



# Summary of Governor Schwarzenegger's State Budget Proposals: FY 04-05

TO: CIPELC Affiliates

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## Main Components of the Governor's Budget Proposal

On January 9, the Governor released his proposed plan for addressing the state's large budget problem. The Governor proposes an approach that relies on substantial spending cuts; a large shift of property taxes from local governments; as well as additional borrowing, deferrals, and fund shifts. Also, while raising certain fees, the proposal avoids new taxes. The budget proposes total state spending in 2004-05 of \$97.2 billion (excluding expenditures of federal funds and bond funds). This represents a decrease of 0.2 percent from the current year. General Fund spending is projected to fall from \$78 billion to \$76.1 billion while special funds' spending rises from \$19.4 billion to \$21.1 billion.

The Governor's proposed budget identifies that the state has an accumulative \$26.3 billion difference between revenues and expenditures for the three-year period ending on June 30, 2005, consisting of a \$9.2 billion year-end deficit in 2002-03, an additional shortfall of \$3 billion in 2003-04, and a shortfall of \$14 billion in 2004-05. In eliminating the deficit, the Governor relies on the following primary strategies:

California Economic Recovery Bond Act (Proposition 57). This contributes nearly 47 percent of the entire budget solution.	\$12.3 billion
November mid-year reduction proposals	\$3.9 billion
Proposed "Re-basing" of Proposition 98 (K-14 education)	\$2.9 billion
Reduce local government assistance (ERAF-II)	\$1.3 billion
Proposed suspension of Proposition 42	\$900 million
Pension Reform package & bond	\$950 million
Debt service saving resulting from the longer repayment period of the Economic Recovery Bond	\$1.3 billion
Miscellaneous transfers, fund shifts, and loans	\$2.8 billion

Health and Human Services is targeted for the largest spending reduction in dollar terms (\$3.1 billion) among major programs, followed by K-14 Education (\$3.0 billion), General Government (\$2.4 billion), and Business, Transportation, and Housing (\$1.9 billion).

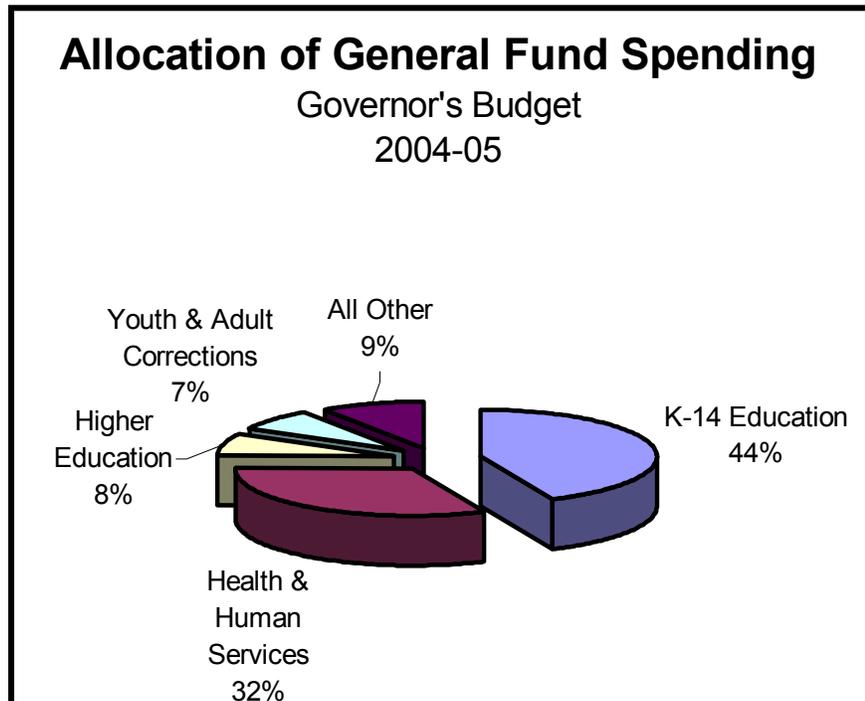
### General Fund Spending Concentrated in Four Areas.

Four policy areas account for 90 percent of General Fund spending contained in the Governor's Budget. The chart shown below identifies the relative spending in these areas. Specifically, in the 2004-05 budget:

- ❖ K-14 Education receives \$33.2 billion, accounting for 44 percent of the General Fund spending,



- ❖ Health and Human Services receives \$24.6 billion, accounting for 32 percent of the total,
- ❖ Higher Education receives \$6.1 billion, account for 8 percent of the total, and
- ❖ Youth and Adult Corrections programs receive \$5.7 billion, accounting for 7 percent of the total.



## Anti-Labor Proposals

### Contracting Out

- **Local Government Services**

While there are no specific proposals for contracting out local government services in the budget proposal, Donna Arduin, the state's budget chief, says she has seen privatization work, "The main purpose is to provide some competition in what we do, to allow new ideas to come in from the outside."

- **School Services**

The Governor has called for the repeal of state laws that require school districts to prove cost savings prior to contracting-out classified employees' work to private companies. Governor Schwarzenegger stated in his State of the State address, "School districts are forced to spend, on average, 10 to 40 percent more than necessary on non-classroom services. We must give local schools the freedom to be cost efficient. One way to do this is to repeal SB 1419, the law that prevents schools from contracting-out services such as



busing and maintenance. This will free up more money for textbooks and other vital classroom needs."

- **State Services**

The Governor is proposing to amend the State Constitution to permit the State to contract with non-state entities. The Governor's budget anticipates that the electorate will once again recognize the prudence of contracting for services when appropriate. In his new budget plan, Schwarzenegger is calling for some moves toward privatization, specifically to include exploring contracts for health care, food services, maintenance and prisons.

## **Focus on Worker Wages & Benefits**

- **Medi-Cal Eligibility Worker Salaries**

Budget bill language is proposed to restrict county wage increase to specified cost-of-living adjustments (COLAs). The budget proposal states that the reason for this change is that counties have no incentive to control costs in this area because they have no share in either the administration or benefit costs of Medi-Cal.

- **Trial Court Employees**

The Administration is proposing to join the Judicial Council in providing greater state involvement in local collective bargaining between the courts and the court employee unions. The budget suggests that the linkage between court and county systems could be changed and diminish trial court employee retirement, health and other benefits.

- **Nursing Home workers**

The Governor assumes approval of his Mid-Year Reduction proposal to eliminate \$46 million (General Fund) in 2003-04 for the supplemental wage rate adjustment to be paid to nursing homes which have collective bargaining agreements or contracts that increase wages for their staff.

- **Homecare Worker wages and benefits**

The Governor proposes to reduce the level at which the state participates in IHSS provider wages and benefits from \$10.10 to the State minimum wage (\$6.75) for General Fund savings of \$98 million in 2004-05 and \$130.7 million in 2005-06. The Governor proposes to repeal current law, which provides for state participation in wages and benefits resulting from collective bargaining agreements up to a maximum of \$12.10 per hour. The effect of the Governor's proposals is that upon expiration of current collective bargaining contracts, counties will have to reduce IHSS provider wages or fund the difference between minimum wage and the negotiated wage with county funds. In addition to reducing state participation in IHSS provider wages, the Governor proposes to repeal the existing requirement that counties establish an employer of record for IHSS providers and eliminate state funding for the county employers of record.

- **State Employees**

The budget states that, as the current contracts expire, the Administration will bargain with the 21 state employee bargaining units to "create a



compensation package that is reasonable without the extravagances adopted by the previous administration.” The Administration will also be seeking to increase employees’ annual retirement contributions by 1 percent of their gross pay rather than changing retirement benefits for current state employees.

- **School Administrators**

The budget points out that District Superintendents in the nine largest school districts in California earn an average base salary of \$203,813 annually, with a high of \$250,000 and a low of \$147,000. The budget summary goes on to note that the Governor of the State of California’s annual salary is \$175,000. The budget proposal states, “While the Administration recognizes that a superintendent is an important position and recruiting top talents is difficult, these excessive compensation packages should be reformed,”

### **Scaling Back State Enforcement of Personnel laws**

The budget proposed a \$600,000 reduction for the State Personnel Board which enforces civil service statutes, prescribes probationary periods and classifications, and reviews disciplinary actions.

### **Retirement**

#### **Move from Defined Benefit to Defined Contribution Programs**

The Administration is contemplating to end defined benefit pension plans for public employees and offer defined-contribution plans instead. Defined-benefit (DB) plans are better public policy. The basic purpose of a retirement system is to provide a secure and predictable level of income for former employees after retirement. DB plans do this. Under defined contribution (DC) plans, individuals who were unable to make substantial contributions, fare poorly in investing their funds, or who outlive their retirement benefit may use more social services and need governmental financial assistance in their retirement years, offsetting any perceived "savings" to taxpayers.

#### **Two-Tier Retirement**

The budget proposal involves returning state employee retirement tiers to those in existence (pre-SB 400) in 1999 for both safety and miscellaneous workers. (For miscellaneous members, a two percent per year of service at age-60 system and eliminate 3% at 50 for safety employees for those hired after the expiration of existing contracts.) The Department of Finance indicated that they would be open to providing the same mandated tier for local government workers.



## **Unemployment Insurance**

The Governor states that he will seek additional changes and reform to the State's Unemployment Insurance program. However no specific proposals have been made available by the Administration. The Governor states that any budgetary changes needed to implement these reforms will be included in the May Revision.

## **Workers' Compensation**

Governor Schwarzenegger's proposal for workers' compensation reform is especially harmful to California's public employees. Under his proposal, injured workers:

- ❖ Lose the right to select his or her own doctor to receive medical care for a work injury.
- ❖ Lose the right to get a second opinion from a doctor he or she knows.
- ❖ Lose the full amount of Permanent Partial Disability benefits if he or she returns to work regardless of the continuing disability.
- ❖ Lose the statutory presumptions that certain peace officers have that heart conditions, cancer, pneumonia, diseases spread by blood-borne pathogens, hernias or lung conditions are work related.
- ❖ Lose the right to full medical treatment to cure and relieve pain and instead only get what the company doctor approves.
- ❖ Lose Permanent Partial Disability benefits for most cumulative injuries, including bad backs.
- ❖ Lose the right to Permanent Partial Disability or death benefits if the worker has a pre-existing condition or has personal habits that may have contributed to the worker's injury or death.
- ❖ Lose the right to medical treatment and wage replacement benefits for pain that prevents the individual from working.
- ❖ Lose the right to have disputes over medical treatment settled before an independent judge within 30 days.
- ❖ Lose the right to object that the doctor chosen by the employer is biased or unqualified.

## **Education**

### **K-12 Education**

The Governor's proposed 2004-05 State Budget includes a total of \$46.7 billion in Proposition 98 funds, an increase of \$769 million over the proposed revised current year budget. This level is \$2 billion less than the current estimate of the Proposition 98 guarantee for 2004-05. The Governor's Budget includes a proposal to set a lower level of funding pursuant to a change in legislation, which would add this amount to the maintenance factor that is owed to schools in future years. Per-pupil funding increases by \$5, to a total funding level of \$6,945 per pupil. The proposed budget



funds growth and COLA for revenue limit apportionments and categorical programs. The COLA is 1.84%. The Governor's major proposals for K-12 education include:

- ❖ A reduction of \$1.9 billion to Proposition 98 guarantee less than otherwise required for 2004-05 and reduce General Fund appropriations for K-12. This requires a suspension of Proposition 98, as defined by the California Constitution, by a two-thirds vote of the Legislature in a bill separate from the Budget Bill. This action will create an additional \$2 billion maintenance factor that is required to be restored to the Proposition 98 budget in future years. The Administration projects that the re-basing (suspension) of the guarantee will impact school funding for four years.
- ❖ A deferral of \$517.9 million and \$448.4 million for 2002-03 and 2003-04, respectively for payment to retire the outstanding debts to the schools. These funds appropriated for the settle-up will be designated for one-time expenses in future budgets.
- ❖ A shift of \$2 billion to revenue limits to block grant 22 categorical programs in the areas of school support, materials, staff development, pupil retention, and smaller targeted programs. These specific programs include:
  - School Support: Home to School Transportation, School Improvement, Targeted Instructional Improvement Grant—Non Court, Supplemental Grants;
  - Materials: Instructional Materials Block Grant Program/ Incentive Grants, School Library Materials;
  - Staff Development: Staff Development Day Buyout, Beginning Teacher Support and Assessment (BTSA), Inter-segmental Staff Development, Bilingual Teacher Training, Mathematics and Reading Professional Development, Peer Assistance Review;
  - Pupil Retention: Dropout Prevention, At-Risk Youth (LAUSD), Tenth Grade Counseling;
  - Smaller Targeted Programs: English Leaders Student Assistance, Year Round Schools, Specialized Secondary Program Grants, International Baccalaureate, Center for Civic Education, Pupil Residency Verification, Teacher Dismissal Apportionment.
- ❖ An increase of \$554.8 million to fully fund statutory Cost of Living Adjustment (COLA) at 1.84% for school district and county office of education revenue limit apportionments. The Governor's Budget also provides \$89 million for statutory growth adjustments and \$115 million for COLA for categorical programs, including Regional Occupational Centers and Programs, and Adult Education.



- ❖ An increase of \$173.3 million to fully fund the State Deferred Maintenance Program at \$250.3 million.
- ❖ An increase of \$185 million to fund the Instructional Materials Block Grant to provide for the purchase of 2002 English Language Arts and History and Social Science materials. The Governor's Budget intends for these fund to remain as a separate categorical program to provide incentives for early purchase of newly adopted standards-aligned materials. The existing funding of \$175 million will be shifted to revenue limits.
- ❖ An amount of \$110 million for school district revenue limit equalization to address the general-purpose funding levels. This equalization adjustment is proposed to apply t the revenue limits in place prior to the proposed shift of categorical funding.
- ❖ An increase of \$106 million to fully fund the California Public Employees Retirement System school employer contribution rate.
- ❖ Shifts charter school categorical block grant funds to charter school general purpose entitlements (\$21.9 million) and the Economic Impact Aid (EIA) program (\$14.5 million). An increase of \$24.5 million in total funding is also proposed to mirror the per-student funding for the programs in the Charter Categorical Block Grant. The Economic Impact Aid portion of the former block grant is added to the EIA with a distinct allocation for charter schools.
- ❖ An increase of \$9.3 million General Fund to provide adjustments under the special education formula, which includes increases of \$70 million for a 1.84% COLA, and \$37.4 million for growth. The Governor's Budget also reflects a local property tax increase of \$23.6 million and the use of an additional \$74.5 million in increased federal funds anticipated in the budget year as part of the statutory offset to the General Fund authorized by AB 602.
- ❖ An amount of \$77.4 million, including federal funds, for the Immediate Intervention/ Underperforming Schools Program (II/USP) for the third year of implementation funding for schools that made significant progress but did not reach their growth targets.
- ❖ An amount of \$208.6 million, including federal funds, for High Priority Schools Grants Program for the third year of funding to provide up to \$400 per pupil to the lowest-performing schools in the state to improve academic performance.
- ❖ An amount of \$105.6 million, including federal funds, for various statewide pupil testing. The assessments funded include:
  - Standardized Testing and Reporting (STAR) Exam-- \$65.5 million;
  - High School Exit Exam (HSEE)-- \$21.2 million;



- California English Language Development Test (CELDT)-- \$18.8 million.

## **Community Colleges**

- ❖ Proposes to provide \$6.9 billion for the California Community Colleges through a combination of state revenue, local property taxes, federal funds, student fees, lottery proceeds and other miscellaneous revenues. Of this amount, \$4.7 billion, including \$2.4 billion in General Fund support, counts toward the Proposition 98 guarantee.
- ❖ Increases general student fees from \$18 per unit to \$26 per unit and reduces General Fund support by \$73.3 million.
- ❖ Institutes a differential fee of \$50 per unit for bachelor's degree holders and reduces General Fund support by \$17.7 million.
- ❖ Provides \$125.1 million in additional funding for enrollment growth funding. This equates to a 3 percent growth in apportionments that the Governor believes will provide access to an additional 33,000 full-time equivalent students for a total of 1,137,150 full-time equivalent students in 2004-05.
- ❖ Provides \$80 million in additional funding for equalization, with allocations proposed to be made to districts currently funded below the 90<sup>th</sup> percentile of full-time equivalent funding system-wide.
- ❖ Consolidates several significant categorical programs into single larger programs and increases available discretionary funding.
- ❖ Shifts \$300.8 million in selected categorical program funding into general purpose funding, including funding for matriculation, three part-time faculty programs and district allocations for technology.
- ❖ Discontinues the Teacher Reading Development Partnerships program and the Fund for Instructional Improvement, making funding previously allocated to these programs available for growth in non-credit full-time equivalent students.

## **University of California**

### **January 9 Proposals:**

- ❖ Proposes a total of \$372 million in General Fund reductions (including mid-year adjustments), of which approximately \$196 million will be offset by proposed student fee increases.
- ❖ Continues his November proposal to eliminate academic outreach programs by zeroing out the \$33.3 million state supported budget for all UC academic



outreach programs. These programs were reduced by over 50% in the 2003-04 state budget.

- ❖ Continues his November proposal to eliminate the Multi-campus Research Centers for Labor & Employment and reducing their budget by \$4 million in the budget year. These are the only research centers of this kind in the state.
- ❖ Reduces academic and institutional support by \$45.4 million or 7.5 percent.
- ❖ Salaries: There is no additional state funding, once again, for cost-of-living increases for faculty and staff.
- ❖ Increases student/faculty ratio by 5 percent, reducing general fund support by \$35.3 million.
- ❖ Reduces the number of new freshman enrollment by 10 percent by reducing \$24.8 million in General Fund support, cutting access to approximately more than 3,200 fewer students.
- ❖ Eliminates \$14.3 million in General Fund support for the Digital California Project and suggests K-12 schools contribute voluntarily to continue portions of the program.
- ❖ Reduces state-supported research funding by \$11.6 million or 5 percent.
- ❖ Reduces \$9.3 million for what the Governor calls the first phase elimination of the General Fund "subsidy" for students who exceed by more than 10 percent the minimum number of units required to earn their degree.
- ❖ Increases undergraduate fees by 10 percent by reducing \$62.9 million (includes continuing of mid-year unallocated reduction) in General Fund support.
- ❖ Increases graduate fees by 40 percent by reducing \$57.7 million (includes continuing of mid-year unallocated reduction) in General Fund support.
- ❖ Reduces General Fund professional school "subsidy" by 25 percent (includes continuing of mid-year unallocated reduction) by reducing \$42.6 million in General Fund support.
- ❖ Increases non-resident fees by 20 percent by reducing \$32.6 million in General Fund support.
- ❖ Provides \$1.6 million for UC to provide counseling to the 10 percent of freshman who will be denied access as freshman due to the lack of enrollment growth funding provided by the Governor. This augmentation



equates to \$500 per student estimated to be denied access into a UC campus under the Governor's proposal.

- ❖ Restores \$80.5 million of unallocated reductions implemented in 2003-04 that was intended to be one-time in nature.
- ❖ Provides \$10 million in additional one-time funding for costs associated with making the UC Merced campus operational in 2005-06.
- ❖ Provides \$34.4 million in additional funding for increases in annuitant health and dental benefit costs.

### **November Proposals:**

- ❖ The Governor proposed a \$15.719 million current year and \$55.1 million budget year unallocated reduction. The Governor executed his proposed current year reduction through the Section 27 process.
- ❖ The Governor proposed a \$12.21 million current year reduction and a \$33.3 million budget year reduction to academic outreach programs, eliminating programs designed to academically prepare disadvantaged students for college. These programs were reduced by over 50% in the 2003-04 state budget. The Governor executed his proposed current year reduction through the Section 27 process.
- ❖ The Governor proposed eliminating and reducing by \$2 million in the current year and \$4 million in the budget year the Multi-campus Research Centers for Labor & Employment. These are the only research centers of this kind in the state. The Governor executed his proposed current year reduction through the Section 27 process.
- ❖ UC has agreed to sell land at UC Riverside for \$55.1 million, transfer this amount to the state and issue lease-revenue bonds in a like amount to fund construction of an Agricultural Genomics research facility. In return, the Governor proposed to commit the state to future lease payments of approximately \$4.3 million a year for 25 years, commencing as early as 2008-09.

### **Health & Human Services Budget Issues**

There appear to be no cost-of-doing-business increases for county-administered health human services programs. However, increased costs due to caseload increases are generally funded, and some program areas have increases due to other factors.

#### **Adult Protective Services**

Adult Protective Services is funded at the current year level.



## Alcohol and Drug Programs

The Governor's budget includes \$597.8 million (\$237.8 million General Fund), an increase of \$5.1 million (\$2.4 million General Fund), above the 2003-04 Budget Act for substance abuse programs. The 2004-05 budget provides a total of \$162.7 million for local assistance for alcohol and drug programs.

## CalWORKs

Revised caseload estimates for the program are 479,000 cases in 2003-04 and 481,000 cases in 2004-05. This is a slight increase from earlier projections. There is a current-year increase in the Single Allocation of \$49.1 million based on re-estimated caseload and updated estimates of savings due to time limits and Quarterly Reporting/Prospective Budgeting.

❖ **Enhanced Work Participation Requirements.** The budget proposes a number of changes to existing work participation rules. Specifically:

- Applicants would be required to certify that they are searching for a job as a condition of eligibility. If an applicant were unable to provide proof of their job search, the county would be required to stop processing the application.
- All non-exempt adults would be required to have a welfare-to-work plan in place within 60 days of the receipt of aid.
- Non-exempt adults would participate for at least 20 hours per week in core work activities. Core activities include subsidized and unsubsidized employment, job club, job search, on-the-job training, work experience and community service. The remaining 12 hours of required participation (15 hours for two-parent families) could be in any other approved activities.
- The 18/24 month time limit would be eliminated.

❖ **Increased Sanctions.** If a sanctioned adult does not come back into compliance after one month, their grant would be reduced by another 25 percent. The budget assumes \$30.2 million in savings due to this change.

❖ **Reduced Time-Limit Safety Net Grants.** Time-limited families without a working adult would have their grants reduced by another 25 percent. The budget assumes \$32.9 million in savings due to this change.

❖ **Employment Services.** Funding for Employment Services appears to be essentially flat. Total funding for CalWORKs Employment Services is increased from \$1.028 billion in 2003-04 to \$1.033 billion for 2004-05.

❖ **Administration.** Although funding for CalWORKs Administration would otherwise be flat, there is a \$124 million reduction in 2004-05. This is the Administration's estimated net savings due to full implementation of Quarterly Reporting/Prospective Budgeting in the budget year.



❖ Grants. The budget would suspend the 2004-05 cost-of-living adjustments for recipients. The Administration also continues to seek the 5 percent grant reduction proposed as part of the Mid-Year Spending Cuts, resulting in savings of \$45.3 million in the current year and \$179.7 million in the budget year (assuming an April 1, 2004 implementation date). As proposed in the Mid-Year Spending Cuts, the governor also continues to seek suspension of the 2003-04 COLA triggered by the Vehicle License Fee reduction.

❖ Additional Changes.

- TANF payments to county probation are reduced by \$134.3 million, leaving \$67.1 million to reflect three months of funding. The program sunsets in October 2004.
- Fund for three small discretionary programs are eliminated: alcohol and drug treatment for low-income women (\$2 million), at-risk youth (\$1.5 million) and mental health and substance abuse services at Indian health clinics (\$2.7 million).
- Reduces Tribal TANF by \$30.5 million based on updated caseload data.
- Assumes the collection of child care overpayments, for \$1 million in savings.
- Continues to seek the transfer of \$41.1 million in federal TANF block grant funds to the In-Home Supportive Services program in 2003-04; and the transfer of \$119.5 million in 2004-05 to offset costs in Child Welfare Services, Foster Care, and the Department of Developmental Services.

## Child Care

The Governor's Budget proposes to:

- ❖ Provide about \$3 billion for child care programs administered by CDE, CDSS and the Community Colleges, reflecting \$164.8 million in savings from proposed reforms, expenditures and caseload changes. The savings break out as follows: \$41.8 million for Stage 1, \$53.8 million for Stage 2, \$32.5 million for Stage 3, \$17.1 million for General Child Care, \$16.3 million for Alternative Payment Program and \$3.3 million for Latchkey Program.
- ❖ Lower the income threshold for families to pay fees and proposes gradual fee increases to prepare families for when they are no longer eligible for subsidies. Families would begin to pay fees at the income level where they become ineligible for CalWORKs cash aid. The fee level would be capped at 10 percent. Providers would be responsible for collecting fees from families.
- ❖ Provide \$2 million in one-time federal funds for administrative start-up costs for a comprehensive anti-fraud proposal under development by the Administration.



- ❖ Address equity by implementing a tiered income eligibility structure that recognizes higher cost areas.
- ❖ Limit CalWORKs families to three years of child care assistance after leaving cash aid. Allow CalWORKs families to compete on waiting lists for non-time-limited general child care programs as soon as they begin earning income. Current and new CalWORKs families who are earning income would be allowed to compete for slots with the working poor.
- ❖ Permanently eliminate child care for 13-year-olds. Services to 11- and 12-year-olds would be continued only when before- and after-school programs are not available.
- ❖ Make CPS families referred for child care services eligible for 12 months. If a CPS family is referred by a non-CPS agency, the child care would be exempt from fees for three months.
- ❖ Establish variable reimbursement rate limits at the 40th percentile of the regional market (for license-exempt providers with no training) with a sliding scale up to the 85<sup>th</sup> percentile of the market (for providers who are licensed and accredited).

### **Child Support Services**

- ❖ Child Support Penalties. The budget continues a 25 percent county share of the federal Child Support Automation Penalty for budget year savings \$55 million. The budget document reiterates that counties will pay a 25 percent share of the federal penalty in 2003-04. The budget estimates that the single statewide automated computer system will be fully implemented in 2008-09. The Governor also proposes to seek relief from the federal penalties.
- ❖ Child Support Collections. The Administration proposes to redirect the county share of child support collections to State for budget year savings of \$39.4 million.
- ❖ Eliminate the Medical Support Order Enhancement Initiative for a current year savings of \$1.9 million (\$700,000 General Fund). The program was supposed to save the State money by getting non-custodial parents to provide health care to children receiving Medi-Cal. The Administration believes the program costs more to run in Child Support than it saves in Medi-Cal. They want to end the program in the current year.

### **Child Welfare Services**

There is a current-year increase to basic CWS administration of \$10.7 million.

- ❖ AB 636 Premise Item. The budget includes a new current-year allocation of \$3.7 million total funds (\$1.65 million General Fund) to fund county self-assessment



and improvement planning workload. In the budget year, the available funding is \$7.5 million (\$2.8 million General Fund).

- ❖ **Foster Care Redesign Funding.** A total of \$18 million in Title XX funds are provided in the budget year for the first cohort of counties implementing aspects of the stakeholder recommendations (\$9 million), for the recruitment of foster and adoptive parents (\$3 million), and for additional staff resources to enable social workers to attend trainings (\$6 million).

## **Foster Care**

The Governor's Budget is proposing a number of program reforms to the Foster Care program. The reforms are expected to save \$20 million in 2004-05 and increasing amounts in subsequent years. The specific proposals will be developed in further detail this spring and will be included in the 2004 May Revision. Potential proposals include:

- ❖ **Establishing performance-based contract for foster care.** This proposal would require higher-cost, higher-growth foster care providers to operate under performance-based contracts that require them to meet federal and State outcome measures as a condition of payment.
- ❖ **Restructuring Foster Care rates.** Rates would be restructured to encourage counties to increase the use of less-restrictive, less-costly placements, and to establish a standard statewide rate for other high-cost specialized foster care services and payments.
- ❖ **Flexible funding waiver.** This proposal would require the state to pursue a federal waiver to apply federal foster care funds for flexible child welfare purposes.

The Administration intends to engage stakeholders, constituents, and the Legislature to help facilitate these reform efforts.

## **Healthy Families Program**

The budget proposes a two-tier benefit package for children in families with incomes between 200 percent and 250 percent of the Federal Poverty Level; no savings would accrue until the 2005-06 fiscal year and administrative costs would increase by \$263,000 in 2004-05 for implementation. The lesser benefit package would provide the current benefit package without the dental and vision coverage for the same co-insurance that is now paid. The better benefit package would include dental and vision coverage and a higher, unspecified co-insurance payment.

The mid-year budget proposals include:

- ❖ **Cap enrollment** in Healthy Families Program for documented immigrants, \$2.419 million in 2004-05.
- ❖ **Cap enrollment** in Healthy Families, \$31.5 million in 2004-05.



## Medi-Cal

The 2004-05 budget proposes various reform measures to control costs and program growth, and expand Medi-Cal fraud and audit efforts. Reforms include:

- ❖ **Simplification.** The Administration proposes aligning Medi-Cal eligibility standards and processes with those of CalWORKs and SSI/SSP.
- ❖ **Multi-Tiered Benefit/Premium Structure.** The state may offer different benefit packages, and could require different premium amounts, for the various mandatory and optional populations within Medi-Cal.
- ❖ **Co-Payments.** The state is considering requiring co-payments from Medi-Cal beneficiaries for various services, deduct the co-payment amount from the provider reimbursement amounts, and give providers legal authority to require the co-payment as a condition of providing non-emergency care.
- ❖ **Conform** benefits to private plans.
- ❖ **Managed Care Reform.** The state may expand managed care into additional counties, review and reform managed care reimbursement policy to ensure access and appropriate utilization, and encourage enrollment of Aged, Blind and Disabled into managed care.
- ❖ **Cap state financial participation in Medi-Cal eligibility worker salaries.** The Governor's budget also proposes to implement a formal plan to control county welfare department allocations for Medi-Cal eligibility determinations. The state Department of Health Services would submit a control plan to county welfare departments in January 2005, including productivity standards and overall performance standards. Budget bill language is also proposed to restrict county wage increase to specified cost-of-living adjustments (COLAs), with the intent of reducing disparity among counties. This proposal would result in savings of \$20 million (\$10 million General Fund) in 2004-05, with savings reaching \$40 million (\$20 million General Fund) after full implementation. According to the Administration, this savings will be achieved by not granting any cost-of-living-adjustments (COLA) to county workers that exceed the average COLA granted to state workers. The budget proposal states that the reason for this change is that counties have no incentive to control costs in this area because they have no share in either the administration or benefit costs of Medi-Cal.

Other Medi-Cal budget adjustments include:

- ❖ **Increase the Medi-Cal provider rate reduction** to 15 percent, \$462 million in 2004-05. The state has been enjoined by the Federal Courts to not implement the 5 percent rate reduction adopted as part of the 2003-04 budget.
- ❖ **Revise the Medi-Cal rate methodology** for Federally Qualified Health Centers and Rural Health Clinics, \$3.283 million in 2003-04 and \$32.256 million in 2004-05. The Federal Government will recoup from the state for Federally Qualified Health Centers overpayments, \$47.1 million in 2003-04.
- ❖ **Reduce Medi-Cal provider float** by delaying the Medi-Cal check write by one week, \$18.1 million in 2003-04 and \$143 million in 2004-05.



- ❖ **Expand billing audits** for Medi-Cal non-contracting hospitals, \$1.4 million in 2004-05 and \$15.3 million in 2005-06.
- ❖ **Reform Medi-Cal Adult Day Health Care**, as proposed for the 2003-04 fiscal year by the prior Administration, \$12.687 million in 2004-05.
- ❖ **Reduce Medi-Cal interim rates** by 10 percent for non-contracting cost reimbursed acute care hospitals, \$31 million in 2004-05.
- ❖ **Impose a quality improvement assessment fee** on Medi-Cal Managed Care Plans, \$75 million in 2004-05.

The mid-year budget proposals also include:

- ❖ **Cap enrollment in Medi-Cal for documented immigrants**, \$5.299 million in 2004-05.
- ❖ **Cap enrollment in Medi-Cal for undocumented immigrants** (including Breast Cancer Treatment Program), \$11.551 million in 2004-05.

## Mental Health

The Governor's Budget Summary document includes significant attention to the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) program. The 2004-05 budget is proposing a number of changes to EPSDT in an effort to reign in cost growth in this program:

- ❖ **Update maximum rates.** The state will survey actual costs and adjust rates. The state is projecting savings of \$40 million General Fund.
- ❖ **Increased oversight.** The state will begin auditing EPSDT claims. A savings of \$5.7 million General Fund from audits is expected.
- ❖ **Federal relief.** The state will pursue federal authority to narrow the very broad medical necessity criteria.
- ❖ **Restructuring of existing program.** The budget documents indicate that state officials believe counties control the amount and duration of treatment services but "have had little in the way of fiscal incentives to control cost because the state provides most of the matching funds for the non-federal growth in EPSDT program costs." A proposal to increase the county share in EPSTD is anticipated to be released later this year.

## Programs for Immigrants

The Administration is proposing to restructure and consolidate a number of programs for immigrants and to fund them in a single block grant to counties for provision of basic safety net services. The following programs are proposed to be included in the block grant: CalWORKs benefits for recent documented immigrants, California Food Assistance Program, Cash Assistance Program for Immigrants, and Healthy Families Program for documented immigrants. The Governor's Budget reflects a savings of \$6.6 million GF due to anticipated efficiencies resulting from this proposal. The Administration will develop the proposal in further detail for the 2004 May Revision.



## Public Health and Other Health Programs

- ❖ **Reduce provider** rates by 10 percent in public health caseload programs, \$3.803 million in 2003-04 and \$6.534 million in 2004-05.
- ❖ **Continuation of funding for bioterrorism** prevention and preparedness (\$108.9 million federal funds).

The mid-year budget proposals include:

- ❖ **Cap enrollment in California Children's Services** program, \$121,000 in 2003-04 and \$29.1 million in 2004-05.
- ❖ **Cap enrollment in the AIDS Drug Assistance Program**, \$275,000 in 2003-04 and \$550,000 in 2004-05.
- ❖ **Cap enrollment in the Genetically Handicapped Persons Program**, \$245,000 in 2003-04 and \$19,000 in 2004-05.

## Realignment

The 2004-05 budget proposes to fully fund the Vehicle License Fee (VLF) backfill for realignment. The state estimates the realignment backfill to be \$988.3 million in 2004-05; the state is also estimating the VLF backfill for 2003-04 to be \$829.4 million. Revenue estimates for 2003-04 include the following: \$3.8 billion in total funds (\$2.4 billion in sales tax and \$1.4 billion in VLF) and \$151.3 million in sales tax and VLF revenue growth. Revenue estimates for 2004-05 include the following: \$4 billion in total funds (\$2.5 billion in sales tax and \$1.5 billion in VLF) and \$174 million in sales tax and VLF revenue growth.

The Governor continues to propose statutory changes to eliminate the poison pill related to the medically indigent adults program, based on concerns over the San Diego MIA lawsuit. The Administration stated its support for preserving critical realignment funding for counties.

## Local Government Discretionary Funding

### Booking Fees

The budget proposes to eliminate \$38.2 million in state reimbursement to cities and special districts for fees charged by counties to cover actual administrative booking costs. This funding, originally authorized by AB 1662 (Chapter 79, Statutes of 1999), reflects the full reimbursement of actual costs claimed by cities and special districts. In addition, the Governor's budget indicates that the Administration would support AB 1749, a budget trailer bill lingering from the 2003-04 budget cycle, which would both eliminate the continuously appropriated backfill to cities and special districts and repeal counties' authority (under Government Code Section 29550 et seq.) to charge a booking fee. It should be noted that the repeal of the booking fee authority will potentially "cost" counties



far more than the \$38.2 million in the subvention to cities and will likely result in devastating local service and personnel cuts and increased overcrowding in detention facilities.

### **Elections**

The California Victim Compensation and Government Claims Board provides reimbursement to counties for costs associated with conducting special elections. The Governor's Budget notes that while the statute remains in effect, no funding is budgeted for this program.

### **ERAF-II: New Permanent Shift of Property Taxes from Local Government**

The Governor proposes \$1.3 billion in General Fund savings in 2004-05 from a proposed ongoing annual increase in the property tax shift from local governments to schools and community colleges. This shift takes place through the Educational Revenue Augmentation Fund (ERAF) in each county and reduces on a dollar-for-dollar basis the state's GF obligation to K-14 education under Proposition 98. The administration indicates that this proposal is intended as a permanent equivalent to the \$1.3 billion of VLF gap funding shortfall to local government in the current year. However, this additional ERAF shift will not be repaid to local governments, and the impact will fall heavily on counties, special districts, and redevelopment agencies. The shift is estimated to reduce city funding by \$188 million, county funding by \$914 million, \$98 million from special districts, and \$135 million from redevelopment agencies.

### **Flood Control**

Governor's Budget includes the proposal from the December Revision that would revert \$105 million in subvention funding from the Department of Water Resources for the State's costs of previously authorized local flood control projects. The funds will be used to pay for prior year commitments for the state's share of local flood control subventions. Current law does not establish a time requirement regarding repayment of these state obligations to local governments. Since local agencies usually pay for the projects up-front, the Legislature typically defers these payments when the condition of the General Fund is weak.

### **Juvenile Justice and Citizens' Option for Public Safety (COPS)**

The Governor's 2004-05 budget proposes a continuation of funding to the COPS and juvenile justice crime prevention programs. Proposed funding for these two programs totals \$200 million, which maintains the level of current-year support. This funding will provide \$100 million for juvenile justice crime prevention and intervention programs, as well as \$100 million for the COPS program.



### **Juvenile Probation**

Governor's budget proposes to reduce funding for the prevention, intervention, supervision, treatment, and incarceration programs for at-risk youth and juvenile offenders by \$134.3 million, leaving \$67.1 million in TANF probation funds. The remaining funds would provide three months of program resources for the first quarter of the 2004–05 fiscal year, permitting a full phasing out of the program in October 2004.

### **Local Grants – Board of Corrections**

The Governor's budget shifts a number of grant programs — including \$36.1 million in funding and 10 personnel years — formerly administered by the Office of Criminal Justice Planning to the Board of Corrections (BOC). In addition, the budget assumes a general fund reduction of \$1.7 million reduction to the BOC's budget and a \$1.9 million contribution to the Board of Corrections Administration Fund, which would be generated by charging local entities fees for the services provided by the BOC.

Under the Governor's proposal, the Board would operate on fees collected from local governments that wish to have the Board continue the services it currently provides, including establishment and evaluation of minimum standards for local juvenile and adult detention facilities, biennial facility inspections, and establishment of recruitment, selection, and training standards for local corrections personnel.

### **Local Law Enforcement Program Eliminations Sustained**

The proposed budget maintains the elimination of local law enforcement technology and equipment purchases (funded most recently in the 2002–03 at \$18.5 million) as well as the suspension of the Rural and Small County Law Enforcement Assistance Program, which in previous years had provided a \$500,000 assistance grant to 37 specified local sheriffs' departments for purposes of enhancing local law enforcement efforts.

### **Local Peace Officer Training**

The Governor's budget contains \$25.5 million for local peace officer training assistance programs. It is assumed that these resources represent funding in the Commission on Peace Officers Standards and Training budget that help local law enforcement agencies partially offset peace officer training needs. At this time, it does not appear that the budget contains resources for local correctional officer training, which, in previous budget years, was funded in the Board of Corrections' budget through the Standards and Training for Corrections (STC) program.



The Governor's budget maintains funding at the FY 03-04 level for the Public Library Foundation (PLF) of \$15.8 million and the Transaction Based Reimbursement (TBR) of \$12.1 million. The Governor is also proposing to maintain up to \$128.4 million for the California Cultural and Historical Endowment to encourage libraries and nonprofits to develop and collect items of historical and cultural signature for the state. The budget also maintains \$5.3 million for the California English Acquisition and Literacy Program which provides one-on-one tutoring of illiterate adults and the recruitment and training of tutors. The State Library budget was left largely intact' although across-the-board cuts could affect that state department.

### **Property Tax Administration Grant Program**

The budget includes \$60 million for grants to counties for administration of the property tax system.

### **Vehicle License Fee & Backfill to Local Government**

The budget would reimburse local governments for \$4.1 billion in revenues lost as a result of the Governor's rescission of the Vehicle License Fee (VLF) increase in 2004-05. The budget assumes that local governments would receive \$2.5 billion in reimbursements for VLF revenues lost in 2003-04. An additional \$1.3 billion would be treated as a loan and repaid in 2006-07.

### **Williamson Act**

The Governor's Budget would continue to fund the Williamson Act at \$39 million for subventions to counties for property tax losses incurred by enrolling agricultural land in Williamson Act contracts.

## **Retirement, Pension Reform & Obligation Bond**

### **Defined Contribution Programs Proposed**

The Governor is proposing to establish defined contribution plans for state and local government employees as "a way to save money and provide employees with more flexibility."

### **Two-Tier Retirement & Pension Obligation Bond**

The Administration proposes a pension reform process that makes significant changes to the state employee retirement system. The budget proposes to significantly reduce the costs to the state of the retirement program for state employees. For current employees, the budget proposed to increase the employees' contribution to the retirement system by one percent of gross salary. (For example, state employees currently contributing five percent of their income



would contribute six percent.) Implementation of this proposal is contingent upon the collective bargaining process.

In other words, employees would assume a greater share of the costs of the retirement system. For new employees, the budget proposal involves returning state employee retirement tiers to those in existence (pre-SB 400) in 1999 for both safety and miscellaneous workers. (For miscellaneous members, this would impose a two percent per year of service at age-60 system.) The Department of Finance indicated that they would be open to providing the same mandated tier for local government workers (eliminate 3% at 50 for safety employees for those hired after the expiration of existing contracts).

The budget also assumes the issuance of a pension obligation bond. Unlike the attempt this year, this bond would be used for refinancing existing state debt in PERS at lower interest rates available in today's markets with restructured payments that would be deferred to 2005-06. The Administration estimates that this shift will provide \$4.8 billion in General Fund savings by the year 2023-24.

#### **January 9 Proposals:**

- \$950 million in reduced pension benefits for state employees.
- \$150 million reduction to employee compensation costs in 2004-05.

#### **November Proposals:**

- \$150 million reduction to employee compensation costs in 2003-04.

### **Tax and Revenue Proposals**

The budget does not propose any increases in state taxes. It does include \$240 million in fee increases in 2003-04 and 2004-05, including higher fees for state parks, students enrolled in higher education, and families participating in state-supported child care programs. The budget assumes a \$500 million increase in state revenues from tribal gaming activities.

The budget assumes that revenues will be \$1.9 billion above the levels forecast in November by the Legislative Analyst's Office (LAO) in 2002-03, 2003-04, and 2004-05 combined. Nearly all (\$1.8 billion) of the difference is attributable to the Administration's assumption of higher revenues from sources other than the state's three major taxes, the personal income, sales, and corporation taxes.

### **Trial Courts**



The budget proposal identifies funding of \$2.9 billion for the Judicial Branch, including \$373.8 million for the Judiciary; \$3.9 million for the Commission on Judicial Performance; \$2.2 billion for the trial courts; and \$276 million for judges' retirement.

- ❖ **Unallocated Reduction to the Supreme Court, Courts of Appeal and the Administrative Office of the Courts.** The Governor proposes an ongoing unallocated reduction of \$9.8 million or 2.6 percent of the total budget for the Supreme Court, the courts of appeal, and the administrative office of the courts. Unlike the past few years where reductions were made on a one-time basis, these reductions are supposed to be permanent.
- ❖ **Unallocated Reduction to the Trial Courts.** The Governor proposes an ongoing unallocated reduction of \$59 million, or 2.6 percent of the total budget for the state's trial courts. According to the AOC, the actual operating impact will be significantly greater. In addition to this permanent reduction to the base, the budget does not fund all of the courts' increased costs. Additional mandatory costs of approximately \$100 million for such areas as retirement, security, salary and benefit increases, and county charges have not been funded. The courts will be required to absorb these costs in their existing budgets.
- ❖ **Court Security.** The Governor's budget contemplates restructuring the way that court security is provided to offer courts greater cost controls and flexibility. Details on how these greater controls would be applied are not currently available. Also, a reduction in the court security budget from last year has been annualized and now amounts to \$22 million.
- ❖ **Court Interpreter Program.** The Judiciary budget includes an augmentation of \$235,000 from the Court Interpreter Fund to address the costs of court interpreter certification activities and the one-time costs of developing written and oral examinations for two newly certified languages.
- ❖ **Efforts to Enhance Collections.** The Judicial Council has formed a workgroup, pursuant to SB 940 by Senator Escutia), to work on a comprehensive collections program for courts and counties. The working group is chaired by Sheila Gonzalez, Southern Regional Administrative Director of the AOC. One of the working group's top goals is to increase revenue to the state, the courts, the counties, the cities and victims of crime. The first meeting of the working group was November 14, 2003 and subcommittees were formed to address eight issues: court-county collaborative plans, training and education, guidelines and standards, operations, legislation, reporting, statewide request for proposals, and a standard fee schedule.

More than one hundred people have volunteered to work on these subcommittees, holding weekly teleconference meetings to develop recommendations for the next meeting of the working group on March 4, 2004. An interim report will be submitted following that meeting to the Judicial Council with initial proposals and recommendations.



- ❖ **Restructuring Court Employee Salaries and Benefits.** The budget documents state that the Administration would support the Judicial Council in efforts to restructure the way that court employee benefits are currently provided “to achieve greater consistency, cost controls and economies of scale.” The Judicial Council and Administration are seeking greater State-level participation in local court labor negotiations. Chief Justice Ron George will be making appointments soon to the Commission to Secure Stable Funding for Justice to “find solutions that will keep our courts accessible.” This Commission may review options such as work-load based formulas, potential funding sources for the courts and changes in the way the judicial branch budget is submitted to and reviewed by the Administration and legislature.
- ❖ **Loan from the State Court Facilities Construction Fund.** The Governor proposes to loan \$30 million from the State Court Facilities Construction Fund to the General Fund.
- ❖ **Transfer of Undesignated Fee.** The Governor’s budget assumes a second year \$31 million transfer of revenues from various undesignated fees from the counties to the courts. This revenue shift is consistent with the provisions of AB 1769 (2003), which set forth the general elements of the undesignated fee shift.

## Transportation

In light of the enormity of the budget crisis, the Governor’s proposed budget includes an outright suspension of Proposition 42 revenues for fiscal year 2004-05 equivalent to an estimated \$1.1 billion. This is a departure from last year’s actions, which resulted in a loan of Proposition 42 revenues for fiscal year 2003-04 to the state General Fund. Administration officials indicated that without an outright suspension, rather than a loan, progress on tackling the overall structural deficit would be impeded. Therefore, cities and counties will not receive their local street and road rehabilitation monies again in 2004-05 estimated to be approximately \$179.5 million.

In addition to the Proposition 42 suspension mentioned above, the proposed budget also contains the mid-year cuts proposed by the Administration back in November. Such reductions include: 1) reduction of \$189 million previously proposed to flow to the 141 Traffic Congestion Relief Projects (TCRP) funded from Proposition 42 revenues in 2003-04 to the General Fund, and 2) repeal of the statutory designation of the TCRP projects with the requirement that those projects secure funding through either the STIP or local funding mechanisms.

The Administration indicated that these projects were selected outside the normal transportation planning and programming process and would now need to rely on other federal, state and local revenue sources. The Administration plans a project-by-project analysis of both the TCRP projects and is planning to encourage the California Transportation Commission (CTC) to also evaluate STIP projects to determine the



economic contribution individual projects would make to the State's economy and businesses in California.

Additional mid-year cuts also planned for Administrative implementation include diverting \$800 million in local obligational authority (OA) from the federal government that would be recouped by the General Fund utilizing cash management. As a result, a city or county would be required to front the funds and rely on reimbursement from Caltrans and state revenue sources. A city or county would not longer have the ability to tap into federal OA. County officials have expressed concerns with whether it would be fiscally prudent to expend local dollars when there are not assurances for state reimbursement. Administration officials indicate that they are working with Caltrans to ensure that cities and counties will be reimbursed under this \$800 million reduction of local OA.

The Governor has also proposed to pull the \$9.95 billion high speed rail bond slated for the November 2004 ballot. The Administration plans to continue their commitment to completion of the environmental documents and hope to revisit the viability of this project in better economic times.

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