

## REVENUES AND EXPENDITURES

Assembly Bill 1656 (Ducheny) appropriates \$78.8 billion in total funds for fiscal year 1998-99, representing a \$1.2 billion increase in expenditures over the Governor's May Revision. The budget bill contains \$58.6 billion in General Funds, which is approximately \$351 million above the Governor's May Revision proposal.

AB 1656 is predicated upon the Department of Finance revenue estimates for the budget year, which due to the strong economy and stock market, are forecast to be \$4.4 billion higher than projected in January (over a combined two fiscal year period) when the Governor originally proposed his State spending plan. Nevertheless, the revenues adopted by the Conference Committee are \$787 million less than the Governor's May Revision, which is attributable primarily to an increase in the dependent credit and the reinstatement of the renter's tax credit.

The following chart compares May Revision General Fund Revenues and Expenditures against those contained in AB 1656. As evidenced in the chart, total General Fund resources available to the Conference Committee are approximately \$1.2 billion less than used by the Administration when developing the May Revision expenditure plan. As noted above, this is primarily due to the adoption of tax credit bills, however, it also reflects the loss of \$238 million in federal funds that will not materialize.

### GENERAL FUND CONDITION STATEMENT

(in millions)

	<b>GOVERNOR'S REVISED 1998-99 BUDGET</b>	<b>CONFERENCE COMMITTEE VERSION</b>	<b>DIFFERENCE</b>
Prior Year Balance	\$2,520	\$2,139	-\$381
Revenues and Transfers	57,847	57,060	-787
<b>Total Resources Available</b>	<b>\$60,367</b>	<b>\$59,199</b>	<b>-\$1,168</b>
<b>Total Expenditures</b>	<b>\$58,274</b>	<b>\$58,625*</b>	<b>\$351</b>
<b>Fund Balance</b>	<b>\$2,093</b>	<b>\$574</b>	<b>-\$1,519</b>
Reserves:			
Encumbrances	445	445	0
Economic Uncertainties	1,648	129	-1,519

\*Includes a \$40 million set-aside for Developer Fee Reimbursements.

The chart below compares May Revision General Fund expenditures by major agencies to those adopted by AB 1656. The chart only compares General Funds appropriated by the bill and does not include continuous appropriations, non-governmental funds and/or funds appropriated in a prior year, but will be spent in 1998-99.

<b>GOVERNOR'S MAY REVISION VS.            CONFERENCE COMMITTEE VERSION            1998-99 BUDGET - GENERAL FUND EXPENDITURES COMPARISON            BY AGENCY</b> (in millions)			
	<b>GOVERNOR'S REVISED 1998-99 BUDGET</b>	<b>CONFERENCE COMMITTEE VERSION</b>	<b>DIFFERENCE</b>
Resources & Environmental Protection Agency	\$1,350	\$1,393	\$43
Health & Welfare	15,362	15,605	243
Youth & Adult Corrections	4,494	4,482	-12
K-12 Education	24,041	24,304	263
Higher Education	7,527	7,686	159
General Government & Remaining Areas	5,500	5,155	-345
<b>TOTAL</b>	<b>\$58,274*</b>	<b>\$58,625</b>	<b>\$351</b>

\* Includes a \$40 million set-aside for Developer Fee Reimbursements.

## BUDGET CONFERENCE COMMITTEE SUMMARY

The following is a summary of major Budget Conference Committee actions reflected in the 1998 Budget Bill, including: K-12 education; higher education; tax cuts; health; disability programs; social services; local government; general government; public safety/corrections; transportation; and resources and environmental protection.

### K-12 EDUCATION

The 1998 budget significantly increases investments in the public education system. Specifically, the budget provides an increase of approximately \$800 million over the Proposition 98 General Fund guarantee level, which includes both K-12 and Community Colleges. AB 1656 accomplishes this by providing \$230 million more General Fund, or a 45 percent increase, than was proposed by the Governor for K-12 and Community Colleges.

- **Deferred Maintenance.** The budget provides \$115 million in on-going funding for all school districts to meet their facilities deferred maintenance needs. In addition, the budget includes, an additional \$100 million in one-time funds for schools with classrooms that are over 25 years old.
- **9<sup>th</sup> Grade Class Size Reduction.** The budget includes \$88.9 million to reduce class sizes in a second subject area for the 9<sup>th</sup> grade. Participating schools would receive \$135 per-pupil, which is the current funding rate provided for the Morgan/Hart Class Size Reduction Program for grades 9-12, inclusive.
- **K-3 Class Size Reduction.** The budget includes \$1.5 billion to continue funding for the Class Size Reduction Programs in grades K-3.
- **After School Programs.** The budget provides \$50 million of on-going funds for after school programs. These funds will be allocated through a competitive grant process to provide childcare for elementary, middle and junior high schools. The program will offer a safe environment for students at the school site until 6:00 p.m. on all school days.
- **Remediation Programs.** The budget provides \$75 million for remediation programs for students performing below grade level. These programs may be offered during school hours, after school, or in summer session.
- **Instructional Materials.** The budget provides \$250 million a year for four years, for the purchase of instructional materials in grades K-12. Districts will be given funding for standards-based textbooks in 1998-99. These on-going funds will be used by districts to purchase textbooks in all core curriculum subjects, over the next four years.
- **College Preparation.** The budget provides \$30 million for college preparation programs for schools with low college participation rates. Of the funds, \$20

million is for grants to schools districts to form partnerships with higher education institutions and community groups, and \$10 million is for SAT Preparation and Advanced Placement programs.

- **Cost of Living Adjustment.** The budget includes \$375 million for a Cost-of-Living-Adjustment for revenue limits at the current statutory rate of 3.95 percent, which provides discretionary funding for California schools districts.
- **Longer School Year.** The budget provides \$195 million to fund three days of staff development, outside of the 180-day instructional year, for classroom teachers at \$270 per teacher per day and one day for classroom aides at \$140 per day.
- **Library Materials.** The budget provides \$158.5 million for school districts to update library resources, including books, periodicals, computer software, and equipment necessary to provide library resources within the school library.
- **Science Equipment.** The budget provides \$71.5 million in one-time funds for schools to purchase science lab equipment.
- **Teacher Preparation.** The budget provides \$33 million to expand teacher mentoring through the Beginning Teacher Support and Assessment Program (BTSA), \$10 million to augment the Paraprofessional Teacher Training Loan Assumption Program, and \$11.8 million to expand the pre-intern teacher preparation program.

## HIGHER EDUCATION

- **Enrollment Growth.** The budget fully funds enrollment growth at the University of California (UC), California State University (CSU) and the Community College system.
- **Financial Aid.** The budget contains \$46 million to expand the Cal Grant Program, representing the largest increase in financial aid funding in history. This action will provide new awards for 13,000 qualified needy students and come closer to meeting the statutory goal.
- **Outreach.** The budget includes \$43.5 million to expand student academic outreach programs at the UC, CSU and the Student Aid Commission. Of these funds, \$38.5 million will be for UC outreach programs, \$4 million for CSU outreach programs, and \$1 million for Student Aid Commission outreach programs.
- **Student Fees.** Pursuant to legislation passed in the legislature last year, AB 1318 (Ducheny), the budget includes \$54 million to reduce fees by five percent at the UC and CSU, and by \$1 per unit at Community Colleges for the 1998-99 academic year.

- **Teacher Preparation.** The budget provides \$6.5 million to fund state support for summer session teacher preparation programs at UC and CSU, \$9.3 million to expand enrollment in CSU teacher preparation programs, \$5 million to create a distance learning teacher preparation program, \$10 million to fund 3,000 “Cal Grant T” financial aid awards, and authorization to expand the APLE teacher loan forgiveness program by 4,100.
- **Deferred Maintenance and Instructional Equipment.** The budget provides the UC and CSU with \$140 million in one time funds for deferred maintenance, instructional analytical equipment and computer labs.
- **Partnership for Excellence.** The budget provides \$100 million in general purpose funding for Community Colleges in exchange for local accountability and improved student outcomes.

## TAX CUTS

- **Vehicle License Fee Cut.** The budget contains \$533 million to permanently reduce the Vehicle License Fee (VLF) by 25 percent beginning in January 1, 1999. The Motor Vehicle License Fee Account will be made whole, and local governments protected, by using General Fund dollars to replace revenues not collected due to the cut. The VLF will incrementally be reduced even further, up to 67.5 percent in 2002-03, if General Fund revenues significantly outperform current projections. The revenue targets will be high enough to ensure education investments continue to increase in future years.
- **Additional Tax Cuts.** The budget contains additional significant tax cuts, including: \$133 million for the Renters’ Tax Credit, which will provide a \$60 nonrefundable credit to single renters who earn less than \$25,000 and a \$120 nonrefundable credit to couples who earn less than \$50,000; \$115 million for targeted tax cuts (\$53 million of these cuts will remain in place should Proposition 7, the Planning and Conservation League (PCL) tax credit proposal, pass in November); and \$614 million to increase the dependent exemption credit to \$250 per dependent beginning in tax year 1998 – the credit was previously scheduled to increase to \$120 in tax year 1998 and to \$222 in tax year 1999.

**HEALTH**

- **Health Coverage for Children.** The Legislature expanded the Healthy Families program to cover 200,000 additional children by including children in families with incomes up to 250 percent of the federal poverty level. In addition, the program was also expanded to include new legal immigrant children arriving after August 22, 1996. The budget includes \$3.1 million for this expansion.
- **Medi-Cal Rate Increases.** The budget provides several rate increases in the Medi-Cal program, particularly rates that were believed to present a barrier to access. Specifically, the budget includes a 20 percent rate increase for primary and preventive care services for children, a ten percent increase for similar services for adults, and a five percent rate increase for Early and Periodic Screening Diagnostic and Treatment (EPSDT) services. A total of \$240 million is included for Medi-Cal rate increases.
- **Health Care Safety Net.** The budget includes \$18 million for grants to community health clinics for indigent health care services. This represents an increase of 100 percent over the level of funding for the current year. In addition, the Legislature assisted clinics in their transition to managed care by providing funding for capital equipment.
- **Safe Drinking Water.** The budget includes \$15.2 million that will be used to draw down approximately \$75 million in federal funds for the state's Safe Drinking Water Revolving Fund. These monies will be awarded to local water districts to fund a variety of projects aimed at improving the quality and safety of drinking water.

**DISABILITY PROGRAMS**

- **Supported Living Services Rate Increase.** The budget provides a five percent rate increase at a cost of \$5.1 million to expand access to the Supported Living Services program, which provides adults with disabilities the opportunity to live more independently in the community.
- **Improved Case Management Services for the Developmentally Disabled.** The budget makes a significant investment in improving the quality of case management for individuals with disabilities by providing \$28 million to reduce the ratio of case managers to clients.
- **Community Care Facilities Rate Increase and Staff Training.** The budget includes several major proposals to enhance the quality of life for persons with disabilities residing in community settings. The Legislature approved a \$20 million plan to train and increase wages for direct care staff in licensed community care facilities. In addition, the Legislature provided a four percent rate increase for community care facility providers at a cost of \$15 million.

**SOCIAL SERVICES**

- **CalWORKS.** The budget includes the statutorily required restoration of the welfare grant reduction and the welfare COLA for CalWORKS recipients. A family of three in a high-cost county currently receives a monthly grant of \$565. This would increase to \$609 per month.
- **SSI/SSP COLA.** The budget includes \$101 million to provide the statutory state SSI/SSP COLA and an additional one percent grant increase. Currently, an aged or disabled individual receives \$650 per month. This would increase to \$676 per month.
- **Legal Immigrants.** The budget provides funding for a state-only program to provide SSI/SSP benefits to legal noncitizens and for a state-only program to provide food stamp benefits to legal noncitizens who became ineligible for the federal programs due to federal welfare reform.
- **Child Welfare Services Program.** The budget includes an increase of \$40 million for counties in the Child Welfare Services program to provide more case management and services to children who are abused and neglected.
- **Foster Care.** The budget includes \$104 million to enhance and improve foster care programs in California.
- **Battered Women's Shelters.** The budget provides \$5 million to increase services through the Battered Women's Shelter Program.
- **Seniors.** The budget includes an increase of \$52.7 million to expand the Adult Protective Services program, which responds to reports of abuse and neglect of adults and the elderly. In addition, the budget provides \$18 million to expand Multi-purpose Senior Service Programs, Adult Day Health Care and Alzheimer Day Care Resource Centers and Linkage programs.
- **Child Support Automation system.** The budget funds the California Child Support Automation system (CCSA) to replace the failed Statewide Automated Child Support (SACSS) system that cost taxpayers over \$100 million dollars. The CCSA is scheduled to be federally approved by September 30, 2001.

**LOCAL GOVERNMENT**

- ***Trial Court Maintenance of Effort.*** The budget appropriates an additional \$27.8 million to reduce county remittance levels to the state for trial court maintenance of effort. AB 233 (Escutia and Pringle), Chapter 850, Statutes of 1997 caps county contributions at their 1994-95 levels, however this adjustment is necessary as a result of reported 1994-95 amounts including costs that were supported by various grants or were one-time costs only.
- ***State Support for Trial Courts.*** The budget agreement contains Trailer Bill language that provides significant relief to counties by buying out the court costs of 17 additional small counties, increasing the total number of bought out counties to 37. The remaining counties will have an additional 10 percent of their court costs back filled with General Fund dollars. The adjustments will take effect beginning in fiscal year 1999-00 for a total cost of \$92 million. In addition, counties will receive approximately \$50 million over five years beginning in 1999-00 to mitigate the loss of funds resulting from the maintenance of efforts adjustment being delayed from 1997-98 to 1998-99.
- ***Citizens Option for Public Safety (COPS).*** The budget appropriates \$100 million for the popular Citizens' Options for Public Safety (COPS) program, which provides funding for frontline public safety activities for local law enforcement entities.
- ***Infrastructure Bank Funding.*** The budget appropriates \$50 million for the Infrastructure Bank to create jobs and finance local projects such as city streets, county highways, flood controls, and parks.
- ***Local Detention Facilities.*** The budget provides \$81.4 million in federal funds for counties to construct local detention facilities, including juvenile facilities.

**GENERAL GOVERNMENT**

- ***Housing.*** The budget includes approximately \$40 million to help meet housing needs for Section 8 residents, farmworkers, and families on public assistance, and to provide local assistance for various programs. The housing package includes investments in the following programs: \$2 million increase for the Emergency Housing Assistance Program (EHAP), \$11 million increase in the farmworker housing programs, \$15 million increase for the California Housing Rehabilitation Program, \$1 million increase for the Self-Help housing program, \$10 million for the Moving to Work Families Housing Program, and \$5 million for construction of emergency housing shelters.

- **Employee Compensation.** The budget provides \$546 million for a six percent salary increase for California's state workers effective July 1, 1998, and an additional three percent increase effective January 1, 1999. State employees have not received a pay increase in over four years.
- **Smog Check II.** This program was restructured to offer substantial reforms that make the program more consumer friendly and provide important low-income assistance measures. By expanding the number of Gold Shield Stations that can test, repair and certify vehicles, consumers will experience less onerous measures to smog their vehicle. \$93 million was approved to run the reformed Smog Check II program.
- **Information Technology.** The budget provides \$19 million to various state agencies for their Year 2000 compliance efforts. In addition, the budget contains a \$20 million Year 2000 Problem reserve account for state agencies and departments to draw from in the event existing funds are not sufficient to complete compliance efforts.

## PUBLIC SAFETY/CORRECTIONS

- **Challenge Grants.** The budget approves \$30 million to expand the Juvenile Crime Enforcement and Accountability Challenge Grant Program. This program offers competitive grants to counties that develop programs that integrate and deploy local resources in innovative, collaborative ways to address juvenile justice priorities facing their communities. This appropriation involves a specific set aside of \$15 million for grant proposals targeting the unique problems associated with female juvenile offenders.
- **Substance Abuse Treatment Beds.** The budget approves a \$5 million proposal to increase the number of substance abuse treatment beds by 1,000. The proposal also provides for increased after care services for graduates of the in-prison substance abuse treatment as a proactive measure to prevent relapses.
- **Parolee Programs.** The budget provides \$7.6 million to fund the expansion of the Preventing Parolee Failure Program (PPFP) and restore Parole Casework Services resources. This will provide parolees with various resources and assistance to facilitate their efforts to reintegrate back into society. In addition, the budget includes \$2 million to undertake a pilot program to assist drug-addicted women parolees with children. The program will offer these parolees specialized services such as child care.
- **Repeat Offender Programs.** The budget provides \$4 million for the continuation and expansion of the Eight Percent Solution Program, also known as the Repeat Offender Project. This program concentrates on intervention and crime suppression approaches for targeted at-risk youth and repeat offenders.

**TRANSPORTATION**

- **State Transportation Improvement Program.** The budget appropriates over \$160 million from the State Highway Account (SHA), federal funds and reimbursements for Caltrans to acquire staff for the planning and design of the 1998 State Transportation Improvement Program (STIP) projects. For the first time in six years, significant funding is available for improvements to California's ailing transportation infrastructure including funding for additional staff to ensure project delivery stays on schedule.
- **Public Transportation Account (PTA) Loan.** The budget repays \$46 million of the \$91.5 million Public Transportation Account (PTA) loan to the General Fund executed in the Budget Act of 1993. The funds will be used to ensure local transit operators receive the expected level of funding and cover the cost of Transit Capital Improvement projects approved in previous years.

**RESOURCES & ENVIRONMENTAL PROTECTION**

- **Parks.** The budget maintains California's parks, open space and habitat by investing \$130 million for the acquisition and development of nature preserves, community and state parklands, urban river parkways, the Santa Monica Mountains Conservancy, and agricultural lands threatened by development.
- **The Coast.** The budget protects California's coastal resources by including \$60 million for acquisition and development of significant coastal properties, protection and maintenance of coastal wetlands, marine resource management, enhanced coastal monitoring, and the improvement of water quality in key watersheds through the prevention and reduction of non-point source water pollution.
- **Public Health.** The budget protects public health by investing \$40 million for various programs which include conducting pilot testing of alternatives to pesticides and rice straw burning; increasing monitoring of fine particulate matter; reducing solid waste by providing incentives to increase demand for recycled content products; cleaning up of illegal drug laboratories; and providing incentives to operators of heavy duty on and off road vehicles to replace diesel engines that emit high levels of nitrogen oxide with low emission technology.
- **Water.** The budget protects groundwater and drinking water supplies by providing \$32 million for small business owners to clean up polluted underground petroleum storage tanks before the December 1998 deadline prohibits delivery to unimproved storage tanks. In addition, the budget provides \$40 million to pay the state's share of local flood control projects, \$10 million for feasibility and environmental studies for the Site's Reservoir Project site, and \$6 million for the ongoing operation of the state-federal program to restore the environment and resolve water reliability problems in the San Francisco Bay-San Joaquin Delta.