



Governor's Shortfall Proposals

SENATE REPUBLICAN FISCAL OFFICE

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OVERVIEW

After a record-setting, 37-percent increase in state General Fund spending in 1999-00 and 2000-01, total General Fund spending stopped growing in 2001-02. However, this was achieved by backing out one-time spending to cover the still escalating base costs of government. As a result, the state faced a \$23.4 billion, two-year shortfall last year. The Budget Act of 2002 "solved" the problem primarily through massive borrowing, postponing tough choices, and increasing revenue.

In our report on the 2002-03 Budget Act (http://republican.sen.ca.gov/pubs/020912_BudgetActFinal.pdf), the Senate Republican Fiscal Office stated that the Budget would result in a shortfall for 2002-03 and 2003-04 totaling at least \$19.4 billion. In November, the Legislative Analyst advised that the shortfall had grown to \$21.1 billion.

Finally, on December 6, 2002, the Department of Finance (DOF) issued its December 2002 Mid-Year Spending Reduction Proposals. While the Proposals contain some borrowing and fund shifts, for the most part they represent a series of tough choices on spending reductions to address about half of the budget shortfall. The DOF advises that the remainder of the shortfall will be addressed in the Governor's Budget for 2003-04, which will be released in early January, 2003.

Below is a brief summary of the highlights of the proposal. For more detail, the DOF's complete list of specific proposals is also attached.

PROGRAM REDUCTIONS - \$8,658 million

Current Year: \$2,038.1 million

Budget Year: \$6,619.9 million

- **Transportation.** Cuts transportation funding by approximately \$1.8 billion primarily from:
 - Suspension of a \$1 billion transfer authorized under Proposition 42;
 - Elimination of \$90 million in apportionment funding for local streets and roads; and
 - Forgiveness of \$500 million in loans to the General Fund.

With these reductions, the Governor has essentially abandoned his plan for relieving traffic congestion in California. The one positive note is that responsibility for prioritizing transportation projects in the Traffic Congestion Relief Program (TCRP) will be shifted from Caltrans to the California Transportation Commission (CTC).

- **Local Flood Subvention Programs.** Cuts funding for levee repair and other local flood control efforts by \$58 million.
- **CalFed.** Cuts oversight and coordination program by \$465,000.
- **Water Resources Control Board.** Cuts water quality monitoring activities by \$2.4 million.
- **Zero Emission Vehicle Grants.** Cuts program funding by \$2 million.
- **K-14 Education.** Reduces current- year Prop. 98 funding by \$1.7 billion, bringing it to the new estimate of the Proposition 98 minimum guarantee (based on reduced current-year revenues). Cuts all K-12 and community college local assistance programs 3.66 percent for a current-year savings of nearly \$1.1 billion. Additional current-year savings are generated by swapping \$356.8 million of Regional Occupational Centers and Programs funding with prior-year Prop. 98 Reversion Account funds and through other reductions. Eliminates Stage 3 CalWorks child care services in April 2003, saving \$98.8 million.
- **Higher Education.** Cuts current-year UC budget \$74.3 million and CSU budget \$59.6 million.
- **State Library.** Reduces by 50 percent state grants to local libraries, for a \$15.8 million savings.
- **Judiciary / Trial Courts.** Makes unallocated reductions of \$39 million in the Judiciary and \$250 million in the Trial Courts.
- **Employee Compensation.** Authorizes the Department of Personnel Administration to negotiate a \$470 million reduction in the 2003-04 employee compensation costs through the deferral of scheduled salary increases, lowering or freezing future salary or benefit expenditures, layoffs, furloughs, or other similar personnel actions in order to achieve the anticipated savings.
- **State Teachers Retirement System (STRS).** Reduces the State's statutorily required annual payment to the Supplemental Benefit Maintenance Account to \$50 million for a savings of \$500 million, with a statutory commitment to restore the funds if purchasing power protection at the 80-percent level cannot be maintained through July 1, 2036.
- **Statewide – Reduction in State Operations.** A component of the 2002 Budget Act was an unallocated reduction of up to \$750 million in State Operations. Absent further statutory changes, this mid-year reduction package is able to achieve only \$320 million of the targeted \$750 million reduction. An additional \$1.6 billion in state operation reductions likely will be proposed in the 2003-04 budget.
- **Mandates.** Suspends payments for non-Proposition 98 reimbursable state mandates for the budget year and prior fiscal year for total savings of \$769.4 million. Defers budget year Prop. 98 mandate payments for a savings of \$870 million.
- **Health – Medi-Cal.**
 - Cuts **provider rates** (including nursing homes) by 10 percent effective April 1, 2003. (Current-year savings of \$90.4 million for three months). The actual impact to providers will be much greater because the federal share of costs (approximately 50 percent) will also be lost.
 - Eliminates selected **optional benefits** for adult recipients, including dental and chiropractic services, medical supplies, podiatry, psychology, independent rehab centers, acupuncture, and occupational therapy effective April 1, 2003. (Current-year savings of \$63.3 million for three months).

- Reinstates the **Quarterly Status Report** effective April 1, 2003. Only adult recipients will lose eligibility if the reports are not submitted because children have continuous eligibility under the Medi-Cal Program. (Current-year savings of \$5 million for three months, and budget-year savings of \$85 million).
- Rescinds **1931 (b) expansion** effective April 1, 2003. Eligibility for the 1931 (b) Program will be limited to families whose income is consistent with those who qualify for CalWORKS cash assistance. Persons already participating under the expansion will be discontinued from the Program. Two-parent households with income will be most affected. (Current-year savings of \$6.2 million for three months, budget-year savings of \$118 million, and budget-year-plus-one savings of \$492.6 million).
- **Health – Public Health.**
 - Reduces funding for **cancer research** (\$6.3 million) and for prostate cancer treatment (\$10 million from the Tobacco Settlement Fund). Eliminates the Gynecologic Cancer Information Program (\$150,000).
 - Eliminates the **Valley Fever vaccine research** program effective January 1, 2003. (Current-year savings of \$350,000 for six months, and budget-year savings of \$700,000).
- **Developmental Disabilities.** Implements statewide standards for the purchase of services for Regional Center clients. (Budget-year savings of \$100 million).
- **Mental Health.** Eliminates the Early Mental Health Services that were funded through the Department of Mental Health and were counted toward the Prop. 98 guarantee. Service providers will have to rely on limited Realignment funds and special education funding. (Current-year savings of \$549,000, and budget-year savings of \$15 million).
- **Mental Health Managed Care.** Cuts provider rates by 10 percent effective April 1, 2003. (Current-year savings of \$4 million, and budget-year savings of \$16 million).
- **Welfare COLAs.** Suspends welfare COLAs in the current year and budget year. Suspension of SSI/SSP COLA would generate savings of \$24.1 million in current year and \$328 million in budget year. Suspension of CalWORKS COLA would not generate General Fund savings in current year but would generate \$80.3 million in budget-year savings.
- **Child Development.** Eliminates the Child Development Policy Advisory Committee. Elimination would not generate current-year savings but would generate \$0.4 million in budget-year savings.
- **Community Services and Development.** Eliminates the Department of Community Services and Development and transfers some programs to the Department of Social Services. Elimination of the Department and transfer of programs would not generate General Fund savings. Eliminates the Naturalization Services Program. Other federally funded state programs already provide citizenship assistance services.
- **Rehabilitation Services Rates.** Reduces rates and suspends rate adjustments paid for employment skills training services given to developmentally disabled persons. Reduced rates would generate savings of \$1.5 million in the current year and \$6.3 million in the budget year. Rate adjustments suspended for three years would generate no current-year savings but would result in \$12.3 million in savings in the budget year.

FUND SHIFTS - \$815.6 million

Current Year: \$657.5 million

Budget Year: \$158.1 million

- **Workers' Compensation Assessments.** Replaces General Fund with user funding for assessments on insured and self-insured employers. Fund shift would generate savings of \$24.6 million in the current year and \$75.8 million in the budget year.
- **CalFed.** Shifts \$16 million in funding for water storage activities to Proposition 50 funds, in lieu of General Fund.
- **Wildlife Conservation Board.** Shifts \$25 million for the Cargill Salt Ponds and \$19 million for wetlands restoration from the General Fund to bond funds.
- **Park fees.** Increases fees for day use and camping, generating approximately \$4.5 million in revenues to backfill a General Fund reduction.
- **K-14 Education.** Shifts \$356.8 million of prior year Prop. 98 funding into the current year, as noted above.
- **Department of Developmental Services.** Increased federal financial participation under the Home and Community-Based Waiver Program is projected, which will result in a total reversion of \$156.7 million.

TRANSFERS AND OTHER REVENUES - \$699.7 million

Current Year: \$685.6 million

Budget Year: \$14.1 million

- **Transportation.** Reverts \$100 million from the Traffic Congestion Relief Fund.
- **Managed Care.** Transfers proceeds of a \$1 million settlement with Kaiser Permanente.
- **Community Redevelopment Agencies.** Transfers in the current year approximately \$500 million of unencumbered Funds in Community Redevelopment Agency Low and Moderate Income Housing Funds into the General Fund.
- **Intermediate Care Facilities for the Developmentally Disabled.** Levies an assessment of 6.5 percent, which will be matched with federal funds to bring in revenue of \$5 million in the current year and \$20 million annually thereafter. These facilities would then receive 75 percent of these funds as a provider rate increase, and the remaining 25 percent would be used to offset General Fund expenditures for these facilities.

LOANS - \$25.4 million

Current Year: \$25.4 million

Budget Year: --

- Transfers \$18.1 million from seven housing special funds and \$6.2 million from two special Trade and Commerce Funds into the General Fund in the current year. Suspends the Transportation Congestion Relief Fund payment to the State Highway Account in the budget year for a \$50 million General Fund savings.

For more detail go to:

http://www.dof.ca.gov/HTML/BUD_DOCS/midyr02.pdf