



**WINNERS AND LOSERS:
WHERE HAS THE MONEY GONE?**

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CALIFORNIA BUDGET PROJECT

The **California Budget Project** (CBP) was founded in 1994 to provide Californians with a source of timely, objective and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low and middle income Californians. Support for the CBP comes from foundation grants, publications, and individual contributions. This report was researched and written by Erin Riches and Jean Ross. Dan Galpern researched the section on child care. Kim Wielinski formatted the report for publication. This report was made possible by grants from the Ford, Charles Stewart Mott, James Irvine, and California Wellness Foundations and the California Endowment.

California Budget Project
921 11th Street, Suite 502
Sacramento, CA 95814
(916)444-0500
(916)444-0172 (fax)
cbp@cbp.org
www.cbp.org

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WINNERS AND LOSERS: WHERE HAS THE MONEY GONE?

EXECUTIVE SUMMARY

During his first two years in office, Governor Gray Davis has been blessed with a strong economy and exceptionally strong growth in state revenues. Unlike his predecessor, who confronted a series of deep deficits upon assuming office, Governor Davis has seen revenues exceed expectations in each of the past two years. The unanticipated revenue growth and continued economic expansion have given lawmakers resources to increase state spending while substantially reducing taxes.

Most of the new dollars have gone to K-12 Education, Health and Human Services programs (primarily Medi-Cal), and tax cuts. While the dollar increase in spending for a particular program area is one measure of the priority placed on that issue by lawmakers, perhaps a better measure is a program's performance relative to spending as a whole. In other words, whether spending for a particular program has increased by a greater or lesser percentage than the budget as a whole. This report compares revenue and spending growth in the first two Davis budgets with that of the final budget signed into law by former Governor Pete Wilson. Since the budget typically provides the blueprint and resources necessary to implement a governor's policy agenda, this analysis tries to shed light on the priorities of the Davis administration during its first two years in office and to identify areas that have fared well in recent years, as well as those that have fallen behind.

Key Findings

- General Fund revenues rose by 29.6 percent (\$16.9 billion) between 1998-99 and 2000-01 due to extraordinary growth in personal income tax collections. The rise in personal income tax collections was led by taxes paid on stock options and capital gains primarily by the wealthiest Californians. Revenues are likely to significantly exceed the forecast adopted as the basis of the 2000-01 budget. The Legislative Analyst projects that 2000-01 revenues will be \$4.1 billion above the budgeted levels, and actual cash-in-hand collections were \$1.4 billion above the Governor's May 2000 forecast after the first five months of the fiscal year.
- A portion of the growth in General Fund revenues comes from payments made pursuant to a national settlement agreement between the tobacco industry and states' attorneys general. While many states have earmarked these funds for health or tobacco-education programs, California deposits settlement payments into the General Fund.
- State General Fund expenditures rose by 37.6 percent between 1998-99 and 2000-01 (\$21.6 billion). The growth in expenditures exceeded revenue growth due to the large fund balances carried forward into subsequent fiscal years. A significant fraction of the increased spending is for one-time initiatives with no implied commitment for future funding.
- K-12 Education and Health and Human Services programs received the largest dollar increases, \$6.8 billion and \$4.9 billion respectively. However, K-12 Education dropped from 41.6 percent to 38.8 percent of General Fund expenditures, while Health and Human Services programs fell from 26.8 percent to 25.7 percent of General Fund expenditures between 1998-99 and 2000-01.

- A substantial fraction of the growth in revenues went to tax cuts. New and expanded tax cuts enacted in 1999 and 2000 reduced state revenue collections by \$6.2 billion. Reductions in Vehicle License Fees (VLF) account for the bulk of the new reductions.
- Measured as a share of General Fund spending, the biggest winners were General Government and Business, Transportation, and Housing. The increase in General Government expenditures is attributable to the reductions in Vehicle License Fees (VLF) and the corresponding reimbursement of local governments for revenues lost, as well as an increase in the Senior Citizens Homeowners and Renters Tax Assistance Program. Thus, what appears to be a significant increase in *spending* is actually a reduction in taxes.
- Most of the increase in Health and Human Services represents caseload growth and cost-of-living adjustments. Approximately one-third of the \$2.4 billion increase in Medi-Cal spending went toward new policy initiatives, primarily increases in payments to providers, rather than expanded eligibility or improvements in the Medi-Cal benefits package.
- Most of the increase in spending on housing programs represents a one-time allocation, rather than an ongoing commitment to higher funding levels. Similarly, the major infusion of funds for transportation is limited in duration. While both augmentations are substantial relative to historical state spending trends, they are modest relative to overall need. Over a six-year period, the Traffic Congestion Relief Program will spend \$7.2 billion. In contrast, a report by the Business Roundtable identified \$15 billion to \$25 billion in unfunded transportation infrastructure needs. The Governor estimates that the new funding for multifamily housing will assist in the development of 5,200 to 7,200 units. In comparison, CBP's May report, *Locked Out: California's Affordable Housing Crisis*, identified a 684,000 gap between the number of low-cost housing units and low income renters.
- The magnitude of recent reserves triggered a provision enacted in 1991 that reduces the state's sales tax rate by one-quarter cent for a calendar year when the state's budget hits specified targets. This so-called trigger reduction will reduce General Fund revenues by an estimated \$1.2 billion in 2000-01 and 2001-02.
- While 2000-01 revenue collections are above the level assumed in this year's budget, the state remains vulnerable to a downturn in the economy due to an increased reliance on income tax payments attributable to investment earnings (capital gains and stock options). The substantial amount of one-time spending will provide a cushion against slower revenue growth.

INTRODUCTION

In January, Governor Gray Davis will introduce his third budget as Governor of California. A strong economy and exceptional revenue growth have marked the first two years of the Davis administration. Since the budget has traditionally been the major policy document of an administration, an analysis of spending trends and initiatives provides insight into the Governor's values and policy priorities. This report compares spending under the first two Davis budgets (1999-00 and 2000-01) to the final budget signed by former Governor Pete Wilson (1998-99). It asks what programs have received large increases in spending and what major programs, if any, have been left behind.

WHERE DID THE MONEY COME FROM?

The state has enjoyed unusually strong revenue growth during Governor Davis' first two years in office, thanks to continued economic growth. State General Fund revenues increased by nearly 30 percent (\$16.9 billion) between 1998-99 and 2000-01.¹ General Fund expenditures increased by 37.6 percent (\$21.5 billion) over the same period. The growth in expenditures exceeded revenue growth due to the large balances carried forward into subsequent fiscal years.

In fact, *actual* revenues have exceeded anticipated revenues and budgeted expenditures in each of the past three years. Actual 1999-00 revenues exceeded expenditures by \$4.0 billion, leaving the state with a reserve of \$7.2 billion at the close of the 1999-00 fiscal year.² While the 2000-01 budget provided a modest \$2.3 billion reserve (2.9 percent of budgeted expenditures), the actual reserve is likely to be far larger by the end of the fiscal year.

Revenue growth has continued to exceed expectations since the enactment of the 2000-01 budget, and in November the Legislative Analyst estimated that 2000-01 General Fund revenues will be \$4.1 billion

	Budgeted 1998-99	Budgeted 1999-00	Budgeted 2000-01	Percent Change 1998-99 to 2000-01	Dollar Change 1998-99 to 2000-01	Percent of Total Change
Personal Income Tax	\$28,963	\$32,914	\$41,333	42.7%	\$12,370	73.3%
Sales Tax	\$18,739	\$19,960	\$21,318	13.8%	\$2,579	15.3%
Other	\$604	\$1,776	\$1,590	163.2%	\$986	5.8%
Bank & Corporation Tax	\$6,100	\$5,751	\$6,800	11.5%	\$700	4.1%
Estate Taxes	\$813	\$907	\$1,047	28.8%	\$234	1.4%
Insurance Tax	\$1,281	\$1,246	\$1,321	3.1%	\$40	0.2%
Liquor Tax	\$268	\$269	\$287	7.1%	\$19	0.1%
Motor Vehicle Fees	\$31	\$28	\$27	-12.9%	-\$4	0.0%
Horseracing Fees	\$21	\$0	\$1	-95.2%	-\$20	-0.1%
Tobacco Taxes	\$165	\$130	\$132	-20.0%	-\$33	-0.2%
TOTAL	\$56,985	\$62,981	\$73,856	29.6%	\$16,871	100.0%

Source: Governor's Budget Highlights (1998, 1999, and 2000).

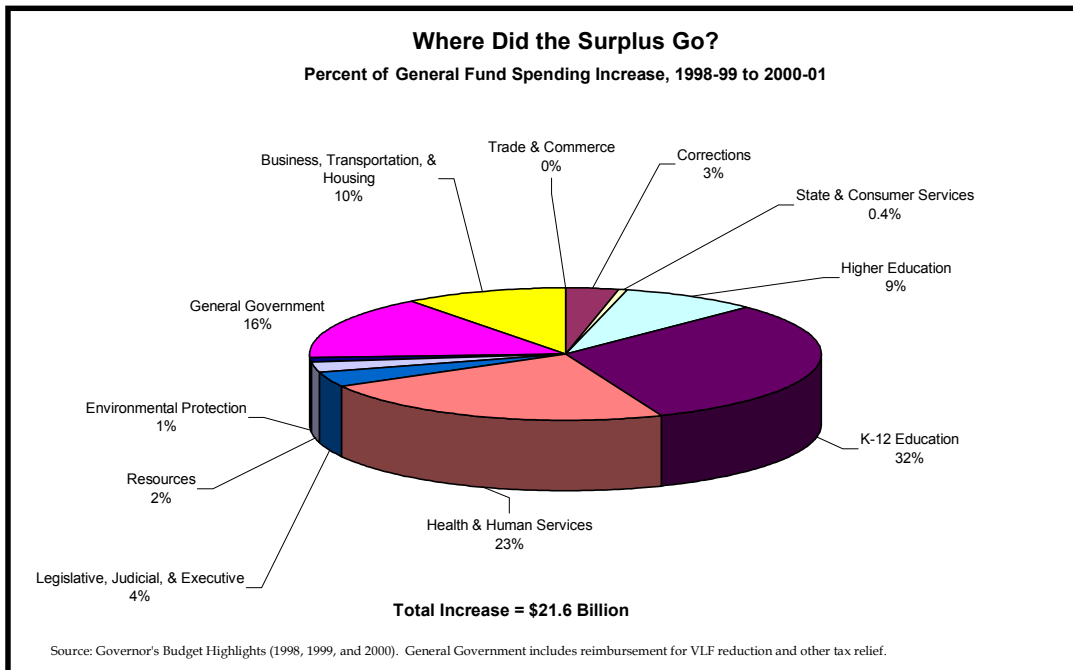
above the forecast assumed by this year's budget.³ The continued strength of state revenue growth has provided lawmakers with additional resources to allocate in the upcoming budget.

Most of the growth in revenues is attributable to increased personal income tax collections. Personal income tax revenues increased 42.7 percent (\$12.4 billion) between the 1998-99 budget forecast and the 2000-01 forecast. Estimates suggest that approximately half of the growth in personal income tax revenues over the past five years is attributable to taxes paid on capital gains and stock options and that these two sources of income now account for nearly one-third of personal income tax revenues. This trend is significant for the future of budget policymaking since both capital gains and stock options are dependent upon the stock market, which has been increasingly volatile over the past year.

General Fund sales tax collections increased by \$2.6 billion (13.8 percent) between 1998-99 and 2000-01. In contrast, revenues from the small portion of motor vehicle fees deposited in the General Fund and horseracing fees have both declined due to legislated policy changes. The General Fund portion of the tobacco tax also declined slightly due to reduced consumption of tobacco products. "Other" revenues increased by nearly a billion dollars (\$986 million), primarily due to the state's share of the proceeds from the settlement between states' attorneys general and the tobacco industry.

WINNERS AND LOSERS

The extraordinary growth in revenues has enabled lawmakers to make up for some of the deep spending cuts made during the deficit years of the early and mid-1990s, to invest in new policy initiatives, and to substantially reduce state taxes. General Fund expenditures increased 37.6 percent (\$21.6 billion) between 1998-99 and 2000-01. Most of the new dollars have gone to K-12 Education (\$6.8 billion, 31.3 percent of the total increase) and to Health and Human Services programs (\$4.9 billion, 22.9 percent of the total increase). General Government spending more than doubled, reflecting the significant reduction in the state's Vehicle License Fees (VLF) and corresponding reimbursement of local governments for the reduction in local revenues. Higher Education programs have seen an 8.7 percent (\$1.9 billion) increase during the same period.



**Table 2: Where Has the Money Gone?
Change in General Fund Spending by Agency
(Dollars in Millions)**

	Budgeted 1998-99	Budgeted 1999-00	Budgeted 2000-01	Dollar Change 1998-99 to 2000-01	Percent Change 1998-99 to 2000-01	Percent of Total Change
Trade & Commerce	\$109	\$482	\$109	\$0	0.0%	0.0%
Youth & Adult Corrections	\$4,443	\$4,738	\$5,179	\$736	16.6%	3.4%
State & Consumer Services	\$438	\$482	\$533	\$95	21.7%	0.4%
Higher Education	\$7,561	\$8,012	\$9,445	\$1,884	24.9%	8.7%
K-12 Education	\$23,847	\$26,418	\$30,603	\$6,756	28.3%	31.3%
Health & Human Services	\$15,343	\$16,921	\$20,284	\$4,941	32.2%	22.9%
Legislative, Judicial, & Executive	\$1,808	\$2,195	\$2,616	\$808	44.7%	3.7%
Resources	\$1,086	\$1,272	\$1,599	\$513	47.2%	2.4%
Environmental Protection	\$176	\$176	\$418	\$242	137.5%	1.1%
General Government	\$2,092	\$2,624	\$5,444	\$3,352	160.2%	15.6%
Business, Transportation, & Housing	\$359	\$412	\$2,586	\$2,227	620.3%	10.3%
TOTAL GENERAL FUND SPENDING	\$57,262	\$63,732	\$78,816	\$21,554	37.6%	100.0%

Source: Governor's Budget Highlights (1998, 1999, and 2000).

While K-12 Education and Health and Human Services programs received the largest absolute *dollar* increases, the largest *percentage* increases in spending went to the Business, Transportation, and Housing Agency and General Government programs (620 percent and 160 percent, respectively). The percentage increase in spending for Legislative, Judicial, and Executive; Resources; Environmental Protection; General Government; and Business, Transportation, and Housing programs exceeded that of General Fund expenditures as a whole. The percentage increase in expenditures for Trade and Commerce; Youth and Adult Corrections; State and Consumer Services; and Health and Human Services Agencies, as well as Higher and K-12 Education, lagged that of total General Fund spending.⁴

While the dollar increase in spending received by an agency or program is one measure of policy priorities, perhaps a more significant measure is how an agency's funding level has fared relative to the budget as a whole. Although K-12 Education and the Health and Human Services Agency account for the largest shares of General Fund spending and have received the largest dollar increases since 1998-99, both have lost ground relative to other areas of the budget measured as a share of General Fund spending. K-12 Education's share of the General Fund dropped by nearly 3 percent between 1998-99 and 2000-01. Higher Education; Youth and Adult Corrections; Trade and Commerce; and State and Consumer Services also fell as a share of General Fund spending. Business, Transportation, and Housing; General Government; Legislative, Executive, and Judicial; Resources; and Environmental Protection increased as a share of General Fund expenditures.

Table 3: How Has Spending Changed as a Share of the General Fund? (Percent of General Fund Expenditures)				
	Budgeted 1998-99	Budgeted 1999-00	Budgeted 2000-01	Change 1998-99 to 2000-01
General Government	3.7%	4.1%	6.9%	3.3%
Business, Transportation, & Housing	0.6%	0.6%	3.3%	2.7%
Legislative, Judicial, & Executive	3.2%	3.4%	3.3%	0.2%
Environmental Protection	0.3%	0.3%	0.5%	0.2%
Resources	1.9%	2.0%	2.0%	0.1%
Trade & Commerce	0.2%	0.8%	0.1%	-0.1%
State & Consumer Services	0.8%	0.8%	0.7%	-0.1%
Health & Human Services	26.8%	26.6%	25.7%	-1.1%
Youth & Adult Corrections	7.8%	7.4%	6.6%	-1.2%
Higher Education	13.2%	12.6%	12.0%	-1.2%
K-12 Education	41.6%	41.5%	38.8%	-2.8%
TOTAL	100.0%	100.0%	100.0%	0.0%

Source: CBP calculations based on *Governor's Budget Highlights* (1998, 1999, and 2000).

WHERE DID THE MONEY GO?

An examination of the first two Davis budgets finds that the increase in spending has gone to tax cuts, new initiatives, and adjustments to reflect inflation and the state's rising population. The following section describes some of the major policy shifts reflected in the 1999-00 and 2000-01 budgets.

Tax Cuts

A substantial fraction of the growth in revenues went to tax cuts. New and expanded tax cuts enacted in 1999 and 2000 reduced state revenue collections by a total of \$6.2 billion. In fact, the entire increase in General Government spending between 1998-99 and 2000-01 is attributable to tax reductions. That is because the largest of the tax cuts – a series of reductions in the Vehicle License Fee rate – is reflected in the budget as

a reduction in special fund revenues allocated to local governments and an increase in General Fund spending. This increase in spending reflects the state's commitment to reimburse cities and counties for

Table 4: Where Did the Money Go?	
Significant Increases Allocated to:	
Business, Transportation, & Housing	Traffic Congestion Relief Plan, Housing Programs
Corrections	Employee Compensation, Parole/Treatment Services
K-12 Education	Per Pupil Spending Increases, Revenue Limit Deficit Reduction, Inflation and Enrollment Growth, Teacher Recruitment and Retention Incentives
Higher Education	Enrollment Increases, Employee Compensation, Summer Class Fee Reductions
General Government	Vehicle License Fee (VLF) Reductions
Health & Human Services	Provider Rate Increases, Caseload Growth
Legislative, Judicial, & Executive	Increased State Support for Trial Courts
Resources/Environmental Protection	Fire Protection, Habitat Preservation, Local Flood Control Projects, Emissions Reduction
Trade & Commerce	Infrastructure Bank Capitalization

Table 5: How Much Will Recent Tax Cuts Cost?
General Fund Impact of Tax Cuts
(Dollars in Millions)

	1998-99	1999-00	2000-01
Enacted in 2000			
VLF Acceleration			\$1,848
Teacher Tax Credit			\$218
Child Care Credit			\$195
Senior Homeowners and Renters Tax Assistance			\$214
Low-Income Housing Tax Credit*			\$ -
Miscellaneous Targeted Tax Cuts			\$88
TOTAL 2000			\$2,563
Enacted in 1999			
VLF Acceleration		\$194	\$294
Health Deduction for the Self-Employed		\$21	\$19
Minimum Corporate Franchise Tax Exemption		\$28	\$58
Increased Research & Development Credit		\$5	\$7
Low-Income Housing Tax Credit*		\$-	\$-
TOTAL 1999		\$248	\$378
Enacted in 1998			
Permanent VLF Cut	\$482	\$1,093	\$1,471
PIT Dependent Credit Increase	\$612	\$20	
Renters Credit Reinstatement	\$67	\$70	\$71
Low-Income Housing Tax Credit*	\$1	\$4	\$8
Senior Homeowners and Renters Tax Assistance		\$70	\$71
Targeted Tax Cuts	\$54	\$69	77
TOTAL 1998	\$1,216	\$1,326	\$1,698
CUMULATIVE TOTAL	\$1,216	\$1,574	\$4,639

*At full implementation, the combined impact of these three measures will reduce annual revenues by \$15 million.
Source: Legislative Analyst's Office, *Major Features of the 1999-00 Budget* (1999); *California Spending Plan 2000-01* (August 2000); and *California's Fiscal Outlook* (November 2000); Franchise Tax Board, *State Tax Expenditure Estimates* (2000); *Governor's Budget Summary 2000-01* (January 2000), and various bill analyses.

their loss in revenues associated with the VLF reductions. Expansions in the Senior Citizens Homeowners and Renters Tax Assistance Program are also scored as General Fund expenditures since assistance is provided to eligible seniors in the form of a check from the state's General Fund. Approximately \$812 million of the \$4.6 billion revenue loss in 2000-01 is attributable to reductions in taxes other than the VLF.

Both the final Wilson tax package (1998-99) and the first two Davis tax reductions provide most of their relief in the form of a reduction in Vehicle License Fees. Measures enacted in 1999-00 and 2000-01 accelerated reductions that would have occurred in a later year based on a complex series of "triggers" tied to state revenues. As part of 2000-01 budget negotiations, Governor Davis proposed a reduction in personal income tax rates that was rejected by the Legislature. The 2000-01 budget agreement included a tax credit for teachers – a compromise from the Governor's original proposal to exclude teachers' earnings from the income tax – and a refundable credit for parents with child care expenses.

In addition to the tax cuts enacted over the past three years, a provision enacted as part of the 1991 budget agreement will reduce the state's sales tax rate by one-quarter cent in 2001. This provision reduces the state's sales tax rate for a year if the director of the Department of Finance certifies that the prior year's reserve exceeded 4 percent of General Fund revenues and forecasts that in the current year the reserve will exceed 4 percent of General Fund revenues.

The strength of the prior and current years' revenue growth was sufficient to trigger the reduction in calendar year 2001 for the first time since its enactment. The temporary rate reduction will reduce General Fund revenues by \$540 million in 2000-01 and \$630 million in 2001-02.⁵ General Fund revenues will also be reduced by a diversion of the proceeds of the sales tax on gasoline to transportation programs in 2000-01 through 2005-06, a shift of approximately \$5.4 billion over the six-year period.

K-12 Education

K-12 Education accounts for the largest share of state General Fund spending and received the largest share (31.3 percent) of the increase in spending between 1998-99 and 2000-01. Despite the magnitude of the increase in funding for education and the focus on education in recent budget debates, the share of state General Fund resources devoted to K-12 Education actually declined significantly between 1998-99 and 2000-01, from 41.6 percent to 38.8 percent.

The state's elementary and secondary schools receive support from the state, local property taxes, federal funds, and a number of smaller revenue sources. The state's school spending guarantee, enacted by Proposition 98 of 1988, provides the framework for school spending in California.⁶ Spending for K-12 educa-

tion under the Proposition 98 spending guarantee increased by nearly a quarter (\$5.2 billion) between 1998-99 and 2000-01. Significant augmentations include \$1.8 billion for "deficit reduction," essentially a repayment of cost-of-living adjustments deferred during the early 1990s; \$2.6 billion for inflation and enrollment growth; \$1.4 billion for school accountability measures enacted during a 1999 special session of the legislature; and funding for a range of teacher recruitment and retention initiatives.

	1998-99	1999-00	2000-01	2001-02	Total
VLF Reductions					
Enacted 1998	\$482	\$1,093	\$1,471	\$2,011	\$5,057
Enacted 1999		\$194	\$294	\$0	\$488
Enacted 2000			\$1,848	\$316	\$2,164
Subtotal	\$482	\$1,287	\$3,613	\$2,327	\$7,709
Senior Property Tax and Renter Assistance					
Enacted 1998		\$70	\$71	\$72	\$213
Enacted 2000			\$214	\$0	\$214
Subtotal	\$0	\$70	\$285	\$72	\$427
TOTAL	\$482	\$1,357	\$3,898	\$2,399	\$8,136

Source: Legislative Analyst's Office estimates (December 2000), *Major Features* (1998, 1999), and *California Spending Plan* (2000).

	Budgeted 1998-99	Budgeted 1999-00	Budgeted 2000-01	Percent Change 1998-99 to 2000-01
General Fund	\$22.1	\$23.7	\$27.3	23.5%
Local Property Taxes	\$9.2	\$9.9	\$10.7	16.3%
K-12 Proposition 98 Total	\$31.3	\$33.6	\$38.0	21.4%
Proposition 98 Per Pupil Spending (Dollars)	\$5,735	\$6,025	\$6,694	16.7%

Source: Legislative Analyst's Office, *California Spending Plan* (1998, 1999, and 2000).

Per pupil spending increased by 16.7 percent (\$959) between 1998-99 and 2000-01. While California ranked 40th among the 50 states in per pupil spending in 1997-98, the most recent year for which data is available, CBP estimates that the recent increases in per pupil spending could bring California to the national average within the next two years.⁷

Transportation

The 2000-01 budget included a significant increase in General Fund spending for transportation. Traditionally, most state dollars for transportation have come from special or bond funds. Recognition of the state’s mounting traffic problems, coupled with the availability of General Fund resources, led lawmakers to increase General Fund support for transportation programs. The centerpiece of the transportation package is a \$1.5 billion 2000-01 allocation for a new “Traffic Congestion Relief Plan.” The plan also redirects a total of \$5.4 billion in sales taxes paid on gasoline from the General Fund to transportation programs over a six-year period. This year’s budget also included a marked shift in the policy framework used to allocate transportation spending. Traditionally, the California Transportation Commission (CTC) has allocated capital expenditures for transportation to specific projects through the State Transportation Improvement Plan (STIP), adopted every two years. Much of this year’s infusion of funding, however, was directly allocated to projects in legislation passed at the end of session, with \$1.6 billion going to fund projects authorized by statute and \$400 million going to local governments on a matching basis for street and road work.⁸

The Bay Area, with 20 percent of the state’s population, received nearly one-third of the new transportation dollars. Nearly one-half of the Bay Area’s allocation (\$725 million) is earmarked for extending BART in Alameda and Santa Clara Counties. San Diego County received a slightly larger share of the new dollars relative to the county’s population. Other regions of the state, including Southern California, received proportionately less relative to their population.

Region	Percent of State Population	Percent of Scheduled Expenditures	Dollars in Millions
Bay Area	20.0%	31.7%	\$1,554
Central Coast	3.1%	0.6%	\$29
Central Valley	13.3%	9.9%	\$485
Southern CA	48.6%	46.3%	\$2,268
San Diego	8.5%	9.8%	\$483
Other	N/A	1.7%	\$83

Source: CBP calculations based on SB 1662 (Chapter 656, Statutes of 2000) and Department of Finance, *City and County Population Estimates* (January 2000).

While significant with respect to historic spending levels, the new plan will make a modest dent in the state’s transportation infrastructure needs. Over a six-year period, the Traffic Congestion Relief Program will spend \$7.2 billion. In contrast, a report by the Business Roundtable identified \$15 billion to \$25 billion in unfunded transportation infrastructure needs.⁹

Housing

Housing was one of the biggest winners in this year’s budget, both in dollar and percentage terms. Major augmentations include \$213 million for multifamily housing, \$59.6 million for farmworker housing, and \$110 million for an incentive program aimed at encouraging local governments to approve more housing. The Governor estimates that the new funding for multifamily housing will assist in the development of 5,200 to 7,200 units. In comparison, CBP’s May report, *Locked Out: California’s Affordable Housing Crisis*, identified a 684,000 gap between the number of low-cost housing units and low income renters.¹⁰

The 2000-01 budget for the Department of Housing and Community Development is the largest ever, with nearly a half billion dollars targeted for housing programs, as compared to only \$20 million for housing programs in 1999-00. Of the total housing budget, however, only 21 percent (\$146 million) was specifically designated as an ongoing spending commitment. The majority was designated as a one-time expenditure with no implied commitment for future funding.

Higher Education

Higher Education received 8.7 percent (\$1.9 billion) of the increase in state General Fund spending between 1998-99 and 2000-01. Despite the infusion of new funds, the share of General Fund expenditures devoted to Higher Education fell from 13.2 percent to 12.0 percent during the same period.

Enrollment has increased at approximately the same rate (6 percent) in each of the Higher Education segments (the University of California, California State University, and Community Colleges) between 1998-99 and 2000-01. Funding increases for the three systems, however, have varied substantially. The University of California has fared the best under the Davis administration, with a General Fund increase of 27.3 percent (\$687 million). The California State University (CSU) budget has only increased by just 14.3 percent (\$309 million), despite the fact that CSU's enrollment has increased by nearly 1 percent more than UC.¹¹ The Community Colleges budget, which consists of both state and local support, rose by 21.0 percent (\$758 million) between 1998-99 and 2000-01.

Funding for the Student

Aid Commission, which administers the Cal Grant financial aid program, has increased substantially over the past two years. The 2000-01 budget included \$531.5 million for the Commission, a \$180 million increase over the past two years, to increase the size and number of Cal Grant awards.¹²

The most significant increase in state support for Higher Education came in a measure passed after the

Dept. of Housing and Community Development	
Jobs/Housing Balance	\$110.0
Code Enforcement & Interregional Planning Incentives	\$10.0
Home Ownership Programs	\$52.1
Farmworker Housing	\$59.6
Multifamily Housing Programs	\$213.0
Homeless Assistance	\$39.0
Miscellaneous	\$3.1
HCD TOTAL	\$486.8
Spending through Other Departments	
Down Payment Assistance (CA Housing Finance Agency)	\$50.0
Teacher Homeownership Assistance (CA Debt Limit Allocation Committee)	\$50.0
Low Income Housing Tax Credit Increase (Treasurer)	\$15.0
Supportive Housing (Dept. of Mental Health)	\$26.1
Integrated Services for the Homeless (Dept. of Mental Health)	\$55.6
GRAND TOTAL	\$683.5

Source: Legislative Analyst's Office, *California Spending Plan 2000-01* (August 2000); Housing California (October 2000) and Governor Gray Davis, *State Budget Highlights* (August 2000).

	Budgeted 1998-99	Budgeted 1999-00	Budgeted 2000-01	Percent Change 1998-99 to 2000-01
University of California	\$2,519	\$2,697	\$3,206	27.3%
California State University	\$2,164	\$2,253	\$2,473	14.3%
Community Colleges				
General Fund (Proposition 98)	\$2,174	\$2,305	\$2,689	23.7%
Local Property Taxes	\$1,441	\$1,568	\$1,683	16.8%
Community Colleges Total	\$3,615	\$3,873	\$4,373	21.0%
Student Aid Commission	\$352	\$388	\$532	51.1%

Source: Legislative Analyst's Office, *California Spending Plan* (October 1998, August 1999, and August 2000).

enactment of the 2000-01 budget. SB 1644 of 2000 makes all academically and financially eligible students entitled to financial assistance under the Cal Grant program. Under prior law, the level of funding provided in the annual budget act limited the number of Cal Grants awarded. SB 1644 allocated \$1.5 billion to the Student Aid Commission to administer the expanded program. Estimates suggest that SB 1644 could increase the cost of the Cal Grant program by \$570 million to \$1.2 billion per year upon full implementation.¹³

Health and Human Services

The Health and Human Services Agency oversees the state’s health, social services, rehabilitation, and employment programs. While Health and Human Services programs received the second largest share of state General Fund expenditures, the increase in spending for these programs has lagged that of the budget as a whole. Health and Human Services programs accounted for 26.8 percent of all General Fund dollars in 1998-99, but have received only 22.9 percent of the increase in state spending between 1998-99 and 2000-01.

Medi-Cal. The Medi-Cal program, which provides health coverage to low-income persons without health insurance, accounts for most of the increase in Health and Human Services spending. New policy initiatives account for approximately one-third of the \$2.4 billion increase in Medi-Cal spending between 1998-99 and 2000-01. More than three-quarters of the \$766 million spent toward new policy initiatives (\$527 million) are attributable to increased payments to long-term care providers, physicians, managed care plans, and providers of other services.¹⁴ The recent settlement of a lawsuit over Medi-Cal reimbursement rates for outpatient services provided by hospitals will increase state costs on a one-time and ongoing basis. While evidence suggests that higher reimbursement levels improve Medi-Cal enrollees’ access to services, provider reimbursement increases do

Table 11: Major Medi-Cal Policy Changes
(General Fund Impact, Dollars in Millions)

	Budgeted 1998-99	Budgeted 1999-00	Budgeted 2000-01
Provider Rate Increases	\$122	\$31	\$496
Elimination of Quarterly Reporting			\$66
Disproportionate Share Hospital Administrative Fee	\$40	\$30	\$55
Expanded Eligibility		\$41	\$24
Dental Preventive Benefits			\$23
Children's Hospitals			\$12
Anti-Fraud Net Savings			-\$76
Nursing Home Reform		\$36	\$17
Institutes for Mental Diseases		\$13	
Regional Burn & Trauma Center (Los Angeles)	\$25		

Source: Legislative Analyst's Office, *California Spending Plan* (1998, 1999, and 2000).

Table 12: Health and Welfare Funding Shifts Reflecting Policy Changes
(Change Over Prior Year, Dollars in Millions)

	Budgeted 1998-99	Budgeted 1999-00	Budgeted 2000-01
Healthy Families Program		\$10	
Aging Programs	\$12		\$33
Alcohol and Drug Programs	\$4		\$23
Child Welfare Services & Foster Care	\$96		\$52
Developmental Services (DDS)	\$87		\$88
California Food Assistance Program	\$71	\$7	\$4
In-Home Supportive Services (IHSS)	-\$20	\$34	\$94
Mental Health Services		\$10	\$117
Adult Protective Services	\$20		
Community Care Facilities		\$10	
Public Health	\$19	\$6	\$70
SSI/SSP	\$61		\$43

Source: CBP calculations based on Legislative Analyst's Office, *California Spending Plan* (1998, 1999, and 2000) and *Governor's Budget Highlights* (January 1998).

not expand access for the uninsured. The share of new dollars devoted to expanding the number of persons enrolled in Medi-Cal was 14 percent (\$130 million). Only 2 percent (\$23 million) was targeted toward expansion of benefits.

Healthy Families. Funding for the Healthy Families Program (HFP) has more than doubled since 1998-99 to \$157.1 million. Most of the increased cost of the program reflects rising caseloads as the income eligibility level for the program was increased to 250 percent of the federal poverty level in 1999.¹⁵ Enrollment in the Healthy Families Program has approximately doubled since 1998-99, accounting for most of the program’s spending increase. Despite higher enrollment levels, California has not spent its full allocation of federal funds in any year since the program’s establishment in 1997. A recent federal policy directive allows states to request permission to use these funds to extend coverage to parents of eligible children. Legislation signed by the Governor in 2000 initiates the process of expanding coverage, and a recent federal law change will allow California to keep \$350 million that otherwise would have reverted to the federal government.

CalWORKs. Funding for CalWORKs rose by \$278.3 million (15.5 percent) between 1998-99 and 2000-01. Total spending for the CalWORKs programs reflects a drop in the number of persons receiving assistance; cost-of-living increases in cash assistance payments; and increased spending on welfare-to-work, child care, and supportive services.¹⁶ While spending for the CalWORKs program has increased, overall state spending for CalWORKs and related programs that qualify for the maintenance effort requirement for the federal Temporary Assistance for Needy Families (TANF) block grant is at the bare minimum needed to satisfy federal requirements.

In-Home Supportive Services (IHSS). Recent increases in spending for the IHSS program are primarily attributable to a multi-year effort to boost the wages of IHSS workers and provide health coverage to service providers. State spending for IHSS has also increased to offset reductions in the federal Social Services Block Grant, which pays for a share of the program’s cost.

Other Programs

Trial Court Funding. Trial court funding accounts for a significant portion of the recent increases in Legislative, Judicial, and Executive spending, with state support for trial courts increasing by 76.6 percent (\$477 million) since 1998-99. Much of this increase is due to legislation adopted in 1997 and 1998 under Governor Wilson, whereby the state substantially increased its financial responsibility for trial court operations in order to provide fiscal relief to counties.

Resources. Spending for programs under the jurisdiction of the Resources Agency actually declined between 1998-99 and 1999-00 due to the re-allocation of \$100 million as part of an agreement to purchase land within the Headwaters forest. The 2000-01 budget for Resources programs, however, increased significantly (25 percent). Analyses suggest that some of the recent increases reflect a substitution of General Fund for special fund dollars. According to a 1999 analysis by the Senate Budget and Fiscal Review Committee, “Several of the special funds traditionally used to support a broad range of re-

	Budgeted 1998-99	Budgeted 1999-00	Budgeted 2000-01	Dollar Change 1998-99 to 2000-01	Percent Change 1998-99 to 2000-01
Trial Court Funding	\$623	\$921	\$1,100	\$477	76.6%

Source: Legislative Analyst’s Office, *California Spending Plan* (1998, 1999, and 2000).

sources programs continue to experience declining revenues.... These declines place increased pressures both on programs and on the General Fund."¹⁷

Environmental Protection. Spending for the California Environmental Protection Agency has increased by 70 percent between 1998-99 and 2000-01. Most of the new funding has gone to increased enforcement and monitoring activities, as well as several cleanup initiatives, including brownfield cleanup (\$85 million) and new programs to reduce emissions from engines (\$140 million).

Youth and Adult Corrections. Despite slow or declining caseload growth, funding has increased by 11.6 percent (\$448 million) for the California Department of Corrections (CDC) and 6.1 percent (\$19 million) for the California Youth Authority (CYA) between 1998-99 and 2000-01. During the same period, CDC's inmate and parolee population rose by 2.6 percent, while the number of wards under the jurisdiction of the CYA fell by 1.9 percent.

Local Government. Most of the increased funding for local government in recent state budgets has gone for public safety, transportation, and other state-mandated programs administered by local government. However, the 1999-00 budget allocated \$150 million to cities and counties and the 2000-01 budget included \$212 million for cities, counties, and special districts. Both allocations were made, in part, on the basis of a formula that reflected the shift of property tax revenues to education enacted in the early 1990s.¹⁸ In addition, counties have benefited from an increase in state trial court spending and a reduction in the administrative fee that county hospitals pay to the state under the Disproportionate Share Hospital (DSH) program under Medi-Cal. The remainder of the increased state spending on local programs will support specific, mostly one-time, policy initiatives.

Child Care. Funding for state-supported child care programs increased by 46 percent, to nearly \$3 billion, between 1998-99 and 2000-01. Of this increase, 69 percent (\$648 million) came from the state's

Table 14: Local Government Spending Highlights
(Dollars in Millions)

	Budgeted 1998-99	Budgeted 1999-00	Budgeted 2000-01
Criminal Justice	\$200	\$180	\$514
Environment	\$40	\$46	\$112
General Purpose Relief		\$150	\$212
Health & Human Services*	\$40	\$10	\$35
Housing			\$120
Local Libraries	\$39	\$59	
Transportation			\$400
Trial Court Funding	\$623	\$921	\$1,100

*A portion of the reduction in the DSH administrative fee will benefit non-county hospitals. Source: Legislative Analyst's Office, *California Spending Plan* (1998, 1999, and 2000) and *Major Features* (1998, 1999, and 2000); *Housing California* (October 2000); and Assembly Concurrence Analyses of AB 1396 and AB 1913 (August 2000).

Table 15: State Child Care and Development Programs
(Dollars in Millions)

	Budgeted 1998-99	Budgeted 1999-00	Budgeted 2000-01	Dollar Change 1998-99 to 2000-01	Percent Change 1998-99 to 2000-01
Department of Education	\$1,298	\$1,566	\$2,130	\$832	64.1%
Department of Social Services	\$695	\$785	\$604	-\$91	-13.0%
California State University	\$1.1	\$1.3	\$1.3	\$0.2	13.4%
California Community Colleges	\$28	\$25	\$26	-\$2	-7.1%
Tax Credits	\$10	\$11	\$208	\$198	1980.0%
TOTALS, ALL PROGRAMS	\$2,032	\$2,388	\$2,969	\$937	46.1%

Source: Department of Finance unpublished tables. Includes federal dollars.

General Fund, while 31 percent (\$287 million) came from federal funds.

The shift in child care spending reflects three major trends. First, spending increased for programs administered by the State Department of Education, including CalWORKs Stages 2 and 3 child care; state preschool programs; and general child care center programs serving low income children from infancy through school age in working families. Second, spending decreased for CalWORKs Stage 1, reflecting both a decline in welfare caseloads and a shift of families to Stages 2 and 3 child care programs. Third, the state created a new refundable child care tax credit in 2000 for families with child care expenses.¹⁹

CONCLUSION

California's extraordinary revenue growth has given lawmakers the ability to restore spending reductions made during the early 1990s and invest in a number of new policy initiatives. Taken as a share of General Fund spending, the most notable policy shifts expressed in the first two budgets of the Davis administration are increased commitments to housing and transportation, although most of the new funds are one-time or limited in duration. While much of the budget rhetoric has focused on education, the share of General Fund resources devoted to both K-12 and Higher Education has declined over the past two years.

The significant amount of one-time spending contained in each of the past two budgets should give lawmakers some protection against a downturn in the economy as well as flexibility in crafting future years' budgets. As long as revenue growth remains strong, lawmakers can shift amounts previously devoted to one-time investments to address the state's most pressing needs and issues. Lawmakers have also acted cautiously by accelerating previously enacted reductions in the state's VLF, rather than enacting new tax relief measures.

California continues to face a number of challenges that will place demands on policy and budgetary resources. An aging population will increase demands on health and social services programs. In 2002, Congress will reauthorize the Temporary Assistance for Needy Families (TANF) block grant that helps support the state's CalWORKs program, which provides cash assistance and welfare-to-work services to needy families with children. Congress is also scheduled to reauthorize the Child Care and Development Block Grant, which supports a major fraction of the state's child care programs, and the Food Stamp program, a critical part of the safety net for poor families. Finally, recent school spending increases should bring California to the national average with respect to per pupil spending, but are likely to fall short of providing an adequate educational environment for all California children. With revenues again exceeding expectations, deliberations over the 2001-02 budget will provide lawmakers with a unique opportunity to invest the state's extraordinary resources to build a better future for California's families and communities.

METHODOLOGY

This report is based on budget documents produced by the Department of Finance and the Legislative Analyst's Office, analyses of legislation, and related materials. *Winners and Losers* is designed to illustrate broad spending trends and budget priorities, rather than serve as a precise reconciliation of individual expenditure items. Key documents referenced include:

Department of Finance, *Governor's Budget Highlights* (1998, 1999, and 2000).

Legislative Analyst's Office, *California Spending Plan* (1998-99, 1999-00, and 2000-01).

ENDNOTES

¹ Unless otherwise stated, all of the figures in this report refer to General Fund expenditures as budgeted and General Fund revenues as of the forecast used as the basis of the budget, rather than the actual amounts received or spent during any given fiscal year.

² Department of Finance, *Historical Data General Fund Budget Summary* (August 2000).

³ Legislative Analyst's Office, *California's Fiscal Outlook, LAO Projections 2000-01 through 2005-06* (November 2000), p. 2.

⁴ Trade and Commerce Agency spending increased in 1999-00 due to a one-time infusion of funds for the state's Infrastructure Development Bank and then dropped in 2000-01 to the 1998-99 level.

⁵ Legislative Analyst's Office, *California's Fiscal Outlook, LAO Projections 2000-01 through 2005-06* (November 2000), p. 14.

⁶ The Proposition 98 guarantee guarantees K-12 education and Community Colleges a level of funding that, under most circumstances, is equal to the amount received in the prior year adjusted for changes in enrollment and inflation. Expenditures covered by the spending guarantee include most operating costs, such as salaries and text books, but do not include capital expenditures for new facilities, major maintenance, or debt service.

⁷ National Education Association, *Rankings and Estimates: Rankings of the States 1999 and Estimates of School Statistics 2000* (1999), p. 56. CBP estimates that California could reach the national average in 2001-02 or 2002-03 depending upon spending trends in other states.

⁸ Legislative Analyst's Office, *California Spending Plan 2000-01* (August 2000), pp. 46-49.

⁹ California Business Roundtable, *Building a Legacy for the Next Generation* (no date), p. 10 and Legislative Analyst's Office, *California Spending Plan 2000-01* (August 2000), p. 47.

¹⁰ Department of Finance, *2000-01 Budget Highlights* (2000), p. 8 and California Budget Project, *Locked Out: California's Affordable Housing Crisis* (May 2000), p. 16.

¹¹ Of the increase in spending for the University of California, a small percentage (\$109 million) went to K-12 initiatives in the 2000-01 budget.

¹² Senate Floor Analysis of SB 1644 (August 29, 2000) and Legislative Analyst's Office, *California Spending Plan 2000-01* (August 2000), pp. 28-29.

¹³ Legislative Analyst's Office, *California Spending Plan 2000-01* (August 2000), pp. 28-29.

¹⁴ These figures do not include costs incurred after the first year a policy change is implemented. For example, the spending increase attributable to increasing the income eligibility level for certain parents in the Medi-Cal program is counted in 1999-00 under "expanding access," but the 2000-01 cost of this change is treated as a baseline expenditure. This figure includes provider rate increases as well as nursing home reform initiatives and payments to other providers.

¹⁵ Legislative Analyst's Office, *California Spending Plan 1998-99* (October 1998), p. 46, *California Spending Plan 1999-00* (August 1999), p. 27, and *California Spending Plan 2000-01* (August 2000), p. 35.

¹⁶ Legislative Analyst's Office, *California Spending Plan 1998-99* (October 1998), p. 35, *California Spending Plan 1999-00* (August 1999), p. 29, and *California Spending Plan 2000-01* (August 2000), p. 38. Future CBP publications will explore the shifts within CalWORKs funding in detail.

¹⁷ Senate Committee on Budget and Fiscal Review, *Overview of the 1999-00 Budget Bill* (January 1999), pp. 2-21 to 2-22.

¹⁸ Legislative Analyst's Office, *California Spending Plan 2000-01* (August 2000), p. 42 and Senate Conference Report analysis of AB 1396 (August 30, 2000).

¹⁹ CBP calculations based on Department of Finance unpublished tables, as well as AB 1656 (Chapter 324, Statutes of 1998), SB 160 (Chapter 50, Statutes of 1999), and AB 1740 (Chapter 52, Statutes of 2000).

