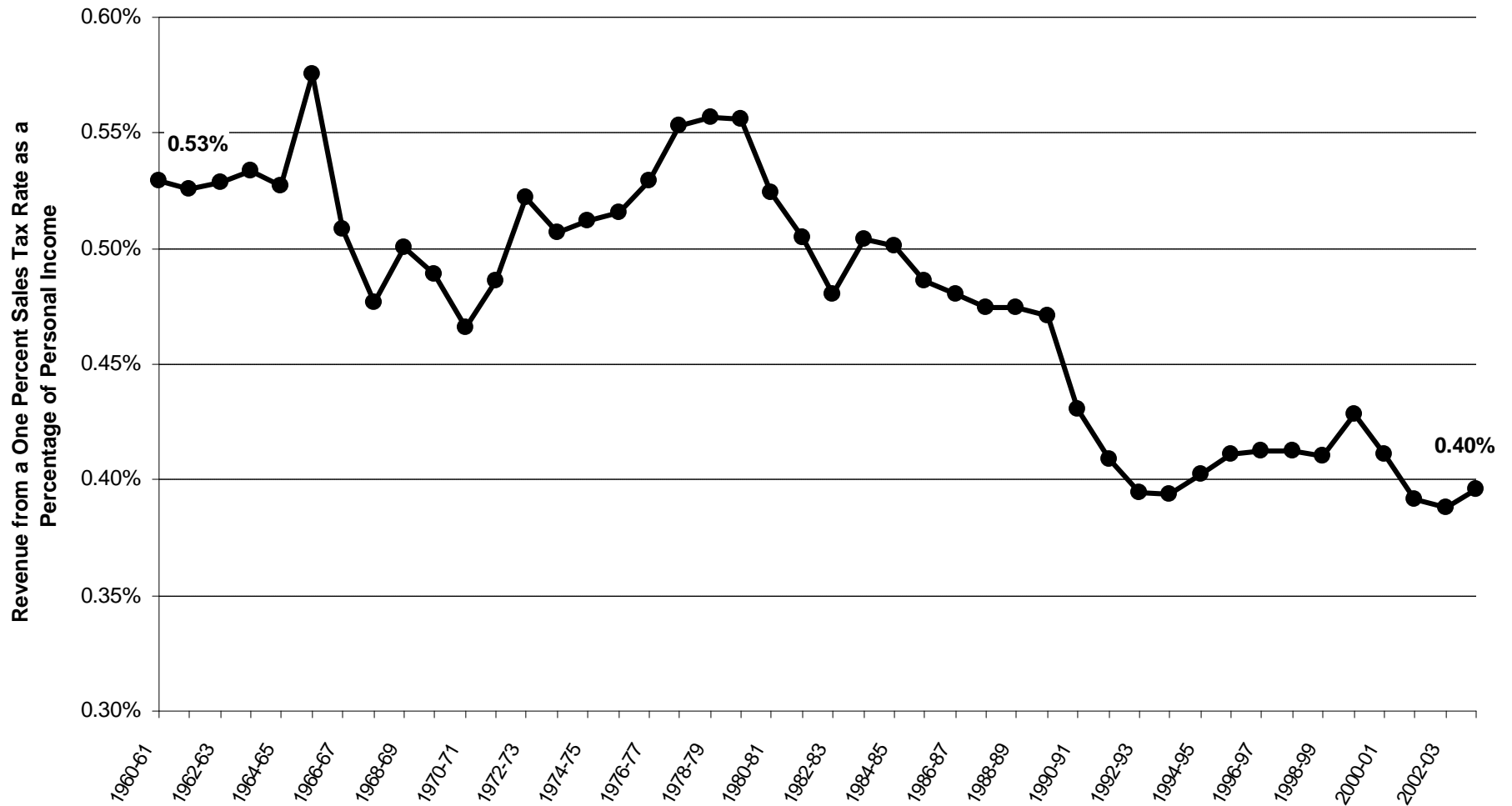
## The Structure of the State's Tax System Contributes to the Budget Gap

- ▶ Corporate income taxes have declined over time when measured as a share of total General Fund revenues and as a share of corporate profits.
- ▶ The yield of the state's sales tax has declined over time, reflecting broader economic trends, such as the shift in economic activity from goods to services and the rise of Internet and electronic sales that escape taxation.
- ▶ Alcohol and tobacco tax revenues have been stagnant over time, reflecting societal consumption trends.
- ▶ While the state's personal income tax has posted the most robust growth of all of the state's major taxes over time, the drop in collections related to stock options and capital gains is largely responsible for the structural budget gap.

## Share of Corporate Income Paid in Taxes Has Fallen 46% Since 1981



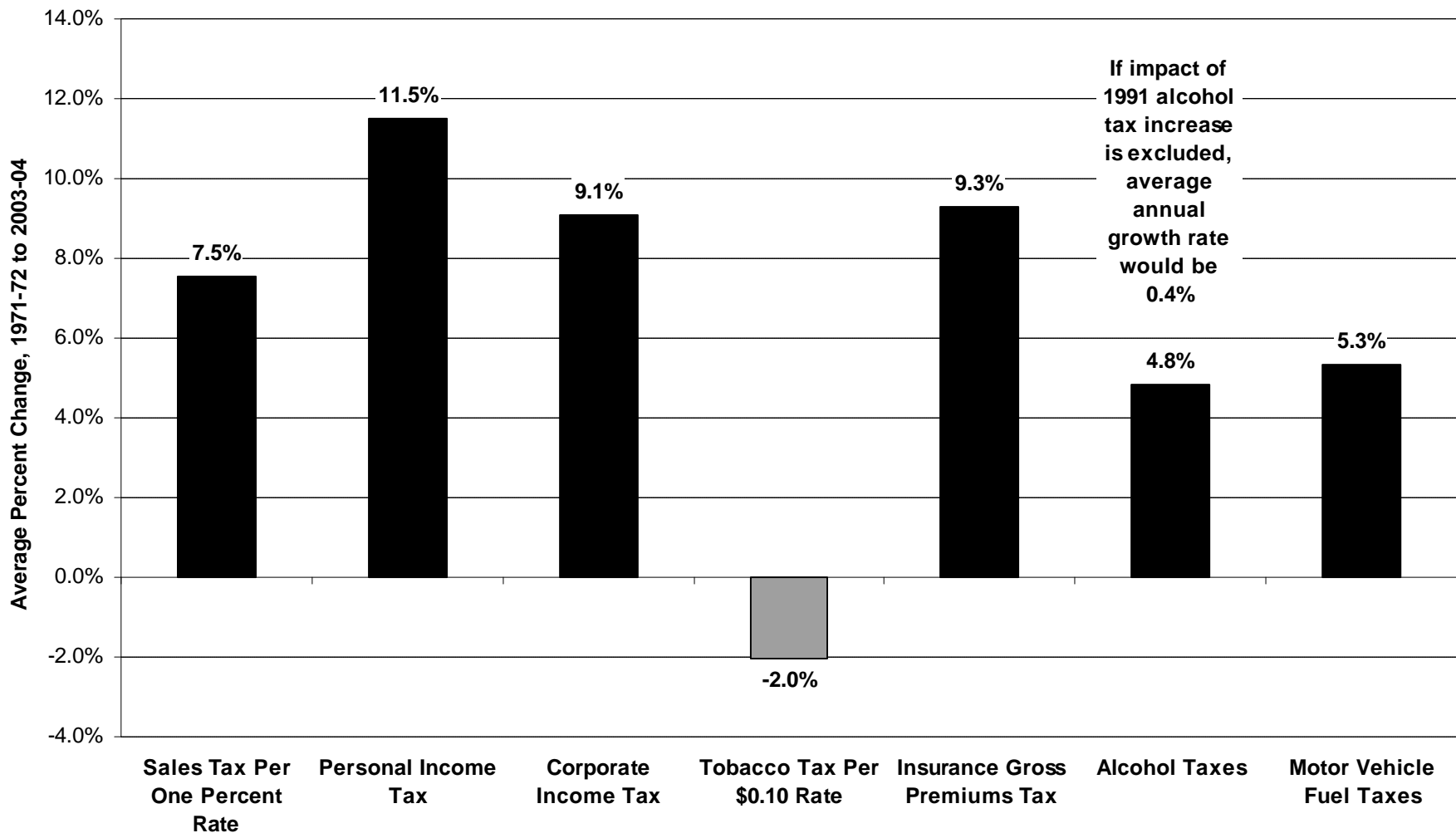
## Sales Tax Collections Have Declined as a Share of Personal Income



\*2003-04 estimated.

Note: Revenues are adjusted for differences in the sales tax rate.

## Personal Income Tax Posts the Highest Average Annual Growth Rate Over Time

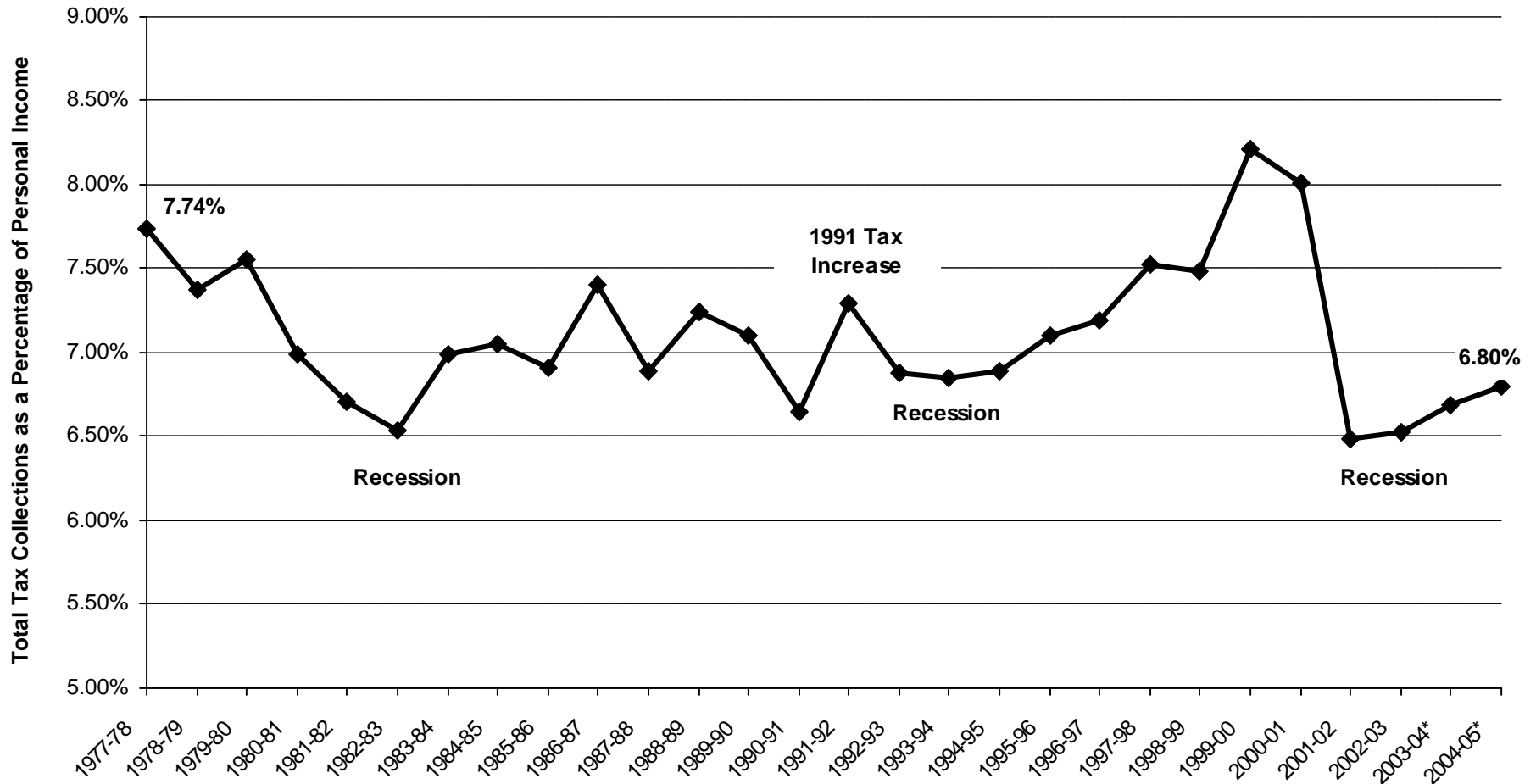


## California's Tax System: How Does It Compare?

- ▶ The share of Californians' personal income paid in state taxes is expected to be lower in 2004-05 than in all but six of the past 28 years.
- ▶ Based on the most recent available data – which compares state tax collections at the peak of the boom – California's total state and local revenue burden was moderate compared to that of the nation as a whole. California ranked 18th among the 50 states on this measure in 1999-00.
- ▶ While high-income Californians pay the majority of the state's personal income tax, the poorest fifth of California's non-elderly taxpayers pay the largest share of their incomes in state and local taxes. Yet, California's tax system is less regressive than those of most other state's and the state tax threshold – the income level at which families are subject to the income tax – is the highest in the nation.



## State Tax Collections as a Share of Personal Income Are Below Historic Levels



\*2003-04 estimated and 2004-05 projected.

## How Does California Compare?

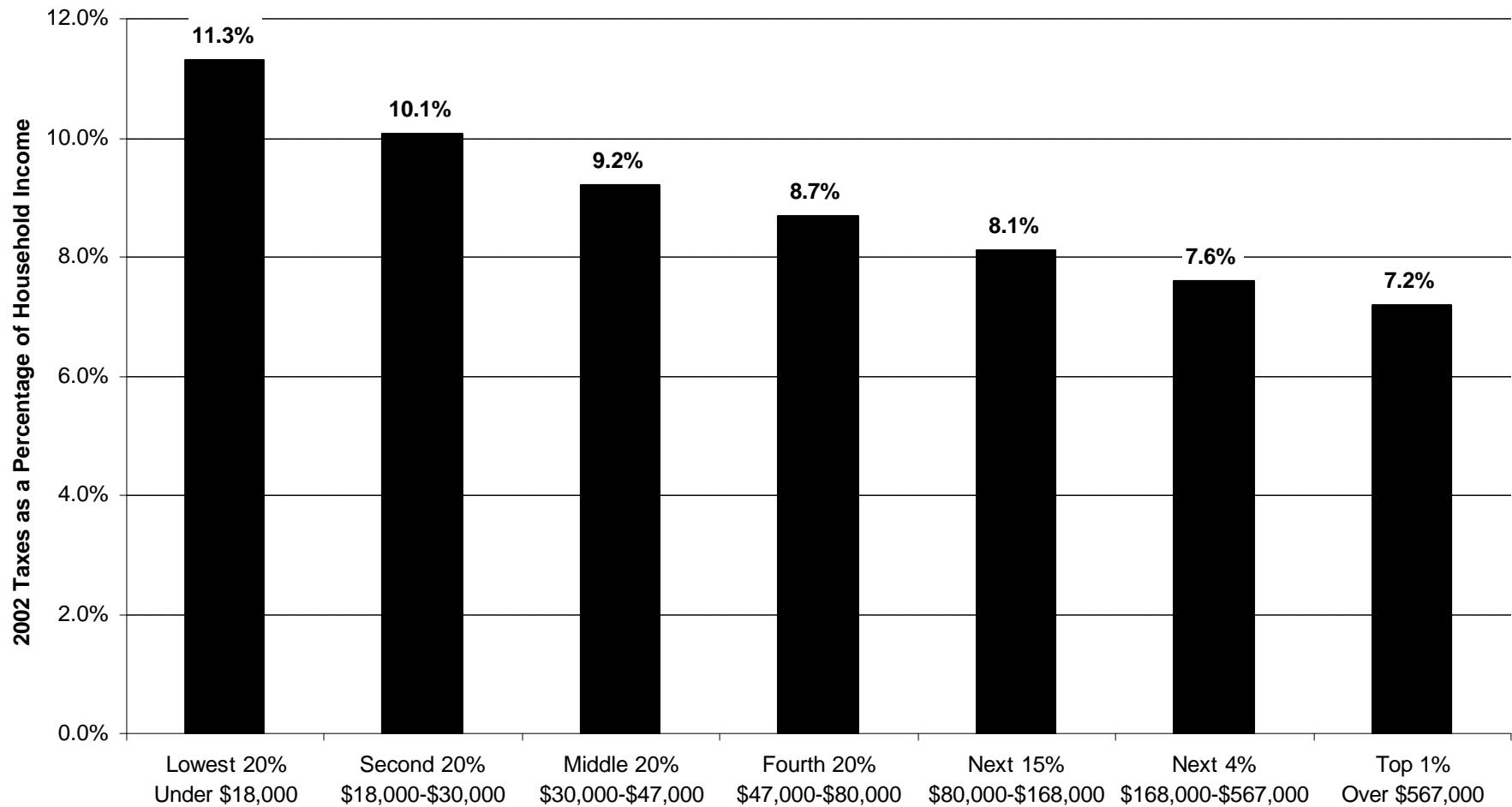
### Revenues as a Percentage of Personal Income

	CA Rank <sup>a</sup>	CA	US
Total State & Local Own Source (1999-00) <sup>b</sup>	18	16.27%	15.15%
Total State & Local Taxes (1999-00)	11	11.50%	10.58%
State Taxes (2001-02)	17	6.83%	6.06%
Local Taxes (1999-00)	32	3.47%	4.04%
State & Local General Sales Taxes (1999-00)	18	2.92%	2.61%
State & Local Property Tax (1999-00)	36	2.51%	3.02%
State General Sales Tax (2001-02)	27	2.09%	2.03%
State Motor Fuels Taxes (2001-02)	43	0.29%	0.36%
State Tobacco Tax (2001-02)	25	0.10%	0.10%
State Alcoholic Beverage Taxes (2001-02)	40	0.03%	0.05%
State Individual Income Tax (2001-02)	9	2.90%	2.10%
State Corporate Income Tax (2001-02)	7	0.47%	0.29%

<sup>a</sup> All rankings exclude the District of Columbia.

<sup>b</sup> Total Own Source revenues, which excludes federal government transfers, is the broadest measure of state and local government revenues.

## Lowest Income Households Pay the Largest Share of Their Income in State and Local Taxes

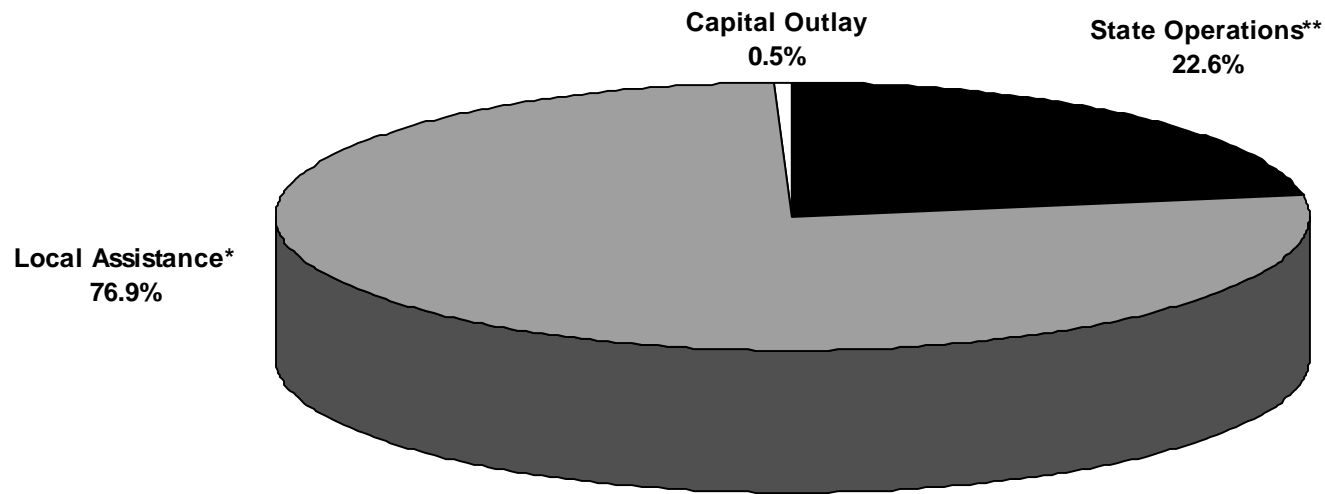


Note: Calculated for non-elderly, married couples. Includes offset for federal deductibility of state taxes.

## How Big Is a \$16 Billion Budget Gap?

- ▶ In order to understand the magnitude of the budget gap, it is useful to look at how much the state currently spends from the General Fund on various programs and services:
  - In 2003-04, spending for State Operations – the part of the budget that pays for state agencies and departments, including the University of California and California State University systems – is estimated at \$16.9 billion, slightly more than the estimated shortfall.
  - The state will spend an estimated \$29.6 billion for K – 12 Education in 2003-04, slightly less than twice as much as the current shortfall.
  - The state will spend an estimated \$9.8 billion on Medi-Cal in 2003-04.
  - The state will spend an estimated \$8.7 billion for Higher Education in 2003-04, \$5.3 billion for Youth and Adult Corrections, \$1.0 billion for Resources, and \$3.1 billion for the state's share of the SSI/SSP program, which provides cash aid to the elderly, blind, and disabled.

## How Does the State Spend Its Money? 2003-04 Estimated General Fund Spending



\* "Local Assistance" includes funds for K-12 Education, social services programs administered by counties, Medi-Cal provider payments, and other funds that flow to local governments and individuals, including CalWORKs and SSI/SSP cash grants.

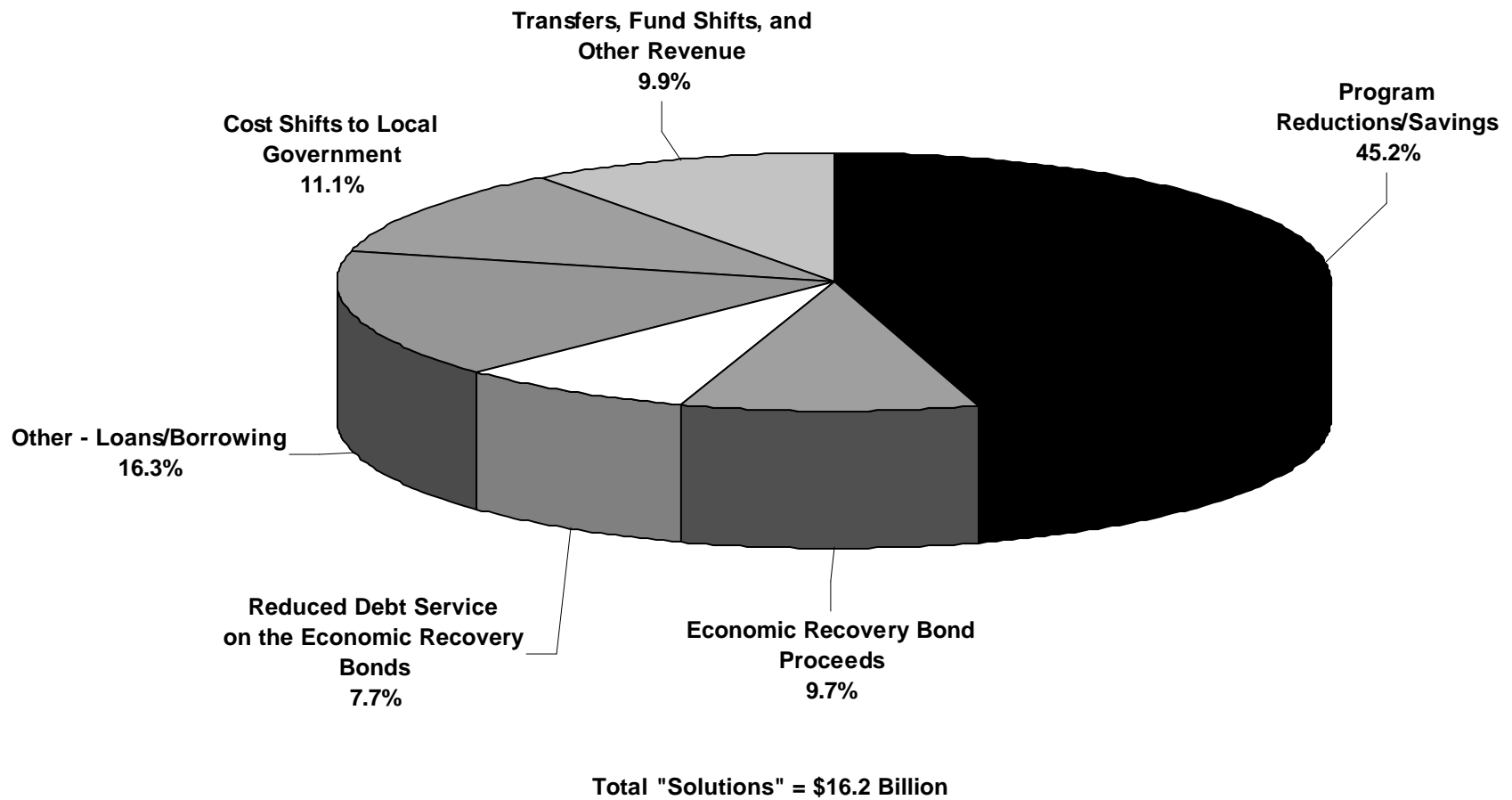
\*\* "State Operations" includes the California State University and the University of California.

Note: Excludes unclassified expenditure from the Deficit Recovery Fund.

## How Does the Governor's Budget Close the Gap?

- ▶ **\$7.3 billion in program reductions and savings**, including deep cuts to K – 12 Education (\$2.0 billion), Medi-Cal (\$1.1 billion), Higher Education (\$886 million), and Transportation (\$950 million). Other programs slated for significant reductions include CalWORKs, IHSS, and child care programs.
- ▶ **\$1.6 billion in proceeds from the deficit bonds**, representing the difference between the \$10.7 billion in bonds assumed in the 2003-04 Budget and the \$12.3 billion in net bond proceeds assumed by the Governor's Proposed Budget.
- ▶ **\$1.3 billion in reduced debt service on the deficit bonds**. The savings come from the fact that the state will pay less each year, but pay over a longer period of time. The \$10.7 billion package included in the 2003-04 budget agreement was scheduled to be repaid with a half cent sales tax rate over five to six years. The bonds going to the March ballot will be repaid with a quarter cent sales tax rate over 12 to 15 years.
- ▶ **\$2.6 billion in other loans and borrowing**, including \$930 million in pension obligation bonds, \$947 million from deferring Proposition 98 "settle up" payments, a \$475 million increase in the amount of the 2003-04 VLF backfill payment loan, and loans from transportation funds.
- ▶ **\$1.8 billion in cost shifts to local governments**, the largest of which is a \$1.3 billion property tax shift from cities, counties, and special districts to schools, which reduces the state's school funding obligation. Other components include eliminating the CalWORKs allocation to juvenile probation programs, reducing transportation funds, eliminating the subvention of booking fees, and other cost shifts.
- ▶ **\$1.6 billion in transfers and other revenues**, including \$350 million in assumed new federal funds.

## How Is the Budget Balanced?

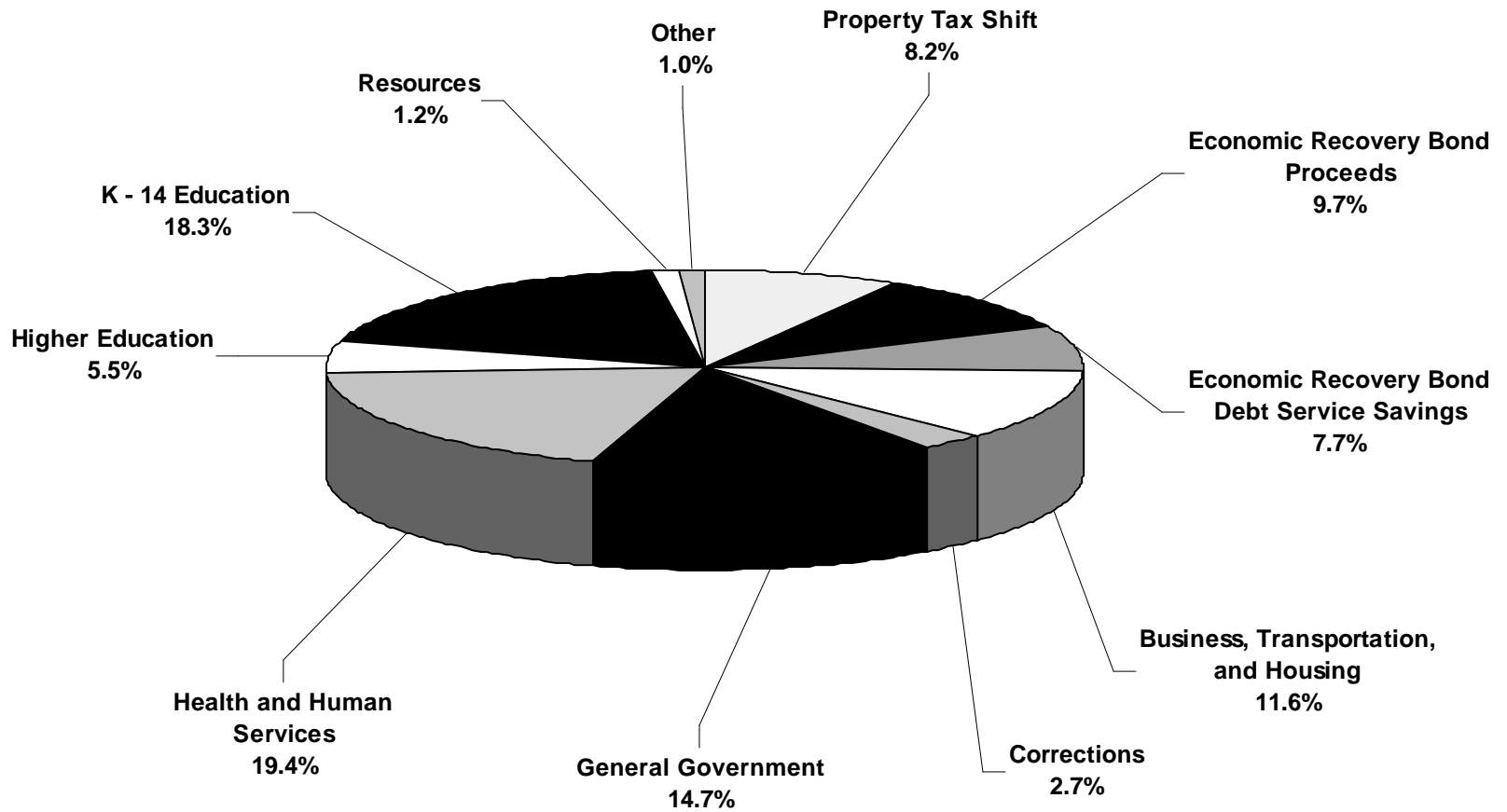


# How Is the Budget Balanced: A Summary By Program Area

- ▶ The largest share of the “solutions” to the budget gap come from health and human service programs (\$3.1 billion); K – 12 Education (\$3.0 billion); savings related to the Economic Recovery Bonds (\$2.8 billion); Business, Transportation, and Housing (\$1.9 billion); and the shift of property taxes from local governments (\$1.3 billion).
- ▶ Proposed reductions in K – 12 Education spending translate into a \$175 reduction in per pupil spending between 2003-04 and 2004-05, after adjusting for inflation. Implementing this reduction would require suspension of the Proposition 98 guarantee.
- ▶ The budget would reduce enrollment in the University of California and California State University systems, boost student fees, and would not fund increased financial aid to make up for higher fees.
- ▶ The budget includes deep cuts and major policy changes in the CalWORKs, state child care, In-Home Supportive Services, and Medi-Cal programs.
- ▶ The budget makes a number of reductions and fund shifts that would reduce funds for transportation programs by about \$2.1 billion in 2003-04 and 2004-05.



## Health and Human Services, Education Account for Largest Shares of Budget "Solutions"



## K – 12 Education

### The Governor's Budget:

- ▶ Proposes a 2004-05 Proposition 98 funding level for K – 14 Education that is \$2 billion below the estimated Proposition 98 guarantee for 2004-05. This would require a suspension of Proposition 98 and create a “maintenance factor” obligation that would have to be restored in future years.
- ▶ Establishes a total 2004-05 K – 12 Proposition 98 funding level of \$41.9 billion for K-12 Education, a 1.0 percent increase over the 2003-04 level. The state General Fund's share of this amount is \$27.2 billion, 2.2 percent less than 2003-04 General Fund spending level based on the Governor's Mid-Year Revision's \$27.8 billion.
- ▶ Reflects an increase of 1.0 percent in total Proposition 98 funding due to a projected 7.7 percent increase in local property tax revenues.
- ▶ Reduces per pupil spending by \$175, after adjusting for inflation, between 2003-04 and 2004-05.
- ▶ Increases Revenue Limit (general purpose) funding for K – 12 Education by \$2.7 billion, reflecting funding for cost-of-living adjustments, enrollment growth, and a proposed consolidation of so-called categorical programs.

# Higher Education

The Governor's Budget proposes:

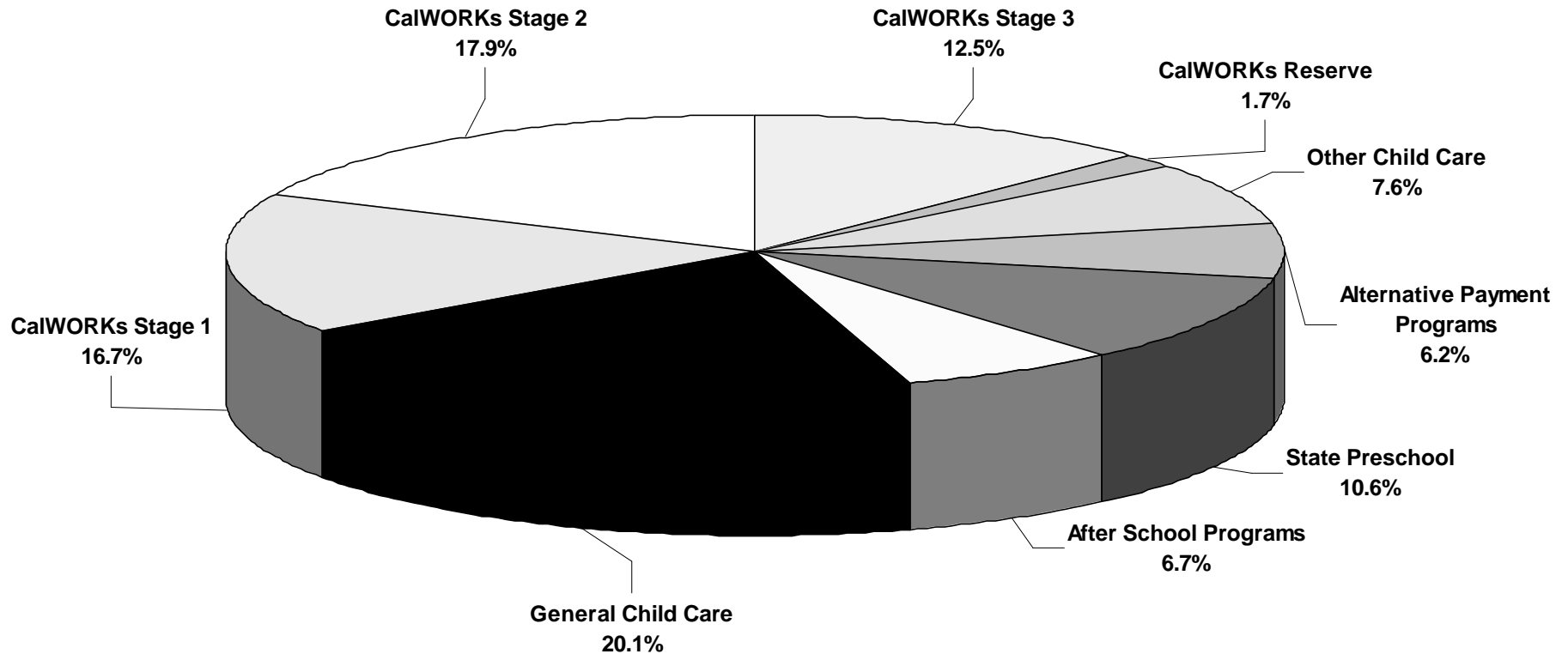
- ▶ Fee increases in all three higher education segments. Community college fees would increase from \$18 per unit to \$26 per unit in 2004-05; students who already possess a Bachelor's or higher degree would pay \$50 per unit. Fees in both the University of California (UC) and California State University (CSU) systems would increase by 10 percent for undergraduates and by 40 percent for graduate students.
- ▶ No funding for enrollment growth in either the UC or CSU systems in 2004-05, and a 10 percent reduction in the number of freshmen enrolled in both systems, a decrease of approximately 3,200 at UC and 3,800 at CSU.
- ▶ To eliminate General Fund support for outreach activities by both the UC and CSU systems.
- ▶ To increase the student-to-faculty ratio by approximately 5 percent in both the UC and CSU systems.
- ▶ To decouple Cal Grant award levels from the tuition levels at UC and CSU. Absent this change, grants would increase with the proposed increase in fees. The Governor's Budget would also reduce the income eligibility level for Cal Grant recipients by 10 percent for savings of \$11.2 million, and reduce the maximum Cal Grant award for students at private colleges and universities.

# Child Care

The Governor's Budget proposes to:

- ▶ Eliminate Stage 3 child care for former CalWORKs participants and limit all former CalWORKs families to three years of subsidized child care after cash aid ends. Stage 3 families that exceed three years of transitional care in 2004-05 would have one additional year to obtain other child care if they are not able to enroll in General Child Care programs.
- ▶ Reduce the threshold at which families begin to pay child care fees from 50 percent of the state median income (SMI), as adjusted for family size, to approximately 40 percent of SMI.
- ▶ Establish a three-tiered income eligibility structure for General Child Care programs. Savings would be achieved by reducing the maximum eligible income in lower-cost counties.
- ▶ Provide child care services for 11 and 12 year olds only when before- and after-school programs are not available.
- ▶ Implement a sliding scale to reimburse child care providers, with rate limits beginning at the 40th percentile of the regional market for license-exempt providers with no training and increasing to the 85th percentile of the market for accredited, licensed providers that serve unsubsidized families and that demonstrate the integration of early childhood development principles.

## 2004-05 Proposed Child Care and Development Spending



**Total = \$3.0 Billion Including Federal Funds**

Note: Includes General Fund and federal funds. "Other Child Care" includes Resource and Referral, Migrant Day Care, Campus Centers, Quality Improvement, Allowance for Handicapped programs, Local Planning Councils, Cost-of-Living Adjustments, Latchkey, CalSAFE, and Growth Adjustments.

# Governor Proposes Enrollment Caps and a Block Grant for Immigrant Assistance

The Governor's Budget proposes to:

- ▶ Cap enrollment in a number of programs including the Healthy Families Program, Medi-Cal services for immigrants, California Children's Services, the Genetically Handicapped Services Program, forensic commitments to State Hospitals, and the AIDS Drug Assistance Program. General Fund savings are smaller than previously estimated, partly because the Governor rescinded his earlier proposal to cap enrollment in Regional Centers, which provide services to people with developmental disabilities.
- ▶ Consolidate funding for four programs that serve documented immigrants into a block grant to be provided to counties, for General Fund savings of \$6.6 million. These programs include CalWORKs for recently documented immigrants, the California Food Assistance Program, the Cash Assistance Program for Immigrants, and the Healthy Families Program for documented immigrants. Counties would use block grant funds to provide "basic safety net services."

# Health

The Governor's Budget proposes to:

- ▶ Reduce Medi-Cal provider reimbursement rates by 10 percent for General Fund savings of \$160.9 million in 2003-04 and \$462.2 million in 2004-05. This is in addition to the 5 percent provider rate reduction included as part of the 2003-04 Budget, which was recently blocked by a federal court.
- ▶ Develop proposals to reform the Medi-Cal program that could include: aligning eligibility standards with other programs; offering different benefit packages; requiring co-payments from beneficiaries; eliminating optional benefits; and expanding managed care. The Administration anticipates possible General Fund savings of \$400 million in 2005-06.
- ▶ Implement a plan to control county costs for Medi-Cal eligibility determinations, including productivity standards and restricting county wage increases to specified COLAs. This would result in General Fund savings of \$10 million in 2004-05 and \$20 million when fully implemented.
- ▶ Revise the method used to calculate reimbursement rates for federally-qualified health centers and rural health clinics, for General Fund savings of \$3.8 million in 2003-04 and \$32.2 million in 2004-05.
- ▶ Institute a two-tiered benefit program in the Healthy Families Program that would offer a basic benefit package, excluding dental and vision coverage, at current premium levels, and a comprehensive package with higher monthly premiums. The proposal would not be implemented until 2005-06.

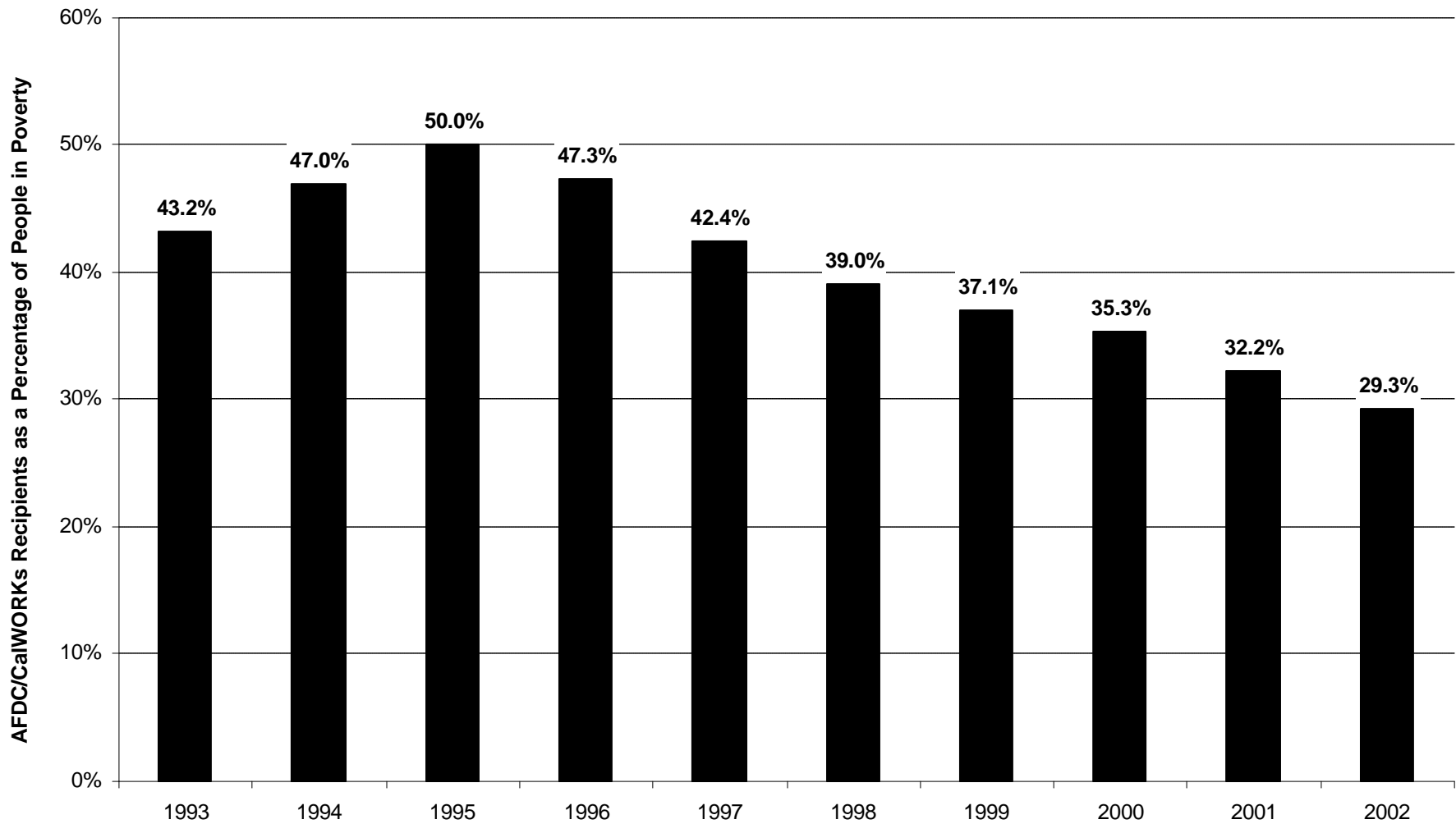
# CalWORKs

## The Governor's Proposed Budget:

- ▶ Suspends the October 2003 COLA linked to the Governor's reduction of the VLF rate and the July 2004 COLA. The Budget also proposes to cut cash grant levels by 5 percent starting April 1, 2004. The Governor's proposals would reduce the maximum monthly grant for a family of three in a high-cost county by \$80, from \$749 to \$669; the low-cost county maximum grant for a family of three would be cut by \$76, from \$713 to \$637.
- ▶ Requires CalWORKs participants to work at least 20 hours per week in "core" work activities within 60 days of receiving cash assistance. Core work activities would include employment, on-the-job training, and other activities that would lead to a job.
- ▶ Reduces child-only cash grants by 25 percent if sanctioned CalWORKs participants fail to meet work participation requirements within one month of being sanctioned.
- ▶ Reduces child-only cash grants by 25 percent for families that have reached the state's 60-month time limit and in which the adult does not work.
- ▶ Eliminates funding for county services to at-risk youth and juvenile offenders as of October 1, 2004, for savings of \$134.3 million in 2004-05 and \$201.4 million annually thereafter. These services have historically been funded with state and federal welfare dollars.
- ▶ Includes a \$158.4 million TANF reserve for unanticipated needs.

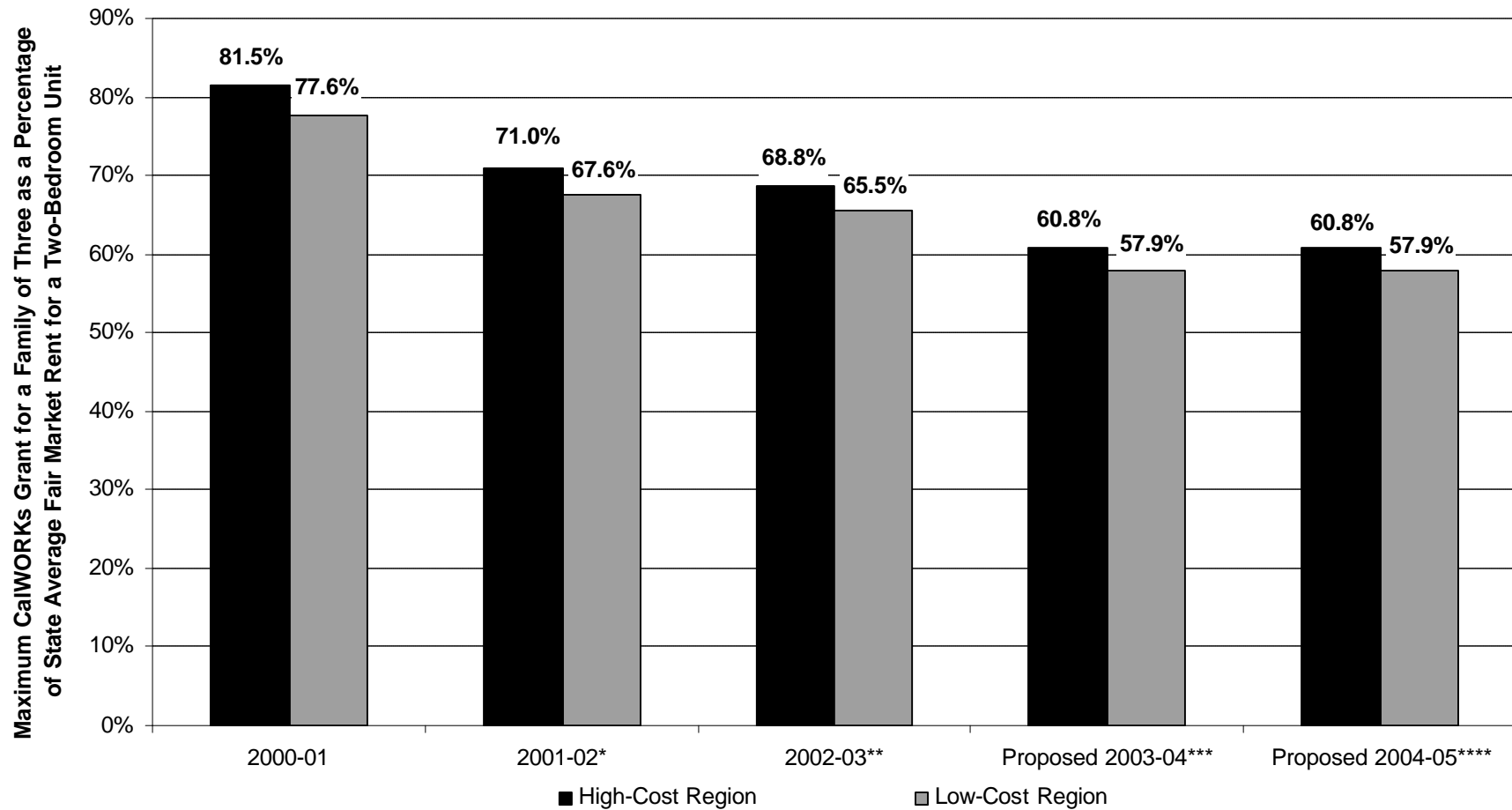


## Californians in Poverty Are Less Likely to Receive Cash Assistance



Source: US Census Bureau, Department of Social Services, and US Department of Health and Human Services

## CalWORKs Grants Lose Ground to Rising Housing Costs



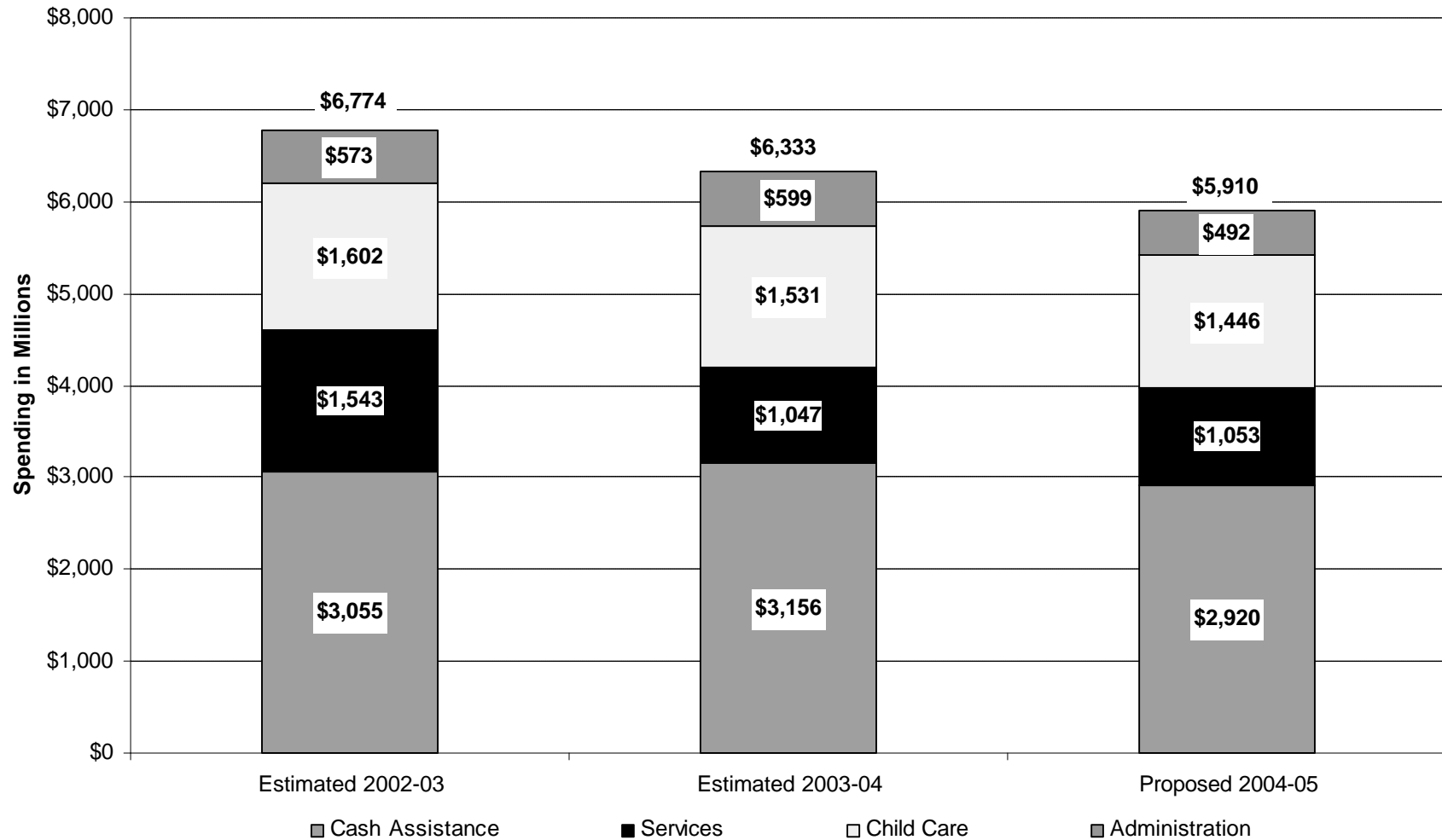
\* The Fair Market Rent (FMR) methodology for some high-cost areas changed in 2001-02.

\*\* CalWORKs grant levels starting June 2003.

\*\*\* The Governor's Proposed Budget would eliminate the October 2003 cost-of-living adjustment (COLA) and reduce CalWORKs grant levels by 5 percent.

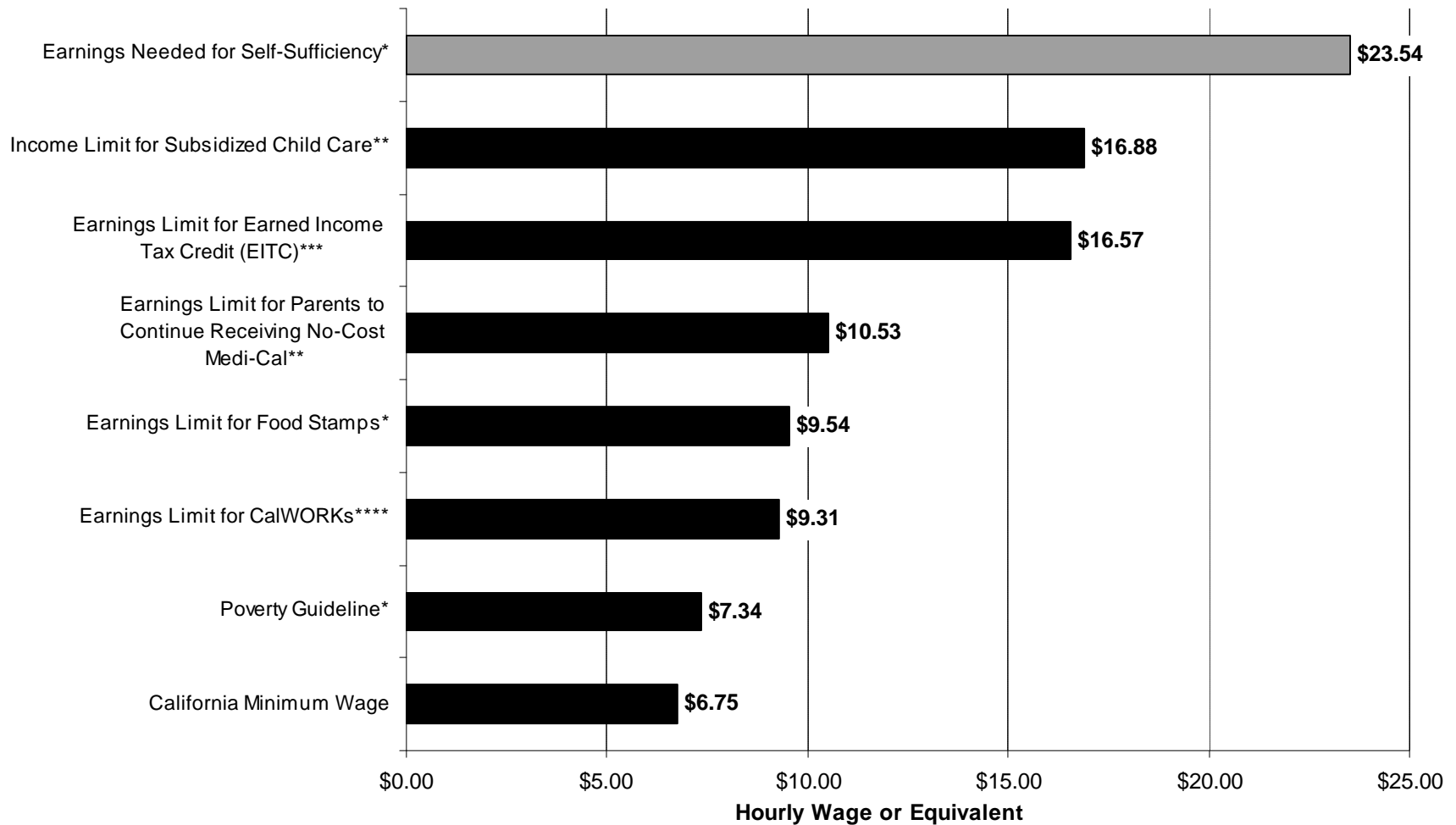
\*\*\*\* The Governor's Proposed Budget would suspend the July 2004 COLA.

## Major CalWORKs Expenditures to Fall in 2004-05



Note: Totals may not sum due to rounding. Includes federal, state, and county funds. In 2002-03, "Services" included a one-time transfer of \$422.1 million in unspent county performance incentive funds that were redirected to pay for basic services.

## Supports for Working Families End Before Families Reach Self-Sufficiency



\* Family of three.

\*\* Family of three, current law.

\*\*\* One-parent family with two or more children.

\*\*\*\* Reflects Governor's proposal to eliminate October 2003 cost-of-living

(Assumes 40 hours of work per week, 52 weeks per year)

## Other Social Services

The Governor's Budget proposes to:

- ▶ Eliminate the new Transitional Food Stamp Benefits Program for former CalWORKs recipients, for savings of \$1.6 million (\$1.1 million General Fund) in 2003-04 and \$5.2 million (\$3.1 million General Fund) in 2004-05. This program would ease families' transition from welfare to work and bring an estimated \$165.5 million in federal food stamp benefits to 66,000 low-income California households.
- ▶ Rescind changes made to food stamp vehicle and application rules enacted by AB 231 of 2003, for savings of \$404,000 (\$186,000 General Fund) in 2003-04 and \$772,000 (\$444,000 General Fund) in 2004-05. The Governor's proposal would result in an estimated loss of \$37 million in federal food stamp benefits to 15,000 low-income California households.
- ▶ Implement "reforms" in the Foster Care program, for savings of \$20 million in 2004-05. The specifics of the proposals will be included in the 2004 May Revision.

## Seniors and the Disabled

The Governor's Budget proposes a number of changes to programs for the elderly and disabled, including:

- ▶ Suspending the state COLA and withholding the federal COLA for Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants scheduled for January 2005. Under current law, monthly grants would increase to \$812 for an individual and \$1,438 for couples. The Governor's proposal keeps grant levels at \$790 for an individual and \$1,399 for couples.
- ▶ Reducing the state's share of costs for In-Home Supportive Services (IHSS) provider wages and benefits to the state minimum wage.
- ▶ Eliminating domestic and related IHSS services for recipients who live with able-bodied family members, when the services are provided in common with other household members, starting October 1, 2004. This proposal would eliminate services to 90,350 recipients when fully implemented.
- ▶ Eliminating the "residual" IHSS program. The "residual" IHSS program consists of cases that are not eligible for federal funding, or approximately 74,000 cases representing about 23 percent of the total IHSS caseload. This was included as part of the Governor's mid-year spending proposals released in November 2003.
- ▶ Establishing a block grant for various aging programs and reducing General Fund support for these programs by \$1.7 million.

## Local Government

### The Governor's Proposed Budget:

- ▶ Shifts \$1.3 billion of property taxes from counties, cities, and special districts to schools in order to reduce state spending for K – 14 Education. County governments will bear the brunt of the shift with just over three-quarters (76 percent) of the lost revenues coming out of county coffers.
- ▶ Eliminates funding for county services to at-risk youth and juvenile offenders as of October 1, 2004, for savings of \$134.3 million in 2004-05 and \$201.4 million annually thereafter.
- ▶ Requires counties to continue paying 25 percent of the federal penalties associated with the delay in implementing a single, statewide automated child support collection system in 2004-05 and future years. This would result in General Fund savings of \$55 million in 2004-05.
- ▶ Eliminates the counties' share of child support collections, for additional General Fund revenues of \$39.4 million.
- ▶ Proposes to eliminate "booking fees," state payments to cities as reimbursement for fees paid to counties for booking inmates into county jails, for a savings of \$38 million.

# Transportation

The Governor proposes to:

- ▶ Suspend the Proposition 42 transfer from the General Fund to the Traffic Congestion Relief Program (TCRP), for a total savings of \$1.1 billion (\$947.2 million from suspending the transfer to the state's General Fund and \$179.5 million from suspending the allocation to local governments). Proposition 42, approved by voters in March 2002, provides for annual transfers of sales and use taxes on gasoline from the General Fund to the TCRP in order to fund state and local transportation projects. The Proposition 42 transfer was partially suspended in 2003-04.
- ▶ Repeal SB 1856, which places a \$9.95 billion general obligation bond for high-speed rail on the November 2004 ballot, arguing that the state should not take on additional debt at this time.
- ▶ Repeal the statutory designation of TCRP projects, arguing that these projects should compete for funds under the State Transportation Improvement Plan (STIP).



# State Workers and State Government

The Governor's Budget includes:

- ▶ A proposal to convene a Commission to conduct the California Performance Review to examine options for reorganizing the executive branch, implementing a performance evaluation system across all programs, proposing a constitutional amendment to allow contracting out of state services, and reforming state purchasing procedures. The Commission would include legislators, business representatives, local government representatives, and other Constitutional officers.
- ▶ A proposal to create a "two-tier" pension system for new state employees. New state workers would be covered by a defined contribution pension plan, rather than the current defined benefit plan.
- ▶ A proposal to issue \$949 million in pension obligation bonds. Under the Governor's proposal, debt service payments on these bonds would be at least partially covered by increasing current state employees' pension contributions from, in most cases, from 5 percent to 6 percent of salary.